Nonprofit Risk Management Center

Achieving Fiscal Fitness

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This year could be a make–or break–year for nonprofits of all sizes. Whether this is the year your organization plans to expand or transitions from treading water to gaining strength, it is imperative to take the time to assess your internal staff and procedures as well as conduct a financial assessment to ensure that your own processes aren't sabotaging the success of your organization.

As a starting point, consider the following steps to determine if it is time to make changes to your internal processes or team, and then size up your finances with the proposed four–phase process to ensure that your organization is on the right track.

Step 1 — Forecast for the future with a keen eye on the past.

As the saying goes, "hindsight is 20/20". It is inadvisable to forecast future performance without first looking in the rearview mirror.

For instance, does your organization consistently produce weekly revenue and cash updates as well as month–end closing reports within ten business days after the end of the month? And, do these updates compare actual versus budget numbers to ensure you are meeting your fiscal goals?

In addition, all bank accounts should be reconciled monthly. Other balance sheet accounts, such as cash, deferred revenue, prepaid expenses and accrued expenses should be reconciled quarterly. Historical financials—statement of financial position (balance sheet), statement of cash flows and the statement of activities (income statement)—if accurate, can also be helpful in forecasting.

Step 2 — Keep leaders informed of vital statistics in real–time.

Sharing important data facilitates discussion and paves the way for better decision making. To ensure that this occurs, your team should track metrics—cash on hand, gross revenue by revenue stream and summary expenses by department—and make that information accessible to internal leaders as well as board members via dashboards created in Excel or on your internal server. Consider rating each metric using a 'traffic light' system: red light flags a concern, yellow light indicates a problematic trend and green light signals that the nonprofit is meeting or exceeding expectations.

Step 3 — Re–forecast the forecast.

How often have you gotten to the middle of a budget year and found that an initial forecast was no longer valid? Things change, the economy tanks or thrives, and your numbers no longer jive with the initial prognosis. Nonprofits should reforecast halfway through the year, allowing the organization to adjust the budget to reflect new programs, new hires, changes in donor levels and marketplace shifts. Revise your annual budget using the first half of the year's actual financial data in conjunction with your revised forecast for the rest of the year. Use a rolling 13–week cash flow forecast to ensure cash management remains a priority on a weekly and bi–weekly basis.

Step 4 — Manage risk with internal controls.

An area often overlooked is the importance of establishing, and following, policies and procedures to reduce the likelihood of something going wrong, and enable prompt detection when it does. From determining authorized personnel for check approvals and contract execution, to examining insurance needs, some nonprofits fall flat due to poor planning or not following established policies. Tracking adherence to key internal controls, monitoring compliance with funding requirements and evaluating the extent to which policies are followed are important risk management measures in every nonprofit.

Step 5 — Challenge the revenue forecast and development efforts.

While it is beneficial to have positive–minded employees, it also can be potentially detrimental when these individuals are overly optimistic when it comes to the numbers they are forecasting. It is vitally important to review sales, membership, development and other revenue pipelines, checking for accurate dollar value and timing to ensure that the numbers you are looking at are, in fact, achievable.

After going through these suggested steps, you may find that your organization is in a better place than you may have thought, or there may be areas that need work. The next step is to conduct a financial assessment to determine if your nonprofit is financially strong and on the right track.

Size Up Your Finances

Nonprofit leaders must understand the fiscal strengths and weaknesses of the nonprofits they serve in order to set realistic goals for 2011 and beyond. To get started, we recommend you consider the following four–phase financial assessment:

- **Phase One**—*Review Your Financial Processes* by conducting an in–depth review of how your financial operations are conducted. Look for internal control weaknesses and redundancies in processing, following the money in and out of your organization, understanding reconciliation gaps and analyzing financial reports to ensure they are effective. Consider comparing your processes and procedures with another organization of similar size.
- **Phase Two**—*Analyze Your Financial Systems* by identifying areas that could be automated within your organization, uncovering capabilities within your current systems that aren't fully leveraged and investigating what other systems similar nonprofit organizations are using.
- **Phase Three**—*Right Fit Your Financial Personnel* by separating the task from the person to determine effectiveness, understanding each finance employee's background and goals, encouraging development beyond technical accounting skills and clarifying roles to determine if someone is overburdened.
- **Phase Four**—*Develop an Action Plan* with the findings from Phases 1–3, weighing priorities against access to resources to create a timeline, knowing that some tasks can be done simultaneously, some will have more impact than others and some will be dependent on departments outside of finance.

Beyond the Bottom Line recently guided the Baltimore–Washington Conference of The United Methodist Church through a comprehensive financial assessment. The result was a clear assessment of the organization's financial reporting and distribution activities, and a helpful examination of every part of the organization's financial machinery. The project also looked at employee roles and responsibilities to determine if the organization had the right people in the right positions.

"When every detail is examined in the context of an organization's big picture, you come out with a crystal clear view of where you are and what needs to be done to improve overall," said Paul Eichelberger, CFO and treasurer for the Baltimore–Washington Conference of The United Methodist Church. "Now that we have a detailed readout of our current processes, we are free to upgrade those processes and take advantage of the most current technology to do so."

While it takes time and energy to analyze internal processes and procedures as well as execute an effective financial assessment, by taking these steps you will increase your nonprofit's potential to not only survive, but thrive in 2011 and beyond.

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