

Simcoe Christian Academy: Governance and Control at a Not-for-Profit Organization¹

Robert A. MacDonald
Crandall University

Heather Steeves
Crandall University

Teaching notes for this case can be found at CBFA.org.

ABSTRACT: Small not-for-profit organizations often struggle to ensure that financial reporting obligations are met effectively and that board members are qualified and engaged in the active governance of the resources with which they have been charged. This case traces governance and control challenges faced by Simcoe Christian Academy, a private Christian not-for-profit elementary/secondary school.

An Invitation

On a beautiful sunny Sunday in early January, Alan Mackenzie made his way to the rear door of Lakeside Community Church to shake hands with the pastor at the end of the morning worship service.

“Great sermon today Pastor Hal,” he said.

Pastor Harold Lawrence smiled warmly, returning his handshake. “Thank you Alan. Listen, do you have a moment to talk?”

“Sure thing,” Alan replied.

Hal led him into a small office off the foyer. “You may not be aware of this, but I serve as the chair of the School Board of Simcoe Christian Academy.”

“I didn’t know that,” Alan said.

Hal continued. “Lately the board meetings have really been challenging, especially in light of issues I’ve brought to them regarding financial reporting. I’m not a real numbers man, but I’m becoming concerned that we’re not exercising good stewardship. I know that you have your own consulting business, and I was wondering if you’d be willing to do a bit of digging and then compile your findings so that I could take them to the board. I think we’re at a point where we could really use an unbiased, objective set of eyes.”

Alan had responded affirmatively, and Hal had given him the phone number of Tim Dawson, a stay-at-home father of two students at the school who was temporarily serving as the academy’s financial officer.

Simcoe Christian Academy

Founded in 1974, Simcoe Christian Academy (SCA) was a private, Christian school in the city of Barrie, Ontario, Canada, that served students from kindergarten through grade 12. Originally operated as an outreach of Mount Hermon Baptist Church, SCA had become a separate entity in 1988 and marketed itself as a “private, independent, non-denominational Christian school.”

Although the school had started with only 22 students who worked independently at their own pace on prepared lessons, SCA had experienced considerable growth to arrive at its present enrollment of 412 students in a fully teacher-taught environment. Dr. Janice Ellison, SCA’s headmaster, considered the school to be the “finest Christian school in central Canada²” and a shining testament to its mission statement, “Excellence in Christian Elementary and Secondary Education” (Exhibit 1).

SCA was incorporated as a not-for-profit organization under the Corporations Act of the Province of Ontario, and ultimate responsibility for the school was held by the academy’s school board. The board met monthly during the academic year and consisted of six directors (Exhibit 2) all of whom had (or had had) children who attended the academy.

Board members served without remuneration for three-year terms, and could be re-elected to serve a second term after which a mandatory one-year sabbatical had to be observed. The exception was the headmaster, Dr.

Exhibit 1: SCA Mission, Vision, and Values Statements

Our Mission

At Simcoe Christian Academy, our mission is to provide excellence in Christian elementary and secondary education.

Our Vision

At Simcoe Christian Academy, our committed faculty and staff strive to create a nurturing learning environment in which the students of today may become the Christian leaders of tomorrow.

Our Values

At Simcoe Christian Academy, we are a community committed to:

- The articulation of a Christian view of the world and the life within it
- The development of our students' spiritual lives
- The proclamation of the Word of God
- The discovering and refinement of our students' gifts and talents
- The encouragement of our students to respond to God's vocational direction
- The good stewardship of all resources with which God has entrusted us

Exhibit 2: Simcoe Christian Academy School Board Members

Member	Experience	Tenure
Harold Lawrence	Senior Pastor of Lakeside Community Church	5 years (3 as Chair)
Fred (Tak Yan) Chan	Pastor of Barrie Chinese Christian Church	5 years
Susan Clements	Retired Retail Sales Clerk, Sears Department Stores	3 years
Gaius Kaoma	Account Manager, Spiebo Software Development Inc.	3 years
Elizabeth deSilva	Dental Hygienist, Crown Dental Clinic	1 year
Janice Ellison (ex-officio)	Headmaster, Simcoe Christian Academy	14 years

Janice Ellison, who served in an *ex-officio*³ capacity for the duration of her employment. Responsibility for the recruitment of board members fell on her shoulders; in the event of an upcoming vacancy, she would identify an individual she thought would be a “good fit” for the organization and then bring that name forward to the board. During her fourteen years of service as headmaster, the board had never failed to ratify a candidate she had nominated.

