

College and university board of trustee members direct the institution toward achieving its mission. As a board member, you have the opportunity to...

Grant Thornton 

Higher education board member handbook



...contribute your talent, expertise and dedication to a worthy cause.

In light of recent scandals in both the for-profit and not-for-profit sectors, serving on a board has higher visibility and more focused accountability for good stewardship.

Serving on the board of a college or university is an honor and a responsibility. The responsibility that comes with serving on the board, however, need not be overwhelming.

By first gaining an overview of what you need to know and what will be expected of you, the orientation process will be much easier.

As you read through this handbook, other issues and questions may arise. Grant Thornton LLP's higher education practice has the answers you're looking for. We're committed to providing outstanding service to meet all your accounting, tax and business advisory needs.

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2 The special purpose of a not-for-profit organization

It is uniquely American to create and sustain voluntary associations that further religious, cultural, professional, social service, and educational goals. As early as the 1830s, Alexis De Tocqueville observed the unique propensity of Americans to form voluntary associations to achieve great purpose, in contrast with most other nations where governmental action is expected. De Tocqueville said:

“Americans of all ages, all conditions, and all dispositions constantly form associations. They have not only commercial and manufacturing companies, in which all take part, but associations of a thousand other kinds, religious, moral, serious, futile, general or restricted, enormous or diminutive. The Americans make associations to give entertainments, to found seminaries, to build inns, to construct churches, to diffuse books, to send missionaries to the antipodes; in this manner they found hospitals, prisons, and schools. If it is proposed to inculcate some truth or to foster some feeling by the encouragement of a great example, they form a society. Wherever at the head of some new undertaking you see the government in France, or a man of rank in England, in the United States you will be sure to find an association.”

“Thus the most democratic country on the face of the earth is that in which men have, in our time, carried to the

highest perfection the art of pursuing in common the object of their common desires and have applied this new science to the greatest number of purposes.”

Our voluntary associations, which we label as “not-for-profit” organizations, are neither governments nor for-profit entities. The goal of a college or university is to provide a service, not to win an election or to make a profit.

The success of a college or university is measured not by votes or by profits, but rather by the achievement of its unique mission of teaching, expanding knowledge and understanding, and serving the larger community. The functions of a college or university exemplify the American propensity for uniting to promote and advocate for a particular cause. The services they provide play a vital role in community and professional development.

Boards of trustees are the agents for directing colleges or universities toward the achievement of their mission. They collect and spend funds held “in trust” for a specific “charitable or educational” purpose, and, as such, colleges or universities are provided a tax-exemption because their goals are seen to support the public good.

Once a trustee has been selected, it is important that they be brought up to speed as quickly as possible to be able to make a meaningful contribution. The chairperson of the board should provide a mechanism for board member orientation and development.

New trustees should receive a briefing from the chairperson and a tour of the college or university's facilities. Spending a few hours on-campus can help trustees better understand the institution's activities.

Ideally, the institution should make available to all trustees a "board orientation book" or "sourcebook." A board book could contain the following information:

- *The institution's articles of incorporation;*
- *The bylaws and any amendments;*
- *A brief history of the college or university;*
- *A statement of the institution's mission and services;*
- *Regular financial and operating reports from the past year;*
- *The institution's strategic plan;*
- *A copy of the trustees' and officers' (D&O) liability policy;*
- *A contact sheet listing all the board members, their addresses and phone numbers;*
- *A list of key executives of the college or university;*
- *Rules about expense reimbursement and, if applicable, expense forms;*
- *A calendar of all board meetings with dates, times and locations for the coming year;*
- *Minutes of meetings held within the past year;*
- *A summary of conflict-of-interest policy disclosures; and*
- *Results of any governmental audits.*

This is, of course, a great deal of information. While it is not necessary to be conversant with all the information contained in the board sourcebook, trustees should be aware of its contents and when to consult it.

Colleges and universities should offer a formal orientation program for trustees. Such a program can familiarize new trustees with how the board functions, including concepts such as management duties vs. board duties, indemnification and insurance, board committees, board functions, information flow, delegation, and authority.

