

# 2016 NONPROFIT FINANCE STUDY

Compliance, People, and  
Process Complexities



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**Surveys Conducted By:**

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# Overview: Why Care About This Study?

It's no secret that finance and accounting can be very complex. This is particularly true in the nonprofit world. Managing revenue from a variety of sources with various stipulations placed on each dollar presents a unique challenge for nonprofit organizations.

In addition, each of those dollars needs to be tracked, accounted for, and reported on to ensure the nonprofit organization is complying with the many requirements of each dollar of revenue generated (restricted versus unrestricted funds, for example), and directing the most resources possible toward fulfilling its mission.

Changes in accounting, tax, donation, and compliance rules (just to name a few) add even more layers of complexity. Setting up internal controls to avoid fraud is important. Understanding changes to FASB rules is essential. And, even understanding how indirect changes – like overtime pay adjustments and the Affordable Care Act requirements – can impact an organization is critical.

In our previous finance and accounting research, [\*Nonprofit Finance & Accounting Study\*](#), we set out to explore the overall big-picture challenges nonprofit finance professionals face.

In this study, we shift gears to dig a bit deeper and better understand the challenges (and opportunities) associated with the more technical aspects of finance and accounting in the nonprofit sector – aspects such as whether individuals in a finance role receive formal training, how well finance leaders understand the rule changes, how federal regulations (and changes in regulations) impact an organization, the cost of compliance, what sort of business processes are in place, and more.

We asked questions of more than 400 nonprofit finance professionals, representing nearly every vertical, such as education, social services, and health care. In some instances, we also break the data down by experience level to better understand how perceptions of more seasoned finance professionals compare to their less tenured colleagues. The online surveys were conducted between June 23 and July 12, 2016.



# Key Findings

- 1 | Managing the complexity of multiple revenue sources is a major challenge –** Managing money can be hard. Managing money from multiple sources can be even more difficult. Managing money from multiple sources with restrictions, caveats, and parameters is infinitely more complex. By far, nonprofit finance professionals (31 percent) identify managing the complexity of multiple revenue sources as the biggest financial challenge facing their organization.
- 2 | Compliance is a burden –** Nonprofit finance professionals recognize the burden of compliance. Nearly two-thirds think compliance has become more burdensome and costlier, even in just the past two or three years. Almost one-in-four nonprofit finance professionals is spending more than 10 hours a month – or 120 hours a year – on compliance. About half believe their organization’s growth would lead to an even more difficult time complying.
- 3 | New rules and regulation can cause dread –** When it comes to rules and regulations, many nonprofit finance professionals – even those who support the rules and regulations – dread the implementation and effect on their organization. About three-in-four worry that new changes might increase costs for their organization. Only one-in-five believes that regulations do more good than harm.
- 4 | Nonprofit finance departments are vulnerable to staff turnover –** The vulnerability of nonprofit finance departments to losing their personnel is striking. Nearly half (46 percent) say they would be somewhat or completely unprepared if a key finance person in their office left suddenly. Only 12 percent say they would be completely prepared. As you might imagine, this is especially true for those with smaller finance departments – and about one-third of those surveyed only employ one or two people responsible for finances.
- 5 | Fraud is still a concern –** When it comes to preventing fraud, most nonprofit finance professionals report their organization is doing a good job, but far from a perfect job. A majority say they nearly always separate duties that need to be separated to prevent fraud (55 percent), and put significant effort into preventing financial fraud (59 percent). However, only 38 percent say members of their management and board of directors are very educated on how to avoid fraud, and 34 percent say their organization undertakes actions that put it at risk for fraud.
- 6 | Audits are time consuming –** Preparing for audits is also time consuming. More than half of organizations require more than two weeks to prepare for an audit. The burden is compounded for the 36 percent of nonprofit finance professionals who claim they have more than one audit a year. While few admit to failing an audit, those who do, attribute the failure to bad documentation, ignorance of requirements, or confusion about the process.

# Section 1: Managing Multiple Revenue Sources

It's been said many times before, but it's worth repeating: Contributions are the lifeblood of any nonprofit organization. Donations, grants, and other revenue sources allow nonprofits to have a positive impact in our world, from helping animals and the environment to providing health and wellness services to the masses, and everything in between.

Figure 1 looks at different revenue sources managed by nonprofit organizations, and where most nonprofits, on average, tend to generate their revenue. While service-based revenue (services an organization gets paid to provide, for example: vaccinations or childcare) represent the largest slice of the pie (21 percent), revenue sources are very diversified across the spectrum – from individual donations, to grants, to events.

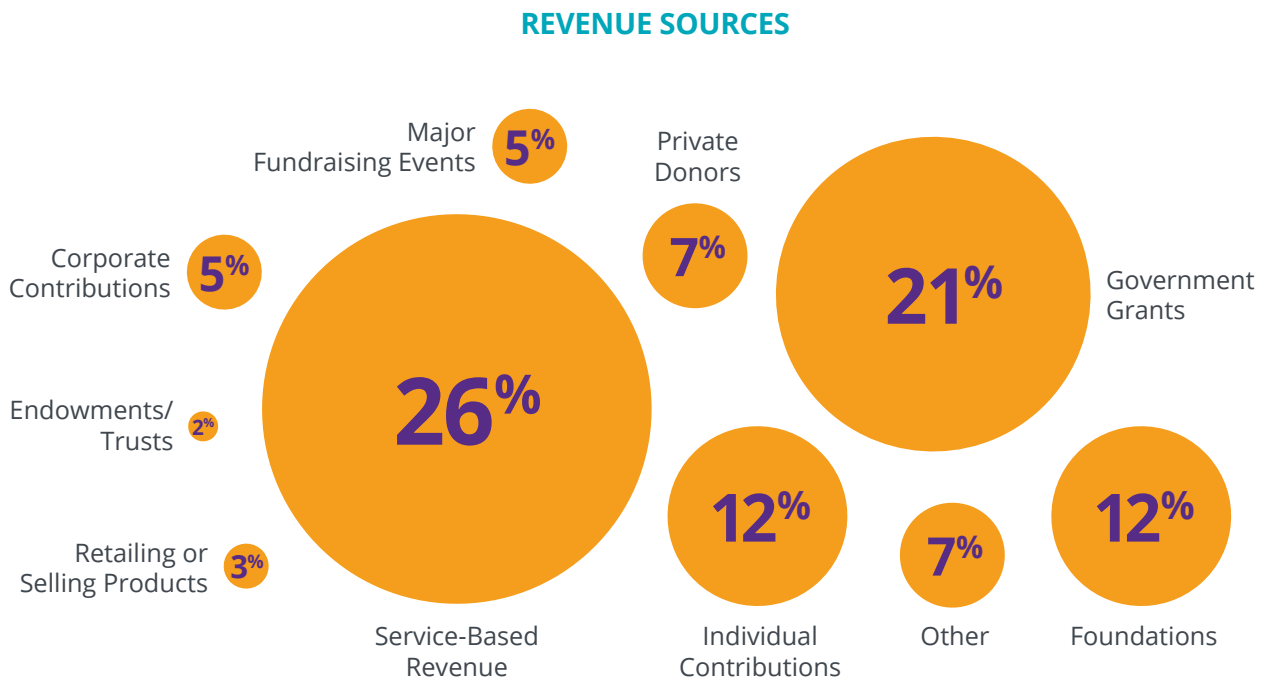


Figure 1: Where does a nonprofit organization's revenue come from?

Given what we see in Figure 1, it should come as no surprise that survey respondents identify managing the complexity of revenue sources as the biggest financial challenge for their organization. Figure 2 showcases the financial challenges faced by nonprofit organizations, in order of importance. Interestingly, the third biggest challenge facing nonprofit professionals is creating processes to ensure finances run smoothly, even if/when people leave. We'll touch more on this topic in "Business Processes" (Section 4).

**BIGGEST FINANCIAL CHALLENGES**

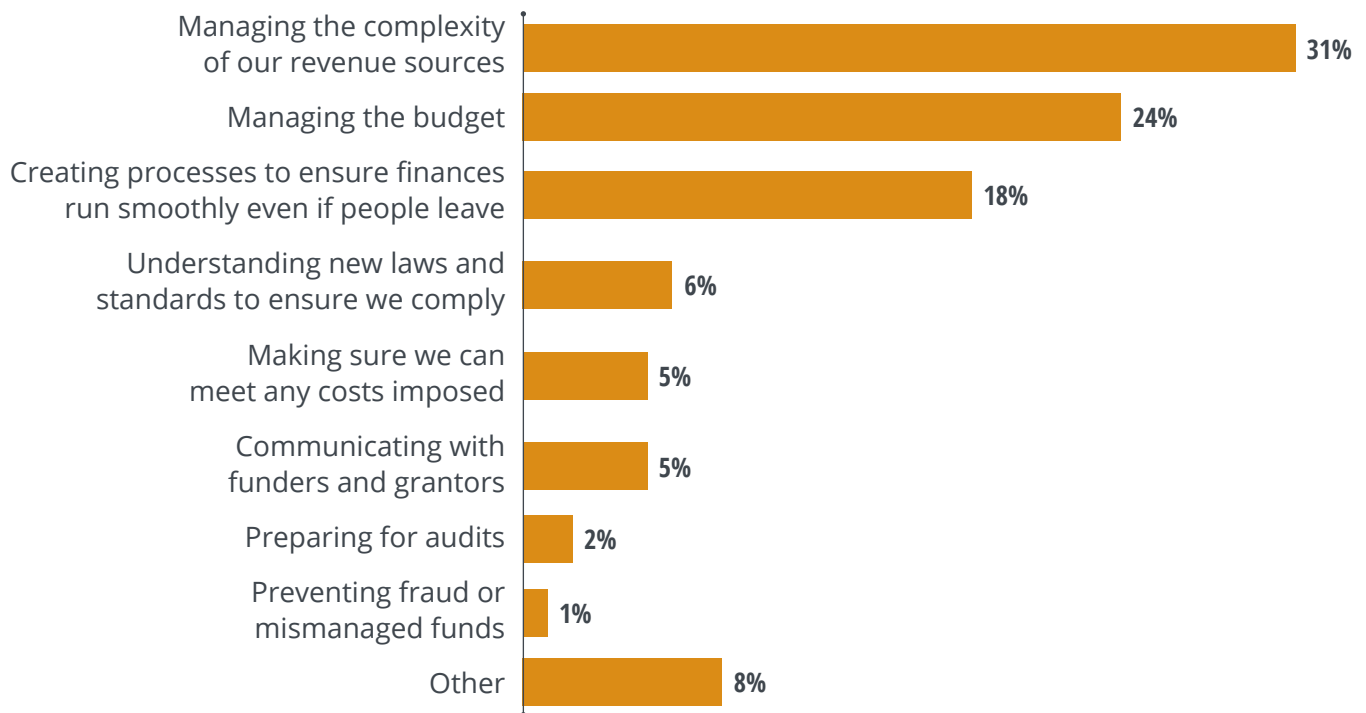


Figure 2: Biggest challenges facing nonprofit finance professionals

Data from the survey also show that the larger the finance department (5+ employees) – which would also suggest a larger organization in terms of overall revenue – the larger the concern about managing the complexities of multiple revenue sources. The bigger the organization, the more revenue, the greater the complexity (Figure 3).

