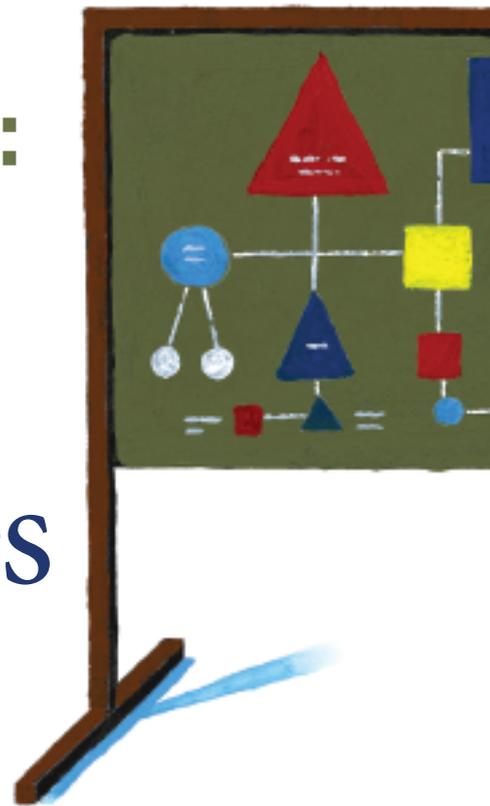


## 2008 IMA Student Case Competition

*The Student Case Competition is sponsored annually by IMA to provide an opportunity for students to interpret, analyze, evaluate, synthesize, and communicate a solution to a management accounting problem.*

# Building Processes for a Solid Financial Foundation: The Case of Community Health Initiatives

BY SANDRA RICHTERMAYER, CMA, CPA



**On Monday, Stephanie started her new job** as the director of finance for Community Health Initiatives (CHI), a nonprofit organization whose mission is to provide education and support to chronically ill individuals and their families who reside in the surrounding metropolitan area. CHI is a well-respected voluntary health and welfare organization in the community, and it has grown by leaps and bounds over the past year, more than doubling in size due to new grants and successful fundraising. The CHI leaders consider the organization to be well positioned with the resources to expand its programs and services for supporting its constituents. A key challenge for the organization is to use its resources effectively and in a way that is compatible with the overall mission. Table 1

provides the mission statement and a description of CHI's programs.

### **MAKING AN EARLY CAREER TRANSITION AS AN ACCOUNTING PROFESSIONAL**

For the past five years, Stephanie was employed by a large regional public accounting firm that conducted the external audit for CHI. In the last two years, she was the senior team member on the CHI audit, and she worked closely with the audit partner and manager assigned to the engagement. CHI was always one of her favorite clients, and when she heard about the opening for their newly created director of finance position, she applied.

After a comprehensive interview process with a few



members of the CHI board and the executive director, Stephanie was offered the position. The roles and responsibilities were somewhat defined, but the board made it clear to Stephanie that since it was a new position she might have to review her job description after a few months. They clearly communicated that a primary responsibility of the director of finance was to implement accounting processes that would enable them to receive timely and meaningful information to help them make decisions during this critical growth period.

Until then, the accounting processes had

## Table 1: CHI Mission and Programs

**Mission of Organization:** CHI provides education and support for chronically ill individuals and their families who reside in the local metropolitan area. CHI uses its resources to implement four primary programs. Each is described below.

### Relief—Travel and Housing Grant Program

A program that provides emergency financial support grants for constituents. Grants are awarded to individuals and their families if they need temporary housing while receiving medical care in the metropolitan area or if they need to travel out of the area to receive specialized care. The program also provides assistance with travel expenses incurred to bring family members together in times of crisis or medical emergency. Social workers and professionals from a local travel agency provide the volunteer base for this program.

**Total annual resources allocated to program (under new grant): \$850,000.**

**In-kind resources: \$0 (not applicable at this stage of program).**

### Moving from Dependency to Independency

A program designed to help those living with chronic illness find solutions to become more independent in their daily lives. The educational program is delivered one-on-one to individuals or families or through seminars and workshops. The volunteer base used for this program includes physicians, nurses, psychologists, as well as those individuals who have achieved success in dealing with their own chronic illness. Organizations that serve specific diseases are also involved with implementation and serve as strategic partners. These partners include those serving individuals with illnesses such as diabetes, rheumatoid arthritis, multiple sclerosis, cancer, Crohn's disease, lupus, etc.

**Total annual resources allocated to program (under new grant): \$1,775,000.**

**In-kind resources: \$500,000 (physicians', nurses', and psychologists' time all based on an hourly rate).**

### Community Connections

This program assists in the development of social and support contacts for CHI constituents. It brings families and patients together and provides a mechanism whereby they can learn about other community-based resources. This program is part of a national program that is linked to improved health outcomes and lower risk for patients who participate. Social workers and community health specialists provide the volunteer base for this program.

