FINANCIAL MANAGEMENT
PRACTICES FOR MANAGING
FEDERAL GRANTS TRAINING SERIES:

Session 2: Managing Federally Funded Grants

MAY 14, 2024

|BDO

Contents

Program Overview

PLANNING	**SESSION 1:** Financial Planning for Federally Funded Grants April 25, 2024 1:00pm-3:00pm ET / 10:00am-12:00pm PT
OPERATIONS AND MANAGEMENT	**SESSION 2:** Managing a Federally Funded Grant May 14, 2024 1:00pm-3:00pm ET / 10:00am-12:00pm PT
REPORTING & PERFORMANCE MANAGEMENT	**SESSION 3:** Reporting on Federally Funded Grants June 18, 2024 2:30pm-4:40pm ET / 11:30am-1:30pm PT

Financial Resilience

What does financial resilience mean to you?
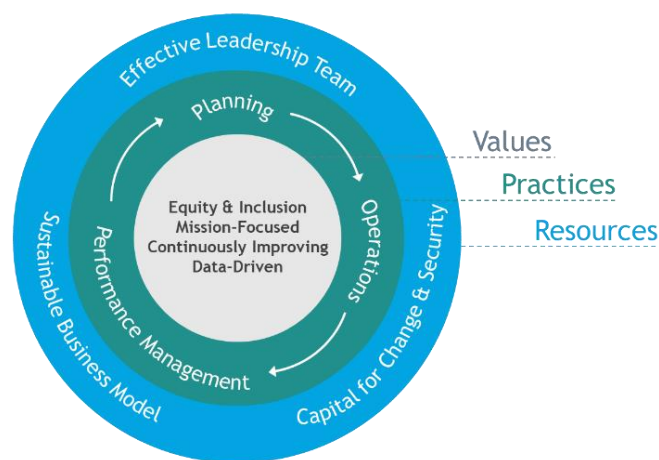
Financially resilient nonprofits stay focused on the long-term while continually assessing and responding to current needs. They understand and are able to tell their financial story. Expressed through an organization's **values, practices**, and **resources**, financial resilience is an ongoing commitment.

IT STARTS WITH VALUES

In an **equitable and inclusive** culture, financial data is shared with diverse stakeholders and not limited to the Executive Director and Board. Organizations that value equity and inclusion are transparent, not beholden to a single decision-maker, and have institutionalized financial leadership across the organization.

Resilient organizations foster a culture of **continuous improvement** around processes and systems. What financially resilient organizations understand intuitively is that operational improvements are not a one-time fix. The need to turn a critical eye to process and bring a standard of excellence to infrastructure is ongoing.

There is a willingness to use financial **data to inform decision making**. This can be a culture shift for many nonprofits, who are accustomed to relying on mission or gut rather than consulting financial data for key insights.

Finally, there is a recognition that the organization's financial performance as well as the finance team itself are deeply **tied to mission**. Strong financial results support mission achievement. And resilient organizations understand that the finance team is a core partner supporting mission-related goals, rather than a standalone transactional unit.

PRACTICES FOR THE PRESENT AND FUTURE

Financial **planning** ranges from annual budgeting to multi-year projections that map numbers to the organization's strategic priorities. Regardless of the timeframe, planning is about connecting program goals to resource decisions.

Operations boils down to people, processes, and systems. For effective planning and performance management to happen, operations need to work. This means having the right skills and roles on the finance team, efficient and effective workflows for core processes, and appropriate technology systems.

Effective **performance management** means leaders understand the financial status of an organization and its programs and use past performance as a baseline for anticipating future needs. Financially resilient organizations elevate standard budget-to-actual monitoring by defining and tracking Key Performance Indicators and presenting financial data in engaging, user-friendly formats such as dashboard reports.

FINANCIAL AND HUMAN RESOURCES

Leaders must understand and optimize their organization's business model—that is, what drives revenue and expenses and how their nonprofit creates impact. Having a **sustainable business model** means resources are used in alignment with mission goals and that revenues reliably cover the full cost of operations.

Resilient nonprofits are appropriately capitalized. They have liquid financial reserves to buffer the organization against future uncertainty, as well as access to the financial capital necessary to fund investments for growth and change. We call this **capital for change and security**.

Finally, the most important resource in any organization are its people. Nonprofits that have a well-balanced and **effective leadership team** with diverse perspectives and skillsets are at a distinct advantage to nonprofits that operate with a solitary leader and are much more likely to achieve and maintain financial resilience.

Grants Management Lifecycle

There are three major phases in the Grants Management Lifecycle:

1. **Pre-Award:** This is the phase where the organization researches opportunities, ensures mission and program fit, reviews criteria, and ultimately decides on whether or not to pursue the award. During this phase, the organization will write the proposal, develop budgets, and collect any materials needed before submitting the proposal.
2. **Award Phase**: Once the organization is awarded a grant, they enter the Award phase. During this time, the organization should review and understand expectations related to the grant. If the organization confidently believes they can execute on the grant according to the proposal and budget, they will accept the grant.
3. **Post-Award Phase:** Once the grant has been awarded and accepted, the organization enters the Post-Award phase. During this phase, the work for the grant will be executed, and the organization will be responsible for managing the grant needs and compliance requirements. Post-award activities include staffing up the project, ensuring the organization is meeting performance and financial goals, tracking expenses, and tracking outcomes. Once the work is finished or the period of performance has ended, the organization will programmatically and financially close out your project.
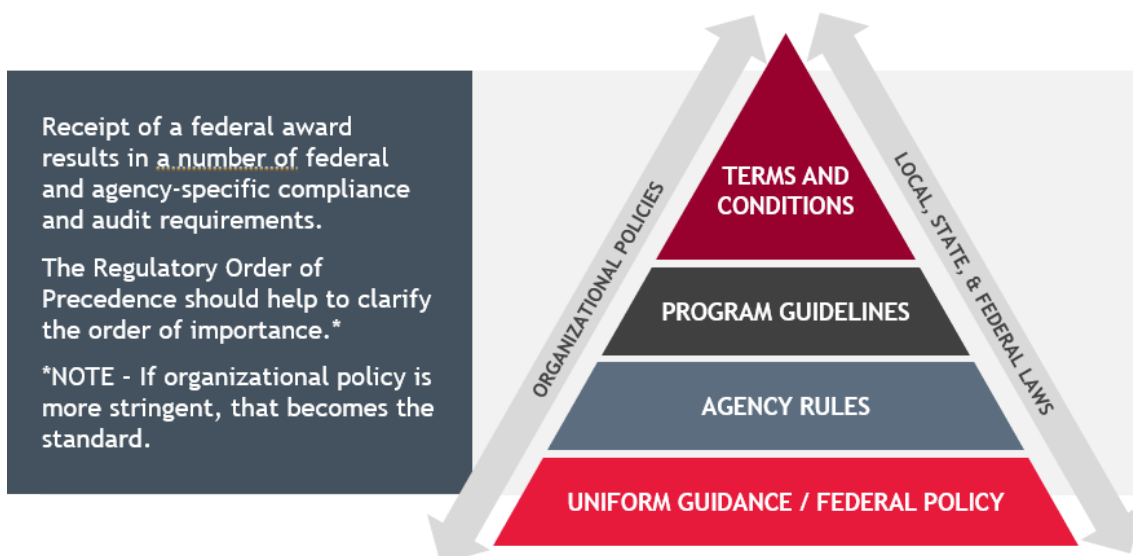
Introduction to Compliance

IDENTIFYING COMPLIANCE REQUIREMENTS

Compliance requirements can come from various sources, often requiring additional time and resources to meet these requirements. For passthrough funding, each subsequent entity can also add additional requirements on the funding, thus requiring additional time and resources to meet all compounding requirements. Compliance comes from various sources:

- ▶ Funding Sources
  - o Federal Agencies
  - o State Agencies
  - o Local Municipalities
- ▶ Pass-Through Entities
  - o Funding organizations that pass federal funding to other organizations.
- ▶ Organizational Policies
  - o Often reflected in a Policies and Procedures Manual

The basis for compliance requirements for Federal funding comes from the **Uniform Guidance: 2 CFR, Part 200.** The Uniform Guidance informs Federal agencies on how to manage their grants under the law and also informs funding recipients what the obligations are for accepting Federal funds.

