

## Don't Operate Blind: Jump-Start Your Accounting Department

Does this scenario sound familiar? You are the Executive Director of a nonprofit organization. Or perhaps you are a member of the senior management of your organization, or a Board member. You need financial information to run your organization but you are not getting what you need to perform your job or to fulfill your fiduciary responsibilities as a Board member. Your accounting department, whether it is a single part-time bookkeeper in a small organization, or several accountants in a larger organization, is not providing you with financial reports or other information vital to running the organization.

What do you do? What standards for financial reporting should your organization adhere to? What reports should your accounting department produce and when? The following article outlines a baseline - a minimum acceptable level of performance - to which you should expect your accounting department, no matter how large or small, to maintain.

### Financial Reporting Baseline

The Financial Reporting Baseline (FRB) is a standard that we recommend for every nonprofit organization regardless of size, with annual budgets of as little as \$100,000 to budgets of many millions. As the Executive Director or Board member, you have every right to expect this baseline level of performance to be met. You should feel comfortable presenting this FRB to your accounting staff and you should expect them to meet it. The FRB has three components:

**The Financial Reporting Package** – Every month your accounting department should present to you a series of financial reports. At the very minimum this package should contain three reports: a Statement of Financial Position (commonly referred to as a Balance Sheet), a Statement of Activities (commonly referred to as an Income Statement or a “P&L” for Profit & Loss statement), and a Cash Flow Statement. These reports should be presented for the organization in total, including all restricted funds. The reports should be presented on an accrual basis. If you are not getting these baseline statements, you should ask your accounting department why not.

**Timeliness** – Information delivered late is information of diminished usefulness. Your monthly financial reports should be in the hands of the Executive Director no later than the end of the third week of the following month. For example, your financial reports for the month ending August 31 should be in the Executive Director's hands no later than September 24. Many organizations can and should do better. This is only the baseline. If September 24 comes and passes and you do not have your financial reports, speak to your accounting department.

**Bank and Investment Account Reconciliations** – Bank and investment account reconciliations do not generate a financial report. However, from a financial accounting standpoint, they are such an essential internal control that we consider them to be part of the baseline. Your accounting department must reconcile all bank and investment accounts as soon as possible each month before financial reports can be issued. The reconciliation process must be completed by the second week of the month so that financial reports can be issued by the third week as discussed above. Organizations no longer have to wait for paper statements to arrive in the mail to begin the reconciliations. Almost all banks offer online access to account activity. Access to investment account activity may in some cases be unavailable, but even here we are seeing this information become increasingly available online. Accounting departments can no longer use the excuse that the statements have not been received for holding up the reconciliations.

If your organization cannot meet the three criteria of the FRB, serious questions arise about the organization's financial management. This is a matter of concern for not only the Executive Director, but for Board members and funders as well.

### **Financial Reporting Baseline Plus**

Once the baseline has been met, your organization should strive to attain the next level. We call this the Financial Reporting Baseline Plus (FRB+). FRB+ adds the following four elements:

**Different formats for different readers** – Just as no one car is suitable for all riders, no one financial report format is suitable for all readers. Organizations should have the flexibility to make their own choices about the level of detail they prefer to see in a financial report. The Executive Director needs a detailed set of financial reports to fully understand what is happening within the organization (a good accounting department can aid this understanding by explaining key variances in the reports and other developments). The Finance Committee also needs a detailed set of financial reports. It might be the same package used by the Executive Director, or perhaps a modified set of reports with most, but not all the details. However, the Board typically does not need to see financial information at this level of detail. Financial reports prepared in summary form are usually more helpful for presentation at a Board meeting. Funders represent another broad constituency that needs information in various formats and in different levels of detail. By using accounting software correctly, and with a properly designed chart-of-accounts, even the smallest accounting department can meet these various levels of reporting needs.

**Reporting of donor-restricted funds** – a frequent problem arises when a nonprofit organization goes astray by mishandling donor-restricted funds. One way to avoid this is to provide financial reports in sufficient detail to allow the reader to see the status of these funds. Depending on the cash flow position of the organization and the degree to which it possesses donor-restricted funds, reports at this level of detail need not be

developed monthly. A quarterly analysis is reasonable in most situations where cash flow is strong. Weaker cash flows indicate a need for more frequent analysis.

**Departmental and program income statements** – Department and program managers need to see information relevant to their departments and programs so that they can manage their areas appropriately. The accounting department should be able to generate departmental and program income statements every month.

**Forecasting on a cash and accrual basis** – Many accounting departments complete their financial reports and skip a vital next step - forecasting. We recommend an approach to forecasting that we call a “Rolling Forecast.” It rolls forward an organization’s financial results to the end of its fiscal year by taking the year-to-date actual results and then revising the forecast for the remaining months on both a cash and an accrual basis. This tool effectively answers the question: “How are we doing and where do we expect to end the year?”

Proper use of accounting software makes these reports possible for even a one-person accounting department. Accounting departments exist to serve the needs of the organization. Meeting the standards described above is one way to ensure that your accounting is serving you well.