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ASSESSING A NONPROFIT'S FINANCIAL MANAGEMENT



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Assessing a Nonprofit's Financial Management

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Table Of Contents

Introduction

Executive Summary.....	1
Introduction.....	3
<i>Purpose</i>	3
<i>Products, Services And Programs</i>	4
<i>Marketing And Finances</i>	5

Analysis

Organization Strengths And Challenges.....	6
Literature Review.....	8
Review Of Best Practices.....	15
Recommendations.....	19

Denouement

Conclusions.....	24
Appendix.....	25
References.....	34

Executive Summary

Latino Behavioral Health Services (LBHS) aims to increase access to mental health services for the underserved Latino population in the Salt Lake City, UT area. With a board of directors, staff, and volunteers determined to actualize this mission, LBHS established themselves as a 501(c)(3) in 2013 (History, n.d.). Since then, they have expanded their board to consist of seven members, and currently have three partially paid staff members as of August, 2017 (Gamez, 2017).

The board of directors is primarily responsible for reviewing major policies within the organization. Patricia Riamo and Zulie Gamez are the first point contacts for financial management. Upon discussion with Patricia and Zulie, the Financial Management Team agreed to prioritize the following parameters within LBHS:

1. Preparation of financial statements, particularly input/output analysis providing a comparative basis to achieve a better understanding of corporation finances.
2. Development of an annual comprehensive operating budget including but not limited to management expenditures, program costs, and fundraising.
3. Organizing a documented set of internal controls including but not limited to: handling of cash and deposits, approval for overspending, and disbursements.

As the Financial Management Team, the aim is to develop and improve on the systems within the aforementioned areas. The secondary aim to audit LBHS' existing policies with the goal of recommending improvements to the organization's data entry, approval of client acceptance, forecasting budget constraint lines for future expenses, determining fixed and

relative costs, defining the average overall cost of complete client processes initiating a cost/benefit analysis for fundraisers, and implementing improved employee training in QuickBooks.

INTRODUCTION

PURPOSE

Mental health services are vastly underutilized by the Latino population in the United States. Barriers to mental health services for the Latino population include the relationship between services offered and social class, the influence of stereotypes on psychological care, as well as the constraints of language barriers (Cabassa, 2006). The 2015 Census reported a Latino population of more than 400,000 in the state of Utah (Davidson, 2016). Latino Behavioral Health Services (LBHS) was founded as a nonprofit organization to address the lack of mental health services available to the growing Latino population.

A grassroots peer-run organization established as a nonprofit, LBHS defines their mission as, “Awareness, Empowerment, and Recovery” with an aim to support the underserved Latino population of Utah (Mission & Vision, n.d.). Their objective is to enhance awareness and well-being of Latinos with mental illness. LBHS aims to provide participants and their loved ones with support, education, empowerment, through the facilitation of resources and services with competent responsiveness to cultural, socioeconomic, and linguistic characteristics. All of this to be attained by their determination to minimize the disparities in access to and utilization of mental health services within the specified community.

“As a peer (consumer/family) run organization, the Latino Behavioral Health Services exists to enhance the mental health awareness and well-being of people with mental illness and substance use disorders and their caregivers and loved ones in the state of Utah, responding to cultural, socioeconomic and linguistic characteristics.

Success in this mission requires a culture of collaboration, excellence, leadership, and respect in which peers are involved in every level of the LBHS structure” (Mission & Vision, n.d.).

LBHS founded five years ago as a peer-run organization by Teresa Molina and Jaqueline Gomez-Arias. The Board of Directors at LBHS currently consists of (Who We Are, n.d.):

Board Chair and Clinical Director: Teresa Molina

Executive Director and Founder: Jacqueline Gomez-

Arias Finance Manager: Patricia Riano

Family Programs Coordinator and Peer Mentor: Leticia

Frias Consumer Programs and Processes Mentor: Zulie

Gamez Advisory Board Members: Jesus Valero and Rick
Cruz

Many of these board members have held different positions throughout the organization emphasizing the depth and diversity of knowledge, empowering, and the peer-run mentality.

PRODUCTS, SERVICES AND PROGRAMS

LBHS has created tailored programs to raise awareness of mental health, and promote the utilization of mental health services by changing attitudes towards these services. They aim to build the capacity of participants to take control of their lives and support the community around them. This is achieved by providing participants with training, new skills, as well as opportunities to teach, engage in advocacy, and/or participate in fundraising

activities.

LBHS offers community outreach programs with the goal of aiding individuals in need of these services to move into recovery allowing them to achieve a greater state of mental well-being and overall health. LBHS also offers services and education courses (available in English and Spanish) to teach and support the individuals and families affected by mental health issues. Some of the services and programs they offer for participants: Suicide Prevention and Intervention, Latinos en Recuperacion, Mentoring, Case Management, Family Support Group, Emotional Intelligence, etc. For other agencies, they offer: Dual Diagnosis Therapies, Cultural Responsiveness Workshops, Eating Disorder Information Sessions, and much more. All services are offered on a sliding-scale, with the goal of promoting the utilization of these services regardless of the participant's financial circumstances.

MARKETING AND FINANCING

There are a variety of ways in which LBHS is getting the word out about their services, however, the majority of referrals come from individuals that have had contact with LBHS. Word of mouth referral has played an important role in the growth of LBHS' clientele, and, considering the sensitive nature of their services, this will likely remain the case. Additionally, LBHS recently published their official website which is a significant step towards increased publicity and growth of clientele. An effective method utilized by LBHS to further increase their public presence is tabling at community events in an attempt to raise funds and awareness. LBHS has been present at a variety of mental health conferences and tabling sessions in Salt Lake City, continuing to do so will be beneficial to their organization.

Not uncommon among smaller nonprofit organizations, the majority of current

funding for LBHS is coming from government grants. In addition to grants, LBHS generates slight revenues via service provided fees, donations, and fundraising events. These amounts are small compared to government funding received.

ORGANIZATION STRENGTHS AND CHALLENGES

LBHS has a strong-minded group of personalities in governance and a very clear vision. This fact serves as both a pro and a con. Having a passionate group of people is imperative for organizational success, however, the passion must also be put to efficient use. It would serve them well to identify each board member's strong-suit, and then support and encourage each individual to improve their skill sets.

