Tips and Insights for Nonprofit Organizations Managing Through COVID-19

Nonprofit organization's ("NPOs") cash flow and operations have been impacted by the COVID-19 pandemic just like commercial businesses – and in some cases, even more severely. NPOs are making changes at a rapid pace to deal with this outbreak. Cash flows, budgets, layoffs/furloughs and working remotely are some of the decisions NPOs face while trying to navigate these unchartered waters. While there has been and will be difficult decisions to make, a NPO has to be mindful that it is also a business and there are things that can be done to mitigate cash flow and operating issues. The following are tips and insights that NPOs should consider when operating through the COVID-19 pandemic.

Cash flow and budgeting

Traditionally a NPO will prepare a cash flow and operating budget for the year and if the financial activities are going along as planned, may not have a need to spend a lot of time revising the budget during the year. Given the operational impact due to the COVID-19 pandemic, it is imperative for NPOs to review cash flows and operating budgets and adjust projections accordingly.

NPOs will need to keep a watchful eye on cash flow and operations on a much shorter time frame and should consider monitoring its cash flow and operations in terms of days, weeks and months as opposed to months and quarters until things begin to settle down. These updated cash flow and operating projections are going to need to remain fluid and include a lot more estimates than a NPO would typically be used to. When preparing these revised cash flow and operating projections, NPOs should be including the amount it has received or expects to receive from the Payroll Protection Program (PPP), Employee Retention Payroll Tax Credits or other relief programs.

Cash receipt procedures

Because many of the staff of NPOs are working remotely, NPOs have had to change their procedures relating to cash receipts. A NPO should address how it is going to continue to deposit (including remote deposits) its cash receipts as the office environment changes. Most NPOs have their staff coming in on a limited basis – a NPO should consider who will be responsible for making the deposits. Making sure that deposits are made timely is critical to a NPO's cash flow.

Pledges and accounts receivable

NPOs must be diligent in following up on the receipt of its pledges and accounts receivable. While a NPO has to be mindful that its donors and third party funders may themselves have cash flow issues, a NPO should make every effort to collect its pledges and accounts receivable on a timely basis. If a donor or third party funder has indicated that their payment will be made or delayed, a NPO should take each of these factors into account when updating its cash flow projections.

Investments

As part of a NPO's review of its cash flow projections, a NPO may need to assess the availability and liquidity of its investments. While a NPO may not need the cash today and may not want to sell its investments in a down market, future uncertainty and need may require a NPO to liquidate a portion of the portfolio. A NPO's management should discuss with its investment committee, finance committee or treasurer, depending on who has the oversight responsibility of the investments, the timing of any liquidation of the portfolio. By doing this in an orderly manner, a NPO will be better positioned to manage its cash flow through investment decisions.

Lines of credit

In the past twenty years, the country has endured a number of events that have had a significant impact on a NPO's operations and cash flow: September 11, the financial crisis of 2008 and now the COVID-19 pandemic. The timing of these events could not have been predicted with any certainty. Because of the financial impact these events have had, it is important that a NPO consider having a line of credit for operating flexibility. The time to get a line of credit is when an organization doesn't need one. Typically, NPOs have a line of credit for cash flow fluctuations during the year and for emergency needs. Given the financial implications of the current situation, some NPOs, concerned with cash flow, have drawn down on their line of credit even though they might not presently have a need for the cash. These NPOs have made the decision that they would rather pay some interest in order to have the cash flow security over the next couple of months. Other NPOs have contacted their bank to inquire about increasing their line of credit amount for further protection.

Event contracts

A NPO should review its event contracts for any future events which it has committed to. NPOs should focus on the loss of deposits or any other penalty clauses if the event does not take place. NPOs may also want to review these contracts with their legal counsel. While many states are still under stay-at-home orders, there is a concern among NPOs that even when the states open, people may not want to attend large gatherings. NPOs should weigh this information when deciding to hold future events.

If a NPO has passed the date that it may lose its deposit for an event, the NPO should contact the vendor and ask if they could apply the deposit to a later date. Vendors may be willing to work with a NPO regarding its deposit.

Business interruption insurance coverage

It is our understanding that most insurance policies do not cover business interruption for infectious diseases. Business interruption insurance covers a loss of income that an entity suffers after a disaster. NPOs should review their polices with their insurance company for their specific coverages. NPOs may also want to review their insurance policy with their legal counsel. For those NPOs that do not have business interruption insurance coverage for infectious diseases and have incurred a loss of income due to COVID-19, it has been recommended that NPOs file a claim anyway. There have been discussions at both the federal and state levels that there may be retroactive coverage or funding for business interruption losses due to COVID-19. While this type of retroactive coverage or funding would be highly unusual, it may be worthwhile for a NPO to file a claim and be on record in case there is future coverage or funding.