In addition to the Uniform Guidance, recipients need to understand and meet the terms and conditions of other law, regulations and statutes that may apply. These may come from the funding agency's rules, the funding program that authorizes the grant and also specific terms and conditions included with the award itself. Additionally, your organization may have its own policies and procedures to follow as well as other local, state and Federal laws that need to be followed.

Receipt of a federal award results in a number of federal and agency-specific compliance and audit requirements.

The Regulatory Order of Precedence should help to clarify the order of importance.*

*NOTE - If organizational policy is more stringent, that becomes the standard.

ORGANIZATIONAL POLICIES

LOCAL, STATE, & FEDERAL LAWS

TERMS AND CONDITIONS

PROGRAM GUIDELINES

AGENCY RULES

UNIFORM GUIDANCE / FEDERAL POLICY

WHY COMPLIANCE MATTERS

Government funding comes from taxes paid. A condition of accepting the award and spending government funding is adherence to the terms and conditions articulated through the award. Uniform Guidance section 200.399 allows the agency awarding Federal funding or pass-through entity to take the following actions in the event that a non-Federal entity fails to comply with the US Constitution, Federal statutes, regulations or terms and conditions of a Federal award:

- ▶ Temporarily withhold cash payments;
- ▶ Disallow all or part of the cost of the activity or action not in compliance;
- ▶ Suspend or terminate the Federal award;
- ▶ Initiate suspension or debarment proceedings;
- ▶ Withhold further Federal awards for the project or program; and
- ▶ Take other remedies that may be legally available.

Grantees should also be aware of the False Claims Act which imposes a liability on anyone who knowingly submits false claims for payment or false records to conceal, avoid or decrease an obligation in an attempt to defraud the government.

Individuals found guilty of making a false claim may be required to pay civil penalties for each violation in addition to 3x the amount of damages.

HOW TO BUILD A COMPLIANCE PROGRAM

Organizations aiming to build a program for compliance should understand that **compliance is a shared responsibility** across the organization, not the responsibility of a single individual. Every individual, including financial staff, organizational leadership, and programmatic staff, who interacts with Federal funding has a responsibility to understand and follow the terms and conditions of the award and the regulatory environment of said funding. A compliance program begins with building a culture of compliance which starts with setting the tone from the top (leadership).

A culture of compliance includes:

- ▶ An environment where compliance is a focus for management and is integral to the operations of the organization.
- ▶ Awareness of best practices and the risks involved with non-compliance.
- ▶ Embedding compliance in the organization's values, standards and behavior.
- ▶ Encouraging continuous improvement rather than punishment for identifying potential areas of non-compliance.
- ▶ Articulating compliance throughout the organization's policies and procedures.

When an organization operates within a culture of compliance, it becomes normalized, and procedures to ensure that the organization follows the applicable regulations are more accepted and routine.

Internal Controls

Internal controls are systematic measures (such as reviews, checks and balances, methods and procedures) required by Uniform Guidance and instituted by an organization in order to:

- ▶ Conduct work in an orderly and consistent manner
- ▶ Safeguard assets and resources
- ▶ Deter and detect errors, fraud, and theft
- ▶ Ensure accuracy and completeness of accounting data
- ▶ Produce reliable financial and management information
- ▶ Ensure adherence to policies and plans
- ▶ Comply with the law and relevant regulations

Controls should be documented and describe the controls environment, risk assessment, information and communication systems, and activities used for controls and monitoring. As a part of the Single Audit, organizations will be required to provide auditors with a control narrative that describe what internal controls are in place and how they are implemented to safeguard against fraud, waste, and abuse.

In addition to being required by the Uniform Guidance, controls also help an organization:

1. **Protect resources** from waste, loss, theft, or misuse;
2. **Ensure resources are used appropriately** in accordance with the law, stakeholder expectations, monitoring agencies, and your budget and plan; and
3. **Produce reliable accounting and financial reports** that are based on accurate and verifiable data.

Uniform Guidance requirements for internal controls (§200.303) tasks an organization to ensure that the Federal award complies with the US Constitution, Federal statuses, regulations, and the terms and conditions of the Federal award. Organizations should have controls in place to evaluate and monitor the non-Federal entity's compliance with these requirements and act promptly when instances of noncompliance are identified. The underlying goal is to prevent and detect instances of waste, fraud, and abuse by ensuring that financial transactions follow GAAP and comply with any appropriate Federal regulation.

COSO FRAMEWORK STRUCTURE

The Uniform Guidance recommends, although doesn't require, that internal controls follow the COSO Internal Control Integrated Framework (Internal Control | COSO). The COSO framework provides organizations with a structure to create and manage an overall compliance program, starting with five components:

- ▶ **Control Environment**: Set of standards, processes and structures that provide the basis for carrying out internal control across the organization.

- ▶ **Control Activities**: Actions established through policies and procedures that help ensure management's directives to mitigate risks to the achievement of objectives.

- ▶ **Risk Assessment:** Process for identifying and assessing the risk to the achievement of objectives.

- ▶ **Information and Communication Systems**: Continual, iterative process of providing, sharing, and obtaining necessary information.

- ▶ **Monitoring Activities**: Activities that access whether each component of internal control is present and functioning.

INTERNAL CONTROLS: THREE KEY AREAS OF FOCUS

1. Influencing Culture

Internal controls start with the culture at the organization. Leadership can influence controls by setting the right tone at the top, creating a culture of financial discipline, and promoting transparency:

What steps can leadership take?

Goal	Organizational Culture	Processes/Transactions
Setting the right tone at the top	• Leadership leads by example	• Leadership is not exempt from internal controls activities (e.g. leadership submits receipts for approval)
Creating a culture of financial discipline	• Fiscal policies and procedures manuals are "living" documents • Leadership regularly monitors financial results	• Staff are regularly trained on new policies • Budgets are approved by the Board and regularly monitored by leadership and Board
Promoting transparency	• Leadership promotes and encourages an open and transparent environment	• Policies promote transparency (e.g. whistleblower protection, conflict of interest)

2. Policies and Procedures

Controls are achieved through:

▶ Policies: Resolutions adopted by the Board

▶ Procedures: Specific tasks and measures developed and implemented by management

These policies and procedures should be document in a fiscal policies and procedures manual which is accessible to the staff and reviewed/updated on an annual basis.

Five policy examples that reduce risk:

Goal	Organizational Culture	Processes/Transactions
Revenue / Donor Acknowledgement	• Provides a check and balance for funds flowing into the organization	• Regular reconciliation between finance and development
Approval Processes / Credit Cards Agreements	• Ensures staff are aware of organization-wide purchasing policy and allows management to review expenses	• Purchasing approval thresholds
Segregating Payroll Responsibilities	• Ensures no one person has control over payroll (often a nonprofit's largest expense)	• Clarity on appropriate use of credit cards
Conflict of Interest / Whistleblower	• Promotes transparency	• Staff additions/changes and payroll processing are performed by different people
Technology	• Creates awareness of how to protect against threats to privacy/systems	• Conflict of Interest disclosure form for both board and staff

Note that the Uniform Guidance requires a number of other policies to be documented by the organization. These policies and procedures are a significant aspect of testing during a Single Audit.

