

# The Case for Choosing the Correct Software

James B. Jordan, CPA, CFE, CGMA

A diocese or parish cannot successfully manage their activities without timely, accurate financial information properly represented using correct and consistent accounting principles. Anything less reduces the financial information to an electronic version of a shoebox full of receipts.

## *Flexible reporting*

A proper accounting system for the Church is one that is designed specifically for use by churches. The resulting underlying architecture of the system is one that is designed to accurately represent church-specific transactions and activities, such as:

1. Donor-designated restrictions on contributions. The Church often has donations given for specific purposes – youth mission trips, outreach, prayer intentions, columbarium support, flowers, etc. These donor-restricted contributions must be identified separately in the accounting system.
2. Church initiated restrictions on income and assets. Money that is set aside by the church for special purposes must also be identified in the accounting system separately to ensure its use for intended purposes.

Sometimes these monies are very large, and their restrictions and use span multiple years. A proper accounting system is designed to easily and accurately account for these types of transactions.

## *Fund accounting*

Commercial accounting packages designed for business use are not sufficient; they do not use fund accounting. Fund accounting sometimes uses quadruple entry transactions rather than double, which all commercial packages use. Fund accounting gives the church a way to identify money that is set aside for specific purpose in the books of the church. It requires that revenue and expenses be recorded normally as commercial transactions; but there is also a need to identify the revenue as a donation for a specific purpose and to ensure that the money set aside is released only for an expenditure for the purpose intended. The latter are examples of when fund accounting is necessary.

Flowers illustrate how fund accounting is typically applied in the church setting. The church will budget for flowers for normal occurrences, such as Sunday Mass. The church, however, will also take donations in memory of someone, particularly for use at Easter. Further, the pastor or trustees may set aside some undesignated money for the purpose of a specific service, such as Pentecost. All three of those monies are accounted for differently, and two require fund accounting. The first example, budget, is basically commercial accounting – pay the flower bill from the general church coffers. The latter two require that the money set aside for flowers be segregated from the general money and spent only for the purpose of Easter flowers or Pentecost flowers. There is a second transaction accompanying the receipt of income that sets aside the money for Easter flowers. There is a second transaction that moves undesignated money from the general fund to the Pentecost flower fund. Neither involved real money, but they are nonetheless necessary for the segregation of money in the books of the church.

### *Accounting systems*

If an accounting system is not designed to give users the ability to temporarily restrict funds for a specific purpose, then it is of no use to a church, which has designated money all over the place. If a bookkeeper has to make a journal entry in the books to accomplish a normally occurring transaction, then the software is likely not the right one.

### *How to decide what I need?*

Know your industry (not-for-profit, religious institution) and its requirements according to accounting standards. These standards are called Generally Accepted Accounting Principles (GAAP) and are the standard for use across all businesses, including nonprofits. Churches do not have owners. There is no stock ownership. The financial statements look different from a commercial set of financial statements for a reason – donors and donations must be identified and accounted for according to GAAP. In the case of large donations intended to be used over a long period of time, there are laws in addition to GAAP that require this segregation of money and its prudent use.

### *Know your requirements*

All assets of the church are required to be recorded in the accounting records of the church. This means all money in all accounts, regardless of source, and all fixed assets or other items of value. Just replacing existing accounting systems is not the right way to look at the issue. Do not get a general ledger package that is from one vendor and a fixed asset package from another. Get a package that is integrated with all the modules necessary to run the church from a single vendor. The requirements are explained below, but their order does not suggest importance over another. They are all equally important and must be present to select the software for use in your church.

