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Case Study

Acme Nonprofit is a medium-sized nonprofit with a paid Executive Director and paid staff. Operations include community activities, daycare, and human services. Volunteer Board of Directors meets monthly with ED to review finances, event reports, and programs.

Although Acme has a mission of providing services at low or no-cost, the staff has become extremely delinquent in collecting assessed fees for services, and has been “waiving” fees without scrutiny or approval. Also, donations and grants have been falling off, so cash flow is starting to reach a critical stage.

ED begins to “cover up” shortages in cash flow, and becomes lax in supervision of staff members. Donations collected during the day are stashed in the safe and forgotten - not deposited for several days (or even weeks). Bill payment becomes late or missed to the point that late charges are regularly assessed and Acme experiences several instances of phone and electric shut off. This causes interruption of services and additional expense in the form of reconnect fees. ED blames the bank or the utility for the interruption in service. ED actively hides cash flow issues by manufacturing book keeping reports for the Board to review and preparing checks for Board Member counter-signature, but which are never mailed.

Some of the Board Members become suspicious and confront the ED, who gives lame excuses. The Board begins to investigate complaints from constituents. Board hires a CPA firm to review the books, but the ED evades requests for access to the books for nearly three months before the Board insists that ED cooperate with the CPA. Board terminates ED for insubordination.

When the Board Members clean out the ED’s office, they are stunned to find piles of unopened mail from the IRS - all of which is asking for payment of employment taxes. Also in that drawer are several unopened (and unpaid) bills. Another drawer reveals a stack of signed checks for payment of bills that were never mailed.

After a thorough review of the books, the Board determines that payroll taxes have not been paid for 18 months, and other bills are several cycles delinquent. The Board borrows funds to catch up all accounts except IRS withholding liabilities. However, because the cash flow crises was allowed to progress unchecked, the Board has no choice but to discontinue certain services while attempting to regroup and rebuild cash flow. Of course, the financial troubles of Acme have become known in the community served by the Nonprofit, and this creates an additional burden of loss of good will and donation dollars.

A year later, and after much concerted effort, the financial records are in order, and Acme cash flow has improved, but is not yet “in the black.” IRS liabilities from the 18 month time period (including interest and penalties) are still owing, but all current (new) liabilities are paid. The Board continues to work toward developing cash flow through donation and fund raising programs, with an eye toward establishing the long-range financial stability of the organization.

The Board keeps a close eye on financial matters, these days, with regular review by the CPA firm, and all government reporting delegated to the CPA firm, for independent verification.

What bitter lessons did this Board learn?