As SCA grew a functional organizational structure had evolved (Exhibit 3). While most faculty positions within the organization were full-time (with the exception of four teachers), all positions within the Financial Office were part-time and paid an hourly wage. These four individuals

reported directly to the headmaster, although the financial officer's role depended heavily upon the successful completion of work by the three clerks.

A Preliminary Meeting

Alan had contacted Tim Dawson and arranged to meet with him at the school on January 12. As he drove into the school's parking lot, he was immediately impressed by the two-story brick building. He knew that many Christian private schools tended to be fairly small and operated in church buildings. For SCA to have its own “stand-alone” facility was surely an earmark of its success.

Tim was a pleasant man in his early forties who had a son and daughter enrolled in the elementary school. When they had started their family, Tim and his wife had decided that she would continue to pursue her career as a sociology professor at Laurentian University while he would give up his job as a sales manager at a local bank to become a stay-at-home dad. Nevertheless, he enjoyed any opportunity to apply his limited knowledge of accounting and had leapt at the chance to assist SCA with its bookkeeping function when its financial officer had taken a medical leave of absence. (She had left in August while Tim had joined the office in November.)

As Alan listened, Tim explained that his feelings of excitement over being able to “stretch his bookkeeping legs” had quickly turned to dismay as he realized that he was in over his head.

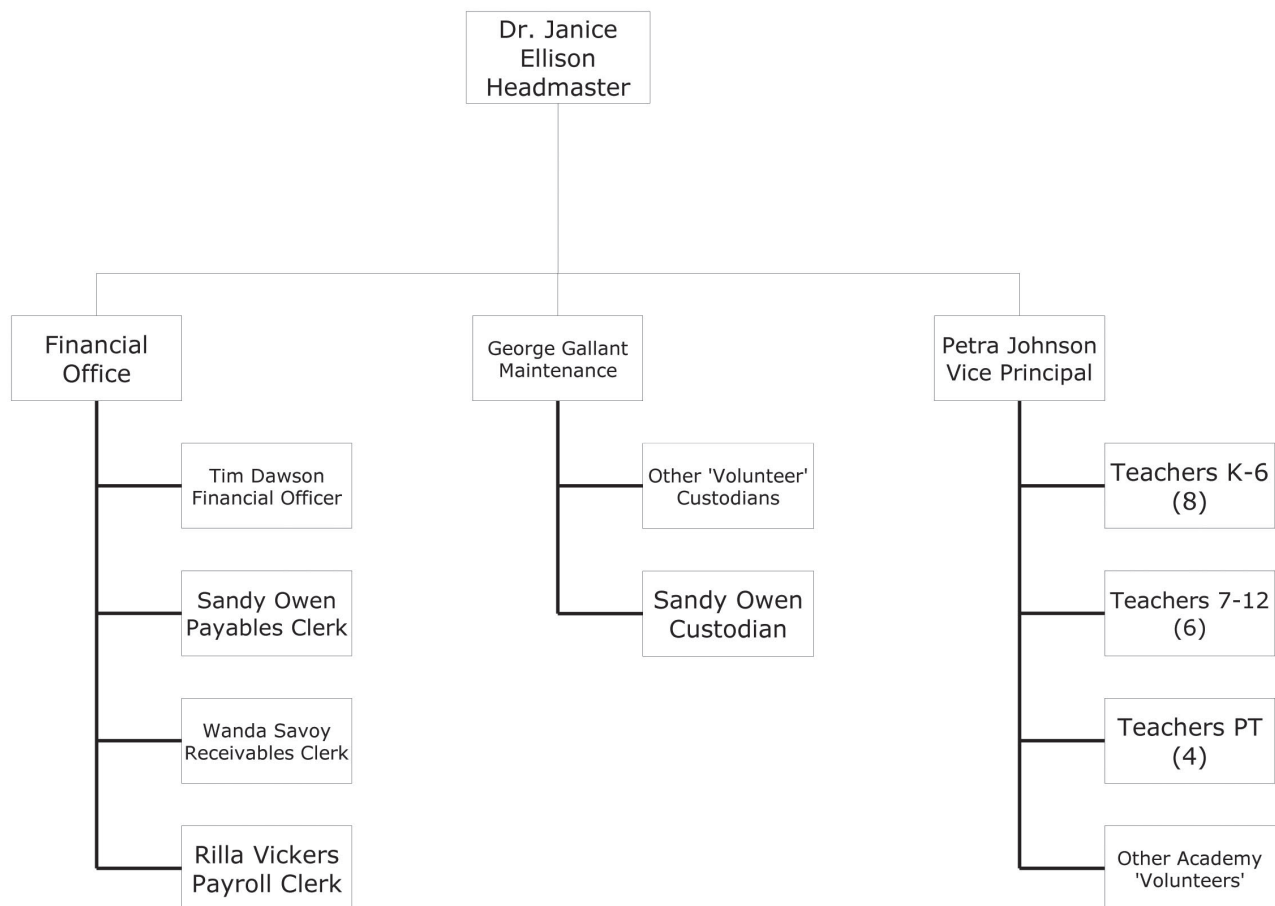
“At first I thought that I’d be stepping into an up-to-date computer-supported bookkeeping system,” Tim said. “Boy, was I wrong. I’m very familiar with Simply Accounting⁴ and thought I could make a simple transition to MYOB⁵, which is what the school uses as a general

