

Fiscal Management: How Do Nonprofits Do It?

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How should nonprofits manage their finances? That is an easier question to ask than to answer. On the one hand, there are certain financial standards and “best practices” to which all organizations should aim. Yet, the range of actual fiscal management practices can be as variable as the nonprofit sector itself.

Recently, we at Fiscal Management Associates, in collaboration with our affiliated audit firm ERE LLP, set out to ask one very specific question: How do nonprofits really do it?

Late last year, we fielded what we believe to be a first-time survey of fiscal management practices among New York metro-area nonprofit organizations. We received nearly 250 responses from nonprofits representing a full range of mission areas, budget sizes and stages of development, from small start-up arts organizations to multi-million dollar city-wide social service agencies. Our questions covered a broad scope of fiscal management topics, including staffing patterns, software systems, budgeting practices, internal controls, board governance, and interactions with outside auditors.

The results of the survey, which we have further broken down by organizational budget size, provide not-for-profit leaders with an opportunity to see the fiscal practices employed by their peers and to better evaluate where their own organizations stand.

For example, nonprofits can use the survey data to assess their own fiscal management resources relative to actual trends in the sector as a whole. What is the size of their fiscal staff? What is their level of education and training? What types of accounting systems are being used?

These comparative analyses can be particularly valuable given the all-too-frequent reluctance of nonprofits to invest in their financial management infrastructure even as programmatic budgets grow dramatically.

Staffing Levels

A quick look at the survey results for Fiscal Staff Size (See Box at Right) can provide valuable insights into whether your organization is staffed comparably to others given your current level of operations. It can also shed light on what additional staffing may be necessary to support your planned agency expansion.

Education and Training

The survey results also demonstrate that growth typically requires nonprofits to upgrade the education and training levels of the fiscal staff. Almost four out of five smaller nonprofits – those with budgets below \$1 million – report that “few or none” of their fiscal staff have an accounting degree or other significant formal training. In fact, nearly two-thirds of those with budgets approaching \$5 million report a similar lack of formal fiscal training. As organizational size grows, however, these ratios reverse themselves with approximately two-thirds of all nonprofits with budgets over \$10 million reporting that “many, most or all” of their fiscal staff have accounting degrees or formal training.

Software and Systems

Just as nonprofit accounting is a specialized skill set, nonprofit (also known as “fund-based”) accounting software is a specialized tool designed to track and report financial information according to the particular needs of nonprofits. They can track revenues by source, expenses by program and funds by type of restriction. They can also allocate costs across a range of programs.

Our survey demonstrates that organizations tend to adopt fund-based accounting software when they reach the \$1–5 million budget range. While nonprofits smaller than \$1 million primarily use commercial packages such as Peachtree or QuickBooks, the complexity associated with higher levels of funding, often from multiple sources with separate financial reporting requirements, demands the added infrastructure of a specialized nonprofit accounting package.

Assessing Performance

Similarly, organizations can use the survey data to assess their own levels of management oversight, internal controls and accounting performance relative to their peers. Are there written fiscal policies and procedures? How quickly do you close the books at the end of each month? Do you have a board-approved budget? How often does senior management review financial reports? What about the board? Have you experienced any form of financial fraud?

The answers to these questions are even more important in understanding whether your organization's fiscal management staff and systems are adequate to meet their responsibilities.

Once again, our survey finds a wide range of practices and performance.

Sometimes, this range tended to vary with organizational size.

Only 40% of respondents with budgets less than \$1 million have a written fiscal policies and procedures manual compared with 86% of those with budgets over \$25 million.

Three quarters (74%) of smaller organizations have board-approved budgets in place at the start of the year compared with almost all (98%) of larger agencies.

One finding in particular illustrates the importance of establishing adequate internal controls and financial monitoring systems as an organization grows in size:

Less than 5% of small nonprofits had experienced financial fraud versus almost 20% of larger organizations.

Room for Improvement

While our survey provides a candid and useful look at fiscal practices in local nonprofit organizations, it does raise some concerns about what are often wide gaps between this reality and generally accepted "Best Practices".

For example, are not written fiscal policies and procedure manuals just as important for “smaller” nonprofits with budgets of \$700,000 or \$800,000? In fact, written procedures may be particularly important for smaller organizations since they highlight issues of internal controls, segregation of duties, etc. And, how can 20% of organizations with revenues between \$10 million and \$24.9 million go without written policies and procedures?

How can those 26% of smaller nonprofits operate without a board-approved budget?

And, while 60% of nonprofits report closing their books each month within 20 days, 24% of all nonprofits and almost half of smaller organizations do not have any formal monthly closing process whatsoever.

Consequently, nonprofits should view the comparative data in our findings with some degree of caution. While they can and should see how they stack up relative to other nonprofits of similar size, they must also keep in mind the “Best Practices” to which all nonprofits should aspire. Where they find room for improvement, they will also see that they are not alone. We all have areas in which we can and must do better.

We invite you to download our full report, which includes results and analysis across a wide range of other financial management areas, as well as tips to improve your organization's fiscal practices. In addition, please sign up to participate in this year's survey, which will help to make next year's report even richer and more useful to the not-for-profit community. You can download this report and sign up for the survey at our website: www.fmaonline.net.

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