The role of the board of trustees

The board of trustees has certain key responsibilities that are essential to success and should not be distracted from these essential tasks.

- *Preserving and, when necessary, reshaping the mission* – The most important role of the board is to keep the institution focused on its mission. Trustees need to make certain that there is a strategic plan to describe

how the organization will fulfill its mission going forward. Trustees should measure each proposed action against the mission. In the same manner, the board should make certain that the organization acts upon its approved plans and should measure proposals against previously approved plans.

- *Selection of the president* – The second most important role for the board is the selection of the president to provide full-time leadership for the institution and to recommend and implement the policies and programs approved by the board. Sometimes the board’s responsibility can also include confirmation of other key positions upon nomination by the president.
- *Ensuring the institution is well managed* – Boards should consider performing an annual inventory of talent to assess if the right professional capabilities are represented on the board. While the board should not manage the organization directly, it should be satisfied that the institution is managed effectively. To achieve that task, the board should ask enough questions to satisfy itself that qualified and sufficient staff is assigned to key tasks, that resources are allocated through a realistic budget consistent with the mission,

that internal controls are in place to prevent fraud or noncompliance, that proper ethical and governance standards are followed, and that the programs of the institution have clearly defined purposes and are successful in achieving those purposes.

- *Representing the external world to the institution and the institution to the external world* – The board serves as what is sometimes called “a bridge and a buffer.” Trustees advocate on behalf of the institution, helping to raise awareness of its unique mission. Trustees are often involved in the solicitation of major donors. An equally important role of the board is to be sensitive to the environment in which the institution operates, often giving the administration important feedback about how policies, plans and programs need to change in response to a changing environment.
- *Protecting the institution from external threats* – In the life of many colleges and universities, issues arise that threaten the institution’s autonomy, services or good name. Such issues include scandals involving the institution or political attacks on the purposes or programs of the institution. In these circumstances, trustees, who are usually opinion leaders themselves, step forward to explain and defend the institution.

- *Exercising financial stewardship* – The board approves the budget originally recommended by management as well as major financial transactions such as the issuance of debt. The board manages the endowment of the institution, usually through an investment committee. The board approves the goals of fund-raising campaigns and usually plays a major role in supporting capital campaigns both with their own financial resources and with time. The board also sets tuition rates and approves enrollment levels.
 - *Making sure that the board has the right skills and practices to do its job* – First and foremost, your board needs individuals with a deep commitment to the fundamental purposes and mission of the institution. After that criteria has been met, the board also needs individuals with specific skills and know-how, so that issues can be viewed through multiple dimensions: academic, legal, financial, public relations and communications, general management, professional development, and others. The board also needs to be attentive to its own internal processes, so that its meetings focus only on board-level matters and do so in a way that draws upon the combined expertise and experience represented at the table.
 - *Making sure that the institution is in compliance with laws and regulations* – Being exempt from most taxes does not mean that a college or university is exempt from regulation. The board should be aware of federal and state laws and regulations that apply to the organization and with the standards set by accrediting agencies and bond covenants if any apply.
- Your duties as an individual trustee**
Your service as a trustee will be rewarding to you and you will best serve the institution if you are able to focus on your key duties. You also need to be sure that other trustees are also attending to their duties.
- *Attendance* – You should attend all board and committee meetings if at all possible. The skills you bring to the table do not matter if you are not present. Trustees who repeatedly miss meetings should be candidates for removal. Their absence can drain the morale of other board members and, ultimately, the organization.
 - *Be prepared and informed* – In preparation for each meeting, read the material sent to you by the committee or board chair and by the administration. Come prepared to ask questions and make comments. It is also helpful to stay informed of

trends and developments in the type of work that the college or university performs so that you can bring a broader perspective. In addition, trustees need to stay abreast of good governance practices as they evolve.

