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BEYOND THE BASICS
Strategic Approaches to Organization-wide Compliance, Risk Management, and Resource Development

CAPLAW
Budget Builders:
Who Does What? Why it’s Important?

May 18, 2011
Presented by Kay Sohl
kay@kaysohlconsulting.net

Webinar Challenge!

You Could Win a Prize
Your name will be entered into the prize drawing every time you:
✓ Respond to Polls
✓ Enter Comments or Pose Questions

WIN!!!
Practice Poll

Your Role in CAA?

Topics for Today

- Goals of the Budget Process
- Getting the info you need
- Spotting & resolving BIG CHOICES
- Board and staff roles
- Presenting budget info clearly
- Managing the budget process

Technical Budget Issues

Don’t Miss!
Agency-wide Budgeting:
Counting Every Dollar Because Every Dollar Counts

CAPLAW Beyond the Basics Webinar
June 1, 2011, 2 p.m. – 3:30 p.m. EST
CAA Annual Budget

- **Comprehensive** – all sources & uses of resources
- **Consistent** – reflects all funding agreements, employment policies, labor agreements
- **Constitutes Board Authorization** – Board approval authorizes staff to execute the budget plan

Budget Development Challenges

- Uncertainty
- Complexity
- Overlapping grant/award periods
- Integration with strategic plan
- Time pressure

One More Big Challenge...

Potentially significant reductions in funding from federal, state, & local sources.
Effective Agency-wide Budgets Provide

- Board authorization
- Financial road map to implement the strategic plan
- Tool for compliance & control
- Management accountability tool

Financial Road Map

- How resources will be obtained
- How resources will be used
- How we’ll ensure compliance
- How net worth will be increased

Compliance & Control Tool

- OMB A-110 requires comparison of actual expenditures to budget
- OMB A-122 requires organization-wide approach to cost allocation
- COSO approach to risk management emphasizes comparison of financial results to budget plan
Management Accountability Tool

Requires clarity on each manager’s level of authority and responsibility for:
- Cost control
- Income generation

Budget Development Process

- Identify needed info
- Gather, analyze, integrate info
- Identify high impact choices
- Develop & evaluate alternate strategies
- Gather input/discuss options
- Resolve choices
- Create final document
- Board approval

Info Needs?

- Strategic plan
- Updated community needs info
- Innovation & improvement ideas
- Grant/contract budgets & requirements
- Fund development plan
- Monitor/audit findings
- Compensation plan
- Major expense trends & projections
Internal Info Sources

- Financial records
- HR
- IT
- Program Managers
- Compliance Officer
- Development Director/grant writer
- Staff

ED Contributions to Budget Development????

*It Depends....Possible ED Roles:*

- Overall coordination for budget process
- High level direction on key issues
- Require managers to participate actively
- Work closely with CFO to identify areas where more info is needed
- Take the lead in engaging the Board Finance Committee in budget discussions

Internal ?

- **Financial health** – how much risk can we take?
- **Compensation** commitments – contracts, precedents, expectations, competitive position
- **Compliance problems** – changes needed to meet requirements
More Internal?

- Infrastructure – cost/benefit of tech investment/starvation
- Innovation/redesign ideas
- Significant expense trends:
  - Health insurance/fringe benefits
  - Facilities
  - Other?

Ideas for Innovation or Redesign to:

- Reduce cost per person served
- Improve service quality & results
- Launch/enhance income generating services & products
- Streamline administrative functions
- Increase non-governmental funding

Private Fund Raising?

- Grants submission plan & projections
- Anticipated contribution to overhead through grants
- Individual & business contribution strategies & projections:
  - Gross proceeds
  - Net unrestricted contribution
Avoiding the Fund Raising “Plug”

- Detailed, comprehensive plan for all types of fund raising:
  - Comparison of planned to prior:
    - # of donors
    - Average gift size
    - Donor retention rate
    - Ratio of net to gross

External Info Sources

- Funders
- Low income individuals & leaders
- Safety net resource providers
- 211
- Community planning agencies

Excessive info gathering may be an unconscious conflict avoidance strategy

- Info will not make tough decisions
- Complexity may mask “control issues”
Analyze & Integrate Available Info

- Develop budget format
- Insert all “known” info
- Identify significant “unknowns”
- Estimate best & worst case scenarios for the unknowns
- Create preliminary rough models

Before jumping into detailed line-item projections....

- Ask & answer fundamental questions
- Identify & resolve the most significant choices

Fundamental?

