How is Your Financial Health?

In these difficult times, it is essential to continue to strengthen or maintain your financial health. The future of your organization depends on it!

By Angela Byrne, CMA

If you are like most non-profit agencies today, you are finding it more difficult to make ends meet. You have probably experienced funding cutbacks that have forced you to reconsider your activities and do things differently. In addition, when you reach out to community resources you discover there is more and more competition for the same dollars. However, even in these difficult times, it is essential to continue to strengthen or maintain your financial health. The future of your organization depends on it!

The financial health of an organization can be assessed using three components – controllership, resources and planning. Strong financial health is evident when controllership is strong, resources generate the greatest value, and plans reflect foresight and financial flexibility. These elements combine to strengthen the financial health of the organization and provide a solid foundation for future growth.

Let’s take a closer look at each of these components. The first element, controllership refers to all the activities in your organization that ensure that the organization fulfills it role of stewardship. Familiar controllership activities include two signatures on cheques, locking doors, reconciling petty cash, and counting inventory. There are two effects of strong controllership. First, strong controllership provides assurance that financial resources are safe and secure. Second, strong controllership ensures the accuracy and integrity of financial information. Conversely, when controllership is weak financial resources are at risk and financial information is compromised. The future is built upon the resources of today. Therefore, keeping financial resources secure ensures they will be there for use within the organization tomorrow. The importance of accurate and sound financial information becomes clear when you consider its role in decision making. Decisions based on flawed information can have severe consequences for the organization.

How do you ensure controllership is strong in your organization? The first step is to evaluate the current state of controllership. Once completed, your assessment will identify areas of exposure and identify level of risk. The final step is to minimize the risk by implementing control activities.

Several resources at your disposal to help you evaluate controllership include:

- Search auditing and accounting references for ideas on controllership practices,
- Enlist your accountant to assess controllership in your organization and make recommendations,
- Participate in a peer review by contacting another agency and each review the other’s controllership features and provide recommendations for improvement.

The second element refers to the use of resources as the means by which an organization fulfills its mandate and attains its vision. Keep in mind that you will never have enough resources to deliver the quality and quantity of service demanded by the community. Also, maximizing your resources often requires some hard choices. You may find some programs need to be cut back or eliminated in order to preserve the quality of core services. Therefore, it makes sense to use the resources you have to the best of their ability in support of your vision and mandate. In doing so, the quality and quantity of your service improves.

Before you begin to analyze the use of your resources you need to ensure a mandate and vision is in place and up to date. Without this direction, an organization will find itself jumping from one priority to another. Assessing your resources begins with a review of your financial information through the lens of your mandate and vision and three measures. The three measures are effectiveness, efficiency, and economy. Effectiveness is the ability to use resources where they will have the greatest impact. Efficiency is the ability to do more with less, and economy is spending your resources wisely and saving money.

Taking the following three steps will reveal insights into the current use of resources and lead to suggestions for improvement.

1. Identify and evaluate your current costs and look for trends of increasing or decreasing costs.

2. Evaluate spending in terms of the three measures and what it accomplishes with the goal of aligning resources to the vision and mandate of the organization.

3. Implement a continuous process of evaluation by periodically asking yourself, “given our vision and mandate, is this the best use of our resources?”

Understanding the importance of how you use your resources goes along way to understanding the impacts on your organization. Furthermore, how you use your resources today has a

Angela Byrne, CMA & Associates, has a proven track record of helping organizations by providing expertise in the areas of internal audit, risk management, business transformations, project management, and operational reviews. To learn more about how Angela and her team can help your organization succeed, visit our website at Angela Byrne, CMA & Associates. You can also reach Angela at (519) 284-0321 or by e-mail at info@angelabyrnecma.com

How is Your Financial Health? (cont.)

significant impact on the resources that are available for your use tomorrow and into the future.

The final element is planning. Organizations are built on the belief of continued success. You believe that the services you offer are essential to the social fabric of the community and enhance the quality of lives. Therefore, it is critical that your organization continues to grow and thrive. Successful organizations plan today for their future viability.

There are two key actions you can take today that will strengthen future viability. First, you can begin to assess the quality of the decisions you are making daily. Consider the decisions you are making today and consider the consequences for tomorrow. The key is identifying which decisions, or avoided decisions, have a positive impact and which result in negative impacts.

Review decisions from several perspectives, such as the impact on consumers, service delivery, staff, financial health, other service providers, and the community. Ideally, what is important is defined in the vision or mission statement of the organization. Therefore, you are striving for consistency between decisions and your vision of the future of the organization.

One of the key perspectives that should always be considered is the impact of the decision on the financial health of the organization. Which brings us to the second action, building: financial flexibility. This is the ability to have access to financial resources that allow the organization to take advantage of opportunities as they arise, as well as provide a financial safety net for any unexpected changes in financial status.

Financial flexibility is not easy to do, but it is achievable even during times of fiscal constraint. Three key indicators of financial flexibility are sources of revenue, relationship of assets to liabilities, and current resource requirements. The more avenues the organization has to access revenue the greater the financial flexibility. The greater the assets exceed the liabilities, the greater the financial flexibility. And finally, the closer the current resource requirements meet the available funding, the greater the financial flexibility.

Understanding the link between what you do today and future operations provides knowledge and understanding. If you can see the positive relationship between action and future success then the organization reaps a level of assurance that it will continue. If you see negative relationships between what is happening today and future operations, then the organization can take action and begin to turn things around. It is important to understand that future success does not hinge on one key action. Rather, it is a series of positive actions that build upon themselves that leads to organizational success.

Angela Byrne, CMA & Associates, has a proven track record of helping organizations by providing expertise in the areas of internal audit, risk management, business transformations, project management, and operational reviews. To learn more about how Angela and her team can help your organization succeed, visit our website at Angela Byrne, [CMA & Associates]. You can also reach Angela at (519) 284-0321 or by e-mail at info@angelabyrnecma.com