**Total annual resources allocated to program (under new grant): \$500,000.**

**In-kind resources: \$0 (not applicable at this stage of program).**

### Adjusting the Workplace

A new program designed to educate employers of chronically ill individuals who are employed full-time. The program deals mainly with companies that have 500 or more employees. Social workers, human resource professionals, psychologists, and patient advocacy organizations are all involved with implementation of this program.

**Total annual resources allocated to program (under new grant): \$300,000.**

**In-kind resources: \$0 (not applicable at this stage of program).**

been very simple. CHI currently had an accounting manager, Norma, who would be retiring in a couple of months and an office administrative staff of five personnel who helped Norma as needed with routine accounting tasks related primarily to recording revenue and expenditure transactions. Norma's key responsibilities included monthly cash and investment reconciliations, preparation of financial reports for the board of directors, general ledger maintenance, and creating ad hoc reports as requested by grantors. She also prepared work papers needed for the external audit. As Norma prepared for retirement, Stephanie would gradually assume all of her responsibilities or delegate them if appropriate.

Stephanie had gotten to know Norma during the audit engagement. Norma's role seemed more like a bookkeeper than an accountant, but Stephanie respected how organized she was and how much she seemed to enjoy her work. The processes Norma had in place were simple and seemed to be effective, but Stephanie understood that they weren't adequate as the organization was becoming larger and more complex.

### LIMITS ON THE USEFULNESS OF CURRENT ACCOUNTING INFORMATION

Stephanie learned more about CHI and its rapid growth phase. The first day on the job she had an orientation meeting with Joan, the executive director. Joan explained, "I've been here for a little over two years now. I'm really excited about leading the organization through this growth period, and I believe that the board has developed a solid strategy that gives us a good foundation. I have more than 10 years of experience in nonprofit management, and I took this position because I knew of the board's commitment to expand our programs as our constituent base is growing rapidly. Most of my immediate concerns relate to formalizing and managing our internal processes. We absolutely need to move our internal operations to a new level of sophistication, and I realize that accounting and finance activities are a big part of that. Right now, I receive very basic monthly accounting information, and it's always about two weeks to a month too late to affect my short-term decision making. Here is a copy of our budget. It's the same format that I receive on a monthly basis [Table 2]. It isn't Norma's fault—she has been here over 10 years and really has the office and basic accounting activities organized in a routine and structured manner. But I feel like I need to slice and dice the accounting reports to give me other views. The way it's

**Table 2: Community Health Initiatives Budgeted Activities for the Year Ending April 30, 2008**

<b>Revenues and Other Support:</b>	
Special Events/Fundraising	\$ 150,000
General Donations	96,000
Grants (1)	3,425,000
In-Kind Contributions (Services)	500,000
Sales of Educational Materials	62,000
Other	9,254
<b>Total Revenues and Other Support</b>	<b>4,242,254</b>
<b>Direct Program Expenses:</b>	
Community Connections Program	75,000
Adjusting the Workplace Program	22,000
Relief—Travel and Housing Grant Program	650,000
Moving from Dependency to Independency Program	175,000
In-Kind Services—Community Connections	500,000
<b>Total Direct Program Expenses</b>	<b>1,422,000</b>
<b>Expenses: (2), (3)</b>	
Salaries	1,350,000
Payroll Taxes and Benefits	202,500
Postage and Shipping	118,320
Dues and Subscriptions	69,220
Rent	204,460
Professional Services	52,000
Insurance	42,060
Educational Materials	67,860
Employee Training	55,880
Office Supplies	61,180
Repairs and Maintenance	10,240
Telephone & Communications	125,940
Advertising	33,100
Printing and Publications	141,340
Travel	4,860
Board Expenses	1,680
Other Expenses	52,040
<b>Total Expense</b>	<b>4,014,680</b>
<b>Excess (deficit) revenues over expenses</b>	<b>\$ 227,574</b>

(1) New grants begin in fiscal year ending April 30, 2008.

(2) All expenses can be allocated to specific programs and across key expense ratios.

Key expense ratios: Program expenses, Fundraising expenses, Management, and General expenses.

(3) Expenses are relatively consistent on a monthly basis.

presented now just doesn't work for me. I look forward to working with you to develop new processes."

As their conversation continued, Stephanie understood that the main problem with the current monthly financial reports was that they were too basic, although they were very traditional for a nonprofit organization. Joan didn't find the audited financial statements very friendly, and she wasn't sure how to link them to the organization's strategic goals. It was also difficult for her to monitor the budget with the information she received.

