

Non-Profit Board Dynamics, Internal Controls and Documentation

HOW THE AUDITOR AND CPA/VOLUNTEER CAN BENEFIT
FROM UNDERSTANDING CONSENSUS GOVERNANCE OF
NON PROFITS



Learning Objectives



- ▶ To better understand Audit and Financial Reporting issues that surround Non-Profit Corporations by better understanding the Governance of such entities
- ▶ To recognize appropriate permanent file issues that must be followed, such as bylaws, minutes, and financial statements
- ▶ To understand the legal drivers for Non-Profit decision making, the granting of authority and rights to Board Members /Trustees and improve one's ability to recognize whether authority is being properly applied

Why Do Non Profits Exist?

- ▶ Not seeking to inure earnings to private shareholders or influence legislation
- ▶ Commonly Charitable; Do Good Things; Show You Care
- ▶ Seeking a positive impact
 - ▶ People
 - ▶ An organized effort to promote respect for others' emotional and physical wellbeing.

(Respect for others' wellbeing is one of the highest duties know to us)

A path to removing stress and being happy

- ▶ Stanford Professor, Dr. Fred Luskin in Stress Free For Good, writes that of his “11 skills to reduce and managing stress:”
 1. Doing things for others and appreciating one's self for all the good things that they do
 2. Remember how much you care for someone, reflect on that care and love, and simply smile as you remember that feeling.

Why Volunteer on a Non Profit Corporation

- ▶ The longer you will live
- ▶ The happier YOU will be
- ▶ The more capable you are at relaxing and keeping focus
- ▶ The more attention you can give to your loved ones
- ▶ ... the diminished likelihood of road rage

Being on a Non-Profit Board is not always a Stress Reliever

- ▶ CPA's join non-profit boards because They CARE... but find a confusing and perhaps a threatening world of personality styles, motivations, opinions, procedures, terminology.
- ▶ They become responsible for a going concern that must pay its bills, raise revenue, safeguard assets, and accurately file tax returns, such as 990s, 941s, W-2s, etc. **(Organizations prefer a volunteer CPA to deal with all that tax and accounting mumbo jumbo!)**

Conflicts of Interest

the key word: conflict

An **investment advisor** joins a NP Board uses influence as a Board Trustee, or Finance Committee member to manage the Non-Profits' Endowment or 401 (k)...Compensation (\$30,000/yr) w/o due diligence

An **insurance agent** serves on NP Board Uses influence to become agent of record of the health and property casualty business and receive the commission (\$60,000-\$100,000/yr). Obtains signature to change agent of record from Executive Director w/o Board discussion or vote.

A **Generous donor & Board Member** *insists* that a life long friend (who is "between jobs") become the new Executive Director, and be paid \$110,000. Will not allow the discussion to end or meeting to adjourn until he/she can win their case .

With some basic knowledge...

- ▶ You can be a defense against
- ▶ conflicts of interest
- ▶ Theft by NP Employees
- ▶ Failure to file tax returns
- ▶ Failure to govern the NP prudently
- ▶ Failure to implement proper internal controls
- ▶ Failure to enforce donor intent

Roll Call #1...for online attendees!!!

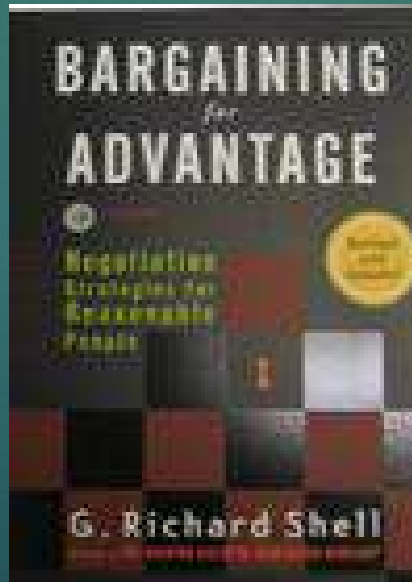
- ▶ Please type your initials in using the **chat** function or take your phone off of mute and state your first name

Bargaining for Advantage by G. Richard Shell

Consensus = Negotiation

▶ ne·go·ti·a·tion

An interactive communication process that may take place whenever you want something from somebody else or they want something from you.



