NONPROFIT GOVERNANCE: SHOULD I CARE?

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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
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.
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
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
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.
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
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
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