



To: Board of Directors, Del Mar Schools Education Foundation
From: Lenore Lowe, Senior Affiliated Consultant
Date: August 1, 2007
Re: Environmental Scan and Organizational Assessment

In June 2007, Nonprofit Management Solutions (NMS) was retained by the Del Mar Schools Education Foundation to evaluate the Foundation's governance practices and to recommend changes or modifications to current policies and practices. The Foundation's Board of Directors requested that the review include:

1. the structure of the Foundation and its relationship with the District;
2. appropriate fundraising goals and strategies;
3. the Foundation's cost structure, including the appropriateness of employing a full-time executive director for such a position;
4. recommended changes to the Foundation's bylaws; and
5. the best means for the Foundation to fulfill its mission to the District.

In order to complete the evaluation, NMS recommended that an Environmental Scan (including a SWOT-assessment of internal strengths and weaknesses, and external opportunities and threats) and an Organizational Assessment of governance practices be conducted as part of the Foundation's strategic planning process.

The Foundation Board agreed and convened a Task Force, including three Foundation Board members, two community members, and one Del Mar Unified School District School Board of Trustee member, to assist NMS. The Task Force identified and provided contact information for more than fifty (50) of the Foundation's key stakeholders including Foundation current and past donors, community members, current and past Board members, the DMUSD Board of Trustees, the DMUSD Superintendent, school principals, PTA presidents, and current and former employees.

Environmental Scan

An Environmental Scan is designed to capture issues and conditions present in the environment in which an organization operates that may affect its ability to achieve its mission.

In this case, the environmental scan included forty-six (46) interviews with key stakeholders, identified either by the Task Force, self identification, or by selection of the consultant. The majority of interviews were conducted by telephone, lasting an average of forty-five (45) minutes. Several interviews were conducted in-person.

It was explained to everyone participating in the interviews that the Foundation had retained Nonprofit Management Solutions to conduct an Environmental Scan and Organizational Assessment in preparation for strategic planning by the Foundation's Board of Directors.

Every interviewee was assured that the feedback provided to the Task Force and the Board of Directors would not include specific attribution to any single person.

Interview Format

The interviewees were first asked to describe their association with the Foundation, and then to provide their perspective regarding the strengths and weaknesses of the Foundation and the opportunities and threats in the environment in which the Foundation operates. Topics of discussion included Foundation mission, Board governance, Foundation management, and key strategic issues as identified by interviewees.

Stakeholders in nonprofit organizations are often categorized as either "internal" or "external" stakeholders. Internal stakeholders, Board members, former Board members, employees, and volunteers, typically are more familiar with an organization and may be considered to have a more subjective opinion of the organization.

It is important to point out the majority of interviewees participating in the environmental scan may be considered internal stakeholders. The information gleaned from these interviews should not be construed as representative of *all* stakeholders in the organization, or as statistically significant sample.

It is recommended that the Board view this information as an opportunity to develop further inquiry of the Foundation's stakeholder community.

Key Findings and Recommendations

The decision of the Board of Directors of the Del Mar Schools Education Foundation to undertake this process of review and inquiry in preparation for strategic planning demonstrates the Foundation's commitment to good governance, stakeholder responsiveness, and mission achievement.

While the findings suggest that many opportunities exist for the Board to improve the governance and management practices of the Foundation, the environmental scan also reveals that the Foundation enjoys strong mission alignment from the interviewed stakeholders. In addition, the majority of stakeholders expressly identified the commitment and dedication of the Board of Directors as the most significant strength of the Foundation.

Finally, the fact that the Foundation has recently seated a significant number of new members is seen by a majority of the interviewees as an opportunity for "positive change" in both Board culture and organizational culture.

As to the items requested for review:

1. The DMSEF is an independently incorporated 501 (c)(3) organization, yet in culture and in practice, it appears to be very closely tied to the school district. It is the Foundation's responsibility to define and communicate its role as an independent organization.

✓It is recommended that the Board of Directors

- include this as a **key strategic issue** in the planning process
 - review the Foundation's policy statement regarding the Foundation's relationship with the School District
 - develop a written job description defining the role and responsibilities of ex-officio members of the Board of Directors
2. Given that fundraising is the "business" of the Foundation, it requires *significant time and attention* from the Board of Directors in the strategic planning process. Determining appropriate fundraising goals and strategies *must* be part of strategic planning.

The funding of ESC teachers is perceived by a majority of interviewees as a significant strength of the Foundation and the primary reason that donors contribute to the foundation. The need for a Foundation to raise funds that enhance school programs and the desire that the Foundation be successful were universal themes throughout the interviews.

