

# **NONPROFIT GOVERNANCE: SHOULD I CARE?**

Terrence J. Ferguson

February 28, 2014

# SCENARIO 1:

## SURPRISE! WE'RE RUNNING OUT OF MONEY!

- ▶ The organization's fiscal year is coming to an end. Surprise! Income is below expenses. Is it a cash flow issue or systemic?

# FINANCIAL REPORTS

- ▶ Timely
- ▶ Clear and Understandable
- ▶ Side by Side: Actual Income and Expenses versus Budget
- ▶ Early Warning – Time to Make Adjustments

# THE BUDGET

- ▶ Based on realistic assumptions of income
- ▶ Do not use plug numbers
- ▶ Value – Keep track of actual income and expenses versus the budget
- ▶ Make adjustments if needed

## SCENARIO 2:

### DO I NEED TO UNDERSTAND FINANCIAL REPORTS?

- ▶ I serve on the Board because of my interest in fulfilling the mission of this great organization. I leave to others the nitty-gritty financial matters. I don't have much of a head for numbers.

# DO I NEED TO UNDERSTAND THE FINANCIAL REPORTS

- ▶ Nebraska Law: Duty of care
- ▶ Business Judgment Rule is a defense against lawsuits alleging negligence by the Board
- ▶ Read and if you don't understand ask questions of Executive Director, Financial Officer, Chair of Finance/Audit Committee and/or Auditor
- ▶ Can I rely on expertise of Finance Director or members of Finance/Audit Committee
- ▶ Don't vote for a budget or to approve financial reports unless you understand what is in them

# SCENARIO 3: EXECUTIVE COMMITTEE

- ▶ Technically, you have a board, but the Executive Committee runs the show.

# SCENARIO 3

## MY EXECUTIVE COMMITTEE DOES ALL THE WORK AND I JUST GET TO SAY YES

- ▶ How does the rest of the Board feel
- ▶ Fulfilling duties as Board members
- ▶ Engage talent of all directors: share the work, advocacy, fundraising, strategic thinking
- ▶ Vibrant committees and charters



## SCENARIO 4: BOARD DOMINATION

- ▶ You're passionate about the board you're on, but it is totally dominated by a key donor or board meetings are all about the founder E.D.

# DOMINANT BOARD MEMBER

- ▶ Big donor
- ▶ Control Freak
- ▶ Everyone should have a right to speak and be respected
- ▶ Value of full Board engagement

## SCENARIO 5:

### CURIOUS ABOUT YOUR ORGANIZATION

- ▶ After a board meeting someone comes up to you at a party and says "what's going on at your organization? I heard there was some drama OR I heard some big decisions were made."

# HOW ARE THINGS GOING AT THE OFFICE?

- ▶ Can the Board really know what's going on inside the office?
- ▶ Turnover Rate
- ▶ 360 Evaluations
- ▶ Outside assessment of management by a professional
  - Reports and makes recommendations to Board and E.D.
  - E.D., Board and consultant meet to discuss

# SCENARIO 6: COMPLAINTS OR RUMORS ABOUT THE EXECUTIVE DIRECTOR

- ▶ You're a board member and you're having lunch with the head of another organization that's familiar with your nonprofit, and you ask an innocent question like: "How do you perceive our organization is doing?" Your friend unleashes a torrent of negative statements about your E.D. Or maybe you get a phone call from a staffer with complaints about the management. Or maybe you even get a serious complaint about unscrupulous financial management or sexual harassment by the E.D.

# THIRD PARTY COMPLAINTS ABOUT E.D.

- ▶ Phone call or cornered at a party by a staff member – what do you say
- ▶ Methodology for staff to raise issues: Code of Ethics, Conflict of Interest Policy and Whistleblower Policy
- ▶ Compliance Officer
- ▶ Executive Committee or Audit Committee reviews complaint and investigates

# BOARD OVERSIGHT OF THE PERFORMANCE OF THE EXECUTIVE DIRECTOR

- ▶ How to assess E.D.'s performance
  - E.D. sets goals for each year; approved by Board
  - E.D. and Board evaluate E.D.'s performance
  - E.D. and Board meet to review the evaluations and E.D.'s proposed objectives for the next year
  - Tie performance to compensation package

# SCENARIO 7: BOARD DIVERSITY

- ▶ When you look around the board room table, all the people are white, mostly male and older.



# HOW IMPORTANT IS DIVERSITY ON BOARD?

- ▶ Effects fundraising - foundations expect to see it
- ▶ Wider public support – the Board include people who look like constituents
- ▶ Broader perspectives – reduces fishbowl analyses
- ▶ How to identify and recruit candidates
- ▶ No token directors
- ▶ Board financial contributions: give or get hurdles

## SCENARIO 8: BORED MEETINGS

- ▶ Your meetings are boring. The Executive Director or a select group of the Board run the meetings and simply report to the Board what is going on.

# LET ME TELL YOU WHAT HAPPENED AT THE MEETING!

- ▶ Confidentiality
- ▶ Duty of loyalty
- ▶ Reputation
  - Funders
  - Constituents
  - General Public
- ▶ What if I don't like how the Board voted on an issue?
  - Duty of loyalty
  - Maybe I should resign

# SCENARIO 9: COMMITTEES

- ▶ As a small nonprofit with an active executive committee, or as an established organization with many committees, you begin to wonder if committees are useful

# SCENARIO 10: POLICIES

- ▶ Your E.D. or another board member is clamoring for documents, policies and procedures, but that sounds like nothing but a lot of extra work.

# POLICIES

- ▶ Sarbanes-Oxley of 2002
  - Whistleblower Protection
  - Document Retention and Destruction
  - Conflict of Interest (IRS)
- ▶ Best Practices
  - Code of Ethics
  - Guidelines for Directors
- ▶ Endowment
  - Gift Acceptance
  - Investment and Disbursement
- ▶ Management
  - Succession Policy

# ETHICS ARE GOOD

- ▶ Conflicts of Interest Policies – it's the law
- ▶ Code of Ethics – outlines how the Board will conduct its affairs
- ▶ Foundations expect it
- ▶ IRS 990 reports ask if a conflicts of interest policy is in effect