

# Strengthening Board Oversight in Financial Issues and Performance



CliftonLarsonAllen

[CLAAconnect.com](http://CLAAconnect.com)



# Topics

- Board Accountability and Fiduciary Responsibilities
- Management vs. Governance
- Financial Basics
- Financial Statement Analysis

# BOARD ACCOUNTABILITY AND FIDUCIARY RESPONSIBILITIES

# Board Accountability

Board members are required to:

- Operate with a clarity of purpose
- Maintain legal knowledge
- Maintain ethical behavior that extends beyond the requirements of the law
- Conduct regular self-evaluation of mission, programs, and operating policies
- Maintain responsibility for fiscal oversight

# Board Fiduciary Responsibilities

- Establishing mission and philosophy
- Planning
- Selection and supervision of top management
- Ensuring adequate resources and managing them effectively
- Setting policies to effectively guide operations and programs
- Reviewing financial and programmatic performance as compared to objectives

# Board Fiduciary Responsibilities (continued)

- Organization of the board to work effectively
- Recruitment and orientation of new members
- Advocacy for the organization in the community
- Ensuring legal and ethical integrity

# Board Fiduciary Responsibilities (continued)

- Duty of Care
  - Diligence and attentiveness to board responsibilities. Act as “an ordinarily prudent person” would “in a like position and under similar circumstances.”
- Duty of Loyalty
  - Faithful pursuit of the interests of the organization rather than personal interests or the interest of another person or organization.
- Duty of Obedience
  - Act with fidelity, within the bounds of law generally, to the organization’s mission.

# Board Fiduciary Responsibilities (continued)

## Duty of Care (continued)

- Attend meetings and actively participate in the work of the board.
- Scrutinize the work of committees having authorization of the board.
- Participate in board actions. If you are there, you are responsible.
- Know the books and records.
- Protect the organization's assets consistent with donor restrictions and legal requirements.



# Board Fiduciary Responsibilities (continued)

## Duty of Care (continued)

- Assist the organization in obtaining adequate resources.
- Honor your duty to investigate and report potential theft or mismanagement.

- **Ensure financial accountability:**

- Oversee the organization's chief executive
  - Check that resources are used prudently
  - Implement procedures to ensure accurate records
  - Ensure segregation of duties
  - Maintain internal controls
- Document decision-making in board minutes

# Financial Fiduciary Responsibility

Financial oversight is a core responsibility of the board.

That means that ALL board members:

- Have equal and shared fiduciary responsibility for the organization
- Understand the content and significance of financial statements and audit

# Financial Fiduciary Responsibility (continued)

- Ensure the protection and appropriate use of the organization's assets
- Establish program revenue and expense objectives which are consistent with the mission of the organization
- Thoroughly discuss and adopt an annual budget that reflects the financial objectives and strategies of the organization **before** the beginning of its fiscal year

# Financial Fiduciary Responsibility (continued)

- **Review financial statements regularly** and compare them to budget. Ensure that you account for significant variances and require timely course adjustments as needed.
- Ensure that strong and appropriate **internal financial controls**, processes, and practices are in place.
- **Establish appropriate financial policies** to guide organization operations.
- Where possible, establish an operating reserve to finance cash shortfalls and program growth.

# Financial Fiduciary Responsibility (continued)

- **Assess annual audit implications** and approve action plans to strengthen performance
- Establish and monitor a system to ensure that the organization is in **compliance** with all relevant financial **laws and regulations**
- **Approve non-routine contractual obligations** as defined by approved board expenditure authorization policies
- Establish adequate **risk management** mechanisms

# MANAGEMENT VS. GOVERNANCE

# Governing Functions

- **Strategic Direction** – setting a direction for the organization that reflects its constituents needs
- **Resource Development** – developing financial resources that support program activities
- **Financial Accountability** – managing financial resources that ensure honesty and cost-effectiveness
- **Leadership Development** – developing the human resources that lead the organization today and in the future

# Management Functions

- **Program Planning and Implementation** – taking the strategic directions to the next level of detail and putting it into action
- **Administration** – ensuring the effective management of the details behind the program



# Understanding Board and Staff Roles

Answering two important questions...

- How to determine distinct roles for board and staff so that each has a clear job description
- How to engage board and staff in a complementary manner to provide organizational leadership

# Determining Different Roles

- Governance is the ultimate responsibility of the board, while the responsibility of the staff is management.
- Rather than seeing the board's job as a function of *management*, it is *first and fundamentally* a responsibility for *ownership*.
- Board should ask, in regards to programs and initiatives, "Why are we doing this, rather than, how can we do it?"

# FINANCIAL BASICS

# Financial Basic #1

**There are two types of income.**

- Support
- Revenue

# Financial Basic #2

**Financial information is based on periods of time.**

- Past.....Financial Statements
- Future.....Budget
- Present Reality.....Cash Flow Projections

# Financial Basic #3

## Numbers are meant to be compared.

- Current year actual vs. current year budget  
vs. last year actual  
vs. five year trend

# Financial Basic #4

***Anticipation is the key to financial stability.***

- Management needs **TIME** to adjust if revenues are not coming in according to plan.

# Financial Basic #5

**Financial health is essential for the effective delivery of services.**



# FINANCIAL STATEMENT ANALYSIS

# Financial Statement Analysis

Organizations produce various types of financial reports, which provide different types of information to readers, and are used for varying purposes.

- Internal Financial Statements
- Audited Financial Statements
- Form 990
- Budget

# Financial Statement Analysis (continued)

Financial analysis enhances the story told in the financial statements. It produces some insights that allow the reader to form judgments...and questions.

Financial analysis must always be done with an eye on the organization's overall context.

- Sector, core “business”
- Age or lifecycle stage
- Size

# Financial Statement Analysis (continued)

Financial analysis uses quantitative tools.

- Changes and trends
- Comparisons with similar organizations
- Ratios

# Jeffery A. Vrieze, CPA

Principal

612-376-4682

[Jeff.vrieze@claconnect.com](mailto:Jeff.vrieze@claconnect.com)



[CLAconnect.com](http://CLAconnect.com)



[twitter.com/  
CLAconnect](https://twitter.com/CLAconnect)



[facebook.com/  
cliftonlarsonallen](https://facebook.com/cliftonlarsonallen)



[linkedin.com/company/  
cliftonlarsonallen](https://linkedin.com/company/cliftonlarsonallen)