

# **Three Habits of Highly Effective Nonprofit Board Members**

**Rachel Epps Spears  
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# **Three Habits of Highly Effective Board Members**

Why does this matter?

**Gail Dogooder** got a call at work from **Ed Dixon**, the Executive Director of **We Help Indigent People (WHIP)**. Gail has served on the board of WHIP for four years and she took the reins as Board Chair two months ago. “Gail,” Ed started, “we have a situation. We are expecting a payment on a government grant any day now but I’m concerned it won’t come in time to make payroll on Friday. Can we ask the board for a loan to cover us until the grant payment comes in?” Gail was shocked. “What? How did this happen?”

Gail thought back to the last board meeting. Like every meeting, Ed handed out a document which included WHIP’s financial information. Gail and the rest of the board looked it over while Ed talked about grants WHIP was expecting. Gail did notice that revenues seemed to be down but she chose her words carefully, asking Ed about any trends in the finances. Ed replied that there seemed to be a slowdown in payment under government grants but he expected to be reimbursed in the next couple of months. The board then moved on to discuss an upcoming fundraiser.

Following Ed’s call about the loan, Gail suggested a meeting with Ed and the rest of the Executive Committee. At the meeting, Gail and the others asked to see the books and started to learn how dire the situation was. Ed revealed that he had been struggling to keep up with bills for months, thinking that those grant checks would come at any time. He even held off on paying payroll taxes for the last two payrolls so that he could cover the rent check. In reviewing the expenses, Gail and the board learned for the first time that Ed had recently paid a fundraising consultant \$20,000 to help identify new sources of funding.

Gail had a pit in her stomach. She had joined the WHIP board because she believed in the mission and felt like she needed to get more involved in the community. She went to board meetings and WHIP events, made an annual donation, and even encouraged her friends to donate to WHIP. But now she asked herself, “Could I have done anything to prevent this?”

# Legal Duties of Nonprofit Board Members

- Duty of Obedience
- Duty of Loyalty
- Duty of Care

## Duty of Obedience

Requires directors to:

- ✓ Follow the organization's governing documents (such as the articles of incorporation and the bylaws)
- ✓ Carry out the organization's mission
- ✓ Ensure that the organization's resources are used for lawful purposes consistent with the organization's mission



## Duty of Loyalty

- Requires directors to give their undivided loyalty to the organization.
  - ✓ A director must not act in his or her own personal interest or in the interest of family members or associates.
  - ✓ The duty of loyalty requires directors to avoid conflicts of interest.

## Duty of Care

- Requires that a director act with the care that an ordinary, prudent person in a like position would exercise under similar circumstances.
  - ✓ Attend Board meetings
  - ✓ Evaluate reports
  - ✓ Read minutes
  - ✓ Review the performance of the Executive Director
  - ✓ Ask questions

## Role of Board

- Determine mission and purpose of organization
- Appoint, oversee and evaluate chief executive
- Oversee financial matters and protect assets
- Ensure legal and ethical integrity
- Ensure adequate financial resources
- Fundraise for and promote the organization in the community
- Monitor and strengthen programs
- Focus on big picture items, not day-to-day operations
  - ✓ (unless it's a working board)

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## Issues presented

- Board not getting the financial information they needed to fulfill their duties
- Board didn't understand that financial information
- Materials were not distributed in advance of board meeting
- Hesitation by board members to ask questions
- ED's delay in notifying the board about financial problems
- Failure to pay payroll taxes
  - ✓ Board members can be personally liable for unpaid payroll taxes
- Large expense without budget approval
- Limited engagement of board
- Loans from board members

## **Three Habits of Highly Effective Board Members**

- Stay engaged
- Trust but verify
- Ensure checks and balances

## Stay engaged

- Take board duties of care seriously
- Attend meetings in person if at all possible
- Review materials in advance; read minutes.
- Beyond board meetings.
  - ✓ Attend events
  - ✓ Volunteer if possible
  - ✓ Engage with staff
  - ✓ Keep the organization top of mind

## Trust but verify

- Make sure you get the information you need.
  - ✓ Financial statements should be sent out in advance of board meeting.
    - Review them prior to the meeting.
    - Speak up if you need training to understand them or would like them presented in a different way.
    - Someone on board should also review backing information like bank statements and credit card statements.
  - ✓ Review reports and other available information about the management and operation of the organization.
  - ✓ Review insurance policies and important contracts.



## Trust but verify

- Ask questions and, if necessary, investigate until you get the information you need.
  - ✓ Board members often don't want to second-guess the ED or appear to be the "bad guy".
  - ✓ Question reports when obvious inconsistencies appear and take steps to investigate and rectify problems.
  - ✓ Potential problems should not be ignored but instead uncovered and discussed.
  - ✓ Listen to your gut.

## Trust but verify

### ➤ Communicate

- ✓ The Board should have open communication with more than one staff member (but staff should not be allowed to abuse this).

### ➤ Seek advice when needed

- ✓ When dealing with complex matters, seek expert advice. The Board can generally rely on conclusions of reputable experts including legal counsel, tax advisors, accountants, and consultants.
- ✓ Check in with advisors annually.

## **Ensure checks and balances**

- Put in internal controls
  - ✓ Divide duties among multiple people.
  - ✓ Review bank statements and credit card statements.
  - ✓ Check signing, cash, inventory, payroll, and invoices.
- Review and approve budgets.
- Monitor and control large expenditures.

## Ensure checks and balances

- Ensure there is appropriate bookkeeping and auditing.
  - Reconcile bank accounts monthly
  - But don't count on audit to catch everything.
- Ensure there is long-term financial planning for the nonprofit.
- Ensure the nonprofit files all required paperwork with the IRS.
- Be a check on “unbridled optimism.”

## Take-aways

- Stay engaged
- Trust but verify
- Ensure checks and balances

**Questions?**

## **For More Information:**

If you would like more information about the services of Pro Bono Partnership of Atlanta, contact us at:

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