Board Financial Oversight

by Debora Ott

• Financial Planning:
  o Use a zero-based budgeting approach when doing financial planning
  o Take into account external and internal factors
  o Evaluate cash-flow needs
  o Understand program support needs for 18 months to 3 years out
  o Have a 3-6 month “burn rate” in the bank and build for a cash reserve from there
  o Understand functional allocation of expenses: 70% to programs; 30% to overhead, for example

• Budgeting Process:
  o Deep dive into the organization’s financial policies and budgeting process with board members during their orientation
  o Board must understand the budget before it is approved including the differences between temporarily and permanently restricted funds
  o Management must understand policies for conservative budget casting
    Assume a doomsday scenario and plan for that – no hopes and prayers
    Be conservative in your estimation of income and generous in your imagination of possible expenses that might come up
  o Any expenditure must be able to be held up to public scrutiny
  o Involve key board members in budget planning e.g. Development Committee and treasurer meet together to assist with budget plan
  o It is important to compare YTD (year-to-date) figures against annual budget
    Reimbursement schedules from funders affect cash flow
    If it is a multi-year grant, check funder’s ability to continue paying out over the years

• Risk Avoidance:
  o Treasurer can be liaison with the bank
  o Keep the organization focused on its mission
  o Employment discrimination and embezzlement are the most common claims against nonprofits
  o Determine if the executive director and staff are appropriately paid
Develop parameters for reasonable entertainment reimbursements and travel expenses

Know external and internal factors that govern funds

Have internal policies in place to manage risks:
- Make sure there is directors’ insurance and that the by-laws have an indemnity clause to protect board officers
- Develop a policy governing where contributed money can come from if that is an issue for your organization; for example, no alcohol or tobacco money allowed
- Determine if board approval is needed to apply for grants
- Put policies in place to ensure that grants are used for their intended purpose(s)
- Develop policies for:
  - Check signing arrangements
  - Line of credit draw downs and repayment
  - Utilization and replenishment of cash reserves and other restricted accounts such as endowments
- Draft document destruction and retention policies
- Develop a “whistle-blower” protection policy that allows people inside the organization to have an external process/vehicle in which to raise issues anonymously. Ensure that issues will be brought to the attention of appropriate people in the organization. Policy language may include: “we will not retaliate against someone who brings attention to a matter…”
  - This can be outsourced to an 800# in large corporations or a P.O. Box can be set up for smaller organizations
  - Include a grievance process

- Check security of record-keeping; do on-site visit
- Determine who is responsible for IT (Information Technology) security and controls
  - Is there an IT or Audit Committee? The Audit Committee may be an extension of the Finance Committee.
  - Recruit a board member who understands IT
- If bookkeeping is contracted out:
  - Check references; do a background check of contractor
  - Have contract person present finances at board meetings

- Financial Controls:
  - Staff is responsible for management of the organization’s finances with the CEO or E.D. acting as chief financial steward
  - Treasurer chairs the Finance Committee (and can be the liaison with the bank)
  - Monthly financial reviews are important
o Make sure the board understands how money is allocated across budget lines
o Never automatically extend the same level of trust to an incoming CEO that was extended to a long-time staff person
o A board resolution for drawing down money from a line of credit is important; for example, a board note may be needed on every draw – or – a cap may be set above which a board signature is required
o Establish clear policies for overtime and other additional compensation
o Implement clear lines of approval for expenditures with necessary checks and balances
o Meet regularly; share information

• Audit:
  o The IRS has a committee to audit compensation packages, use of assets, lavish life styles, and reimbursements of expenses
  o An annual financial review for organizations with budgets over $75,000 is recommended
  o Budget limits for legal requirement of audit varies state by state
  o Always have management and outside financial officer question if audit date is many months after the completion of the organization’s fiscal year
  o The audit firm should present the report to the board. The discussion should include:
    How money came into the organization
    How money was used
  o Establish a Board Audit Committee
  o Create an Audit Response Committee to coordinate measures to comply with audit findings.
  o Involve a Budget Advisory Committee in identifying and prioritizing audit findings

Tip sheet based in part on an Atlanta Women’s Foundation, Women on Board workshop - November 6, 2004, Chris St. Clare presenting; notes, Debora Ott