**CONCERN ABOUT MANAGING COMPLEXITY OF REVENUE SOURCES**

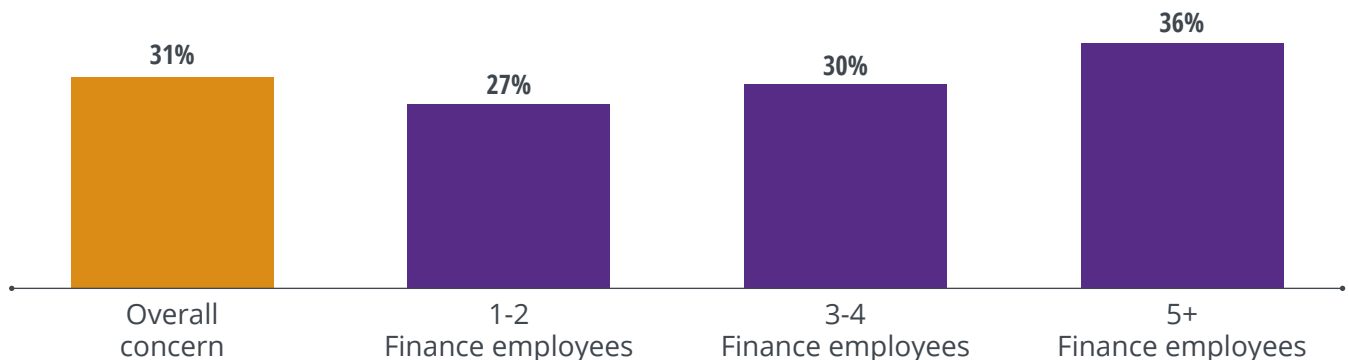


Figure 3: Biggest Issue – Managing complexity of revenue sources, by department size

Moreover, respondents from health organizations feel the pressure and challenge of managing revenue complexity most acutely, with children’s organizations, social service organizations, and education organizations next in line as highlighted in Figure 4.

**FINANCIAL CHALLENGES**

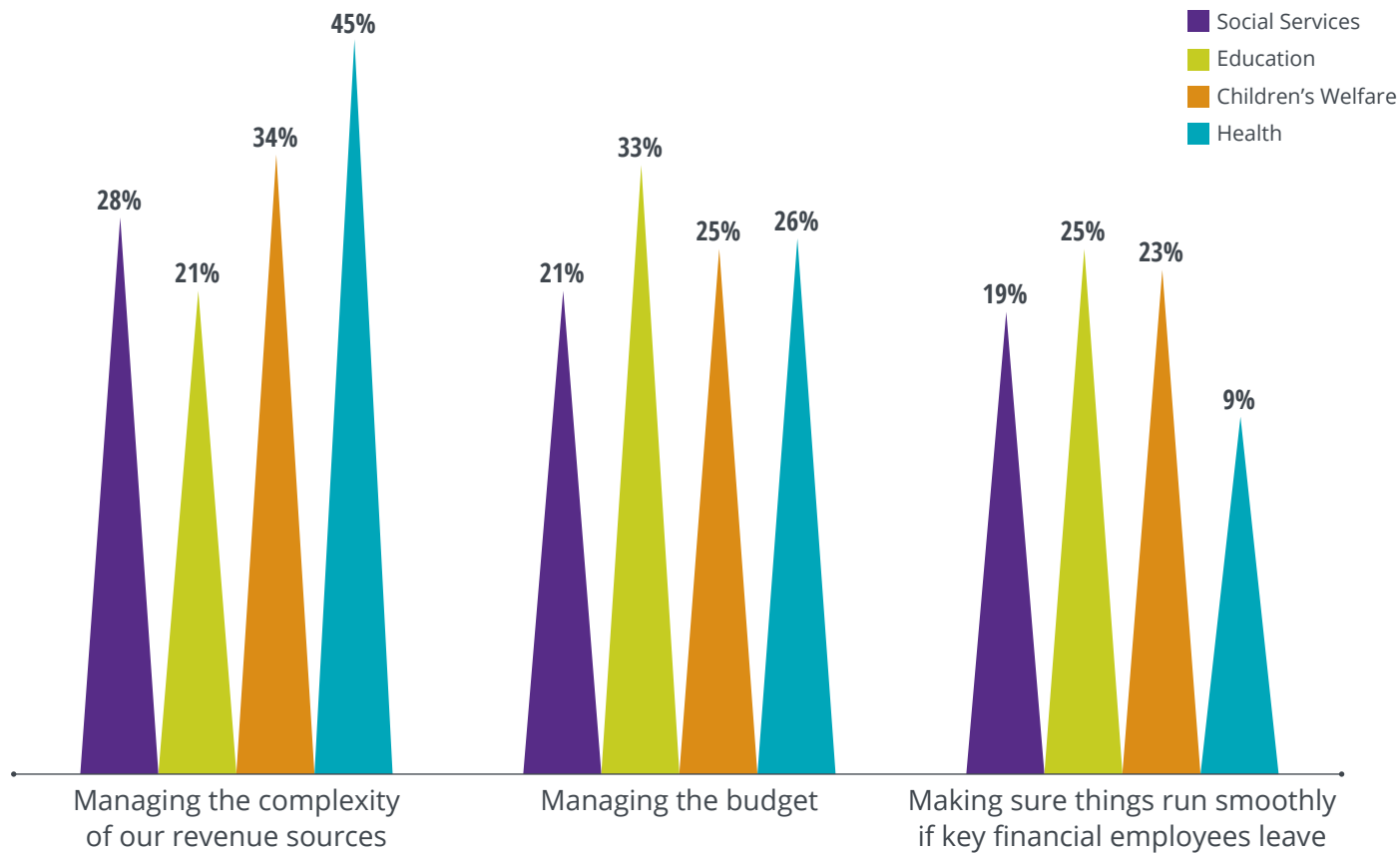


Figure 4: Biggest financial challenges by vertical

## Section 2: Rules and Regulations

Rules and regulations. We hated them as a kid. But, how do we feel about them as adults? Not much has changed. While most of us recognize that rules and regulations can provide guidelines and parameters to keep us from descending into utter chaos, it doesn't mean we have to like them.

We asked respondents how they feel generally about rules and regulations, as well as attitudes toward – and knowledge of – two very specific changes affecting nonprofit organizations currently: Changes that affect how nonprofits recognize revenue, and the overtime pay rule changes being implemented by the Department of Labor.

### General Rules and Regulations

Only 20 percent of all survey respondents feel federal rules and regulations that directly impact the nonprofit sector do more good than harm. Most feel these types of regulations do about an equal amount of harm and good (31 percent), while 21 percent feel federal regulations do more harm than good. Figure 5 looks at the spectrum of “harm/good” survey responses in regards to federal regulations.

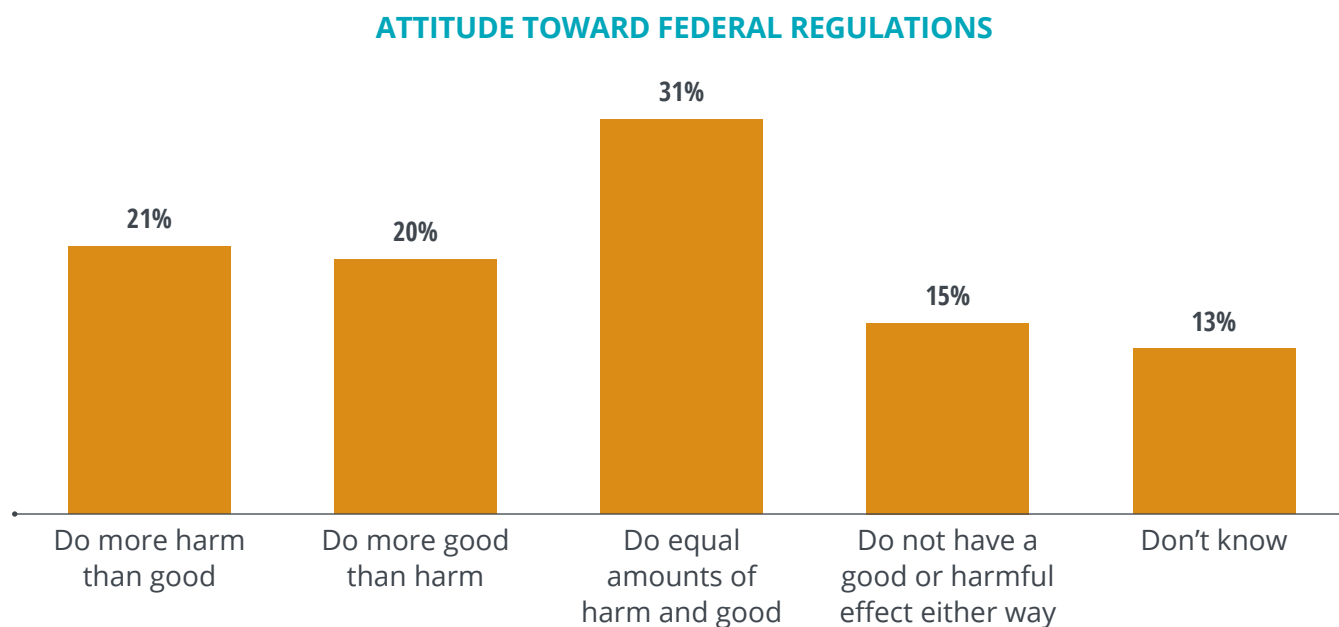


Figure 5: Attitude by nonprofit finance professionals toward federal regulations

The biggest concern from finance professionals at nonprofit organizations is the cost impact related to new rules and regulations. Nearly 80 percent of respondents express concern that new rules and regulations might increase costs for the organization. Another 65 percent express concern that changes in rules and regulations might be unrealistic to implement. Figure 6 showcases what concerns preoccupy nonprofit finance professionals the most when it comes to changes regarding financial regulatory procedures.

