

Board Financial Oversight

by Debora Ott

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

- Budgeting Process:
 - Deep dive into the organization’s financial policies and budgeting process with board members during their orientation
 - Board must understand the budget before it is approved including the differences between temporarily and permanently restricted funds
 - 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
 - Any expenditure must be able to be held up to public scrutiny
 - Involve key board members in budget planning e.g. Development Committee and treasurer meet together to assist with budget plan
 - 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:
 - Treasurer can be liaison with the bank
 - Keep the organization focused on its mission
 - Employment discrimination and embezzlement are the most common claims against nonprofits
 - 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

- Make sure the board understands how money is allocated across budget lines
 - Never automatically extend the same level of trust to an incoming CEO that was extended to a long-time staff person
 - 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
 - Establish clear policies for overtime and other additional compensation
 - Implement clear lines of approval for expenditures with necessary checks and balances
 - Meet regularly; share information
- Audit:
 - The IRS has a committee to audit compensation packages, use of assets, lavish life styles, and reimbursements of expenses
 - An annual financial review for organizations with budgets over \$75,000 is recommended
 - Budget limits for legal requirement of audit varies state by state
 - Always have management and outside financial officer question if audit date is many months after the completion of the organization's fiscal year
 - The audit firm should present the report to the board. The discussion should include:
 - How money came into the organization
 - How money was used
 - Establish a Board Audit Committee
 - Create an Audit Response Committee to coordinate measures to comply with audit findings.
 - 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