Jacqueline's breadth of experience running the nonprofit is a strength to LBHS. She has knowledge of the organization's revenue stream, including what grants are coming and going, fundraising income, and future financial management endeavors. Jacqueline provides a sense of the general financial scope of LBHS. This allows their financial manager, Patricia, to utilize her experience in the private sector to improve upon the intricacies involved in appropriate financial documentation. Patricia's background and working knowledge of QuickBooks helps her job be done effectively, and keep the organization's awareness of their finances at a functioning level.

LBHS' strong foundation of important financial management elements such as basic financial policies, cash-flow, cost-benefit analysis, and QuickBooks serves as a strength to the organization. Implementation and understanding of these utilities is a core component essential to enhancing and improving practices moving forward. The organization's cash-flow documentation includes three types of incomes (revenues) and ten types of expenses.

Although this list does not fully encompass LBHS' needs, it does provide an awareness of the organization's financial priorities, which allows for them to compose a more comprehensive cash-flow. Their cost-benefit analyses are shown to be even more extensive, which is perfect for setting up future forecasting reports.

Although LBHS has financial policies and analysis tools, their financial needs are not currently being met. One of the initial challenges encountered with the group was a lack of awareness of the true cost of running a nonprofit organization. Knowledge of financial management mechanisms alone does not equate to successful use of those tools. Currently, LBHS' financial policies are inadequate considering their capacity. Patricia is the only one with the training necessary to manage finances, however, her availability serves as a limitation.

Patricia is not able to dedicate enough time needed to keep up with the growing demands of managing LBHS' funds alone. Furthermore, LBHS suffers a bookkeeping setback, their records being behind by several months. Not only does this hinder the use of a cash flow budgets and cost-benefit analyses, it also puts an unnecessary pressure on the organization in preparing tax documentation. Additionally, the limited financial policies and procedures in place lead to miscommunication between Patricia and Jaqueline, to the detriment of the organization's financial situation.

LBHS has a very strong-minded and determined group of personalities in governance, identifying each board member's strengths and encouraging them to specialize and improve upon their skill sets would serve as improvement giving the organization a holistic foundation. Defining roles, putting policies and communicating all details transparently will provide for better financial workflow and utilization of the instruments available to them.

LITERATURE REVIEW

The literature review will be discussed in two parts: a systematic review and a description of specific findings. For systematic review, the criteria in the PRISMA Statement to create a detailed picture of the research available and missing about nonprofit financial management was followed (Moher, et al., 2009). A complete copy of the systematic review is located in Appendix A. The systematic review included searches on four relevant database search engines, which produced 611 records. Analysis of 178 of these publications for themes to ensure the data was relevant to this assessment. About 21 themes were discovered from these 178 articles, with sub- themes within each. Simplifying the discussion, it is overwhelmingly reported that financial management significantly benefits nonprofit organizations.

Relevant to this discussion, there were significant gaps in the data that, if addressed, could be of great benefit to LBHS. The majority of the researched focused heavily on larger nonprofit organizations, with hospitals being the most common. Additionally, only two nonprofits were discussed that provide behavioral health services. Due to these gaps, it is difficult to predict exactly how much this data is relevant and will benefit LBHS. Additionally, a minor number of the publications gave actual instructions for creating and implementing a budget.

In addition to extensively searching these databases, we also performed searches from the University of Utah Marriott Library website and Google Scholar to help fill in the research gaps in connection with budgeting specifics, policies, and training. Budgeting specifics (such as how to complete a budget) were located in less than ten publications in the systematic review, policies were listed in multiple, but most of these are irrelevant to LBHS at this point,

and only one publication mentioned how to conduct financial management training. Our specific literature review is located below, pulling from both the database searches and the additional searches, with information relevant to LBHS.

Detailed forecasting of future expenses is a vital component of successful planning and is fundamental to the budgeting success. At its most basic level, “a budget is simply a plan for the fiscal year,” (Tschirhart and Bielefeld, 2012). Jean-Francois (2014) writes, “budget techniques are central to the successful operation of all organizations.” Considering the dynamic nature of available resources in the nonprofit sector, it is crucial that LBHS develop and implement an accurate yearly budget. The substantial benefits of having a yearly budget will positively affect the organization on many levels, as well as the staff and the target clientele.

Budgeting is tedious, but the benefits are certainly worth the investment. Many nonprofit scholars have written about the benefits of budgets and budgeting processes. Two important consistencies between articles are that: (1) budgeting is vital to nonprofit success and (2) there are many types of budgets and which an organization chooses to utilize depends on their situation. Melissa Walker (2010), in her article “Budgeting and Forecasting,” explains the benefits of various types of budgets, including a cash flow budget, operating budget, program budget, and capital budget. The focus here will be cash flow and program budgets with the goal of creating an annual budget. Establishing this yearly budget will allow LBHS to achieve their vision with greater success.

A cash flow budget is the main type of budget that LBHS has attempted to use in the past. This type of budget is a collection of all revenue and expenses, providing a snapshot of where the organization is financially on a monthly, quarterly, and yearly basis (Walker, 2010).

Due to the actual flow of money, some months the finances will be below and others above what was budgeted. The most essential aspect of this type of budgeting is that it is kept up-to-date.

Next, a program budget allows an organization to track revenue and expenses related to a specific program, as well as assess the program's performance success (Walker, 2010). The greatest benefits to creating and maintaining program budgets are to fill in gaps of understanding for the break-even analysis as well as for making organizational decisions regarding continuance or discontinuance of programs. Giving the organization's leaders the opportunity to assess its mission, objectives, services, and the utility of the program as a whole.

Overall, Tschirhart and Bielefeld (2012) share that, "to be an effective tool, budgets need to be realistic, consistent with strategic objectives, flexible, and measurable." How an organization implements a budget will be based on their needs, but overall the organization mission and objectives/goals should guide budget creation. Once a budget is established it should be used to measure data and flexible enough to change as needs arise.

Key concepts and events that precede the budgeting process include (See Figure 7.3 in Appendix B), strategic and action plans, timetables, procedures, assumptions, assessments and documentation. A few of these key principles will be evaluated in the context of LBHS' current capacity in an attempt to foster comprehensive budgeting practices. Each of these steps is fundamental in helping LBHS to adequately prepare for the yearly budgeting process. While LBHS is a relatively young organization, establishing these core practices will strengthen their organization and enable them to strategically plan future expansion efforts.