### FINANCIAL PROCEDURE CHANGES

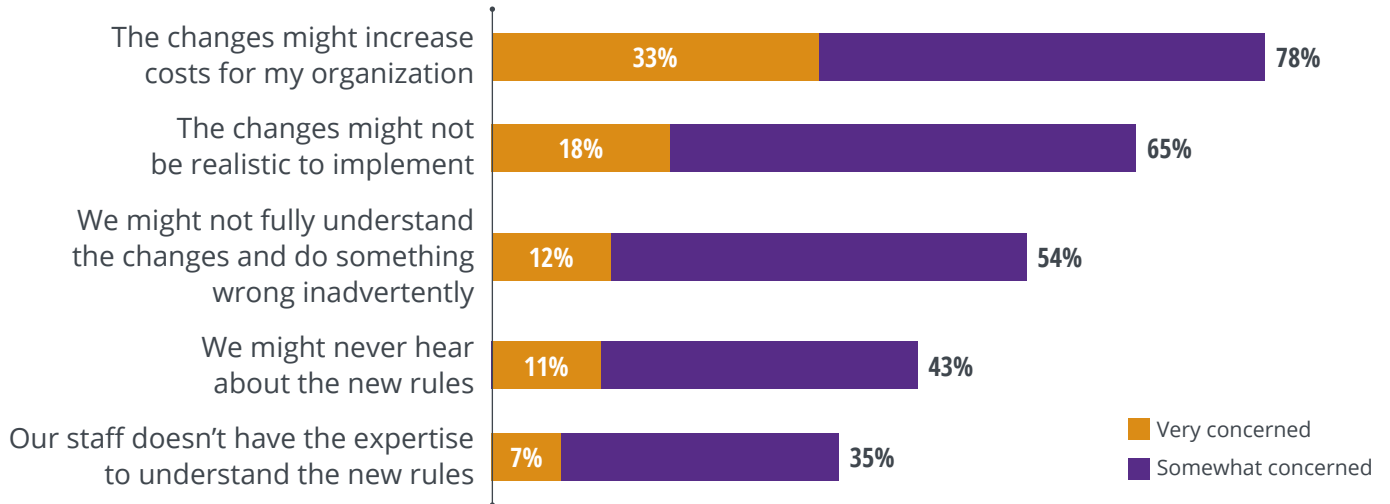


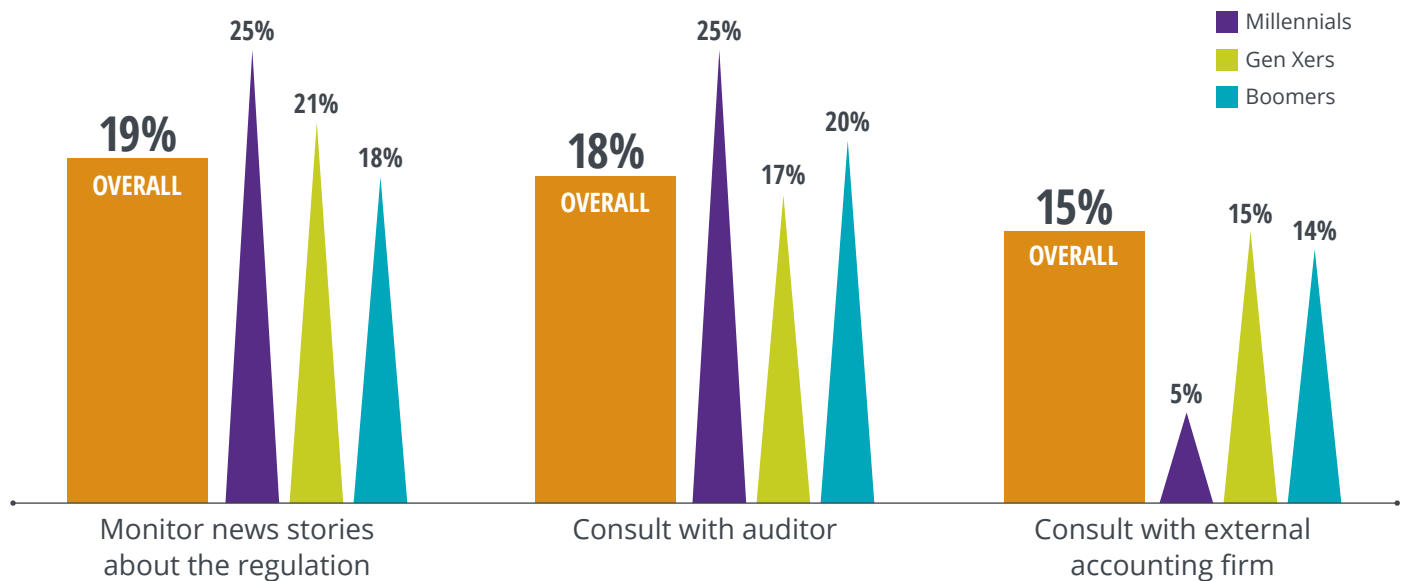
Figure 6: Concerns about changes to financial procedures, and the impact they could have on nonprofit organizations



When changes to rules and regulations take effect, nonprofit finance professionals turn to a variety of sources to learn more, including reading news stories (19 percent), consulting with an auditor (18 percent), and consulting with an external accounting firm (15 percent).

Interestingly, Millennials are most likely to turn to the news. Boomers are least likely to use the news as a source of information. See Figure 7.

### LEARNING ABOUT NEW RULES AND REGULATIONS



### OTHER STEPS TAKEN

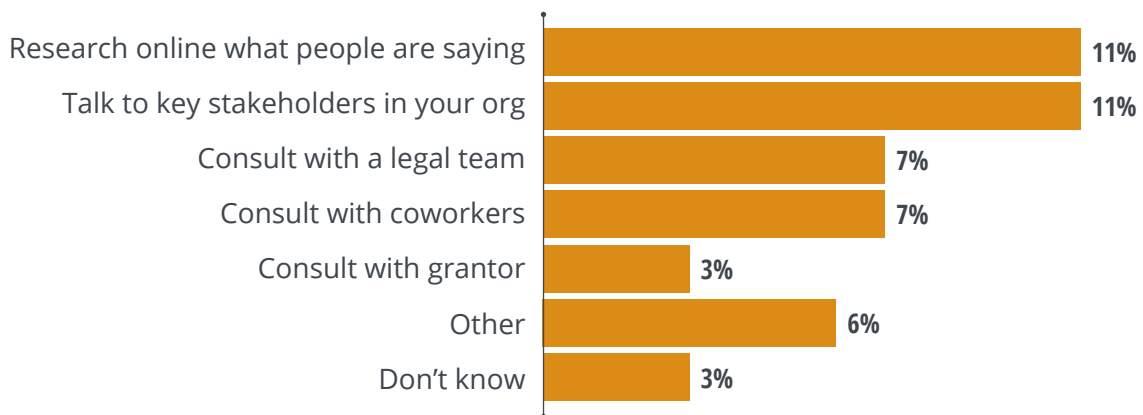


Figure 7: Where nonprofit finance professionals turn to learn about rules and regulations changes

## Rules and Regulations Snapshot:

Rules and regulations can have a big impact on nonprofit organizations. The below charts provide a composite view of who is most concerned about rule changes; who believes they do more harm than good; and who believes they do more good than harm.

### Groups of those most likely to be very concerned about rules and regulations

Believe regulations do more harm



Directors of Finance



Have worked 6 years or fewer in nonprofits



Go through 3 audits or more annually



Have 3-4 folks responsible for finances



Have some college or less



### Groups of those who believe rules and regulations do more harm than good

Have 5+ folks responsible for finances



Have worked 20+ years with nonprofits



Have worked 20+ years in finance



Work in the Educational vertical



Have some college or less



Boomers



CPAs



### Groups of those who believe rules and regulations do more good than harm

Work in the health vertical



Go through 2 audits annually



Have 3-4 folks responsible for finances



## How Revenue is Recognized

Only one-third of nonprofit finance professionals surveyed fully understand the changes to the way revenue must be recognized by nonprofits. Another 50 percent understand the changes somewhat well (Figure 8).

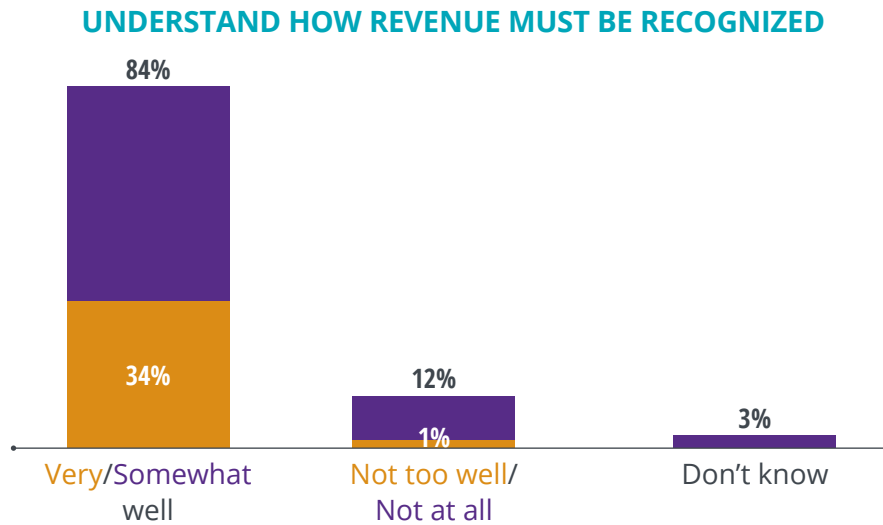


Figure 8: How well do nonprofit professionals understand the changes to ways revenue must be recognized?

