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What Not to Do: Top Ten Board & Finance Committee Reporting Mistakes
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One of the board's most critical roles is to ensure that the organization's financial resources are effectively managed and sufficient to assure the organization's long-term viability. And yet, most organizations don't pick board members because of their financial capabilities. In fact, it's not uncommon for board members without extensive financial expertise to rely on the handful of bankers, CPAs and financial advisors on their board to tell them whether the organization is in good financial health.

Since board recruiting criteria are unlikely to change, it is important to maximize the board's ability to provide adequate financial oversight by giving them the tools they need – and by avoiding the following common financial reporting mistakes made by nonprofit organizations:

Mistake #1: We have no clue what our board members know or don't know.
Ignorance may be bliss in the short term, but rarely in the long run! To avoid this mistake, assess the needs of the board before recruiting new members, assess board members' comfort level surrounding financial information and adjust your approach accordingly. Washington Nonprofits provides a FUN Quick Assessment tool to help assess board skills.

Mistake #2: We provide inadequate or no training on financial reports and related concepts.
Only 89% of nonprofits provide copies of their financial statements during board orientation, and only 74% supply the most recent Form 990[i]. Providing these documents and basic training in financial statement analysis are among the easiest ways to improve board performance. United Way of King County provides an excellent course on speed-reading financial statements for board members, and Washington Nonprofits' FUN program provides free materials for use in board orientation.

Mistake #3: We set a tone that de-prioritizes the importance of our organization's finances.
When the finance report is included on a consent agenda, given limited time on the agenda, or routinely cut when other items run long, it sends a message that financial review is not a critical board function. To avoid this mistake, make sure the finance report is given adequate time for discussion.

Mistake #4: Our finance presentation is always exactly the same.
To add variety, rotate presenters at both the committee and the board meetings, encourage board members to ask questions, and consider assigning questions to start a dialogue.

Mistake #5: We constantly use accounting terminology, jargons and acronyms.
Those three-letter-acronyms that are our bread and butter are a mystery to most board members. Translate technical topics into plain English, provide a glossary or cheat sheet to board members, and understand that most people who read your reports will not understand accounting jargon. JJCo's publication, What Board Members Need to Know About Not-for-Profit Finance & Accounting, includes an easy to use glossary of terms.

Mistake #6: We give board members way too much information.
While we are comfortable sifting through massive spreadsheets to spot anomalies, it is important to remember that board members may not have the same gift. By limiting the detail that is presented, it is easier for reviewers to focus on the information that is important. Keep financial packets simple, avoiding multiple reports and multiple pages, and consider providing different levels of detail for the committee and the board.

Mistake #7: We don't give board members enough information.
While information overload is a problem, so is providing insufficient information. In some cases, key financial statements such as the balance sheet or cash flow projections are omitted or the reports cover only a subset of the organization, making it difficult for board members to see the organization's full financial picture.

Mistake #8: Our reports are a moving target.
Most board members will commit only a small amount of time to your organization's financial analysis. If the report format changes from one meeting to the next, they'll be required to invest some of that time trying to understand what they are seeing – and may miss important details. To avoid this mistake, use the same format, timing, dating and budget figures at every meeting, and take advantage of

projections and forecasting to help board members understand the organization's financial position.

Mistake #9: We use dashboards the wrong way.
Dashboards can be useful in helping organizations focus on problem areas or strategic initiatives. However, they should never be used as a substitute for financial statements, and should be crafted with care. If the metrics presented are misleading, irrelevant or insufficient, the board would be better off without a dashboard.

Mistake #10: We rely on these reports but don't understand the system that produces them.
It is our responsibility to understand how the numbers on the financial statements got there, whether they match the underlying accounting system, and how we manage internal controls to control fraud risk. It is also our responsibility to educate the board on these processes so that they are better equipped to ask critical questions about financial data integrity.

[i] According to the Financial Literacy and Knowledge in the NonProfit Sector report, published by The Center on Philanthropy at Indiana University in February 2012. http://www.philanthropy.iupui.edu/files/research/2012financialliteracy.pdf

About the Author

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