Risk Management and Insurance for Nonprofits, Part I
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Marie Malaro, in A Legal Primer on Managing Museum Collections, makes a strong case for an organization to implement a risk management program prior to contracting for insurance. In a section of her book that focuses on the role of insurance, she emphasizes the value of risk management as a means to identify and mitigate risks and suggests that an insurance program should be viewed as the last bastion in the defense of collections care. As Malaro writes, “Prevention, rather than reimbursement, should be the primary goal.”

Risk management is a way to reduce the likelihood of insurance claims through a program of identification and reduction of potential hazards. Good risk management also may lower insurance premiums. A comprehensive program requires up-to-date, thorough documentation and record keeping; adequate security; and emergency preparedness and disaster planning. For institutions that maintain collections, proper collections care is also a part of risk management. It is helpful to have one staff person with oversight for risk management, although specific responsibilities may be delegated. Risk management is an ongoing, daily activity.

Documentation and Record-Keeping
Copies of an institution’s organizing documents should be readily at hand. Although the president of one local history organization reportedly files its official documents under “V,” for “Very important papers,” there may be a better way. The important thing, however, is that there should be a system, and one that is understood by more than one person. Articles of incorporation, a tax-exemption letter from the IRS, a current sales tax exemption letter from the state department of revenue, annual reports to the secretary of state, and interlocal agreements between nonprofits and local governments are examples of documents that should be accessible. Constitutions, bylaws, and mission statements also should be easily retrievable. Organizations that are subunits of local governments will have somewhat different documents than private nonprofits, but they should have papers that define their legal status and their governing structure.

Financial records should also be on file. Monthly, or at least quarterly, reports should include a statement of financial activities (income/expense statement) and a statement of financial position (formerly known as a balance sheet). An annual budget and an annual financial report are also helpful documents. Tax-exempt organizations are required to file annual 990 or 990EZ reports with the IRS and similar reports with the state. By law, these reports must be made available to anyone on request. (Technically, organizations with annual gross receipts under $25,000 are not required to file 990 or 990EZ reports, but it is recommended that they do so.)

Maintaining internal control over all financial records is part of risk management. That means there should be more than one person handling cash transactions and financial records. To establish proper control of finances, organizations must address issues such as employee and volunteer integrity, which are important factors in risk management. It is a sad fact that insider theft is one of the most common types of theft. It is prudent to do background checks on new employees, and even on volunteers. A written personnel policy for paid staff and volunteers is essential—it should include a section on employee honesty. Accreditation by the American Association of Museums requires that the museum have a written institutional ethics policy. This is a form of risk management because it addresses issues of awareness and oversight. In Museum Governance: Mission, Ethics, Policy, Maria Malaro notes that “adherence to a professional code of ethics by a nonprofit board is a massive step towards risk management. … [It] provides more protection than a directors and officers liability insurance policy, because adherence to the code should ward off even the threat of a lawsuit.”

Nonprofit organizations with facilities open to the public should keep records of attendance and of admission fees. If there are sales, these need to be carefully recorded. There should also be accurate records of other sources of income, such as memberships, donations, grants, and earned income (from sales, special events, rentals). There should be comparable documentation of expenses. Copies of these documents should be filed off-site as well at the organization’s headquarters.

Security
An adequate security program entails far more than putting locks on the doors and installing a sprinkler system. It requires a comprehensive plan to protect people, the facility, and its contents from all types of risks. The primary concern is safety for people. Even organizations that are not open to the public on a regular basis or that do not have a permanent home have responsibilities to protect those who use their services. Local preservation organizations or historical societies that sponsor tours or special events need to consider safety issues for attendees. They also need to provide safe working conditions for staff and volunteers.

Organizations in buildings that are open to the public, whether rented or owned, must contend with many more safety and security issues. Cultural organizations must adhere to standards set by the Occupational Safety and Health Administration (OSHA) at both the federal and state level. All organizations with one or more employees are covered by OSHA. These organizations are required to obtain (and keep current) Material Safety Data Sheets (MSDS) on hazardous products, and they must offer employees training in dealing with these products. Employers with ten or more employees are required to
have a written health and safety program for all employees, including custodians. The definition of “employee” is important. If there is an employer-employee relationship in which the “employee” receives benefits for services, the benefits may not necessarily be monetary. In some circumstances, volunteers might be considered “employees.”