3. Leveraging Technology

Technology can also help increase control at your organization. Examples of technology controls include:

▶ Software integration – Data flows automatically from one system to another so there is less chance of it being lost or entered incorrectly

▶ Paperless documentation & audit trails – Storing data in the system makes it easy to track the history of the transaction and approvals

- ▶ Restricted access – Password protection not only protects access to the information but can help with the audit trail, to track where there may have been a mistake or security breach

You can also use technology available through your bank to improve controls including:

- ▶ Positive pay/Reverse positive pay
- ▶ ACH block & filters
- ▶ Electronic funds transfer
- ▶ Purchase cards

> **Finance + Equity**
>
> An organization's policies and procedures can dictate its business practices. Ranging from day-to-day accounting principles to board oversight, policies and procedures touch all activities and people at a nonprofit. While it may seem that these policies merely organization. For example, a policy stating that staff will receive reimbursement at the end of the pay period places undue pressure on individuals whose personal finances do not allow them to wait for such funds. While establishing or revisiting policies, organizations benefit from examining whom the policy impacts and how, whether some individuals or groups might feel the policy's impact disproportionately, and whether the policy perpetuates inequity.

SEGREGATION OF DUTIES

Control policy by which no person should be given responsibility for more than one related function.

No one person should:

- ▶ Perform all functions within an accounting cycle
- ▶ Have the ability to cover up an intentional or unintentional accounting error

    Ensure segregation of duties are in place across all your accounting cycles.

KEY INTERNAL CONTROLS FOR SMALL TO MID-SIZE NONPROFITS

▶ **Deposits**: If possible, involve more than one person to separate logging checks receipts, facilitating bank depositing and general ledger entry

▶ **Cash disbursements**: General ledger entry is facilitated by someone who is not also tasked with signing checks or releasing electronic payments

▶ **Vendors**: An objective person periodically reviews the list of all vendors and there is an approval process for new vendors

▶ **Payroll**: Hourly staff timesheets are reviewed and approved by supervisors and there is a timely review of payroll after processing

▶ **Bank Statement Reconciliation**: Someone who is not processing payments reconciles the bank account monthly OR a different person performs a timely and detailed review of the reconciliation

▶ **Physical Controls**: Check stock and cash is maintained in a locked drawer; computers are password protected and staff access is limited based on role

BEST PRACTICES FOR STRONG INTERNAL CONTROLS

As a summation, these are some best practices for internal controls

1 Ensure strong oversight and segregation of duties for financial tasks and roles

2 Develop processes that address the authority to commit and expend funds that identify and designate key roles throughout the workflow

3 Save all required supporting documentation in a centralized location

4 Ensure controls are documented and saved in a centralized location

5 Review and test controls to ensure that they are working as intended; adjust where necessary

6 Automate workflows and move away from paper documentation

7 Train all staff on the internal controls

Policies and Procedures

Policies are parameters that define the limits and set direction and guidance for decision making. They can be thought of as defining the "WHY" an organization does a task. Procedures describe the actions and steps to effectuate the policy in question. They can be thought of as the "HOW" an organization implements a policy.

An organization should aim to **document** the policies and procedures they adhere to in a Policies and Procedures Manual, reviewing and updating annually. This helps the organization establish consistency for how to treat things like expenses and eliminate uncertainty.

Some recommended policies an organization can enact for compliance with Uniform Guidance include:

▶ General accounting policies and procedures
▶ Allowable costs
▶ Cash management
▶ Time reporting
▶ Travel and expense
▶ Procurement
▶ Records retention
▶ Conflicts of interest
▶ Subrecipient monitoring, if making subawards to other entities

PROCUREMENT STANDARDS - §200.317 – §200.327

Procurement is a significant area of review by agencies and auditors and is especially important for organizations with federal funding. Organizations spend money on contractors and vendors that provide goods and services for many federal grants, and each funder (federal, state, local) have strict rules to promote and ensure fairness and transparency around purchasing. **The Federal Government requires organizations to:**

▶ Have a written procurement policy that includes specific procedures.
▶ To maintain records of the history of procurement.
▶ To not utilize vendors or subcontractors that have been suspended or debarred from receiving federal funds.
▶ To obtain oversight of the subcontractor(s)
▶ To obtain a subrecipient or contractor determination documentation.

METHODS OF PROCUREMENT - §200.320

There are three main categories of procurement: Informal, Formal, and Noncompetitive. Depending on the method of procurement, organizations will need to follow different procedures.

INFORMAL PROCUREMENT METHOD

Micro Purchases ($10,000 or less)

- ▶ Does not require competitive bid.
- ▶ Price must be reasonable based on research, experience, and purchase history.
- ▶ Must have internal controls, evaluation of risk and documented procedures.

Small Purchases ($10,001 to $250,000)

- ▶ Threshold is determined based on internal controls, evaluation of risk and documented procedures.
- ▶ Items can include services, supplies.
- ▶ Requires multiple quotes.

FORMAL PROCUREMENT METHOD (above $250,000)

Above $250,000, the organization will need to enter a formal bid process, using a method such as:

Sealed Bids

- ▶ Request for bids advertised publicly.
- ▶ Contract awarded to successful bidder.
- ▶ Contractor is selected based on lowest price.

Competitive Proposals

- ▶ Offers are solicited from multiple sources.
- ▶ Fixed price or reimbursable contracts can be awarded.

NON-COMPETITIVE (SOLE SOURCE) PROCUREMENT METHOD

- ▶ Used infrequently.
- ▶ Item is available from only one source.
- ▶ Need or emergency situation will not allow for the delay for a competitive process.
- ▶ Agency authorizes a non-competitive process in response to a written request.
- ▶ Competition is determined to be inadequate after a competitive or solicitation process.

TIME REPORTING/ PAYROLL REQUIREMENTS – §200.430

Personnel expenses are likely to be the biggest expense on a project funded by government dollars. Therefore, it is important to have time reporting policies in place to ensure staff understand what is expected of them to record their activities and the time spend on each project.

Time reporting and payroll procedures MUST be applied consistently to both Federal and non-Federal Activities. The pay associated with grant-funded personnel must be consistent with other staff who perform similar work. In other words, you can't charge the Federal government more for someone who works on a Federal grant.

Fringe benefits can be included and are an allowable cost, but they must be included in the budget.

Documentation of the supported personnel costs is key. This includes ensuring that time is recorded accurately in a system that includes reviews and approvals by supervisors or managers. Payroll must be able to demonstrate how hours and dollars are allocated to appropriate grants or activities.

Uniform Guidance does not dictate how the organization should record time, such as by the hour or by percentages. However, it expects the organization to meet the requirements set and demonstrate their methodology.

Operations & Infrastructure Overview

OPERATIONAL EXCELLENCE

Operational excellence is an organizational culture that values learning, problem solving, and a strong commitment to continuous improvement.

Effective financial operations ensure that **people**, **processes** (workflow), and **technology** are all working together efficiently so that plans are being executed properly and that decisions are based on reliable information.

People + Teams

Technology

Workflow
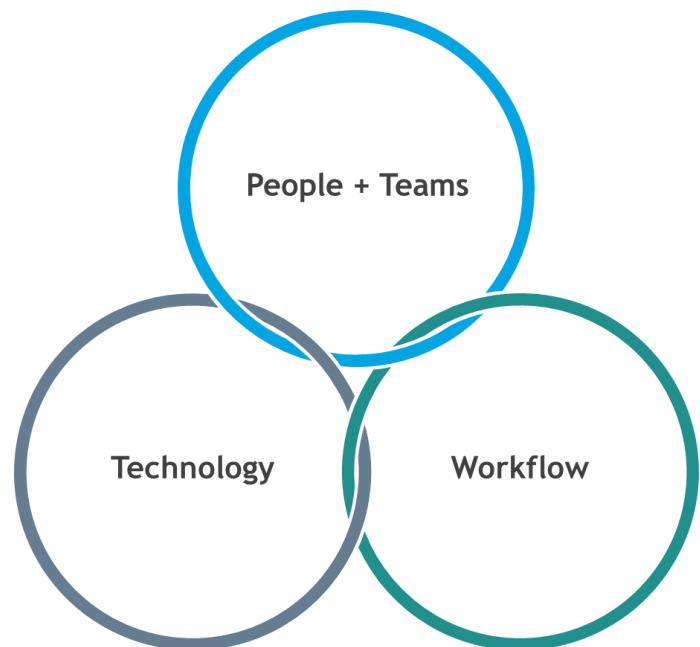
The division of roles and responsibilities in your fiscal function has a direct impact on the equity of our organization. People with the most access to financial decisions steer the direction of an organization, and in many instances these individuals do not represent the majority of staff racially, or by gender/sexual orientation, financial status, age, proximity to the office and services, or education. How can you consider diverse voices in decision-making?

