Dollars & Cents

5 Tips for Strong Association Financial Management

By: John Gillespie

Did you know that an internal force could be sabotaging the success of your association? The culprit could be your financial processes.

While it may be a time-consuming task to honestly assess your staff and its procedures, continuing business as usual can be detrimental. Organizations that proactively evaluate their leaders and policies will position their organizations to succeed in the future.

As a starting point, take a moment to review the following checklist to determine if it is time to consider changing the makeup or practices of your internal team.

1. Forecast for the Future With a Keen Eye on the Past
As the saying goes, “hindsight is 20/20,” and with anything, it is impossible to forecast future performance without looking in the rearview mirror to ensure that your organization is on the right track. To do this, leaders need to have processes in place that clearly and concisely examine where the organization has been.

For instance, does your organization consistently produce weekly revenue and cash updates, as well as month-end closing reports within 10 business days of the end of the month? And do these updates compare actual versus budget numbers to ensure that you are meeting your fiscal goals? If not, organizations may find themselves unable to use this information to effectively forecast future performance.

In addition, all bank accounts should be reconciled monthly. Other balance sheet accounts, such as cash, deferred revenue, prepaid expenses, and accrued expenses should be reconciled quarterly. Historical financials—balance sheet, cash flow, and income statements—if accurate, can be used as a forecast tool.

2. Keep Leaders Informed of Vital Statistics in Real Time
Sharing important data facilitates discussion and paves the way for better decision-making. To ensure that this occurs, your team should track metrics—cash on hand, gross revenue by revenue stream, and summary expenses by department—and make that information accessible to internal leaders as well as board members via dashboards created in Excel or on the internal server to ensure that leaders receive timely, accurate updates. Organizations also can rate each metric using a traffic-light system: red light flags a concern; yellow light indicates a problematic trend; and green light signals exceeding expectations.

3. Reforecast the Forecast
How often have you gotten to the middle of a budget year and found the initial forecast is no longer valid? Things change, the economy tanks or thrives, and your numbers no longer jive with the initial prognosis. Associations should reforecast halfway through the year, allowing the organization to adjust the budget to reflect new programs, new hires, changes in donor levels, and marketplace shifts. Revise your annual budget using the first half of the year’s actual financial data in conjunction with your revised forecast for the rest of the year. Use a rolling 13-week cash flow forecast to ensure that cash management remains a priority on a weekly and bi-weekly basis.

4. Diminish Risk With Internal Controls
An area often overlooked is the importance of establishing and following policies and procedures to ensure that something doesn’t go wrong. From determining authorized personnel for check approvals and contract execution to examining insurance needs, some associations fall flat due to poor planning or not holding to the established policies. One way to eliminate this is to use a risk tracker, which can identify potential issues in key functional areas and alert management that these issues need to be addressed.

Examples include noting that a major program may be missing its deliverable deadlines because a key employee just left. Another example is that an organization needs to “staff up” but their internal hiring processes are inefficient. (Note: these are great examples of what people call “execution risk.”)

5. Challenge the Revenue Forecast and Development Efforts
While it is beneficial to have positive-minded employees, it also can be potentially detrimental when these individuals are overly optimistic when it comes to the numbers they are forecasting. It is vitally important to review the sales and development pipeline, checking for accurate dollar value
and timing to ensure that the numbers you are looking at are, in fact, achievable.

After reviewing the checklist above, you may find that your organization is in a better place than you may have thought, or there may be areas that need work. However, feel good that you have taken the first step to ensuring that your organization will be equipped to succeed in the future.

John Gillespie is president of Beyond the Bottom Line, an interim CFO and executive search firm for nonprofits and social enterprises, located in the Washington, DC, area. Email: jgillespie@beyondtbl.com

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