Top 5 Mistakes That Non-Profits Make With Their Finances

PRESENTED BY:

ADI RUBIN, MARCUM LLP

MANNY COSME, CFO SERVICES GROUP

Adi Rubin, CPA

Partner

Marcum LLP

adi.rubin@marcumllp.com

202.227.4273

Manny Cosme, CPA

President & CEO

CFO Services Group

mcosme@cfoservicesgroup.com

888.759.5333

Mistake #1:

NO FORMAL BUDGET

Mistake #1:
No Formal Budget

What is a budget?

A plan for immediate future of your org

A budget explains:

- …goals you want to accomplish in upcoming year
- …resources you need to accomplish goals

Mistake #1:
No Formal Budget

Question often asked:

- "Do I REALLY" need a budget?"
- "I have so much on my plate & don't have time for another thing."

Answer: YES!!! | You **NEED** a budget

Mistake #1:
No Formal Budget

Example

You want to roll out new mission-based program & increase impact of current programs by 50%.

To accomplish, you will need to:

- Seek out additional grant
- Hire two more team members
- Hold a fundraising event

Mistake #1:
No Formal Budget

- Without budget, you are flying blind!
- Risk of making decisions “on-the-fly” instead of with intention towards goals.

Metaphor: Taking a trip from NYC to SF

Mistake #1:
No Formal Budget

Once budget is drafted… still more to do!

Board needs to approve budget

- Ensures everyone on same page & “rowing in same direction” (and doesn’t change direction mid-stream)
- Buy-in from team since they better understand why they do the work they do and how it fits into bigger picture

Mistake #1: No Formal Budget

- Must monitor budget continuously
- Have bookkeeping team enter into software (QBO)
- Review budget-to-actual reports periodically
  - Ensure on track to achieve desired results
  - Course correct if needed

Mistake #2:

FINANCIAL REPORTS TO BOARD ARE NOT ACTION-ORIENTED

Mistake #2: Financial Reports Not Action-Oriented

Issue: Board members get great financial information every month.

But… Don’t know what to do with it!!!

Result: Frustration, Confusion & Boredom

Classic issue that we see time-and-time again

Mistake #2:
Financial Reports Not Action-Oriented

- What is purpose of financial report? Why do you receive info every month?
- To help make DECISIONS
- Role of board member: Make decisions to steer org in “right” direction
- Includes ensuring that org has right financial resources to fulfill mission

Mistake #2:
Financial Reports Not Action-Oriented

Financial report = explaining status of resources

- Do we have enough?
- Spending on proper resources?
- Generating enough funding to cover everything?
- Can we weather downturn?
- Etc

Mistake #2:
Financial Reports Not Action-Oriented

Financial report may give you all this info **BUT**…

Also needs to tell you want to do about it.

NEEDS ACTION STEPS

Mistake #2:
Financial Reports Not Action-Oriented

What are potential action steps?

- Don’t do anything! Don’t change anything!
  - Holding the course is an action step
- Do something with excess funds. Invest.
- Cut expenses
- Spend more on fundraising activities

Mistake #2: Financial Reports Not Action-Oriented

- **By providing action-oriented steps:** Transform financial report from “dry” document into something exciting that we can debate and discuss.
- Use report to move org forward with clarity
- **Role of Treasurer / Exec Director:** Always provide an action-oriented report

Mistake #3:

BOOKKEEPING RECORDS LACK ADEQUATE DETAIL

Mistake #3: Bookkeeping Records Lack Detail

- Bookkeeping for non-profits is not the same as for for-profits
- Non-profit orgs need much more detail
- Bookkeepers used to doing for-profit bookkeeping are **NOT** generally good candidates for non-profit accounting

Mistake #3:
Bookkeeping Records Lack Detail

Why more detail for non-profits?

1) Grant programs running concurrently

- Need updated status to know how much left to spend

2) Pass through spending

- NPO often act as fiduciary for other org funds
- Need strict accounting to ensure funds are handled properly

3) 990 preparation

- Need functional expenses split out

Mistake #3:
Bookkeeping Records Lack Detail

4) Budget (org-wide) also needs to be updated

- Need budget-to-actual reports regularly
- Load budget into QBO

5) Payroll splits across programs / grants / departments

- Need to map and understand how to do allocations

Mistake #3:
Bookkeeping Records Lack Detail

Solution

Make sure to hire bookkeeper / accounting team that understands non-profits!!!

Mistake #4:

IGNORING INTERNAL CONTROLS

Mistake #4:
IGNORING INTERNAL CONTROLS

Defining Internal Controls:

- Accounting and auditing processes used in a company's finance department that ensure the integrity of financial reporting and regulatory compliance.

Why do Internal Controls matter??

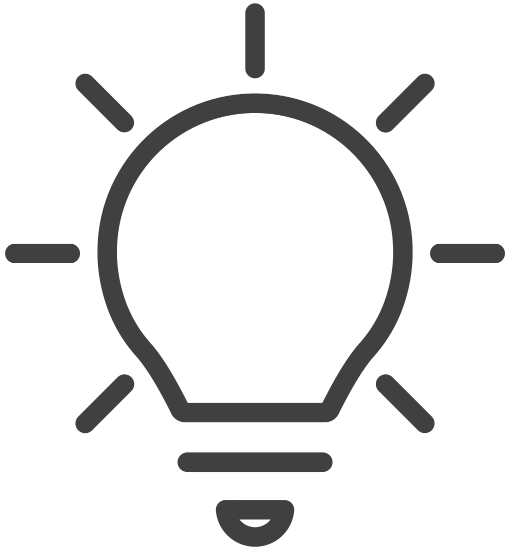
- Audit and regulatory requirements
- Deterrent against fraud