The software must:

1. Be written for the not-for-profit industry, preferably for churches, and use fund accounting principles and accounting methods in its transactions.
2. Use the right nomenclature for churches in its financial statements, chart of accounts, user documentation, and training materials.
3. Be robust enough to easily allow for the initial setup by church personnel (once properly trained).
4. Never allow a transaction to be altered or deleted. If a transaction is entered incorrectly, another must be entered to correct it. This creates an audit trail to follow all transactions, even errors and their corrections, within the system.
5. Provide user-specific access with password control at the function level. In other words, prevent the person who posts the contributions from also accessing the general ledger. Allow for an individual to print reports, but never touch the accounting transactions. Allow the pastor to access the demographic data of parishioners, but not the financial giving data. All of this requires user-specific access with password control.
6. Provide for the retrieval of data to produce user-specific reports in addition to GAAP statements.
7. Provide for the proper accounting of unrestricted, temporarily restricted, and permanently restricted fund balances and identify if they should ever get out of balance.
8. Provide for GAAP accounting transactions of all types, especially for church-specific transactions.
9. Provide for cash and accrual bases of accounting separately and intermixed to create a modified cash basis of accounting.

10. Contain all modules necessary to keep the financial records of the church. For example, a module for contributions including a receipts journal by donor; one for fixed assets and depreciation; one for check disbursements including a disbursements journal by payee and a check register; a general ledger including a record of all journal entries; payroll. These are not only useful, but required for internal control, audit trails, or reconciliation.
11. Process transactions as they normally occur in the daily life of the church. What I mean by that is the software is so well designed that if you do not know how to process a particular transaction, it is intuitive where to start and the software follows a logical method because the software works like the church does. It may sound vague, but if you are using software that does not work like this, you know exactly to what I am referring.
12. The vendor has to be of sufficient size and longevity to provide proper customer service, prompt issue resolution, program fixes, clear and concise documentation, and detailed educational materials. These take money and lots of it. A small vendor has a few hundred churches using their software. A vendor of sufficient size has several thousand churches (entities, not users of which there could be multiple per church).

In the interest of full disclosure, I have never received any remuneration from any software vendor. I do not sell any software, and I do not get any finder's fee, commission, or any kind of compensation for my opinions or services from a vendor. The church is my client and where my allegiance lies, not the vendor. At IBM, I was the originator of the consulting practice in software selection, and my small group wrote the methodology, many parts of which are still in use today. There is an entire book that could be written on the subject, so when I offer my opinions regarding software and software selection, I speak from experience.

#### QuickBooks

As a former certified member of the QuickBooks® Pro Advisor Team, let me be upfront by saying never, ever use QuickBooks for a church. There are many different commercial applications where QuickBooks is appropriate. A church is not one of them. I know they have a so-called not-for-profit version. That is in name only. The package is not effectively usable by a church. To illustrate these and the points above, I will use two different packages to point out these differences by contrasting their capabilities and limitations – QuickBooks and ParishSOFT.

#### *Comparison*

QuickBooks is a commercial accounting system whose genesis comes from the wholesale distribution industry. It contains no provision for unrestricted, temporarily restricted, or permanently restricted funds – a critical and vital means of reporting financial statements and a requirement at the most basic level of church accounting. It contains no provision for fund accounting. ParishSOFT is a fund accounting system that is designed specifically for churches and the nuances of this subset of the not-for-profit industry.

Workarounds in accounting circumvent the naturally occurring transactions and are not acceptable accounting according to the canons of the church. In order to use QuickBooks to separately account for designated funds, the income and expense are charged to the same account. This is a totally inaccurate and unacceptable way to account for designated funds in a not-for-profit church. ParishSOFT has the transaction types that are found in churches built into its architecture, making it easy to record transactions as they naturally occur.

The Financial Accounting Standards Board (FASB), who make GAAP, has issued major changes to the financial statements and notes to the financial statements that take effect for all reports as of 2018. There is no way to properly track and later identify transactions that need to be separately reported in anything other than a fund accounting system, which QuickBooks is not, and ParishSOFT is.

### Security


Any package you choose should have a complete audit trail of all the transactions – additions, changes, or voids. There should never be a way to delete transactions. This is where QuickBooks gives me heartburn. While their official answer is that one cannot delete the audit trail, that is not true. Hearst Newspapers, LLC, on their website “Chron” posted exactly how to do that in the article “How to Clear Audit Trails in QuickBooks” (retrieved July 5, 2017 from <http://smallbusiness.chron.com/clear-audit-trail-quickbooks-61688.html>). This opens the door for fraud that could not be traced to an individual in a big way.