ledger, but everything seemed to be out of whack. Plus, the school doesn’t only use MYOB. There are two other pieces of software in the mix. The first is Quicken⁶, which is used as a check register. The second is something called First Choice⁷, which is used to process the payroll and as far as I can tell is obsolete since I can’t seem to contact the company to provide me with any support materials.”

“Between these three programs and the statements they produce, a lot of the numbers just don’t make sense to me. On top of these computer systems, some of the clerks apply their own paper-based methods to monitor transactions, with varying degrees of success. Consequently, accounting information is being produced in many different formats that are not being fit together effectively. Making sure that we have all of the information and that it’s right seems impossible!”

Tim pulled a file folder from a drawer in his desk. “Here’s what I mean. This is a copy of the trial balance⁸ for the July 31 year end as prepared by the past financial officer who left before the school year started.” Tim rolled his eyes. “Apparently the payables clerk — Sandy Owen

Exhibit 3: SCA Organization Chart



— also did my job for a while before I came. She must have been busy; she also works part time as janitor and lunch monitor.”

Alan glanced over the pages Tim had passed him. “At first glance everything appears to be in order. At least it balances.”

“That’s what I originally thought,” said Tim. “But then I thought, ‘Where’s the school’s mortgage? Where are the depreciation accounts?’ There were so many things that seemed to be missing or misstated. That’s when I did a bit of digging into the previous year’s MYOB postings. What I’ve seen has made me doubt the veracity of anything here.”

“And then there’s this.” Tim handed Alan a sheet of paper. “It’s a memo from the former accountant that gives ‘advice’ as to how to balance discrepancies in the accounting record — essentially by fluctuating asset balances to make the balance sheet ‘mathematically’ correct. Apparently this is how the books were ‘balanced’ in times past.”

“On top of all of this there has been no real financial accounting engaged in for the present fiscal year. Considering that all of the financial information is left unsecured in the office and people come and go as they please, it’s doubtful any of this information is complete. I can’t count the number of days that I’ve arrived to find the door has been left wide open. Maybe it’s a good thing that Rilla Vickers refuses to bring back the payroll records from home.”

“What? You mean the payroll records are at someone’s house?” said Alan. “Maybe you’d better explain the payroll process to me a little.”

Rilla Vickers: Payroll Clerk

“Rilla has been a little challenging to work with at times,” said Tim. “Technically she’s supposed to work from the academy’s Financial Office, but Dr. Ellison has given her permission to do the payroll at home. I assume that payroll remittances⁹ are being made accurately and on a timely basis, but I’m unable to tell from the information — or lack thereof — I receive from her. She has this payroll ‘remittance sheet’ she gives to me that contains discrepancies between net payroll amounts calculated by the accounting software and net payroll amounts listed on the report’s covering sheet that she uses to issue payroll checks. Since I can’t explain these discrepancies, I can only conclude that erroneous remittances are being made to the Canada Revenue Agency.”

“And as for who’s getting paid what and when, well good luck with that. It seems that everyone has something unique going on, and little of it is documented as far as I can tell. Take me for example. Since I have two children enrolled here, I take part of my salary as a reduction in tuition and part is paid out as hourly wages. I’ve never signed an employment contract, and I doubt that any of the full-time staff has either. Some of the part-timers have contracts, but I can’t vouch for the accuracy of their pay because I don’t see any of the source documents. It’s not as bad with the other expenses; generally with those I see the voucher with the request for payment, so I know that the amounts being paid are accurate. The problem with these payments is that there’s no guarantee that we ever see all the invoices that should be paid, and if we do get them, it takes forever to get them approved by Dr. Ellison and processed by Sandy the Janitor, who has no training and codes things in every imaginable way!” Tim stopped abruptly and flushed a little as another staff member entered the office.

