Setting Up a Control System for Your Organization

Here's what every nonprofit manager must know to keep the organization on track and stay on top of potential problems.

BY MARTI J. SOPHER

A nonprofit organization is a business. All businesses, to be well managed, need internal monitoring, or controlling.

Once you set up a control system, you will find it invaluable in keeping you on track. Controls provide current data on where your organization is and projected data on where you want to be. These benchmarks are essential in evaluating results and mapping out plans. (See "Protecting Your Organization's Assets," *Nonprofit World*, March-April 1991) for a primer on internal control).

In the age of computerization, you have more data available than necessary. Stick to the basics in setting up your control system. Here is a rundown of the key controls you should monitor to keep your organization on the right track. (Note that while some of this discussion is especially applicable to a large organization with many departments and cost centers, you can easily adapt the information for use in a small organization as well. Large or small, every nonprofit organization is a business which must be controlled).

NET PROFIT

Yes, profit—even in nonprofits! Monthly, review net profit to check the overall performance of the organization. A 10 percent profit margin is acceptable in a nonprofit service organization. If the organization owns its building, depreciation must be figured in. And if the nonprofit organization has a strategic plan, a profit margin of more than 10 percent may be necessary to achieve future growth and development, or to compete with factors in the external environment to survive.

REVENUE

At least once a month, check total fees for service and other sources of revenue collected. While fee data should be available to you in all departments, concentrate on the detail only in those departments in which fees are a significant source of revenue. Then, compare fees collected to projected fees for each department or cost center.

Fundraising is another revenue source you should review monthly. Compare this month's fundraising totals with last year's figures and this year's projections.

Depending on your organization's funding sources, review any other revenues for the month. The revenues over which you have control, such as fees for service, should be reviewed in more detail than other sources. This is valuable information for marketing and forecasting trends.

OPERATING EXPENSES

Monthly, by department, compare actual costs to projected costs, category by category. Review details of any "red flagged" areas, any category or department over budget, and make an analysis and any needed adjustments as soon as possible to keep problems from developing. Since expenses listed under "miscellaneous" tell you nothing for current analysis or future budgeting, review details of this category monthly, making notes for the next annual budgeting process.

"PROFIT MARGIN"

Monthly, review the net profit or loss for each department. You can find yourself in financial trouble if you review only your fees and revenues and neglect your operating costs. A good way to forecast the financial stability of one of your services is to note the difference between revenues and the unit cost of the service. You can also use your list of net profit or loss, by department, to establish "profit centers" within the cost center structure and to establish formulas for allocating administrative costs to departments.

CASH FLOW

An adequate cash flow is necessary if you are to operate as a stable business. Check your cash flow weekly, or at least several times a month. The pattern can help you decide what short-term investments to make, whether to put extra money in CDs, and so forth. (See "Gain Control of Your Organization's Finances: Cash Budgets," *Nonprofit World,* March-April 1989, for more details on planning your cash flow, and "Put Your Cash to Work for You," *Nonprofit World*, May-June 1990, for investment strategies for your cash reserves.)

ACCOUNTS RECEIVABLE

Accounts receivable can be a problem for nonprofit organizations because some nonprofits, accustomed to a philosophy of meeting others' needs at any cost, are reluctant to see themselves as businesses. Within today's competitive funding environment, every nonprofit organization must operate as a business. Collecting accounts receivable is simply asking for what's due you. Quality services deserve fair payment.

The longer an account ages after 30 days past due, the more difficult it is to collect, and the more likely that you won't recover the total bill. Be sure to review accounts receivable every month. Follow up with collection letters and personalized telephone calls.

INVENTORY

Inventories should be kept to a minimum unless the materials you need to stock are difficult to obtain quickly, or costs are rising. But don't stock up on sale items that are perishable or that aren't current and sellable. Department managers should check inventories daily, weekly, and monthly. The executive director should review inventories quarterly.

MARKETING PLAN AND STRATEGIC PLAN

To evaluate your planning process, follow up marketing efforts by checking increasing services, increasing referrals, and other related details, to make sure you capture your market share. Use your strategic plan to project new revenues against projected costs. Review your continuing services to make sure they still fit into your strategic plan and mission, meet your goals, are marked well, and are cost efficient.

CREDIBILITY INDEX OF MID-MANAGEMENT STAFF

You can effectively manage your time and accomplish more by establishing a credibility index of the staff who report to you. Use your instincts to come up with an index that's right for you. Your index should allow you to decide if what you hear from staff members is shaded, if you need more information before acting on what they bring to you, and when and if you can rely on their credibility. This index, combined with "management by wandering around," will give you a daily pulse on the health of the entire organization so that you can manage strategically, not reactively. Strategically managing a business requires much communication and planning, especially long-term planning.

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A BLUEPRINT FOR PLANNING

By using the controls listed above to help you manage within a participative style, you have outlined a structure for delegation, goal-setting, and performance evaluations. The department managers will be aware of the direction of the organization and what you monitor on a regular basis. Therefore, there will be no surprises for them or for you. The department managers are responsible and accountable for the performance of the cost centers assigned to them, but you can be ready to get involved in the daily operations of a department if problems surface that concern you.

Include all managers in decision-making, problem-solving, planning, and goal-setting. Allow them to grow and develop in their positions, stimulating growth and development of the organization. In this environment, the organization is successful, you are successful, the mid-management staff members reporting to you are successful, and their employees are successful. Your organization will not only accomplish this year's goals and objectives but will keep your five-year strategic plan current.

Annually, review your control system, asking yourself if it tells you what you need to know for that particular fiscal year, within that year's strategic plan, goals, and objectives. As director, your responsibility is to manage the entire organization—to direct the organization. The control system outlined here will help you do so. It will save you time and encourage development of competent and confident department managers. Whether we're managing for profit or not, we're all keeping our eyes on the same data and using the same set of skills. ■

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These publications are available through the Society for Nonprofit Organizations' Resource Center. See the *Resource Center Catalog*, included in this issue, or contact the Society at 6314 Odana Road, Suite 1, Madison, Wisconsin 53719 (800-424-7367).

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