

THE FORBES FUNDS

Financial Management Series

Organizational Systems and Controls

October 6, 2011

THE FORBES FUNDS

Why Financial Management?

- ↳ Economic downturn has had a significant toll on our community and in turn the nonprofit sector.
- ↳ Delays in reimbursements, reduced revenue sources and increased demand has placed organizations under increased stress.
- ↳ Close monitoring and oversight of financials are critical in these uncertain times.

THE FORBES FUNDS

Why Financial Management?

- ↳ Decision-making through a financial lens is imperative
- ↳ Understanding of organizational systems, data analysis and necessary skill sets is required for success
- ↳ Series will give nonprofits knowledge necessary to manage their financials daily

THE FORBES FUNDS

Series Agenda

- ↳ **Session 1: Organizational Systems and Controls**
 - + Internal controls and compliance, financial infrastructure, reporting systems
 - + Roles and responsibilities of key board and staff members
- ↳ **Session 2: Data Analysis**
 - + Interpreting financial statements
 - + Dashboards
 - + Ratios

THE FORBES FUNDS

Partners

- ↳ Kate Sphar, Dewey & Kaye
- ↳ Scott Leff, Bayer Center for Nonprofit Management

THE FORBES FUNDS

Session 1 Organizational Systems & Controls

- ↳ Internal Controls and Compliance
- ↳ Financial Infrastructure
- ↳ Your Reporting System
- ↳ Roles & Responsibilities

Internal Controls and Compliance

- ▢ Accuracy
- ▢ Reliability
- ▢ Security

Internal Controls and Compliance

▢ POLICIES & PROCEDURES

- + Revenue and cash processing
- + Purchasing and cash disbursements
- + Asset and liability account management
- + Audit and tax reporting
- + Budgeting and financial management
- + Government grants and contracts
- + Board committee responsibilities
- + Record retention and destruction

Internal Controls and Compliance

▢ QUESTIONS:

- ☞ Are we confident in our controls, policies and procedures?
- ☞ Where could we improve?
- ☞ What resources do we need to help us make improvements?

Financial Infrastructure

▢ Chart of Accounts

- + Track revenue and expenses by activity
- + Differentiate between direct program and indirect expenses

▢ Multi-dimensional classification

- + By program
- + By cost center
- + By "class or job"
- + By funding source

Financial Infrastructure

▢ Benefits of multi-dimensional coding

- + Detailed tracking by program or activity
- + Allows for more detailed reports about financial impact of programs/activities
- + Less time spent by staff on reporting tasks

Financial Infrastructure

Sample Chart of Accounts

Standard Chart of Accounts	First Classification	Second Classification	Third Classification
1000-1999 Assets			
2000-2999 Liabilities			
3000-3999 Net Equity/Assets			
4000-6999 Revenues	Location G&A	Program	Funding Source
7000-9999 Expenses	Location G&A	Program	Funding Source

Financial Infrastructure

Example of Inadequate Coding Scheme

- ▢ 7500 – Supplies
 - + 7501 – Supplies: Drug & Alcohol
 - + 7502 – Supplies: Mental Health
 - + 7503 – Supplies: Youth Services
 - + 7504 – Supplies: Education

Financial Infrastructure

Example Coding Scheme

For supplies for a youth program offered in Wilkinsburg as part of a grant from DHHS for 2011 fiscal year:

7501-03-017-DHHS11

- ▢ Line item
- ▢ First classification
- ▢ Second classification
- ▢ Third Classification

- 7501 – Supplies
- 03 – Wilkinsburg Branch
- 017 – Youth Services
- DHHS11 – 2011 DHHS Grant

Financial Infrastructure

QUESTIONS:

- ▢ Are we confident that our chart of accounts and coding mechanisms accurately reflect our activity?
- ▢ Where could we improve?
- ▢ What resources do we need to help us make improvements?

Reporting System

Financial Statements

- + Provide financial information for stakeholders
 - ▢ External (regulators, lenders)
 - ▢ Internal (management team, department managers, shareholders, board of directors)
- + Show the financial condition of the organization
- + Standardized accounting conventions make it possible to look at an organization over time and to compare to other organizations

Reporting System

What financial statements should be generated by my reporting system, and how often?