“Oh, hello Rilla,” he offered. “I’d like to introduce you to Alan Mackenzie. Alan is here to help us get our accounting house in order, and I’m sure that he has lots of questions for you.” Alan stuck out his hand while inwardly cringing; Tim had made him sound like an auditor.

“Well, Tim,” Rilla began, “I’m sure that you can use the help since you’re so new to the academy, but I’ve been preparing the payroll long enough to have a pretty good handle on what’s going on with my end. And given the confidential nature of the information I have at home, I’m sure that you’ll understand why I can’t bring it here to show you.” She handed Tim the current payroll cover sheet and remittance form and left.

“Sorry about that Alan,” Tim said. “She’s a bit territorial, and given that she doesn’t officially report to me, I don’t know what I can do to help you with her. You’re welcome to look at the employee information still filed here in the office, but most of it is hopelessly outdated, and from the look of it, TD-1¹⁰ information is missing for approximately 50% of staff. Maybe the best use of our time would be to go see Dr. Ellison.”

“I will need to chat with her, Tim, but I’d like to get a better handle on the flow of day-to-day accounting information first. Why don’t we try to track down Sandy the Janitor so that I can try to get a handle on the payables system.”

Sandy Owen: Payables Clerk and Custodian

The discussion with Sandy Owen was both informa-

Exhibit 4: SCA Trial Balance Sheets

	DR	CR
1001 Bank of Montreal - chequing	23,278.68	
1002 GIC Saving	8,158.93	
1003 Bank of Montreal – savings	3,191.26	
1004 Petty Cash – Office	246.00	
1005 Petty Cash – Library	246.00	
1006 Petty Cash – Home Ec	246.00	
1200 Accounts Receivable	565,594.38	
1300 Non Cash Assets	1,491,925.84	
1400 Prepaid Accounts	1,998.04	
2001 Arrears		2,655.91
2002 NSF Cheques	4,610.04	
2003 Deferred Revenue Current Year		52,844.85
2004 Deferred Revenue Subsequent Year		541,024.16
2005 GIC		4,115.83
3001 Equipment & Furnishings		42,638.29
3002 Land & Buildings		1,599,000.00
3999 Historical Balancing	45,243.25	
4001 Tuition Current Year		459,903.20
4002 Tuition Deposits		102,946.03
4003 After School Care		20,041.51
4004 HST Rebate		15,415.93
4005 Application Fees		6,131.55
4006 Copier Use		181.86
4007 Pizza		1,363.43
4008 Extra Study Materials		853.82
4009 Extra Testing & Exams		1,931.96
4010 Refunds	1,367.76	
4011 Special Projects		1856.13
4012 Gifts		16,639.46
4013 Library		306.39
4015 Art and Music Programs		1,398.90
4016 Boiler Replacement		2,351.85
4017 Christmas Program		4,092.07
4018 Miscellaneous Sales		3,538.21
4019 Casual Days		646.87
4020 Scholarships		1,353.00
4021 Yearbook		1,808.10
4023 Sports		1,119.30
4024 Trips		1,738.61
4025 Rent		2,269.35
4026 Summer Reading Program		676.50
4027 Offering		3,864.70

	DR	CR
5001 Bank Charges	1,060.04	
5002 Office Supplies	1,186.27	
5003 Postage	569.93	
5004 Telephone	3,028.12	
5005 Miscellaneous	1,291.84	
5006 Power & Fuel	32,654.83	
5007 Snow Removal	1,706.63	
5008 Water	2,171.00	
5009 Loan	39,949.37	
5010 Insurance	12,107.89	
5011 Contract Cleaning	1,344.44	
5012 Cleaning and Supplies	8,634.22	
5013 Equipment & Furnishings	6,736.34	
5014 Security	1,800.28	
5015 Maintenance	12,136.62	
5016 Professional Training	4,063.92	
5017 Curriculum	42,543.87	
5018 Agendas	749.22	
5019 Library	882.88	
5020 Graduation	450.20	
5021 Teaching Supplies	7,373.48	
5022 Copier	15,345.23	
5023 Computer Upgrades	1,182.07	
5024 Classroom Allowances	2,274.39	
5025 Advertising	4,691.01	
5026 Arts Supplies	3,348.02	
5027 Orientation	166.76	
5028 Trips	5,161.26	
5029 Sports	1,062.41	
5030 Honorariums	747.84	
5031 Christmas Program	1,249.74	
5032 Home Economics & Labs	3,584.75	
5034 Yearbook	6,213.11	
5035 Salaries	393,106.49	
5036 Deductions	112,742.16	
5037 Health Insurance	15,284.94	
Totals	2,894,707.77	2,894,707.77

