

Timekeeping Doesn't Have to be a Burden

02.01.17

There are several good reasons for nonprofits to make timekeeping a priority — including the requirements of government and private funders. But even if you weren't obligated to track and allocate employee time, careful timekeeping can make your organization stronger.

If your staffers aren't always enthusiastic about the task, take heart. Newer software helps make timekeeping faster and easier than ever.

Non-negotiable tracking

At a minimum, nonprofits are compelled by federal and state wage-and-hours laws to do a certain amount of time tracking. These laws require you to document hours worked by hourly employees. And even though you don't pay salaried workers by the hour, if you get into a dispute over wages or an employee's exempt status, you'll need proof of time worked. Exempt employees generally include executive, administrative, professional and outside salespeople who earn a salary.

Federal and state governmental and corporate funders also may stipulate certain timekeeping practices. In general, your nonprofit should document incurred costs for funders that reimburse expenses or fund specific programs or activities. Because payroll is probably your biggest expense, you need to document amounts paid and allocate them to various programs and supporting services. Federal cost principles clearly require expense allocation documentation, including allowable and unallowable as well as reimbursable and nonreimbursable items.

Timekeeping is further necessary to comply with the Affordable Care Act. Under the act, employees who work, on average, 30 or more hours per week are considered full-time. Employers with 50 or more full-time and full-time equivalent employees may face a penalty if they don't offer full-time employees sufficient health care coverage.

Optional but recommended

Generally Accepted Accounting Principles (GAAP) may come into play, too. If your organization follows GAAP, you must allocate expenses to specific programs and supporting services. You also must provide support for allocation of payroll expenses and related taxes and benefits. Often, the payroll allocation is the basis for recording other expenses by program. The same holds true for costs deducted from unrelated business income. The IRS requires that these expenses be based on contemporaneous information.

Although you're not required to track volunteer time, you may want to consider it. Knowing the total number of hours they contribute helps you show donors and other stakeholders the true cost of running your programs and the full scope of support provided by volunteers. It also enables you to recognize and reward committed volunteers.

But whether you're required to keep time or not, it's simply a best practice. Careful allocation of payroll and other expenses is necessary for you to know the true cost of running programs. This can help you decide whether to continue specific initiatives, maximize your cost recovery and increase the likelihood of continuing to obtain funding for programs.

Simple and efficient

There are plenty of ways to track and allocate payroll and related expenses, but you want to find the simplest and most efficient. Generally, the most effective procedures involve collecting information as early as possible, verifying its validity and letting your software program do the rest. For example, you can require employees to record their own time daily (or use a time clock system that does it automatically). Consistency is important: Once you've established a policy, make sure staff and managers adhere to it.

Tracking time for employees who work exclusively in a single program is easy. But others may supervise or work in multiple programs or a combination of program and supporting service areas. Particularly important is that you capture these employees' time and allocate it as soon as possible. If daily tracking isn't possible, consider capturing time data for a few representative periods during the year and applying those percentages broadly.

The efficacy of these procedures will depend on the quality of your timekeeping software. If you're using old software, it's probably worthwhile to upgrade to a program that meets your nonprofit's changing needs. Ask your financial advisor for suggestions.

New solutions

Failing to properly record worker — and sometimes even volunteer — hours could result in financial penalties, legal trouble and bad publicity. If your current timekeeping method is onerous and ineffective, it's time to look for new solutions that will encourage everyone in your organization to comply.



BPM for Nonprofits

BPM is one of the largest California-based accounting and consulting firms, ranking in the top 50 in the country. It has served the San Francisco Bay Area's emerging and mid-cap businesses, as well as high-net-worth individuals, since 1986. Our Nonprofit services group, one of BPM's most established practice groups, consists of over sixty professionals across our tax, assurance and consulting practices. One of our founding goals was to make a difference in the manner nonprofits were served by our profession. Each member of our group brings differing expertise from our tax, audit, consulting and accounting departments - together we provide a comprehensive understanding of the functions needed to operate a nonprofit organization. For more information, contact Daniel Figueredo at (415) 288-6284 or Shannon Winter at (408) 961-6308.