FASB has issued an update to its Accounting Standards that changes the way nonprofit organizations prepare financial statements to better serve the report user and consumer (including donors, grantors, volunteers, and lenders). In a nutshell, the new Accounting Standard Update requires nonprofit organizations to classify net assets into two categories (restricted and unrestricted funds), versus the original three classes of net assets (restricted, unrestricted, and temporarily restricted).

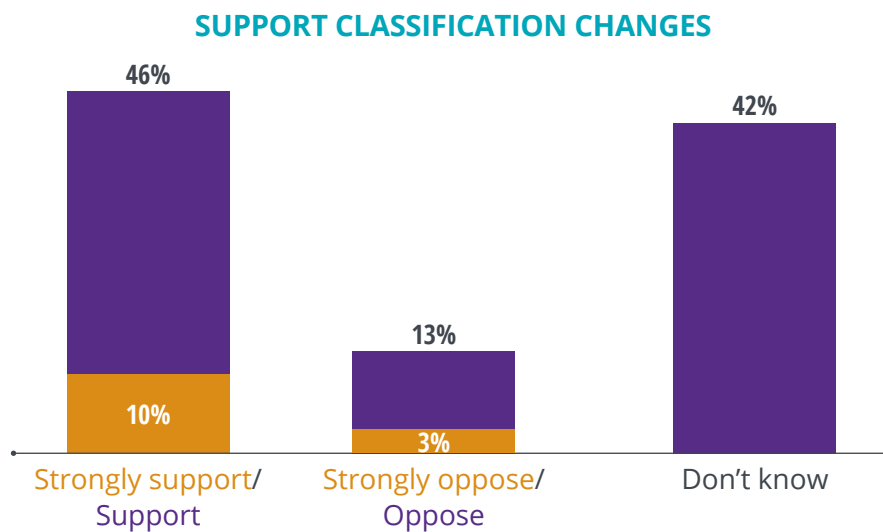


Figure 9: Percent who support, oppose, or aren't sure about the reduction from three classifications to two classifications

## Snapshot:

The below charts provide a composite view of who is the most likely and least likely to understand the changes to the way revenue must be recognized by nonprofits.

### Groups of those most likely to understand changes very well

CFOs



CPAs



Work in the Education sector



### Groups of those least likely to understand changes very well

Gen Xers



Have received no formal finance training



Have worked 6 years or fewer in finance



Shifted to a finance role



Have some college or less



## Overtime Rules

The Department of Labor has revised the Fair Labor Standards Act's rules on overtime pay, effectively doubling the salary cap for those eligible to receive overtime pay. This change has the potential to dramatically impact nonprofit organizations.

Most nonprofit finance professionals (55 percent) surveyed support the overtime pay change, but they also feel it will have a negative affect on their organizations. Figures 10 shows the range of support or opposition to the overtime pay rule changes, while Figure 11 showcases how those surveyed feel it will impact their organizations.

### SUPPORT FOR OVERTIME PAY RULE CHANGES

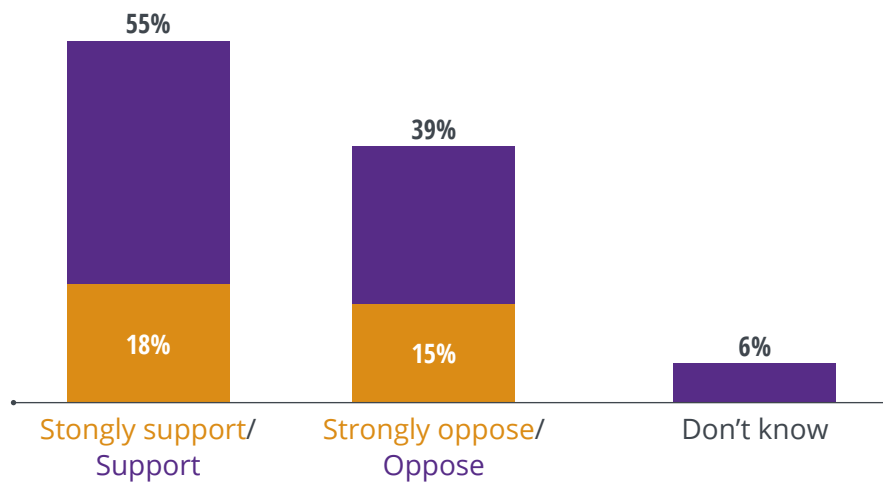


Figure 10: Percent of survey respondents who support or oppose changes to the overtime pay rules

### IMPACT OF OVERTIME PAY RULE CHANGES

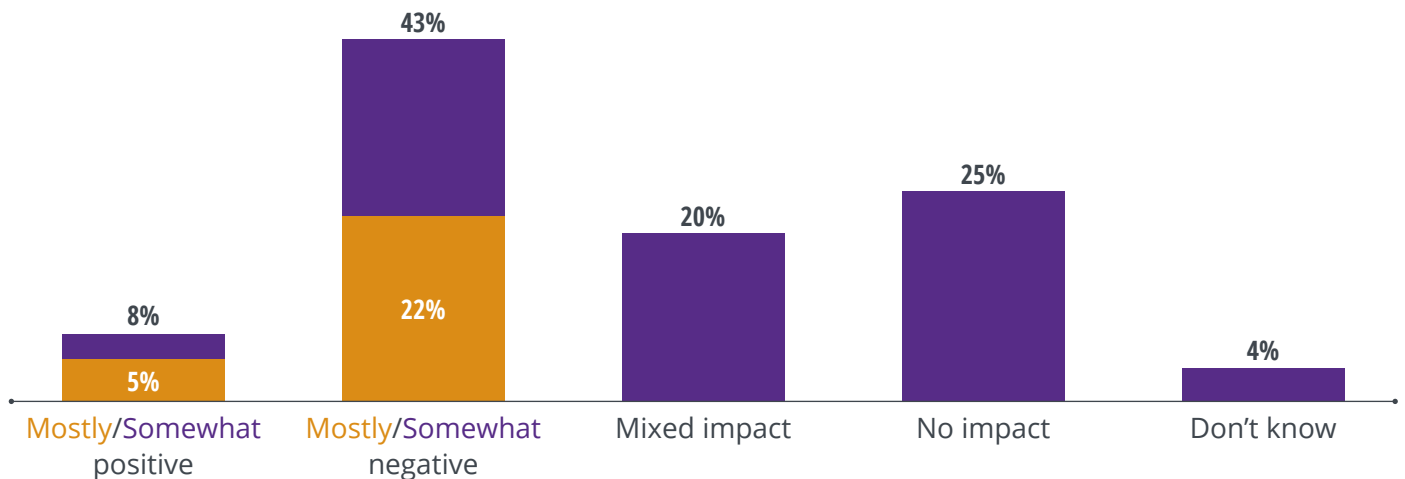


Figure 11: Effect overtime pay rule changes will have on a nonprofit organization

# Section 3: Compliance

When managing multiple funds from multiple sources, compliance is both essential and tricky. Compliance is also very time consuming. More than 50 percent of nonprofit finance professionals we surveyed say they spend more than five hours per month on compliance-related issues. Nearly half of that group spends more than 10 hours per month. Figure 12 shows how much time nonprofit finance professionals spend on compliance each month.

**HOURS SPENT ON COMPLIANCE MONTHLY**

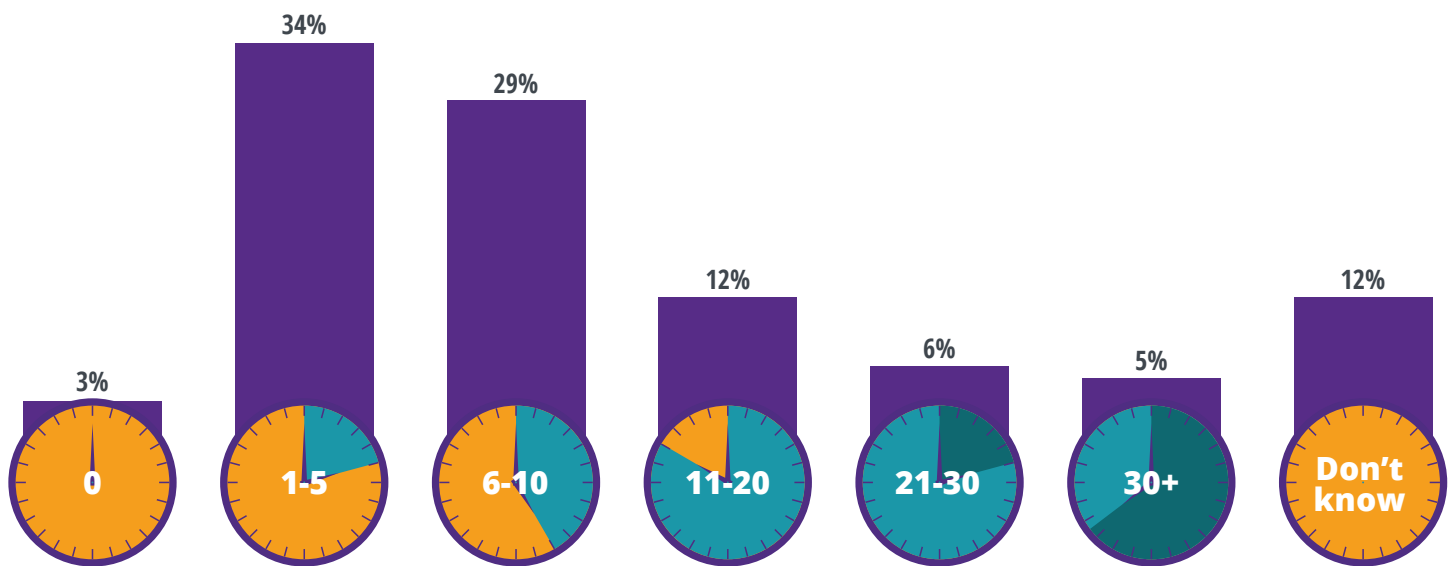


Figure 12: Number of hours spent on compliance each month

As rules and regulations change, nonprofit organizations are spending more and more time on related compliance issues. Two-thirds of all respondents say the amount of time spent on compliance issues has increased in the last two or three years. On the flipside, virtually no one noted a decrease in the amount of time spent on compliance (Figure 13).