Strategic planning involves an organization purposefully establishing and identifying

their mission and vision. This planning encompasses a prioritized list of the organization's strategies to achieve that vision. Organizational development plans are ideal for implementing a successful budgeting process. It establishes the nonprofit's focus and helps unify all parties within the organization.

Strategic plans also involve outlining an agenda for providing and developing the organization's programs. Bryson (2011) offers an instructive diagram that effectively summarizes the strategic planning process (See Figure 7.5 in Appendix B). In essence Bryson (2011) demonstrates that strategic planning is effective when the organization is able to answer the following: (1) where they are, (2) where they want to be, and (3) how they plan to get there. Being able to provide a clear instructive plan to answering these questions will greatly enhance the efficacy of the budgeting process. Resources, particularly in the nonprofit sector, are limited and must be allocated efficiently in order to facilitate maximal organizational and program success.

In addition to implementing strategic planning and budgeting mechanisms, an essential component is a strong establishment of policies and procedures. Literature on financial management policy is consistent with its emphasis of a strong conflict of interest policy and established lines of authority with budget and fund procedures. The book *Understanding Nonprofit Organizations* states,

“Much of the authority that gets delegated is spelled out in state statutes, incorporation papers, bylaws, and other documents. Where such authority is not clearly understood, or where specific responsibilities need to be clearly spelled out, written policies need to be drawn up. This process begins with the simple yet important financial decision about who may sign a check and for what amount.” (Ott, et al., 2015)

While it may seem unnecessary to write out a policy for something as simple as who may sign a check, these small internal controls are imperative to establishing organizational maintenance and order. All of these smaller policies work together to avoid larger catastrophes that can occur when money is involved. Having the policies and procedures written out in a document gives LBHS the opportunity to grow as an organization, not only in manpower but also in clientele retention, program efficacy, and fiscal expansion. Rather than trying to train someone on unwritten rules and procedures, new staff members can refer to the protocolled documentation.

CompassPoint, a nonprofit leadership and strategy practice, released a guideline for fiscal policies and procedures. In it they suggest some questions nonprofits should consider when writing financial policy:

1. Who approves which elements of the fiscal systems (expenses, budgets, etc.)?
2. When and how is approval documented?
3. Who develops and approves the fiscal policies themselves?
4. Who has the authority to change a fiscal policy, and how often are policies reviewed and changes approved? (CompassPoint, 2012)

Although, these questions are certainly not comprehensive, they do provide a good starting point for establishing lines of authority. That being said, writing out the policy doesn't mean anything will change. Essential members of the organization must be in agreement on these policies and committed to following through with them as documented.

Closely related to lines of authority is segregation of duties. The organization's financial responsibilities should not be placed on the shoulders of one person in the

organization. Not only is this unrealistic, it also aims to help avoid fraud and errors in accounting. Jacqueline and Patricia share the brunt of the load for the financial management of LBHS. While it is a strength to have someone as knowledgeable as Jacqueline at the helm, sometimes leaders can be reluctant to relinquish some of that responsibility. Referring back to the text *Understanding Nonprofit Organizations*, the authors write,

“Financial information should be recorded, reviewed, summarized, and reported.

While information hoarding might feel necessary, none of us are invincible, and unforeseen events may occur. In the event of an emergency, someone needs to be able to continue the mission of the agency. In such an emergency, or in the event of the unavailability of the person with the information, someone still needs to make decisions and take actions to meet the needs and goals of the agency.” (Ott, et al., 2015)

Given the organizational dynamic at LBHS, this a legitimate area of concern for them. If something was to ever happen to Jacqueline or Patricia, the organization would be in a state of emergency. Having a written policy for how Jacqueline and Patricia interact with funds would help alleviate some of the danger, but an even better safety measure would be to have multiple “financial experts” within the organization so that it can continue to run despite key members being unavailable. Not only would this improve organizational workflow, it would also reduce the conflicts of interest concerns placed on Jacquelyn as the Executive Director as well as Patricia in relation to her work outside of the organization.

The Council of Nonprofits website states that “A policy governing conflicts of interests is perhaps the most important policy a nonprofit board can adopt” CompassPoint’s (2012) guideline suggests some questions to consider when developing a conflict of interest policy.

Those guidelines include defining what constitutes conflicts of interest for the organization, determining the consequences and remedies if a conflict arises, developing a process for disclosing conflicts, and deciding who resolves the conflicts. Making sure these controls are in place allows staff members to act with confidence, knowing beforehand what is okay and what is not acceptable when it comes to their roles in the organization.

In addition to defining roles and expectations for members of the financial management team, the organization needs to determine (through a policy) what “up-to-date” means for them. It was likely a shock for many board members to discover that LBHS was behind over half-a- year in their financial reports. A policy in place wouldn’t necessarily solve the problem, but it would provide a standard workflow for employees, and a mechanism for the board of directors and staff to utilize in resolving this issue as well as implementing accountability within the organization. *Understanding Nonprofit Organizations* states, “Financial reports also inform management and the board about the organization’s financial status and the need for corrective actions. Without these, the trustees and management cannot effectively govern” (Ott, et al., 2015).

When the financial reports of LBHS are behind, that leads to senior leadership making decisions on reports that may be outdated. As decisions may not be effective if made on irrelevant and/or outdated information, other areas of the organization could suffer financially if records are not kept up-to-date. This could, in turn, limit LBHS’ ability to help others and fulfill their mission in the future.

REVIEW OF BEST PRACTICES

In conjunction, another parameter that may hinder LBHS' progression and success is their lack of cooperation and collaboration with sister or outside organizations. As a health-based nonprofit, the most efficient and successful way to become prosperous is through collaboration and sponsorship within the healthcare community. Many organizations look for niche providers such as LBHS to refer clients. This form of integration would not only provide a sense of community for LBHS, but also bring in a greater clientele base, leading to an increase in fund. Exposure to other community health centers would not only allow LBHS to grow their consumer base, but also provide them with a platform to attain support and financial aid from other psychological and nonprofit professionals/organizations. During her interview, Dr. Jessica Howsley stated, "It's very important for niche organizations to have multiple means of exposure. Not only a social media presence, but also a strong relationship with sister organizations." This would enable LBHS to not only increase their consumer base, but also provide them with resources and references they could utilize when they encountered an issue or concern they are not entirely equipped to handle. That behind said, before LBHS goes to increase its consumer base, it's essential for them to have fundamental policies and procedures in place for functionality. The organization could easily face discomfort and turmoil if they receive a sudden influx of clients, but don't have the capacities and processes in place to accommodate client and organization's needs.

