How Independent Operational Reviews Can Strengthen Financial Infrastructure

A Guide for Not-for-Profit Organizations

By Roberta Katz

Not-for-profit organizations rely on a strong financial infrastructure in order to support their ongoing operations, ensure sustainability and growth, and drive their mission forward. Finance leaders and executive directors often encounter challenges that signal underlying weaknesses in the infrastructure of their finance departments. These challenges may include uncertainty regarding whether all services provided are billed to funders, delayed distribution of monthly financial statements, or questions regarding the adequacy of staff with the appropriate technical competence needed to operate the finance department effectively. Recognizing and addressing these concerns are essential for building a strong foundation that supports a not-for-profit organization's mission and growth.

The Role of Independent Operational Reviews

In order to uncover and resolve weaknesses in the infrastructure of the finance department, not-for-profit organizations should consider undergoing an independent operational review. This process involves bringing in an external party to critically evaluate finance department operations. Such an objective review provides valuable recommendations for improvement, corrects existing problems, and identifies issues that may not yet have been detected.

The following are the typical components of an operational review:

- *Staff Interviews*: Each member of the finance team is interviewed to review the step-by-step procedures involved in performing their daily job functions.
- *Documentation*: Procedures followed by the finance team are documented in a comprehensive finance department operating procedures manual. This manual includes forms and documents that are part of their procedures as well as screenshots of financial software used.
- *Reporting*: Findings from the operational review are compiled into a detailed "findings and recommendations" report, which is presented to senior management and the board of directors.

Operational Reviews often identify similar kinds of issues. The following are common:

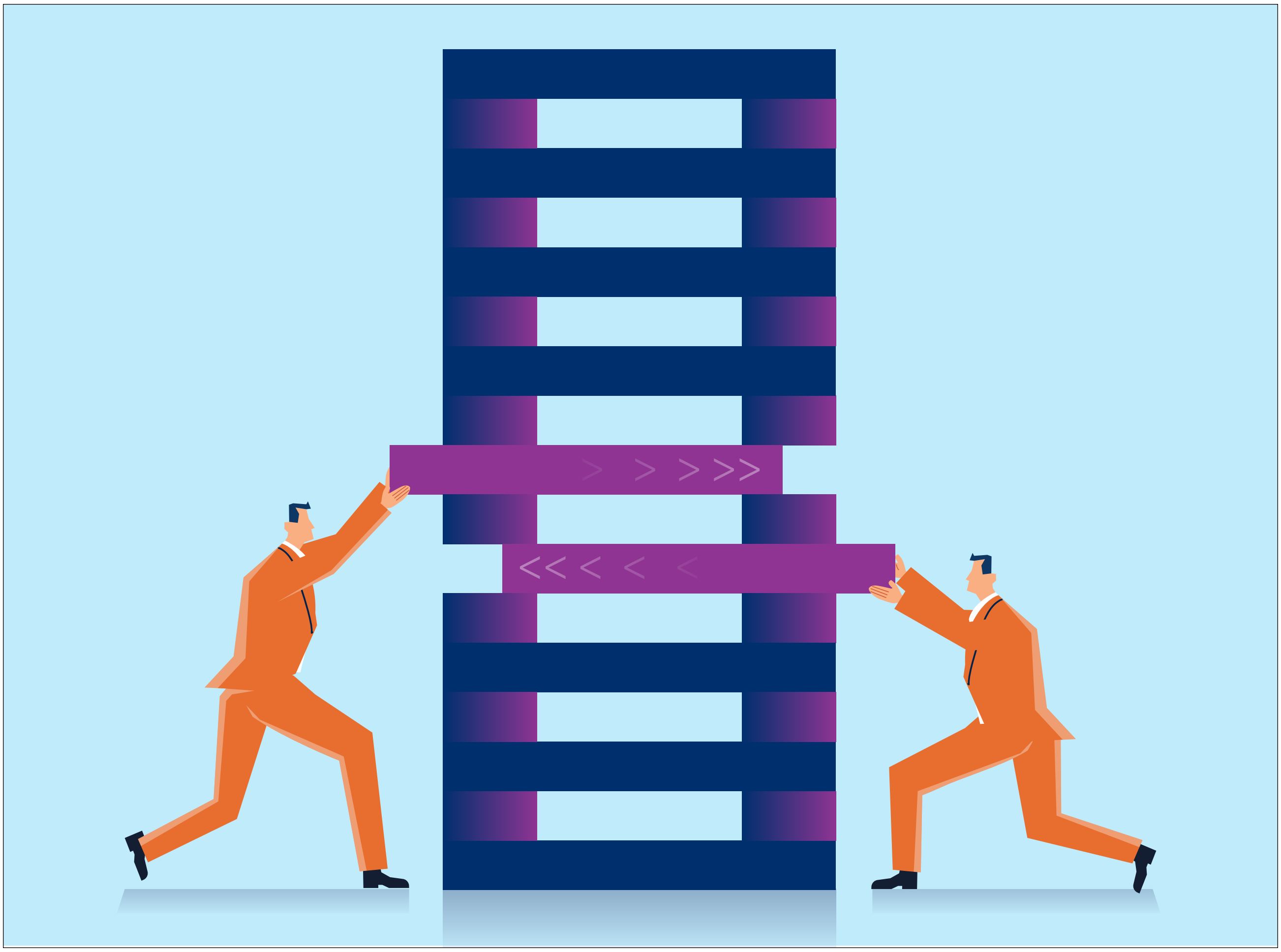
- Bank accounts are not reconciled and approved for several months.
- There is no formal month-end financial close process with designated completion dates.
- Staff are not sufficiently trained on new or upgraded billing systems.
- Accounting policies and procedures manuals are outdated or nonexistent.
- The roles and responsibilities within the finance team are undefined and undocumented.
- Annual financial audits are consistently delayed due to inadequate year-round preparation.

