



Top-Down Influence:

How Leaders Can Help Influence the Right Tone in Their NFP Organization

Key Oversight Questions:

24 Essential Conversations for Board Members and Leaders

Setting the tone for your organization starts right at the top. In fact, it is a crucial duty for non-profit board members, emphasizing the significance of oversight, integrity, and robust internal controls to both management and staff.

What Does it Mean to Set the **Tone From the Top**?

In a non-profit organization, the board plays a crucial role in ensuring that management has effective internal controls in place. While the audit committee typically spearheads this effort, the entire board must also actively support and engage in it. Internal control is defined as a process designed to ensure the reliability of financial statements, compliance with laws and regulations, and the smooth operation of organizational activities. A key component of the internal control structure is the organization's control environment. This environment reflects the integrity and commitment demonstrated by the board and management, which sets the standard for the organization's internal control system.

Although the tone set from the top for the organization is a qualitative aspect of internal controls, its significance cannot be understated. Many experts consider it the foundational element of an organization's control framework, as it lends credibility and strength to all other control measures. As you will see in this document, simple actions such as curiosity, attentive listening, and genuine care for the organization contribute greatly to setting and enhancing the organization's control environment tone. These actions not only strengthen the internal control environment but also improve the overall effectiveness of the board across various aspects of governance.

Using Inquiry to Gain Insight

Asking thoughtful questions, whether during board meetings or during one-on-one sessions with the executive team, is a powerful way to help influence the tone of control in the organization. Below are some questions for board members to consider, designed to elicit valuable insights from the management team.

These questions aim to encourage open-ended responses that can lead to deeper, more strategic discussions. We always suggest, if answers are brief or limited to "yes" or "no," try rephrasing the questions to invite more detailed and expansive replies.

Q 1.

What caught you off guard?

This straightforward question can spark a conversation about deviations from the organizational plan and shifts in the economic landscape. For instance, a response highlighting an unforeseen drop in specific program revenues could lead to a deeper discussion and investigation into recent trends and potential warning signs.

Q 2.

How solid are our cash reserves?

Many organizations struggle with insufficient cash reserves, making it challenging to endure revenue declines during tough periods. To evaluate vulnerabilities, organizations should create both short-term and long-term cash projections. *Tip: Develop a weekly roll-forward cash projection and update it regularly (e.g., monthly).*

Q 3.

How do you rate our utilization?

Non-profit organizations need to optimize the number of individuals served according to their current and anticipated capacity. Low utilization may signal inefficient use of resources, while consistently high utilization might suggest a need for additional capital, staffing, or other investments in order to more effectively fulfill the organization's mission. *Tip: Have management assess organizational "utilization" by dividing the actual number served during the year by the maximum possible based on capacity. Review the results and compare them to goals and expectations.*

Q 4.

What if our building is destroyed by fire?

It is essential to periodically review insurance, data backup coverage, and disaster recovery plans to ensure that the organization can recover from potential financial and IT damage in the worst-case scenario.

Tip: Regularly test your data backup system and disaster recovery plan as if your current system and data were completely lost.

Q 5.

Is our budget practical?

Non-profit leaders often approach the future with optimism. However, it is crucial for board members and management to ensure that this optimistic perspective does not lead to unrealistic budget assumptions, which could leave the organization exposed if the "best case scenario" does not happen.

Q 6.

Is our insurance coverage right for our needs?

Circumstances evolve over time. It is important to keep your insurance agent informed about new initiatives/ programs, changes in your facility, and any other key operational updates to ensure that your coverage aligns with your current exposure.



Q 7.

Which programs generate surpluses? Which incur deficits?

Non-profit organizations often expand and add programs based on the needs of the community, without later taking the time to fully evaluate their return on investment. While not every program is designed to generate a "surplus," it is essential for board members and management to understand the degree to which programs are being subsidized.

Q 8.

What could cause us to miss our financial projections?

By asking this question, a board member can delve into the key assumptions underlying the organization's financial outlook. Sometimes, projections hinge on the success of one or two significant pending "asks" converting into donations. Understanding the foundation of these financial assumptions allows for a clearer identification of potential vulnerabilities.

Q 9.

Are any key pledges at risk of becoming uncollectible?

Securing funding commitments from donors is only the first step; collecting the funds as expected is equally important. This responsibility often puts nonprofits in the difficult yet crucial position of pursuing overdue pledge payments. Significant issues with pledge collections can jeopardize the sustainability of the organization and should be identified and addressed as early as possible.

Q 10.

Are we reliant on a small number of funding sources?

Organizations dependent on a few large gifts or grants may be at risk if donors change their funding strategies or reduce contributions. It is important to recognize the potential impact of these changes before they happen, or even mitigate the risk by expanding the number of funding sources.

Q 11.

What opportunities do we have to grow revenue?

