Buyer's Guide to Fund Accounting Software

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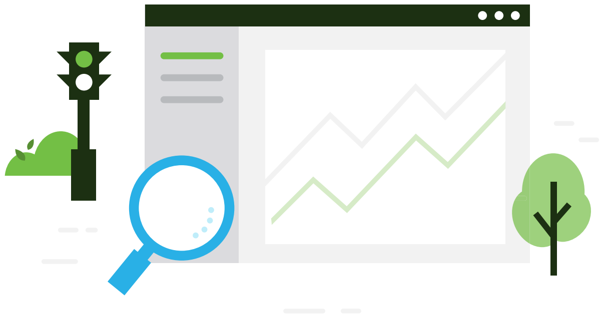
INTRODUCTION

There comes a time in the life of an organization when it needs to re-evaluate its accounting software. Most chief financial officers (CFOs) or financial directors only need to take on this sort of project once or twice in their careers. However, they are keenly aware of the impact a faulty decision can have on organizational productivity and confidence in their leadership, so a thorough vetting process and plan is essential. But where do you start? Below are some of the most important considerations to help guide that process.

1 Starting the Search

Adopting new accounting software involves methodical research, a notable investment of time, and possible resource and budget impacts. Often, organizational leaders continue using their current system just to avoid the overwhelming software selection process. But there are more reasons to move forward than to stay put. A modern system can create enough efficiencies to provide a meaningful return on investment and open up new opportunities.

Significant organizational changes might justify a purchase. These could include adding or growing programs or a merger with another organization. The need to diversify funding and add additional funding streams, such as new grants with complex reporting requirements, might also warrant a new system because inflexible reporting limits the number and type of grants a team can manage.



If the system you are currently using is not keeping up with modern technical advances or is at risk of being retired, you may lose the ability to integrate with other important systems that are critical to your daily operations.

Any of these organizational shifts—as well as many others—may signal a need for new software. Work with your team to understand if your organization is in any of the following situations:

- **Double data entry:** Is there double entry because fundraising and mission-critical applications are not integrated into your accounting system?
- **Inadequate system controls:** Do your system access controls match your internal controls processes?
- **Reliance on spreadsheets:** Does your staff spend hours each week tracking dollars in multiple spreadsheets to generate financial statements outside of your accounting system? Are they manually reconciling fund balances?
- **Flexible reports:** Is it easy for your team to pull together reports for board members or management using report-only data access to your accounting tool? Can you adapt them quickly?
- **Industry-specific needs:** Does your organization have specialized needs—such as budgeting for outcome measurements and reporting across multiple time periods for grants—that are not met by off-the-shelf accounting software?

2 Knowing Your Purchase Priorities

Once you decide to start looking, talk to your staff and develop a list of the accounting and reporting issues you are having and the key functionality you need. Where are there gaps? Where would it help to create efficiencies or opportunities? Sort the desired features by priority. Define those that would be nice to have but not critical, so that when you complete the process, real issues are met with genuine solutions. Review the list a few times throughout the process to make sure you stay focused on the critical criteria.

Starting Considerations Checklist

Here are some other key aspects to consider as you explore accounting software.

Cloud Accessibility

Cloud computing helps drive down the cost of IT management, typically has more built-in security, and helps provide the "anywhere, anytime, any device" access required by modern work environments. Consider how much time your IT team spends upgrading servers or managing poorly integrated systems. Would a move to the cloud help them focus on other projects? Remember, the cloud alone does not fix your accounting problems. Make sure that any cloud accounting solution you consider is also built for compliance with nonprofit (as defined by the IRS) accounting standards.

Enhanced Security

Any new system should augment your internal controls and improve technical security features. If you are running your accounting on a server in a utility closet, it's probably time to take a hard look at your security vulnerabilities. Moving to a cloud solution can boost security, as most cloud hosting facilities have physical and technical layers of security, as well as system redundancies and uptime guarantees. This provides the peace of mind that your data is safe from natural disasters and other unexpected crises. In addition, some of the most popular off-the-shelf accounting solutions have very limited audit trail functionality.

Fund Accounting

If your organization has the need to track and report on multiple funding sources across different time frames or multiple fiscal years and is functioning in spreadsheets to make it all work, you would be well served by real fund accounting built specifically to meet your business needs.

