Who's Responsible for the Money?

Ann G. Macfarlane, Professional Registered Parliamentarian

When Andrew Estep presented "I've Just Been Elected Treasurer – HELP!" at the Washington State Nonprofit Governance conference in Tacoma, one attendee requested assistance on how to explain board responsibility to the board of directors itself. Her comment stayed with me: "When things start to go wrong, people are kind of surprised at how much responsibility they have."

The fact of the matter is that while a treasurer has a number of duties, she is not responsible for a nonprofit organization's money – the board of directors is. Some authorities list this as the primary responsibility of a board. An organization established to advance the public good needs money to act in the world. Somebody has to make sure that money given or earned for public purposes is not diverted to private pockets. Someone also has to make sure that the organization earns enough money to meet the obligations it has taken on. That somebody is you, Ms. or Mr. Director. And yet how many times, serving on a board of directors, have we seen people bored or intimidated by financial reports?

My personal theory is that some directors don't embrace this responsibility because they have internal standards that are too high. They don't like math, they didn't go on the board because they are good at finance, and they don't want to deal with something in which they may perform badly. It's a heck of a lot of work to try to decipher financial reports before the meeting, and asking questions at the meeting will reveal their ignorance. So they coast, leaving the number stuff to the treasurer or the staff and essentially serving as a rubber stamp. Their self-esteem may be intact, but it's possible that the finances aren't.

It was reassuring to me to see from Andrew's presentation that even the most math-phobic individual can master the skills that are needed to fulfill a director's fiduciary responsibilities.
Here are the essential points that I took away:

1) *You have to track all the money!* Don't blithely remark, as one executive director was reported to have said, "Oh, the cash from the luncheons goes in and out so fast we don't book it, we just spend it on the next one." The records must reflect every penny, both for your own purposes, and for the Internal Revenue Service.

2) *More than one person has to handle the finances.* There is plenty of information out there about how to set up systems for "internal controls" to prevent fraud or theft. Even the smallest of nonprofits needs to have controls in place. For example, it is highly undesirable for a single volunteer to serve both as treasurer and bookkeeper; however, sometimes startup nonprofits have no alternative. In such a case two steps will provide some protection: another person (perhaps the secretary) must open the mail to receive and record cash and checks, and another person (perhaps the president) must sign the checks.

➥ *over*

3) *Reports have to be prepared that accurately reflect the organization's financial position and can be understood by lay people.* Again, there are many excellent references available to show treasurers and staff how to prepare financial documents that ordinary people can read. It's not rocket science, as they say.

4) *The board of directors has to read those reports and ask whatever questions are necessary to understand the situation fully.* As a director you are responsible to the government, to the public and to your own conscience for the money. That's what "fiduciary duty" means – you hold that money in trust, from the Latin *fides* or faith. Don't let your nervousness about appearing ignorant in public prevent you from fulfilling your duty.

5) *Your policies in this arena must be written down and followed.* It is a lot of work initially to write down how the organization carries out its activities, and in the excitement of the mission and its challenges such work may seem secondary. It is actually essential. Don't allow the urgent to prevent you from doing the important.

6) *Don't ask the treasurer to do too much.* The job of treasurer is second only to that of the president in workload. Don't ask the treasurer to prepare the budget all by himself, to manage the investments, or to fill out Form 990 for the IRS. Get volunteer or professional help for these tasks so that he can do what he is appointed to do – and so that he too is involved in the web of checks and balances.

7) *Appoint a financial review committee that does not include the treasurer.* If your organization is too small to incur the expense of a full professional audit, there are alternatives. If you appoint a financial review committee from among the directors, make sure that the treasurer is not a member. Since the purpose of a financial review is to verify that the financial records are accurate, she is the person being reviewed! This also means that if you do hire an outside auditor, somebody else – not the treasurer – makes the choice.

8) *Get training for treasurer, bookkeeper, directors and staff.* This is an investment in the future of your organization, not a luxury.

9) *Read and update your bylaws.* All too often board directors maintain an emotional distance from their organization's bylaws. Bylaws are your friend! Make sure that they reflect reality and establish a useful structure for your financial functioning.

10) *It's not about trust.* One of the most common results, when graft or embezzlement occur (and they do, more often than we think), is to find that directors were reluctant to question the treasurer because they didn't want to appear not to trust him. These principles have nothing to do with trust and everything to do with liability. By taking these guidelines seriously, you as director will protect your organization, your fellow directors, and yourself from the very serious consequences if someone's lapse in judgment or character leads to negligence or criminal liability. It is you, after all, who are responsible for the money.

P.O. Box 77553, Seattle, WA 98177
TEL 206.542.8422 | EMAIL *info@jurassicparliament.com*
www.jurassicparliament.com