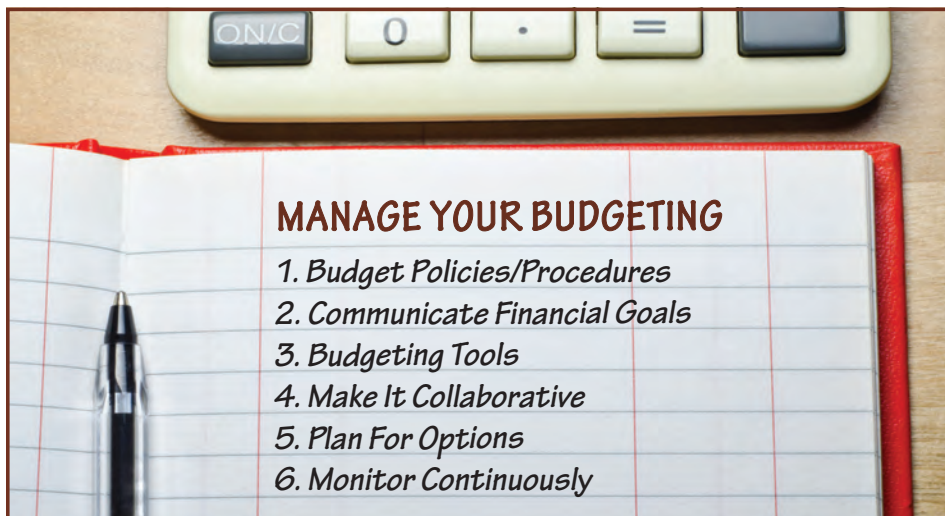


# 6 Steps

## *How to improve budgeting and forecasting*

By MARIA L. GOLLAYAN, CPA



**B**udgeting is critical. It helps paint a picture of where the organization came from and where it hopes to go. When done correctly, the budgeting process involves solid forecasting techniques which ensures the budget is reasonable, accurate, and attainable.

The budget should be known and understood by all internal stakeholders. Those responsible for executing the budget should conduct periodic reviews to determine how it compares to current operations.

Despite the critical role of budgeting and forecasting in your organization's performance and continuity, the budgeting process might feel overwhelming. Multiple stakeholders might need to buy-in and sign-off. You might be faced with competing priorities amid limited resources. The process might be lengthy or confusing, or new leadership could be struggling to plan for the future.

Here's how to make the budgeting process more manageable.

### **1. Develop And Implement Budget Policies and Procedures**

A budget policy and procedure is a written document that sets the guidelines for the organization's budget process. It is a

living document that should be reviewed and updated periodically. The policies and procedures should include:

- **Roles And Responsibilities:** Budgeting is a team effort and everyone plays a part. Define who will initiate, plan, prepare, compile, review, approve, and monitor the budget. The finance department generally rolls out the budget templates, program or department leaders prepare their respective budgets, the senior leadership team reviews and gives preliminary approval, and the board of directors provides the final approval. Team members monitor the budget in different ways -- by activity, program, department, or overall budget -- depending on their role.

- **Budget Process And Timeline:** The organization's fiscal year determines the timeline. The budget should be approved before the start of the fiscal year. In defining the timeline, determine the board's deadline to approve the budget. This should happen at the meeting closest to the start of the new fiscal year. Work backward from that date to plan out the rest of the process, keeping the following steps in mind:

- Early in the budgeting process, host a

planning session to define budget goals and familiarize the team with the budget policies and procedures.

- Issue instructions to those in charge of completing budgets. Instructions should include any assumptions to keep in mind, as well as granular details about how to complete the template.

- Programs/departments should develop their budgets and submit them to the finance department. They should include assumptions for the upcoming year and document how amounts were derived. The more details they can include, including vendor names, purpose, event, etc., the better. While the final budget will likely be streamlined, interim budgets should have details, notes, and support for the numbers included.

- The CFO should meet with program/department leaders to review their budgets.

- Fine-tune the budget and prepare a draft budget and narrative.

- Present the draft budget to the CEO then to the finance committee for approval.

- Once approved by the finance committee, present the budget to the board for approval and adoption.

- Enter the budget into the accounting system and begin to track actuals against budget.

During the process, be sure to build in adequate time for multiple levels of reviews, as needed, and determine how any adjustments will be made.

