



MÉNÈS CONSULTING GROUP

Forefront®

Not-for-Profit Boards' Effectiveness

February 2015

Overview

Over the past few years, there have been numerous new requirements for publicly-listed organizations and the leading edge practices once implemented by only a handful of them have now become the norm for most organizations.

Furthermore, we've noticed governance practices shift, stakeholders' expectations have become sophisticated and have grown and have extended to all organizations with public accountability, including not-for-profit organizations (NFPOs). Today, many NFPOs have moved beyond basic compliance with regulatory requirements and have espoused governance leading practices used by publicly-listed organizations, as well as those recommended and promoted by the public and the NFPOs themselves.

Where Should One Start?

The most effective NFPOs understand the importance of quality leadership. Well-led Boards recognize that proper oversight begins, at the very least, with governance, financial and legal supervision, executive management oversight, administration of the board itself and decisions taken based on the strategic objectives of the enterprise.

Board oversight and fiduciary duties can sometimes take a back seat to other responsibilities—until an unfortunate event occurs that makes stakeholders question the Board's effectiveness and leadership abilities. Panic soon ensues to swiftly correct the wrong, before it affects the organization's mission and objectives and damages the organization's reputation, while eroding stakeholder trust and confidence.

In reality, the likelihood of something going wrong at a NFPO may be higher than for other organizations. Numerous NFPOs function with—and compete for—scarce resources while attempting to maintain (or even sometimes increase) services. This type of environment may create incentives and undue pressure conditions. Some NFPOs have limited administrative support that don't necessarily possess the required knowledge or skills set to implement or manage an effective system of internal controls. The prevalence of these conditions highlights the need for and importance of Board oversight.

Addressing Oversight Responsibilities

There are a few steps Board members can adopt to effectively address their oversight responsibilities:

Set the direction of the NFPO

- Develop, finalize and implement the NFPO's mission and purpose;
- Develop a long-term vision and short-term goals. Revisit regularly and adjust;
- Ensure attendance and participation of Board members.

Set the tone

- Recruit competent Board members;
- Develop members for leadership roles;
- Adhere to legal and ethical standards;
- Represent the organization ethically and professionally.

Manage Board skill set and knowledge, provide appropriate training in areas of responsibilities

- Understand the budgeting process: Allow Board members to opine on management's budgeting process;
- Interpret financial statements: Being "financial statement literate" will enable the Board to monitor the organization's financial health and assist in the decision-making process;
- Understand legal requirements and policies: Examples of requirements may include accounting for non-cash contributions and endowments or even the filing of certain required Internal Revenue Service (IRS) forms. Policies that need to be in place and enforced may include whistleblower protection, conflict of interest, document retention or self-dealing.
- Identify critical risks: Understanding the NFPO's potential vulnerabilities, its record regarding regulatory issues, its financial strength and the IT system's security, among others, will allow the Board to better assess management's actions in addressing these critical risks.
- Overall oversight of the Board: Responsibilities include objectively evaluating performance against goals, understanding the Board's role in conjunction with management, understanding the priorities and conducting periodic review of governing policies.

Selection of a separate Audit Committee (AC)

The AC holds a critical role regarding Board oversight, especially in NFPOs for which accountability to the public and to resource providers is paramount. The main responsibility of the AC should be to safeguard the overall objectivity of the financial reporting and internal control processes.

If the NFPO does not have a formal AC, certain Board members may serve in this capacity. Regardless of the form, members should be "financial statement literate" in order to competently execute their financial oversight responsibilities. Non-exhaustive list of duties of an AC include:

- Appraise the audit process;
- Supervise the financial reporting process;
- Assess the efficiency and effectiveness of the internal audit (IA) activity;
- Examine the compliance reporting process;
- Evaluate non-audit services performed by the independent auditor;
- Validate decisions are based on the NFPO's mission and objectives.

Final Thought

The National Association of Corporate Directors (NACD) mentions that "effective board oversight demands information that is as current and relevant as possible." In other words, Board members must do whatever it takes to stay informed and maintain a constant and open line of communication with management.

They go on to suggest that Boards and their committees might "consider asking external parties to gauge their performance." Such an objective measurement may go a long way towards ensuring the Board meets not only its oversight obligations but displays its commitment to leadership, accountability and... effectiveness.

Contact Us:

Raoul Ménès, MBA, CPA, CMA, CMC, CRMA, CCSA, C. Adm.
Principal
(855) 636-3701
raoul@menescg.com

Forefront® is a registered trademark of Ménès Consulting Group, LLC.

The information detailed herein is for general purposes only and is not intended to address the circumstances of any particular individual or organization. Although, we attempt to deliver precise and timely information, we cannot ensure that said information is accurate as of the date it is received, downloaded or read or that it will persist to be accurate in the future. You are encouraged to consult with your professional advisor to address your particular situation.

© 2015 Ménès Consulting Group, LLC, an Arizona limited liability company. All rights reserved. Please visit us at www.menescg.com for additional information.