- *Speak your mind and ask hard questions* – Some colleges and universities have suffered because trustees were more concerned about appearances than in discussing difficult or challenging issues facing the institution. As a trustee, you have a primary responsibility for protecting the good name of the institution and assuring that its staff and money are being used consistent with good practices.
- *Stewardship of the institution's assets* – The board is responsible for the stewardship of the assets entrusted to the institution. The board must make certain that funds are used consistent with the intent of those who have given the college or university its funds. The board must satisfy itself that sufficient funds are allocated to each function within the college or university and that the allocation is consistent with the priorities of the board.
- *Integrity is paramount* – The most important asset of any college or university is its good name. The second most important asset is the

confidence of its donors and sponsors in the institution's capacity to manage and spend funds prudently. The board should make certain, in the practices and policies of the board and of the staff, that integrity is the highest priority. If the board sets a good example, the practices of the institution are likely to be consistent with that example.

Important distinctions

- *Board and management* – It is important for the board and the management of the college or university to have a clear understanding of the distinctive roles of each. Much confusion (and sometimes conflict) occurs when the distinctions aren't clear. In general, boards reserve for themselves certain functions such as setting broad policy, approving new programs or the deletion of old programs, selection, oversight, and compensation of the chief executive, approval of the operating budget recommended by management, and oversight of the endowment. Management, in general, is responsible for the implementation of the board's plans and policies, the selection of faculty, the selection and supervision of staff, the development, recommendation to the board, and the implementation of the budget, and the establishment of operating procedures. Trustees do not have individual power or authority. The power and

decision-making ability lie with the full board of trustees. While it is in general not good practice, occasionally a trustee may become heavily involved in a particular program and work closely with the staff of that program. In that situation, the trustee should report periodically to the full board so that it is informed.

The board sets standards to measure how well management performs, and initiates actions, where necessary, to see that management carries out its obligations.

- *The role of committees vs. the full board* – Most of the board’s work should be done by its committees. Such a practice allows individuals to become knowledgeable in key areas of the board’s work and also reduces the amount of time that the board needs to spend on any one issue or set of issues. It is also good practice to follow a committee’s recommendations unless there are compelling reasons not to do so. Committees allow for intensive attention to all key issues. Board committees are likely to include: educational policy, budget and finance, audit, personnel, a committee to nominate future trustees if the board appoints its own members, and several committees that focus on the substantive programmatic mission of the institution.

- *The external auditor is accountable to the board, not management* – A fundamental responsibility of all boards is to know the amount of assets available to the institution, to be confident that the use of those assets is consistent with the institution’s mission, regulatory requirements, and accepted accounting principles, and to also be confident that the possibility of fraud or conflicts of interest are minimized. An external audit by a qualified public accounting firm is a key element of that board responsibility. The accounting firm should be selected by the audit committee on behalf of the board of trustees. The accounting firm should present the audited financial statements to the audit committee and the board of trustees. Trustees can refer to Grant Thornton’s “Serving on the audit committee of a college or university” booklet for further information.

Liability

Trustees serving college or universities face several kinds of liability. One is liability to third parties, such as a contractor who provides services to the institution. Another is liability to the institution itself and to its members. A trustee has a fiduciary obligation to the institution. He or she must act with good faith and loyalty, and in the best interests of the institution. Trustees are also subject to statutory liability.

A board has a legal duty to conserve and protect the institution's assets.

Many college or universities carry D&O liability insurance to protect their trustees from legal liability. A new trustee should be aware of whether or not the institution carries this insurance and how extensive the coverage is.

In addition, some states have adopted volunteer-protection statutes that may offer some protection for uncompensated board members and trustees.

It may be prudent for a trustee or the organization as a whole to have the organization's D&O policy evaluated by independent legal counsel. Some employers have a policy that their employees are not to sit on boards of not-for-profit organizations that do not have adequate D&O liability insurance. Claims against individual trustee's of a college or university can arise from a number of situations, including:

- *Employees claiming wrongful termination or other violation of their rights;*
- *Governmental entities claiming waste of assets or violation of reporting laws;*
- *Environmental damage from toxic waste on property the college or university acquires;*
- *Service recipients claiming negligent*

supervision or improper selection of employees and volunteers; or

- *Violation of regulations on lobbying efforts.*

Several years ago, Congress passed legislation that imposes financial penalties on board members for improper dealings with the college or university for knowingly approving excessive transactions with institution insiders. For more information, see the section titled "intermediate sanctions" on page 11.

