



## Feature Article

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### Is Outsourcing the Financial Function Right for your Nonprofit?

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When determining the proper role for the financial function, an organization has a number of strategic considerations to make. For many nonprofits, that includes the decision to internally conduct financial operations or to employ a third party team so it may outsource this key apparatus.

There are no hard-and-fast rules that pertain to outsourcing, and determining whether relying on outsourced accountants varies on a case-by-case basis. Clearly, however, organizations that face complex reporting needs, but which have limited resources, are more likely to benefit from externally outsourcing their fiscal office.

**While no litmus test exists to define whether or not outsourcing makes sense for your organization, regardless of whether you do outsource or not, it is a decision that should be made thoughtfully and revisited at least once a year.**

**Here are just some of the considerations to be made when reviewing the need for outside consulting:**

#### Monthly Reporting

What kind of reports does your board and management team need? Do you have the capacity to provide them internally? Monthly reports, tailored to the budget performance of the departments, program managers, and specific programs, all give managers the information they need to manage program activities and to keep them on track with financial goals. Can you trust the reports you're currently producing and what capacity do you have to tailor them to leaders needs? As data becomes the cornerstone from which more managers make better decisions in the nonprofit world, how reliable are the reports you currently produce and how easily are they produced?



### **IRS Reporting Requirements**

All charitable organizations with annual gross receipts in excess of \$25,000 are required to file IRS Form 990. Complying with such requirements is essential in maintaining a nonprofit entity's 501(c)3 status, and a necessary component of strong financial health. How much thought does your organization put into your 990? Do you include the development office and program officers in completing the form?

### **Access to Software and IT Resources**

Do you get the most out of your accounting software? A well-designed accounting software system benefits organizations by increasing the accounting department's ability to efficiently and effectively record daily transactions and provide management with complete and accurate reports. When is the last time your chart of accounts were reviewed against your needs? Can you track costs by program, location, and contract or whatever you may need for your nonprofit?

### **Complexity of Funding**

If your organization receives a high level of government funding, or funding that is severely restricted according to a variety of contracts and grants, then the corresponding complexity in recording and reporting transactions is greatly heightened. For this reason, when considering outsourcing, you should always review your revenue streams to determine if your accounting systems reflect that complexity.

### **Current Staff Make-Up**

Have you designed ad-hoc measures to handle financial data management? Staff that is not well trained to utilize the accounting software's capabilities can be costly to an organization. Mistakes in correctly reporting income and expenses, as well as time wasted by staff creating data tracking outside of the software system instead of using the system's internal systems, can add up without management realizing their full costs. Are your staff continually professionally developed to keep pace with changing compliance issues? Do you feel confident they have what is needed to manage the finances effectively? If there is a transition in a key financial role, are there back up plans in place to ensure the continuity of services to the agency from the finance office?



There exist a number of other key issues, including the budgeting process, A-133 reporting, as well as board make up and the nature of your organization's audit and finance committees. While no litmus test exists to define whether or not outsourcing makes sense for your organization, regardless of whether you do outsource or not, it is a decision that should be made thoughtfully and revisited at least once a year.

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*Henry Lopez is FMA's Manager of Outsourced Services. Henry has over 10 years of experience in audit engagements and various specialized accounting programs, including QuickBooks, MAS 90, and Go System Audit. If you are interested in further discussing potential outsourcing options, please contact him at [hlopez@fmaonline.net](mailto:hlopez@fmaonline.net).*