tive and alarming. Alan learned that Sandy had begun her employment with SCA working as a custodian under George Gallant, the maintenance director. Over time, however, she had become responsible for payables given that she was increasingly purchasing goods for the academy and thus had access to the documents necessary to prepare payment requests. Her daily janitorial duties had also ensured that she was consistently present in the building, making it easy for other staff to provide her

with reimbursement requests for amounts they had spent personally on behalf of the school. As far as Dr. Ellison was concerned, it simply seemed most efficient that Sandy handle the payables.

Sandy revealed that she often found herself with missing accounting vouchers, and that on occasion she had staff requesting reimbursement or payment when no documentary evidence existed. In such situations, she would essentially post the accounting entries and move

on. She also stated that an added element of confusion was that certain bills had to be paid out of specific fundraising accounts. Without any training or experience in accounting, she often found herself running afoul of Tim, who maintained that expense amounts were being coded inconsistently and incorrectly and often not in expense accounts at all.

After the meeting with Sandy, Tim commented that all of these factors combined to make for a lengthy reporting process. Vouchers and other important accounting information were not making their way to him in a timely manner, with some paperwork arriving up to two months late. "At least part of this delay is due to the fact that invoices received by the school pass between Sandy and Dr. Ellison numerous times for authorization, payment, and so on," he said.

"Well Tim, I think it's time to meet Dr. Ellison," Alan remarked as he gathered up his papers. "Maybe she'll be able to shine some light on all of this."

Dr. Janice Ellison: Headmaster

Meeting with Janice Ellison had confirmed Sandy's description of the management of the payables function. As the school's senior administrator, she was required to sign all invoices in order to authorize payment. "Approving the invoices before remittance to Tim and then approving the payment of the invoice once the check is written ensures that the system is doubly controlled," she said.

"What about tuition assistance? What's the process there?" Alan asked.

"Tuition assistance is available to select students on a case by case basis as evaluated by the Tuition Assistance Committee," she said. "It's available in two forms — direct assistance for which no volunteer work is undertaken to offset the assistance and assistance exchanged for 'volunteer service' to the academy.

"It's the committee's responsibility to assess the nature of the relationship and to draft the agreement between the academy and the parent. This way, the committee and I are able to factor in the particular needs and strengths of each family," she said. "So while it may seem certain volunteers appear to work a considerable number of hours for a certain amount of assistance and other volunteers work fewer hours for a seemingly greater amount of assistance, it's the committee's responsibility to compare hours worked with the amount of tuition assistance received and ensure that equity exists in the provision of assistance.

"In fact," Dr. Ellison continued, "I have a perfect example right here that you can look at — a parent who volunteers full time." She handed Alan a letter informing Mrs. R. MacIsaac that her application for tuition assistance had been reviewed by the Tuition Assistance Committee and approved as follows:

SCA shall employ you four days a week at a rate of \$8 per hour to assume various office duties. As well, if you wish to continue cleaning the washrooms you will be paid at the rate of \$10 per hour for that task. Your tuition will be deducted directly from your pay, and if it is paid in full before the end of the school year, you will receive a pay check for additional hours worked.

"And I have her T4 information from last year as well, so you can see how it all fits together." She showed Alan copies of a T-4 that was issued to Mrs. MacIsaac in the amount of \$1,024.83 and two T-4A forms in the amount of \$2,700 each that had been issued in the names of her children and noted as "scholarship."¹¹

It doesn't look to me like she was remunerated as required by her employment contract since she worked full time for the duration of the school year, he thought. I'm definitely going to need to spend some time with the payroll records.

He looked up from the copies. "Do you have specific written policies to guide the committee?"

"Nothing that formal," she replied. "It's more like experience or rules of thumb. For instance, we never charge any member of the clergy for their children to attend. I believe strongly that people involved in full-time Christian service should be rewarded for their commitment. I've never had any complaints about this policy, and we've operated this way ever since I took over as headmaster."

As the meeting wore on, it became more and more apparent to Alan that Dr. Ellison found financial dealings a necessary annoyance in the fulfillment of the academy's mission. Hoping to end on a positive note, he asked "What do you need the accounting system to do for you?"