**TIME AND COMPLIANCE**

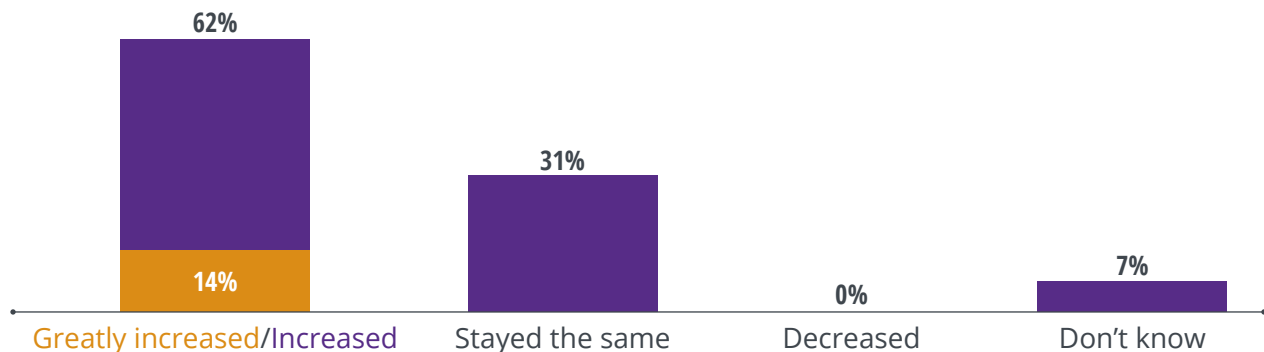


Figure 13: How the amount of time spent on compliance has changed in the last two or three years

And, not only has the amount of time spent on compliance increased, but, not surprisingly, the cost associated with compliance has increased as well over the last two or three years (Figure 14).

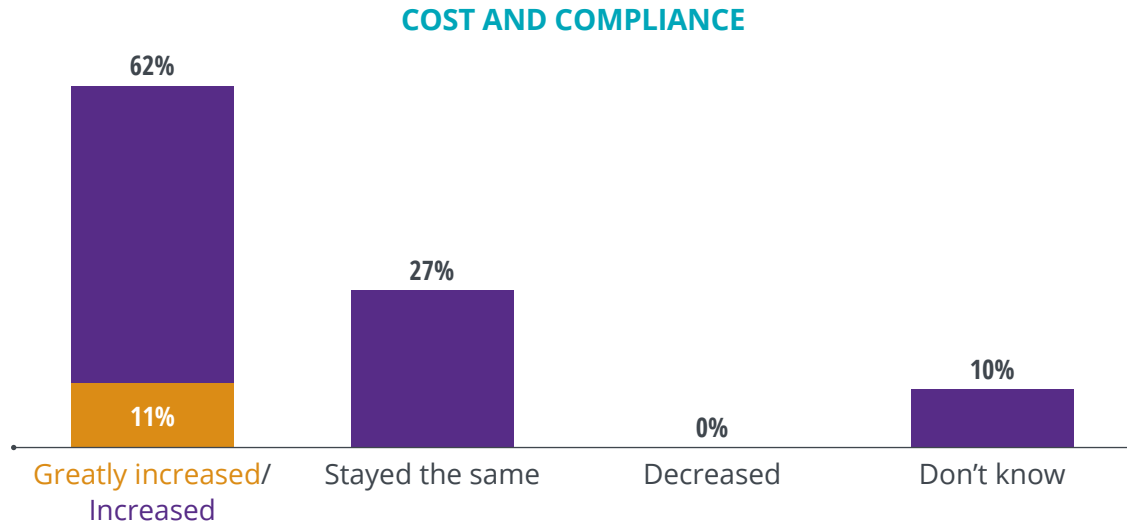


Figure 14: How the cost of compliance has changed the last two or three years

Additionally, survey respondents feel that growing the organization makes it harder to comply with rules and regulations (by a factor of 4X compared to those who say growth would make it easier to comply). See Figure 15.

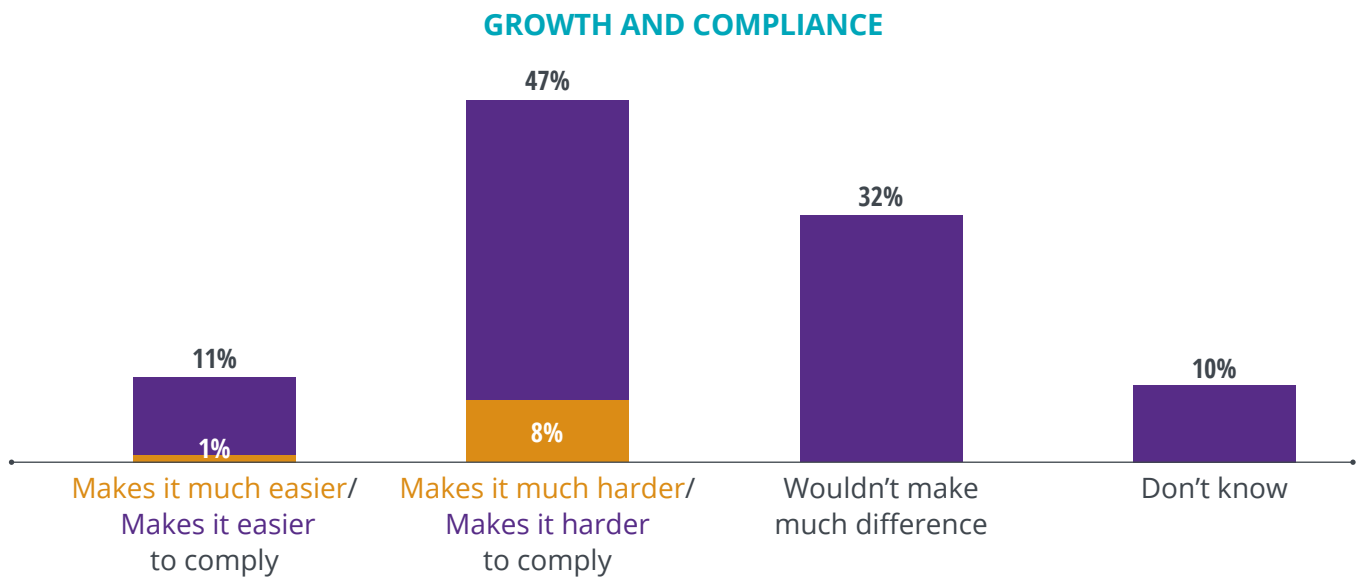


Figure 15: If the organization grows, how does it affect compliance?

Interestingly, those with the most finance experience and those respondents who are CPAs are the most likely to say that growth makes compliance more difficult (Figure 16), which highlights the concern that finance professionals without training and experience may not fully understand the scope of ensuring compliance. In other words, what they don't know may actually hurt the organization.

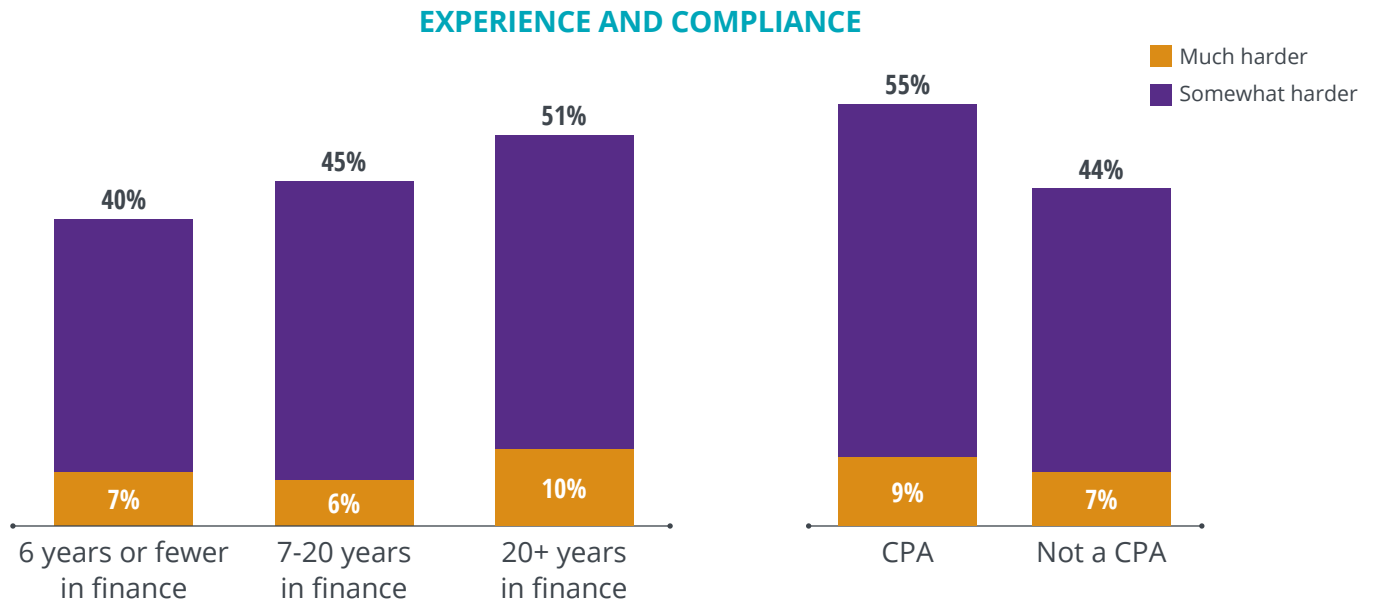


Figure 16: How growth will affect compliance – based on experience

As compliance becomes harder, costlier, and more complex, many organizations are using technology to help them ensure they are compliant. However, nearly 25 percent of survey respondents say they don't use technology or are not sure if they use technology to help with compliance-related issues (Figure 17).