Conflict of interest can also be the basis of liability action against a trustee. If a trustee receives an improper or undisclosed personal financial benefit as a result of the institution's transactions, he or she may be liable to the institution.

The idea of personal liability, however, should not frighten anyone away from board service. But, it should move trustees to familiarize themselves with the protection afforded by the state and by the institution itself and to exercise care in their decision making.

Managing the makeup, skills and education of the board is an ongoing process. Boards need to consider not only the current composition of the board, but plan for future membership and leadership, while evaluating overall board effectiveness.

- *Recruiting, retaining and rewarding good board members* – Your college or university’s success depends, in part, on the commitment of the board. While there are many cases where trustees are appointed by external agencies or elected by alumni, in most cases the current board selects its new trustees directly. A key board responsibility, in those cases, is to recruit trustees who will help the institution achieve its mission and do what it can to keep those trustees active in the board’s work. The board should also be attentive to ways to make board service exciting and rewarding, including formal recognition of achievement when it happens.
- *Providing continuity of board leadership* – The board should have a succession plan, formal or informal, that identifies future board chairs, committee chairs, and other possible leadership roles.
- *Balancing skills on the board* – The board needs to include individuals who bring particular perspectives and

skills to the institution’s work. It is important to have at least several people knowledgeable about budgeting, financial management, investments, human resources, and legal matters. It is also important to have individuals who have a working knowledge of academic life and practices.

- *Evaluate* – It is important that the board establish ways to determine whether it is functioning effectively in support of the institution’s purposes. The board should ask whether it is following the good practices recommended in this booklet or other practices that the board collectively agrees are important. The board should then develop one or more evaluation tools to facilitate the assessment. The board might also find ways to ask its various stakeholders to assess its effectiveness.
- *Size* – The size of a board represents a difficult balance between diversity of views and skills and the board’s effectiveness of functioning. The smaller the board, the more likely that the board will be able to perform its functions, particularly in relationship to management. The larger the board, the more diverse its membership will be, but the board will be less likely to reach clear decisions quickly.

- *Continuity and turnover* – Both continuity and turnover are essential features of good board membership practices. Continuity provides institutional memory. Turnover brings fresh perspective. In general, it is good practice to consider term limits for trustees.
- *Board education and orientation* – Education on important topics should not be limited to the orientation of new trustees. On a regular basis, time should be set aside to cover special topics such as pending legislation, reading financial statements, or fundraising techniques for trustees. The board should ask itself periodically: Are we true to our mission? Is our mission well defined? Boards should also have annual retreats to discuss the alignment of the mission with the institution's goals.
- *Meetings* – Efficient and effective meetings are essential to a well-functioning board. Boards should ensure that meeting agendas are planned well in advance. Consent agendas are being used more often to reduce the time spent on non-essential issues, e.g. items that require

formal board approval, but there is no need for board discussion on these items before taking a vote. These items are then shared with the board in a consent agenda well in advance of the board meeting. The board meeting then focuses only on important issues for discussion and the presenting of resolutions that require a board vote.

A trustee is a link between the college or university and the constituencies that support it and are served by it. Those constituencies, including governmental agencies, are increasingly holding board members legally and ethically accountable for the actions or inactions of their organizations.

The college or university's most valuable asset is its good name and a trustee's top priority should be protecting its reputation. Good practice, as well as the expectations of donors and regulators, requires a high level of attention to the issues of financial reporting, controls and assessment of business risk. The board must be confident that adequate systems are in place for controlling, administering and planning the use of resources.

To mitigate potential risks, boards should consider implementing the following policies:

- *Code of ethics* – Trustees should consider adopting an institution-wide code of ethical behavior that applies to the board and to management. The code should set high standards of conduct.
- *Conflict of interest (and disclosure)* – The board should have an institution-wide conflict-of-interest policy that protects the independence (from each other) of the board, management, staff, the external auditor, and other vendors, so that each entity performs only its role and is not compromised in any way.
- *Whistle-blower policy* – The board should have a policy in place for trustees, faculty, staff and other stakeholders to raise issues about the institution's ethical or financial practices. The policy should make it clear how to raise such issues and should prohibit retribution for raising the issues.