Finance + Equity

Staffing - Financial Roles & Responsibilities

LEVELS OF FINANCIAL MANAGEMENT[1]

| STRATEGIC	MANAGERIAL	TRANSACTIONAL
Lead and support organizational financial planning and monitoring	Ensure finance is effectively carrying out its operational responsibilities	Perform day-to-day accounting functions, data entry, and finance administrative tasks
Conducts strategic financial planning, budgeting and forecasts	Maintains fiscal policies & procedures, oversees internal controls and ensures compliance	Processes accounts payable, cash disbursements
Reviews financial reports for strategic decision-making and course corrections	Performs monthly close & reconciliations, ensures general ledger quality	Creates invoices, processes accounts receivable and cash receipts, makes deposits
Provides oversight and vision for the finance team and fiscal operations	Generates financial reports, monitors cash flow	Maintains accounting files, processes 1099 forms and prepares journal entries
	Manages audit process	

CRITICAL FINANCE FUNCTIONS

Controllership	Planning & Performance Management	Grants Management & Compliance
▶ General Ledger quality ▶ Transactions (AP, AR, Billing, Payroll) ▶ Production of financial reports ▶ Reconciliations ▶ External audit	▶ Budgeting process ▶ Scenario planning ▶ Forecasting and budget-to-actuals monitoring	▶ Grant and contract monitoring ▶ Fiscal Policies and procedures ▶ Funder invoices

---

[1] Adapted from Jeanne Bell Peters and Elizabeth Schaffer, *Financial Leadership for Nonprofit Executives: Guiding Your Organization to Long-term Success* © 2005

BALANCE OF RESPONSIBILITIES

Where does your finance team spend most of its time? Many organizations end up with their teams focusing mostly in the transactional level of financial management, sacrificing the important strategic activities such as budgeting performance management. Organizations should carefully consider what factors might influence their staffing structure such as:
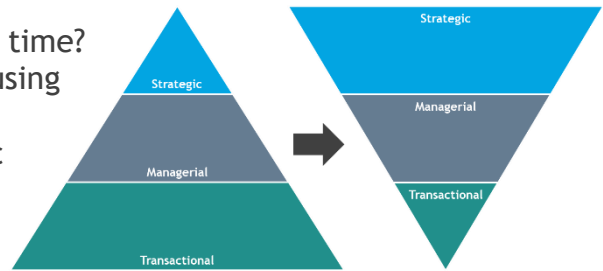
Adapted from Jeanne Bell Peters and Elizabeth Schaffer, *Financial Leadership for Nonprofit Executives: Guiding Your Organization to Long-term Success* © 2005

▶ Business Model (complexity of revenue streams & number of government grants or contracts)

▶ Budget Size

▶ Number of Employees

▶ Technology Adoption

Organizations can also consider a number of fiscal staffing configurations, including in-house, outsourced, or some combination of the two. Some smaller or newer organizations might consider using a fiscal sponsor to manage the organization as they build up their programs.

INTERNAL	OUTSOURCED	FISCAL SPONSORSHIP
Access information and accounts quickly	Gain access to expertise you don't require full-time	Can be an effective vehicle for strengthening early-stage organizations
More difficult to staff appropriate skills at each level	Can find outsources support at all levels	Strategic activities still conducted by the project
Preferred option when you can afford what you need	Outsource process, not strategy	Varied levels of support based on type of sponsor (professional, intentional, community…etc.)
	Still need someone in-house to manage the relationship	Critical to establish what you need from your sponsor- it's ok to change your sponsor!
	Establish clear criteria for measuring success	

Finance Automation

Nonprofits are increasingly incorporating technology into their organizations to improve efficiency. Appropriately using technology in the finance office can reduce manual transactional tasks and leave (often limited) finance teams more time for higher level analysis and strategic thinking. In a remote environment technology can improve access to information and increase controls at the same time.


ACCOUNTING & FINANCIAL MANAGEMENT SYSTEMS

A nonprofit's accounting system should be the center of its finance data. A suitable, well designed, and correctly-used accounting system will allow organizations to access information and produce key reports with the click of a button. Some questions organizations should ask in evaluating their accounting system include:

- ▶ Basic Functionality: Are you aware of all the functionality of your accounting system and are you maximizing those functions? If not, what would it take to better utilize the system?

- ▶ Chart of Accounts:
  - o Do you have a flexible chart of accounts that differentiates between line items, programs, grants, locations, etc.?
  - o Are you utilizing all the cost centers available to you through your system or do you need more than are available to you?
  - o Is the chart of accounts set up so you can generate the financial reports you need?

- ▶ Differentiators:
  - o Is there functionality missing from your system that would improve your financial management systems? Which ones?
  - o If so, is it worth considering a new system?

Accounting systems can be a significant financial investment so organizations should carefully consider what functionality is essential to their operations and what might be a "nice to have." Some factors that might influence needing a more sophisticated accounting system include:

- ▶ Business Model (complexity of revenue streams & number of government grants or contracts)
- ▶ Budget Size
- ▶ Number of Employees
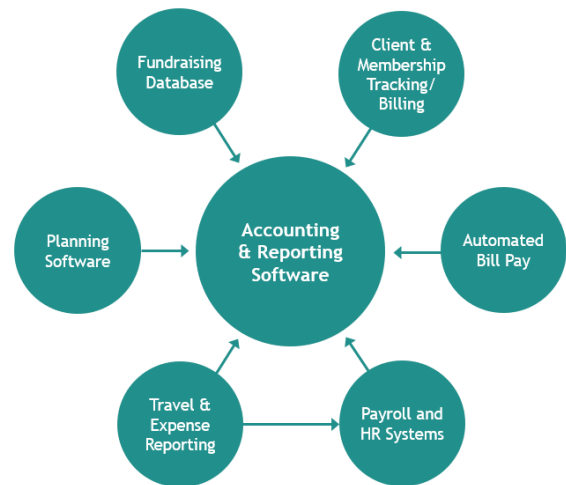
*Accounting System Set-Up: Flexible Chart of Accounts

Nonprofits should set up their accounting systems to make tracking and reporting on data as easy as possible. Most accounting systems will allow organizations to use cost centers or dimensions to track various elements of data. The most common ways we see nonprofits separate their data include:

- ▶ Natural revenue and expense categories
- ▶ Programs and departments
- ▶ Grants and contracts
- ▶ Locations
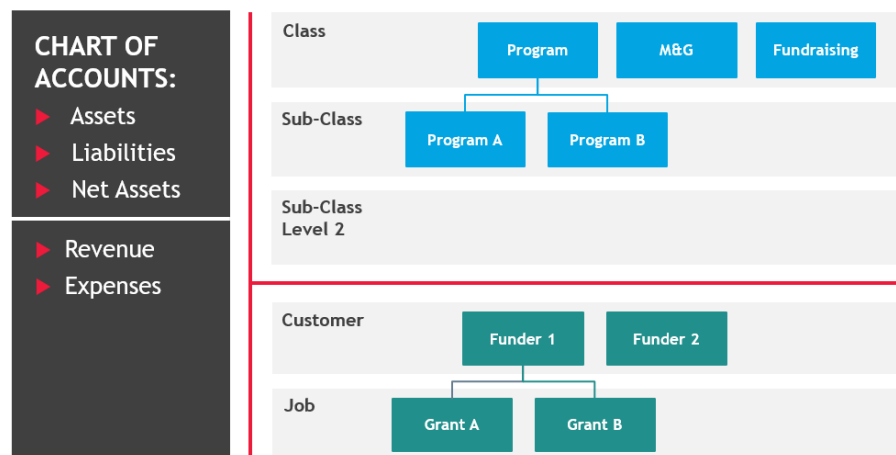
Using a module or system for indirect cost allocations within Quickbooks can help simplify Government Contract accounting and reporting. It can add essential cost accounting and reporting capabilities to your QuickBooks accounting system, so you can confidently compete for and manage government contracts.