Mistake #4:
IGNORING INTERNAL CONTROLS

Examples of Internal Controls:

- Ensuring segregation of duties (the same person shouldn't be responsible for all steps of a particular process)
- Formalized approval processes (coding expenses, month end journal entries, etc)
- Monthly close including reconciliations of assets, liabilities and key revenue/expense accounts
- Recordkeeping

Mistake #4:
IGNORING INTERNAL CONTROLS

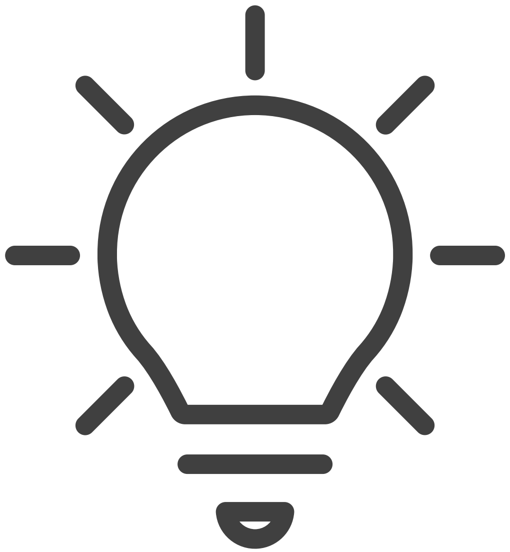


Solutions

1) Understand your regulatory environment

- GAAP
- Uniform Guidance
- State or local regulations
- Audit thresholds

Mistake #4:
IGNORING INTERNAL CONTROLS



Solutions

2) Make sure you are relying upon the financial team rather than development or programming

- Often organizations have to weigh conflicting or differing perspectives across departments – make sure you have knowledgeable accounting guidance to guide you (ie those familiar with non-profits!)

Mistake #5:

UNDER-UTILIZING TECHNOLOGY

Mistake #5:
UNDER-UTILIZING TECHNOLOGY

Challenges causing under-utilization of technology:

- Non-profits often have a reluctance to invest in technology across the organization (finance, development, programming). It is seen as cost prohibitive
- Training is required to implement new technology which a "soft cost" investment needed in order to drive change
- Change is difficult! We are all accustomed to continue to do things the way we've always done them. But solutions that worked during the start up phase of an organization or a program are not necessarily the best solutions down the line

Mistake #5:
UNDER-UTILIZING TECHNOLOGY

Examples of under-utilization:

- Financial software
- Donor management (this includes using your financial software as a CRM when it isn't built to be!)
- Collaboration tools
- Automation of administrative tasks
- Overlooking cybersecurity threats

Mistake #5:
UNDER-UTILIZING TECHNOLOGY

Potential benefits of analyzing and improving technology usage:

Financial software –

- provide real time tracking of initiatives or programs;
- improve internal controls

Donor management

- Personalized and increased donor engagement
- Make it easier for your donors to give!

Collaboration tools

- Create opportunities for your teams to work more cohesively
- Eliminate version control issues with documents

Automation of administrative tasks

- Utilize your staff for more complex, rather than routine, tasks

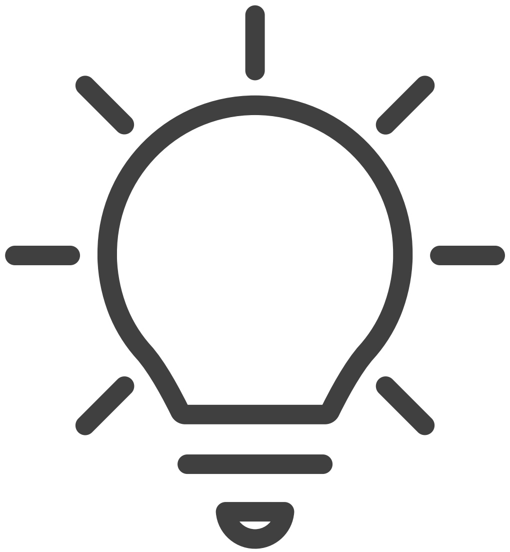
Mistake #5: UNDER-UTILIZING TECHNOLOGY

Potential benefits of analyzing and improving technology usage:

- Overlooking cybersecurity threats
- According to the 2023 Nonprofit Tech for Good Report[1], 27% of non-profits have experienced a cyberattack
- Risk is heightened if the non-profit is managing sensitive client data (social service organizations, schools, etc)

[1]https://www.nptechforgood.com/wp-content/uploads/2023/02/Nonprofit-Tech-for-Good-Report-Final2-2023.pdf

Mistake #5:
UNDER-UTILIZING TECHNOLOGY



Solutions

- Engage a technology assessment to understand your organization and identify opportunities for increased efficiency and security
- Consider seeking capacity building grants or funding to support the cost of this critical initiative.

About The Presenters

Adi Rubin, CPA
Marcum LLP

Marcum LLP is a top 13 accounting and advisory firm dedicated to helping our clients achieve their goals through our complete spectrum of tax, assurance, advisory, and technology services. Our nonprofit industry team is passionate about building collaborative partnerships and providing solutions that help our clients advance their missions.

Learn more at: marcumllp.com/nonprofit

MARCUM
ACCOUNTANTS ▲ ADVISORS

Manny Cosme, CPA
CFO Services Group

CFO Services Group is a management accounting firm, focused on helping small business and non-profit organizations manage their finances. They do this by providing top-notch Outsourced Accounting and Fractional CFO services to clients across the country.

Learn more at: www.cfoservicesgroup.com

cfo services group