BOARDSOURCE®

101 BOARD BASICS

FIDUCIARY RESPONSIBILITIES

One of the main responsibilities of board members is to maintain financial accountability of their organization. Board members act as trustees of the organization's assets and must exercise due diligence to oversee that the organization is well-managed and that its financial situation remains sound. Here is an outline on how board members can fulfill their role as fiduciaries.

What does fiduciary mean?

Fiduciary duty requires board members to stay objective, unselfish, responsible, honest, trustworthy, and efficient. Board members, as stewards of public trust, must always act for the good of the organization, rather than for the benefit of themselves. They need to exercise reasonable care in all decision making, without placing the organization under unnecessary risk.

Understanding financial basics

Not every board member can be a financial wizard. Every board member, however, needs to be a financial inquisitor. It is essential to understand basic terminology, be able to read financial statements and judge their soundness, and have the capacity to recognize warning signs that might indicate a change in the overall health of the organization. If a board member does not understand something, he or she must be willing to find out the answer.

Specific questions board members should ask:

- Is our financial plan consistent with our strategic plan?
- Is our cash flow projected to be adequate?
- Do we have sufficient reserves?
- Are any specific expense areas rising faster than their sources of income?
- Are we regularly comparing our financial activity with what we have budgeted?
- Are our expenses appropriate?
- Do we have the appropriate checks and balances to prevent errors, fraud, and abuse?
- Are we meeting guidelines and requirements set by our funders?

Setting up and monitoring key financial indicators

Having the proper tools to monitor and evaluate financial performance strengthens the board's capacity to judge the health of the organization. Board members need to agree on general guidelines and standards to measure the effectiveness of organizational accomplishments. Appropriate policies must be in place to guide management and board decision making.

Ensuring adequate control mechanisms

Control mechanisms are not intended to detect fraud but rather to prevent it. Ensuring clarity in job descriptions and responsibilities; defining financial and accounting procedures (signing checks, handling of cash, approving expenses, outlining parameters for credit card usage); managing potential conflicts of interest with a clear policy; and requesting regular external audits are all manifestations of fiduciary responsibility.

Approving the budget

The budget creates the framework for program management and overall administrative decisions. The annual budget approval process helps curb any tendency for the board to micromanage. Securing necessary funding is part of a viable budget. Examining financial statements regularly, comparing actual figures to the projected ones, allows the board to verify that the general guidelines stay on track. The board should question any major variances.

Overseeing the organization's legal obligations

The board verifies that all filing requirements and tax obligations are completed. The organization must fill out Form 990 completely and file it on time. It must regularly withhold and pay employment taxes. To avoid intermediate sanctions, the board must document and justify its executive compensation and any financial transactions.
