

Nonprofit News

Choice, Future, and Communities: The True Role of the Board and Governance

By Steven Bowman,
Conscious Governance

In my thirty years of working with boards and senior leadership teams as chairman, director, and CEO, I have seen governance described as many things, and implemented in all manner of ways. Fiduciary oversight (yawwwn), risk management and strategy development (slightly less yawning), control of staff and resources (shudder), legal compliance, and on it goes. These points of view have been developed over the years and have been perpetuated by the plethora of training programs, journals, academic discussions, and professional bodies that focus on particular aspects and tools in the pursuit of "good governance."

What if governance was none of these? What if we got back to the basics of what a board's role was in the first place? What if true governance called for the board . . .

- to make the choices
- that create the future
- for the communities they serve?

What if all the governance processes, policies, strategies, financial reporting, and risk management programs we put in place were just tools to assist the board *to make the choices that create the future for the communities they serve?*

The implications of this simple restating of governance are profound.

Make the Choices . . . When asked what boards do, most people say they make decisions. The problem is that they typically misidentify what a decision is. I have asked thousands of the directors and senior leaders how their board

members would describe a decision. Most commonly it is seen as something that is:

- *Final*—it cannot be revisited, even if it was made five years ago
- *"The" answer*—once we have the answer we can stop looking at the range of possibilities for other alternatives
- *Right*—which is a problem because if something does not fit that decision it must, by definition, be wrong.

This perspective is fraught with danger. It often leads to slow decision making: We have to get it right, so let's get even more information and give it to yet another subcommittee. And, once the decision has been made—that is, boards have found *the final and right answer*—they no longer have to question whether that decision is actually working for them. Any information they subsequently receive that reflects on the decision will typically be constructed and filtered to confirm, not question, the decision. Alternatives are no longer an option, nor is critical thinking.

Choice, on the other hand, is all about identifying viable options—there are, after all, an infinite number of ways of doing any one thing. Choice is neither right nor wrong, it is just choice. Choice is the way to navigate change. Every choice a board makes creates awareness and determines what the organization's future can be. This means, whenever a board makes a choice—any choice—it needs to recognize what limitations and possibilities are being generated with that choice.

What if we had the point of view that the

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Big Changes to Audits of Federal Funds by Cindy Bergvall, CPA

The new Uniform Grant Guidance (also referred to as the Super Circular) has changed the Single Audit or Circular OMB A-133. While many Circular OMB A-133 pieces remain intact, there are a number of changes nonprofits need to address.

Key changes include:

1. A new audit threshold of \$750,000 increased from \$500,000.
2. Robust documentation of controls in line with the Federal Green Book which is available at the GAO website at <http://www.gao.gov/products/GAO-14-704G>
3. Procurement policies requiring quotes for purchases over \$3,000 and sealed bids for purchases over \$150,000
4. Specific communications to subrecipients and increased monitoring
5. Cost principles regarding compensation and a provision for a 10% indirect cost rate if you have not previously negotiated an indirect cost rate.

Documentation emerges as a big theme in the new guidance. Controls over the finances and over federal awards need to be evaluated, documented, and monitored. The assessment of your control system and the monitoring process and results also need to be documented. The guidance is effective for years ending December 31, 2015 and forward, so this would include year ends of June 30, 2016.

So what do you need to do now?

Consider first if the Guidance applies to your organization. If you receive less than \$750,000 in federal funds but receive pass through funds from the state or County, contact your funder to see if they will be requiring a program audit or audit under the Uniform Grant Guidance in lieu of a program audit. Also contact your audit firm to confirm what level of audit will be applicable to you.

Review the elements of the Guidance that apply to you. Make sure to address the new procurement issues; the cost principles; and the elements of the Compliance Supplement related to your funds. If you distribute funds to subrecipients, gather the information together that you need to provide to your subrecipients and also document your risk with respect to your subrecipients.

Download the Green Book and familiarize yourself with the elements of the COSO framework. Assemble the documentation that you already have. See what is missing. Make sure you addressed compliance over federal, state and county funds. Assign the missing pieces for applicable staff to document. Get back together and review the information against the framework of the Green Book.

You should be in contact with your audit firm. Expect that they will be asking to review your documentation and that the testing of your compliance and controls will be different from prior years. From a practical standpoint you might have more audit findings the first year as you work to apply the new guidance. Prepare your board for this ahead of time.

Mark Your calendars!

March 16, 2016-**Book it Right, Track it Right** 9-12 pm United Way of GPSNJ

March 22, 2016-**Book it Right, Track it Right** 9-12 pm United Way of Greater Lehigh Valley

May 25, 2016-**Is Your Board on Board?** 10-11:30 am Nonprofit Resource Center, Grundy Library

June 13, 2016-**Nonprofit University**, 8:00-4:00 pm Bucks County Community College

June 27, 2016-**Board Boot Camp** 5:00-8:00 pm Philadelphia Free Library, Regional Foundation Ctr

Visit <http://www.catalystnonprofit.com/training.htm> for more information and to register

This article is a brief summary of the guidance and there may be additional issues that affect your funding. Bee, Bergvall & Co has published a white paper that discusses the Uniform Grant Guidance in more detail.