Effective policies and procedures are a vital piece of a well-managed nonprofit organization. Without them, the organization could quickly find themselves in a financial bind, ultimately resulting in the organization folding. Policies also serve to ensure that the

organization complies with legal requirements, failure in this area could result in a loss of 501(c)(3) status and even legal repercussions. A potential positive outcome of strong financial management is attracting funders that appreciate an organization that can make the most of funds and display accurate and adhered to policies and procedures. Policies provide clarity on responsibilities within the organization and aid to avoid errors in documentation.

While analyzing Shelter, Inc., a smaller nonprofit (annual revenue less than \$400,000) serving the female single adult homeless population, Walker (2010) writes, “Forecasting and budgeting are disciplined efforts to understand a nonprofit’s past to plan for its future. While an unanticipated source of revenue or expense can occur, when a budget planning process is in place, it’s more likely a nonprofit will remain on course.” This implies that although LBHS will not be able to plan for every source of revenue or expense, having a budget and policies in place will enable them to better remain on course. See Appendix C for examples of Shelter, Inc.’s yearly budget, as discussed by Walker.

Eadie, Tschirhart and Bielefeld stress involving the board of directors and other leadership in the annual budget planning process. This gives the board an opportunity to weigh- in on objectives, as well as utilize their unique background and skill sets regarding budgeting and financial management (Eadie, 2001, p. 128-129, 134). Tschirhart and Bielefeld emphasize the same points in their assessment of hopeFound, a nonprofit (unknown size at time of 2005 assessment) serving the homeless population in Boston. The assessment of hopeFound stresses that the annual budget planning process should be a joint-process between the board, leadership, and even other staff, because necessary information is typically not available from one source alone, (Tschirhart and Bielefeld, 2012, p. 154). For hope found, budgeting helped them pay off \$300,000 in debt during three years and double its operating

budget (Tschirhart and Bielefeld, 2012). Needless to say, an annual budget planning process and establishment of budgeting practices can have a significant impact on LBHS moving forward.

Although having a budget is essential, it's not the end-all step. The next step is utilizing the information from the budget to make organizational decisions. Program budgets allow organizations to make decisions on program continuation and what type financial means are necessary in order to sustain or grow. This helps create specific financial action steps for the organization in connection to either allocation of resources or focused fund development.

Two other uses for budgets are variance and break-even analyses. Both types of analyses are essential to ensuring organization financial stability and direction. A variance analysis should be performed either monthly or quarterly, as recommended by both Walker (2010 - connecting to Shelter, Inc.) as well as Kavanagh and Swanson (2009 - connecting to four different counties/cities). Walker (2010) explains that a variance analysis is an analysis and then explanation of why there were variances from the planned budget (whether over or under).

Variance analyses performed on a frequent basis allow the organization to better understand why deviations from the budget are occurring (Walker, 2010) as well as to foresee encroaching unsustainable trends (Kavanagh and Swanson, 2009). Both of these insights help inform the organization of changes that need to be made either to update the budget to reflect more accurate data or to make organizational changes to curb destructive financial trends. Variance reports should be given to the board of directors on a regular basis.

Budgeting and variance analyses prepare an organization to perform a break-even

analysis, which further helps the organization make financial decisions. This type of analysis is one of the greatest tools available to an organization for financial forecasting. Walker (2010) explains, “a break-even analysis calculates the point at which revenue equals expense.” A break- even analysis looks at fixed costs, variable costs, and necessary income, (Walker, 2010, p. 441- 442). Depending on the break-even analysis, LBHS can make decisions such as programs they should focus on and how many grants they need to apply for.

These various best practices can be seen in the experience of Project Sanctuary. Project Sanctuary is a nonprofit based out of Colorado that was founded about 10 years ago and provides services for military families, including mental and behavioral health resources (Our History, n.d.). The reason this organization was analyzed in connection with LBHS is because it is relatively new, is serving a specific population, and has grown tremendously since its inception. Project Sanctuary began sharing audited financials and their 990 forms in 2014, so even though little financial information is available to the public about their early years, much can still be gleaned from their 2014-2016 records (Annual Reports & Financials, n.d.). The 2014 (James, et al.), 2015 (Taylor, et al.) and 2016 (Taylor, et al.) financial statements all demonstrate that Project Sanctuary utilized a detailed cash flow budget as well as oversight and planning by management and possibly even the board of directions. These reports also show specific information by project, for both cash flow in and out. It can be concluded that the type of financial management practices discussed in this section helped Project Sanctuary allocate resources more wisely to springboard to growth.

Financial Statements serve as an essential component of any NPO, no matter the size. Mathew Mackay, Finance and Accounting Manager of the Department of Cardiology at the University of Utah School of Medicine clearly stated during his interview, “Without

concrete financial policies, procedures, practices, paper trails, statements, and understanding of one's financial mechanisms, any organization is doomed to fail." It was clear that having a vision, mission, goal and overall intent is not enough for organizational success. Additionally, Mr. Mackay stated that financial processes tend to be a tiered approach. As tasks become more deliberate and detailed the number of individuals overseeing them should always decrease. However, this tiered approach should also serve as a network where individuals within the organization can refer to each other, no matter where they may or may not fall on the hierarchy. In his final statement, "Financial management is a step-by-step process, with lots of checklists, but the ability to achieve complete financial control requires a lot of patience, cooperation, and deviation from the path." What works for one organization will certainly not work for another. In the process of checking off the to-do items, every nonprofit will approach their situation and resolve differently. As long as at the end, all the procedural and policy needs are met.

