

# Effective Financial Orientation of Volunteer Leaders

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# “Bored” Realities

- Board members serve nonprofits to promote a mission, a trade, a profession and honestly-- themselves
- They join “for the cause” and are generally interested in one or a few programs or activities
- As Volunteers they have limited time and generally little interest in or aptitude for two of their most critical board responsibilities: 1. Fundraising and 2. Understanding the financial model supporting the tax-exempt purpose and organizational sustainability

# “Bored” Realities

- Organizations often set the bar too low to properly leverage board members and their financial support
- Limited volunteer time and little or no interest in nonprofit finances can spell trouble for the organization and the board member
- Understanding how to best direct and prioritize volunteer effort is the key to nonprofits success

# Who Me?

- “Board members act as trustees of the organization’s assets and must exercise due diligence to oversee that the organization is well managed and its financial situation is sound” (BoardSource)
- Who can sue a Board Member? Employees, Donors, Vendors, Other Directors, IRS, State Attorney Generals... Pretty Much Anybody!

# Legal Threshold

- In reality lawsuits against nonprofit board members are rare and judgments even rarer
- Board members acting with care within the scope of their service are generally protected under the *Federal Volunteer Protection Act* and *Revised Model Nonprofit Corporation Act* adopted or modified by most states, however.....

# Legal Threshold

- These laws nor D&O insurance will protect board members from :  
  
“Willful criminal misconduct, gross negligence, reckless misconduct or **conscious, flagrant indifference** to the rights or safety of individuals harmed by volunteer action” (Independent Sector)
- The best interest is usually self interest

# Board Financial Orientation

- Historically rare, unfocused and poorly attended
- One size does not fit all. The depth of orientation should be determined by the level of responsibility and exposure for those receiving it:
  - Director
  - Treasurer
  - Executive Committee
  - Finance Committee
  - Audit Committee

# Board Financial Orientation Recommendations

- Make it mandatory
- Limit it to two hours
- Focus on what they really need to know for their own good and the good of the organization?
- For example.....



# Director

- Revenue/ Support Mix
- Major Donors/Member Profile
- Program/Supporting Service Ratio\*
- Compensation as a % of Total Expenses\*
- Net Asset Composition and % of Annual Expenses\*
- Unqualified Audit Opinions?
- Internal control weaknesses?
- History of Federal & Foundation Grant Compliance?
- Form 990 Part VI Governance, Part VII Compensation
- Compensation, bonus and travel policies

\* *Benchmarked to peer organizations*

# Treasurer/Finance/Audit Committee

## Director Orientation Plus (+):

- Read and Understand
  - Management Financial Report
  - Annual Auditor Reports
  - Form 990/990-T
- Investment & Spending Policy and Oversight
- Key Policies Supporting Internal Controls
- Program Margins-Which Programs Subsidize What Activities?
- Understand The Biggest Threats to Financial Stability
  - Bad Trade Show?
  - Loss of Large Corporate Membership/Sponsorship
  - Volatility in Reserves/Endowment Portfolio?

# Structural Weaknesses In Nonprofit Governance

- Board Composition-Getting The Mix Right
- Turnover-Too Much or Too Little
- Not Asking The “Stupid” Question
- Board Doing Management’s Job
- Management Doing The Board’s Job

# The Good News

- Generational shift
- “Give or Get” requirements
- Board Report Cards
- Board Commitment On The Rise:
  - BoardSource, ASAE, Independent Sector, etc.
  - Charity Watchdogs
  - Federal & State Initiatives
  - Madoff, 24 Hour News Cycle

# ISSUES/CONSIDERATIONS!

- Professional versus Trade Association
  - Foundations add other issues
- Nomination Process
  - How Board members are selected
- Culture of the Association
- Complexity of Operations
- Staff Transparency/Earned Trust

# MY EXPERIENCES

- Need to personalize the content, amount of time, location, attendees
- Critical for New Board members
- Two hours for financial orientation is reasonable for complex operations
- Informal setting – prepared short handouts – available on website for future reference and more resources

# MY CONCERNS!

- Only 41% of associations conduct Board orientations
- Financial orientation needs to balance overall fiduciary requirements with important “detail” coverage of various procedures tied to risk assessment, financial structure, reporting systems, investment policies, audit interface, and business cycles

# DO YOU COVER THESE ITEMS?

- Review of current financial statements
- Portfolio review and evaluating performance
  - prudent versus conservative policy
  - Reserve Fund policy/goals
- Banking agreements/internal controls
- Financial challenges for coming Board term
- Form 990/Audit Report discussion



# BOTTOM LINE

- Have a Financial Orientation – not “bean counter” jargon
- Have “take aways” and reference materials on the website
- Be prepared for detailed questions – but stress overall policies in various areas
- Stress transparency – ability to ask questions/get answers

# Board Member Orientation

- Mandatory or Optional?
- One hour, one day, one week?
- Where should you hold your orientation?
- What staff should attend/conduct these sessions?
- What's the “takeaway” you want them to remember?

# Board Member Guidelines and Organizational Manual

- What's in it?
  - Strategic Plan
  - Spell out Board members' duties/responsibilities
  - Board Member Policies (expense reimbursement, etc.)
  - Standing Committee listing w/ purpose statement
  - Meeting Etiquette
  - Association Hotline (who does what and how to reach them)
  - Association By-Laws
- How often should it be published?
- Who's responsibility is it to manage content?

# BOTTOM LINE

- What volunteers don't know can hurt them
- Give them the facts – then explain the facts
  - ASAE publications is a good place to start
- Board steers – Staff paddles
  - Same for your Audit Committee!

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