The Foundation's "Case for Support" (the purchase of enrichment teachers) is likely, at some point, to be affected by factors beyond the control of the Foundation Board of Directors. Several other issues were also raised, including:

- the annual school site fundraising goals set by District management
- not every school is capable of same level of fundraising
- fundraising should not be for current year obligations
- donor perception that there will be negative consequences if the site goals are not met
- lack of trust of the Foundation among some donors
- need for more direct communication with donors
- need for clear corporate fundraising goals
- the expenses incurred by the Foundation to raise funds

✓It is recommended that all of these issues be reviewed as part of the planning process.

✓It is recommended that the Board of Directors consider information available from the district regarding unmet needs in funding school programs, but establish and "own" fundraising site goals as part of a more comprehensive Resource Development Plan that takes into consideration the issues raised by the interviewees.

3. Every decision relative to the cost structure of the Foundation, and the need for and compensation of professional management must flow from the Foundation's strategic plan for mission achievement.

In the absence of well-defined and realistic strategic organizational and fundraising goals and objectives, it is not possible to determine the nature of the professional management that is

required, let alone the level of compensation that is warranted or how performance will be measured.

In nonprofit organizations, many indicators are used to evaluate how effective an organization is at achieving its mission. A well-developed strategic plan will assist the Board of Directors in developing the criteria that will determine an appropriate cost structure for the Foundation.

✓It is recommended that the Board of Directors establish strategic goals and objective for the organization before making any decisions relative to professional management of the Foundation.

✓It is also recommended that the Foundation establish a more direct relationship with its donors in order to build donor confidence and loyalty.

4. The bylaws of the Foundation are considered standard in nonprofit sector. As the Board reviews its relationship with the District and its governance practices, changes or modifications may be required. There are no recommended changes at this time.
5. While the stated mission of the organization is *to provide resources to support and enhance educational programs and opportunities for students in the Del Mar Union School District*, it is generally understood and accepted among the interviewed stakeholders that Foundation raises funds to “purchase” enrichment program teachers. While this is seen as a significant strength, it has already been established that this “Case for Support” could be affected by factors outside the control of the Foundation’s Board of Directors.

The leadership in every mission-driven organization must routinely review the mission for resonance with donors and other key stakeholders. As the Board of Directors moves forward in the strategic planning process, the best means for the Foundation to fulfill its mission, not just to the District, but to all of its stakeholders will become evident.

Organizational Assessment

Periodic organizational assessment by the Board of Directors of nonprofit organizations is considered to be a *best practice* in nonprofit corporate governance, and can provide valuable information regarding organizational strengths and weaknesses. More important, however, is how the information is utilized by the Board to *improve* its ability to govern. Completing an organizational assessment in preparation for strategic planning helps to ensure that a mechanism for acting on the assessment will be developed and implemented.

In this case, the organizational assessment included a review of Foundation materials and feedback provided by current and former Board members. *See Attachment A.*

It is important to point out that an organizational assessment reviews an organizations governance practices in comparison to what is considered best practices in the nonprofit sector and should not be considered an audit or a forensic investigation.

Much of the feedback provided by the interviewees about the Foundation's governance (performance of the Board of Directors) focused on perceptions of past actions or lack of actions taken, but may be instructive to the seated Board in reviewing current policies and practice.

Once again, while the dedication of Board volunteers is widely seen as part of the Foundation's strength, several areas of weakness were frequently identified, including:

- the absence of a written strategic plan for the Foundation,
- lack of follow-through on matters before the Board
- a lack of shared understanding or clarity about the role and responsibilities of Board members, the school Board of Trustees, District management, the school principals and PTAs
- decision-making that did not include the full Board of Directors

One interviewee's comment "The key is communicating specific measurable goals and keeping people informed about the progress toward those goals." characterizes a theme that developed throughout the interviews.

The following recommendations represent a "work in progress" in as much as the on-going strategic planning process will continue to provide opportunities for review, and discussions about what is generally considered best practices in nonprofit organizations. A variety of sources were consulted before making the following recommendations. See Attachment B for a partial list.

