



Webinars for Wise Nonprofits: Understanding Board Committee Governance

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Notice

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What We'll Cover

- The Basics
 - Governing Law
 - Formation and operation of committees of the Board and committees of the corporation
- Audit Committee v. Finance Committee
- Committee charters and other governance tips



The Basics



Governing Law

- Section 712 of the NPCL governs executive committees and other committees
- Section 712-a governs audit oversight



Committees of the Board

- **Committees of the Board**
 - Must be composed of only directors
 - May have delegated authority to bind the corporation on any matter other than certain specified actions reserved for the board
 - The scope of actions reserved for the board was expanded under the 2016 Amendments to the NPRA



Committees of the Board

- **Committees of the Board have no authority as to:**
 1. The submission to members of any action requiring members' approval under this chapter.
 2. The filling of vacancies in the board of directors or in any committee.
 3. The fixing of compensation of the directors for serving on the board or on any committee.
 4. The amendment or repeal of the by-laws or the adoption of new by-laws.
 5. The amendment or repeal of any resolution of the board which by its terms shall not be so amendable or repealable.
 6. The election or removal of officers and directors.
 7. The approval of a merger or plan of dissolution.
 8. The adoption of a resolution recommending to the members action on the sale, lease, exchange or other disposition of all or substantially all the assets of a corporation or, if there are no members entitled to vote, the authorization of such transaction.
 9. The approval of amendments to the certificate of incorporation.



How to Form a Committee of the Board

- Certificate of incorporation, bylaws or the board may create a board committee
- If created by the **board**, any committee (other than an executive committee) may be formed, and its members may be named, by routine action of the board, *i.e.*, by action of a majority of the directors *present* at a meeting where quorum exists
- Minimum of 3 board members



How to Form a Committee of the Board

- Members may be elected or appointed as set forth in bylaws
 - If not in the bylaws, then members may be elected or appointed in the same manner as officers of the corporation



Committees of the Corporation

- **Committees of the Corporation**
 - Committees other than board committees
 - May include directors or non-directors, or a combination
 - No minimum number of directors
 - May not make decisions on behalf of the Board



Benefits of Having Committees

- Increase board efficiency
 - Reallocate responsibility for routine or extraordinary tasks to streamline full board agendas
 - Well researched recommendations are presented to the board for approval
- Empower members to work at their preferred pace and make the best use of their skills and talents – match board member talent and resources to important priorities
- Increase committee members' understanding of the organization and its management



Examples of Committees of the Board

- Executive Committee
- Audit Committee
- Governance Committee



Examples of Committees of the Corporation

These may be either committees of the board or committees of the corporation:

- Nominating Committee
- Strategic Planning Committee
- Gala or Special Event Committee
- Fundraising Committee



Audit Committee v. Finance Committee



Audit Committee v. Finance Committee

- Role of the audit committee
 - Monitors the *processes* in which the financial practices of the nonprofit are carried out
 - Must be a board committee
 - Comprised of “independent directors”
 - In relation to conflict of interest policy
- Must indicate on Form 990 if there is an audit committee
- Role of the finance committee
 - Monitor the financial practices of the nonprofit



Audit Committee v. Finance Committee Responsibilities

- **Audit Committee:** financial information provided to public, internal controls and the annual audit process
- **Finance Committee:** internal financial information, including budget and financial statements; administration of the nonprofit's financial resources; advice about significant financial decisions
- **Shared Responsibilities**
 - *Finance* ensures budgets and financial statements are prepared; *audit* oversees that the reports are received, monitored and disseminated
 - *Finance* monitors financial transactions; *audit* makes sure transactions are done pursuant to policy and with adequate controls
 - *Finance* provides guidance about what can be done; *audit* ensures independent oversight.



