NonProfit Insights

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Issue 3

KeyBank

Building and managing an effective board

Nonprofit boards of directors are essential to the growth, governance, and survival of nonprofit organizations. An involved, well-connected board can help an organization grow beyond its goals, while an ineffective board can threaten the organization's very survival. The good news is that a systematic approach to attracting, training, and retaining good board members can be implemented in most organizations.

Here are five key elements to developing an effective board of directors:

1. Conduct a board audit. Board diversity should be cultivated in the broadest possible sense, with members of different areas of expertise, skill sets, ages, races and ethnicities, and other important differences. "With that diversity as a strong backdrop, you clearly want individuals who know how to run and operate businesses and other successful nonprofit organizations," says Margot Copeland, KeyBank Executive Vice President and chair of KeyBank Foundation. "You want to have individuals who know how to fundraise and identify opportunities for the organization to raise dollars. It's helpful to have people with experience in marketing, and those with a strong financial background."

2. Develop a pipeline of board candidates. Since board appointment has such an important impact on the organization, it's a good idea to cultivate prospective members, getting them involved over time. Inviting members of the public to serve on a board committee, such as marketing or finance can help develop good candidates. "Forming advisory or resource boards can cultivate relationships with influential individuals who may be good board members in the future," says nonprofit consultant and board trainer Pat Bohse, founder of Atlantic Highlands, New Jersey-based Bohse & Associates. "That way, you can see how committed they are, whether they show up for meetings, and how they can help the organization before you invite them to be a permanent part of the board."

3. Treat board membership like a job. Prospective board members should be interviewed before being asked to join. Understand their motivations and skills by asking them questions like: What skill sets will you bring to the board? How do you see yourself making a difference in the organization? Why does this cause matter to you?

Board members should also have specific responsibilities that may include governance duties, committee leadership, meeting attendance, and even a financial contribution. These duties should be made clear so there is no misunderstanding. "Boards should have a statement of responsibilities, as well as a list of responsibilities for each committee, so each board member and committee member knows what he or she is responsible for delivering," Copeland says.

4. Create a training program. Board members should receive some type of training annually to ensure they are complying with the organization's by-laws, familiarize them with the organization's activities, and make sure they understand how those activities align with goals and objectives. In addition, training should help board members better see where the organization needs help and encourage them to think about these issues in a focused and strategic way.

"I tell board members, 'Don't leave your business mind at the door.' Some just don't think about the organization like a business, but the value of a good board member is that he or she can bring a business mind to the table. Nonprofits are just businesses with a 501(c)(3) designation. The same principles apply," Bohse says.

5. Institute good practices. Board members have legal and financial responsibilities to the organization, so the nonprofit should provide directors and officers insurance, which protects them against liability. "If the nonprofit is sued for any reason or files for bankruptcy, the individual director won't be penalized for his or her good work in the organization," Copeland says.

It's also a good idea to limit board terms — one year for new members who can then be re-elected to terms of two or three years. "That way, you're not in a position of having to tolerate an ineffective board member for years," adds Bohse.

Key takeaways:

- Any organization can benefit from a good board
- Board membership is a *job*
- Training is key

Effective board recruitment and development is an important, yet often overlooked area in many nonprofits. Creating a system of recruiting, selecting, training, and protecting good board members can significantly strengthen the organization and its effectiveness.

Financial risk and fraud management: five steps

Financial health is a priority at any business, and nonprofit organizations are no exception. While circumstances such as stock market volatility and overall economic conditions are unavoidable, proper controls can limit risk and prevent fraudulent activities, which can be a threat to nonprofit organizations.

The following are five best practices that can help you develop strong financial policies, procedures, and staff training to mitigate risk and prevent fraud.

1. Set the tone at the top. "Starting at the board and then going down to the executive director and all of the staff, set policies to prevent risk and fraud and make sure every person is aware of them," says Terri McKnight, CPA, director of the audit department of Bethesda, Maryland accounting firm Gelman, Rosenberg & Freedman. These policies include how money will be handled and who will make decisions about it, as well as how such issues as conflicts of interest and ethical challenges will be handled. Employees should be introduced to these policies upon hire and they should be included in any written employment materials.