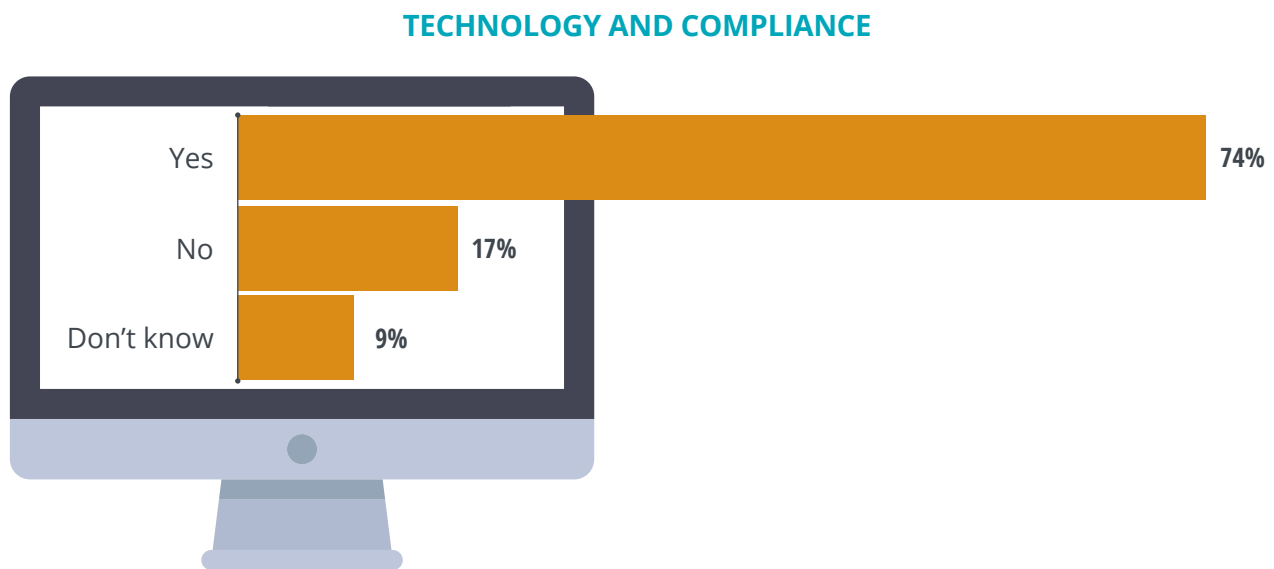


Figure 17: Percent of respondents who use technology to help with compliance



## Section 4: Business Processes

Internal processes and controls are essential to help organizations prepare for and pass audits, mitigate fraud, and plan for turnover in personnel. While many organizations document their processes fairly well, a staggering 46 percent of all survey respondents say their organization would not be prepared if a key finance person was to depart the organization. That's nearly half of all respondents.

To compound the problem, only 12 percent of organizations say they would be completely prepared if a key finance person was to leave the organization – that means 88 percent of organizations range somewhere between only somewhat prepared and completely unprepared if a key finance person was to leave. Simply put, many organizations are vulnerable to losing key finance personnel (Figure 18).

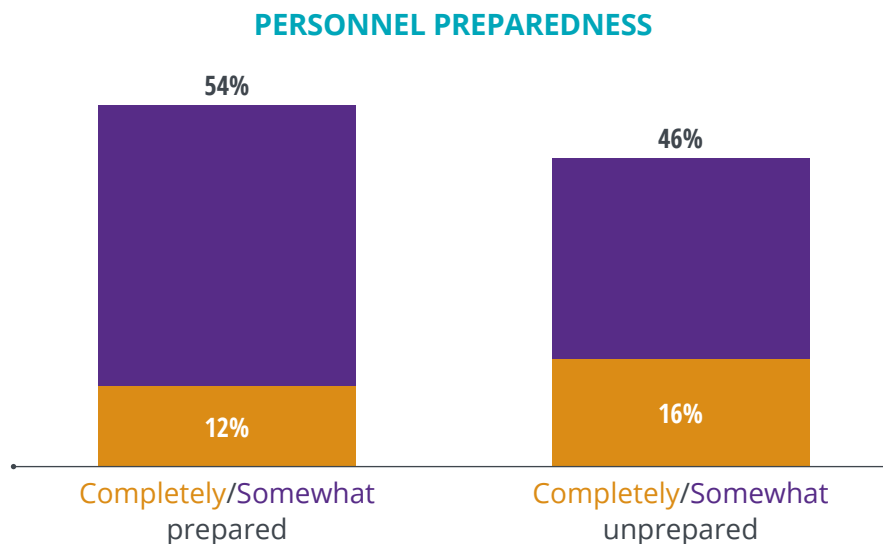
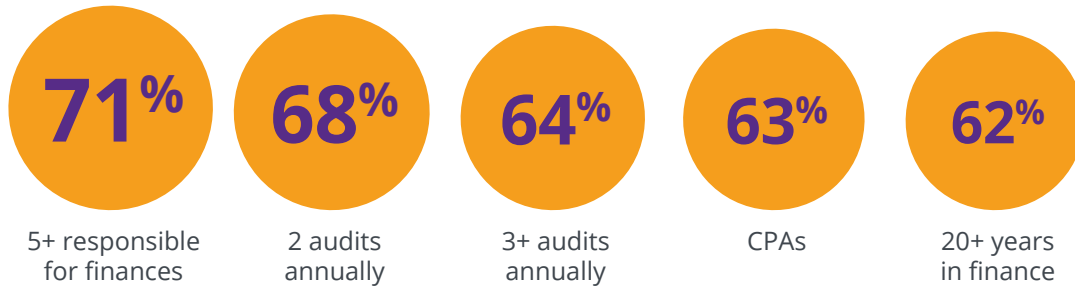


Figure 18: How prepared is your organization if a key finance person was to leave?

And, of course, smaller organizations with less experienced personnel, less training, and less expertise are most vulnerable to a key departure, as highlighted in Figure 19.

**MOST PREPARED (RANKED BY % WHO SAY PREPARED)**



**MOST UNPREPARED (RANKED BY % WHO SAY UNPREPARED)**

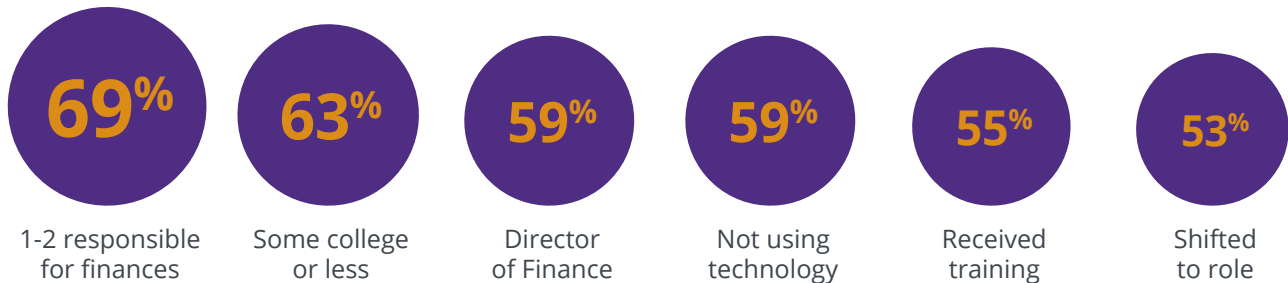


Figure 19: Organizations most and least prepared for the departure of a key finance person

When it comes to documenting financial processes, as mentioned earlier, most organizations do a pretty good job, with 82 percent of survey respondents saying their processes are well documented, as showcased in Figure 20.

**DOCUMENTING FINANCIAL PROCESSES**

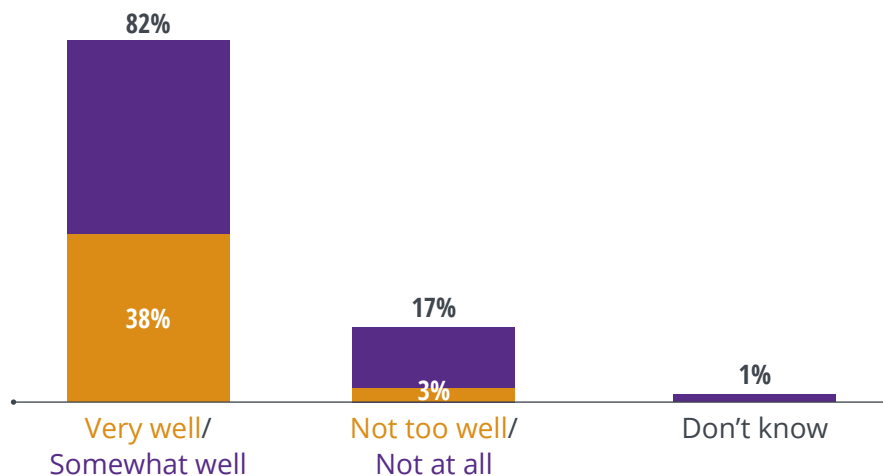


Figure 20: How well financial processes are documented

Organizations are acutely aware of issues that lead to fraud, and look to implement measures that help reduce the possibility of fraud. Fully 91 percent of organizations (Figure 21) nearly always or usually separate duties, while larger organizations, and finance departments in particular, almost always parse out duties.