Similarly, if you need to track performance of multiple programs, departments, and functions separately, consider a system that sets you free from error-prone spreadsheet maintenance. Many commercial software packages will claim to be nonprofit-ready with workarounds or reporting overlays. It is up to you to determine if the workaround will be more hassle than help.

Scalability

Will your new system get you where you need to go? What will you need in five years? Do you have any expanded programs, locations, or other software purchases that you want to accommodate? Purchasing a low-cost commercial system can be tempting, but if you outgrow it in two years, it may be costlier in time and capital outlay than if you purchased a scalable system to begin with.

Integration

Examine the mission-critical systems that will need to work with your accounting data, such as fundraising, client billing, student tracking, etc. Be sure to ask your vendor candidates if their system has the capacity to integrate with each critical tool in your system—particularly if those integrations will create substantial efficiencies for your organization.

Vendor Stability

Think about the histories of the companies you are considering buying from. Are they privately held by investors who may sell the company? There is a trend of consolidation in technology companies, and investor-backed companies are most at risk of being acquired and their products put to pasture.

Understand the vendor's status, so you understand the stability of the software you are investing in. If they are a publicly traded company, you can examine their financials. Confirm that the company is stable, growing, and investing in the development of the solution you are considering.

3 Evaluating Pricing

Software pricing is notoriously complex. You might be surprised by the various services required beyond the software itself. Below is a guide to the common components in a new software purchase contract. Make sure you understand the definitions of each component—especially as it relates to today's tech environment.

Software Licensing	This is the cost of using the software. This is usually a one-time cost for a perpetual license or a monthly or annual subscription.
Maintenance	This is typically an annual fee that covers improvements to your system in the time you own it, as well as changes needed to accommodate and adapt to new regulations.
Data Conversion	This is the cost for filtering and aligning the accounting data from your old system into your new software. Variables include how many years you want imported.
Consulting	Consulting fees include professional advice on the best way to support your needs in your new system, including the most productive chart of accounts setup for your reporting.
Implementation Services	These are typically one-time costs associated with setting up your new system. Sometimes this item on a proposal includes data conversion and chart of account setup. Be sure to ask what is included.
Training	Training can be delivered in a variety of ways—in person, live online, or through recorded videos. Weigh the preferred mode with its associated costs. Typically, the more hands-on and tailored to your organization's specific needs, the greater the cost.
Technical/ Product Support	Technical support used to mean a phone number for technical assistance, but many vendors now offer a wide variety of delivery systems (phone, email, chat, online knowledgebases) to help customers. Be sure to understand what each vendor provides and what costs extra.

In addition, each vendor's prices are based on different factors, so it can be hard to formulate direct comparisons. A good way to compare prices is to determine a basic software configuration (one that has all the basic components, but not any wish-list items) that works for your organization from each vendor. Add up all the up-front, one-time costs for each solution including software licensing, any needed hardware and its supporting systems, related implementation and integration work, and primary staff training. Then total three additional years of the ongoing costs for each solution. This is likely to be made up of maintenance and support, any supplemental training for advanced or new staff, and licensing subscriptions. By looking at the one-time and ongoing costs over several years, you can begin to understand the total costs to your organization.

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Subscription Pricing vs. Perpetual Licensing

The latest dynamic in software pricing is a switch from a one-time cost to a perpetual license that typically requires ongoing annual costs for services such as maintenance, support, and training. These services are usually calculated as a percentage of the contract value at the time of purchase.

Subscriptions are a fixed annual fee leasing the software for your use, renewable after each contract. Subscriptions are attractive as they can be rolled into daily operating expenses rather than requiring a capital outlay for the new investment, preserving resources.

Market dynamics are showing that ongoing renewable subscriptions drive vendors to deeper customer engagement and concern with customer satisfaction. This makes sense as customers with subscriptions have less invested up front and are more apt to change systems if they are not satisfied.

Resist letting the list price alone dictate your decision. Work to comprehend your accounting and reporting processes so you see how the initial investment may save time or other costs in the long run—or how a low-cost software may create security issues or additional data entry.

4 Requesting a Demo and References

Requesting a Demonstration

A crucial part of any software purchase is the product demonstration. A general online product overview will suffice as a starting point, but once you narrow down your options, request a demonstration specifically tailored to your needs. Prepare questions in advance so you can make sure the precise needs your team outlined are met by the system.

