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Friday, August 14, 2009

Rainbows United bankruptcy reminding nonprofit boards of need for strong oversight

Wichita Business Journal - by [Josh Heck](#)

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Rainbows United Inc.'s last financial audit was in December 2006 — more than 2 1/2 years before financial irregularities were discovered late last month.

An annual audit likely would have raised red flags regarding the nonprofit organization's financial woes, observers say.

However, Rainbows says the audit that would have covered it through June 2008 was never conducted.

Chief Financial Officer Scott Richards resigned when the financial problems were discovered. Executive Director Lorraine Dold was placed on indefinite paid administrative leave.

The lack of an audit seems to be at the heart of the Rainbows United bankruptcy, which was filed at the end of July and uncovered nearly \$6 million in debt.

And it surprised members of the Rainbows board of directors, who had no idea the organization, which provides services to special-needs children, was facing financial hardship.

It serves as a harsh reminder for Wichita nonprofit organizations and their boards of directors about the importance of stringent financial oversight practices. A number of Wichita's business leaders, who serve in key positions on various local nonprofit boards, say scrutinizing financial documents is an important part of their roles.

The Rainbows' bankruptcy also serves as a reminder that members of a board of directors have a legal role in how an organization is run.

"In my view, the board's duty is making sure the core mission of the organization is financially viable and can survive," says John Clevenger, president of **Commerce Bank**, who serves on the **Exploration Place**, **Wichita Art Museum** and **Catholic Charities** boards. "It's the board's job to say 'look we can't do everything.'

"The board has to be focused on an organization's long-term health. That's always the critical piece."

There's a level of assurance that the financial information provided to the board is accurate, but a critical eye is essential to the process, says Mike Herbert, chief financial officer at **Delta Dental of Kansas Inc.** and the treasurer of the **Arts Partners** and **Ronald McDonald House** boards.

"You always have to put a degree of trust in the internal documents you get from management," he says. "But you still have to be skeptical."

It's the primary role of a board member, says Perry Schuckman, executive director of the **Nonprofit Chamber of Service**, which serves as a collaborative resource for nonprofit organizations.

"The oversight of the financial documents should be the No. 1 topic for any board of directors," Schuckman says.

'Key Internal Control'

Those who serve on boards outside Rainbows can only speculate on what went wrong, but the consensus seems to be that there was a lack of regular audits.

"Annual audits are the most effective," says Jared Allerheiligen, who serves as treasurer for the **Wichita Area Chamber of Commerce** Board of Directors. He is also managing partner of the Wichita office of **Grant Thornton LLP**. "I think that is a key internal control."

Rainbows' audit schedule was changed when the organization switched from a fiscal year ending on Dec. 31 to June 30. There was never an audit after the change.

"The audit seems to have been the one area the red flags would have shown up,"

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Schuckman says.

Rainbows has hired Hale Ritchie as its chief restructuring officer to oversee the reorganization plan. He started Monday.

Meanwhile, the Rainbows board continues to search for answers to questions about what led to the bankruptcy.

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