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## How to Clear Audit Trails in QuickBooks

by Avery Martin



QuickBooks company files can grow to be quite large due to the large number of closed transactions and unused list elements that build over the course of running your business. By condensing your company file, you can remove the audit trail associated with the closed transactions. The transactions are moved into the summary journal entries. These entries won't change the accounting of your business, but they do remove the audit trail for all transactions based on the date you select in the Condense Data wizard.

### Related Articles

- 1 How to Clear Old Transactions in QuickBooks
- 2 Reports to Run for an Audit in QuickBooks
- 3 How to Delete Entries in QuickBooks
- 4 What Is an Audit Trail and Why Is It Important in Accounting?

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1. Click **"File," "Utilities" and "Condense Data."** If you are using QuickBooks over the network and syncing your company file between many computers, complete this process on the computer where the data is stored.

2. Select an option on the **"What Transaction Do You Want to Remove?"** window. Choose whether you want to remove transactions before a specific date and input a date into the date field or select all transactions. Click **"Next."**

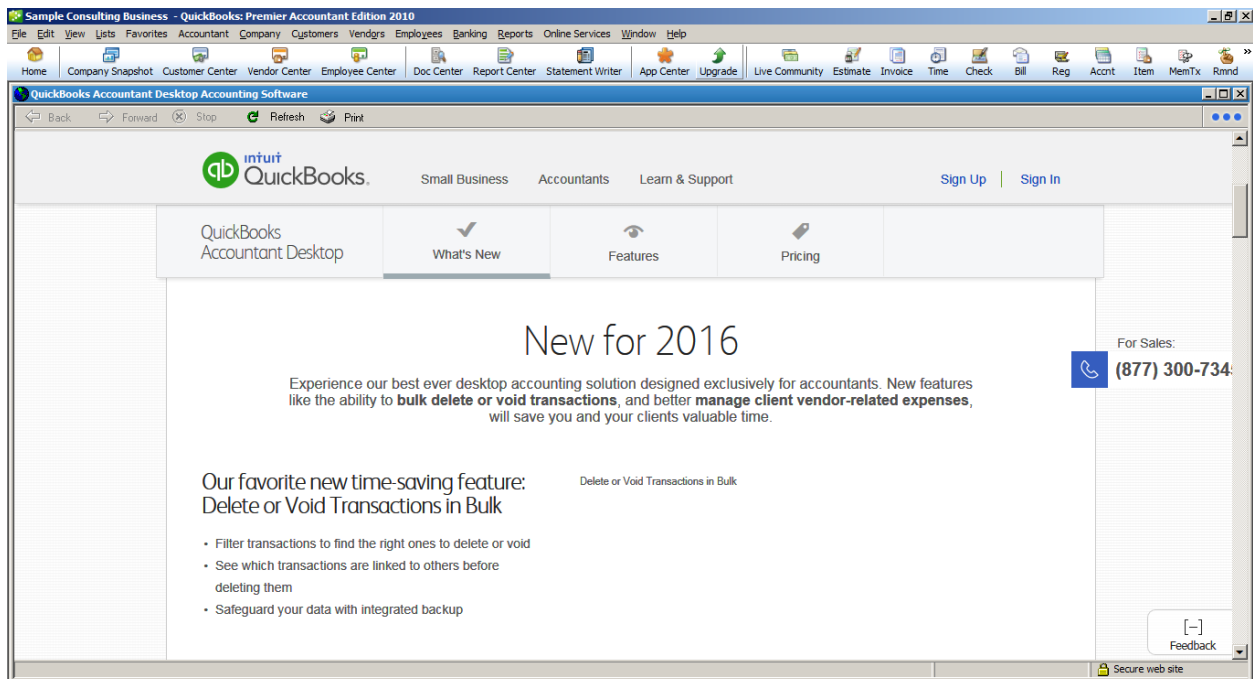
3. Select the option to remove all of the audit trail information. If you only want to remove the audit trail, leave all of the other options cleared. Otherwise, select any additional lists, accounts, vendors or employees you want to have removed.