Payroll Protection Program

As the economy staggers under the COVID-19 pandemic, initial jobless claims are reaching record highs. NPOs continue to struggle making difficult decisions regarding their employees. NPOs started reducing work hours, restructuring the office environment including offering tele-commuting as an option and, in certain cases, laying off or furloughing employees. As the virus took hold, NPOs spent considerable time combing through the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") primarily focusing on the loan programs, most notably, the PPP or as a secondary measure, the employee retention payroll tax credit. The PPP began on April 3, 2020 and shortly thereafter the allotted $349 billion in funding was exhausted with a significant number of NPOs not getting into the initial selection of the Program. On April 24, 2020 the second round of funding was approved replenishing the PPP with $310 billion. The initial statistics on the PPP indicated that the average loan size nationally was $206,000 while 74% of the PPP loans were for $150,000 or less. While a number of NPOs have received funding under the PPP, the issue then becomes how to spend the money given the restructured office (i.e., less employees). NPOs are working diligently to ensure the monies can be spent properly and timely under the PPP but are hopeful that certain modifications will be made to the program to ensure the money can be used.

Financial hardships and relief

Given all the uncertainties that COVID-19 has caused NPOs experiencing financial hardships or seeking to retain capital are contacting their bank representatives discussing various options including fee waiver, loan forbearance (60-120 days) and increasing lines of credit as mentioned above. The Federal Deposit Insurance Corporation ("FDIC") is working with federal and state banking agencies as well as financial institutions to consider all reasonable and prudent steps to assist customers in communities affected by COVID-19. Other regulatory agencies have also encouraged financial institutions to work with customers who have been impacted.

Some NPOs have begun the discussion with building management about the impact COVID-19 has had on their NPO and the possibility of rent relief. Navigating the lease agreements are difficult and it would be helpful during this process to review your options with a commercial real estate attorney. Lease agreements contain a significant amount of language around the NPOs financial obligations but also include the owner's responsibilities.

Capital expenditures and information technology (IT)

In an effort to protect their financial condition many NPOs have curtailed or reduced capital expenditures. NPOs have turned their focus to cash management (as previously discussed) and the implications of making considerable capital expenditures commitments have narrowed. NPOs continue to focus on protecting employees during this outbreak and have deployed capital dollars toward remote working (i.e., laptops, tablets and other remote technology devices).

One major operational change related to COVID-19 has been the large increase in employees tele-commuting. An increase in the remote workforce has led to many challenges ranging from network infrastructure protections, backups working properly, user support demands, or new remote technology policies and security threats (i.e., phishing emails/social networking). As COVID-19 has changed office environments more NPOs are also turning to video conference calls. Unfortunately, there have been cases of video conference calls being compromised, which has led to embarrassing situations. Virtual meetings, albeit convenient, should be reviewed by IT consultants and legal counsel to ensure the NPO is adhering to its responsibilities surrounding these meetings.

Internal control

As NPOs adapt and restructure their everyday operations as a result of COVID-19, internal controls and oversight are as important as they have ever been. Phishing and ghost emails have become more prevalent. One common ghost email is an unauthorized individual posing as an executive at a NPO and emailing a CFO/controller or executive director requesting a transfer of funds to an unauthorized bank account. To mitigate this risk, all transfer requests should require verbal confirmation from the requesting party before any transfers are executed through the bank.

Reviewing and monitoring banking activity on a daily basis is a must. As part of that review, you want to ensure that deposits are being properly posted by your bank(s) and that there are no unauthorized transactions. Typically, banks offer a limited period of time for which you must notify them of unauthorized activity, otherwise a NPO may have no recourse once outside that window so time is of the essence.

Due to the large number of employees working remotely, regular check signing processes are proving to be difficult and inefficient, leading to more NPOs using Automated Clearing House (ACH) to make payments to vendors. It is important to maintain the proper controls over the cash disbursement process, therefore, NPOs paying vendors via ACH may want to consider a dual authorization process whereby one individual initiates ACH payments and another individual authorizes the payments. Certain NPOs have also modified their check signing policies permitting management to sign checks. As an additional control, there are third party software platforms available that allow for the upload of vendor invoices for the review and approval in batch format by a board member or designated individual. NPOs also have the option of providing after-the-fact supporting financial data to board members or designated individuals that include paid invoices and cancelled checks for their review as well.

NPOs are considered essential businesses in New York State and in the other states for a reason – they are! More than ever, it's imperative that NPOs closely monitor cash flows and operations during the COVID-19 pandemic to ensure their staying power. NPOs are an integral part of the economy, provide critical services to the public, particularly the underserved, and it's essential that they continue to be there to provide these services to local communities in the future.

We want to express our wish for good health to you and your families and colleagues. We are all in this together. Stay safe, stay healthy.

Tips and Insights for Nonprofit Organizations Managing through COVID-19 is an adaptation of webinars presented to Nonprofit New York and Health and Welfare Council of Long Island by Kevin P. Foley, CPA, Matthew P. O'Dell, CPA and Michael J. Asaro, CPA, Audit Partners at the accounting firm of Condon O'Meara McGinty & Donnelly LLP.