Amidst the focus on organizational challenges, the potential for growth can sometimes be overlooked. Especially during times of uncertainty and change, it is crucial for organizations to prioritize identifying and pursuing strategic opportunities to increase revenue.

Q 12.

How can we (the board) assist?

Management may sometimes hesitate to seek help and guidance from board members for various reasons. Simply extending an offer of support can foster better communication, planning, and reporting.



Q 13.

How do we compare to our peers?

Benchmarking against successful organizations that are similar to your organization can inspire new ideas and strategies for improvement, setting higher standards for future success. *Tip: Connect with peer organizations to see if they are willing to share data. Additionally, explore public databases like Guidestar.org for further benchmarking insights.*

Q 14.

What are our key success factors?

Focusing on a few essential indicators can help clarify whether the organization is on track or falling short of its goals. This approach makes it easier to assess and communicate the organization's progress.

Q 15.

Do we have documented financial policies and procedures?

Documented policies and procedures ensure the internal processes expected and needed to produce consistent, reliable financial information. Without clear and followed procedures, financial reporting can become disorganized and unclear.

Q 16.

How could fraud occur in our organization?

Exploring potential fraud risks can assist a non-profit organization in identifying critical weaknesses in its operations. By recognizing these vulnerabilities, board members can participate more actively in their financial oversight duties, ensuring that sufficient resources are allocated to prevent future fraud.

Q 17.

Have we implemented all recommendations from the audit management letter?

After each annual audit, auditors typically provide a letter with recommendations. By reviewing and ensuring action on these recommendations, board members contribute to the ongoing enhancement of the finance function and demonstrate to the finance staff the importance of addressing the audit's suggestions.

Q 18.

What are our most pressing short-term challenges?

This question helps gauge the finance staff's perspective on the organization's immediate direction. Getting this input directly from those managing the finances offers a clearer view of whether the outlook is positive or concerning. *Tip: Request that the finance staff prepare a brief monthly summary highlighting key challenges. This can assist the board in prioritizing important agenda items for discussion and resolution.*



Q 19.

What is the average time we take to pay our vendors?

This practical question offers board members insight into the organization's cash flow management and liquidity. If payments to vendors are consistently taking over 90 days, it may indicate a liquidity issue that warrants further discussion.

Q 20.

Are we behind on any required filings or reporting?

Non-profit organizations often have various filing obligations, such as the IRS Form 990, state licenses, funder reporting, payroll taxes, and wage reports. Missing or late filings can lead to substantial penalties and divert attention from the organization's mission.

Q 21.

Which expenses are exceeding budget and why?

It is important to have a clear understanding of an organization's expense structure. Identifying which expenses consistently surpass their budgeted amount can improve future budget planning. Additionally, investigating these budget overruns can spark discussions about the operational aspects of the non-profit.

Q 22.

What tools and resources are needed?

Everyone has a wish list, and for the finance department, it might include upgraded accounting and general ledger software, additional staff, and enhanced capacity to manage the organization's finances more effectively.

Q 23.

What is our bidding procedure for key services and contracts?

Effective expense management involves periodically bidding out services and contracts. This process often leads to reduced operating costs, and existing vendors may offer better terms if they are aware their services are being put to bid.

Q 24.

What is our contingency plan?

Things do not always go as planned, and sometimes a worst-case financial scenario may occur, even if only temporarily. It is wise to have a clear contingency action plan in place to navigate challenges and "weather the storm" during difficult times.



Leveraging the Management Letter for Oversight

A management letter is a document from auditors that includes their written recommendations and concerns following their fieldwork. This letter may highlight significant issues like material weaknesses in internal controls or suggest areas for improvement, such as upgrading general ledger software. Essentially, it serves as a post-audit "to-do" list for the organization's accounting and finance functions.

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A management letter is one of the concrete deliverables that the Board receive after an audit

The outcomes and findings from an audit are often shared with the organization's board members, banks, funders, and grantors. Effectively addressing the recommendations in the management letter demonstrates a commitment to resolving key accounting, risk, and internal control issues beyond just the audit opinion.

Therefore, it is crucial to thoroughly review and understand all recommendations in the management letter. Request regular updates from the executive team to ensure these recommendations are acted upon and not overlooked. However, it is also important to assess whether the costs of implementing certain recommendations are justified by the benefits. Many organizations conduct a cost-benefit analysis of each recommendation, document their preferred actions, and communicate these decisions with both the board and auditors.

Conclusion

As we stated at the top of this article, simple actions such as curiosity, attentive listening, and genuine care for the organization by a board member can contribute greatly to helping set the tone and expectation for appropriate controls within a non-profit organization. While sometimes opening the door to this kind of communication can feel a bit awkward (if it has not existed in the past), any good leader or finance team member should hopefully welcome the interest and conversation. It is only through these kind of transparent conversations that needed change can come which usually paves the pathway to growth and mission achievement.



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