Dr. Ellison seemed startled. "Well I never really thought that it could do anything for me. On the contrary, it seems that all of us are always trying to do something for it!"

An Accountant's Wish List

Having bid farewell to the headmaster, Alan dropped by the Finance Office on his way out. He found Tim furiously scratching notes on the most recent trial balance. "You look frustrated Tim," he said.

Tim smiled weakly. “I just wish...” he started.

“What? What’s on your wish list for this place?”

“Well,” said Tim. “It would be nice to know what’s expected of me, and whose work is my responsibility. Most days, I can’t get much done because I’m chasing people to get me what I need. And when I give up and go to Dr. Ellison, I look like a tattletale — not that she does anything about it. I think that she’s more worried about hurting someone’s feelings than she is about producing good financial information to support decision making at the school.”

Alan laughed. “I hadn’t gotten the impression that Dr. Ellison was one to shy away from confrontation. Anything else on your list?”

“Well, here we are already into January, and this month I have to bring an update to the board and complete the academy’s charity report.¹² I’ve never done one before, and it looks pretty complicated. It would certainly help if I had reliable information from previous financial statements and the will of the board to demand timely financial information from everyone involved.”

“Well Tim,” Alan said as he concluded their conversation. “Let me talk to Hal Lawrence and see if we can’t find a solution for you.”

Hal Lawrence: Board Chair

Alan had scheduled a meeting with Hal for the following afternoon to discuss his observations and conclusions with the board chair. The older man had greeted him warmly as he was ushered into the pastor’s office.

“I’ll get right to the point, Hal. I think the situation at the academy is pretty straightforward. With the direction of the board, the fix should not be too complicated,” Alan said.

“Easier said than done, Alan,” Hal said. “The hard part is not in what you’ve done. Don’t get me wrong, you’ve come up with reasonable recommendations, I’m sure. The hard part is going to be convincing the board to take action.”

“What do you mean?” Alan asked.

“Let me give you an example,” Hal said, as he began to relate the events of the last school board meeting.

The December Meeting of the School Board

After processing routine items, Hal had seized the opportunity to sketch out a number of Tim Dawson’s concerns with SCA’s finances. “Folks, it’s obvious that we have a breakdown in the academy’s accounting system,” he said. “Tim has raised some serious issues, not the least

of which is that we’ve got people — like Sandy Owen — working beyond their level of competence.”

Janice Ellison’s face flushed. “I strongly disagree, Hal. Sandy has been a wonderful addition to the staff. She’s well liked by students and teachers alike, and most importantly by employing her we’re helping to support a single mother and enabling her to keep her daughter enrolled here at the school.”

“While admirable, those are not good reasons for keeping her employed as an accounting clerk,” said Hal. “I’m sure she’s a great lunch monitor and custodian, but she simply doesn’t have the expertise to prepare financial reports, as Tim has shown us.”

“I have to agree with Janice,” said Susan Clements as she brushed a lock of silver-gray hair away from her forehead. “We’re doing a good thing by employing people like Sandy. And remember, everybody makes mistakes from time to time — that’s what makes us human. Besides, the academy has been doing very well — just look at the income we made last year.”

Hal became flustered. “Have you not been listening to what I said? Tim has shown us that that income number is completely false; it’s the result of debt being treated as revenue. In reality we’re in far worse shape than we thought.”

“I’m sorry, Hal, but I still don’t understand what you’re talking about. This Tim fellow is still pretty new on the job, and he himself has said that things are a bit vague. So we might be painting the picture a bit more darkly than we need to,” said Susan. “You know, this reminds me of a board meeting back in 1976, or ’77. Well, anyway, we were thinking about buying a building and...”

“Forgive me, Susan,” Hal interrupted. “But we’ve heard that story many times before. We need to stay on track here. Fred, Gaius, Liz, what do you think?”

Elizabeth deSilva shifted uncomfortably in her chair. “Umm, I’m afraid I don’t really have an opinion on this issue.”

“That’s okay, Liz,” said Fred Chan. “I think I speak for all of us when I say that accounting is a mysterious art at the best of times. And I think that what we need to remember here is that we’re not running a business; we’re running a Christian school and seeking to honor God in the way we do things. If Sandy has been making mistakes, then I say we should forgive her and move on. And the same goes for anybody else. I agree with Susan; we’re doing the right thing by employing Sandy — and

the rest of the clerks for that matter. Remember that Rilla and Wanda also have children enrolled at the academy, which is something they wouldn't be able to do without the jobs we provide."