Regulations of the Environmental Protection Agency (EPA) and other regulatory bodies may also come into play. Organizations in compliance with these requirements can expect more favorable insurance premiums.

People may be at risk from the environment, the facility, the collections, or from emergency situations. There could be problems caused by inhalation, ingestion, absorption through the skin, or injection from materials such as asbestos, mold, polluted air, solvents, chemical substances, lead, arsenic, mercury, cyanide, or toxic minerals. For example, many older buildings have asbestos on pipes and in ceiling tiles. In collections, mounted specimens probably contain arsenic, which was a common preservative. Arsenic is also found in some textiles and clothing. Understanding these risks and providing training for employees and volunteers is vital for even the smallest organization. There is the potential for serious injury or even death from mishandling many materials. Even small museums and other cultural organizations could benefit from appointing someone as a health and safety officer. This would help to raise awareness and provide oversight.

A useful book that can assist in risk assessment and analysis is the Museum Security Survey. While designed specifically for museums, much of the book applies to other organizations as well. This book can help administrators and staff to survey the potential for damage from many sources. In looking at an institution’s vulnerability to possible threats, the author suggests evaluating three factors: loss event history (threats or hazards potentially affecting the organization); loss event probability (the likelihood or probability of potential threats becoming loss events); and loss event criticality (the expected impact or effect on the organization if a loss should occur). These factors can affect the security of people, of the facility, and of the collections.

Each section of the Museum Security Survey contains a series of questions about various aspects of security. A section on the protection of staff and visitors against physical hazards addresses topics such as entrance and egress, traffic flow, floor surfaces, lighting, signage, ventilation, crowd control, room and building capacity, load limits for floors and stairs, alarm systems, and maintenance. Other sections of the Museum Security Survey address issues such as risks associated with buildings and their surroundings, collections, fire, theft, burglary, robbery, damage by human and environmental sources, and public demonstration or riots. There are many good ideas presented in an easy-to-use format.

Identifying risks in facilities is the second concern of risk management. The building itself and the surrounding areas should be inventoried for potential hazards, at those times when the site is open to the public and at times when it is closed. All windows, doors, and other openings in a building are potential sources of unlawful entry. An unlocked door is the most popular means of unlawful entry. Placing hinges on the outside of exterior doors instead of the inside is a common error than can allow improper entry. The building and grounds should be well lighted at night, and shrubs should not be placed near foundations where they provide a screen for malefactors.

A technique utilized by many security professionals is called perimeter security. As noted in Museum Security and Protection: A Handbook for Cultural Heritage Institutions, there are three critical perimeters to enforce in a cultural institution: the property line perimeter, the building shell perimeter; and the nonpublic perimeter. Each of these layers has a set of barriers, controls, and checkpoints to prevent inappropriate penetration by unauthorized persons.

Special care should be taken when deliveries are made, when shipments are received, and whenever building repairs, expansion, or renovations are going on. Maps and charts of the building, especially those showing the water and electrical systems, are the kinds of documents that should be included in a good risk management program.

Proper locks on doors and windows, motion detection systems, alarm systems, guards, guest books, sign-in and sign-out procedures for secure areas, key control, bag checks, parcel inspection, video surveillance, and good housekeeping and maintenance are security requirements that provide good risk management. Public areas of the site should meet requirements for the Americans with Disability Act (ADA) and other federal and state regulations concerning accessibility. The ADA applies to all places of public accommodation. Employers of fifteen or more persons are also subject to ADA requirements for accessibility in the workplace and need to provide accessible working conditions. Organizations headquartered in historic buildings are not exempt from accessibility requirements, but alterations to the building must be readily achievable. Sometimes alternative measures to the removal of architectural barriers can be substituted.