Intermediate sanctions

The Internal Revenue Service (IRS) monitors not-for-profit organizations and can impose “intermediate sanctions” for unreasonable salaries and benefits or for providing goods or services to the organization for more than they are worth.

The test is whether the benefit provided to the insider (generally a trustee or staff member) exceeds the value of the consideration the institution receives. The IRS can impose a monetary sanction of 25 percent in cases of improper dealings involving organizations exempt under 501(c)(3) and 501(c)(4) and require repayment of the excessive benefits.

In addition, trustees who knowingly and willfully approve such a transaction are jointly and severally liable for a 10 percent tax, limited to \$10,000 per transaction. This consideration can consist of services provided in exchange for compensation.

Insiders covered by the law include persons who have a substantial influence over the institution's affairs. These include members of the governing body (the board), the chief executive officer and chief financial officer, and others who are found to have such influence.

Once someone is covered by this definition, family members and any controlled business that they own are also included. If the IRS imposes penalties, the details, including names and amounts, must be shown on Form 990 (the tax return for not-for-profit organizations), which is available to the public.

As a trustee, you need to make sure the institution has procedures in place to prevent conflicts of interest and excessive dealings with disqualified persons. There should also be procedures in place to prevent inadvertent violations caused by lack of proper documentation. D&O insurance policies may or may not cover these penalties.

The board itself, or a committee, that has no conflicts of interest with the person whose transaction is under consideration, should approve all transactions involving insiders. You should also make sure that all compensation and benefits, including those provided to you as a trustee, are properly disclosed on Form 990. And, if taxable, reported on Form 1099 or Form W-2, as appropriate.

Failure to properly document and report compensation and benefits is likely to result in automatic violations of these rules.

Internal controls

Internal controls exist to prevent fraud or misstatements of financial reporting. The board should ask sufficient questions to be confident that the organization has effective internal controls, which ensure:

- 1. Transactions are properly authorized;*
- 2. Assets are safeguarded; and*
- 3. Transactions are properly recorded and reported.*

Transactions should include receipt of funds, personnel and payroll procedures, authorization of disbursements, and handling of cash. The board should ask questions not only about financial resources, but also other assets, such as buildings, land, equipment, and securities.

An effective internal control system will have a well-designed and documented set of policies and procedures. It will also have policies on record retention so that important files and information are maintained and remain accessible for a reasonable period of time.

Quality financial reporting

The board should expect to receive regular financial reports from management comparing financial results to budget and reporting on the status of assets. The board should also expect disclosure of financial information, consistent with reports it receives itself, to donors, bond-holders and other stakeholders in the college or university.

To meet the board's need to evaluate the effectiveness of programs, many colleges and universities provide detailed internal statements that directly relate expenses shown on their financial statements to specific programs or functions. This functional approach makes it easier for trustees to analyze and compare costs.

The external audit

To provide the board and the institution's other constituencies with confidence in the financial information and internal controls of your institution, the board appoints a respected public accounting firm to conduct an audit of the financial records and processes of the institution. The public accounting firm is responsible to the board of trustees for providing it with an independent opinion. Independence from the board and from management is essential features of good practice with respect to the external audit. Neither management nor trustees should

attempt to influence the opinions of the public accounting firm.

Regulatory/tax compliance

The board should ask management sufficient questions to obtain satisfaction that the organization is not violating laws or regulations from the host of agencies that regulate the institution.

One example is the unrelated business income tax (UBIT). The IRS will impose UBIT liability on certain activities of a college or university if those activities are found to be business activities unrelated to the organization's tax-exempt purpose.

Other examples are State and local tax issues, charitable registrations and escheat unclaimed property laws.

14 Financial stewardship

While the for-profit standard for success – profitability – is not appropriate in colleges or universities, sound financial management is crucial to the vitality of every institution.

Strong financial management is a necessary tool in moderating tuition increases and competing for the contributed dollar, and an institution that is soundly managed is more likely to control costs and to attract funds than one that is not.

