Best Practices for Nonprofits

Presented by Cerini & Associates, LLP

HHAP

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The Budget Process

- The budget is a key element of the control process
- Board’s fiscal oversight of an organization
- Key elements:
  - Should be reviewed and approved by the Board before year-end
    - Should be developed on a monthly basis and not just an annual budget divided by 12
    - Consider the seasonality of operations and fundraising
  - Board needs to receive budget-to-actual reporting regularly throughout the year
    - Should contain explanations for major fluctuations
    - Budget modifications for spending fluctuations
  - Program staff involved in creating their own department budgets
  - Consider pre-established contingency budgets

Develop Appropriate Analytics

- Identify key organizational analytics – what are the key factors that drive your organization?
  - Days in cash
  - Days in receivable
  - Vacancy rates
  - Average rent-per-unit
  - Liquidity (current ratio and working capital)
  - Debt to equity (net assets)
  - Profit margin
  - Fluctuations from prior periods
- Determine what you need to do organizationally to drive these indices in the right direction

Cost Allocations/Allocation Methodology Policies

- Multiple programs/grants
  - Budget, revenue, or management's best guess are not appropriate allocation methodologies
  - Need to ensure each program is picking up its pro-rata share of costs (especially if there are deficit-funded contracts or federal funding involved)
- Allocations should be systematic and justifiable
  - Square footage – occupancy related costs
  - Contemporaneous time tracking/time studies – Payroll related costs
  - Ratio value – Administrative overhead costs
- Policies/methodologies should be documented
  - Accounting policy and procedure manual

Integration of Software

- Linking payroll system to accounting software
- Payables/cash management programs like Bill.com or Expensify
- Work with in-house/outsourced IT to integrate other key applications to your accounting system
- Design your chart of account to streamline external reporting

Use Cost Centers

- Most accounting software enables the ability to track costs by cost center (or fund)
- More upfront time, but it provides more meaningful information to organizational management
  - Help to understand program profitability and admin absorption
  - Can determine if ancillary programs make sense
  - Can evaluate better ways to operate your business and how best to deploy limited resources
  - Can identify areas for further funding opportunities
- Timely and accurate financial reporting is key

Grant Monitoring

- All grants have provisions that must be followed
  - Reporting requirements
  - Deadlines
  - Performance measurements
- Assign someone within the organization who is responsible for reading and understanding grant terms and ensuring provisions are being met

Internal Communication

- Open communication between all departments (three-legged stool)
  - Fiscal
  - Program
  - Development
- Important for program staff to understand how a program is funded
  - Fees for services
  - Deficit-funded
  - Performance-based
- Important for development to understand programs and budgetary shortfalls

Compliance/Risk Committee

- Important to understand areas of risk within the organization
  - Compliance-related issues – is there a QA function in place?
    - Grant terms
    - Changing regulations
    - Documentation issues
  - Cyber security issues
    - Cyber attacks on the rise in the nonprofit sector
    - Donor and client information
  - Insurance exposure
  - Staffing issues
  - Funding levels
    - Fundraising levels
    - Wealth transference – winner or loser?
  - Reputational damage
  - The economy
    - Rising costs
    - Expensive money/high interest rates

Investment of Resources

- Need to request higher returns
- New York Prudent Management of Institutional Funds Act (NYPMIFA)
  - Needs annual Board approval
  - Factors to be considered if relevant:
    - General economic conditions
    - The possible effect of inflation or deflation
    - The expected tax consequences, if any, of investment decisions or strategies
    - The role that each investment plays within the overall investment portfolio
    - The expected total return (inclusive of unrealized gains/losses)
    - Other resources of the organization
    - The needs of the organization and the funds available to make distributions and preserve capital
    - An asset's special relationship or value, if any, to the purposes of the organization
    - Funds must be diversified, unless the institution prudently determines that, because of special circumstances, the purpose of the fund are better served without diversification
- Investment policy statement

Keep Current

- Changing regulations/requirements
    - Funding
    - HR/benefits
    - Accounting/GAAP
    - Banking
    - Legal
- Listservs
- Funder websites
- Trade associations
- Resource providers
    - www.cerinicpa.com!

Audit Preparedness

- Increase in audit activity
  - OSC – Cost-based
  - OMIG – Medicaid funding
  - Funders
- Most funders have audit protocols/guides on their websites
  - Quality assurance
  - Test against protocols
- Stalk government websites
  - Understand what they are looking at and what disallowances they have
- If it isn't documented, it didn't happen

Retool your Leadership

- Many current leaders learned from Baby Boomers
  - Hard working
  - Loyalty
  - Achievement
  - Relationships
  - Self-reliant/sufficient
  - Face-to-face communication/phone
  - Managerial hierarchy
  - Workaholics
- Gen Z will comprise 27% of the workforce by 2025
  - Authenticity
  - Adaptability
  - Empathy
  - Work-life balance
  - Feedback
  - Flexibility
  - Training
  - Socially-driven
  - Text/e-mail communication

Succession Planning

- It is anticipated that approximately 75% of nonprofit leaders plan to leave their current positions in the next 5 to 10 years
- According to Board Source, only 27% of nonprofits have a documented succession plan
  - Do you have a documented plan/process?
  - Do you have an interim that could step in?
  - What level of communication is happening between leadership and the Board?
  - Are you establishing growth strategies for younger staff and is it communicated?
- Organizations go through life cycles – need to understand your organization's lifestyle and what type of leadership change is necessary

Artificial Intelligence

- Exponential growth in use
- ChatGPT is the fastest growing application
- How will your organization embrace AI?
- Need to establish AI acceptable use policies:
  - Data protection
  - Data access
  - Data sharing
  - Encryption standards
  - Data breach response procedures

THANK YOU!

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