Selecting Accounting Software

Whether you're looking to upgrade your current system or to install accounting software for the first time, the steps to a successful transition from what you're doing now to more productive—and fun—days at work are in essence the same: determine what results you'd like to see (commonly called the "needs assessment" phase), research the available software options, and then select the best one that's within your budget.

Performing the Needs Assessment, or Describing the Perfect World

The ultimate purpose of accounting software is to report information in all the ways you need to see it. Most organizations "make do" at some level with inadequate output; the accountant or bookkeeper spends time at the end of each month and year combing through the general ledger for details or exporting data to Excel in order to create reports that the software can't or won't format properly.

In this phase of software selection, you get to dream. Leave the limitations of your current software behind and consider the reports that would make life easy, that you'd like to be able to produce with a few clicks of a mouse.

First, list all of the people and agencies you report to. Consider program managers, the executive director and other management staff, the board, the finance committee, the accounting department, the IRS, grantors and other funders, and your CPA auditor.

Next, look at the reports you produce now and design a new and improved version for each of them. Include any reports you can't create at all, drafting the layout you'd like.

Here are some questions to help you:

- How many aspects of your organization will you want to use to sort your accounting data? Common ones, in addition to "accounts," are "activity" (you may call this one "function" or "program"), level of restriction, and grant. Your organization might need others, such as location or department.
- Is your system set up to produce detailed budget-to-actual reports for managers of grants or programs and summarized reports for the board?
- Did your auditor make journal entries last year? If so, was he or she making corrections you can prevent with better system design?

During this first phase, it's good to consider the other data management systems in your organization that you may want accounting to integrate with, such as fundraising or client management, so you can evaluate accounting packages from companies that market multiple products.

Other questions that aren't related to reporting but need answers before you go to the next step are:

- How many people will use the software? How many of them will need to use it simultaneously?
- What security or internal control difficulties would you like to solve?
- What capacity limitations might your current hardware cause, and can you afford to upgrade?
- Do you need to track payments due from clients, customers, or members?
- Will you outsource your payroll to a service bureau?

Researching the Options, or Exploring the Unknown

Over the past few years, the accounting software industry has seen the same consolidation we've become accustomed to in the digital world at large, yet the number of options for software that is designed for nonprofits—or that claims to be—has increased as developers have seen business opportunities in the growing nonprofit field. Solutions are both simpler to use and more sophisticated in their output, and the range of prices has broadened at both the high and low ends.

I recommend having a general idea of how much your organization can spend while going into the research phase with a flexible attitude. To help you avoid sticker shock, software that might work for a nonprofit with a $2 million budget can cost as little as $200 for one user or as much as $20,000 for several users. On top of the purchase price, there will be installation and training costs that you will pay both directly to a third party and indirectly in the form of staff time.

With that in mind, let's look at software. Here are a few names to start with (editor's note: inclusion in this list does not indicate endorsement by GuideStar):

Sage Software (www.safesoftware.com) has acquired several well-known, formerly independent brands, and two of them—MIP and PeachTree—are popular nonprofit applications. MIP was designed specifically for nonprofits from its very beginning over 20 years ago. PeachTree was written for small business and has had a version for nonprofits for several years. PeachTree is a less expensive, more limited product; MIP is sophisticated, flexible, and much more expensive.

CYMA (www.cyma.com) and Cougar Mountain (www.cougarmtn.com) are both on the less expensive side and were modified for nonprofits from business applications.

Blackbaud (www.blackbaud.com) is best known for its fundraising application, Raiser's Edge, and has had an accounting package, Financial Edge, for quite a few years. It's the most expensive of the products mentioned in this article.

QuickBooks Premier for Nonprofits (www.intuit.com) is a popular choice and can be the least expensive solution, at least as far as software cost itself is concerned.

If you want to look beyond these programs, ask other organizations' accountants what software they use and how well it works for them. It can be especially helpful to gather information from nonprofits whose services are similar to yours, whether or not you know the people there personally.

Consider how each type of software will work with your current hardware and operating system. Will you have the money to upgrade computers as well as purchase and install the software?

Once you've identified several packages that seem to fit your budget, try them out.

- Download a trial version, post some transactions, and closely evaluate the program's ease of use and the reports it can produce.
- Find out how many certified consultants there are in your area. Contact one or two and ask about their rates, how far into the future they're scheduled, how long a successful installation will take, how often the company charges for upgrades, how their annual maintenance plan works, and whether there's a user group in your area. You're trying to get a sense of how available the consultant will be and how much the software will continue to cost after it's up and running.
- Determine whether the software can produce the reports you've designed.

You may find nonprofits similar to yours successfully using software that's not meant specifically for nonprofits. In my experience, such applications can work because of two features: they offer a segmented account structure, allowing you to set up as many segments as you need in order to produce the reports in your ideal world, and they can produce statements of activity that combine parts of more than one fiscal year, which means that producing a report on expenditures under a grant that has a different year than the organization's is no more difficult than producing a fiscal year report.

You'd be wise to look for those two features in the software that calls itself "nonprofit" as well.

Selecting the One That's within Your Budget, or Enjoying the Reality Check

These days, accounting software has been tested in the marketplace for many years, so it's hard to go completely wrong in your choice. If your current budget places too heavy a limit on what you'd like to do, consider postponing the conversion until the next budgeting cycle and apply for grants specific to improving accounting and reporting.

The last word to accountants and bookkeepers: although this process should involve other managers in the organization, don't let anyone who knows less about accounting software than you do make the decision for you.

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