Several aspects of financial management are of special concern to the trustee of a college or university: the budget process, overseeing assets and raising revenue.

Budgeting and financial planning

The budget translates the often hard-to-quantify goals of a college or university into measurable terms. It can be a powerful device in monitoring the institution's activities. This function is especially crucial because revenue shortfalls or uncontrolled expenses can sap the confidence of its stakeholders and supporters.

Generally, the full board of an institution is involved only at certain stages in the budget process: establishing overall goals and activities that set the budget process in motion, approving the final budget, and monitoring financial results against the budget.

The board usually has a finance or budget committee that provides more detailed oversight of these important functions. The finance or budget committee reviews management's recommendations for the next year's budget. Management handles most of the actual budgeting, with the chief financial officer or budget director managing the process.

Committee members should ask difficult questions: What priorities are reflected in the proposed budget? What trade-offs have been made? How realistic is it to expect to be able to raise X number of dollars in tuition revenue, government grants or contributions? How realistic is it to expect to increase the costs of services by X percent?

Difficult decisions sometimes must be made, and the budget may go through several revisions before going before the full board.

Once the full board receives the budget for approval, the extent to which the budget is further revised can vary widely from institution to institution. Sometimes, boards are comfortable deciding on nothing more than management's recommendations. Other times, boards raise further questions on the budget and request further revisions.

Generally, however, a budget should require little in the way of changes by the time it gets to the full board.

A board assists in monitoring the institution's budget against the actual results and should review whether the institution has achieved the goals included in its budget and determine reasons behind any variances.

Overseeing assets

A board should be fully aware of the institution's financial condition. Again, difficult questions should be asked. The audited financial statements provide a good measure of the financial assets of the institution. The board should evaluate those statements closely. Any significant increase or decrease should be assessed by the board for its implications for the institution's effectiveness. The board should also find ways to assess the quality of the college or university's human and physical assets, which are not included in financial statements.

A board faced with a severe financial shortfall should seek recommendations for action from the chief executive and then choose the route best suited to getting the organization back on its feet.

One financial asset requiring special attention by the board is the institution's endowment. The board should make certain that the endowment is overseen and managed in accordance with good practice and that

the investment return is competitive with other endowments of similar institutions.

Raising revenue

Most colleges and universities rely on fund-raising activities to provide financial resources for their programs. Some college and university boards set minimum fund-raising requirements for trustees, often referred to as "give or get policies." For example, to remain on the board, a trustee would be required to raise \$5,000 annually through personal contributions or soliciting contributions from others.

Institutional fund raising usually includes annual campaigns to support the operating budget and capital campaigns to raise funds for endowment and facilities. Board involvement in capital campaigns is critical to their success, with trustees providing personal leadership and making personal gifts.

The board must monitor both the management of funds and the costs of raising them. The management of funds includes the appropriate recording of gifts, the monitoring of cash versus pledges, and the decision to spend from the gifts received. The cost of raising funds must be closely watched and accurately reported to assure that the cost remains reasonable and within industry standards.

Tax-exempt status

The Internal Revenue Service (IRS) provides several different classifications of not-for-profit organizations in the Internal Revenue Code (IRC), covering a variety of organizational purposes. While more than 20 different categories of tax exemption exist, most colleges and universities derive their tax exemptions from Section 501(c)(3)-Charitable, educational, religious, or scientific organizations;

Each type of organization is subject to different rules that control the types of activities it can carry on within its tax-exempt classification.

The extent to which the IRC allows lobbying, for instance, varies among the tax-exempt classifications. For a 501(c)(3) organization, lobbying, which is attempting to influence legislation, must be limited to an “insubstantial amount” of its activities. A 501(c)(3) organization can, however, make an election under Section 501(h) of the IRC to quantify the amount it can spend on lobbying.

It is crucial for a trustee of a college or university to understand the purpose of the institution’s tax exemption and what types of activities would threaten it. The tax exemption itself is an important asset, and losing it would be devastating.

Political activities, as opposed to legislative activities, are also limited for colleges or universities. Organizations exempt under IRC Section 501(c)(3) are

strictly prohibited from using funds to attempt to influence the election of a candidate for office. Any use of funds for such a purpose is grounds for revocation of tax exemption.