FINANCIAL MANAGEMENT SYSTEM - §200.302

The Uniform Guidance requires an organization's financial management system to:

- ▶ Identify all awards received and expended with the ALN (Assistance Listing Number), FAIN (Federal Award Identification Number), agency or pass-through entity;
- ▶ Accurately and completely disclose financial results;
- ▶ Identify the source and how the federal funds have been spent;
- ▶ Effectively control and account for all funds, property and other assets; and
- ▶ Compare actuals to budget.

OTHER FINANCIAL MANAGEMENT TECHNOLOGY OPTIONS

There are a wide variety of solutions and platforms available to nonprofits to improve efficiency and control in the finance office. Some include:

System	Key Features & Functionality
Banking	▶ Positive pay/ACH block & filter allows for more control ▶ Check scanning improves control and efficiency for deposits
Expense Management	▶ Electronic receipt capture, approval workflow & audit trail ▶ User-friendly coding by purchaser ▶ Automatic upload to accounting system ▶ Automatic credit card reconciliation
Online Bill Pay & Automated Check Writing	▶ Electronic AP approval workflow & audit trail ▶ Coding matching General Ledger ▶ Automatic upload to accounting system ▶ Direct connection to bank account ▶ Outsourced check mailing & payment (no check stock or signatures needed)
Payroll and Time & Attendance	▶ Electronic time entry and time off tracking ▶ Electronic workflow from time sheet, through HRIS and accounting software to direct deposit ▶ Can connect to expense management for reimbursement
Automated Accounts Receivable & Payments	▶ Send electronic invoices ▶ Automatically upload AR to accounting systems ▶ Accept electronic payments
Monthly Close Workflow	▶ Project management tool for the monthly close ▶ Allows team members to electronically communicate and track monthly close tasks
Fundraising	▶ Accessible mobile options for donations ▶ Paperless auction management – can reach more donors more frequently
Budgeting & Planning	▶ Allows for more flexible and multi-scenario budgeting ▶ Can connect directly to accounting software for reporting and analysis
Dashboard Software	▶ Allows for more dynamic reporting ▶ Can pull data from multiple systems ▶ Can be easier to use than excel

BEST PRACTICES FOR MAXIMIZING TECHNOLOGY

▶ **Connectivity**: Determine how data connects with other technology solutions. While one system can act as the detailed ledger for another, other times duplicate information should be maintained in multiple systems and effort to do so should be minimized.

▶ **Ease of use**: A solution that is user friendly and/or includes vendor support sets you up to explore additional capabilities and more easily orient new team members.

▶ **Must-have features without customization**: A solution that requires a lot of customization runs the risk of being out-of-date or not used as team members change. Teams should prioritize features that are necessary.

▶ **Security**: Security within a technology solution should match policies and procedures. Additionally, levels of security should be setup such as read-only vs edit capabilities.

▶ **Structure**: Structure (e.g. Chart of Accounts) is a critical component of implementation and maintenance. It determines how data is entered and how data can be sliced in reports.

Finance + Equity

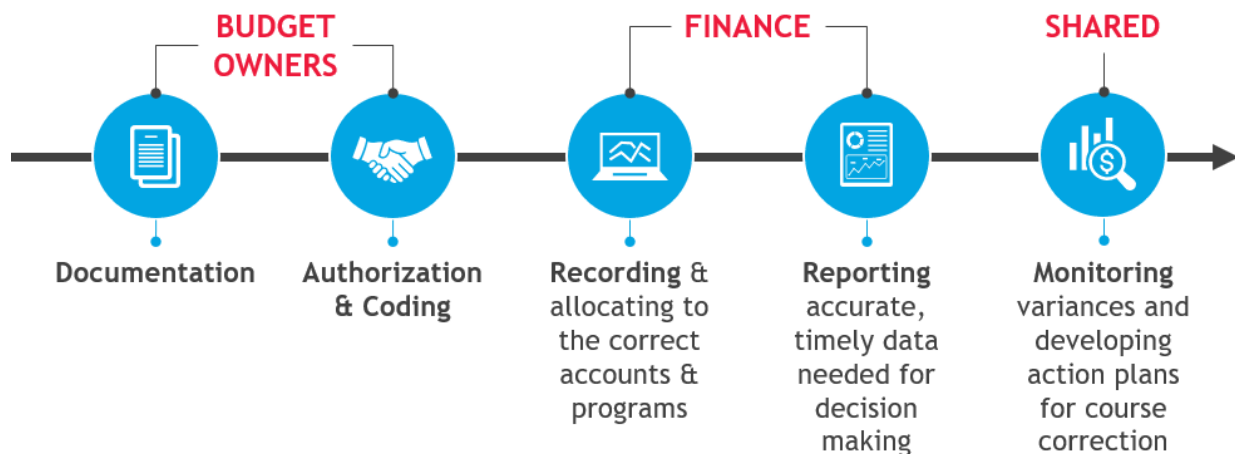Where we spend our money matters. During the vendor selection process, many nonprofits consider bids from multiple companies or partners, evaluating the options on price, speed, or product quality. What would happen if you expanded this evaluation to include metrics like footprint (international corporation vs. local shops), ownership (BIPOC or LGBTQ+ - owned or -led companies), and other areas of mission alignment?

Workflows

FINANCIAL MANAGEMENT: A TEAM SPORT

Responsibility for finance does not lie just with the finance team. Many staff members including the Executive Director, Program & Department Leads, Human Resources, Development and the Board have a role to play in ensuring financial management at your organization is managed successfully.

BUDGET OWNERS

Documentation

Authorization & Coding

FINANCE

Recording & allocating to the correct accounts & programs

Reporting accurate, timely data needed for decision making

SHARED

Monitoring variances and developing action plans for course correction

CREATING A COMMON TEAM AROUND THE NUMBERS

What Program & Development Need From Finance

- ▶ A calendar with specific deadlines
- ▶ Standardized, regular communication around cash flow
- ▶ Transparent access to the status of purchase requisitions, payments, etc.
- ▶ Financial reports that are mutually agreed-upon, issued on standardized dates, and have clarity around what is controllable and what are action items
- ▶ An understanding of the level of complexity involved in fundraising efforts

What Finance Needs from Program & Development

- ▶ Timely submission of data (timesheets, receipts, invoices)
- ▶ Program staff to be trained on how to read financial information
- ▶ Notification of staffing changes
- ▶ Proposals written in a way that doesn't "over-restrict" funding
- ▶ Communication from Development on the restrictions related to grants

The Partnership Between Development & Finance

- ▶ **Understanding Roles:** Ensure members of each team understand the other's roles, responsibilities, and relevant deadlines

- ▶ **Terminology:** Agree on common revenue terminology and use the same language across both departments

- ▶ **Reconciliation:** Outline the terms of a successful reconciliation process, includes roles & timeline

- ▶ **Communications:** Institute a schedule of standing meetings between Finance & Development Staff

Strategies for Success

- ▶ Come together across departments to agree upon reporting formats and calendar

- ▶ Increase inter-departmental dialogue

- ▶ Provide education for Finance team on what it takes to fundraise successfully

- ▶ Come to agreement on how to categorize revenue (i.e. events vs. corporate donations)

- ▶ Integrate the donor database and the accounting database

MAPPING WORKFLOWS

Mapping operational workflows can often identify bottlenecks or other inefficiencies to be addressed. Some things to consider when mapping workflows:

- ▶ Determine the purpose for drawing the workflow map.

- ▶ Break large processes into smaller processes. Try to keep the workflow to one page.

- ▶ Include the who, what, when, and where in the workflow map.

