Good Cash Management Shows Good Stewardship

Could you be throwing away thousands of dollars a year? Here's what every CEO needs to know.

By Jean Hardy Robinson

You know that donors want their contributions used to support your organization's mission. They don't want to pay for fraud, excessive expense accounts, inefficient administration, or high fundraising costs. Being accountable means responding to questions about these areas of responsibility with reassuring facts and a clear conscience.

Another aspect of good stewardship, more hidden from view but also meriting attention by CEOs, is cash management. Good cash management means making the best possible use of your working capital. It involves keeping all available funds invested, minimizing borrowing, working hard to collect revenues promptly, and controlling disbursements.

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An often overlooked part of good cash management is being careful not to overpay banks for non-credit services. Many nonprofits don't realize how much they're paying for these services because their payment is indirect.

Banks commonly give clients the calendar year (or a negotiated 12-month period) to manage compensation through balances left in non-interest-bearing accounts. At the end of the year, if you have underpaid, your account is charged. If you've overpaid, the bank simply starts the new compensation period at zero. The unintended result of leaving too much money in non-interest-bearing accounts is overpayment. Vendor overpayments mean that some contributions meant for programs can't be invested that way.

Case study: A large religious agency left balances in a non-interest-bearing account to compensate its bank for transaction services. However, because the accounting department tracked "book" balances, rather than "bank" balances, the agency inadvertently left about twice as much money on deposit as required. The difference resulted from check disbursement float.

This agency's bank reported the

"excess balances" on a monthly and year-to-date basis by means of a document called an "activity analysis." However, the accounting department didn't review these documents closely or take corrective action. The amount of overcompensation exceeded $100,000 in a single year. This poor stewardship didn't show up on any reports that supporters could review.

Most corporations have abandoned balance compensation to banks almost entirely. Instead, they pay a fee. As a result, they've freed up working capital and reduced banking costs. The decision to pay by fee has a second advantage: The real cost of non-credit services shows up on expense reports.

Can you improve your organization's cash management or reduce your costs for financial services? Assess your opportunities by answering the following questions:

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- **What is the annual cost** of non-credit banking services on a fee or fee-equivalent basis?
- **What has been the average total** of collected balances in non-interest-bearing accounts as reported by banks during the past few months?
- **What is the spread** between the bank's "earnings allowance" (for compensation) and your organization's cost or value of funds for borrowing or investment?
- **Has your organization considered moving** from paper to electronic transactions and reporting services to reduce fees and make tight balance management more successful?
- **Do you operate with a multi-account structure** that concentrates funds into a single account automatically or sweeps excess funds into overnight investments?
- **Have you invited competitive bids** on non-credit services to test prices offered by current banks?

Ask yourself these questions at least once a year. Such a review will ensure that you're being a good steward of the funds entrusted to your use. ■

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