- Strategic financial goals
- Commitments to personnel
- Cut-back philosophy
- Expansion/innovation criteria
- Infrastructure investment philosophy
Strategic Financial Goals

- Net asset targets & strategies to achieve
- Appetite/capacity for risk of losses
- Desired shifts in income mix
- Facilities ownership/improvement
- Compensation positioning
- Infrastructure investment

Personnel

- Current commitments & labor agreements
- Desired position within your labor market – top 25%, bottom 25%?
- Hiring/retention barriers
- Benefits philosophy

Cut-back Philosophy

- Share the pain
- Silo approach
- Big cut versus multiple small cuts
- Tenure versus skills needs
- Priorities for use of unrestricted funds
Financial Criteria for Expansion/Innovation

Resources must be available to cover:
- some direct costs?
- all direct costs?
- all direct costs + some overhead?
- all direct costs + full share of overhead?
- contribution beyond fully-loaded cost

Infrastructure Philosophy

- Make minimum investment needed to get by… or
- Consider both costs and benefits of potential investments
- Consider “opportunity costs” – what could be accomplished by staff if they were not devoting time to “making do” with inadequate infrastructure?

Identify High Impact Choices

- Personnel related
- Facilities & infrastructure
- Drop/add programs
- Redesign service delivery models
- Invest in fund development
- Other?
What are the Highest Impact Budget Choices for your CAA?

Type your key choices into the chat box at the lower right of your screen...and increase your chances to win a prize

Personnel Choices

- Pay raises/reductions
- Benefits
- Lay-offs/ position eliminations
- Outsourcing functions

Resolving High Impact Choices

- Clarify the level at which each major choice will be resolved:
  - Management Team?
  - Executive Director?
  - Finance Committee?
  - Full Board?
**Financial Models?**

- Identify limited number of options for resolving each key choice
- Create rough financial model for each option:
  - Cost implications
  - Income implications
  - Infrastructure implications

**Board Role in Resolving Choices**

- Executive Director and Finance Committee Chair determine which of the key choices require Board or Finance Committee input/direction
- Staff prepares briefing on options for the selected choices
- Clarify whether the Committee is providing input or direction

**After Resolving Major Choices..**

- Prepare comprehensive budget document integrating all cost center budgets
- Invite input from all managers
- Provide info to support managers’ input
Cost Center Info for Managers

- Current year budget, actual, & projected year end info by line item
- Preliminary personnel expense schedule
- Projected overhead charges to the cost center
- Projected income available to support the cost center – including uses of CSBG

Questions for Managers

- Personnel – proposed changes from preliminary schedule
- Proposed line item expenses for items within scope of manager will be responsible for controlling
- Proposed revisions to income estimates

Integrating Cost Center Info

- Fiscal staff integrates all proposed budget info from managers into master budget document
- Identifies areas in which proposed expenses exceed projected income
- Works with Executive Director or Management Team to resolve choices to create comprehensive document
Board Finance Committee Role

- Review draft comprehensive budget
- Evaluate the level of risk which the proposed budget presents
- Identify strategic issues that require full Board discussion
- May request revisions
- Prepare recommendation for approval or revision to the full Board

Board & Staff Budget Roles

- Proposed budget is management’s plan to get and use resources
- Management is responsible for accuracy and completeness
- Finance Committee is responsible for ensuring that management’s plan is consistent with the CAA’s strategic plan, values, mission and represents reasonable risks

Full Board Role

- Board approval of the annual budget comprises authorization to management to implement the plan contained in the budget
- Board must evaluate risk and consistency with mission & strategic plan
Board Budget Pitfalls

- Over attention to insignificant line items
- Under attention to risks
- Under attention to consistency with strategic plan, community needs assessment, mission, and values
- Belief that the CAA is powerless in the face of funder decisions & demands

Your Board Budget Pitfalls?

Type your worst fear/experience into the chat box at the lower right of your screen… and increase your chances to win a prize

Avoiding Board Pitfalls

- Streamline budget format
  - Provide 1 page summary
  - Consolidate line items
  - Consolidate related programs
- Provide bullet-point narrative: highlight major choices reflected in the budget
- Identify major risks
Managing the Budget Process

- Identify Project Manager for budget development process
- Create budget development plan & timeline
- Clarify Board and Staff roles
- Focus on critical choices
- Accuracy check
- Impact check

Question
Who manages the budget process in your CAA?

How Long Will it Take?
How many months does it take to prepare the annual budget for your CAA?

Pre-Webinar Survey Results:
- Less than 1 month . . . none
- 1 to 2 months . . . . . . 44.5%
- > 2 but <4 months . . . 44.5%
- More than 4 months . . 11%

Your Next Steps?
- Agency-Wide Budgeting Webinar - 6/1/11
- Identify Project Manager for your budget process
- Clarify Board & Staff roles
- Identify key choices
- Confront the certainty of uncertainty

Questions?