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## Financial Management Series

### Organizational Systems and Controls

October 6, 2011

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## 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.

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## 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

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## 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

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## Partners

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

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## 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

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### Example of Inadequate Coding Scheme

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

## Financial Infrastructure

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### 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

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### 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

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### 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

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### 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

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### 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

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### 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)
<b>TOTAL</b>	<b>1,821,000</b>	<b>1,898,000</b>	<b>(77,000)</b>

## Reporting System

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❏ **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

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	ROLES AT A GLANCE		
	Board's Role	Finance Committee's Role	Staff's Role
<b>BUDGET</b>	Approval	Revision and approval	Preparation and revision
<b>FINANCIAL STATEMENTS</b>	Monthly review	Monthly review and analysis	Daily monitoring.. Report preparation
<b>FINANCIAL CONTROLS</b>	Ensure adequate controls and reporting	Annual policy review and revision	Carry out policies, raise policy issues as needed with board
<b>AUDIT &amp; 990</b>	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
<b>INVESTMENTS</b>	Approve investment policy; annual review of investment policies	Periodic review of investment performance and policies	Monthly review of investment performance; carry out policies
<b>OVERALL FINANCIAL COMPETENCY</b>	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

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❏ **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

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❏ **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

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❏ **Valuable skills & expertise**

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

 **Discussion Questions**

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- ↳ 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**

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**Questions?**

 **Finance Matters Cohort**

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- ↳ **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!**

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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**

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Data Analysis  
October 20, 2011