

## Development Versus Finance: *Healthy Friction or Organization Liability?*



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## Learning Objectives

At the end of this session, you will be able to:

- Recognize the natural friction between your development and finance offices.
- Risk to the organization in an unhealthy environment
- Understand the importance of your organization's internal environment and embrace the roles each play for organizational success.
- How to communicate financial information to your organization's funders and supporters.
- Try new ideas to integrate your financial and development systems to the benefit of both functions.

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## The Perception

### Development says...



“The CFO and auditors are **sticklers** for detail who don’t appreciate how hard it is to raise money or the relationships we manage.”

### Finance says...



“The development office is full of **spin doctors** with no regard for the rules or appreciation for those I’m accountable to.”

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## We disagree over:

- Budgets and what they include
- The definition of a year
- Why it has to be in writing before we call it income
- Different treatment of pledges and bequests
- How we measure and communicate development success
- What is or isn't endowment/permanently restricted
- Who generates (or is holding up) information
- Who is getting in (or just getting) whose way
- Et cetera, et cetera, et cetera...

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## Less Balance = More Risk



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## Risks of problematic friction

- Your exempt, legal, and insurance status
  - Fraud with all its ramifications – lost dollars, donors, and legal fees (more to follow)
  - Formal AG, IRS, or donor actions against you
  - Increased insurance premiums
- Your reputation and ability to deliver on mission
  - Loss of donor confidence (or worse... front page news)
  - Wasted time and energy
  - Lost dollars and opportunities

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## Risks of problematic friction (Continued)

- Board and executive ability to lead / manage the budget
- Imbalance = increased friction = increased risk  
So both departments have to find a way to
  - Do what's right in supporting the mission of the organization
  - And respect the donor's wishes, perceptions, and relationships

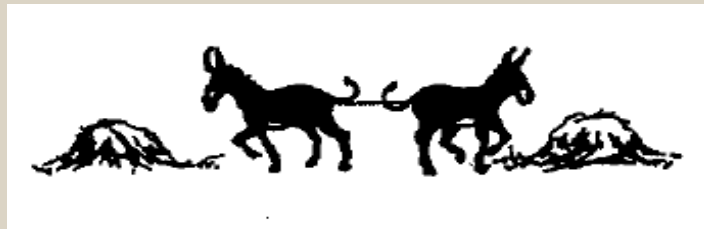
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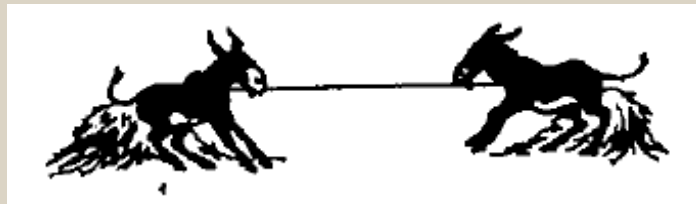
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## To use another image

- You start out doing your thing.



- Then you realize someone is opposing you, and you pull back.

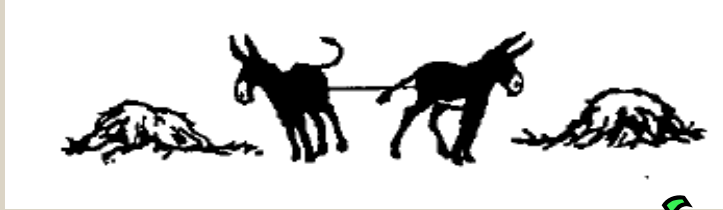


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- You fight harder and harder, risking precious resources.



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- Until you are exhausted and forced to face one another.



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- Only then can you get what you want and the organization needs... assuming someone didn't come by and take it while you were fighting.



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## How is fraud tied to this?

- **Opportunity**
  - No reconciliation of activity between departments
  - Too much access to one database or another
  - Access to cash
- **Pressure and incentives**
  - Internal goals of campaign or budget
  - Upset with the organization
  - Personal issues (gambling, loss of spouse income, medical bills)
- **Rationalization**
  - I deserve it; the donor will never know
  - I'm helping the organization
  - This is a one time deal, won't happen again; I'll repay

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## Internal Environment: A System of Checks and Balances

Five components:

1. Control Environment
2. Risk Assessment
3. Information and Communication Systems
4. Monitoring
5. Control Activities

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## Internal Environment: A System of Checks and Balances

- Objectives
  - Effectiveness and efficiency of operations
  - Reliability of financial reporting
  - Compliance with applicable laws and regulations
- Can your committees and board state that they have reasonable assurance that:
  - they understand the extent to which the entity's operations objectives are being achieved
  - Published financial statements are being prepared reliably
  - Applicable laws and regulations are being complied with

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## Letting go

### Finance needs to accept

- It is our job to help development understand our technical language.
- The annual report does not have to meet the same standard as the audit
- We can develop policies, templates, and communication tools that meet the needs of both departments.
- We are on the same side as development with the same mission goals.

### Development needs to accept

- It is our job to help finance understand our needs, concerns, and timelines.
- We won't get the audit footnote we want clarifying endowments
- Financial standards are clear. Those charged with implementing them must use specific language and can't change the rules.
- We are on the same side as finance with the same mission goals.

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## Speaking the same language

### Endowments

- **Understanding the language**
  - Endowment v. reserve v. permanently restricted
- **Understanding the new law (UPMIFA)**
  - What can the organization spend or not spend?
  - How should we communicate with donors?
  - How should we document gifts and spending?
- **Communicating gains and assets**
  - In financial statements and footnotes
  - In annual and campaign reports
  - To our boards of directors

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## Speaking the same language

- **In kind transactions**
  - Record only if we would have to purchase to do our usual work
  - Record at market value regardless of what donor says it's worth
  - Can't appear to give tax advice to donor (*i.e. the value of the deduction or whether it's a deduction at all*)
- **Time restrictions and budgets**
  - Can't move an unrestricted grant into the next year just because you ended up not needing it, unless you contact the donor and get him/her to change the transmittal letter and re-designate it
- **Other...**

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## The goals that unite us

- **Serve our mission, internal and external stakeholders**
- **Do what is right under the law and for the organization**
- **Ensure**
  - Effective and efficient **operations**
  - Reliable and descriptive financial **reporting**
- **Ensure the board has reasonable assurance that:**
  - The entity's objectives are being achieved
  - Published financial statements are prepared reliably
  - Applicable laws and regulations are complied with
  - Donor wishes are respected and met

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## Practical things we can do

Work ***with*** each other ***and*** the board on:

- **Develop pro-active policies**
  - Gift acceptance and documentation
  - Spending/investment for endowments and reserves
  - Treatment of unclear bequests
- **Use communication tools strategically**
  - Board reports
  - Annual reports
  - Campaign communication
- **Engaging development and finance**
  - Attendance of finance committee meetings
  - Attendance of development committee meetings
  - Up front involvement during campaign planning
- **Say “Yes, if we...” or “Next time...” instead of “No.”**

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