How Does the Turtle Beat the Shark?



Do you remember any contentious meetings?

- ▶ How to spend money
 - ▶ Website
 - ▶ Hiring an Executive Director
- ▶ Personal Use of Corp Property and how to handle
- ▶ Employee Theft

Greg's Silver Rule: I don't have a rule for this/ that

- ▶ Golden Rule: Do unto others as you would have them do unto you....
- ▶ Silver Rule: Recognize and dispel unenforceable rules, such others must do unto others...(see above)
 - ▶ We take things too personal
 - ▶ Create a grievance
 - ▶ It takes center stage

Locating Unenforceable Rules

- ▶ They are not hard to find...
- ▶ EVERY time you are more than mildly upset with actions of someone else it is because you are trying to enforce and unenforceable rule
- ▶ If a person worked on challenging their rules when they begin feeling upset then bad feelings won't be as severe or last as long
 - ▶ Forgive for Good. Fred Luskin, p.128

Challenging the Unenforceable Rule

1. Own it: you are upset, currently, your Inbox may also be fueling your feelings
2. Situation + inability to enforce and unenforceable rule = Anger helplessness
3. Assert your willingness to challenge the unenforceable rule (not try harder to enforce them)
4. Identify the unenforceable rule- I'm demanding that:

Work Smarter on Non Profit Corporations

- ▶ **Auditor's Perspective:** Compare the minutes to the bylaws...Do the minutes follow bylaw requirement or merely offer a glimpse of the "Consensus Style" or lack thereof among the Staff and Board...Memorialize Competence and Compliance
- ▶ **CPA Volunteer's Perspective:**
 - ▶ Who is on the Board,
 - ▶ Ask--Are there any Conflicts of Interest,
 - ▶ Determine if the Minutes would support your consensus style, your right to make motions, to attend meetings, and to vote
- ▶ **Accept "Consensus Styles" and outcomes**

Consensus and Bylaws

What Rules Could be Enforced?

- ▶ “Bylaws define the primary objectives of the organization and describe how that organization will operate via consensus **AS A DEMOCRACY**”
- ▶ **Rights** of the Directors and Trustees
- ▶ Reasons to know/ refer to/ follow the Bylaws:
 - ▶ Liability
 - ▶ Implied responsibility as a Trustee (Fiduciary)
 - ▶ State or Federal Law
 - ▶ Reasons to disregard Bylaws...
 - ▶ Access + Rationale+ Heavy Need **Ethical?**
 - ▶ Ignorance of **RIGHTS**

Bylaws

- ▶ Suggested form For Bylaws
 - ▶ Purpose
 - ▶ Class of Membership
 - ▶ Officers
 - ▶ Duties
 - ▶ Terms
 - ▶ Election

- ▶ Meetings
 - ▶ Regular
 - ▶ Annual
 - ▶ Special
 - ▶ Quorum

Last section:

If not specifically stated, procedure will follow **Roberts Rules of Order**

Bylaws

Article X

MISCE

10.1 R

parlia

in Rob

all meetings of the members of the Society and the Board of Directors.

The Chairman shall act as

Parliamentarian or may appoint an acting Parliamentarian for such term as the Chairman deems necessary.



Roberts Rules the Ethical Choice!

- ▶ Preserving Rights:
 - ▶ Right To Speak (Exchange) (Verbalize)
 - ▶ (Mock) (Interrupt) (Filibuster)
 - ▶ Chairman's authority to make policy
 - ▶ Right to Attend Meetings
 - ▶ (Un-invite) (Not give Notice) (Do things in Secret)
 - ▶ Right to Vote (Consensus)
 - ▶ (Ignore Quorum) (Never Call for a vote) (Hide the question to be decided)

Henry Robert Penned Roberts Rules



So Who is Robert, Anyway?

