Fiscal Oversight, Risk and the Nonprofit Board

Audio Dial-In Information:
U.S. & Canada: 866.740.1260
Access Code: 7853891

September 7, 2011
Melanie Lockwood Herman
Nonprofit Risk Management Center
Melanie@nonprofitrisk.org

www.nonprofitrisk.org

To participate in today’s webinar, you must
– LOG-IN to SEE the Web portion; and
– DIAL-IN to HEAR the audio portion.
• Call: 866-740-1260
  Use the following access code: 7853891
  – You will hear hold music until 2:00 pm.

www.nonprofitrisk.org

Fiscal Oversight: Why is it so hard?
• Mission—not fiscal oversight—attracts dedicated leaders to nonprofit board service
• There is no single set of benchmarks or standards by which to measure financial health or success
• What else?
Boards and Fiduciary Responsibility

A fiduciary is a person legally appointed and authorized to hold assets in trust for another person or organization. They manage the assets for the benefit of the organization rather than for their own benefit or profit. It is the Board's duty to exercise reasonable care with the organization's assets and take only appropriate, thoughtful risks. The Board is responsible for the financial well-being of the organization.

Typical Board Fiscal Roles

- Reviewing the Form 990 prior to submission
- Ensuring that assets are handled properly and funder requirements are met
- Working with the CEO to establish appropriate fiscal policies, such as the creation of a reserve account and development of a risk management plan.
- Supporting the nonprofit's resource development activities.
- Participating in the process and later adoption of the annual budget.

What is Fiscal Oversight?

- Ensuring that early warning signs are visible and acted upon (early warning system)
- Determining measures of good health
  - Relationship to short-term and long-term goals
  - What's “normal” and appropriate for this nonprofit?
  - Financial Ratios: e.g., cash reserves, functional spending, fundraising efficiency, revenue to date ratio, restricted ratio, working capital, current ratio
Fiscal Health

Key steps in analyzing fiscal health:
• Assess Current Position;
• Create and implement a realistic, written investment policy statement;
• Adopt an appropriate spending policy;
• Analyze asset allocation;
• Monitor investment performance and activity;
• Review the process…and start all over again.


What is Fiscal Oversight? (cont.)

- Establishing appropriate reporting timelines and requirements
  ➢ What must we see and when must we see it
- Establishing appropriate levels of authority and control, e.g., spending/purchasing authority, measures to track adherence, system of internal control

What is Fiscal Oversight? (cont.)

- Fiscal stewardship – board members as “stand ins” for other stakeholders:
  ➢ “…the risks of a nonprofit are borne by the people it serves (its clients), who have neither a voice in selecting the organization’s leadership nor ability to manage the risks. Nonprofit board members and managers do not experience the negative consequences of bad decisions as their clients do. Ethics dictates they adhere to a higher standard of stewardship.” – Woods Bowman
What is Fiscal Oversight? (cont.)

• Seeing the big picture—stepping back from day to day transactions and seeing financial issues and risk in context

Additional Goals

• Legal Compliance
• Ethical conduct
• Sustainability
• Transparency
• Financial capacity ("resources-net assets-necessary to seize opportunities and respond to threats" – Woods Bowman)
• Accountability (e.g., accountability of key players, organizational accountability to policies, etc.)

Who Are the Key Players?

• The Board as a whole
• The Finance Committee
• The Audit Committee
• Others?
Types of Reporting Needed by the Board

- Compliance and information
- Evaluation
- Planning
- Taking Action

Source: Nonprofits Assistance Fund

Common Fiscal Oversight Missteps

- Failing to recognize that fiscal oversight is a shared responsibility
  - “Having a Finance Committee in no way excuses other board members from understanding the nonprofit’s financial condition, financial management systems and financial policies and exercising appropriate oversight.”
- Placing too much faith in the independent audit
- Failing to educate the board on its fiscal oversight duties
- Adopting a single-vision lens: short-term or long-term

Fiscal Oversight Tool Kit

- Board Education
- Evolving Finance and Audit Committees
  - Membership, focus, etc.
- Key Fiscal Policies;
  - Board’s Financial Responsibility, borrowing, investing, system of internal control, reserves
- “Balanced Scorecard” approach
- Forecasting and trending
Board Education

- "How to Read Nonprofit Financial Statements"
  - What to expect in terms of financial presentations
  - "Culture of Candor"

Evolving Finance and Audit Committees

- Participation trends, open invitation to participate
- Diverse perspectives and skill-sets
- Revisit responsibilities—shared and separate

Key Fiscal Policies

- Board Financial Responsibility
  - Is it helpful to clearly define the board’s responsibilities?
  - What about the process the organization will use?
  - How about objectives?

See sample policy statement.
Balanced Scorecard Approach
Nonprofits may need a different approach – why?
financial goals are means, not ends...
• Destination Statement (in lieu of “describing
success”)
• Dynamic Strategic Planning – “flexing how strategy is
defined and managed over time”
• Apply appropriate measures – ones that you can
control, qualitative as well as quantitative
Source: “Can I apply Balanced Scorecard in a non-profit organisation?” 2GC Limited
www.nonprofitrisk.org

Forecasting and Trending
• “Historically, organizations viewed their budgets as
mandatory estimates of their upcoming revenues and
expenditures for the year. However, this attitude has
changed as the financial environment evolved and
organizations have become more dynamic. It is now
essential to engage the participation of different
departments within the organization to provide the key
information needed for the design of a more precise budget
and forecast. The new dynamics is changing the traditional
tools in the forecasting process (i.e. spreadsheets, legacy
budget systems, etc.)” – Jesus Guijarro, BPM Manager,
www.bpmcpa.com
www.nonprofitrisk.org

Forecasting
• “Effective Nonprofit Leaders…
#6 …predict how their organization will end the
year financially, on January 1. They also know
what the levers are that will make their prediction
more or less likely. They will continue to update
predictions with “actuuals” and new projections to
year-end and beyond as the year proceeds. They
share these routine numbers with the board, and
make course corrections accordingly.”
www.nonprofitrisk.org
Tips

• Make certain there’s a plan behind the budget
• Remember to plan for contingencies
• Don’t forget to forecast cash—inflows, outflows, and resulting cash position
• Remember restrictions

www.bomcpa.com/Library/Budgeting-and-Forecasting-for-Nonprofits.asp

Resources

• www.nonprofitsassistancefund.org
  ➢ Policy template for operating reserves
  ➢ “Make Good Use of the Treasurer and Finance Committee
  ➢ Reporting Financial Information to the Board
• www.nonprofitfinancefund.org
  ➢ “10 Finance Essentials for Social Sector Leaders”
• Finance Fundamentals for Nonprofits, by Woods Bowman, PhD

www.nonprofitrisk.org

Thank you!

• Join me next month for “Volunteers, Risk and Reward: What’s New? ” – Wednesday, October 5th at 2 pm Eastern

• Melanie@nonprofitrisk.org.
• (202) 75-3891

www.nonprofitrisk.org