Sub-committees and Specialized Committees



Sub-committees

- Ask the question: do we need another committee?
- Sometimes a subcommittee is the answer!
- Subcommittees can be created under already existing committees to take on particular tasks or projects



Sub-committee Hypothetical

Strategic Planning Committee

- Sub-committees were formed to research different topics
 - Sub-committees were each a committee of the corporation
 - Each sub-committee had a few board members, staff (including the executive director and deputy director) and a facilitator
 - Staff members conducted research and prepared preliminary memos
 - Facilitator led the sub-committee meetings
 - Facilitator and executive staff finalized the sub-committee reports
- Strategic Planning Committee prepared a final report and plan that was presented to the full Board of Directors for approval



Specialized Committee: Housing Committee

- Affordable housing developers funding projects with NYC's Housing Preservation and Development (HPD) and/or Housing Development Corporation (HDC) may form a housing committee
- Bylaws must authorize the formation of a housing committee
 - HPD requires specific language for bylaws
 - Must consist of at least three directors appointed by the chair of the board
- If formed, only housing committee members will be required to submit disclosure statements
- Housing committee must make all project decisions



Committee Governance



Committee Charters

- A charter is optional
 - Value of having a charter: clarifies and memorializes committee members' responsibilities
- A committee charter might contain:
 - Purpose of committee, structure and powers
 - Meeting guidelines
 - Duties of committee, including reports to the board
 - Audit Committee (requires Independent Directors)
 - Finance and Investment Committee
 - Executive Committee
 - Nominating Committee



Executive Committee

Mission: Act on behalf of the Board when needed and as directed by the Board.

Activities:

- Review proposed annual organizational goals.
- Conduct annual performance review of Executive Director.
- Approve annual staff bonus allocations.

Authority:

- Executive Committee is composed of Board officers (Chair, Vice Chair(s), Treasurer, Secretary).
- Executive Committee has authority to act on behalf of the Board and bind the corporation, except to the extent prohibited by law.

Logistics:

- Review proposed goals at the beginning of each fiscal year.
- Act on behalf of the Board between full Board meetings as needed.
- Review and approve proposed staff bonuses following close of fiscal year.
- Appoint a Committee Chair.
- Appoint a staff liaison to the Committee.

How Board members can assist the Executive Committee

- Review, approve, and support annual goals.
- Review Executive Director's performance.
- Review the proposed annual operating budget containing a proposed staff bonus pool (if any) and attend the meeting at which it is discussed.



Audit Committee

Mission: Provide oversight of the audit process, annual information returns (IRS Form 990), and internal financial reporting and controls.

Activities:

- Approve engagement of independent auditors.
- Review draft audited financial statements, management letter, and Forms 990 and 990-T.
- Offer guidance regarding internal financial reports and controls.
- Review complaints under whistleblower policy and conflict of interest transactions.

Authority:

- Review scope of audit, and discuss auditors' findings with auditors.
- Review and make recommendations to Board and staff to improve internal financial controls, financial reporting and financial management.
- Review reported conflicts of interest, and receive and review whistleblower complaints, pursuant to applicable policies.

Logistics:

- Review the audit engagement letter and related documents from the auditors before audit begins.
- Meet annually with auditors and management after preparation of draft audited financial statements.
- Present the audited financial statements at fall/winter Board meeting.
- Appoint a Committee Chair and staff liaison to the Committee.

How Board members can assist the Audit Committee

- Read the audited financial statements and Forms 990 and 990-T.
- Attend the Board meeting(s) at which they are presented.
- Consider any recommendations made by the Audit Committee or by the auditors.



Finance Committee

Mission: Provide oversight of the financial affairs, propose annual operating budget, and monitor cash flow.

Activities:

- Review quarterly internal financial reports and present to the Board.
- Participate in annual budgeting by reviewing and presenting fourth quarter projections for current year, proposed annual operating budget for upcoming year, and long-range financial projections.
- Review the anticipated budget for the current fiscal year and periodic cash flow reports.

Authority:

- Provide guidance and recommendations to the Board of Directors regarding financial matters.

Logistics:

- Review quarterly financial reports following the end of each quarter.
- Review fourth quarter projections, proposed operating budget, and long-range projections in May and early June.
- Present Q4 projections, proposed FY operating budget, and long-range projections at the June Board meeting.
- Appoint the Board Treasurer as Committee Chair.
- Appoint a staff liaison.

- ***How Board members can assist the Finance Committee***

- Read quarterly financial reports and attend Board meetings at which they are presented.
- Review Q4 projections, proposed operating budget, and long-range projections, and attend the Board meeting at which they are considered.
- Consider and determine staff compensation and bonuses recommended by management.
- Consider any recommendations regarding cash flow that are made by the Finance Committee.



