A Storm is Brewing: The Accountant Shortage Is Already Affecting Nonprofits

By: Jerilyn Dressler, CPA

It is no secret that nonprofit organizations have historically struggled to recruit and retain quality accountants, controllers, and CFOs. That struggle is about to get worse.

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According to the American Institute of Certified Public Accountants (AICPA), in 2020 about 75% of the CPA workforce in the U.S. met retirement age. Meanwhile, according to the AICPA 2021 Trends Report, the number of students completing either a bachelor’s or master’s degree in accounting peaked at around 80,000 per year in 2015, and it has been dropping each year since, with a total of only 73,000 in 2020. The drop in new CPA candidates is even worse: a 33% decline between 2016 and 2021. There are many forces at play here, including younger generations not wanting to incur the upfront costs of time and money to complete the required 150 credit hours to sit for the CPA exam or the long-term lifestyle costs of working the long hours required by CPA firms. Furthermore, accountants have versatile skill sets that allow them to work in many different capacities, which can pull their interests beyond that of traditional CPA roles. The fact remains that there are neither enough accountants currently, nor in the pipeline, to replace those who are retiring.

This shortfall in CPAs will impact nonprofits on three fronts: staffing their own internal accounting needs, paying increased costs of annual audits and Form 990 filings, and finding CPAs willing to do those audits and filings (related to but distinct from the increased costs). All three come down to the basic economic principles of supply and demand: when supply is limited, the price goes up, and sometimes demand effectively depletes supply, rendering it unavailable.

From an internal staffing perspective, all entities needing accountants on staff - businesses, governments, and nonprofits - will find their ability to attract and retain talent becoming even more challenging; nonprofits can additionally have a hard time offering competitive compensation. Second, because of the declining number of CPAs, audit firms are facing their own recruiting and retention issues, which is causing the price of audits and Form 990 filings to increase dramatically. Finally, in the last couple of years, many nonprofits have been “dropped” by their audit firms because these firms do not have the capacity to work with smaller organizations, or nonprofits are simply being priced out. At YPTC, we have seen that happen to several of our clients. (YPTC itself is not an audit firm.) Yet many nonprofits need annual audits or reviews to comply with government grants, funders, or state charitable registration requirements, so they will likely end up having to pay more.

To address the accountant staffing issue, nonprofits should take the following steps:

1. **Plan ahead** - Ensure succession and backup plans are in place for all personnel, especially accounting staff. These plans should include a high-
quality outsourced accounting firm that has a thorough understanding of the intricacies of nonprofit accounting and has deep experience helping nonprofits with their financial management. Nonprofits can also explore the potential of sharing accounting staff with other organizations. Some state associations of nonprofits offer “back office” financial services as well.

2. **Document the accounting flow** - Ensure all financial processes are documented in detail, including financial policies and procedures.

3. **Communicate with funders** - Talk to funders about these challenges and ask specifically for infrastructure funding to support accounting and audit needs. (If you are a funder, consider initiating the conversation with grantees.)

4. **Budget for the future** - Ensure budgets reflect higher costs so that board members and stakeholders can be prepared for cost increases with both personnel and audits.

5. **Embrace technology** - Automation and technology adoption can be part of your retention strategy, not only increasing productivity but also allowing employees to spend more time on tasks that require higher-level thinking and creativity.

6. **Provide additional benefits** - A nonprofit may not be able to compete with the compensation offered by an accounting firm, but they might be able to offer flexible or reduced-hour work weeks, additional holidays or paid time off, on-site daycare, or other perks that might entice busy new accountants (or older accountants helping care for family members).

Here are a few steps nonprofits can take to mitigate the risks of CPA firm cost increases or being dropped:

1. **Be prepared for your annual audit or review** - The cost of an audit or review may be negatively impacted for nonprofits who do not have their books and records in order in advance of audit fieldwork. Ensure that your organization is reconciling bank accounts and producing financial reports monthly. Also, have the items on the auditors’ client assistance list (sometimes called a “PBC” or “Prepared by Client” list) ready to go for the audit team, such as summary schedules for key accounts, board minutes, key contracts, and invoices. Making the audit process seamless can help keep fees down.

2. **Communicate throughout the year with your audit team** - Let your auditors know about significant, unusual, or complex transactions or events in a timely manner so together you can take appropriate action instead of having to
3. **Schedule the audit or review with the final deadline in mind** – Determine when your reports are required by stakeholders (such as banks, funders, and government agencies) and work backwards to determine the timeline. Be mindful of a CPA firm’s typical busy season which is between January and April 15 of each year; if you can schedule outside of this timeframe, fees might be lower.

If the pandemic has taught us anything, it is that the nonprofit sector should expect the unexpected. By taking the above steps, organizations can shore up their defenses and batten down the hatches to withstand the coming storm!

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