

Getting a Grip on the Regulatory Landscape

by Judith Millesen

TRUE OR FALSE? THERE ARE currently more nonprofits that do not file 990 Forms with the IRS than those that do (see below for the answer). Is your organization one of those that does not need to file, or is it simply neglecting to meet this requirement? Who is in charge of this and other compliance requirements in your nonprofit?

Every organization should have an in-house expert on nonprofit regulations, and that expert should train others in the organization about what is required. As *NPQ*'s Ruth McCambridge notes, "the regulatory configuration surrounding public charities is multidimensional, and its effects vary from one organization to the next." You need to know how your organization is affected by the regulatory environment at the federal, state, and local levels, and that knowledge should be held by more than one person within your nonprofit.

For those of us in academia, one of our goals as university professors is to help our students, as well as current and future nonprofit leaders, understand the public regulatory environment so that they are able to navigate this complex terrain with knowledge and confidence. In this brief article, I will share a lesson plan I have developed for use in my Nonprofit Management class. This lesson plan could also be used by nonprofit leaders to train

boards, managers, or constituents on what the organization needs to do to stay in business. The overall objective is to provide learners with an opportunity to understand how regulation (at every level of government) influences daily administrative practice while at the same time engaging participants in an interactive learning experience.

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Class Plan

Understanding the Landscape. Using the Nonprofit Regulatory Landscape map found in the "Regulatory Landscape" Special Edition of *The Nonprofit Quarterly*, (see next page, or for a full scale pull out order at <http://store.nonprofitquarterly.org>) the instructor provides a general overview of the local, state, and federal regulatory environments, explaining how a particular nonprofit organization might interact with each level of government. For example, a social service organization selling raffle tickets at its thrift shop must:

- apply to a local government agency for a raffle permit to sell the tickets,
- submit quarterly tax payments to comply with state sales tax or unrelated business income tax requirements, and be aware of federal IRS code section 170 pertaining to the deductibility of charitable contributions to 501(c)(3) organizations.

Through this and other examples, the instructor can also provide information about the intended accountability benefits of government regulation, asking students to critically assess the degree to which government regulation actually holds nonprofit organizations responsible for their public trust obligations.

How Regulations Affect the Daily Life of Nonprofits. After discussing the regulatory environment, the instructor assigns a group project that requires team members to assume various leadership roles (human resource professional, development professional, public relations/advocacy professional, etc.) in a particular nonprofit. The task for each member of the team is to identify where and how the nonprofit is required to interact with the regulatory environment at all three levels of government. Additionally, students must provide the rationale for regulation—to explain the origin, purpose, and expected public benefits of various regulations. Moreover, since

much of the existing regulation is intended to serve an oversight or accountability function, students could also be asked to provide alternatives to government regulation that would demonstrate trustworthiness and assure transparency. As part of the assignment, different groups of students should be required to “work for” various types of nonprofit organizations (e.g., an arts organization, a human service agency, a hospital, a charter school, etc.). In this way, students can learn more about the ways in which the effects of regulation vary among different types of nonprofits.

Applying the Learning. In order for the instructor to assess performance, students must submit a written assignment and make a formal presentation to the class that integrates each team member’s findings. This helps encourage discussion and provides an additional opportunity for peer learning. The instructor should press the class to appreciate the depth of regulation to which nonprofits are regularly expected to comply. The instructor should be prepared with examples of how regulation influences the administrative practices of various types of nonprofits. This will be particularly important because students are likely to underestimate the scope and anticipated benefit of government oversight.

So the answer to the question posed at the beginning of this article is “true.” Currently, only one in three charities files Form 990 (source: Bowman & Bies, “Can the Charitable Sector Regulate Itself?” *Nonprofit Quarterly*, Volume 12, Special Edition 2005).

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