Customer References

You don't have to take a salesperson's word for it! Ask to speak to a current customer who is using the systems you are investigating. You may want to talk to someone in leadership who relies on the end reports as well as someone who uses the system for daily accounting tasks. Try to learn about their experience with support, account management, and ongoing development of the product. This will help you understand the customer's total relationship with a company.

Conclusion

Most significant investment choices take time and effort to get right, and this process is no exception. The guidelines here should help you craft a thorough evaluation plan and gain a better understanding of the risks and opportunities that come with new fund accounting software.

Technology Investment Business Plan Template

The following technology investment business plan template can serve as a guide to getting buy-in for new accounting software. Many vendors will work with you during the evaluation process to develop a business proposal that addresses many of the following points. However, it can be helpful to take a first pass at recording your expectations before engaging a potential vendor. Use this template to record key information needed to gain organizational buy-in and to stay on track throughout your purchasing journey.

1 Executive Summary

Your executive summary should provide a clear overview of the proposed technology investment. It should be concise while giving internal decision makers and key stakeholders the information they need before diving into the supporting details that follow.

2 Current Software

What accounting system is currently implemented at your organization? Who is your vendor? Are there any costs associated with maintaining this software? If your solution is self-hosted, don't forget to include server, hardware, and utility costs associated with maintenance.

3 Background and Reason for Change

Why are you in the market for new accounting software? Has your revenue makeup become more complex? Do you need to be able to meet government grant requirements? Are you looking to transition from a legacy, on-premise solution to one that is cloud-based? As stated earlier in this guide, organizational leaders will sometimes opt to stick with their existing software to avoid the risks and upfront costs associated with replacement. Make sure to document the key reasons you are proposing this investment to provide your decision makers and stakeholders with a compelling case.

4 Requirements

Document the necessary technical and business requirements for your technology investment. What features are necessary for your finance department to function? General ledger? Financial reporting? Budgeting?

What are your vendor requirements? Are you specifically in the market for a cloud solution so your staff members can access the system remotely?

Are there any other dependencies, such as the need for your accounting software to connect to your other mission-critical systems?

5 Possibilities

After conducting research and narrowing down the options, record your shortlist of vendors and solutions. Provide any relevant comparison information to demonstrate your due diligence.

6 Risk Assessment

There is always some level of risk inherent in change. Consider the associated risks, their potential impact to your mission, and how to address them proactively and reactively. Be transparent, and create a risk assessment matrix to rate each risk by level of severity. Include indicators for each and provide a high-level plan for addressing them.

In addition, consider including the risks associated with not replacing your current system. What will it cost in financial resources and time if you don't upgrade? Are there opportunities you will have to forgo?

7 Benefits

How will a new solution benefit your organization? This assessment can be qualitative and quantitative. If one of your goals is to have a paperless finance office, how will this technology investment support you in achieving that? Consider the benefits associated with features and functionality as well as the potential broader impacts to your organization's mission.

8 Costs

As we covered in the pricing section of this guide, make sure to include any one-time costs and the fees associated with monthly or annual subscriptions. Display costs over a span of three to five years so internal stakeholders can have a better picture of the investment's budget impact over time.

9 Return on Investment (ROI)

Now that you've documented the costs, make sure you can also demonstrate the ROI. For example, how much time can you save with automated bank reconciliation? What does that reduction in time spent on month-end tasks mean in terms of dollars saved? What about improved liquidity or operating margin? If you're finding it difficult to calculate quantifiable ROI, work with your potential vendors to identify benefits commonly experienced by their current customers.

10 Recommendation

Summarize your final vendor and solution recommendation. Reiterate your top requirements and how this selection will support your investment goals.

11 Implementation and Adoption Plan

Making a purchasing decision about new accounting software is really only the first step in achieving the benefits that you set out to realize when you first began this journey. Anytime you purchase mission-critical software—whether you're replacing an existing system or getting brand new functionality—you must consider what change management will be necessary to get the most out of your investment. Make sure you are prepared for success with a plan for implementing the new system based on your business needs and best practices—even if that means updating your existing processes.

And don't forget about feature adoption. If your staff members don't feel confident using the new software, then they will be slow to adopt it. Make sure you invest in proper training for all users to ensure that they're as productive and effective as possible with the new system.