Fall 2003

Picking the Right Accounting Software

When they initially converted to computerized accounting methods, many not-for-profits were forced to opt for software packages designed for commercial enterprises. But such packages often are ill-suited for not-for-profits, with their myriad reporting and information-collection requirements.

Those organizations now looking at a new round of accounting software need to ensure the programs can satisfy their specific needs, now and into the future.

Common Roadblocks
Not-for-profit organizations run into some common roadblocks with packages aimed at for-profit businesses.

Perhaps the biggest obstacle is that commercial packages aren't designed to track grants and programs in multiple ways. This can be especially significant for organizations that need to generate different reports for various grantors, as well as management. Not-for-profits that can't produce the reports grantors require will lose out on grants.

Difficulties also arise with charts of accounts. Not-for-profits that use commercial packages can end up re-creating their charts for every report, resulting in unmanageable charts with thousands of account codes.

A single financial occurrence in a not-for-profit setting can require multiple entries, each of which must be entered individually with typical commercial packages.

Further, commercial programs may not facilitate the categorization of net assets as unrestricted, temporarily restricted and permanently restricted. As a result, this work must be performed outside of the program.

Similarly, commercial packages generally can't allocate administrative expenses across grants, so staff has to pull out the data and perform calculations in a separate spreadsheet program.

Tailored to Needs
Software tailored to the needs of not-for-profits carries several advantages for most organizations. For example, not-for-profit software offers account codes segmented by fund, general ledger, program, grant, restriction category and location. Each segment has its own table of codes, allowing for easy interfund adjustments.

Not-for-profit packages also offer the ability to produce reports that don't necessarily follow an organization's fiscal year, which comes in handy for grants that run across fiscal years. The packages may let an organization make adjustments to prior months and reissue adjusted reports, as well.

Finally, organizations purchasing not-for-profit software packages are usually able to pick and choose the modules that fit their needs (e.g., payroll, grants management, fund raising), rather than paying a flat fee for a package that might include functions they can't use.

What To Look For
First and foremost, a not-for-profit should ensure that its new package features a self-balancing chart of accounts, where every fund stands alone with its own balance. The organization also should ascertain whether the package will allow it to generate all of the reports it needs, without requiring duplicative data entry.

Additional general considerations include:

- Whether the package is scalable to future growth,
- Security,
- Availability of installation and ongoing support,
- Effect of program updates on existing reports, and
- Ability to export data in a format compatible with other programs used by the organization.

Many not-for-profits would benefit from retaining outside financial technology consultants to perform a detailed needs assessment to help determine the best software fit for their circumstances.

Making the Right Decision
The importance of picking the right accounting software for your organization is increasingly important as resources continue to shrink, and not-for-profits are increasingly called on to produce flexible, timely and accurate financial data. Experienced advisors can reduce the risk of making the wrong choice.