- A. English Royalty that developed Parliament's process for legislation?
- B. A major in the Revolutionary War that served in the 2nd Continental Congress and Set the rules for legislative process consistent among states?
- C. Someone who volunteered to serve on a Non Profit, and developed RRO after chairing a contentious, disaster of a meeting.

Who is Robert?

- ▶ General Henry M. Robert was asked to preside at a meeting (aka Assembly) and he did not know how. “My embarrassment was supreme. I plunged in, trusting (that the Members would behave.)
- ▶ The methods of RRO are proven
 - ▶ Why are they consistently required in bylaws?
 - ▶ What happens when a chairman takes personal interest in a decision?
 - ▶ Or someone debates until they get their way?

Reality Of RRO

- ▶ Demeaning
- ▶ Insulting
- ▶ Confusing
- ▶ Frustrating
- ▶ Partially used
 - ▶ Quorum
 - ▶ Second
 - ▶ Discuss then Make a motion

Newsflash...
So are GAAP;
GAAS;
Debits and Credits

Roll Call #2...for online attendees!!!

- ▶ Please type your initials in using the **chat** function or take your phone off of mute and state your first name

Ignore them...

- ▶ Give up your rights
- ▶ Give up your vote
- ▶ Give up on protecting the rights of other on the Board
- ▶ Give up your ability to offer guidance and leadership to the Non-Profit, consistently
- ▶ Give up your legal defense that you cannot be sued personally, if the corporation is sued
- ▶ If that was in the “Board Statement of Understanding”, why even volunteer?

Part 1, Main Motions. These motions are listed in order of **precedence**. A motion can be introduced if it is **higher on the chart** than the pending motion. § indicates the section from Robert's Rules.

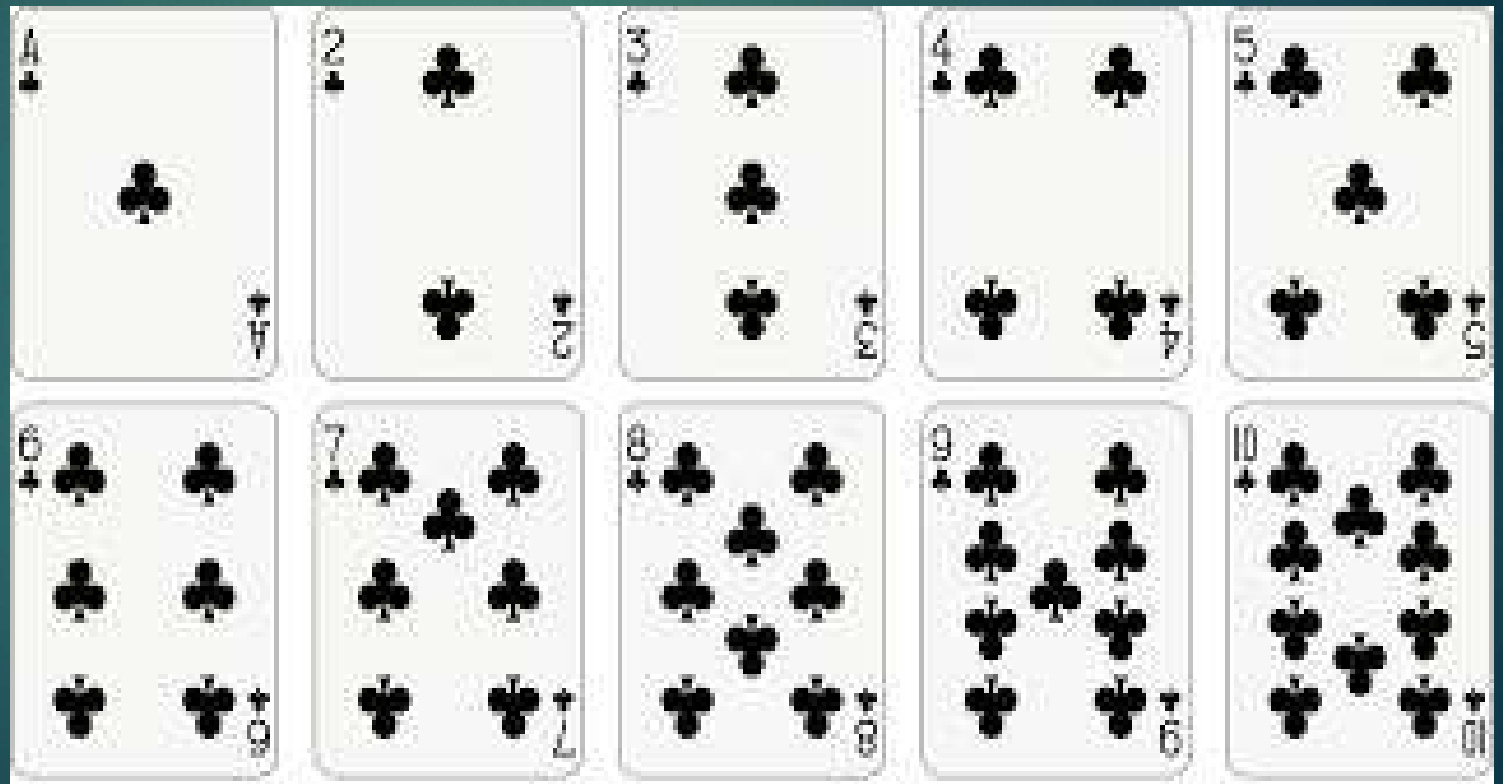
PURPOSE/
YOU SAY:

