

August 16, 2007

Troubleshooting Your Budget

Problem	Solution
Program Managers don't pay attention to their budgets and overspend without thinking about it.	Create an inclusive budget process that gives program managers opportunity to develop the direct portion of their budgets, and provide regular reporting on actual expenses compared to budget.
Assuming that their requests will be cut back in the budgeting process, program managers ask for significantly more in expenses than what they really need.	Develop a culture around budgeting that is honest and realistic and make sure that the performance review and any incentive support that honesty. Require rationale and support for any significant expense increases from the prior year. If expenses need to be cut back in the budgeting process, make program managers responsible for revising their own budgets.
The Executive Director (or development staff or committee) want the income budget to be set way higher than this year's projection or last year's actual.	There's nothing wrong with enthusiasm and optimism, but the budget needs to be realistic and, in most cases, reflective of prior years' income levels. It's OK (in fact, it's advantageous) for the development staff to have a fundraising goal that's higher than budget.
After the budget is presented at a board meeting, board members have so many questions, comments, and concerns that the budget has to be totally reworked.	With the support of the chair and finance committee chair, communicate the board's role in the budget process. Include an early board level discussion about goals and guidelines. Be sure that the budget sent to the board includes a clear narrative of key assumptions and plans.
The budget is created on an accrual basis but the monthly financial reports are cash-based because it's easier. It's hard to know if variances are timing or real.	The actual to budget comparison has to be "apples to apples" to be meaningful. Develop the budget on an accrual basis. Once the budget is set and spread over 12 months, develop a separate cash flow projection. If the monthly financials are cash-based, then compare the reports to the cash flow projection. Set a goal of creating accrual based financial reports at least quarterly.
If the budget doesn't balance, the Executive Director plugs the gap with a "New Grants" line.	Have an early discussion about how much uncertain income will be included in the budget. Insist that every material income item be supported with a plan to obtain the income even without a specific source or guarantee of receipt.
When reviewing variances reports, the managers always report that the variance is "just timing". Then at year end the variance is still there.	Set a reasonable threshold for variances that require additional analysis and support and then require additional information to substantiate the "timing" explanation.