After the initial meeting with Joan, Stephanie hoped she had the right experience and background to ramp up the accounting system to provide the information needed for effective management. Her experience as the external auditor for CHI would give her an advantage in terms of understanding the organization, but she was uncertain about how to get started. It became clear that the annual audited financial statements were only a small piece of the puzzle—that was all she had thought about in her role as auditor. The monthly statements just provided a basic comparison of total revenues and expenses, and they were very similar to an income statement for a for-profit organization but with an emphasis on net excess (deficit) revenues.

## DIVING HEADFIRST INTO A NEW ROLE

Stephanie's primary work experience after she completed her bachelor's degree in accounting was in auditing, but she completed an internship for a nonprofit organization the summers before her junior and senior years of college. Although she started her career in public accounting, she knew that someday she would pursue an accounting position in industry or with a nonprofit organization. She felt that she had developed a basic working knowledge in this area because about half of her work assignments involved audits for nonprofit organizations. But she did wonder what she could do to get out of the auditor mind-set more quickly and into the role of director of finance—a role she would be defining as she settled into her position.

Her first day on the job at CHI involved a quick review of the monthly financial statements, audit work papers, bank statements, investment schedules, minutes of the meetings of the board of direc-

## Table 3: Information Requests by Board of Directors and Potential Metrics for Strategic Goals

### A. Goal: Increase participation in all programs.

#### Metric:

1. Constituent attendance at events and meetings related to four programs.

### B. Goal: Develop and strengthen strategic partnerships.

#### Metrics:

1. Strategic partner satisfaction ratings—based on results of surveys of strategic partners.
2. Increase in number of strategic relationships.

### C. Goal: Increase staff resources and employee development program.

#### Metrics:

1. Employee training—hours spent on training current and new employees.
2. Employee satisfaction—measured by employee satisfaction survey.

### D. Goal: Strengthen the volunteer base.

#### Metrics:

1. Volunteer satisfaction ratings based on main categories of volunteers: nurses, physicians, psychologists, social workers, community health professionals, general volunteers, etc.
2. Constituent satisfaction ratings—separate ratings for individuals and their families.
3. Increase in number of volunteers for all programs.
4. Increase in participation for all programs as measured by attendance at events and meetings related to programs.

### E. Goal: Increase resources available for programs.

#### Metrics:

1. Fundraising revenue growth.
2. Increase in resources received from grants.
3. Increase in resources received from external grants.
4. Grant renewal rate of 90%.

### F. Goal: Monitor key expense ratios, and keep them stable and in line with comparable organizations.

1. **Program expense ratio**—Percentage of total expenses spent on programs.

**Goal:** Focus spending in this area as these expenses directly relate to the CHI mission.

2. **Fundraising expense ratio**—Percentage of total expenses spent on fundraising.

**Goal:** Minimize this ratio.

3. **Management and general expense ratio**—Percentage of total expenses spent on management and general costs.

**Goal:** Minimize this ratio.

tors, and documents related to grants received by the organization. All of the information looked familiar based on what she had seen during the audit, with the exception of the grant documentation. CHI had recently received three grants that would provide combined resources of \$3.4 million to be used in each of CHI's four programs (Table 1). The funding from the grants would more than double the revenues of the organization and would require a large increase in staff over the next six months. Each grant was renewable on an annual basis, and the grant contracts clearly stated that renewal would occur only if CHI provided evidence of effective performance in grant administration. A great deal of what was required by the grantors was documentation of program outcomes and documentation of financial results. This made Stephanie a bit nervous, but she understood how important it would be to get new accounting processes and documentation in place.

### BOARD OF DIRECTORS REQUESTS MORE USEFUL INFORMATION

After her second day on the job, Stephanie stayed late to attend the monthly evening meeting of the board of directors (BOD). The BOD welcomed Stephanie to the CHI team and took time during the meeting to explain some of the concerns they had with what they perceived to be limited financial information.

Jack, the chairman of the BOD, stated "All we receive on a monthly basis after we get the audit report are summary financial statements that list revenues and expenditures. We have several items that we believe are important to track." He provided Stephanie with a somewhat informal list that was developed during the board's strategic planning [Table 3]. "All of these items are important, but we don't want volumes of accounting information that we have to muddle through. We want the information in as clear and concise a format as possible. I know that will take a few months to get together, but I hope it makes sense as a start," he added.

Joe, a board member who serves as secretary and who is a local attorney, said, "I understand the audit report. It has looked the same for the past five years, but I need more and different types of information each month to effectively make decisions and to feel that we are fulfilling our fiduciary responsibility. After all, CHI is a public charity with tax-exempt status. I'm really worried that now that we have been awarded these large grants, our financial picture could get out of control very quickly, and my key concern is that we may not know we are off track until

## Table 4: Categories of Risk Factors for Evaluation

### External Risk Factors

- ◆ Economic
- ◆ Natural environment
- ◆ Political
- ◆ Social
- ◆ Technological

### Internal Risk Factors

- ◆ Infrastructure
- ◆ Personnel
- ◆ Process
- ◆ Technology

after the end of the year when we receive the audit report. I'm also very concerned about how we manage risks. I don't want to sound too much like a lawyer, but risk management is even more essential now that we are growing—both internal and external risk. Here is a list of risk categories that I believe we should consider [see Table 4]. We need to be able to monitor risks on an ongoing and timely basis. I hope that this can become an important part of what we review and discuss each month."

