

# **The Finance Committee and Committee Chair Responsibilities**

## **Role of the Committee**

The role of the finance committee is primarily to provide financial oversight for the organization. Typical task areas for small and mid-sized groups include budgeting and financial planning, financial reporting, and the creation and monitoring of internal controls and accountability policies. An outline of responsibilities appears below.

## **Budgeting and Financial Planning**

1. Develop an annual operating budget with staff.
2. Approve the budget within the finance committee.
3. Monitor adherence to the budget.
4. Set long-range financial goals along with funding strategies to achieve them.
5. Develop multi-year operating budgets that integrate strategic plan objectives and initiatives.
6. Present all financial goals and proposals to the board of directors for approval.

Effective finance committees fully engage in an annualized budgeting process in cooperation with the staff administrative leader and senior staff. Unless an organization's bylaws expressly forbid it, it may be advantageous to include non-board members with financial expertise on the committee.

In addition to developing an annual budget, the committee should also set long-term financial goals. These goals might include, for example, the creation of a working capital or cash reserve fund and the creation of a fund for maintaining or replacing equipment. If the organization has a strategic plan, the finance committee will work with the staff to determine the financial implications of the plan and will plot them into a multi-year organizational budget that will financially support the implementation of the strategies.

## **Reporting**

1. Develop useful and readable report formats with staff.
2. Work with staff to develop a list of desired reports noting the level of detail, frequency, deadlines, and recipients of these reports.
3. Work with staff to understand the implications of the reports.
4. Present the financial reports to the full board.

Effective finance committees require staff to provide highly contextual reports clearly communicating the organization's financial and cash position, its adherence to the budget, its allocation of resources toward the accomplishment of its mission, and its support of any donor-imposed restrictions on contributions. Having a predetermined list of reporting expectations permits staff to allocate enough time to produce accurate, high quality reports and not be caught off guard by ad hoc requests. In addition, these reports should help to focus the board's discussion about expected outcomes and potential strategies for overcoming setbacks or changes in the financial environment.

## **Internal Controls and Accountability Policies**

1. Create, approve, and update (as necessary) policies that help ensure the assets of the organization are protected.
2. Ensure policies and procedures for financial transactions are documented in a manual, and the manual is reviewed annually, and updated as necessary.
3. Ensure approved financial policies and procedures are being followed.

Although the entire board carries fiduciary responsibility for the organization, the finance committee serves a leadership role in this area, making sure appropriate internal control procedures for all financial transactions are documented in a manual and followed by staff. The committee should also play a role in determining and updating bank account signatories as well as overseeing all legal and governmental filing deadlines are met.

Finance committees are also often charged with ensuring compliance and/or developing other policies that further serve to protect the organization and manage its exposure to risk. These include establishing policies surrounding:

- Personnel policies
- Executive compensation packages (in the absence of a separate human resources committee)
- Long-term contracts or leases
- Loans or lines of credit
- Internet use and computer security
- Capital purchases
- Disposition of donated stock
- Insurance requirements and reviews
- Record retention
- Gift acceptance

### **Covering Audits and Investments**

Depending on many factors including – the size of the board, the size of the budget, the magnitude and complexity of existing financial assets – the finance committee may be called upon to perform the roles of two other committees that are usually separate in larger organizations: the audit committee and the investment committee. The basic audit and investment committee's responsibilities include:

#### **Audit Committee**

1. Recruit and select the auditor.
2. Review the draft audit and 990 as presented by the auditor.
3. Present the audit report to the full board of directors (if the auditor does not do this).
4. Review the management recommendation letter (SAS112) from the auditor and ensure follow up on any issues mentioned.

#### **Investment Committee**

1. Draft an investment policy detailing the objectives of the investment portfolio, guidelines on the asset allocation of the portfolio based on a predetermined level of risk tolerance, authorizations for executing transactions, disposition of earned income, etc.
2. Ensure provisions of the policy are followed.
3. Review the policy at least annually and update if necessary.
4. Hire and evaluate the investment managers/advisors.

Even if an organization does not have enough cash to support a full blown investment portfolio, it may manage its cash to optimize earned revenue. If an organization has excess operating cash, the finance committee, with the staff administrative leader's input, may consider drafting guidelines for putting the excess cash in low-risk, short-term vehicles. These should be designed to maximize earned revenue from existing cash without interfering with operating cash flow needs, i.e., purchasing short-term GIC's with staggered maturity dates.

## **Role of the Chair**

The finance committee chair is most often the board treasurer, whose specific duties are usually described in the organization's bylaws. In practice these duties can vary considerably from a hands-on role, in the case of the "working board" model, to a more supervisory role where transactions are largely handled by staff.

As chair of the finance committee, the board treasurer makes sure the committee does its job. Specific duties of the chair include:

1. Serving as the principal liaison between the committee and the full board,
2. Working with the staff leader to set an agenda for each committee meeting,
3. Notifying members about the meeting,
4. Ensuring handouts and reports are prepared and sent to committee members in advance.

An annualized committee task list is a useful tool for organizing the committee's work. This could take the form of a monthly timeline or calendar that integrates budgeting and financial planning deadlines, governmental and legal filing deadlines, internal report deadlines, dates to review and update policies and procedures, and dates of finance committee meetings and full board meetings.

The treasurer or finance committee chair does not always have to be a professional "numbers" person, but good judgment, logic, curiosity, and a commitment to accountability and the long-term financial stability of the organization are vital traits. A good treasurer or finance committee chair will have, or quickly develop, an understanding of nonprofit financial reporting.

The presence of a fully engaged finance committee is a strong indication that an organization is committed to good stewardship and is actively building and preserving the financial resources necessary to support the accomplishment of its mission, both for the short and the long term.