Mission and Purpose, Vision and Values

- Revisit the Foundation's Mission and Purpose, Vision and Values as part of the Strategic planning process

Strategic Planning

- Appoint an Ad-hoc Strategic Planning Committee
- Regularly host facilitated stakeholder forums
- Develop and approve a multi-year strategic planning process and timeline

Governance

- Adopt Standards of Governance
- Develop a written job description for Board members
- Schedule routine Board Orientations conducted by members of the Board
- Distribute current and complete Board Manuals
- Revise Board Meeting Agenda Format-consider a consent agenda format
- Revise Board Meeting Minutes Format to include *Action Items*
- Develop a Board member nomination process

Ethics, Conflict of Interest, and Confidentiality

- Appoint a Ethics Review Committee to review and recommend any changes to the current Policies and Procedures of the Foundation
- Include a disclosure form as part of the Conflict of Interest Policy

Accountability/ Transparency/ Public Disclosure

- Ensure compliance with all legally required reporting procedures
- Annually provide a report (printed or web-based) detailing Foundation's mission, activities and results; overall financial information, including a Statement of Income and Expense and Balance Sheet, Board members, management staff, and contributors
- Make IRS Form 990 and IRS Form 1023 available on the website or make the previous three year's Form 990 available for review in the Foundation office
- Review Foundation minutes for completeness
- Independently host the Foundation's website
- Reorganize the way the minutes and other documents are organized on the website for easier accessibility
- Post the full Board meeting schedule and meeting agendas on the website

Financial Oversight

- Align the budget approval process with strategic planning.
- Identify and communicate to stakeholders the financial indicators that will be employed to determine organizational efficiency and appropriate fundraising expenses
- Consider preparing A Statement of Functional Expenses
- Review and approve monthly financials at the Board meetings

Fundraising

- Develop a Fundraising or Resource Development plan which includes goals for all revenue streams.
- Apply a high percentage of each dollar raised to the mission, in accordance with practices of comparable organizations and representations made to donors and the public.¹
- (Identifying and evaluating appropriate expense ratios of comparable organizations should be a regular practice of the Board)

Human Resources

- Once the Board has completed the Foundation's Strategic Plan, the Board must *then* determine:
 - If professional management is required in order to effectively implement the plan,
 - the skill sets that are needed
 - the job description
 - appropriate compensation
 - how the executive search will be executed
- Develop and adopt a Compensation Philosophy
- Conduct annual performance reviews
- Approve senior management compensation and compensation structure annually

Board Evaluation

- Establish regular review of the Board's performance and plans for improvement
- Conduct regular Board training in "Board Roles and Responsibilities"

¹ Principles and Practices for Nonprofit Excellence, Minnesota Council on Nonprofits, 2005

The language in **Standards for Excellence: An Ethics and Accountability Code for the Nonprofit Sector**, Maryland Association of Nonprofit Organizations) reads, "A nonprofit's fundraising costs should be reasonable over time. On average, over a five year period, a nonprofit should realize revenue from fundraising and other development activities that are at least three times the amount spent on conducting them."

Attachment A: Materials Review

- Foundation Bylaws, executed June 1, 2006

- Independent Auditors Report, October 6, 2006
- 2004 Form 990
- 2005 Form 990
- 2006/2007 Budget Overview
- DMSEF Profit and Loss June, 2007

- Board of Directors Manual

- 2002-2003 Board Minutes
- 2003-2004 Board Minutes
- 2005-2005 Board Minutes
- 2005-2006 Board Minutes
- 2006-2007 Board Minutes

- Salary Review for the position of Executive Director, dated June 1, 2004
- Executive Director Job Description
- Executive Director Performance Review, Period Covering July 1, 2005-Present
- (Executive Director Performance Review, Period Covering July 1, 2006-June 30. 2007 Ad hoc Committee Report and Salary Survey, July 20, 2006

- Legal Opinion of Stutz, Artiano, Shinnoff, & Holtz
re: Legal Issues Concerning District's Current Enrichment Programs, revised February 27, 2007
- Reply from Karen Gilbert and Debra McGinty-Poteet, Co-Presidents DMSEF

- Equity Proposal Overview- DMUSD Board of Trustees, Annette Easton and Katherine White, not dated
- DMUSD Board Policy 1260: Educational Foundation

- 2006 Annual Appeal letter and assorted collateral materials
- 2004-2005 Annual Report

- Assorted written materials provided by three interviewees, including newspaper articles and copies of correspondence between community members and the Foundation Board of Directors and Executive Director

- Foundation Website

Attachment B: Sources

Illinois Nonprofit Principles and Best Practices, 2005

Donors Forum of Chicago

ECFA Standards and Best Practices, 2007

Evangelical Council for Financial Accountability

Standards of Excellence in Ethics and Accountability, 2005

Maryland Association of Nonprofits

Principles and Practices for Nonprofit Excellence, 2005

Minnesota Council of Nonprofits

Beyond Regulation: Tools for Promoting Ethical Action in Nonprofit Organizations, 2006

University of San Diego, School of Leadership and Education Sciences

How to Assess Nonprofit Performance, 2001

Kellogg Graduate School of Management, Northwestern University

Kennedy School of Government, Harvard

Panel on the Nonprofit Sector, 2007

Independent Sector