Report	Frequency	For Whom?
Balance Sheet (Statement of Financial Position)	Monthly	Board & staff
Budget v. Actual Statement	Monthly	Board & staff
1-Year Rolling Cash Flow Projection	At least monthly	Board & staff
Cash flow statement	Monthly or weekly (depending on need)	Staff, Finance Committee
Program/activity statements	At least quarterly	Staff, Finance Committee

Cash Flow Projections

Sample Six-Month Cash Flow Calculation

	Beginning Cash	Projected Cash Flow 2011-12						Total
		September	October	November	December	January	February	
Operating Income	\$ 27,000	\$111,000	\$ 17,000	\$ 52,000	\$ 27,000	\$ 27,000	\$261,000	
Operating Expense	\$ 35,000	\$ 35,000	\$ 35,000	\$ 35,000	\$ 42,000	\$ 35,000	\$217,000	
Net Income/Deficit	\$ (8,000)	\$ 76,000	\$ (18,000)	\$ 17,000	\$15,000	\$ (8,000)	\$ 44,000	
Cash on Hand	\$ 52,000	\$ 44,000	\$120,000	\$ 102,000	\$ 119,000	\$104,000	\$ 66,000	

Program Tracking

Sample Program/Activity Statement

ABC Human Services Estimated Revenue & Expense by Program			
Program	Revenue	Expense	Surplus/(Gap)
Drug & Alcohol	425,000	400,000	25,000
Mental Health	760,000	700,000	60,000
Youth Services	115,000	138,000	(23,000)
Transitional Housing	322,000	410,000	(88,000)
Administration	199,000	250,000	(51,000)
TOTAL	1,821,000	1,898,000	(77,000)

Reporting System

QUESTIONS:

- ↳ Are we confident that we are generating accurate, reliable and useful reports?
- ↳ Where could we improve?
- ↳ What resources do we need to help us make improvements?

Financial Roles at a Glance

	ROLES AT A GLANCE		
	Board's Role	Finance Committee's Role	Staff's Role
BUDGET	Approval	Revision and approval	Preparation and revision
FINANCIAL STATEMENTS	Monthly review	Monthly review and analysis	Daily monitoring.. Report preparation
FINANCIAL CONTROLS	Ensure adequate controls and reporting	Annual policy review and revision	Carry out policies, raise policy issues as needed with board
AUDIT & 990	Approve hiring of auditor. Review and approval of audited financial statements and Form 990	Recommend auditor for approval; review audit and 990 with auditor; oversight of audit process	Work with auditor during audit process; respond to issues in management letter
INVESTMENTS	Approve investment policy; annual review of investment policies	Periodic review of investment performance and policies	Monthly review of investment performance; carry out policies
OVERALL FINANCIAL COMPETENCY	Is well-informed about the organization's finances.	Coordinates board training on financial matters. Acts as liaison between full board and staff on fiscal matters.	Well-informed about day-to-day financial position; bring key issues to finance committee

Financial Dos and Don'ts

Boards should:

- ↳ Review and approve budget and financial reports
- ↳ Oversee budget development process
- ↳ Oversee audit and financial statement preparation
- ↳ Develop financial strategy with management
- ↳ Review internal controls and investment policies

Staff should:

- ↳ Develop financial reports
- ↳ Provide information and assistance to board and auditors

Financial Dos and Don'ts

Boards should not:

- ↳ Manage day-to-day financial operations
- ↳ Develop financial reports or budget
- ↳ Hire and supervise staff


Staff should not:

- ↳ Implement budget, controls or policies without approval from the board
- ↳ Assign all financial duties to a single staff member


Financial Skills and Expertise

Valuable skills & expertise

- + Bookkeeping and basic accounting
- + Certified Public Accountant
 - ↳ Audit
 - ↳ Tax preparation
- + Nonprofit finance
- + Nonprofit management
- + Legal
- + Banking/investments

 **Discussion Questions**


- ↳ Are board and staff performing appropriate duties?
- ↳ Have we separated financial duties as much as possible given our human resources?
- ↳ What steps can we take to ensure both staff and board have the right skills to manage our finances?

 **Session 1**
Organizational Systems & Controls


Questions?

 **Finance Matters Cohort**

- ↳ **Outcome:**
 - + Participant organizations will be financially and structurally strengthened within a year after the start of the cohort.
- ↳ **Who Should Apply:**
 - + Organizations that have identified improved financial systems and process as a priority.
- ↳ **Deadline:**
 - + October 28, 2011 at 5:00pm
- ↳ **Timeline:**
 - + Site Visits in November
 - + Peer Learning Sessions January – April 2012

 **Thank You!**

Staci Brogan	Susan E. Maloney
Garrett Cooper	Howard B. Slaughter, Jr.
Kyle M. Fisher	Geoffrey Stillson
Ben Hodes	Sheila Washington
Angela Lucente-Prokop	

 **Future Sessions**

Data Analysis
October 20, 2011