- ▶ Involve the right people in developing the workflow map, including those who can share why the process is structured as it is.

- ▶ Identify areas for improvement such as reducing steps, incorporating technology solutions or adding internal controls.

Some workflows to examine include:

REVENUE	EXPENSE	OTHER
Cash Receipts Accounts Receivable In-Kind Donations	Purchasing Payroll Expense Reimbursements Accounts Payable Cash Disbursement	Accounting Period Close Grants Management Record Retention Inventory Tracking

Employee

- Enters Expenses into the System
- Submits Reports with Receipts
- Provides Follow-Up Documentation

Employee Supervisor

- Approves Report

Accounts Payable Specialist

- Reviews Report
- Clarifies with Employee
- Approves Reimbursement
- Submits to Payroll for Reimbursement
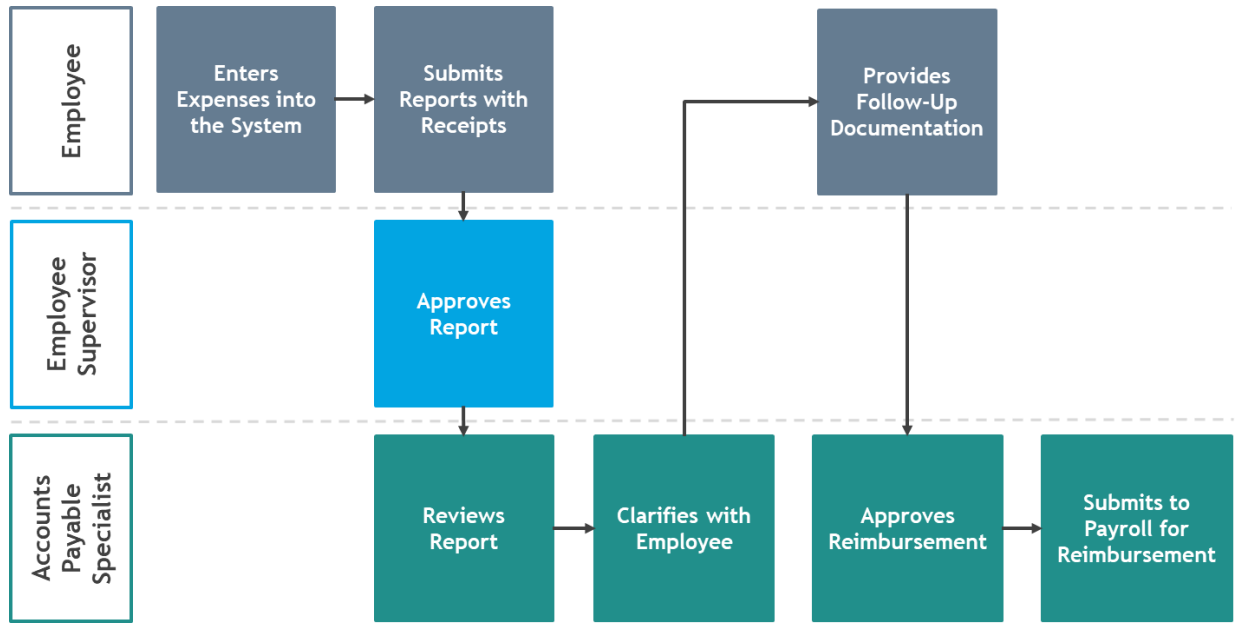
Activity: Internal Controls Case Study

In your groups, review your assigned case study. Reflect on which controls were lacking in the organization's structure and what can be done to prevent the activity presented in the case from occurring again in the future. Assign a notetaker and be prepared to share out following.

Case Study	What was lacking in these organizations' structures that allowed for this to occur? What can be done in the future to prevent such activity from occurring again?
Accounts Payable[2] A former head of counter-fraud of an international NGO fighting poverty was able to steal nearly $100K by filing fake invoices from bogus companies. Investigators unearthed 17 fraudulent invoices submitted over a 9-month period from two fake companies under his control. Payment of the false invoices were paid into the bank account of his friend or father, then transferred into his own account.	

---

[2] https://www.telegraph.co.uk/news/uknews/crime/10858267/Oxfam-anti-fraud-boss-jailed-for-stealing-65000-from-the-charity.html

Case Study	What was lacking in these organizations' structures that allowed for this to occur? What can be done in the future to prevent such activity from occurring again?
Payroll[3] At a nonprofit organization, the Assistant Controller was able to commit payroll fraud that was not initially detected by the auditors. Instead of communicating to the payroll processing company that various employees had been terminated, the Assistant Controller took their bi-weekly checks and deposited them into a new bank account.	
Credit Card Fraud[4] The president, her assistant, and another staff member at the Washington DC Teachers' Union piled up over $5 million in fraudulent transactions. The president racked up $1.8 million in unauthorized credit card charges on the union's corporate American Express cards. The assistant managed to collect $492,000 in funds via unauthorized credit card charges and checks written to herself. The staff members used these funds to purchase furs, art, jewelry, tickets to sports/entertainment, and custom-made clothing.	

---

[3] Case excerpted from Fraud and Abuse in Nonprofit Organizations, Gerard M. Zack. Published by Wiley, 2003

[4] Case excerpted from Fraud and Abuse in Nonprofit Organizations, Gerard M. Zack. Published by Wiley, 2003

Resources

STRONGNONPROFITS.ORG
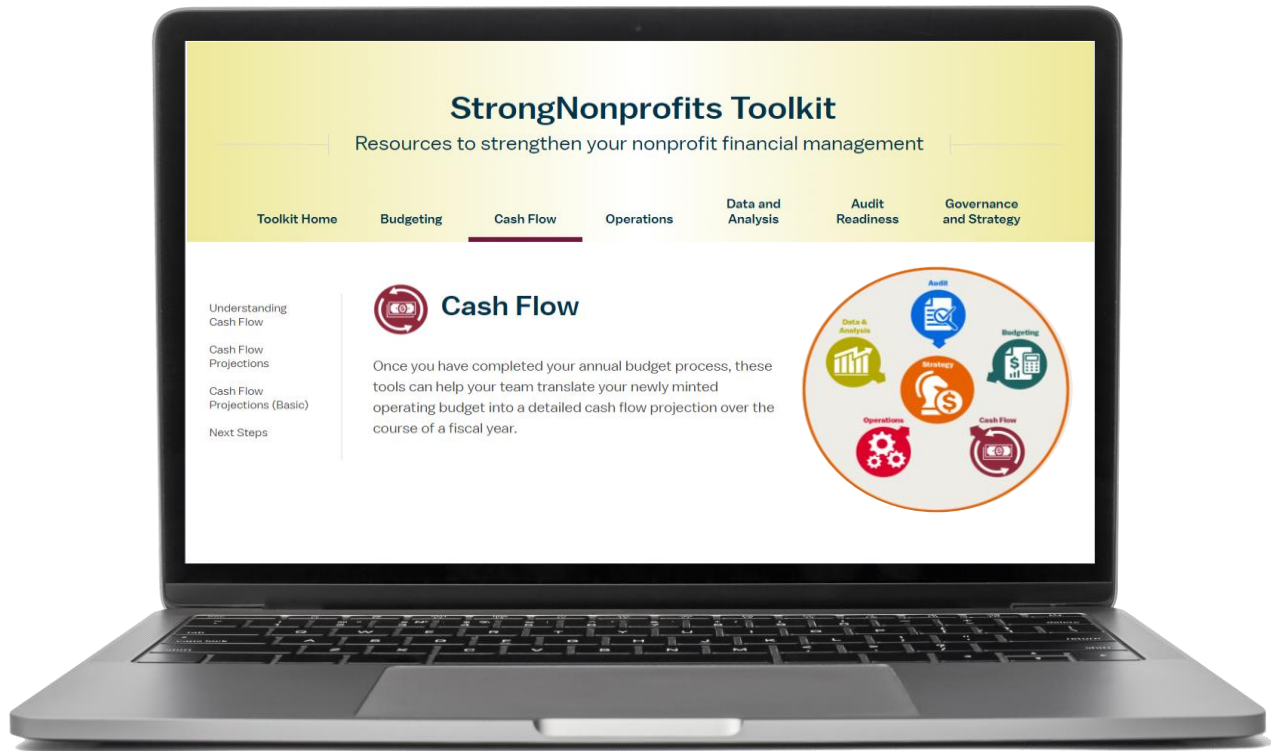
In collaboration with the Wallace Foundation, BDO has created a library of tools and resources to help organizations become "fiscally fit"

For a 15-minute, on-demand webinar tour of the site: StrongNonprofits.org

Below is a list from the Oregon Department of Justice Charitable Activities Section of suggested internal controls for small to midsized nonprofit organizations. The full text of the document includes more descriptive information about these controls and how they can be implemented. This list is included as another resource for developing and strengthening internal controls in organizations.