2. Create good controls. In *Financial Risk Management: A Guide for Nonprofit Professionals*, the Nonprofit Risk Management Center (NRMC), a trade group that provides risk management assistance and tools for nonprofits, advises organization managers to separate duties related to bookkeeping, cash management, and procurement. This reduces the potential for fraud by one individual with too much financial control. In addition, having multiple employees review financial transactions and order fulfillment prevents losses due to errors and vendor mistakes or fraud. Conducting a periodic review of the nonprofit's vendors by an individual other than the person engaging each vendor verifies that products or services were delivered as contracted. "Implement practical anti-fraud controls that suit the size and resources of the nonprofit," NRMC Executive Director Melanie Lockwood Herman says.

3. Conduct regular audits and post-event reviews. Thorough and regular audits verify that funds are being directed appropriately and help catch mistakes, financial risks, and fraudulent activity. When a loss, mistake, or fraudulent activity is suspected, investigate immediately. "Conduct a thorough post-incident review after any fraud or risk loss to identify opportunities to update and strengthen internal control and management protocols," Herman says. For example, form a small team to look at the circumstances and what changes are needed to protect the nonprofit in the future.

4. Vet employees properly. Background and reference checks are a good idea before hiring applicants who will have access to the organization's finances or fundraising activities. Herman says that's not enough, however. "Recognize that rigorous screening of applicants is not a panacea to the threat of fraud. Position design, supervision, and screening go hand in hand to reduce the likelihood of fraud," she says.

5. Establish a whistleblower policy. Fraud and mismanagement may be discovered by fellow employees, but they may not feel comfortable leveling accusations or may fear consequences if they do. "Adopt a whistleblower protection policy that encourages employees, vendors, and others to report any concern about the nonprofit's use of donated or earned revenue," Herman advises. This may simply be a form on which they can report their concerns to a specific individual or department or a process through which employees can report their concerns.

Preventing fraud and financial risk through good business practices is an important element of the well-managed nonprofit. Good policies help protect the longevity of the organization and ensure that the organization is directing funds to the areas it is designed to address.

Key takeaways:

- Avoiding all risk is impossible, but proper measures can mitigate impact
- Financial controls and fraud prevention start at the top of the organization
- Post-incident reviews and separation of duties can eliminate opportunities for fraud and mismanagement

Choosing a financial services provider

Finding a financial services provider that supports the unique needs of nonprofits can be a challenge. While you want a provider that supports a range of nonprofits, has local roots, and strong financial backing, you also need to know that the provider offers the services needed to help manage cash flow and maximize return on savings and investments.

Key takeaways:

- Assemble a board committee to find the best financial services provider
- Create a bid sheet for "apples-to-apples" comparisons
- Consider whether you want one financial partner or multiple financial services providers

"The real thing nonprofits need to do is to keep some control over the process and be sure they are comparing the same services. If they talk to a bunch of banks, each will sell them on what they're good at, and it can be hard to compare," says Michael J. Montgomery, founder of Montgomery Consulting, Inc., a nonprofit management consulting firm in Huntington Woods, Michigan.

The first step in finding the right financial institutions is to appoint a committee of board members, including the board treasurer, who will evaluate the organization's varied needs and identify a list of prospective financial partners. Board members who have conflicts of interest, such as employment by a particular financial institution, should disclose their affiliation. This will allow the committee to prevent any real or perceived impropriety or favoritism toward that financial institution. Get recommendations from your own board, other nonprofit board members and directors, and from local business groups. It's a good idea to choose institutions that have local ties and also have experience working with nonprofit organizations.

In many cases, nonprofits will need both banking and investment services. The committee should create a document that lists the financial needs of the organization, and submit that document as a bid sheet or request for proposals to financial institutions, ensuring that bids considered include the same services. These may include basic banking services, such as checking accounts, savings accounts, merchant services, and lines of credit, in addition to investment services, including retirement plan management and managing the organization's long-term investments. While some nonprofits choose to work with one institution that can serve all of those needs, others prefer to separate their business.

Once bids are received, they should be reviewed to check if all services have been included. Committee members should also compare fees and other costs, as well as interest rates offered on deposit accounts and credit accounts. The financial institution should include some information on past performance or competitive advantage. On a more subjective level, the committee should review such aspects as customer service quality and experience with similar size nonprofit organizations. How is the bank or investment firm regarded in the community? What type of counsel will it provide?

"You want a bank that will be able to understand your organization and be able to make good recommendations," Montgomery says.

Savvy organizations also shop their accounts from time to time, often including their current partner in the process, to ensure they are getting the best service at the greatest financial benefit to the organization. The best choice might not always be the cheapest, but this regular review process ensures that the organization is aware of the value it's receiving and challenges its financial partners to remain actively engaged in keeping the nonprofit's business.