Tips for Evaluating Financial Management Systems

By Daniel Todd

It's one of the most important decisions you'll ever make. Be sure to choose the right financial management solution.

Nonprofit managers are required to perform a balancing act between downward and upward accountability—in other words, responsibilities to nonprofit beneficiaries on one hand (downward accountability), and responsibilities to senior management, boards of directors, and donors (upward accountability) on the other. Putting the needs of beneficiaries first (remaining true to the organization's vision) while ensuring the organization's financial stability is a tall task for even the most skilled manager.

Unfortunately, traditional accounting methods deny nonprofit managers the ability to carry out this balancing act effectively. Limited information delivered unpredictably places strain on staff resources. Traditional methods are also less timely, since managers in many cases see reports only once a month, and even these reports are subject to tardiness. Perhaps most important, traditional accounting methods can't identify subtle risks that could jeopardize the organization's health.

The Potential of New Systems

The good news is that you needn't rely on traditional accounting methods. Today a wealth of computerized financial systems exist. Such technologies include, for example:

- **real-time data reporting**, which provides up-to-the-minute financial data to interested parties
- **managed access rights**, giving designated individuals or groups access to specific information.

These advances offer strategic oversight not only for management but at the board level and in some cases for donors directly. And when transparent oversight becomes possible in real time, good governance increases.

Eight Essential Questions

While there are plenty of high-powered systems to choose from (all promising to solve every accounting problem imaginable), choosing one can prove overwhelming. To simplify this choice, here are eight critical questions you should ask about any financial management solution under consideration:

1. What are the *short term costs*? What are the *long term costs?*

In the *short term,* exactly how much does the solution cost to purchase (or in the case of leased systems, how much does it cost to host)? Beware of installation fees, module up-sales, and system training costs.

In the *long term*, consider the system's viability in the marketplace. How long has the solution been around? What type of industry standards does it implement? Be sure to understand the maintenance agreement, identify any long-term support fees, and ask about cost of upgrades.

2. Does the system provide *risk management* functionality?

Identifying risk early is key to the health of any nonprofit organization. A financial management system must provide sufficient business-critical information in a timely manner so that managers can spot trends or potential areas of risk and react accordingly.

3. Does the system support *transparency?*

With increasing public demand for openness and accountability, a system that ensures transparency is essential. The best solutions let you showcase records publicly while also providing safeguards to protect internal activities.

Transparent accounting and reporting practices, rooted in timeliness and integrity, can bolster confidence in nonprofits. Transparency also creates a healthier, more productive working environment within organizations.

4. Is *managed access* supported? If so, to what extent?

A system should provide managed access to as much (or as little) information as necessary to all interested parties — from managers to board members and donors. Preferably, a system should furnish access to critical data from a remote location. Managed access not only provides greater confidence in the organization but simplifies evaluation and auditing.

5. How user-friendly is the system?

Functionality is often achieved at the expense of usability. Often overlooked are the costs of systems requiring extensive training and support, even additional personnel, to operate. When evaluating systems, consider ramp-up time as well as the potential for increasing productivity among staff. Intuitive, user-friendly systems not only save raw labor costs but empower staff members to contribute in new and meaningful ways.

6. Is accounting functionality comprehensive?

Accounting functions should be all-encompassing, including budget and cash flow (in real time), daily book closing, payroll, and check writing capabilities. Having all functions under one roof increases efficiency while saving money.

7. How flexible is the system?

Two questions should dominate any evaluation of a financial management system:

- ***How easily will the system integrate your current processes?***
- ***Can the system grow with your operation?***

Growth planning is crucial, especially if you anticipate growing into multiple projects or locations. Ensuring that your financial system can assimilate horizontal and vertical growth will create smoother transitions when the time comes to expand.

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8. What type of reporting is the system capable of?

Verifying the validity of nonprofit activities is extremely important to donors and board members. To accommodate demands for accurate reporting, a financial management system should deliver relevant, up-to-the-minute, customized reports. Ideally, a manager should be able to automate as much of this reporting as possible.

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