Sue, the CHI treasurer and an assistant controller for a mid-sized manufacturing firm, agreed with Joe: "Yes, risk management is important. We have focused too much attention on the audited financial statements to assist with our decisions. They are simply a GAAP-based historical record of what happened last year. We need to be able to project forward and to measure the success of each of our programs. I'm also concerned that we changed the budget three times last year. We need to adopt a budget and stick to it. Changing the budget is like changing the rules in the middle of the game. That would never be acceptable in my work environment. I would like to help Stephanie develop a more formal budgeting process. We need to get going on this before the next board meeting as we are already four months into our fiscal year."

Lisa, a member of the board and a business analyst with a large healthcare management firm, said, "At my organization, we use a scorecard that helps us look at performance from different views, and it also helps us keep an eye on measures we feel are important. The balanced

scorecard has been around for years, so do you think we can implement a scorecard or a similar method here? Perhaps we just need to pick some key metrics to focus on. How difficult could that be?”

Bill, a city community program manager and board member, added, “I like the balanced scorecard technique. We’ve even used it to track progress of some of our city-wide programs. City managers use it, but our City Council doesn’t understand how to use it, and I think that limits its effectiveness. I think it’s because they are non-strategic leaders. If we decide to go that route, I would hope that our board would get some training on it to understand how it can help us with decision making that links to our strategy. I think the board should take a ‘big picture approach’ and use several different methods—a scorecard could be just one of them. Stephanie, can you tell us what types of information boards of similar non-profit organizations receive? Can you tell us how we can benchmark against other organizations? What about those charity monitoring organizations? What do they look at when they rate a charity?”

Jack became a little concerned, “Hey, let’s not overwhelm Stephanie. She has only been on the job for a few days! I’m sure she will put together an action plan to help us get what we need to make sure we are leading the organization in the right way.”

## LAYING THE GROUNDWORK FOR IMPROVED PROCESSES

The day after the board meeting, Joan and Stephanie met to discuss the issues presented by the directors. They both agreed that it would take some time to develop accounting processes that would provide them with the type of information they needed for decision making as well as enable monitoring of program performance. Stephanie explained her primary concerns to Joan: “How can I be certain that I am providing them with the right kind of information? I’m afraid that they will need something different each month. It also seems like each board member wants a different set of information. I want to make sure I give them what they need.” She wondered if the accounting and financial information the board asked for was typical. Stephanie planned to do some research on how nonprofit and for-profit boards use financial information.

Joan realized that Stephanie had solid auditing and accounting skills, but she understood that she might need to broaden her perspective a bit because she was used to being the auditor and not used to serving in an internal

role. Joan was concerned that Stephanie wouldn’t have another accountant around to ask questions or serve as a mentor. One of Joan’s friends who is CFO for a large nonprofit in town suggested that Joan support Stephanie’s involvement in an accounting professional organization such as the Institute of Management Accountants (IMA®). The local IMA chapter might give her opportunities to network with other accounting professionals and perhaps even have a forum to discuss challenges. After Joan mentioned this possibility, Stephanie commented, “I’m aware of the local IMA chapter, and I even thought that someday I may start the CMA [Certified Management Accountant] certification process. My big concern is that I won’t have the time to study for the exam. I remember studying for the CPA exam five years ago, and it was a real challenge for me to keep up with while I had a very heavy work schedule. I need to look into it though.” Joan was pleased to hear this news. She told Stephanie, “You are the right person for this job. We are here to support you and help you grow as you help us become stronger. We have some great initiatives in the works and lots of people who need CHI’s programs!”

### REQUIRED:

Develop a plan for Stephanie to follow over the next three months as she develops accounting processes that will provide the CHI leadership (executive director and board of directors) with the right type of information designed to be useful for decision support, planning, and control. In preparing your answer, you may want to consider some of the specific questions/issues from the case:

- ◆ How can CHI adopt an effective budget process?
- ◆ How can CHI demonstrate that their organizational strategy links to their financial information?
- ◆ How can benchmarking be useful for CHI?
- ◆ How can Stephanie manage her work relationship with the board of directors and executive director and evaluate her progress during her first three months on the job?
- ◆ How can Stephanie develop herself professionally to be prepared for her new challenges at work? ■

**For full details on the IMA Student Case Competition, contact Jodi Ryan at [jryan@imanet.org](mailto:jryan@imanet.org).**

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