Investment Committee

Mission: Provide oversight of investment accounts and monitor compliance with investment policies.

Activities:

- Periodically review investment portfolio performance and its alignment with allocation goals set by the Board.
- Work with advisor and as Committee to formulate recommended annual allocation goals for the investment portfolio.
- Review proposed withdrawals from investments for program support and operations.
- Oversee management's compliance with the objectives and procedures in the investment policies.
- Review and recommend revisions to investment policies as needed.

Authority:

- Provide guidance and recommendations to the Board regarding investments and the investment policies.

Logistics:

- Work with investment advisor to review market conditions and develop proposed investment allocations.
- Periodically review the portfolio performance and its alignment with the allocations approved by the Board.
- Propose allocations to the Board at the April Board meeting.
- Review proposed withdrawals during budget season.
- Appoint a Committee Chair and staff liaison to the Committee.

How Board members can assist the Investment Committee

- Read reports prepared by the investment advisor, Committee and management, along with the proposed investment allocations.
- Attend Board meetings at which reports are presented, and consider proposed annual investment allocations.
- Consider and approve an annual operating budget that includes withdrawals from portfolio.
- Consider any recommended revisions to the investment policies.



Board Resource Committee

Mission: Oversight of Board governance and operations; vetting and nomination of new Board members.

Activities:

- Identify, evaluate, and nominate Board candidates.
- Recommend Board members for committee service.
- Evaluate bylaws, policies, and governance procedures as needed.

Authority:

- The Board Resource Committee provides guidance and makes recommendations to the Board.

Logistics:

- Solicit recommendations for Board candidates from Board members and from the institutions represented on the Board.
- Meet with prospective Board members.
- Nominate candidates for election to the Board.
- Evaluate Board members for committee service and make recommendations to the Board.
- Periodically review bylaws, new Board member orientation procedures, and other Board procedures, and make recommendations for revision to the Board.
- Appoint a Committee Chair and staff liaison to the Committee.

How Board members can assist the Board Resource Committee:

- Help to identify and recruit suitable Board candidates.
- Indicate interest in and qualifications for service on particular committees.
- Identify Board governance processes that can be improved.



Development Committee

Mission: Provide guidance, insight, and important connections to help raise funds from donors to support programs and operations.

Activities:

- Review and provide feedback on annual Development Plan.
- Assist staff in implementing Plan, e.g., Gala honoree recruitment, annual giving, and attendance at funder meetings.
- Recommend strategies to cultivate donors for longer term and larger giving.

Authority:

- Review and approve annual Development Plan.
- Assist Board and staff in carrying out the Plan.

Logistics:

- Meet approximately three times each year, and present a report at each Board meeting.
- Appoint a Committee Chair and staff liaison to the Committee.

How the Board can assist the Development Committee:

- Set positive example through own giving and outreach.
- Help recruit Gala honorees and appeal chairs.
- Involvement of all Board Members in fundraising is essential.



Gala Committee

Mission: To plan and promote and otherwise provide support for the gala event.

Activities:

- Present theme suggestions and dates for a gala.
- Propose a budget for the gala.
- Coordinate vendors and other third parties.
- Promote the gala.

Authority:

- The Gala Committee provides guidance and makes recommendations to the Board.

Logistics:

- Meet at least monthly throughout the year, and weekly in the month before the gala.
- Present reports and recommendations to the Board.
- Coordinate with the Development Committee as necessary.
- Appoint a Committee Chair and staff liaison to the Committee.

How the Board can assist the Gala Committee:

- Help recruit Gala honorees and appeal chairs.
- Attend Board meetings at which reports and recommendations for the gala are given.
- Involvement of all Board Members in the gala is essential.



Self-evaluations

- Both boards *and* board committees can benefit from regular self-assessments
- Topics for evaluation include substantive and logistical matters:
 - The committee's goals and purposes
 - Board and organizational support for the committee
 - Interpersonal mix
 - Frequency and efficiency of meetings
- Self-evaluations may also ask individual committee members to evaluate themselves as a committee member or leader
- Effective boards and committees regularly and candidly ask themselves: *How can we do better?*



QUESTIONS?

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