### SEPARATE FINANCIAL DUTIES

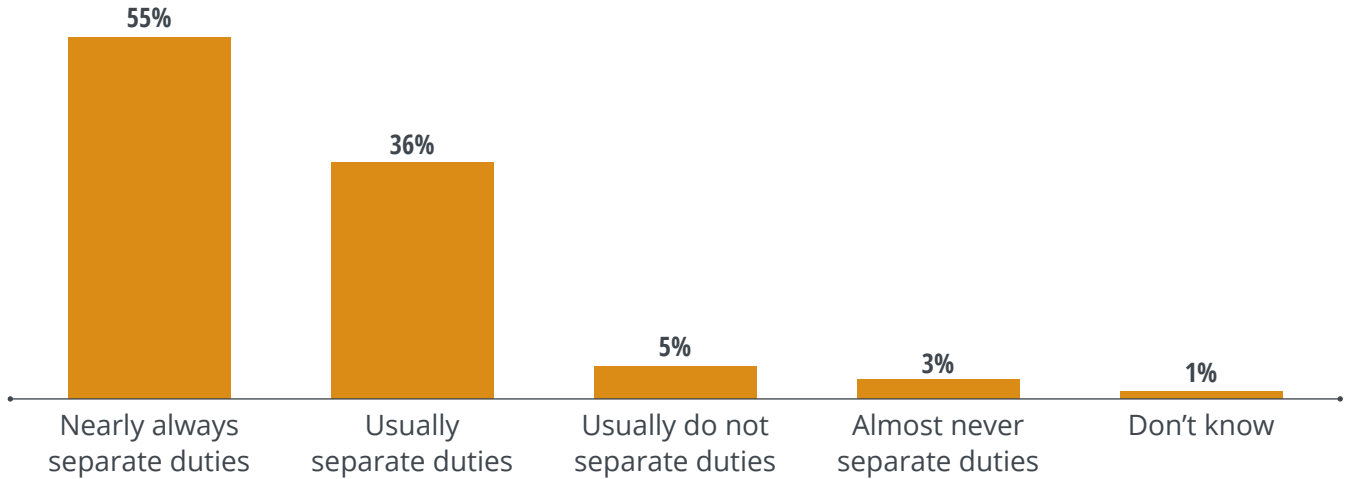


Figure 21: How often finance departments separate duties to mitigate fraud

Per Figure 22, most organizations (nearly 95 percent) put effort into preventing fraud.

### FRAUD PREVENTION

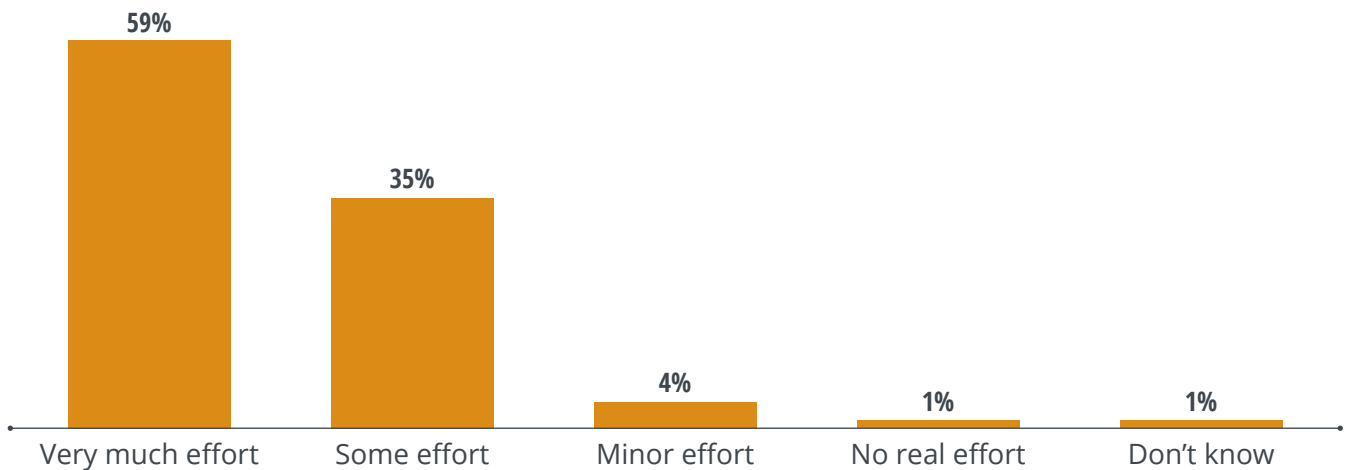


Figure 22: Effort put into preventing fraud

However, nearly 35 percent of respondents say their organization does things that put it at risk for fraud (Figure 23). There is certainly a disconnect between organizations believing they're buttoned up when it comes to mitigating fraud, versus potential exposure to fraud.

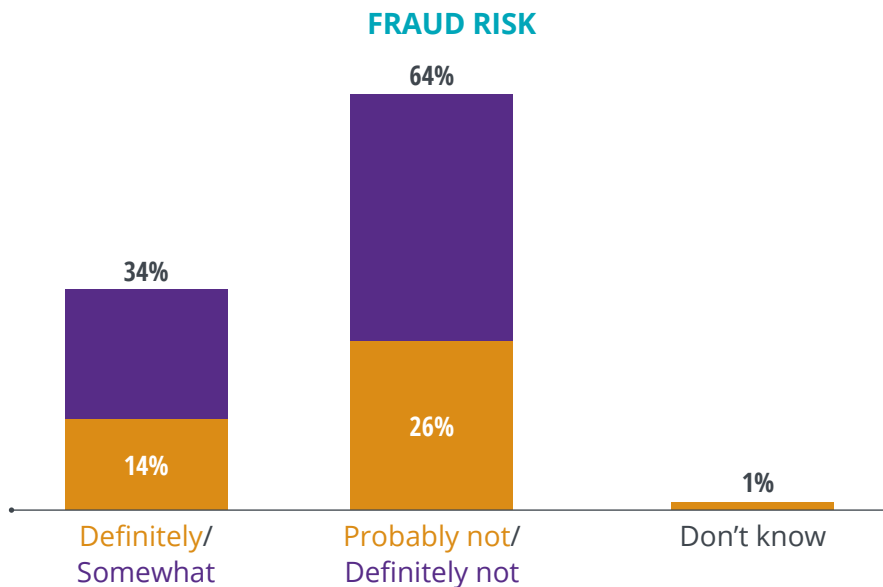


Figure 23: Risk for fraud to occur

## Audits

Audits are a big part of the finance and accounting landscape at a nonprofit organization. And, many nonprofit finance professionals spend large chunks of time preparing for audits.

Most organizations only have one audit per year, but 36 percent of organizations have multiple audits annually (Figure 24).

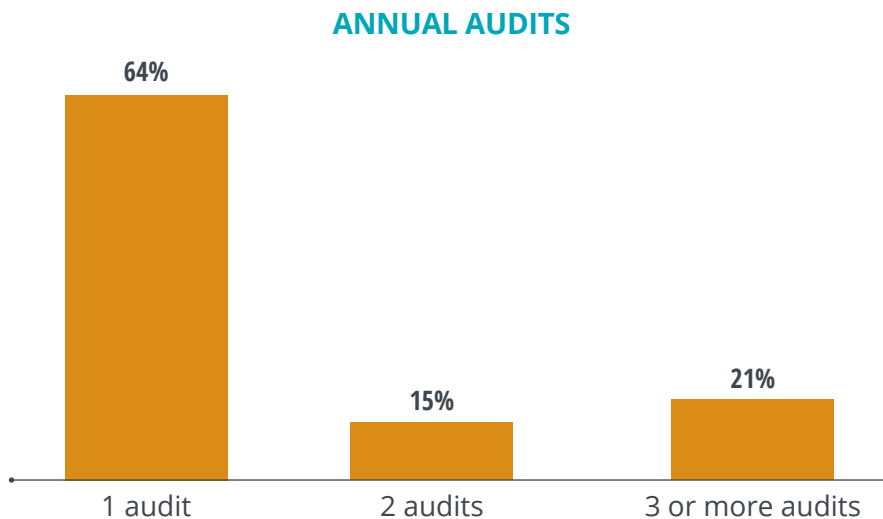


Figure 24: Number of audits annually

Audits are time consuming. More than 50 percent of survey respondents say they spend at least two weeks preparing for an audit – with some organizations spending more than a month. Figure 25 shows the amount of time organizations spend preparing for an audit.

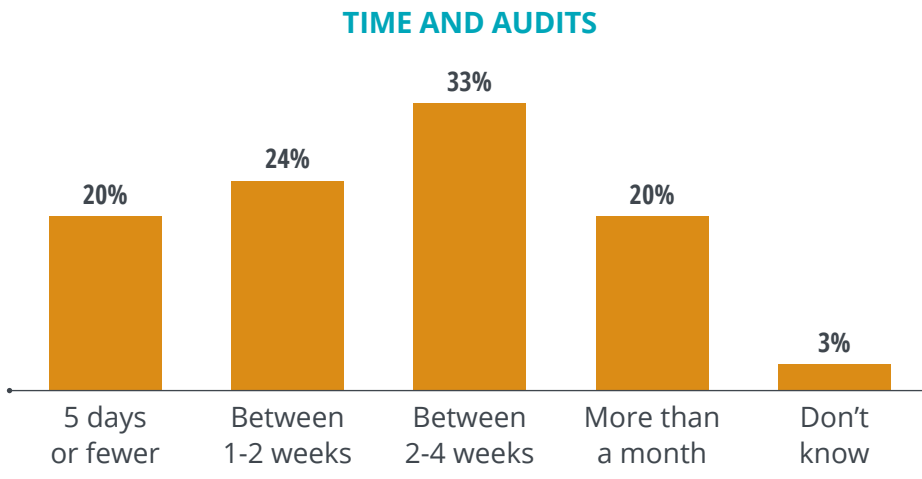


Figure 25: Time spent preparing for an audit

For the most part, nonprofit finance professionals and the organizations they support feel prepared for audits, with very few respondents admitting to having failed an audit. Interestingly, respondents with less formal training and those who shifted to a finance role feel more prepared for audits than those with more formal finance training, highlighting the need for further training and education.

Figure 26 looks at the how prepared organizations feel when it comes to audit readiness.



Figure 26: How prepared organizations feel when it comes to audits

## Snapshot: Why Organizations Fail Audits



**Bad documentation**



**Ignorance of requirements**



**Confusion/mistaken assumptions about requirements**

# Section 5: Personnel

People matter. Having the right people and the right resources in an organization can make a huge difference, especially for something as complex as finance within the nonprofit sector. For the most part, nonprofit organizations hire individuals with formal training in finance and accounting (78 percent of those surveyed received formal training); however, a significant 21 percent received no formal training, and have learned on-the-fly. This gap in knowledge and training can leave an organization exposed when it comes to understanding the technical details of rules, regulations, and compliance.

Additionally, 13 percent of those surveyed were not originally hired into a finance role, but shifted to that role at some point during their tenure (Figure 27).

