Don't Let Your Accounting Damage Your Fundraising

To avoid problems, be sure your donor information agrees with your accounting records.

By Ruth Lott

Your supporters expect accuracy and transparency when you communicate data about their contributions and the use of those funds. To earn their trust, it's crucial to reconcile your accounting and donor-management systems. Follow these guidelines to assure that your records instill trust and confidence in your operations:

Build communication between donor management and accounting.

Connecting accounting and fundraising records will supply checks and balances throughout the year for data accuracy. A process that includes frequent communication protocols is a good start to getting more accurate data, and a month-end reconciliation will verify that the system is working. Compare the cash received and pledges made in donor-management software to what's recorded in your financial-management software. Then have your accounting team reconcile that figure to the monthly bank statement.

This monthly comparison between accounting and development can reveal common inaccuracies, including:

Unrecorded pledges: Pledges are proudly recorded on the development side, but when no cash is received on a new pledge, it's easy for this to be missed in the accounting software.

Missing contributions: The accounting team may record a deposit they see on the bank statement accurately as payment on a pledge or as revenue from a key donor, but development could miss recording this activity on the management side if not notified.

Naming inconsistencies: Take care to be consistent in how you record the names of donors. For example, a payment recorded in development against a pledge from "Alamo Foundation" could be miscommunicated as new revenue if recorded as coming from "Karen Alamo." The payment source is the same, but multiple names in the system can create errors.

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Donor restriction inconsistencies: If funds restricted for a specific purpose are recorded as unrestricted in the donor-management system, this error could carry through to financial statements if not caught in accounting reconciliation.

Timing inconsistencies: Many donors rush to make contributions by year-end for tax purposes, and development is careful to record that revenue. But if a system isn't in place to communicate the *date of donation* versus the *date of deposit* to the accounting team, these contributions could fall into the next tax year in the accounting software.

Avoiding errors like these can save an organization from embarrassment and donor mistrust. Take care not to send out donor letters with incorrect amounts or imprecise tax-year data, and be sure your reports to grantors match your own records. Errors can put your organization at risk of lost donors and a negative reputation.

Think about long-term, repeatable strategies that reduce audit complexity.

All audited organizations will be asked to supply an annual reconciliation of development activity to their accounting records and financial statements. A monthly reconciliation process on the development side will make this process smoother and avoid unnecessary notes in the audit management letter.

If your development team has effective communication with accounting all year, you'll alert your accounting to new pledges in real time. Also, your development team can send documents for large grants and gifts to accounting. This gives the accounting team a chance to review documentation for:

any conditions that may delay the recording of revenue until those conditions are met

any donor restrictions for contributions to be used in a certain time period or for a specific use

the correct timing of revenue, ensuring that contributions are recorded when pledged, not according to the date they're expected to be paid.

Catching those nuances throughout the year rather than at audit time makes life easier for everyone, including board members. Consistent record-keeping between donor management and accounting will lower the chances of

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year-end audit adjustments. Board members like to see consistent income projections without surprise adjustments after the audit.

Consider software and system integration.

The systems chosen to support your teams should contribute to their success, not hinder them. Be wary of donor-management systems that offer an "all-in-one package," including accounting functions. It's best to stick with well-vetted accounting software packages that specialize in getting the accounting right, while your donor-management system should be the gold standard for organizing information about your supporters.

Cloud-based systems for both donor management and accounting give you an edge. They allow for real-time access, communication, and increased opportunities for integration. At a minimum, your accounting team should be able to access donor data to verify that their work each month is lining up with development. At best, avoid manual reports shuttled between development and accounting.

When choosing your donor-management software, find a solution that offers easy-to-analyze reports by period, with detailed and summary options. The ability to "close a period" in the donor-management software is a plus. This ensures that changes don't occur after a period has closed, which would "break" any reconciliation already completed. Also important is the ability to track a contribution through its lifecycle from prospect to closed, with multiple data dimensions including household, fund, donor wishes, date pledged, date paid, and date deposited.

Give development professionals the tools and training they need.

Accurate development data starts with your fundraising team. These are your boots on the ground and fingers on the pulse of your donors. Be certain that this team receives foundational training for when revenue should be recorded and the importance of communicating accurate information to the accounting team.

Make sure your accounting team creates a system that provides vital data about the lifeblood of your organization, its supporters, and their intentions. All this information will then be correctly reflected in the financial statements available for the world to see.

Sharpen Your Edge

A good way to gain more perspective is to peruse articles such as these, available at NonprofitWorld.org:

Numbers Needed: Five Reasons to Use Finanacial Data in Fundraising (Vol. 30, No. 3)

Need a CPA at Little Or No Cost? Five Ways to Find Help (Vol. 28, No. 2)

Are You Fulfilling Your Financial Trust? (Vol. 17, No. 1)

Making the Accounting Software Decision (Vol. 19, No. 3)

Analyze Your Finances to Ensure Your Mission (Vol. 19, No. 5)

The Bucket System: Managing Your Assets in the Face of Volatility (Vol. 35, No. 2)

Get Ready for a Better Audit (Vol. 30, No. 2)

Monitoring Your Organization's Financial Health: A CEO's Guide (Vol. 14, No. 6)

Do Your Board Members Know Their Fiduciary Responsibilities? (Vol. 33, No. 1)

The Cloud: Software Transformation & Evolution of the Workforce (Vol. 33, No. 1)

Tips for Choosing Relationship-Management Software (Vol. 28, No. 6)

Top 10 Things to Understand about How Fundraising Really Works Today (Vol. 39, No. 4)

Avoid an Unwanted Auditor's Letter (Vol. 33, No. 3)

Ruth Lott (rlott@mahoneycpa.com), CPA, is a director on the Business Solutions Team at Mahoney, an accounting advisory, tax consulting, and audit firm. She has over 10 years of experience consulting for small to mid-sized organizations. She is also an Advanced Certified QuickBooks® Proadvisor.