

## **The Nonprofit Dilemma: Lowering Administrative Costs While Meeting the Demands of Increased Regulation**

*By Tanya Pavlik, CPA  
Managing Director – A-align CPAs*

The nonprofit sector in the United States comprises 1.6 million organizations with an aggregate budget of approximately \$820 billion and ranging from grassroots groups running on \$25,000 a year budget to multimillion-dollar charities that serve thousands of individuals. These organizations face unprecedented challenges and budget deficits following sudden declines in endowment values, deep cuts in government funding, and decreased corporate support and individual donations.

To add to these economic troubles, nonprofit groups are paying a price for the corporate and accounting misdeeds of Enron, Tyco International and others nearly a decade ago. That pain is manifested in increased administrative costs in the form of tax-preparation and auditing fees as the federal government is requiring more extensive information on the newly revised Form 990. The new disclosures of the Form 990 are forcing organization to examine internally the strength of their internal control structure and governance policies, including executive compensation, non-cash contributions, foreign activities and a multitude of other areas.

As the government increases its scrutiny on the financial management of these organizations, having sound fiscal oversight becomes a necessity. Nonprofit organizations struggle with searching for ways to increase their internal control structure and financial management, while attempting to decrease administrative costs.

Some organizations have turned to outsourcing their accounting and finance function to a third party. If carefully considered, outsourcing of an accounting and finance function can prove to be very beneficial to these organizations for various reasons:

- Smaller organizations receive the benefit of experienced staff without the large price tag of paying full time salaries and benefits, thus reducing administrative costs.
- Outsourcing provides a much needed relief from the struggles of increased turnover often found in administrative positions. Third party vendors can provide continuity and consistency in a much needed area.
- Outsourcing allows the organization to focus on mission critical programs versus spending countless hours struggling to solve accounting issues they may not have the experience or desire to address.
- Organizations can leverage the knowledge of the consultant or certified public accounting firm, who may have a vast pool of “best practices” to choose from.
- Outsourcing often times provides a much needed added level of internal controls and reviews to organizations that have limited resources.

When selecting a third party to manage an organization’s financial and accounting matters, it is critical that appropriate due diligence is performed prior to making the move. When selecting a vendor, organizations should consider more than just the price tag. Several key areas to consider when selecting a vendor include:

- What is the experience of the personnel that will be performing the work? Not just the senior level manager, but the staff accountants performing the day to day tasks.
- What are the credentials of the staff and of the firm as a whole? Are the firm and the staff licensed as certified public accountants and what professional standards are they required to adhere to?
- Does the outsourcer have experience in the areas where the organization is weakest or has the most need?
- Does the vendor understand the unique needs of nonprofit organizations?
- Can the firm provide references relevant to your program of work, accounting issues or market?
- Does the vendor assist with the year-end audit? Do they have experience working through an audit cycle and preparing the necessary schedules and documentation?

In the long run, outsourcing may be the best option for some nonprofit organizations. However, continued management and Board involvement and oversight is critical to the success of such a relationship.

*Tanya Pavlik, CPA  
Managing Director – A-align CPAs*

#### **About the Author**

Tanya Pavlik is the managing director at A-align CPAs with over 10 years of experience providing risk advisory services, financial management, and business process reviews for nonprofit organizations. Tanya was the former chief financial officer of a nationwide nonprofit organization. Tanya is a Certified Public Accountant and a member of the American Institute of CPAs.