

20 Questions That Directors Should be Asking

1. Do the Directors devote adequate time to governing the organization?

Directors are legally responsible for governing the organization. Directors should attend regular board meetings; they should be engaged in the business of the organization and they must make informed decisions; they should spend adequate time learning about important matters that merit their attention.

2. Do the Directors devote adequate time to discussing financial oversight matters at Board meetings? *Your organization's program service is the reason you exist, but your finances make your program happen. It is the Director's responsibility to safeguard your organization's assets. Directors should discuss financial oversight matters routinely to ensure that assets are used efficiently and protected from misuse. Directors should ensure that financial internal controls are in place to protect assets.*

3. Does each Director have a copy of the *current* bylaws and other important governing documents?

All Directors should be provided with a copy of the articles of incorporation, bylaws, minutes of meetings of the Board of Directors, current financial information and the most recent annual report filed with the IRS.

4. Does the Board of Directors ensure that the organization is in compliance with IRS and State registration and reporting requirements?

- *Corporate registration and annual renewal to the Secretary of State.*
- *Registration and annual report to the Oregon Department of Justice.*
- *Annual Federal and state tax reports*
 - *IRS Form 990, 990 EZ or 990 N*
 - *IRS Form 990-T for unrelated business income tax*
 - *IRS and State of Oregon payroll withholding taxes*

5. Do the Directors receive a meaningful treasurer's report with timely periodic financial statements?

You should receive a treasurer's report at every board meeting. The treasurer or another officer should understand the report and be able to interpret it for the Directors. Don't be afraid to ask questions.

➤ **Report should include both:**

- *Income Statement (or Statement of Activity)*
 - *This statement explains your organization's revenue and expenses for the statement period.*
- *Balance Sheet (or Statement of Financial Position)*
 - *This statement explains your organization's assets and liabilities as of the statement date.*

6. Are all financial statements prepared in a consistent manner? *Financial Statements must be compiled in a consistent manner from month to month.*

➤ **Cash basis vs. accrual basis.** *Accounting changes should be rare, and when necessary, they should be explained to the Directors.*

7. Does your organization receive any "restricted" donor funds? If so, how are they accounted? *Donors may "restrict" how their donation can be used. Restricted funds should be segregated from general funds. Restricted funds can only be used for their restricted purpose.*

8. Are all liabilities paid on a timely basis? *Review the board meeting treasurer's report (balance sheet) and look for signs of larger-than-normal liabilities. At year end, conduct an internal audit; review billing statements for delinquent balances. Delinquent payments may indicate cash flow problems or other serious administrative problems. Investigate any delinquencies you find.*

- 9. What are the policies regarding expenditures and are all expenditures adequately documented and reviewed?**
Expenditure of funds should be set out by policy. More than one person should be involved in the disbursement cycle and all expenditures should be backed up by receipts.
- 10. Are financial transactions being done in "secret"?** *Transparency is important. Each Director has a right to all financial information.*
- 11. Does the organization have credit cards or debit cards?** *Credit and debit cards can be easily misused for embezzlement. Debit cards are especially susceptible to misuse; avoid them if you can. If you have cards, who are the cardholders? Does an independent person review all credit card statements and bank statements to ensure that unauthorized purchases are not made? What internal controls have been implemented to prohibit credit card and debit card abuse? Ensure all card purchases are backed by a receipt.*
- 12. Does the organization have adequate financial controls in place such as segregation of duties?**
Basic internal financial controls are essential to protect the organization's assets. Someone other than the check signer should review bank statements, all cancelled checks and approve all vendor invoices for payment.
- 13. Does the organization receive cash and, if so, what are the cash handling procedures?**
Cash handling procedures should be set by policy with oversight measures to protect assets.
- 14. Who is your bookkeeper? Does he/she have access to assistance when necessary? Are you using an accounting system?** *The bookkeeper should be competent and use a proven accounting system.*
- 15. Are the Directors in compliance with IRS and State legal standards for setting key employee compensation?** *The Board of Directors must set and periodically review key employee compensation, expenses, travel and reimbursement arrangements. Avoid excessive compensation arrangements; compensation must be based on comparable worth. Travel expenses and reimbursements should be backed up by receipts.*
- 16. Are staff complaints regarding alleged management misconduct taken seriously by management and addressed objectively?** *Employees bring more actions against organizations than any other class; take their complaints seriously.*
- 17. Does the organization have a written conflict of interest policy that is enforced?** *A conflict may exist any time a Director, a Director's spouse, or a Director's business receives any payment from the organization (regardless of whether the director realizes a profit or not). Such payments are not automatically prohibited, but there are legal standards that must be observed. Be sure Directors understand the legal requirements for approval of a conflict transaction. Your organization should have a written policy for board review and approval of all conflict-of-interest and self-dealing transactions.*
- 18. Is the staff prohibited from communicating with the board or attending board meetings?** *Employees bring more legal actions against corporations than any other class, often for labor issues. Staff should be allowed to bring their unresolved grievances to the Directors. They should not be prohibited from communicating with Directors when necessary.*
- 19. Do directors have access to staff members who can answer their technical questions?** *Directors should not interfere with day to day operations, but they have the right to access staff for information.*
- 20. Have the Directors consulted the staff regarding policy decisions?**
Consider consulting your staff experts whenever possible.