

The World of Nonprofit Finance Risk



By Melanie Lockwood Herman and Whitney Thomey

Resource Type: Articles

Topic: Fraud and Financial Oversight



Myriad situations make up the world of nonprofit finance risk. The image above illustrates some of the common preventable, strategic, and external sources of risky financial situations nonprofit finance leaders may encounter. We offer the following recommendations for fortifying your organization against downside effects.

Uncover

What are the risks? Take stock of these suggestions and look for other areas that your organization might be

exposed to financial risk events.

Sort and Discuss

The NRMCM team has suggested the categories of *external*, *strategic*, and *preventable* to help you organize and classify risks that you uncover in your nonprofit. Utilizing a classification system is one way to inspire appropriate proactive and reactive responses for each risk. For example, external risks are those that are beyond your direct control. Appropriate risk mitigation strategies for external risks tend to focus on contingency planning. Strategic risks are those that arise from the strategies your agency has adopted. Risk mitigation for strategy risks involves identifying what circumstances necessitate possible changes in those strategies. Preventable risks are those that your agency wants to avoid. Associated risk strategies tend to focus on ensuring that safety rules are clear, training is thorough, and all staff feel empowered to raise safety concerns without fear of negative consequences.

Act

Determine reasonable steps and initiatives to:

- Monitor how the risk is changing
- Assess your vulnerability
- Build resilience through cross-training, contingency planning, and more!
- Ensure awareness and oversight. Ask:
 - Which teams need to know the status of mitigation strategies?
 - Who might need to make a decision that would be informed by our understanding of the risk?