RECOMMENDATIONS FOR LBHS

Organization is a key component of any successful institution. In regards to financial management, keeping detailed records is vital. LBHS can further improve on their accounting responsibilities by implementing improved employee training in QuickBooks. To keep costs low, there are multiple free QuickBooks training resources that can be conducted independently, requiring only a computer and internet connection. Furthermore, these free training resources (See Appendix D) are available in both English and Spanish. All partners involved in any of the financial management components of LBHS should attend at least one QuickBooks training session per quarter.

With respect to cash exchange and treatment of finances associated with counseling services, specific policies need to be implemented. The first policy that would aid in improving organizational quality of cash and credit transactions is creating detailed guidelines for the implementation income based service fees and defining costs. Additionally, implementation and regular use of Square technology would also greatly influence LBHS' ability to receive donations from participants receiving counseling services. All employees performing transactions should be trained and knowledgeable in utilizing Square. The iPad and/or Square accessory device must be kept in a safe storage area accessible by only those necessary, this will help to eliminate error, misinformation, and potential conflicts of interest.

The Finance Manager should oversee all monetary transactions, and all cash transactions must be recorded and reported daily to the Finance Manager. Who then, upon requests and via reports can provide necessary information to the board and hire ups. Implementation of appropriate financial organizational policies and procedures will enable LBHS to generate consistent, constant, and timely financial reports for board members to assess and analyze with respect to the organization's needs.

There are common elements to any timetable in regards to budgets that require attention. This involves determining the amount of time needed for program development and the associated costs. The timetable also involves evaluation of staff and organizational capacity to carry out the determined goals. Understanding the time necessary to achieve certain goals facilitates individuals within the organization to reach those goals. Fundamentally, a well-established timetable promotes communication within the organization, including LBHS. A well- thought-out timetable will help each individual to contribute more to the organization. A timetable should be created for organization as a whole, one for each team, and one for each

acting member.

Accurate assessment and documentation of a timetable involves “evaluation of past budgets, financial statements, financial reports, contracts, grant documents, and investment reports” (Jean-Francois, 2014). This step is essential, particularly prior to the start of the budgeting process for the upcoming fiscal year. It’s instructive to look at past budgets in an attempt to see how accurate your assumptions turned out to be. Evaluating past budgets and financial statements will help LBHS’ organization to determine how effective their strategic planning was from the previous year, and to create a strategic planning scheme for the upcoming fiscal year. It will delineate which goals were not met and what policies the organization should implement to achieve the desired outcome. Ultimately, this prerequisite of yearly planning allows the organization to be responsible for and evaluate their performance of the previous year.

Budgets are an ongoing process with multiple possible steps to be completed over time. Considering the current capacity of LBHS in conjunction with their current budgeting practices, below is a tiered approach to improving budget creation and use. It should be noted that these steps should not be taken all at once, but implemented over an accurate period of time for each step (this could be up-to a year or more if all six steps are implemented). It should also be noted that each step in these recommendations is a success in itself and should be celebrated as such upon completion.

Recommendation 1: Strategic planning sessions: It is evident that LBHS does have meetings in which they plan tactically. However, it is vital that this process be developed further and result in written documentation that allows for all within the organization to know the mission, vision, goals and plans for the upcoming year. This strategic planning process

will greatly contribute to their yearly budgeting process and is a vital part to successful forecasting.

Recommendation 2: Even though an updated budget form will not be created yet, the step of creating an updated and accurate budget is to enter cash flow on a regular basis. We suggest that this practice be done on a weekly basis, and monthly at the very latest. LBHS will benefit by staying organized and having an accurate financial picture to present at board meetings, improving organizational decisions. As actual cash flow (revenue and expenses) are recorded, the person(s) completing this task can record suggested categories to add to the budget to give it a more comprehensive picture. The second step is to update budget categories to accurately encompass all necessary transactions. A budget should be detailed enough to reflect expenses, but flexible enough that new expenses can be entered in. This step should be completed for both the cash-flow budget as well as the program budgets.

Recommendation 3: In order to get a complete budget picture, it's vital to assess cash-flow in and out of an organization. LBHS currently does not have data to determine a cost-benefit analysis. LBHS should perform an assessment on how much it costs, on average, to assist one of their clients through the steps of their program, specifying the cost of each step. An example of a program assessment is in Appendix E. Another area that LBHS needs to evaluate is the cost-benefit of their fundraising. For example, LBHS recently completed a fundraising event in Moab, Utah. Although the event may have been a great idea, it was not very financially beneficial to the organization. A cost-benefit analysis should also be completed on previous fundraising events (the number and/or date back in history determined by LBHS), allowing them to understand their financial history and what changes in policies and procedures would enable them to avoid making mistakes, but also to see what they have

been doing right.

Recommendation 4: Once LBHS has updated budget forms and a clear understanding of the financial benefit of their programs, they are ready to perform variance analyses. These analyses should be performed each month and shared with their Board. The variance analysis helps leadership and the board make decisions regarding objectives and decisions moving forward, as well as ensure their scarce resources are being used effectively. An example of a variance analysis is located in Appendix F.

Recommendation 5: The next step for LBHS is to create a break-even analysis. The purpose of a break-even analysis is to understand what type of income and output is needed in order to hit profit maximization (a place where LBHS can provide the greatest amount of services for the ideal amount of income). This step will most likely take place around eight to twelve months following the beginning of recommendation one. Seeing that, if acted upon, this recommendation mostly won't be implemented for about a year, a graphic for a break-even analysis is included in Appendix G, but not explained. We suggest that once you are ready to begin this step that you consult either read Walker's 2010 article which is referenced in this assessment or that you talk with an individual who has training in this area.

Recommendation 6: The final proposition for improving budget usage and performing forecasting is to perform a yearly financial planning meeting with leadership and the Board of Directors. This meeting can take place at any time throughout this recommendation implementation process, but is essential at the end of the course of recommendations. This is essential to make decisions for the coming year based on the financial information available to LBHS.

CONCLUSION

LBHS has proven to provide valuable and necessary services to the community, however limited themselves in organizational growth, exposure, management training and specialization, and fiscal advancement. As an NPO with immense potential, implementation of policies and procedures would not only allow them to grow on a significant level, but also help them to form the necessary infrastructure and foundations needed to be at the forefront of leading mental health based NPOs. If LBHS is to follow the steps and recommendations highlighted in this report, they are sure to set themselves on a path of institutional success.