- Separate financial duties
- Reconcile and examine bank statements monthly
- Adopt cash handling procedures
- Document income from sources other than cash
- Control the use of credit and debit cards
- Control the disbursement process
- Control expense reimbursements
- Use timesheets and proper payroll controls
- Utilize budgets
- Utilize general ledger accounting and regular financial reports
- Get it in writing
- Appoint a grants manager
- Adopt a conflict-of-interest policy
- Implement a data back-up plan

Oregon Dept. of Justice Charitable Activities Section: Microsoft Word - Internal Control Rec (state.or.us)

INTERNAL CONTROLS CHECKLIST

Internal Controls	Automation	Current Practice?
Purchasing		
Purchases are properly authorized prior to purchase		☐
Competitive Bids are obtained for large purchases		☐
All goods and services paid for have been received prior to payment		☐
Disallowable expenses considered when purchasing for contracts		☐
"Encumbrances" monitored against approved budgets		☐
Efficiency Goal: Consider implementing a paperless document routing and approval process		☐
Cash Disbursements/Banking		
Cash Disbursements		
Expenditures are properly approved prior to disbursement		☐
All unused checks, signature stamps or electronic security/authentication tokens are stored securely		☐

Checks are never pre-signed		☐
Efficiency Goal: Consider using "Positive Pay" services and ACH blocking filters to prevent unauthorized cash disbursements		☐
Banking Safeguards		
Monthly reconciliations are performed for all accounts and reviewed by someone outside the receipts/disbursement process		☐
Unopened bank statements are routed to someone not involved in processing of transactions (i.e. ED or board member)		☐
Authorized signature levels are established for checks including 2 signatures over certain $ amounts		☐
Efficiency Goal: Perform bank reconcilations using functionality provided by the accounting software or consider automated reconciliation services provided by bank		☐
Credit Cards		
Employees submit all receipts for credit card purchases in a timely manner		☐
Expenditure levels monitored by employee		☐
Purchase cards issued when possible		☐
Petty Cash		
Disbursed only with properly approved documentation (i.e. receipts, petty cash vouchers)		☐
Maintained in a locked location by the designated custodian		☐
Established at a reasonable level		☐
Audited periodically by an individual other than the custodian		☐
Travel & Employee Reimbursements		
Reimbursements are based on: ▶ Actual expenses as allowed by agency policy, or ▶ Federal, IRS or agency per diem and reimbursement rates		☐
Expenses are documented on a reimbursement form accompanied by receipts and a purpose description		☐
Efficiency Goal: Consider implementation of an electronic expense reimbursement system		☐
Payroll		
All additions to and deletions from payroll are properly authorized to avoid payments to fictitious employees		☐

Timesheets are approved prior to payment		☐
All payroll transactions are properly coded in the accounting system		☐
Payroll tax liabilities are reported and paid on time		☐
Efficiency Goal: Implement payroll cards for employees without direct deposit and maximize connectivity between the time & attendance, HRIS, and payroll systems		☐
Cash Receipts		
Cash & Check Receipts		
Credit card numbers are destroyed		☐
Credit card machines are kept securely, and all transactions are reviewed to ensure appropriateness		☐
Efficiency Goal: Ensure data on credit card transactions can be accessed electronically and uploaded to the fundraising and accounting databases		☐
Credit Card Receipts		
All cash intended for use by the organization is received and safeguarded		☐
Cash received is deposited in the organization's bank accounts immediately upon receipt		☐
Efficiency Goal: Consider implementing remote deposit (i.e. check scanning) if available from bank		☐
Other Control Measures to Consider		
Conduct background checks on new employees and volunteers		☐
Establish tone at the top by implementing clear policies such as: ▶ Whistleblower Protection ▶ Conflict of Interest ▶ Executive Compensation ▶ Record retention		☐
Conduct periodic fixed asset inventories		☐
Educate employees on fraud risk and Internal controls		☐
Engage Information Technology team to ensure proper controls over access to accounting and banking systems.		☐

Optional Teamwork

1. CRITICAL FISCAL ROLES WORKSHEET

For each of the activities, identify who performs them. Where do you see gaps?

STRATEGIC
Perform planning and oversight role of the organization, guide accounting activities as needed.

Sample Activities	Who Performs this?	Who is their backup?
Conducts strategic financial planning, budgeting, and forecasts		
Reviews financial reports for strategic decision-making and course corrections		
Provides oversight and vision for the finance team and fiscal operations		

MANAGERIAL
Guide financial management through organizing resources, providing oversight, and completing critical functions.

Sample Activities	Who Performs this?	Who is their backup?
Maintains fiscal policies & procedures, oversees internal controls, and ensures compliance		
Performs monthly close and reconciliations, ensures general ledger quality		
Generates financial reports and monitors cash flow		
Manages audit process and serves as the main point of contact with the auditor		

TRANSACTIONAL

Guide financial management through organizing resources, providing oversight, and completing critical functions.

Sample Activities	Who Performs this?	Who is their backup?
Processes accounts payable, cash disbursements		
Creates invoices, processes accounts receivable and cash receipts, makes deposits		
Maintains accounting files, processes 1099 forms and prepares journal entries		

REFLECTION:

▶ Are the right team members performing duties that match their skillset and organization responsibility?

▶ What would you want to change?

2. WORKFLOW MAPPING

How to Begin Workflow Mapping

1. Reference the Workflow Mapping Template below or create a table with rows and columns

2. Identify roles in the leftmost column

3. Define key steps of the workflow

4. Write down the first step of the workflow in the row of the person who performs this task

5. Write down the second step of the workflow in the row of the person who performs the next task

6. Continue writing steps until the workflow is complete

Role	Key Steps in the Workflow

3. FINANCIAL MANAGEMENT SOFTWARE SYSTEM NEEDS ASSESSMENT

1. For each of the indicators below, answer "yes" or "no" for your organization.

2. Count the number of "yes" answer and enter it into the score box.

3. Turn to the scoring sheet and use your score to determine if this might be a high, medium or low priority for your organization.