Hal grimaced. "Fred, I agree that we're not running a business, but we still have to be responsible; that's what good stewardship is about. We're a not-for-profit organization, but we're not running a charity, if you get my drift. Gaius, what do you think?"

"Maybe we need to study the issue some more," Gaius Kaoma stated. "I mean, it's like Susan said. Tim has only been on the job for a short period of time now, and his experience has only been as a parttime bookkeeper. You'll recall, Hal, that I voted against hiring anyone for this position. Maybe we should wait a while and trust the people we know have been doing a good job for some time now."

Hal stared at the ceiling. "But that's my point, Gaius. The people we know have not been doing a good job. And it's our responsibility to do something about it."

"Could I move we table this issue until our January meeting and adjourn?" Liz said timidly. "I really need to get home before it gets too much later."

"I'm not sure that's a good idea Liz," Hal stated. "This is an important issue, and we need to address it now."

"Now, Hal, we're all concerned about the school, but really your concern for this issue is no greater than Liz's need to get home to her family," Janice said. "I move we adjourn and motions to adjourn are always in order."

Hal thought to himself, *How is this ever going to be resolved?*

A Plan of Attack

In the weeks following the December meeting, Hal had decided that a hard look at the board and its operations was in order. He thought that a good place to start would be to consider the strengths and weaknesses each member brought to the table. He had drawn a pad of paper out of his desk and begun writing, starting with himself:

Reverend Harold Lawrence

Strengths: More than thirty years experience as a church pastor, including twelve years experience as senior pastor of a good-sized congregation (~300). Seasoned administrator. Good communication skills. Longest tenure (with Fred Chan) on the present SCA Board. Has a daughter who attended the school – therefore familiar with programming, operation, etc.

Weaknesses: Little familiarity with organizations outside of churches. Poor understanding of financial statements and where they come from.

Reverend Frank Tak Yan Chan

Strengths: More than twelve years experience as a church pastor. Longest tenure (with Hal Lawrence) on the present SCA Board. Has three children presently enrolled in SCA. Fluent in Cantonese. Brings a diverse perspective to the board.

Weaknesses: Little familiarity with organizations outside of churches. Poor understanding of financial statements.

Mrs. Susan Clements

Strengths: Long experience with the academy; served as one of the founding board members in 1974. Has two children who had attended the school. Retired and spends a great deal of time volunteering at the academy in the library and as a classroom assistant.

Weaknesses: No prior management experience. No understanding of financial statements. Often bogs down meetings with tales of the "glory days" of SCA.

Mr. Gaius Kaoma

Strengths: Brings the greatest amount of business experience/perspective to the board. Has two children presently enrolled in SCA. A native of Ghana who speaks Ga-Dangme and Akan. Brings a diverse point of view to the board.

Weaknesses: While possessing some management experience, none of it has been at the senior level. Limited understanding of financial statements. Travels a great deal with his job and is often absent for board meetings.

Mrs. Elizabeth deSilva

Strengths: Young, energetic, and enthusiastic about the academy and its future. Has one child presently enrolled in SCA. Volunteers one day per week to teach a wellness class to the secondary students.

Weaknesses: No prior management experience. No understanding of financial statements. As a young mother, is often in a hurry to cut board meetings short to return home.

Dr. Janice Ellison

Strengths: Helped found SCA with her husband, Dr. Henry Ellison. Has served as the headmaster for fourteen years and is intimately acquainted with the daily operation of the academy. Has a doctorate in education. Great communicator. Strong public presence. An excellent fundraiser for the academy.

Weaknesses: No managerial experience outside of the school. Limited understanding of financial statements. Passionate about the academy to the point of being unwilling to listen to opposing points of view. Can be quite stubborn and often resorts to obstructionist behavior at meetings if she doesn't get her way.

Hal had also examined whatever he could get his hands on regarding how a not-for-profit board should operate, and wasn't always heartened by what he read. According to one author, "There is one thing all boards have in common, regardless of their legal position. They do not function. The decline of the board is a universal phenomenon of this century" (Drucker, 1974).

