

Six Factors of Highly Competent Financial Management

It's time to transition from survival into growth mode. Is your nonprofit prepared? Find out where your organization falls on the Competency vs. Comfort Continuum.

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1-888-358-5353
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The Competency vs. Comfort Continuum: Where Does Your Organization Fall?

It takes commitment and courage to overcome change aversion, assess competency, and position your nonprofit for success.

Shifting gears from reactionary to visionary is easier said than done. But to shift from survival to growth mode, nonprofit leaders must challenge the status quo to determine whether or not they have the right team in place. Compare your internal operations to these “Six Factors of Highly Competent Financial Management” to kick-start the process and find out where your organization falls on the Competency vs. Comfort Continuum.

Competency Factor 1 – Produce Accurate & Timely Financials

Producing accurate and timely information is the most critical role of the accounting function. Decisions based upon inaccurate or incomplete information will lead to flawed decision making. Competency can only be assured by:

- 1) Accurate month end closing and associated financial reporting.** This ensures that the month end close checklist has been adhered to in a timely manner (a good target would be within 15 working days of the calendar month end).
- 2) Weekly (or even daily) updated revenue and cash reporting.** When applicable, bank accounts should be consolidated and interest income/cash management heightened by using only one bank (and banking platform). Program reporting based upon accurate time allocations should be done quarterly, if not monthly. Program managers and the organization’s department managers need actual-to-budget reports.

Competency Factor 2 – Track Metrics

Metrics & tracking mechanisms should be accessible organization-wide, so that group leaders receive timely & accurate updates on the progress towards program, performance and financial goals. This paves the way towards more informed decisions and facilitates communication of results to donors. Dashboards are an ideal tool for generating up-to-the-minute information on leading & lagging indicators.

Does your organization possess the proper competencies to kick-start success in the near future? Or is it stuck in a “business as usual” comfort mode?

Competency Factor 3 – Proactive Forecasting

Many accounting teams have been trained to report on what happened in the past, but savvy teams place a premium on forward-looking planning and proactive forecasting. They study future goals to determine financial impact, prepare accurate financial forecasts, and compare actual vs. budget at least monthly. These forecasts and budgets are adjusted throughout the year to reflect new programs, new hires, donor changes, marketplace changes, and other shifting factors.

Competency Factor 4 – Drive New Revenue

Your CFO should be partnering with the development team to lead the charge on new revenue planning—suggesting new revenue sources, earned revenue programs and new programs to bring in short & long-term revenue. This includes developing pro formas for the business plan (projecting revenues, expenses, investment needed, time to break even, etc.), performing due diligence, securing the initial investment and monitoring financial progress.

Your CFO is often your CRO (Chief Risk Officer), actively identifying all risks and recommending solutions to mitigate risks.

Competency Factor 5 - Mitigate Risks & Setup Internal Controls

Hindsight has taught us that many nonprofits didn't have tight enough internal controls to properly mitigate risks. Your CFO is often your CRO (Chief Risk Officer), actively identifying all risks and recommending solutions to mitigate risks.

Many nonprofits overlook the basics (well-documented procedures on process & authorized personnel for check approvals, contract execution, opening bank accounts, hiring/firing), but it doesn't stop there. CFOs must take an enterprise approach to risk management, from examining insurance needs to mitigating talent loss through performance management programs.

Competency Factor 6 - Challenge the Numbers

Your CFO should routinely challenge the numbers. Development staff tends to be overly optimistic on likelihood to close, dollar amount and closing timeline. As such, it is a vital best practice to review the development and sales pipeline, checking for accurate dollar value and timing.

The Bottom Line: Where Did Your Nonprofit Fall?

Did you confidently check off all six of the Competency Factors? If so, congratulations! You are high on the Competency Continuum, well on the road to healthy growth and a thriving future.

If you left a few factors unchecked, it may be time to reassess your competencies, acknowledge the need to move past your comfort zone, and visualize what evolution is needed to achieve the next level of success.

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