

Good Governance Through Financial Oversight

2024 Christian Leadership Alliance Outcomes Conference

Session Description

Nonprofit boards are responsible for oversight of the organization's financial situation. Join us to learn what to monitor, key questions to ask, and how to establish the duties for gathering financial information and ensuring oversight.

Learning Objectives

- Explain the nonprofit board's role in providing effective financial oversight
- Define which financial areas, ratios, and measurements to monitor and insights to be gained
- Assess how to structure your board subcommittees to ensure adequate financial oversight

Key Takeaways

- **Nonprofit board responsibilities**
 - Duty of Care, Duty of Loyalty, and Duty of Obedience
 - Planning and budgeting
 - Strategic planning – the board's role
 - Budgeting
 - Evaluate existing and potential financial resources
 - Consider internal and external environmental factors
 - Assess the cost and effectiveness of existing programs
 - Examine alternatives and their financial implications
- **Internal controls**
 - The objectives – To provide reasonable assurance that the organization's objectives will be met (risks mitigated) regarding:
 - Effectiveness and efficiency of operations
 - Reliability of financial reporting
 - Compliance with laws and regulations
 - The purpose:
 - Assets are safeguarded (stewardship)
 - Transactions are properly authorized, executed, and recorded to demonstrate proper use of resources
 - Integrity of financial information used by the board in decision-making is maintained
 - Financial reporting to all constituents is complete, accurate, and transparent
 - Operational goals and objectives are achieved
 - Applicable laws, regulations, and ethical responsibilities are complied with
 - The process:
 - Identify financial, operational, and external risks
 - Understand and oversee processes for internal controls
 - Assess insurance coverage for various exposures
 - Consider contingency, recovery, and transition plans

- Evaluate roles and responsibilities to ensure no one person has unlimited access – segregation of duties
- The components:
 - Control environment – tone at the top, core values, structure, management philosophy, and staff capabilities
 - Risk assessment – assessing risks related to financial reporting
 - Control activities – implementing policies, procedures, and other safeguards — preventative and detective
 - Information and communication – providing important financial and control information inside and outside the organization
 - Monitoring – evaluating the effectiveness of controls and reporting of deficiencies
- Control matters for board consideration
 - Watch for red flags
 - General financial and personnel practices
 - Payroll and benefits
 - Disbursements
 - Other areas
- **Key areas of financial oversight and monitoring**
 - Essential financial information for the board
 - Budget and financial reports, dashboards
 - Investment management reports
 - Audit committee and internal audit reports
 - Independent audit reports, including management comment letter
 - Contingency planning and budget changes
- **Key Measurements and Ratios**
 - Liquidity
 - Net cash availability
 - Days of expendable net asset reserves
 - Days operating cash and investments on hand
 - Available days of cash flow coverage
 - Liquidity ratio
 - Debt ratios and measurements
 - Debt to unrestricted contributions
 - Current ratio
 - Mandatory debt service to unrestricted contributions
 - Debt coverage ratio
 - Income/giving ratios
 - Net income ratio
 - Actual vs. budgeted giving
 - Effectiveness of capital campaigns or fundraisers

- Cash expenditure/expense ratios
 - Salaries and benefits as a percentage of total cash expenditure
 - Salaries and benefits per FTE
 - Mandatory debt service to total cash expenditures
- Key questions board members should ask:
 - Is the financial plan consistent with the strategic plan?
 - Is the cash flow projected to be adequate?
 - Does the organization have sufficient reserves?
 - Are any expenses increasing faster than revenues?
 - Is the organization regularly comparing actual results to budgeted amounts?
 - Are the organization's expenses appropriate?
 - Does the organization have appropriate internal controls?
 - Is the organization complying with donor restrictions?
- **Cybersecurity**
 - Key questions to ask:
 - Is due diligence performed and security assessed for new and continuing vendors?
 - Do we have a current inventory of equipment and systems, including confirmation of current anti-virus software and critical patches having been applied?
 - Have all employees and executive management been trained on information systems and cybersecurity issues, including threats, password usage, and phishing?
 - Do we have 24/7 monitoring for intrusions? Who is notified at 3 a.m.? What are the response procedures?
 - Do we have a plan to deal with zero-day vulnerabilities?
 - Do we have an incident response plan that has been tested recently?
 - Do we have an Information Security Officer (ISO) with appropriate knowledge and sufficient authority?
 - When was the last IT security audit performed? Did this include vulnerability testing and were all issues resolved?
 - Do we have cyber eRisk insurance? What types of incidents are covered?
 - Do we know what notification laws we are subject to? Have we had any breaches or incidents?

Additional nonprofit resources, including articles, blog posts, and recorded webcasts, are available at capincrouse.com.

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