“Private inurement” also can lead the IRS to revoke an organization’s tax-exempt status, as well as impose the intermediate sanctions discussed earlier. Private inurement results when an organization’s assets or earnings are used for the benefit of an individual, rather than for the organization itself. For example, private inurement may result if an organization pays compensation at a level that is unreasonably high compared to the level of effort and responsibility of the recipient.

Again, trustees must monitor the activities of the institution and its officers to ensure that no private inurement occurs.

Full disclosure

The public has a large stake in the operations of the not-for-profit sector. Various tax exemptions granted to the not-for-profit sector represent billions of dollars in lost tax revenue, such as property tax exemptions and sales tax exclusions. Deductions of donations to Section 501(c)(3) organizations from personal income tax account for billions more annually.

In exchange for these benefits, colleges and universities are expected to engage in full financial disclosure and

efficient management. Contributors and other stakeholders are no longer satisfied with glossy annual reports.

To obtain this information, many potential contributors and members request copies of Form 990, which the institution must file with the IRS. The IRS and the institution itself are required to make copies of this informational return available to anyone who asks for it. It is also generally available at www.guidestar.org.

Some items a potential contributor can review on Form 990 are names, addresses and compensation of an institution's trustees and officers; details of financial transactions between the institution and a trustee or a group that he or she is affiliated with; and the institution's sources of income.

The form also contains information about the institution's assets, liabilities, revenues, and expenses.

18 Operating procedures

Now that you have a well-educated, well-rounded board that is informed of its duties, responsibilities and liabilities; what's next? To effectively oversee the college or university's operations, boards employ a number of strategies and procedures.

Committees

Boards generally appoint committees to focus on particular areas of board responsibility. Because committees are essentially subsets of the full board, they can devote a good deal of time to an issue before bringing it to the full board, thereby maximizing the effectiveness of the time the full board spends on an issue.

While committees' areas of focus vary according to a college or university's purpose and programs, certain types of committees are common to many institutions.

A board may have an executive committee that often is empowered to act for the full board between meetings, should the need arise.

Typical committees include educational policy and academic affairs, finance and budget, audit, investment, development (fund raising), and nominating committees. The nominating committee is often appointed to select candidates for open board positions. Boards often have one or more committees focusing on the program(s) run by the college or university.

Boards of colleges and universities can, however, establish too many standing committees. Sometimes a problem arises for which a task force or ad-hoc committee may be more appropriate than a standing committee. A task force or ad-hoc committee is similar to a standing committee, except that it is not a permanent appointment. Once it recommends a solution to a problem or completes its project, the task force or ad-hoc committee disbands.

All trustees should serve on one or more board committees based on their skills and talents. A new trustee should come prepared with an idea of which committee he or she would most like to join.

Information flow to board trustees

If the board is to have a significant role in governing an institution, and if trustees are to minimize their exposure to legal liability, the information available to them about the institution's affairs is crucial.

Trustees should ask: Is the information adequate without being overwhelming? Is it available when needed? Are the special needs of the board of trustees considered? Above all, is it accurate?

An effective communication system should include:

- *A definite agenda for each meeting;*
- *Advance distribution of as much material as possible, preferably reaching each board member at least one week before the meeting;*
- *A standard report package for each board meeting;*
- *Periodic, timely mailing by the chief executive of key letters, memos, releases, reports, and special presentations dealing with budgets, business plans, the long-range plan, significant policies and procedures, information releases, and committee reports; and*
- *Minutes of each meeting, which should be reviewed for accuracy.*

Obviously, much of the information a prudent board requires is of a financial nature: current operating results, comparisons to budget, a balance sheet, and the chief executive's or chief financial officer's report. Income projections for each quarter of the fiscal year are also useful and will help anticipate problems and serve as a basis for judging actual performance. Other information that could be helpful to includes a cash and working capital forecast, capital expenditure plans, detailed information on employee pension plans, and, of course, pertinent information on specific problem areas confronting the institution.