### **2. Clearly Communicate The Organization's Financial Goals**

During the planning session, determine and agree on the organization's direction for the budget year. Adjust the organization's programs and activities to align with strategic goals.

Those in charge of drafting a departmental or programmatic budget should understand the expectations that apply. This includes whether they should maintain a growth mindset or status quo, or anticipate a lean budget year.

If the organization has a strategic plan

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outlining overarching goals and priorities, it should be circulated to everyone in charge of drafting a budget so they have the right information to determine their priorities.

### 3. Budget Tools And Template

Many managers rely on Excel spreadsheets to prepare budgets. However, budgeting and forecasting software is increasingly popular. The method that is right for you depends on the size of your organization and how much you want to invest.

For small organizations that cannot afford budgeting software, an Excel template can be sufficient. Below are best practices for using Excel spreadsheets for your budget template:

- Align the template with the chart of accounts and prepopulate it with historical financial data. Depending on the historical trends and current environment, you may choose to include just the most recently completed fiscal year or the last two fiscal years. Also consider including the final approved budget from the year in progress (last year's budget) in the template, along with the current year-end forecast.

- Protect cells to avoid inadvertently overwriting formulas.

- Ensure each department/program template is exactly the same as the others and that it correctly rolls up to the overall budget. Putting in extra time on the front end to establish a clean workbook will save time when it is being completed by leadership.

- Ensure the template is designed to yield the information leadership needs. Train staff on using the templates and documenting assumptions.

- Where possible, format templates to allow them to be uploaded into the accounting system.

For organizations that have outgrown Excel, consider a budgeting software. Leveraging technology eliminates inefficiencies and provides certain advantages:

- Streamlines the budget process in preparing, managing, and adjusting budgets, and developing forecasts. Provides built-in

controls for rules, approvals, and workflow.

- Keeps data uniform, accurate, and accessible.
- Allows visibility into real-time data.
- Eliminates manual work involved in compiling data.
- May allow information to automatically sync to accounting system.

### 4. Involve The Right People And Make It Collaborative

The budget impacts all departments and programs. As such, staff from each department and program should be part of creating the budget. They offer different perspectives: Program leaders bring their program outlook, development managers provide their take on fundraising, and human resources officers provide salaries and benefits information.

Include input from these leaders to align the plan to the organization's goals. Once the first draft of the budget is complete, collaborate with leadership on any changes that will be needed before presenting the budget to the board of directors.

### 5. Plan For Different Scenarios

In the past few years, we have all witnessed how unpredictable the world can be. In an unpredictable world, it is hard to develop a plan for your organization. Regardless, you need to work with the information you have to determine the best path forward.

Take this opportunity to develop multiple budget scenarios for your organization. Try to keep them all reasonably realistic, but explore one where resources are bountiful, one where they are scarce, and one in the middle. These can be your best, average, and worst-case scenarios.

Ask those in charge of department/program budgets to do the same. What is their ideal budget if they get everything they want? And what is a want, but not a need?

Ask them to think about how the budget could stretch or contract. In one scenario, they should include more revenue than they feel confident they can raise; in another, they should explore putting off hiring a new position, if needed, until halfway into the new year.

Consider developing contingency plans:

For example, only make certain purchases or hires if a certain amount of money is raised or a particular grant is awarded.

Make sure all versions of the budget are realistic, even when they lean toward being more cautious or more carefree. Consider your risk tolerance. What amount of budgeted loss, if any, is acceptable? How much projected (but unsecured) revenue do you build in? There is no right answer. It is a decision that can only be made collaboratively with the organization's leadership after all the information is weighed.

### 6. Continuously Monitor The Budget And Develop Forecasts

Performance measurement should be an ongoing, continuous process, not just something you do when you are about to prepare the following year's budget. There should be an ongoing monthly or quarterly review of department or program and overall company budget versus actuals to evaluate if the organization is headed in the right direction.

Those in charge of department or program budgets should be held accountable and able to explain any significant variances from the budget.

In addition, the organization should develop at least one mid-year projection. While there is no need to formally redo the budget and get it approved by the board, it is helpful to forecast the remainder of the year, based on a point in time mid-year, to see how the organization is trending compared to expectations. Use this forecast to inform the budget for the upcoming year. The forecast should be for individual departments and programs, rolled up into an organization-wide big picture.

While a budget is a standalone document, it is not static, and the process is continuous throughout the year. The more your organization analyzes whether actuals are meeting expectations, the better prepared you are for the future.

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