

A Board-Staff Contract for Financial Accountability*



Not all board members need to be familiar with financial terms and concepts, but each organization needs to develop a clear and explicit agreement for how financial accountability will be ensured. The following is a starting point for a “contract” that the board and staff can make to ensure a partnership for accountability.

This agreement should be discussed and renewed when there is a new board treasurer or a new staff head of finance.

* One of the five most reprinted *Board Café* articles.

Sample Board-Staff Contract for Financial Accountability

The board and staff agree to the following activities to support financial accountability

The staff will	The board will
Related to tax and legal responsibilities,	
<ul style="list-style-type: none"> • Immediately notify the board with complete information related to any delays in payroll tax payments or any legal matters • Immediately notify the board of any tax problems or penalties • Immediately notify the board of any legal suits 	<ul style="list-style-type: none"> • Work closely with staff to respond to notification of possible tax problems and develop plans for resolving tax and legal problems • Formally approve any tax and legal settlements
Related to accounting,	
<p>a) Complete monthly or quarterly statements within three weeks of the end of the month:</p> <ul style="list-style-type: none"> • Income and expense statement for each major program and for the organization as a whole (should include statements for the previous month and on a year-to-date basis) • Balance sheet for the organization as a whole • For large organizations with substantial restricted funds or an endowment fund, a balance sheet for the restricted funds • Comparison of actual to budget on a year-to-date basis for the organization and, if appropriate, for each program <p>b) Mail statements to finance committee in advance of meeting</p> <p>c) If the statements are not available, explain the delay and estimate a date by which the statements will be completed</p> <p>d) In a timely manner, prepare end-of-year statements, Federal Form 990, and other federal and state forms</p>	<ul style="list-style-type: none"> • Form a finance committee of members who understand financial information and standard accounting terms and practices • Carefully read financial information • Ask questions to be sure the statements are understood • Periodically review key accounting policies, such as depreciation and cash or accrual basis statements • Be patient and understanding when statements are occasionally late or infrequent accounting problems occur

Sample Board-Staff Contract for Financial Accountability (continued)

The staff will	The board will
In cash-flow projections,	
<ul style="list-style-type: none"> • If appropriate for the organization, prepare monthly, quarterly, or annual cash-flow projection • If appropriate, prepare a comparison of actual to projected cash flows • If cash-flow shortages are projected, develop a plan for bridging the shortages • If cash-flow surpluses are projected, develop a plan for maximizing investment 	<ul style="list-style-type: none"> • Pay attention to cash-flow reports • Determine whether preparation of cash-flow reports provides important enough information to justify the staff time required
In financial analysis,	
<p>a) Prepare brief written narrative monthly or quarterly including the following:</p> <ul style="list-style-type: none"> • Highlights of recent period • Continuing or anticipated problems • Anticipated opportunities • Analysis of financial health • Comments on recent financial performance <p>b) As part of the annual budget preparation or at another key juncture:</p> <ul style="list-style-type: none"> • Investigate and analyze outside trends affecting the organization's finances • Revisit key decisions related to assets and liabilities, such as mortgages, debt, and investments • Prepare vertical and, if possible, horizontal analyses 	<ul style="list-style-type: none"> • Propose items for ad hoc investigation • Discuss analyses with staff; work with staff to improve financial performance • In the absence of the expertise on staff, one or more individual board members may be able to do some of the analysis

Sample Board-Staff Contract for Financial Accountability (continued)

The staff will

The board will

In relation to the audit and internal controls,

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| <ul style="list-style-type: none"> • If audited, ensure that audited statements and management letter are completed within four months of the end of the fiscal year • Prepare a written response to comments and recommendations in the management letter • Develop a written set of internal controls and follow procedures in spirit as well as to the letter | <ul style="list-style-type: none"> • Determine whether or not an audit is appropriate • Take the lead in interviewing prospective auditors and review of bids • Select the auditor • Meet at least once per year with auditor when no staff are present • Receive audit letter directly from auditor • Review written internal control procedures |
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In relation to the budget,

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| <ul style="list-style-type: none"> • Develop a proposed budget by program and for the organization as a whole • Have the authority to make minor changes (such as shifting dollars among line items, or making increases in variable costs that are matched by increases in earned revenue) in the budget without board approval • If significant budget variances occur, explain the variances and proposed action such as better attention to budget control or revised end-of-year projections | <ul style="list-style-type: none"> • Develop parameters for staff to guide preparation of the draft budget, such as maximum allowable deficit for the year, reduction of days payable, or additions to cash reserve • Give careful attention to budget reports • Engage in long-term planning for funding, such as identifying a target mix of contributed and earned monies • Formally accept the budget, thereby authorizing the beginning of operations as planned |
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Sample Board-Staff Contract for Financial Accountability (continued)

The staff will	The board will
In salaries and personnel,	
<ul style="list-style-type: none"> • Prepare an annual report showing each staff position (not name) and salary for the finance committee and/or personnel committee to review • Prepare an annual schedule of individuals to whom 1099s were issued, and the amounts 	<ul style="list-style-type: none"> • Establish salary ranges for each category of employee • Approve guidelines for performance-based compensation, if appropriate • Negotiate and approve the executive director's salary • Ensure that other salaries are within approved salary ranges or, if not, to have approved exceptions • Approve personnel policies • Periodically review employee benefits
In general,	
<ul style="list-style-type: none"> • Make a good faith effort to communicate all significant information • Ungrudgingly complete requests for ad hoc reports • Appreciate that tough questions are appropriate and not hostile • Have good answers 	<ul style="list-style-type: none"> • Give serious attention to financial information • Be understanding when problems occur • Make only reasonable requests for ad hoc reports • Work as problem solvers as well as governors • Be willing to ask tough questions • Respect the difficulty of the work, and express appreciation when appropriate • Ask good questions