Preparing for board meetings

A trustee owes it to him or herself, the other board members, and the institution to be thoroughly apprised of all issues.

A trustee should arrive at board meetings prepared to ask intelligent, probing questions on substantive issues and to be able to take the initiative in dealing with the college or university's problems. A trustee should always keep in mind that he or she will be held legally accountable for actions or inactions.

A trustee should be familiar with the information provided in advance of a board meeting. The amount of preparation time will vary from board to board, depending on the nature of the institution and the problems it faces. Spending one hour in preparation for each hour of the board meeting is a good rule of thumb.

If, after reviewing the materials in the information packet, a trustee has additional questions or needs further clarification, he or she should call the chairperson and discuss any concerns before the board meeting. The chairperson can then be prepared should further discussion at the meeting be warranted.

How to build a better board of trustees

Evaluations should cover such subjects as attendance at board and committee meetings, participation in board discussions, constructive criticisms and

suggestions, preparedness for meetings, and availability to the chief executive.

If evaluations reveal underperformance, the chairperson is responsible for discussing the matter personally with the trustee, giving the trustee the option of improving performance or resigning.

If this counsel does not produce the desired results, the under-performing board members' names should be withheld from the list of candidates for re-nomination.

Boards need to also assess whether their board committee chairs are effective leaders and if they properly lead the committee to meet its goals. To form an effective board, board members must have a clear understanding of the strengths and weaknesses of the overall institution, its mission, and what is to be accomplished.

This understanding can only be obtained by a thorough review of the college or university and its people. Only after this review will it be possible to establish a profile for the type of individuals and specific expertise the board may be lacking.

Board criteria and selection

Trustees must have a variety of individual traits. Many of these traits are obvious: honesty, good judgment, common sense, perspective, conscientiousness, independence, intelligence, objectivity, willingness to

take positions and to question, and courage to act.

Trustees must have good people skills, such as the ability to judge people and their performance and to get along well with others.

Overall management expertise is important. Trustees should be able to understand and interpret financial and operating reports and help form corporate policies, plans and objectives. Trustees should be aware of their public and social responsibilities and be familiar with the federal, state and local laws that affect the institution.

Good board members can assess their information needs and are willing to learn about the institution and develop familiarity with the industry and marketplace in which the organization operates.

Obviously, it is rare to find all these qualifications in one board member. All traits should, however, be found on the board as a whole.

Trustees may have diverse backgrounds and come from different socioeconomic levels. Trustees frequently hold full-time management positions in the for-profit sector and bring skills developed there to their duties as trustees of colleges and universities.

The key questions are: Are they qualified and willing to serve? Will they be able to give the time and commitment necessary to the task?

Before selecting a new board member, a board should obtain references and biographical data on all candidates. In the selection process, the board should avoid candidates who pose a potential conflict of interest.

22 The board member's role: A recap

Acting through the board as a whole, a trustee:

- *Determines institution goals and policies;*
- *Selects and evaluates the president, who administers policies set by the board;*
- *Monitors the overall management of the institution;*
- *Evaluates the institution's programs against its purposes;*
- *Oversees financial management of the institution and participates in fund raising; and*
- *Serves as a link between the institution and the people who support it and are served by it.*

Demands on the trustee of a college or university continue to mount. Meeting these demands requires commitment of time and expertise, commitment to shaping the direction of the institution, and commitment to protecting the interests of the people who support it and are served by it.

When a college or university thrives, the board can see the tangible benefits of their efforts. And, when an institution faces financial or managerial difficulties, the expertise and contributions of the board can make recovery easier.

24 About Grant Thornton

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Some organizations that serve boards of trustees:

Association of Governing Boards of Colleges and Universities
www.agb.org

American Council on Education
www.acenet.edu

National Association of College and University Business Officers
www.nacubo.org

Other resources available from Grant Thornton:

- *Planned Giving...A Board Member's Perspective*
- *Serving on the Audit Committee of a College or University*
- *Implementing an Effective Investment Policy for College or Universities*
- *NFPerspectives quarterly newsletter*
- *Grant Thornton's National Board Governance Survey for Not-for-Profit Organizations*

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