APPENDIX

APPENDIX A: Systematic Literature Review

Database	Search String	# of Records	# of Duplicates	# Excluded	# Included
Pubmed	Advanced search: nonprofit (AB) AND financial management NOT hospital	97	2	89	6
PSYCHinfo	Advanced search: nonprofit (AB) AND financial management	13	1	5	7
Sociological Abstracts	Advanced search: ab(nonprofit) AND (financial management)	294	23	204	67
Business Source Premier	Advanced search: not-for-profit AND financial management AND budget	63	2	45	16
	Advanced search: nonprofit AND financial management	144	1	61	82
Total		611	29	404	178
Conditions for Exclusion - General (Specific in "Additional Criteria Notes")		Related Row	Additional Conditional Notes		
Last 5 years		A2	Excluded "hospital" from here		
Peer Reviewed		A3	Not limited to only "peer reviewed"		
Must relate to subject area (financial management)					
Must relate to sector (nonprofit)		A5	Not limited to only "peer reviewed" AND not limited to nonprofits		
Must have an abstract		A6	Last 10 years		
Abstract must be in English		A7	Last 10 years, not limited to "peer reviewed", but excluding newspapers		

Financial Management Themes	Details
Accountability	Personal monitoring, crowd theory, government, stakeholders, Board of Directors should assist
Adaptation	How to thrive in economic downturn,
Analysis/Assessment	Gives clear picture
Assets	Contribute to financial success
Audits	CPA should be aware of nonprofit situation, SOX, finding quality
Budget Reporting	Cash accounting is essential,
Capacity Building	Good governance
Decisions	Need data to make decisions
Ethics/Honesty	Builds reputation, helps in economic downturn
Fiscally Lean	Reduce overhead, efficient use of resources, effective decision making
Fund Development	Tied to financial management, requirements attached to funds
Health	Financial health is different in short- and long-terms
Investment	Continue to bring in revenue, but can also be detrimental
Leadership Characteristics	Help or hinder the organization financially,
Organizational Capacity	Focused on fulfilling goals/mission with strategic planning
Outside Factors	Will affect the organization and financial decisions
Policies	Should have and be trained on
Risk Management	Different models, training needed

Size	The larger the organization the more likely it is to utilize successful financial management techniques
Standards	FASB, SOX, ABFM
Transparency	Builds trust, leads to adaptation, builds donor trust, changes public view/opinion/desire to donate

Missing – Unanswered or Limited Answers
Connection between financial leanness and ability to respond to economic changes/environment
Extensive data on smaller organizations (the data was primarily focused on larger organizations)
Extensive data on behavioral health nonprofits (found an article about two, but most results were related to hospitals which occurred without even connecting to medical field)
Tie between specific budgeting, analytics, and benefits
Specific instructions for financial management tools/steps (this was limited)
Discussion on type of training/policies are recommended (this was very limited)

APPENDIX B: Budget Development Process

Figure 7.3 – Budget Prerequisites (Bryson, 2011)

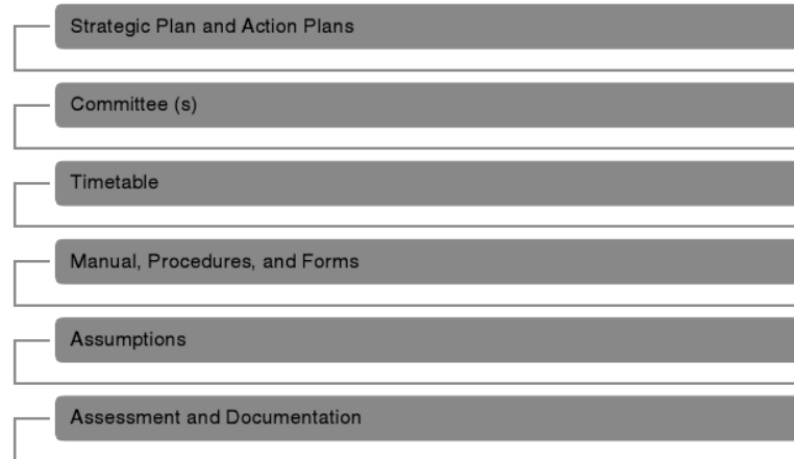


FIGURE 7.3 Budget prerequisites.

Figure 7.5 – Strategic Issues (Bryson, 2011)



Figure 7.4 – The Budgeting Process (Bryson, 2011)

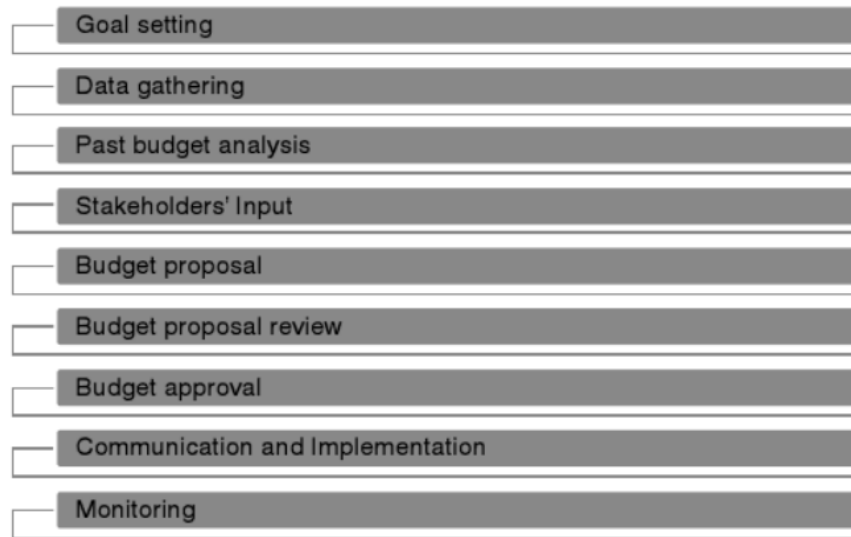


FIGURE 7.4 The budgeting process.