INTERRUPT
?

2ND?
DEBATE?

AMEND?

VOTE?



Roll Call #3...for online attendees!!!

- ▶ Please type your initials in using the **chat** function or take your phone off of mute and state your first name

Questions?

- ▶ Greg Jones, TCOSCPA Evening CPE Chair
- ▶ jon1529@cox.net
- ▶ 918-809-0572

Sources For Slides

- Forgive for Good and Stress Free for Good by Dr. Fred Luskin
- Bargaining for Advantage by G. Richard Shell

<https://www.youtube.com/watch?v=vtNCFORF8eU>



Playing with a Full Deck: ACE

- **PURPOSE:** Enforce The Rules
- **SAY:** Point of Order
- **INTERRUPT?** Yes
- **Does it Require a 2ND?** No
- **Can There Be DEBATE?** No
- **Can the Motion be AMENDED?** No
- **VOTE?** Chair Rules Card=**Ace**

Queen

- **PURPOSE:** Question or vote recount
- **YOU SAY:** I have a question/ recount
- **INTERRUPT?** Yes
- **Does it Require a 2ND?** No
- **Can There Be DEBATE?** No
- **Can the Motion be AMENDED?** No
- **VOTE?** Chair Recounts Card= **Queen**

2 = Make a Motion

- **PURPOSE:** Bring Business to the Board
- **YOU SAY:** I move that
- **INTERRUPT?** No
- **Does it Require a 2ND?** Yes
- **Can There Be DEBATE?** Yes
- **Can the Motion be AMENDED?** Yes
- **VOTE?** 51% **Card=2**
-

5= Refer to Committee

- **PURPOSE:** Refer to a committee/Postpone
- **YOU SAY:** I move to refer to a committee
- **INTERRUPT?** No
- **Does it Require a 2ND?** Yes
- **Can There Be DEBATE?** Yes
- **Can the Motion be AMENDED?** Yes
- **VOTE?** 51% **Card=5**

7= Call the Previous Question (VOTE)

- **PURPOSE:** Close Debate (let's vote)
 - **YOU SAY:** I move the previous question
 - **INTERRUPT?** No
 - **Does it Require a 2ND?** Yes
 - **Can There Be DEBATE?** No
 - **Can the Motion be AMENDED?** No
 - **VOTE?** 2/3rd
- Card= 7**