

General Responsibilities of a Nonprofit Organizations Volunteer Board

For the most part, nonprofit boards are volunteers who are ultimately responsible for the organization they oversee and are one of the primary vehicles in which the community can participate in the nonprofit sector. These volunteers donate their time and talents for a variety of reasons. Some are interested in the organizations programs, while others are motivated because a sense of civic duty and the satisfaction of giving back to the community or the organization that has made a difference for them or someone in their lives. Whatever the motivation, prospective board members should thoroughly understand the role, function and responsibilities of a nonprofit governing body.

The Board as a Fundraising Body

Personal ability to give and networking traditionally have been among the most important criteria nonprofit organizations have used in volunteer board members. Board members with well-known names lend credibility to the cause and help convince donors that the specific organization they are supporting is a worthy cause and an organization that is making a difference in the community.

In addition, it has long been an expected part of a board member's role that he or she makes a significant contribution to the organization that he or she is serving. Board members are often asked to raise funds for the organization from their business and personal contacts. Many organizations may choose to seek board members not because of their own ability to give, but because of their ability to induce others to do so.

A Word of Advice

Before agreeing to serve on a nonprofit board, take a good look at the organization to ensure that it is worthy of your efforts.

The first step is to seek information about the overall purpose of the organization, finances, governing body structure and fundraising efforts. Ask for articles of incorporation, bylaws, information about past and present legal problems the organization has encountered.

Key questions to consider include:

Program Description and overall purpose.

Is the organization financially stable and is financial information reviewed by its members?

Does the board discuss and approve the budget?

What does the organization expect of its board members and what safeguards are in place to prevent conflicts of interest?

Do you agree with the approaches used in fundraising and are you comfortable with the tone of the solicitations?

Is the organization currently involved in any legal action?

What is the history of past legal activity?

Does the organization provide indemnification insurance for board members?

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If you have questions that have not been answered by written materials, ask the executive director of the organization or members of the existing board. They can tell you about the current level of involvement, anticipate how many hours of their time such service take, and how tasks are assigned.

Board members and executives of other organizations in the same field can provide information as to how the organization is perceived by their peers. Be alert to negative comments and ask the organization itself about any problems. Keep in mind similar organization are competing for the same donor dollars and take this potential bias into consideration when weighing their comments.

Another good source of information is the registration agency in the state in which it solicits contributions. State files which are open for public inspection, generally contain information about the organization's history, current finances, and legal action. Does the nonprofit organization meet voluntary standards set up to encourage ethical practices among charities? Noncompliance with basic, voluntary standards can sometimes be a sign that something is amiss.

Is Time on Your Side?

Do you have the time it takes to be an effective board member? In addition to attending board meetings, you should expect to spend time preparing for the meetings, serving on subcommittees, appearing at fundraising events and contacting potential donors and/or legislators. Evaluate your time and figure out how you will find time for serving on a board. It is not fair to the organization to agree to serve when you know you do not have enough time to do a good job. You should also be wary of lending your name and reputation to an organization that you do not have time to monitor.

Programs

In a nonprofit organization, the board must first develop a mission statement, and then establish long and short term goals related to that mission statement. Established organization should review their mission statement periodically and change when necessary.

Once the organization has established its purpose the members must select staff officers to oversee the programs. Working closely with the organization the board periodically reviews program goals and sets new goals as the old ones are attained. The board plays a leading role in the process as it bears the primary responsibility for the organization's operations. A board that does not develop, communicate and provide the tools to work towards its established program goals is ineffective in its most basic purpose.

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Budget

The Budget is the financial plan of the organization. The budget translates the program and management goals of the organization into dollars and cents projections. It is the most tangible manifestation of the board's program plans. The board should approve the organizations financial plans but delegates to the CEO the authority to administer the finances on a day to day basis.

In developing a budget an organization and board must first consider the programs it will support and decide on fundraising strategies that will generate the necessary income. The budget should be specific enough to be used as an accurate measure of the organization's progress throughout the year. The board and staff of the organization must both be committed to the budget to make it work.

Financial Management and Evaluation

A board should review the organization's plan and budgets regularly to determine how well the organization is performing. The best way to do this requires financial and program reports. This should show comparison between budgeted and actual income and expenses, progress on the established and new programs, progress on the current goals, number of people served by existing programs and/or staff performance.

Major decisions including those involving the fundraising activities, should not be made without board approval. The board should be aware of the results of all fundraising methods, not only in terms of financial return but also how the fundraising campaigns are being conducted, how the public perceives the appeals and what involvement is expected of board members.

Action

Board members are legally responsible for the agency's actions and as such are an integral part of the agency's decision making and planning processes. Some Board members may require one-on-one training in order for them to fully grasp their roles. Board members are expected to attend meetings, thoroughly review all Board packet information and may do further research so they can be knowledgeable in their decision making.

Conflicts of Interest

Many nonprofit boards are unique because its members come from diverse backgrounds and experiences, i.e., corporate, other nonprofits, a personal connection to the agency, etc. A conflict of interest could arise when a Board member wants to share their expertise for the benefit of the organization they are employed. A good question to ask when considering the use of a Board member's company/service is "Would we want the donors to know about this transaction and would we feel comfortable explaining the situation to donors?"

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Board members may have a personal connection to the agency but ultimately we desire for them to be objective in their decision making. A Board member may abstain or be asked to abstain from a decision-making process at any time when it is thought to be a conflict of interest.

Ultimately, conflicts of interest can threaten the organization's tax exempt status. The Internal Revenue code requires that nonprofit organizations be operated for "public benefit" and that there be no inurement to the benefit of any individual. The Internal Revenue Service (IRS) can revoke the organization's tax exempt status. As stated in the IRS' Exempt Organizations Handbook:

... exemption may be lost even though the transaction ultimately proves profitable for the exempt organization... thus, the test is not ultimate profit or loss but whether, at every stage of the transaction those controlling the exempt organization guarded its interests and dealt with related parties at arm's length....

It must be absolutely clear that board membership carries no right to preferential treatment in the placement or handling of investments or business accounts. A board's knowledge of every significant transaction relevant to its organization is crucial in the prevention of conflict of interest situations. Another key practice in the battle of self-dealing is that of abstention from voting. Once a board member has disclosed a potential conflict it is important that he or she refrain from voting on the issue. Some boards may even go so far as to ask the individual member leave the room during any discussion of the matter.

Boards should also be aware there are policies requiring competitive bids when awarding contracts over a specific dollar value when making investment decisions, purchasing and hiring legal counsel.

Indemnification

Indemnification is the obligation of an organization to pay for or reimburse the board member for any cost or expense of litigation arising out of board service. This compensation is only permitted when state laws allow it and when the state and/or IRS determine that the indemnified person acted in good faith and with due care in fulfilling his fiduciary duty.

Indemnity insurance finances the legal expenses incurred when a board member is sued. The insurance company must be convinced that certain standards of diligence have been met before the organization can be compensated.

Why All the Fuss?

Don't forget that when you agree to serve on a nonprofit board, you are accepting stewardship responsibility for the funds donors have contributed to that organization. Donors are placing their trust in you, beneficiaries of the organization's services are depending on you and the courts are watching you.