10 Fiscal Horrors

The Long Walk:

Horror:

The bookkeeper for the organization enters all activity to QuickBooks. He chooses the accounts by their name and not by their type. If the names are similar, he chooses one randomly. When he can't figure out where to record a transaction, he records it in an Ask the Accountant or Miscellaneous account. When the auditors complete their work, he does not record the adjusting entries to the general ledger, from one year to the next. From one month to the next, the bookkeeper does not always record transactions to the same account where he recorded them the month before because he doesn't verify.

Impact & Solution:

Neither management nor the board of directors has confidence in the financial information produced. Reports circulated outside of the organization will contain misleading and incorrect information. Auditors and consultants will spend numerous hours analyzing transactions within each account to correct the errors and capture adjusting entries previously identified but not recorded. Significant time and expense will be incurred. The organization needs to ensure they hire competent, qualified individuals who understand bookkeeping and accounting principles to properly record transactions.

Qualifications, Training, Lack of Independent Checks

Under the Dome:

Horror:

The board of directors of an organization relies entirely on the executive director to prepare and present financial information. The Director knows a little about finances and can look at major areas but she is not experienced in nonprofit finances nor does she have the time to properly supervise and review the work performed by the bookkeeper.

Impact & Solution:

The board is operating under a dome of delusion and denial thinking the Director will be aware of critical financial compliance requirements and will know when to alert the board of concerns. The organization should ensure they have competent individuals on staff, on the board, on the finance committee, and/or as a paid consultant who understands nonprofit tax, accounting, grant, development, and other key issues.

Competent Personnel, Management Review, Mismanagement

Finders Keepers:

Horror:

Authorized employees continually make credit card purchases and fail to provide receipts. Credit card statement is not reconciled on a timely basis (monthly).

Titles are a play on Stephen King titled novels.

Impact & Solution:

Unauthorized (personal) purchases may be occurring. Credit Card Company may deny reversal of charge because of time lapse due to untimely reconciliations. Undocumented purchases will be reported to employee as 1099 income. Require prior approval (requisition form) for use of card. Establish types of expenses or places the card can be used.

Approvals, Documentation, Cash Larceny, Reconciliation, Fraud Training

It:

Horror:

The organization incorrectly classified individuals as independent contractors instead of employees. The employer's share of FICA taxes was not paid.

Impact & Solution:

This is a "hot button" with the IRS. If individuals are misclassified, the agency will owe their share of FICA taxes plus penalties and interest. The board members can be held personally liable.

Compliance with Laws & Regulations, Payroll

Different Seasons:

Horror:

Donors are not thanked in a timely manner. Donor information received by finance is not timely remitted to the development staff.

Impact & Solution:

Donors feel unappreciated and they either do not provide future donations or they speak negatively about the organization to others. This reduces financial resources to the organization and can damage their reputation in the community. Develop a process for capturing donation information, sharing it in a timely manner with necessary staff, and communicating with donors.

Stewarding Donors, Ensuring Resources, Lack of Internal Controls

Needful Things:

Horror:

The organization does not prepare budget versus actual reports for revenue and expenses for the agency overall, nor for individual programs with specific grant contracts/awards.

Impact & Solution:

The organization does not know if they are over or under the board approved (or grant approved) budget. They do not know if they will have unspent funds at the end of the contract and may need to give money back to the grantor, which negatively affects their likelihood of being award the grant again. The organization is unable to request a budget modification to move funds between expense lines. Changes to program delivery methods cannot be properly managed if ongoing comparisons are not maintained.

Grants Management, Cost Control, Timely Reporting

Joyland:

Horror:

The agency revenue budget is based solely on what the agency wants or needs to raise and not what they can realistically raise based on a fundraising plan. Expenses reflect their ideal program and administrative needs.

Impact & Solution:

A comparison of actual revenue falls dramatically short of budgeted revenue, which looks bad to prospective funders and questions the board's execution of their fiduciary responsibility. Staff spending is occurring based on revenue budget and not actual. Budgets are used for grant proposals, aligning agency activities with the strategic plan, driving the fundraising plan, and controlling costs. Consider board and staff capacity, experience, and resources when developing revenue budget. Create a cash flow projection and/or timeline budget.

Budgeting, Misappropriation of Funds

Skeleton Crew:

Horror:

The finance department is understaffed and/or under-trained. When the CPA firm performs the audit, they propose hundreds of adjusting entries based on a lack of work reviews, supervision, segregation of duties, understanding that can cause errors and omissions.

Impact & Solution:

CPA firm may perform additional work leading to longer engagement and higher fee based on higher risks. Management and the Board Users have less confidence in the interim financial information. The organization should prioritize resource development targeted for the finance department to adequately staff and train the finance department or hire a contract professional to provide the missing controls.

Ensure Resources, Training, Hiring, Outsourcing

Desperation:

Horror:

Titles are a play on Stephen King titled novels.

The organization provides requested information to the tax preparer (CPA firm) but does not perform a detailed review of the return before it is filed. The return is not provided to the board before it is filed, nor do the treasurer, the finance committee, and/or executive director perform a detailed or cursory review.

Impact & Solution:

The 990 gets issued with incorrect or misleading information or raises questions because of responses and trends indicated. The return asks about a significant diversion of funds, functional expenses, policies, and more. The organization should be intentional in recruiting board members based on a matrix of needs and ensure members and staff are equipped and properly trained.

Ensure Resources (competent board, staff), Management Review

Cujo:

Horror:

The organization has local affiliates who entrust volunteers to lead fundraising efforts in which a designated volunteer is responsible for all cash. A bank account exists in the name of the affiliate but they are not provided to the parent organization. Cash was stolen by the lead volunteer.

Impact & Solution:

Money was stolen from the organization and they could not recover it ultimately from the volunteer. The agency should have required the bank statements be sent directly to the parent organization. Receipts accounting for the volunteer events and/or products should be used to evidence activity. Only checks payable to the organization or affiliate should be accepted. All personnel handling cash should be bonded. Products and proceeds should be reconciled by a second volunteer.

Safeguarding Assets, Cash Larceny, Surprise Audit