"Our Government Contract is Under Review and Everybody is Blaming Everybody Else Except Themselves."

Background

The Family Care Center ("Center") is an important 501(c)(3) organization in its region, providing day care, afterschool care, early intervention, counseling, and Head Start services for more than 350 families and individuals. The annual operating budget is nearly $15 million. Nearly 100% of the organization's funding comes from federal and state contracts. The organization has served the community for nearly 50 years and is a beloved institution.

In December 2017 the Center hired a new Executive Director, Ellen Sullivan. The prior Executive Director had been in place for 15 years and her retirement created this opening. Like many nonprofits the organizational structure is flat – a very small leadership team with most staff working on program delivery. Consistent with hiring trends in nonprofit leadership, the hiring committee decided to look both within and outside the nonprofit sector and retained a search firm to assist. Their recruit has a solid background in corporate Human Resources which they viewed as an adjacent space, and as particularly helpful in a tight labor market. The compensation plan for this position is a salary with modest annual increases based on performance & cost of living, and a modest bonus based on fundraising success, something the organization had not done before.

The new Executive Director began to make staffing changes immediately. She let go several longtime senior leaders in the agency and hired new people in key roles, including a Chief Development Officer who has since left. Turnover in other positions has increased. Because the Center is so well-known and has such a presence in the community these changes are widely known. Because the existing programs are well-defined and are funded on that basis, Ellen's innovation is confined to new program development.

There has been turnover among the finance staff since Ellen came on board. The CFO that was on staff when Ellen was hired moved on with 90 days of her arrival. Ellen immediately retained a fractional CFO and within 60 days she hired the engagement lead as a full-time CFO. A Controller was brought on in in June of 2019. Both people left in the first quarter of 2020 (prior to COVID-19) and the outsourced/fractional CFO firm was immediately reengaged. They are in place now.

Over the past two years there has also been turnover on the Board, including the Chair. One of the new Directors championed the idea of regional consolidation; Ellen has worked closely with this Director on rolling two smaller area agencies into the Center.

Of note is significant deferred maintenance on three of the five buildings the Center owns. Estimates suggest it will take $1.5 - $1.7 million to properly address this.

Round Up the Usual Suspects?

In June 2019 the Federal Head Start program began an examination of the Center after a report of child neglect at one of the Head Start sites. Local media broke the story of the neglect incident and the investigation. The Head Start probe was the subject of a series of newspaper/blog articles – including publication of the initial report in November of 2019. The full exam results, also published, are devastating and include requirements for significant improvements with a deadline of June 30, 2020.

One of the findings in the report is a determination that the Board has not effectively managed financial oversight of the agency in general and the Head Start program specifically. This is understandable as Head Start was unable to reconcile the funding they provided to the Center with the Center's financial reports for the Head Start program. The discrepancy is estimated at $1.2 million. The report also documented a dozen specific programmatic action items including inadequate staffing, gaps in expertise, and poor execution of basic infrastructure elements including the nutrition program.

Given COVID-19, the physical locations are currently closed, and all staff are working remotely to keep other Center programs up and running.

The response to Head Start requires specifically either the resolution of the item or the plan for resolving it. If the response is not satisfactory Head Start will pull the funding for this program year and will take the Center out of the running for future contracts. The Head Start program represents 32% of the operating budget of the organization.

The June 30 deadline for the response has passed; a 60-day extension was requested and granted as some improvement milestones have been met. The final response is due August 29th and no further extensions will be granted. As a full board, you need to determine next steps on several key items that will be included in the response, and you wish to consider some other aspects of your governance responsibilities.

The board has a maximum size of 15; it is now 11. Committees include finance, audit, development, and HR/Compensation.

Today's Full Board Meeting Agenda

1. The hiring committee (now HR/Compensation) has reconvened and is proposing firing Ellen. Is this the best course of action? If so, what is the timing and the message?
2. The charge of lax oversight by the Board must be addressed in the response to Head Start. The finance committee has met several times and is deadlocked about what to do; the only thing they agree on is that they have not agreed on the message or the plan. There are just 30 days to construct a response. What is the best response?
3. The local paper is running a poll asking readers who they think is responsible. The board Chair is proposing that the board acknowledge - well, something - and simultaneously publish a statement of reforms. As a board, do you agree that taking responsibility so publicly is the best path? If yes, what should be announced? If not, what is the best way to address the public poll?