Contact Liz Vibber, lvibber@bbc-cpa.com for an electronic copy.



true role of the board was to do all the required analyses—e.g., financial, risk, strategic, ethical—and then make choices from amongst the various available options, based on these analyses and the board's criteria for success? The board would then monitor the choices for effectiveness over time and reserve the right to change direction and swiftly choose again if it became apparent the original choices were no longer working.

. . . That Create the Future . . .

The role of the board is not to meet and receive reports about how busy the senior executives are. Once again, the role of the board is to make the choices that create the future for the communities they serve. Creating the future is all about being aware of what is happening in the strategic environment; focusing on the things that are likely to have an effect on your organization; choosing what needs to be modified, created, or stopped; and repeating this process continuously.

Ask your board the following strategic questions: What's happening out there? What does it mean to our organization? What do we need to do about it?

Keeping the vision top of mind, ensures that each of the members are constantly scanning for potential futures by reading and seeking information from other sources, discussing the potential implications of choosing one direction over another, exploring key strategies the organization might employ, and making choices about what needs to be done. The two key tools here are the vision statement—the impact we wish to have on the communities we serve—and the strategic plan—the top five or six things the board agrees must occur in the next two or three years.

Employing a few proven practices will further help your board create the future:

- Recast the board agenda to reflect the key strategies from your strategic plan. If the board agenda is based primarily on the operational, then the board will function from an operational perspective.
- State the vision statement at the top of each board agenda to inform discussions and decisions by focusing the discussion on what is really important

to the organization.

- Ensure that staff indicates in reports and proposals how their departments are achieving the strategic directions outlined in your organization's strategic plan.
- Arrange for someone at every second board meeting to provide the board with both strategic insight into the environment it is making decisions about and the implications of these insights for the organization.
- Have a different staff member make a presentation to the board every second board meeting about the strategic issues that individual faces in his or her area of responsibility. Encourage the board to ask questions regarding those strategic issues.
- Develop a section of the agenda that encourages board members to bring to the full board's attention any trends they have seen, heard about or have some insight into that may affect the assumptions they are employing as they work through the strategic plan.

. . . For the Communities They Serve

The purpose of your organization is not to perpetuate itself. It is to make a difference in the communities you serve—to impact people's lives! As such, you need to understand the full potential of what you can achieve for your stakeholders and be able to articulate this in your vision statement.

The communities you serve will change from time to time as demographics and your strategic foci shift. So they need to be continually monitored for your organization's impact on your communities. You can do this by answering the following questions: Who are our stakeholders this year? Have they changed or are they likely to change next year? What do our stakeholders perceive as our impact on these communities? How do we engage with our stakeholders to facilitate greater change—e.g., Have we made them part of our strategic planning? Our risk management? Our communications? Have we kept them abreast of the change that is occurring? This focus at the board level on the communities you serve raises the whole issue of stakeholder engagement to a new

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level, maximizes the possibility of the board being strategic, and minimizes the possibility of the board being self-perpetuating and self-interested. The discussions that this process engenders are fascinating and can truly lead to change in our world, which is why our organizations exist in the first place!

After you've asked yourselves the above questions and thoroughly discussed the implications of the answers, ask your stakeholders directly.

- At least once a year, have a formal discussion at the board level about who your different stakeholder groups—your various communities—are, whether those have changed or will change, and whether you are dealing with all your relevant communities in a manner that moves you closer to the achievement of your vision. Map this against current strategic plan initiatives to see if anything needs to change.
- Involve key stakeholders in your strategic planning team. I have found the optimum planning team size to range between fifteen and twenty people, usually consisting of board members, senior staff, and key stakeholders.
- Involve key stakeholders in your risk identification process, as they will perceive your organization from a different point of view, which may unlock

some potential risks you had not considered.

- Develop performance measures that identify the changes in your communities from the strategies and programs you are undertaking. Some of the simplest yet most profound measures deal with measuring communities' perceptions of the changes created as a result of your effort. This will keep the board grounded in its reason for existence.

The true role of board meetings is to facilitate board members to "make the choices that create the future for the communities they serve." The practical application of this simple definition is what creates truly generative boards that deliver against the promise that they are to their communities and society.

CONSCIOUS  GOVERNANCE *Steven is a seasoned consultant, with a great depth of experience and practice facilitating the strategic planning process. He has held numerous senior executive and CEO positions with some of the USA and Australia's most prestigious organizations, as well as authoring and co-authoring over 14 books on nonprofit governance, strategy, risk & executive leadership.*
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