A small organization may not be able to afford sophisticated alarm systems, video surveillance, or guard forces, but there are inexpensive measures that can help to make the facility secure. These methods include instituting opening and closing procedures to secure the premises; making sure that visitors sign a guest register; training greeters and tour guides to be alert and observant; locking nonpublic areas of the building; and maintaining key control. Keys should be distributed on an as-needed basis, and all should be accounted for. No organization is too small to have a security protection officer. Appointing one person to take responsibility for knowing about security matters and alerting others can make a big difference. One of the
All possible risks should be evaluated for possibility, probability and consequences.
specific salvage techniques. This, however, is not a disaster plan. A disaster plan is a more comprehensive document with a thorough explanation of an institution's plan for disaster recovery. The disaster plan needs to be a part of the organization's ongoing planning and training efforts. The time to read the disaster plan is not during the emergency. It needs to be tested, reviewed, and updated as situations change.

The IHA library contains many publications about disaster planning that can assist an organization in developing a plan tailored to suit its particular needs. For example, an article entitled "Disaster Planning," published in a technical leaflet produced by the Northeast Document Conservation Center, details some of the basic steps to take in developing a plan. The authors suggest that it may be useful to work with other nearby cultural organizations. Collaboration can certainly help to pool ideas and perhaps share resources. The authors note that it's important to identify resources that may be needed in an emergency. These resources can include supplies to have on hand, sources of supplies, and sources of technical assistance. Local disaster-response and recovery services should be identified and contacted to establish good working relationships prior to an emergency.

Conclusion

Before contracting for insurance, an organization should undertake a comprehensive risk management program to identify potential hazards. Many threats can be eliminated or lessened. A good risk management program not only reduces the number of insurance claims, it can mean lower insurance premiums. Such a program requires good record-keeping; adequate security for people, facilities, and possibly collections; and emergency preparedness and disaster planning.

Part 2 of this insert, which will appear in the fall 2001 issue of *MUSENEWS*, will address types of insurance for nonprofits, including general liability, insurance for directors and officers, and insurance on collections, as well as insurance for special circumstances. It will explore what is involved in selecting an insurance carrier and will include a list of helpful resources on risk management and insurance.

Notes


Annual Conference, continued from page 1

MPMA along with first-time conference attendees are invited to a reception on Wednesday evening hosted by the presidents of both organizations.

Regular conference sessions open on Thursday, October 4 beginning with a keynote address by Christy S. Coleman, President and CEO of the Charles H. Wright Museum of African American History in Detroit. Coleman's unique experience as the former Interpretive Specialist and Director of African American Interpretation and Presentation at Colonial Williamsburg at a time when Colonial Williamsburg introduced controversial reenactments including a slave auction, speaks directly to the conference theme of "Many Voices." The keynote address is generously underwritten by the Oklahoma Historical Society.

Over the three days, more than twenty-five sessions will address topics such as opening a dialogue with minority and ethnic groups; museums working with artists; the museum design and construction process; interpreting Native American galleries at the Buffalo Bill Historical Center; the new Governance MAP program; the Institute of Museum and Library Services' federal grant programs; technology in museums, and political issues in Washington that affect museums.

Also, how to purchase collections insurance; public awareness campaigns; the personal and professional benefits of being a peer reviewer; digital imaging and the impact on historical research; web sites for small museums; opportunities for museum professionals to take part in an international exchange program; integrated pest management; training staff and volunteers to work as a team; community foundations and endowments; tribal participation in the Sam Noble Museum's Hall of People, and much more. There's something for everyone at this year's conference!

A treat for OMA members this year will be the expanded Resource Hall. Beginning Thursday morning with music, door prizes and a free continental breakfast compliments of the Tulsa Chamber of Commerce and CVB, conference attendees will have the opportunity to visit with representatives from twenty businesses and organizations about the latest products and services available to the museum community. Don't miss your chance to meet these knowledgeable folks!

Everyone will want to make time to visit the Silent Auction and place their bids on unique items donated by members throughout the MPMA region. Books, posters, jewelry, T-shirts and more will go to the highest bidders! Auction proceeds benefit MPMA scholarships and OMA's seminar series.

After a full day of sessions and networking, relax each evening with plenty of delicious food and drink, first-rate exhibitions and lot of friendly conversation at the Gilcrease Museum on Thursday night, the Philbrook Museum of Art Friday night and the Tulsa Zoo and Living Museum on Saturday night. Tickets for each event must be purchased in advance.

Questions? Contact OMA at (405) 424-7757.