There are a number of typical outcomes of an operational review:

- Senior management develops an action plan to implement recommendations, complete with a proposed timeline.
- Senior management turns to the independent reviewer for guidance in implementing the recommendations.
- The board of directors is provided with regular updates from senior management on the progress of implementation until its completion.
- The board of directors gains confidence in the organization's path toward a stronger finance department infrastructure.

Selecting an Independent Reviewer

Before selecting an independent party to conduct an operational review, the organization should establish the scope of the review. This includes identifying which departments, programs, or procedures will be evaluated and clarifying the overall objective of the review. The selected consultant or accounting firm should have proven expertise in the areas outlined in the scope. Ideally, the reviewer will have prior experience in senior financial management roles within the not-for-profit sector, as this background provides valuable insight and guidance



into evaluating and implementing efficient and effective financial operations.

When considering candidates, the organization should conduct interviews, check references, and perform due diligence in confirming the reviewer's independence. Ensuring the impartiality of the reviewer is essential for a useful and reliable review process. Potential independent reviewers can be identified through professional networking, lists of consultants, and accounting firms available, either from not-for-profit organizations or by searching online.

Communication is Essential for Success

To be effective and useful for the organization, the purpose, scope, and objective of the review must be understood by the board, the applicable committees, and staff in order to ensure participation, collaboration, and support for the project.

It is particularly important for staff to understand that an operational review is an evaluation of the organization's financial operations and not an assessment of their individual performance. This distinction should be emphasized to alleviate concerns they might have. In the review, staff can share challenges and issues with an independent party that might not have been addressed internally.

Staff time must be respected by the independent reviewer to ensure participation during the interview process. To facilitate the process, a schedule should be created and distributed to all affected staff. Lines of communication should be maintained so that staff can raise questions and discuss concerns with their supervisors throughout the process. Senior management should advise the board and applicable committees of the review's progress.

Evaluating Key Components of Financial Infrastructure

A strong financial infrastructure is built in three principal areas: processes, systems, and personnel. These foundational components support operations such as strategic planning, budgeting, forecasting, and cash management. Even the most advanced systems and highly competent staff cannot compensate for a weak infrastructure. Reliable data and safeguarded financial resources are only possible when the infrastructure is strong. The three components of financial infrastructure should be assessed as follows:

Processes. There are several different dimensions along which the organization's processes can be analyzed and implemented:

- *Workflow*: Evaluating the workflow within and outside the finance department, as part of the operational review, can lead to recommendations for streamlining processes, enhancing efficiency, and maximizing productivity. For example, a centralized system may be recommended when inefficiencies are found in invoice processing that result in late payment due to lost invoices and delayed receipt of goods and services.
- *Internal Controls*: The operational review should focus on identifying gaps in internal controls, which are essential for mitigating the risk of unauthorized or fraudulent activity. Proper expense approvals to ensure a valid business purpose, approval hierarchies, and dual signature requirements should all be assessed.
- *Financial Reporting*: The month-end close process can be reviewed to ensure timely and accurate financial reporting. Tasks to be performed, staff responsible, and due dates for completion should be clearly defined, resulting in useful and meaningful financial data and financial reports.
- *Audit Preparation*: The outside review should provide recommendations to improve audit preparation and readiness for the annual financial audit. This can help ensure timely completion and distribution of annual financial statements used by internal and external parties for critical decision-making.
- *Policies and Procedures*: The review ensures that accounting policies and procedures are updated and documented. When policies and procedures are implemented and enforced, it promotes consistency in recording transactions, compliance with regulatory and accounting requirements, safeguarding financial assets, and transparency in financial management and reporting.

Systems. Operational reviews help identify opportunities to automate manual processes and optimize the use of existing financial systems. The review also examines the process for assigning user access rights, administrative responsibilities, and the need for adequate system security and disaster recovery planning.

Personnel. An independent review assesses whether staffing levels and skills are sufficient to run the finance department effectively. Are clearly defined roles and responsibilities documented in job descriptions? Recommendations are provided for necessary personnel changes, and the independent reviewer may assist in the hiring process. Staff training through workshops, webinars, and individualized instruction is emphasized to deepen understanding, foster professional development, and enhance retention of valued employees.

The Importance of Review

An operational review brings a fresh set of eyes to assess the financial operations of an organization with the goal of strengthening those operations. It is critical for a not-for-profit organization, as their ability to carry out their mission depends on their financial health. Once a strong financial infrastructure is in place, only adjustments are necessary when responding to internal and external changes that affect the organization. The independent reviewer, having gained knowledge of the financial infrastructure of the organization, remains available to assist, if needed, with further advice and guidance. ■

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