



# PERSPECTIVES

...on Building Better Non-profit Board Membership.

This month's *Perspectives* column concludes our two-part look at the role of nonprofit boards in their organization's financial issues. July's segment focused on financial planning, the concept of sufficient available cash, satisfactory reserves, and meeting the budget...

**Propriety of Expenditures.** The expenditure of funds carries with it a tremendous responsibility. Poor stewardship or even the perception of impropriety can be fatal to an organization dependent on public good will and support. Sources of funding can evaporate; an organization's reputation can sustain a hit that could take years to mend; at worst, the continued existence of the organization may be threatened.

For nonprofits, public scrutiny is intense. The organization's membership, its volunteers, donors, the general public, the media, and the federal government are all interested observers. The Internal Revenue Service requires all nonprofits to make their annual reporting document (Form 990) available for inspection or duplication to anyone who requests it. In this fishbowl, it is crucial that a nonprofit make its expenditures appropriately – and be able to document it. It is critical not only that a nonprofit *appear* to be acting appropriately, but that it actually *is* acting appropriately.

**Insurance Against Risks.** Murphy's Law assures us that if something can go wrong, it will. Bad things do happen to good organizations. In the event that a situation may arise that could threaten the financial health of an organization, Board members should ensure that it has protected itself against such risks – perhaps through insurance. Organizational assets should be insured. All staff members associated with cash and securities should be bonded.

**Meeting Requirements Set by Funders.** Organizations that receive funding from the federal government, foundations, individual donors, or other entities must usually follow specific rules and guidelines or face suspension or retraction of funding, public censure, and, in extreme cases, possibly other penalties. The board is

ultimately responsible for ensuring that this income is managed properly.

Often, donors will contribute for a specific purpose: a project, research initiative, or special program. These restricted funds must be spent for their designated purpose. A breach of faith in the use of any restricted funds will have severe consequences for the organization involved. Consequently, nonprofits receiving restricted gifts must take special care to account for these funds in order to document their proper expenditure.

Nonprofits expending more than \$300,000 of federal funds per year are required to perform a special audit of their handling of those funds called an OMB A-133 audit. It requires that external auditors review and verify that federal funding was spent for the precise purpose intended, and in a manner in accordance with all federal guidelines.

**Conflict of Interest.** Regarding conflict of interest, perception is as important as reality. Clearly, staff members or volunteers cannot receive inappropriate financial benefits because of their association with a nonprofit organization. Also, Board members might face penalties if they knowingly approved a questionable transaction or contract. However, it is equally important that even the appearance of any conflict of interest be avoided.

Some questions the Board should ask:

- Does the Board provide oversight of contractual agreements?
- Does the Board provide internal controls over expenditures to ensure propriety?
- Is everyone who handles cash or investments bonded?
- Is the organization adequately insured?
- Are internal controls in place to ensure restricted funding is appropriately spent and documented?
- Does a policy prohibiting conflict of interest exist; how well is it monitored?