The Finance Committee: What is it and What Does it Do?

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A board of a nonprofit is generally empowered to create committees at its discretion, subject to the organization's bylaws and the laws of the state of its incorporation. For each committee it creates, the board should determine the level of authority to be given to the committee and how it will maintain appropriate oversight of the committee's actions. When properly used, committees can serve to alleviate some of the workload of the full board and to help increase board efficiency (for more information on committees generally, see our prior post on board and non-board committees, standing and *ad hoc* committees, and common missteps).

One common committee that nonprofits choose to create is a finance committee. Although the specific parameters for and expectations of each committee should be set out by the board in a charter or other document, a finance committee will typically be responsible for monitoring and communicating to the board about the organization's overall financial health. Its core duties are likely to include participating in and overseeing:

- the development of the organization's budgeting and financial planning,
- the creation of the organization's internal controls,
- the preparation and distribution to the board of timely, accurate, and user-friendly financial reports, and
- the implementation of safeguards to protect the organization's assets.

The finance committee may be tasked specifically with (1) working with the staff to develop an annual and/or multi-year operating budget, (2) setting long term financial goals for the organization, such as creating working capital or cash reserve funds, gross and net revenue targets, or creating a fund for maintaining or replacing equipment, and (3) ensuring adherence to the budget and achievement of the adopted goals by monitoring and reporting the organization's financial activity. With respect to internal controls and accountability policies, the finance committee may take the lead in creating such policies, ensuring that they are appropriately documented in a manual or otherwise, and confirming that they are being followed. The committee may also work with the staff to develop useful and readable formats for financial reports, set expectations regarding the desired quantity and subjects of reports, and present financial reports to the full board. In presenting the financial reports to the board, it may be prudent for the finance committee to ensure that the board is alerted to any existing or projected financial problems the organization is facing or is expected to face. Finally, the finance committee may be charged with reviewing the organization's insurance coverage to ensure that its assets are appropriately protected.

When it comes to selecting the individuals to serve on the finance committee, the board will need to consider who has the appropriate financial experience and knowledge. If an organization has a sufficient number of board members with financial backgrounds and understanding, it may be possible for the finance committee to be structured as a board committee composed solely of directors. In this case, the board will need to consider and determine the scope of authority it wishes to delegate to the committee and whether it wants the committee to be authorized to act with the authority of the board in approving the financials or otherwise. If, however, an organization has a small board or otherwise does not have a sufficient number of directors who are appropriate to serve on the finance committee, it may need to look beyond board members to identify individuals who can add valuable expertise to the committee.

In some smaller organizations, the finance committee may also take on the duties that may fall to an audit committee and/or an investment committee in a larger or more financially complex organization. The principal responsibilities of an audit committee are typically to recommend to the board the retention and termination of an independent auditor, review the audit report with the auditor, present the report to the full board, and recommend any changes in organizational or management practices as a result of the audit to ensure compliance with best practices. Note that, under the California Nonprofit Integrity Act, certain California organizations may be required to create and maintain an audit committee and that, if the organization also has a finance committee, it must be separate from the audit committee. Members of the finance committee may serve on the audit committee, but must constitute less than half of the audit committee and the chair of the audit committee may not be a member of the finance committee. A separate investment committee may make particular sense for an organization that has considerable reserves or manages an endowment. The investment committee may be responsible for hiring and evaluating professional advisors, monitoring the organization's investment performance, and drafting an investment policy based on the organization's risk tolerance and other factors.

Keep in mind that, although the finance committee may serve in a leadership role in the areas discussed above, the entire board has fiduciary responsibilities for the organization and remains accountable for protecting the organization's financial wellbeing.

Source: http://www.nonprofitlawblog.com/the-finance-committee-what-is-it-and-what-does-it-do/