He had found a number of recommendations, including "do's and do not's" for effective school board function, which he wrote down (Lister, 2006):

Effective Boards Do:

- Govern the [school]
- Work together as a team during board meetings
- Develop and adopt policies
- Consider the [headmaster's] employment
- Prepare an annual budget
- Represent the [school] in a courteous, professional manner at all times

Effective Boards Do Not:

- Administer daily affairs
- Directly supervise anyone other than the [headmaster]
- Have legal authority as individuals or outside board meetings on any school matters
- Attempt to micromanage
- Discuss confidential information from executive sessions or comment on rumors
- Include "lone wolves" who attempt to circumvent the will of the majority

As Hal had considered these recommendations in light of the academy's board functions, he felt that a number of shortcomings were blatantly obvious. He made a number

of notations on his paper, which he thought represented key trouble spots, grading them with respect to his perception of how well the board was doing in each area.

Governing the School: D

We spend a lot of time talking about what's happening and the future, but the reality is that none of us have a strong sense as to what's really going on at the academy.

Work Together as a Team: C+

There seems to be a good spirit at our board meetings, but sometimes I feel that the atmosphere is more social than task-oriented.

Developing and Adopting Policies: F

We don't really have a policy handbook. We're really more of a group of interested parents than a board. Our present lack of control over the financial reporting system means that we're failing in our fiduciary responsibility.

Directly Supervise the Headmaster: C-

Technically, Dr. Ellison is supposed to report to us, but often times, I feel that the reverse is true. The reality is that she exercises a tremendous influence on the board, and I feel that there are few members who would directly oppose her.

An Untenable Situation?

Hal looked across the desk at Alan, having finished the review of his notes. "To top things off, I think we've adopted a structure in the Finance Office that is compromising Tim's ability to do his job. As far as I'm concerned, each of the clerks needs to be reporting to Tim. Right now everyone reports directly to Janice, which I think is just serving to complicate everything."

Hal sighed deeply. "Alan, I'm afraid I'm beginning to despair," he said. "I am absolutely convinced that things cannot continue the way they have been going. The January meeting of the board is set for Wednesday of next week, and we still don't have any real sense of where we are financially. And the sad part is that I'm not sure that anyone cares about this issue."

Alan nodded. "You have a broken reporting system, a Finance Office that can't function effectively, and — from what you've told me — a board that has been unwilling to take the bull by the horns and make the changes necessary to get things under control."

Hal leaned back in his chair and ran his fingers through his comb-over. "It's true," he said thoughtfully. "We haven't exactly been exercising the best leadership as a board over this past year. But regardless, the problem still remains. What can be done about the present situation? What can I present at Wednesday's meeting?"

Alan chewed the inside of his lip thoughtfully. "I may have a few ideas about that."

ENDNOTES

- ¹ This case has been prepared as a basis for classroom discussion and is not intended to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised/distorted names and other identifying information for confidentiality purposes.
- ² Central Canada comprises Canada's two most populous provinces - Ontario and Quebec.
- ³ An ex-officio position is one that is held by virtue of holding another position. In the case of SCA, the headmaster attends all board meetings and has a voice, but no right to vote.
- ⁴ Simply Accounting is a bookkeeping software package produced by ACCPACC.
- ⁵ Mind Your Own Business (MYOB) is a small business bookkeeping software package produced by MYOB Group, Australia.
- ⁶ Quicken is spreadsheet software produced by Intuit Inc. of Mountain View, California, USA.
- ⁷ First Choice appears to be a custom designed bookkeeping product. The version in use at SCA appears to be quite old, and its authorship/origin is unknown.
- ⁸ Exhibit 4.
- ⁹ Payroll remittances are amounts the Canadian government requires employers to remit on behalf of their employees and includes income tax, contributions to the Canada Pension Plan, and contributions to the Federal Employment Insurance program.
- ¹⁰ A TD-1, or Personal Tax Credits Return form, is a federal/provincial document that indicates which non-refundable tax credits an employee can claim. It is typically filled out by an employee at the beginning of employment, and the information is used to calculate how much income tax will be withheld from pay.

- ¹¹ A T4 information slip is issued by employers at the end of a reporting period and details employment income and deductions. A T4A information slip is used to report other income, including scholarships, bursaries, etc.
- ¹² The Canada Revenue Agency (CRA) requires all non-profit organizations to file an annual report outlining all receipts and disbursements.

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ABOUT THE AUTHORS



Robert A. MacDonald is the Stephen S. Steeves Chair in Business Administration at Crandall University in Moncton, NB, Canada, where he teaches strategy and human resource management. Much of his research activity is in the area of case study development, for which

he has been recognized by the Administrative Sciences Association of Canada.



Heather Steeves teaches accounting at Crandall University in Moncton, NB, Canada. Her background is as a chartered accountant, and she has a particular interest in corporate governance. Her case research has been recognized by the Administrative Sciences Association of Canada.