APPENDIX C: Shelter, Inc. Yearly Budget (Walker, 2010)

Part 1:

	<i>PROGRAMS</i>			<i>Administration and Fundraising</i>	<i>TOTAL</i>
	<i>Shelter</i>	<i>Job Readiness</i>	<i>Community Outreach</i>		
EXPENSE					
Executive director	15,000	5,000	5,000	25,000	\$50,000
Program director	22,000	6,000	6,000	6,000	\$40,000
Residence manager	32,000				\$32,000
Case manager	22,400	2,800	2,800		\$28,000
Case manager	25,000				\$25,000
Life skills developer @ 50%	14,400		3,600		\$18,000
Bookkeeper @ 50%				19,000	\$19,000
Social Security @ 7.65%	10,006	1,056	1,331	3,825	\$16,218
Unemployment @ 2.5%	3,270	345	435	1,250	\$5,300
Workers' compensation @ 3%	3,924	414	522	1,500	\$6,360
Health insurance @ \$250/month	8,250	2,250	2,250	2,250	\$15,000
<i>Personnel Subtotal</i>	<i>\$156,250</i>	<i>\$17,865</i>	<i>\$21,938</i>	<i>\$58,825</i>	<i>\$254,878</i>
Contractual fees					
Audit				5,000	\$5,000
Computer				3,000	\$3,000
Occupancy					
Shelter	45,600				\$45,600

Table 49.1 Shelter FY 2010 Budget, July 1, 2009, to June 30, 2010

Part 2

	<i>PROGRAMS</i>			<i>Administration and Fundraising</i>	<i>TOTAL</i>
	<i>Shelter</i>	<i>Job Readiness</i>	<i>Community Outreach</i>		
Office				8,400	\$8,400
Equipment	1,650	450	450	450	\$3,000
Supplies					
Program	3,840	480	480		\$4,800
Office				1,800	\$1,800
Food	6,600				\$6,600
Training	2,750	750	750	750	\$5,000
Photocopying and printing	1,320	360	360	360	\$2,400
Postage	660	180	180	180	\$1,200
Telephone	2,772	756	756	756	\$5,040
Insurance	4,125	1,125	1,125	1,125	\$7,500
Travel					
Client	1,920	240	240		\$2,400
Staff	990	270	270	270	\$1,800
Subscriptions and dues	220	60	60	60	\$400
<i>Nonpersonnel Subtotal</i>	<i>\$72,447</i>	<i>\$4,671</i>	<i>\$4,671</i>	<i>\$22,151</i>	<i>\$103,940</i>
TOTAL FY 2007 EXPENSE	\$228,697	\$22,536	\$26,609	\$80,976	\$358,818

Part 3

REVENUE					
Government	219,200	13,700		41,100	\$274,000
Foundation and corporations	8,223	8,223	26,609	11,763	\$54,818
Special events	1,274	613		8,113	\$10,000
Individuals				5,000	\$5,000
Program fees				8,000	\$8,000
Religious organizations				4,000	\$4,000
Professional organizations				3,000	\$3,000
TOTAL FY 2007 REVENUE	\$228,697	\$22,536	\$26,609	\$80,976	\$358,818

NOTE: Numbers may not add precisely due to rounding.

APPENDIX D: QuickBooks Training

The QuickBooks Guide in Spanish can be located for free at the following URL: <http://www.quickbooks-training.net/wp-content/uploads/2014/03/Guia-Del-Usuario-de-QuickBooks.pdf>

APPENDIX E: Program Evaluation Example

Although their goal is to assist with child welfare and not specifically behavioral health services, the Children's Bureau (2013) created a detailed document outlining how to perform an evaluation (cost-benefit analysis or assessment) of a program. There are easier formats available online. You can read this document here: https://www.acf.hhs.gov/sites/default/files/cb/cost_analysis_guide.pdf

APPENDIX F: Variance Analysis (Kavanagh and Swanson, 2009).