4. Click **"Don't Create a Summary" and "Begin Condense."**

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What kind of transactions could one delete? Any or all deposits, checks written to whom and for what amount, bank reconciliations, everything! In contrast, ParishSOFT does not have such a mechanism. Transactions no longer wanted are voided or reversed, but there is always an audit trail of who did what on what day and what time.

Deleting transactions is also a grievance. Transactions should never be deleted for the same reasons as above for audit trail. QuickBooks advertised not only the ability to delete transactions, but – a new feature – to be able to delete them in bulk starting with their 2016 version of the software (retrieved from QuickBooks website 2016). Why would one be forced into clearing the audit trail and the transactions from QuickBooks? Data file size limitations. You just cannot keep all that history that you may want to keep in QuickBooks and still have it function.



Again, ParishSOFT has no such provision – or feature! I do not know of any reasonable reason to delete transactions in any accounting system, particularly in a church.

### *Architecture*

The architecture of a software package is very important. It means that the industry for which it is written will require certain ways of processing transactions to make the package match the industry's transactions. Often, these transactions are cumbersome, not necessary, or even a hindrance to doing business in a package that is mismatched for the industry. QuickBooks was written for a wholesale distribution business. The architecture of the package has inventory, pricing, customers, quotes, etc. In an attempt to create a version for the not-for-profit industry, QuickBooks still uses customers, inventory, sales, shipping, invoices, etc. Doesn't sound like a church package, does it? There is an old saying, "You cannot put lipstick on a pig and call it your date to the prom." Even their documentation has one think of a donor as a customer, for example. Why would you want a package that does not even use the same nomenclature as the church, let alone is a very different architecture from what a church needs? ParishSOFT was designed from the ground up to be a church software package and has the architectural design that is natural to processing church transactions.

### *Expandability*

Processing transactions for the church as a single entity is core to the accounting needs of the parish. But what if there are other entities - bookstore, church school, preschool, gift shop, thrift store, or other? You will want to account for those entities separately to determine their own financial viability, but also roll them up into the church as a whole.

This is not possible with QuickBooks. I have a new client who recently had a QuickBooks accounting system for the church, one for the capital campaign, one for the construction, and one for the preschool. It was an accounting nightmare. There was a third-party package for contributions because QuickBooks is just not capable of keeping track of pledges and contributions. You guessed it. Because ParishSOFT is designed with these and many more church scenarios in mind, that package takes it in stride and integrates all of the components.

Entrepreneur magazine reported on August 22, 2013, "The minute you find yourself pulling data from QB to manipulate on a separate spreadsheet, you're ready for a more robust accounting platform." If you have to use a spreadsheet to do what your accounting system should do, you have the wrong accounting system. Not every program can produce every report at a whim. But the software should contain a way to create or customize reports based on a number of different factors. ParishSOFT does. QuickBooks is limited to preset reports in which one selects date limits, accounts, or detail. It does not contain a report writer.

### *Donors*

Donors are the heart line of a not-for-profit. Recording their pledges, tracking their contributions, and reporting them accurately for their tax purposes are critical to the satisfaction of the congregation and the income of the church. QuickBooks simply does not do an acceptable job at all. ParishSOFT excels in its capability to manage donors and donations.

### *Other*

Online giving, communities, children in faith formation, familial ties, baptismal, first communion, and confirmation records, etc., are all core functions that churches need. QuickBooks does none of these. Yes, there are add-ons, workarounds, or even separate packages – but why? Why do you want to be the systems integrator? ParishSOFT does all of these things and more.

### *Summary*

Churches are required to use fund accounting by nature of their industry and types of transactions. ParishSOFT was designed specifically for churches to allow the easy recording of naturally flowing transactions of the church. If your church is not using ParishSOFT, don't walk away from what you are using – RUN!! Get ParishSOFT and be canonically compliant and donor sensitive – two antes to get in the game.