System	Indicators of Need/Readiness	Yes	No	Score
ERP/Accounting System	• Are you on QuickBooks and have a high percentage of restricted revenue that carries from year to year?	☐	☐	
	• Are you utilizing all the dimensions/cost centers of your software but still feel you need further flexibility to properly track your data?	☐	☐	
	• Are there "differentiators" unavailable in your system that would be beneficial to your financial management?	☐	☐	
	• If you are on QuickBooks and feel you need new software, are you ready to spend thousands of dollars more per year to improve your accounting system?	☐	☐	
Expense Management	• Are you chasing after receipts from purchasers?	☐	☐	
	• Is it difficult to get correct coding from purchasers?	☐	☐	
	• Does it take a lot of time to enter credit card/reimbursement expenses into the accounting system and/or is the time required delaying your monthly close?	☐	☐	
	• Does it take a lot of time to reconcile credit card receipts with the statement?	☐	☐	
Automated Check Writing	• Does it take a lot of time to enter invoices into the accounting system?	☐	☐	
	• Does it take a lot of time to approve checks being cut?	☐	☐	
	• Are you chasing signatures in order to get checks out the door?	☐	☐	
	• Are you spending a lot of time and money on mailing checks?	☐	☐	

Automated Accounts Receivable & Payments	• Does your business model (revenue model) require a significant amount of sending invoices and accepting payments?	□	□	
	• Are you unable to produce and send invoices from your current accounting system, or is it not flexible enough for you?	□	□	
	• Does it take a lot of time to enter accounts receivable and payments into your accounting system?	□	□	
Payroll and Time & Attendance	• Is it difficult to get time sheets from employees?	□	□	
	• Do you spend a lot of time hand-entering time into a time system or the payroll system?	□	□	
	• Do you have a large number of employees working offsite or in remote offices, away from HR & Finance?	□	□	
	• Do you need to track employee hours by program for grant reporting?	□	□	
	• Are you manually tracking and recording time off accruals and use?	□	□	
Fundraising: Paperless Auction	• Do you have stakeholders who don't attend events but might be interested in bidding on auction items?	□	□	
	• Do you spend a lot of time at the end of events checking people out?	□	□	
Banking: Cash Disbursements	• Have you had an issue with or are you concerned about check fraud?	□	□	
Banking: Remote Deposit	• Are you concerned you are not able to deposit donor checks quickly enough?	□	□	
	• Does it take significant staff time to travel to the bank for deposits?	□	□	
Budgeting & Planning	• Are you concerned that, even with a complex template, excel does not allow you the flexibly you need in budgeting?	□	□	
	• Are you looking for the ability to incorporate intricate scenario planning into your budget process?	□	□	
	• Are you seeking more robust budget vs actual analysis?	□	□	
	• Are you seeking to add or improve multi-year budgeting in your planning process?	□	□	

Dashboard Software	• Are you seeking a visual way to report data to your board and other stakeholders? • Do you have multiple data systems you would like to pull data from for reporting? • Do you have an excel-based dashboard that you are not able to maintain or is not giving you what you need?	☐ ☐

Financial Management Systems Needs Assessment Scoring Sheet

▶ Copy your score from the assessment sheet where it says "your score."

▶ Based on the score, enter that system under the appropriate priority on the last page of this handout.

System	Your Score	Scoring Analysis	Explanation
ERP/ Accounting System		0: Low Priority	Your system is working well.
		1-3: Medium Priority	It looks like your system is not doing everything it needs to do, and it might be worth looking at other systems. Don't forget to first ensure you're maximizing everything your system does, as it's a lot of work to change ERP systems.
		4: High Priority	It looks like your system has a number of deficiencies as it relates to your needs and it is worth looking at other systems. Don't forget to first ensure you're maximizing everything your system does, as it's a lot of work to change ERP systems.
Expense Management		0-1: Low Priority	Your systems are working well, and the cost may outweigh the benefits.
		2-3: Medium Priority	You have a number of inefficiencies which could be improved with a relatively low-cost implementation of expense management.
		4: High Priority	Your purchasing processes could be significantly improved through the implementation of expense management.

Automated Check Writing		0-1: Low Priority	Your systems are working well, and the cost may outweigh the benefits.
		2-3: Medium Priority	You have a number of inefficiencies which could be improved with a relatively low-cost implementation of automated check writing.
		4: High Priority	Your purchasing processes could be significantly improved through the implementation of automated check writing.
Automated Accounts Receivable & Payments		0: Low Priority	Your AR system is working well, or billing is not a big part of your revenue model.
		1-2: Medium Priority	You have a number of inefficiencies which could be improved with a relatively low-cost implementation of automated invoicing and payments.
		3: High Priority	Your billing processes could be significantly improved through the implementation of automated billing and payments.
Payroll and Time & Attendance		0-1: Low Priority	Your systems are working well, and the cost may outweigh the benefits.
		2-4: Medium Priority	The time it takes to manage time sheets and payroll could be improved with the implementation of new technology in your HR and payroll processes.
		5: High Priority	Like many organizations, inefficiencies in time & attendance and payroll are likely one of the largest uses of Finance & HR staff time and could be significantly improved through the implementation of new technology in your HR and payroll processes.
Fundraising: Paperless Auction		0: Low Priority	Either you don't have an auction or yours is working well.
		1: Medium Priority	You could see gains in both efficiency and revenue from implementing auction software, although there may be other priorities that are more pressing.
		2: High Priority	You could see gains in both efficiency and revenue from implementing auction software which will likely outweigh the costs.
Banking: Cash Disbursements		0: Medium Priority	Even if you are not concerned about check fraud, positive pay is a low-cost solution with significant gains and is worth investigating.
		1: High Priority	Positive pay is a low-cost solution with significant gains which you should pursue.

Banking: Remote Deposit		0: Low Priority	Your deposit procedures are working well.
		1: Medium Priority	Remote deposit is a low-cost solution with significant gains and is worth investigating.
		2: High Priority	Remote deposit is a low-cost solution with significant gains which you should pursue.
Budgeting & Planning		0-1: Low Priority	The significant cost of planning software likely outweighs the benefits.
		2-3: Medium Priority	Planning software would likely improve your ability to plan but, due to costliness, should be weighed with other technology solutions.
		4: High Priority	Despite its cost, it seems planning software could benefit you in your planning and analysis function.
Dashboard Software		0: Low Priority	You already have a dashboard or are happy with your reporting.
		1-2: Medium Priority	Dashboard reporting could improve your reporting and is worth investigating, if you cannot do what you need with excel.
		3: High Priority	It seems likely the cost of dashboard software would be worthwhile for your organization.

4: TECHNOLOGY SOLUTION IMPLEMENTATION PLAN

Implementing a New Technology Solution- Things to Think About	
What technology solution do you want to implement?	
Why this solution and why now? Think about: ▶ How will this improve your financial management practices? ▶ How can you reallocate staff time?	
Who needs to be involved in the implementation process? Think about: ▶ Who is the end user? ▶ Who will be the power user? ▶ Who will manage the process?	
What barriers might you face in implementing? Think about: ▶ Will people embrace the new technology? ▶ What will it cost? ▶ Other barriers?	
What training and communication will be needed to ensure buy-in and success?	
When is the right time to implement this new solution?	

About BDO

BDO's Nonprofit and Grantmaker Advisory Practice exists to build a community of individuals with the confidence and skills to lead organizations that change the world.

As of 2021, FMA has become a part of BDO USA. With this new relationship, we augment FMA's empathetic approach to meeting clients where they are with the significantly broader range of accounting, advisory and consultative services for which BDO USA is known.

BDO's Nonprofit and Grantmaker Advisory Practice provides expert fiscal management staff and capacity-building technical assistance, including organizational consultation and training, using an approach tailored to individual organizations and their specific needs. The group serves nonprofit organizations and funders, empowering them to effectively manage their resources, improve operations, and position themselves for stable, long-term growth.

The following is an outline of services that BDO can provide:

Our Services	
Fiscal Infrastructure Review	Assistance with developing the internal fiscal staffing, systems and processes to support the financial complexity of your programs and operations.
Financial Advisory Services	Support to your organization's leaders in understanding and making decisions on critical financial issues, including business modeling, budgeting, cash management, creating dashboards, and strategic planning.
Internal Controls Consulting	Assistance with defining staff roles and responsibilities to ensure internal controls that protect your organization's resources and meet contemporary auditing standards. We can also work with you to document this control structure in a customized fiscal policies and procedures manual.
Accounting System Implementation	Designing, installing, and training on the most widely used accounting software programs available for nonprofit organizations.
HR Consulting	Help with minimizing risk by ensuring policies, documents and practices are compliant with government regulations, create efficiencies by implementing best practices through available technology and achieve excellence by hiring and retaining top quality fiscal staff.
Outsourced Fiscal Management Services	Management of the full range of your organization's accounting and financial management tasks on an outsourced basis, including providing support for the annual financial audit.