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BEHIND the NUMBERS

Perform a Mini-Assessment of Your Financial Department

By Eric Fraint, President

[Your Part-Time Controller, LLC](#)

Executive Directors and board members occasionally find that the financial departments of their organizations have difficulty getting their work done. Among the possible problems are late and inaccurate financial reports, delayed invoicing on government contracts, difficulty paying vendors on time, inability to plan for cash flow needs, inability to prepare forecasts and other financial analyses, and many others. These problems often result from the existence of other problems such as inadequate training and skill levels of financial department staff, inefficient policies and procedures, too few financial department staff members, or too many, and perhaps inappropriate accounting software or computer equipment. From our experience we have found that organizations with some or most of these problems typically have inadequate internal controls. (I will address essential internal control issues, such as the necessity of segregation of duties, in a future *Behind the Numbers* column.)

Although the Executive Director is usually aware that these problems exist, the question remains: What should we do about these problems? In this article I will explain some of the steps that our firm takes when we are asked for help by organizations experiencing the type of problems described above. We call this set of procedures a “Mini-Assessment™.” These Mini-Assessments, typically lasting no more than 10 to 20 hours, allow us to understand the nature of the organization’s problems and the steps needed to correct them. Some of the things we look at during our Mini-Assessments are explained below. If your organization is experiencing these problems, try performing your own assessment.

A major component of the Mini-Assessment is an examination of your financial department staff. Do they have the right skills, the right training, and sufficient experience to accomplish their assigned responsibilities? Unfortunately, these are all subjective questions. However, you can deduce the answers by examining a series of objective measures. First, does your financial department produce a full-set of monthly financial reports by the end of the third week of the following month? A full set of financial reports includes, at a minimum, a Statement of Activities (i.e. Income Statement), a Statement of Financial Position (i.e. Balance Sheet), and a Cash Flow Statement. If you are not receiving these reports, it should raise the obvious question of why the statements cannot be generated on a timely basis.

Are there errors in your financial reports? Anyone can make a mistake, but consistent errors indicate a process problem or a staff capability problem. Try looking for the following common error: Print a Balance Sheet from your accounting software for any month in your current fiscal year. Look in the net assets section of your Balance Sheet. Do the beginning net assets agree with the ending net assets from your last year-end audit report? A no answer could mean that last year’s audit adjustments were not recorded or that something was mistakenly posted to the previous year after it was closed, or that some other error occurred. An incorrect starting Balance Sheet means that all of your current year Income Statements are wrong.

Are you able to get reports showing the status of your restricted funds? You should be able to determine for each of your restricted sources of funding the amounts received, the amounts expensed, and the balance remaining. Select one of your restricted grants and ask your financial department to supply this information. Then, try the next very important step: of the unspent balance of the restricted funds, look on your Balance Sheet to see where those funds are to be sure you actually have them.

Are your financial reports being printed directly from your accounting software or is information being exported to Microsoft Excel and further manipulated to produce reports in your desired format? Preparing Excel financial reports adds time to the month-end process and introduces opportunities for error if numbers are being re-keyed. Most accounting software packages are sufficiently robust to enable you to format financial reports to suit your needs. However, the software may require a minimum level of proficiency on the part of your staff to generate the desired format. While there are justifiable reasons for generating Excel financial reports, the existence of the Excel reports may indicate that either your accounting staff needs training in the proper use of your accounting software or that perhaps you are using the wrong software.

Is your accounting department reconciling all bank and investment accounts to your accounting General Ledger each month? A no answer to this question represents a serious internal control issue and a warning that you may potentially have inaccurate financial reports.

Does your organization have contracts to provide program services and, if so, does your organization have to invoice the contracting agency monthly or on some other schedule to get reimbursed? If the answer is yes, ask your financial department how long it takes to accomplish all of the invoicing each month or period. Delays in invoicing on your contracts will result in delays getting paid. This may cause cash flow problems for your organization.

How long does it take for your financial department to process accounts payable? Assuming you have the cash, are your vendors being paid on time? If the answer is no review your payment procedures to see where the bottleneck is occurring.

Is your financial department capable of developing budgets, cash flow forecasts, and financial projections? Does your organization have specific metrics of program service delivery and key ratios and, if so, can your financial department provide these to you on a timely basis? Providing historical financial information is obviously important, but looking ahead is equally, if not more important. Assess the capacity of your staff to perform these important responsibilities.

There are many other questions that we include in our Mini-Assessments. However, the questions above will begin to help you to examine the capability of your financial staff. Once you have completed your assessment there are two more steps needed to solve your problems. First, determine the corrective actions needed to fix the problems and, second; implement those steps. Identifying and implementing the corrective actions may require professional assistance. However, performing your own mini-assessment will be a major first step in helping you to understand the strengths and weaknesses of the financial side of your organization.

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