The IRS Takes These Board Financial Responsibilities Seriously – Do You?

By Stan Reiff, Partner

If you serve on the board of an organization, you've probably heard the term "fiduciary responsibility" and know that it applies to your role as a board member. Yet you may not be aware of exactly what that involves for board members of not-for-profit organizations.

"Fiduciary responsibility"is a legal responsibility that includes the duties of care, loyalty, and obedience. Essentially this responsibility goes to stewardship, including financial responsibility that involves board oversight and monitoring.

Below, we discuss four key areas of financial responsibility not-for-profit board members need to be aware of and understand. While this is not all there is, it is meant to serve as a starting point and can help protect both you and your organization.

1. **Review and approve your organization's financial statements.**

   Since you as a board member are responsible, it's important to read and understand the organization's financial statements before you approve them.

   While nonprofit financial statements have different names than statements used by for-profit businesses, they are similar in purpose:

   - A **statement of financial position** is a balance sheet, and shows the financial position of your organization at a specific ***point* in time**. The components of this statement include assets, liabilities, and net assets.
   - A **statement of activities** is an income statement, and shows income and expenses over a specific ***period* of time**.
   - A **statement of cash flows** connects the balance sheet to the income statement. It explains where cash came from and where and how it was used. This includes net cash from operating, investing, and financing activities.
   - A **statement of functional expenses** shows expenses classified by function and type. (Not required of all non-profits.)

   It is also essential to review and understand the monthly budget to actual interim financial reports. It's vital for board members to understand financial trends and gain the insight needed to make informed strategic decisions, so don't hesitate to ask your organization's management or CPA to provide more information or training on understanding financial statements.

2. **Make sure you understand the information on IRS Form 990 before you sign it.**

   While the IRS does not require a board review of Form 990, Return of Organization Exempt From Income Tax, the IRS encourages it, and it's a great best practice.

   When prepared correctly, Form 990 can help board members understand the organization's activities and the applicable tax laws, both of which are key to fulfilling your fiduciary duties. Every board member should be informed enough to answer these 15 questions.

   The IRS also wants to know if the organization has the following four policies. If your organization does not, another best practice is to develop these policies and adopt them at your next board meeting.

   1. Does your organization have a written conflict of interest policy wherein officers, directors or trustees, and key employees are required to annually disclose interests that could give rise to conflicts?

      If so, is your conflict of interest policy regularly and consistently monitored and enforced in a manner that ensures compliance with the policy?
   2. Does your organization have a written whistleblower policy?
   3. Does your organization have a written document retention and destruction policy?
   4. Does the organization have a gift acceptance policy that requires the review of any non-standard contributions?

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Board members don’t need to be experts on nonprofit taxes, but you do need to have enough training to understand your responsibility. If you have any questions, ask your CPA to help you understand your responsibilities and the disclosures you are approving.

3. **Ensure you understand the organization’s internal controls environment.**

   Proper internal controls help provide confidence in the reports you are approving. It’s important to ensure that:

   - You are in compliance with the organization’s policies and procedures, such as having more than one person processing donations, keeping un-deposited funds in a locked location, performing monthly reconciliation of accounts, and following purchasing authority policies
   - The board has segregated management duties and responsibilities to protect the integrity of your employees as well as to reduce the risk of fraud
   - The board is properly reviewing and approving executive expense reports and credit card expenditures

4. **Align your organization’s resources to fulfill your mission.**

   The board should establish key metrics and measurements to ensure the organization is on track to reach its objectives and mission.

   The following questions will help you identify and establish these metrics. Ask:

   - How does the budget compare to actual income and expenses? (Make sure you are satisfied with the explanation for significant variances.)
   - What is the most important activity in accomplishing the organization’s mission? Are we allocating the proper resources to this activity?
   - Is that activity a priority and does it really lead to the results that we want to see as an organization?
   - Are we accurately measuring the results of key activities that lead to mission accomplishment?

Ensuring that you fully understand and fulfill your fiduciary responsibilities will help you act effectively as a board member, and make informed strategic decisions that help the organization accomplish its mission.

If you have any questions or would like to discuss your organization’s specific needs or how to develop effective key metrics, please contact us or your engagement team.

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