

How to Achieve Transparency and Accountability for Nonprofits



Nonprofit organizations face complex requirements for financial control. With strict standards for transparency and accountability, these organizations find themselves highly challenged.

The nonprofit sector is unique in that people give money without getting a product or service in return. In that sense, it's a bit of a blind leap for donors, who are unlikely to support organizations that haven't established themselves as trustworthy.

Donors increasingly link the frequency and size of their donations to the ability of the organization to report how the money will be used and has been used in the past. This leads to the need for the highest standards of transparency and accountability. Failure to do so will eventually erode reputation and, consequently, loss of funds. This can tank a nonprofit irreversibly.

Although the terms transparency and accountability are often used together, they have somewhat different meanings. Transparency is the ability to demonstrate how funds have been used and the results that were accomplished, while accountability is the ability to demonstrate that funds have been used correctly with a good governance structure. In other words, accountability enables the right decision to be made by the right people, while transparency is reporting on the operations, primarily in terms of financial results and social impact.

Transparency

Times are changing. In the not too distant past, most donors were satisfied with limited amounts of information on how funds were applied and the results realized. Today, donors demand much more information and want to know the social impact delivered. This is especially true for grant-making organizations, which usually impose complex rules and regulations to ensure that the grant is used in a way that satisfies their goals. Consequently, nonprofits need a financial management solution capable of providing this new level of transparency to stakeholders.

Financial transparency requires defining, at the lowest level of granularity, how funds were used. At a minimum, the organization must associate an expenditure with a specific program. This raises the need for an ERP solution that combines financial management with project accounting, so costs can be captured at project/program level.

However, in most cases this isn't enough. Some funds are classified as "restricted." In such cases, transactions must also be linked to a specific fund. For example, if a grant has a restriction that travel costs are funded to a maximum of \$50,000, but the project needs a higher budget, the nonprofit can't link the actual expenses that exceed the threshold to this grant. They would need to allocate unrestricted funds. For financial transparency, organizations requires an integrated solution for financial management and project accounting that can capture multiple dimensions, such as projects, grants and funds.

Many traditional solutions can't provide this level of financial transaction handling. An ERP purpose-built for the nonprofit sector solves this specific industry challenge.

The transparency challenge grows significantly when trying to combine financial and social impact data. Grant-making foundations increasingly link the availability of funds to the ability to report on social impact. This forces nonprofits to rethink their technology requirements, and invest in results-based management solutions that help capture purpose, outcome, output, activity, and corresponding KPI information.

These solutions have a natural fit with project-based ERP tools. They are built to capture project budgets and project actuals. There is a direct link between these budgets and actual costs on the one hand, and the project activities on the other. Project activities are the lynch pin between project ERP and results-based management.

Accountability

From a finance standpoint, accountability is about translating the governance structure into corresponding workflows. This ensures the right people with the right authority are involved in making the right decisions. For example, project-related requisitions require project manager approval; an increase in project budget requires approval from the managing director; invoices require approval from the financial department and the project manager. All transactions need a timestamp, to provide a strong audit trail.

Having a strong governance structure in place is key, but equally important is the ability to handle changes to the structure. Nonprofits have a very high level of internal change, fed by the volatility from political, economic, social and technological change. This constant change means the governance structures and workflows must also be flexible enough to keep up.

Traditional ERP systems fail here. But, project-based systems designed for people-centric organizations easily handle frequent changes, large or small. Most ERP systems require external consultants to define the new organizational structures and workflows. This takes time, costs money and reduces productivity. An ERP that is flexible and configurable enables your people to make meaningful changes in real time, and minimizes business disruption and costs. This design dramatically reduces total cost of ownership and minimizes risk for the organization, as the workflows that govern decision making are in place quickly. For these reasons, the ability to quickly adapt to change should be a criterion in any ERP selection process for nonprofits.

Summary

Enterprise solutions have a profound impact on nonprofit organizations and their unique needs for transparency and accountability are not readily met by traditional legacy ERP systems. The demand from donors to understand the social impact of their funding, and the constraints imposed by grants create challenges in financial control.

Additionally, fast-paced change means the ERP solution must easily adapt to new organizational structures and corresponding workflows, ensuring minimal disruption and reduced governance risk.

Unit4's solutions are specifically designed for nonprofits, based on decades of experience working with hundreds of organizations in the sector. The Unit4 difference is substantial and that translates to dramatic benefits for nonprofits, their people and donors, and, most important of all, the causes they serve.