Transparency, Not Whitewash

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When cleaning out a desk recently, I found several dated vials of “Wite-Out®,” a brand of correction fluid, the opaque fluid used to cover typing errors in typewritten documents. Although I haven’t used it recently, I recall that correction fluid was sold under various product names (e.g., Liquid Paper®) and it was available in several colors. The vials I found had long since turned into powder. I threw them out.

Finding these vials of correction fluid and throwing away their powdered remains reminded me of the need for nonprofits to discard practices that no longer work as well as actions or conduct that serve to *obscure*, rather than *illuminate* the facts. Transparency is an essential aspect of sound governance and effective fiscal oversight. Every nonprofit board should strive to operate in an environment that allows light in, the recognition of past mistakes, and the commitment to working in an “above board” way to address the difficult challenges associated with advancing the nonprofit’s mission.

One opportunity for letting light in is the nonprofit’s budgeting process. An inclusive budgeting process supports the commitment to transparency and turns staff and volunteers into ambassadors of the nonprofit’s mission and strategic priorities. When spending priorities are discussed with only “key people” involved, distrust and concern are likely to fester outside the room.

Most staff and volunteers are motivated by wanting to do the right thing and to do things right. An inclusive budgeting process with room for healthy debate about spending priorities and the need for fiscal austerity aligns staff and volunteers with a shared vision of the appropriate use of limited resources. An inclusive budgeting process also paves the way for ongoing commitment to the priorities reflected in the budget as well as a shared understanding of financial decisions that may be necessary in light of budget outcomes.

Sound budgeting begins with a strategic vision of the future of the organization. The vision must be more than one individual’s ideas about the future. To the extent that the nonprofit’s board and staff have a common understanding of the challenges and opportunities, as well as the organization’s strengths and weakness, they will be well equipped to develop budgets that guide resources to accomplish the vision and periodically evaluate whether or not it is working. An inclusive annual budgeting process is essential to good organizational planning and creating a monitoring tool available to the board and staff throughout the year. And the process is never perfect. Each year, as the organization grows or circumstances change, there will undoubtedly be ways that the process can, and should be, improved.

Within reason, the more people who understand the organization's strategic vision and have an opportunity to participate in the budget process, the better for the nonprofit.

In her book titled *Financial Risk Management: A Guide for Nonprofit Executives*, the NRMC's Executive Director, Melanie Lockwood Herman, offers the following advice to strengthen your budgeting process:

- **Seriously consider the inclusion of program or department managers in the development of their own budgets.** The people who run programs are the most familiar with program needs for the coming year. Involving these staff members (and/or volunteers) is also the first step in holding them accountable for budget outcomes. Furthermore, when these key players have an appreciation of the overall financial plans and the organization's financial constraints, they will be able to better accept their unfulfilled budget requests and genuinely support the direction of the organization. This practice also models behavior that the program managers can replicate within their own areas of responsibility.
- **Start the annual budgeting process at least three months before the target date for adopting the budget.** Doing so will allow time to obtain meaningful input from staff and the board prior to the meeting at which the proposed budget is presented for board approval. In larger organizations with complex planning and financial management systems, this start date might be even earlier and, indeed, budgeting becomes a continuous loop of planning, deciding, evaluating, etc.
- **Ensure that income forecasting is well founded and based upon both historical data as well as anticipated changes.** The assumptions that underlie each major category of revenues must be explicitly stated and ultimately validated by the organization's leaders. It is easy to overestimate income during the budgeting process, which can leave the organization scrambling during the year when reality hits. Consider whether it is appropriate to "discount" funding source totals in the budget based on the likelihood that the nonprofit will receive them. This approach is often used in the development of financial contingency plans. A better approach may be to address your "confidence" levels earlier in the process.
- **Deepen the board's understanding of the relationship between the organization's core programs and major funding sources.** Require "program by source" budgets or exhibits that anticipate how much each of the programs will draw from general unrestricted support.

Liquid Paper® and Wite-Out® enabled office workers to cover up a host of errors in typewritten documents. Ineffective governance and management practices invariably lead to the need to "cover up." A better approach is to commit to strengthening governance and transparency. An inclusive budgeting process with a reasonable timetable and active involvement by staff and volunteer leaders is an important step in achieving the transparency and effectiveness that your nonprofit's stakeholders both expect and justly deserve.

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