



NONPROFIT KNOWLEDGE MATTERS

What is “Oversight” Anyway?

Board members are told that their role is to provide “oversight.” But what does that really mean? We were curious to investigate how board governance “experts” define board “oversight.” We compiled this “Top 3 list” in case you are curious too.

1. Follow-through (aka “accountability”). What good is setting policy if the policies aren’t followed? Ellis Carter, Esq., author of the CharityLaw Blog, points out in her piece titled, “[Top 15 Non-profit Board Governance Mistakes \(From a Legal Perspective\)](#),” that exercising oversight is all about making sure that someone (the board) actually follows up on the authority the board delegates to staff and committees: “Oversight is commonly exercised through policies and procedures *so long as the board ensures that the policies and procedures are actually followed.*” An example of the follow-through challenge for boards is apparent in boards’ relationships with executive directors. In that relationship, appropriate “oversight” includes selecting the “right” person to lead the organization, [reviewing and approving](#) the [appropriate level of compensation](#) for the staff leader, evaluating his/her performance, and ensuring that there is a leadership succession plan in place. But as we know from numerous surveys and reports, including BoardSource’s [Nonprofit Governance Index 2012](#), one of the oversight balls that boards are most likely to drop is *evaluating the executive director’s performance*. If boards were better at follow through, they would be regularly evaluating executive directors. More consistent follow-through would also help to avoid common [symptoms of tension](#) between the board and CEO that signal insufficient (and indeed, a harmful lack of) oversight.

2. Seeing sustainability, not just dollars (aka “financial oversight”). When a board reviews the organization’s budget or considers whether adequate internal controls are in place, these activities are quite properly part of a board’s financial oversight responsibilities. But too often, the activities focus on the immediate cash flow instead of long-term sustainability. Boards that see their role as monitoring the financial health of the nonprofit, rather than just the financial status, will be more likely to ensure that there will be enough resources in the pipeline to continue providing programs -- or alternatively -- that it’s time to make a course correction. As Jeanne Bell, CEO of CompassPoint, points out in her Nonprofit Quarterly

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What We're Reading

[Decisive - How to Make Better Choices in Life and Work](#), by Chip and Dan Heath

[The Practitioner's Guide to Governance as Leadership](#), by Cathy A. Trower

Oversight Resources for Boards

[Ten Basic Responsibilities of Nonprofit Boards](#) (BoardSource)

article, "[Beyond Financial Oversight, Expanding the Board's Role in Pursuit of Sustainability](#)," in practice "financial oversight" is often defined as a handful of board members who monitor timely financial reports and drill down on budgets. Unfortunately only infrequently do boards look at the organization's *financial sustainability*, which Bell describes as the entire "interdependent mix of programs and fundraising activities that work together to achieve a set of impacts and financial results." As Jan Masaoka points out in her *Blue Avocado* article, "[Ten Myths About Nonprofit Boards](#)," it's a myth that approving budgets is the "cornerstone" of the board's financial oversight. By viewing its financial oversight role through a *strategic lens*, instead of merely an approve-the-budget lens, boards are more likely to see farther, towards *financial sustainability*. We like the practical way Andy Robinson and Nancy Wasserman put it in the chapter of [The Board Member's Easier Than You Think Guide to Nonprofit Finances](#) entitled, "Finding the Best Altitude For Financial Oversight." The authors point out that "inexperienced boards tend to work at the wrong altitude by focusing on details better left to staff..." (How's that for "oversight"?) They offer a chart illustrating examples of what's properly the board's role (example: "use actual financial data for planning, oversight, and evaluation") versus the domain of staff (example: "develop a diversified fundraising plan reflecting budget goals and organizational needs").

For more insights from these authors on the board's financial oversight role, we share this [author interview](#) with our readers.

3. Avoiding trouble (aka "legal compliance"). While board members are not expected to know every law or regulation that applies to the operations of the nonprofit they volunteer for, it's clear that making sure that the nonprofit does not violate any laws (or overstep its mission) is the board's role. In fact, BoardSource includes legal compliance right at the top of its list of "[What do boards do?](#)" What if the board doesn't know what legal obligations apply? As a fiduciary, the board is expected to either learn – or delegate that role to someone else (which then triggers the follow-through oversight requirement) so that the board can be assured that all the bases are covered. In order to be able to provide oversight in this area, boards should try to learn enough about the applicable legal requirements to ask the right questions, such as "Have we filed all the required [annual filings](#) with the IRS?" Fortunately, the IRS has improved its website in recent years so it's relatively easy to research IRS requirements. For state law requirements, the National Council of Nonprofits' network of [State Associations](#) offers board training and state-specific guidance about legal requirements for charitable nonprofits in their states. Reviewing basic legal requirements during board orientations is one way to prepare new board members for their legal compliance oversight role. But even with that background, some board members may not connect the dots between their own oversight responsibilities and the risks of non-compliance. Charity regulators are not shy about investigating the conduct of a nonprofit board, or even proposing their own list of "best practices" for nonprofit boards (such as this [very long list](#) of board oversight recommendations produced by Kentucky's Auditor of Public Accounts). When a legal requirement, such as filing annual reports with a Secretary of State, has been missed, this is a

[Board's role in reviewing executive compensation](#) (National Council of Nonprofits)

[Cultivating a culture of accountability and transparency](#) (National Council of Nonprofits)

More [resources for boards on financial sustainability](#) are available from our friends at the Nonprofits Assistance Fund, including the [Scenario Planning Worksheet](#) which is a step-by-step guide to contingency planning that can help boards and staff make informed budget and management decisions based on different scenarios.

A tool that many boards, including the National Council of Nonprofits, have adopted for strategic decision-making is a variation on this [strategy screen](#) developed by La Piana Consulting.

red flag for state regulators to investigate the overall conduct of the board, and that could spell a “heap of trouble” for the nonprofit. Consequently, board oversight for legal compliance needs to be taken seriously.

A board that is governing from a perspective of “Let’s follow-through, stay at the right altitude, and take the high road to stay out of trouble” is more likely to focus on how effective the organization is in addressing its stated mission. A board that takes its oversight role seriously is also more likely to spot issues that could spell trouble for the organization down the road – or around the next bend. When a board realizes that it is accountable for not only the “good,” but also “the bad, and the ugly,” that board is more likely to take its oversight role as a champion for the nonprofit’s mission and fiduciary for its assets seriously; those are the boards that will stay out of trouble.

We hope that these musings on the top three ways boards’ oversight keeps nonprofits out of trouble helps you find the right “altitude” for your own board’s oversight. Don’t forget to check the sidebar for more resources, including our invitation to attend a free webinar, **Nonprofit Audits in a Nutshell**, on March 28th 3:30-4:30 pm (Eastern), sponsored by First Nonprofit Foundation. [Jenifer Holland](#), a governance consultant with BoardSource, will address the board’s role in the audit process. [Join us!](#)