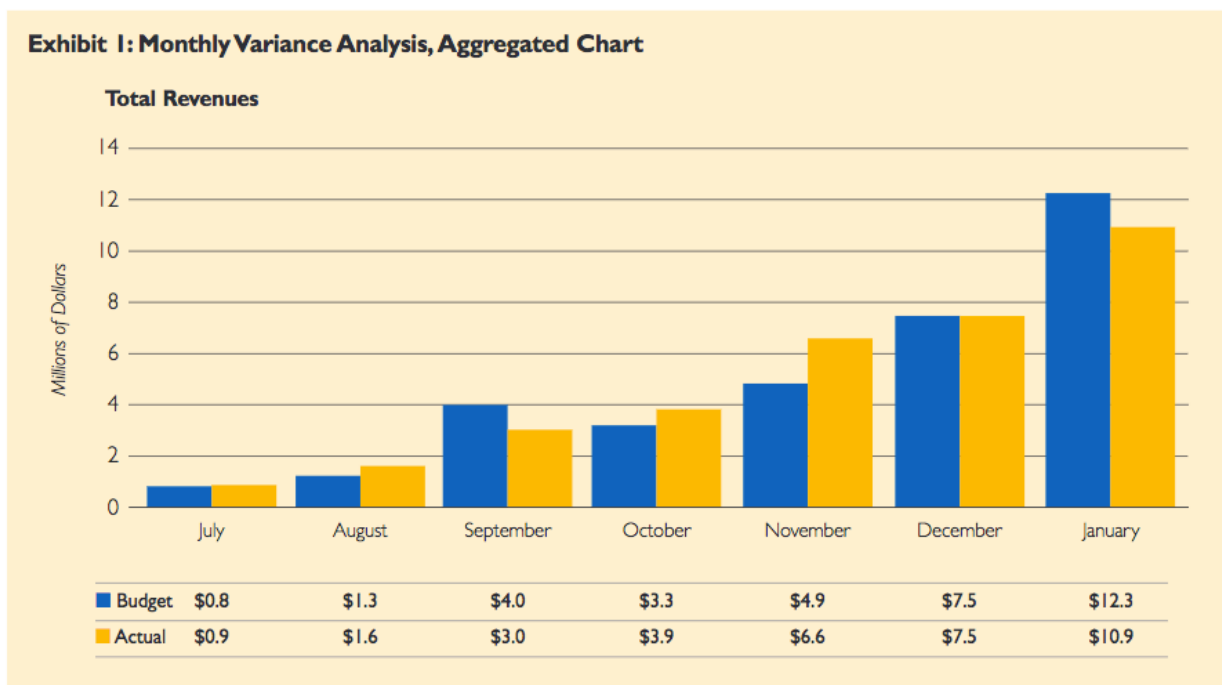


Exhibit 2: Montly Variance Analysis, Detailed Table

All Revenues Sources	Fiscal Year 2008-2009						FY 2007-2008		
	Annual Adopted	Budget Adjusted	YTD Budget Jan 2009	YTD Actual Jan 2009	Favorable/ (Unfavorable)	Percent	YTD Prior Year	Change from Prior Year	Percent
Sales Tax	\$27,941,250	\$27,941,250	\$11,957,965	\$10,473,760	\$(1,484,204)	-12%	\$12,563,400	\$(2,089,640)	-17%
Property Tax	21,708,500	21,708,500	11,423,198	11,417,680	(5,518)	0%	11,059,684	357,996	3%
Hotel Tax	5,315,000	5,315,000	2,591,568	2,079,686	(511,883)	-20%	2,240,279	(160,593)	-7%
Franchise Tax	3,717,500	3,717,500	532,537	808,138	275,601	52%	445,022	363,116	82%
Community Services Fees	3,527,895	3,477,951	2,087,354	2,253,237	165,883	8%	1,989,651	263,586	13%
Utility Users Tax	2,218,500	2,218,500	1,119,272	1,196,681	77,410	7%	1,169,846	26,835	2%
Fines & Forfeitures	1,066,000	1,066,000	518,174	488,260	(29,914)	-6%	601,946	(113,686)	-19%
Documentary Transfer Tax	800,000	800,000	357,661	268,934	(88,727)	-25%	308,780	(39,845)	-13%
Motor Vehicle In-Lieu Revenues	496,500	496,500	222,266	162,519	(59,747)	-27%	210,300	(47,781)	-23%
Licenses & Permits	813,000	813,000	415,991	441,752	25,761	6%	493,634	(51,882)	-11%
Miscellaneous Revenues	352,573	352,573	221,102	137,922	(83,182)	-38%	285,724	(147,802)	-52%
Revenues from Other Sources	875,991	958,428	531,559	309,537	(222,023)	-42%	299,041	10,496	4%
Fees for Services	597,302	597,302	325,008	369,924	44,916	14%	343,115	26,808	8%
Community Development Fees	112,500	112,500	63,573	53,815	(9,758)	-15%	67,704	(13,890)	-21%
Public Works Development Fees	34,660	34,660	20,194	2,493	(17,701)	-88%	18,111	(15,618)	-86%
Total Operating Revenue	69,577,170	69,609,663	32,387,424	30,464,337	(1,923,087)	-6%	32,096,238	(1,631,901)	-5%
Transfers In	4,448,093	8,671,903	1,726,600	3,954,754	2,228,153	129%		(1,631,901)	
Total Revenues & Sources	\$74,025,262	\$78,281,561	\$34,114,024	\$34,419,090	\$305,066	1%	\$32,096,238	\$2,322,852	7%

APPENDIX G: Break-Even Analysis (Walker, 2010)

Childcare, Inc. will reach it's great maximization (helping the most amount of children for the least amount of cost) at 56 children. This is apparent because the Marginal Cost is lowest at this point.

<i>Assumptions</i>				
Total fixed cost	50,357			
Total variable cost	176,155			
Teacher salary	24,000			
Teacher:child ratio	1 to 8			
<i>Number of Children</i>	<i>Total Fixed Cost</i>	<i>Total Variable Cost</i>	<i>Average Total Cost</i>	<i>Marginal Cost</i>
1	50,357	46,019	96,376	
2	50,357	46,019	96,376	48,187
3	50,357	46,019	96,376	32,123
4	50,357	46,019	96,376	24,091
5	50,357	46,019	96,376	19,271
6	50,357	46,019	96,376	16,058
7	50,357	46,019	96,376	13,762
8	50,357	46,019	96,376	12,040
9	50,357	70,019	120,376	13,367
10	50,357	70,019	120,376	12,029
11	50,357	70,019	120,376	10,933
12	50,357	70,019	120,376	10,020
13	50,357	70,019	120,376	9,248
14	50,357	70,019	120,376	8,585

Table 49.5 Childcare, Inc., Marginal Cost Analysis*(Continued)*

(Continued)

<i>Number of Children</i>	<i>Total Fixed Cost</i>	<i>Total Variable Cost</i>	<i>Average Total Cost</i>	<i>Marginal Cost</i>
15	50,357	70,019	120,376	8,011
16	50,357	70,019	120,376	7,509
17	50,357	94,019	144,376	8,477
18	50,357	94,019	144,376	8,004
19	50,357	94,019	144,376	7,581
20	50,357	94,019	144,376	7,200
21	50,357	94,019	144,376	6,855
22	50,357	94,019	144,376	6,542
23	50,357	94,019	144,376	6,255
24	50,357	94,019	144,376	5,993
25	50,357	118,019	168,376	6,711
26	50,357	118,019	168,376	6,451
27	50,357	118,019	168,376	6,210
28	50,357	118,019	168,376	5,986
29	50,357	118,019	168,376	5,778
30	50,357	118,019	168,376	5,584
31	50,357	118,019	168,376	5,401
32	50,357	118,019	168,376	5,231
33	50,357	142,019	192,376	5,798
34	50,357	142,019	192,376	5,625
35	50,357	142,019	192,376	5,462

35	50,357	142,019	192,376	5,462
36	50,357	142,019	192,376	5,309
37	50,357	142,019	192,376	5,163
38	50,357	142,019	192,376	5,026
39	50,357	142,019	192,376	4,895
40	50,357	142,019	192,376	4,770
41	50,357	166,019	216,376	5,237
42	50,357	166,019	216,376	5,111
43	50,357	166,019	216,376	4,990
44	50,357	166,019	216,376	4,875
45	50,357	166,019	216,376	4,764
46	50,357	166,019	216,376	4,659
47	50,357	166,019	216,376	4,558
48	50,357	166,019	216,376	4,461
49	50,357	190,019	240,376	4,858
50	50,357	190,019	240,376	4,759
51	50,357	190,019	240,376	4,663

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