## NONPROFIT FINANCE PROFESSIONALS OVERVIEW

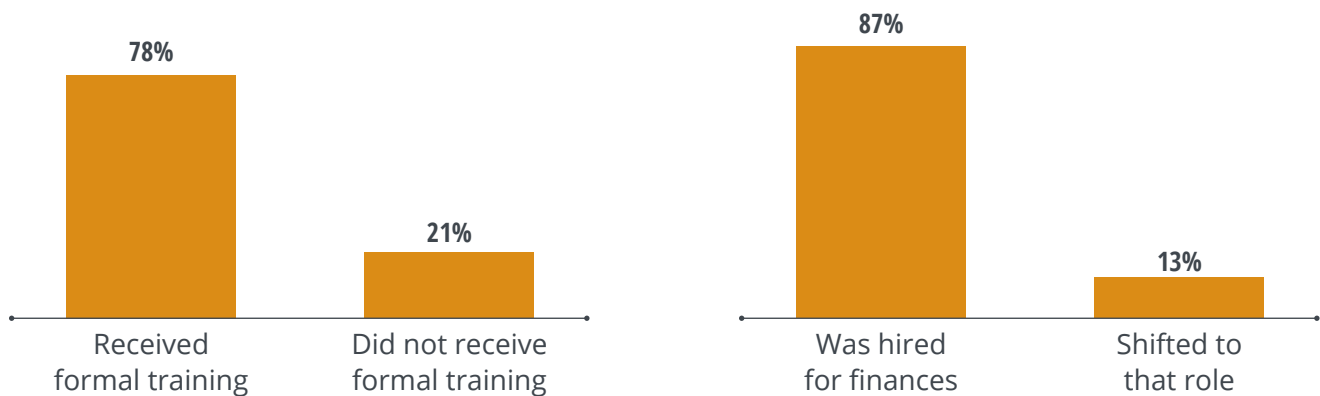


Figure 27: Professionals in a financial role in nonprofit organizations

A bit more startling is those finance professionals who shifted to the role, by and large, have received no training at all – nearly 60 percent. Figure 28 shows the dramatic difference in financial training for those hired into a finance role versus those who shifted into the role.

## TRAINING

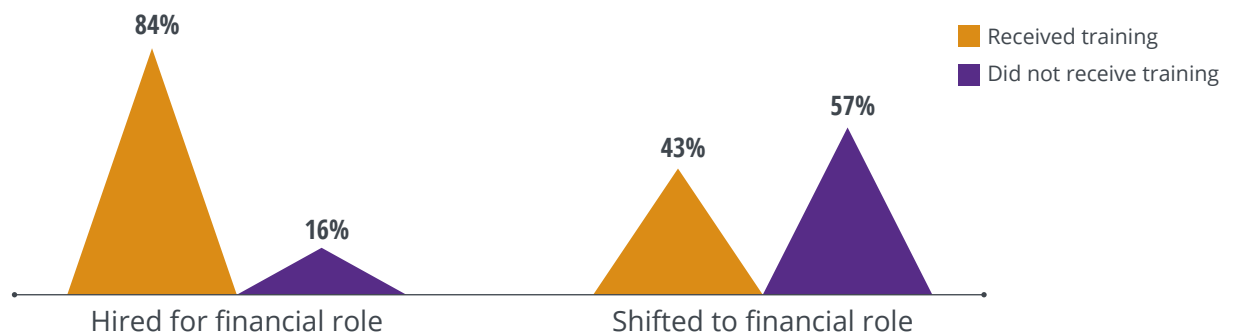


Figure 28: Financial training versus no financial training

And, while many individuals have some training or were hired specifically into a finance role, most are not CPAs – only 27 percent of respondents are CPAs (Figure 29).

### CPAs IN NONPROFIT FINANCE ROLES

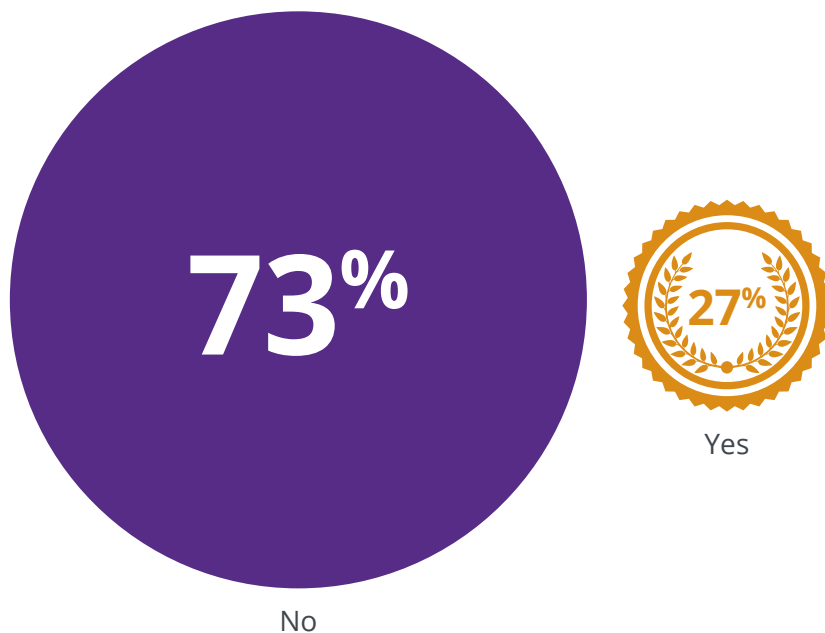


Figure 29: Percent of respondents who are CPAs

The importance of hiring the right finance person with the right amount of financial training is highlighted in Figure 30, which shows that nearly one-third of all nonprofit organizations have only one or two people responsible for finance.

### FINANCE DEPARTMENT SIZE

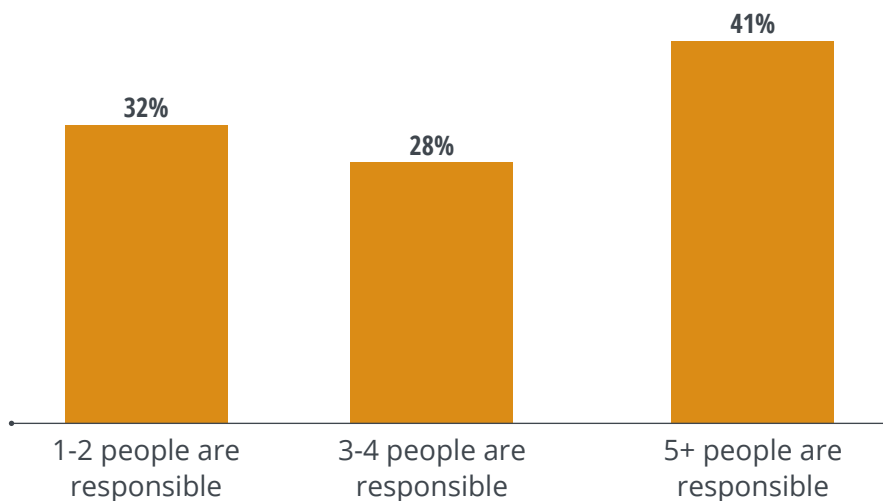


Figure 30: Number of people responsible for finance at a nonprofit organization

## Section 6: Where Do We Go From Here?

Finance and accounting in the nonprofit sector is very complex, with managing revenue dollars from multiple sources being the biggest challenge for most nonprofit finance professionals. Ongoing rules and regulations changes only add to the level of complexity, increasing both time and dollars spent to ensure organizations are compliant.

Because of this complexity, many organizations feel unprepared if one of their key finance personnel was to leave. This could render many organizations in a very vulnerable position. The ongoing need for training and documented processes is clearly necessary, especially for less experienced finance professionals who may not even know what they don't know.

We hope you find something of value in this report. And, to that end, below are some specific actions nonprofit organizations can take to get the most out of the data in this report.

- 1 **Train your people** – While this might seem obvious, more than one-in-five of the respondents has no formal training around finance and accounting issues. Considering the complex nature of finance and accounting – especially in the nonprofit sector – basic training and fundamentals in finance and accounting can pay big dividends in both the short term and long term to ensure mistakes aren't made through ignorance or simple misunderstanding.
- 2 **Have a plan B** – Nearly half of all organizations surveyed say they would be unprepared if a key finance person was to leave. That's a startling number. This unpreparedness leaves organizations potentially vulnerable to fraud, non-compliance, and failed audits. Identify an external resource who can quickly step in and fill the gap until a suitable replacement can be found.
- 3 **Spend time understanding changes in regulations** – More experienced finance professionals indicate they have a firm grasp on rules and regulations changes; however, an equal amount of respondents (34 percent) say they don't fully understand rules and regulation changes.
- 4 **Invest in technology to help with compliance** – Respondents say ensuring compliance is getting more complex, costing more money, and demanding more time. Many organizations use technology to help them navigate the compliance labyrinth, but nearly a quarter don't use any technology at all. Technology designed to specifically help nonprofit organizations with compliance can help reduce overall costs and allow finance professionals to focus on other endeavors.
- 5 **Continue to minimize risk** – While working hard to minimize the risk of fraud, nearly 35 percent of respondents say their organization does things that put it at risk for fraud to occur. Nonprofit finance professionals should enlist their board leadership and other executives in the organization to address those activities or processes that present the opportunity for fraud, and train all staff on the vulnerabilities and risks.



# Survey Methodology

Commissioned by Abila, Finn Partners conducted online surveys to 414 financial professionals from nonprofits and associations. To be included in the study, respondents had to state in the survey that they still worked for a nonprofit or association, and that their primary role involved finance or accounting. Abila provided lists, and professionals were sent an email invite to participate. Note that sometimes totals may not appear to add up to exactly 100% due to rounding.

The surveys were conducted between June 23 and July 12, 2016.

## About Abila

Abila is the leading provider of software and services to nonprofit organizations and associations that help them improve decision making, execute with greater precision, increase engagement, and generate more revenue. Abila combines decades of industry insight with technology know-how to serve nearly 8,000 customers across North America. For more information, please visit [abila.com](http://abila.com). To subscribe to our blog, visit Forward Together at [blog.abila.com](http://blog.abila.com).

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