

Outsource Your Bookkeeping!

By Steve Zimmerman, CPA, MBA



*The most strategic decision you make regarding how to staff your accounting department may be to **not staff it at all**. Well, at least not with employees of your organization. Outsourced accounting -- having the accounting done by an outside person or firm -- isn't new, but it is getting a second look as nonprofits search for ways to cut office costs.*

We've written here before about using accurate and timely financial information to manage your organization well. But the question for many executive directors is: how do I get that financial information? While a good in-house bookkeeper is probably better than an outsourced bookkeeper, an outsourced bookkeeper is much better than a bad

in-house bookkeeper.

"For a long time I had various people in the office do it," one executive director said. "But they didn't have the skills and as we grew we needed real skills. Then I hired an MBA and only much later did I find out that MBAs don't know how to do accounting or bookkeeping. Then I hired an accountant but he didn't know anything about nonprofit accounting and got our grant reports all screwed up. Then I hired a controller who could talk a good game but could never seem to get anything accomplished and in fact ended up suing us for wrongful termination. Finally I hired an outside bookkeeper who is doing a great job."

Many executive directors find it difficult to find someone with the right skills to prepare invoices (for government or clients), produce financial statements, and analyze financial data to answer management questions. And finding such a person at an affordable rate is even more challenging.

What does outsourced bookkeeping look like?

The term outsourcing may sound bigger than it really is. Many smaller organizations "outsource" their accounting by hiring a part-time, contracted bookkeeper who comes in for half a day every two weeks (for example), writes checks (for the executive director's signature), reconciles the bank statements, posts the transactions into QuickBooks, and prepares monthly financial statements. Such bookkeepers often have five or more nonprofit clients at any one time.

In other situations a nonprofit will contract with an accounting firm to perform the above tasks as well as others.

Here is an example of how financial responsibilities might be assigned in a nonprofit that outsources its bookkeeping:

Example of Task Assignments with Outside Bookkeeper			
	What staff does	Outside bookkeeper or accountant	Notes
Deposits	Prepares checks for deposits, makes deposits at bank	Enters deposit information into QuickBooks	
Paying bills	Copies, codes and checks invoices for authorization. If cash flow is a problem, chooses which bills to pay and which to hold.	Enters invoices into accounting system and prepares checks for signature	
Payroll	Reviews time sheets and authorizes payroll	Calls in or emails payroll information, reviews for accuracy,	
Bank statement reconciliation		Does the reconciliations for all accounts	

Sole practitioners vs. accounting firms

Sole practitioners -- individuals in business for themselves -- tend to be less expensive and will usually come to your location. Depending on your geographic area and the experience of the bookkeeper, they can charge from \$15 to \$60 per hour. (One executive director told us: "I used to have a great outside bookkeeper, but then her band finally got a touring contract and she could quit her day job: us.")

Accounting software		Posts transactions in	To reduce fees, some own checks and post transactions themselves and have the outsourced accountant review entries.
Monthly financial statements	Reviews monthly statements for accuracy.	Prepares basic monthly financial statements: Balance Sheet, Income Statement Prepares a summary for the Board of Directors.	You'll need to discuss what statements you want in addition to the basics, such as departmental income statements, cash flow projections, the degree to which each restricted fund is being released. Some of this will have to be done with your accountant since you will know your business better than they.
Government contract invoicing	Submits all timesheets and code all expenses with the appropriate funding source. Reviews final invoice for accuracy.	Allocates administrative expenses and prepares invoices. Prepares a budget-to-actual report so you can see where you stand on the contract.	While outsourced bookkeepers can often navigate the complicated mechanics of government invoicing, remember they are using the information that is provided by you. Accuracy and billing all costs still depends on the organization's staff.
Grant reports to foundations, corporations, other funders	Probably staff will have to adapt the financial statements from the accountant before they're ready to submit to the funder. For example, the funder may have specified line items that are not identical with those in your accounting system.	Expense statement related to a cost center if the grant is the sole funding source for that cost center	Some outsourced accountants can prepare grant reports for individual funders, but will need you to provide them with the information on activities, metrics, and so forth.
Individual donors	Sends acknowledgment letters to donors Checks fundraising records against deposits for accuracy		
Financial management, budgeting, end-of-year forecasting, cash management, reports to management team and board, oversight			These beyond-bookkeeping functions are done by management staff and the board of directors

Some organizations have volunteer, part-time bookkeepers as well, or contract with a retired accountant to do the bookkeeping.

But some boards are more comfortable with an accounting firm that has accountants, bookkeepers and data entry people on staff, thereby providing some backup and different skills. Accounting firms are more expensive, though, and usually want the data sent to their office. We asked around and found an approximate rate of \$30,000 per year for a \$1 million organization.

With today's technology, there is little difference between having an accountant down the street or out-of-state, and as a result, some companies can provide outsourced accounting at lower rates (typically because labor costs are less expensive where they are located). While some people may feel uncomfortable with having their accounting done 2,000 miles away, such a choice might be a good and more cost effective option for you. One executive director in Idaho told us: "I can see why someone in New York would want to outsource to an Idaho firm that can find a bookkeeper for \$14 an hour, but here in Idaho I can do that, too."

If you have an annual audit, your auditor may offer to do accounting services for you as well.

They will make sure that the accounting work would be done by a separate department and team than the group that does your audit. It might sound easier to maintain a relationship with only one firm, but we recommend that you use two different firms. This will assure the independence of your auditor and you will benefit from two perspectives on your finances.

When is outsourcing a good idea?

Outsourcing tends to work the best when:

- A smaller organization doesn't need a full-time bookkeeper, but needs more skills than the receptionist or office manager can provide
- An organization of any size can't find a full-time person with the appropriate skills at a cost they can afford
- There have been multiple failures trying to hire a good full-time bookkeeper
- When temporary services are needed -- e.g, if the bookkeeper is on maternity leave, or if there will be a vacancy of several months (perhaps to wait until a new COO is hired who will then hire the bookkeeper)

Don't forget that someone -- perhaps the executive director -- will still need to be involved with finances, from coding and approving invoices, reviewing time sheets, making deposits, and so forth.

Outsourcing is probably *not* a good fit for your organization if

- You have cash flow challenges that require day-to-day decisions about what to pay and what to hold
- You have a complicated and unique financial system, or
- You want your finance staff to be part of your management team

Building in-house accounting staff may seem like a good goal -- and for many organizations it is -- but the important part is to build a relationship -- either externally or internally -- to meet your financial information needs.

What if you have to write a check on the spot?

The fear of the last minute check is something that keeps many people from outsourcing. Yes, it is often more difficult to cut an immediate check when your bookkeeper isn't on site all the time, but you should be able to work something out with your outsourced provider. For example, you may keep some checks in your office under lock and key that can be written manually and posted later by the bookkeeper when she comes in, or you can use an organizational credit card.

Finding an outside bookkeeper

Ask other nonprofits in your community for their outsourced bookkeepers, and only rely on a recommendation if the person has used the bookkeeper for six months and through an audit. Ask your auditor (if you have one) for recommendations. Talk to references about what they like best and least about their outside bookkeepers. And don't forget that this relationship should be reviewed at least once a year; it may be right to move to a staff bookkeeper or a different external bookkeeper.

Finally, remember the primary audience for financial statements is the organization's management. Just as you wouldn't (or shouldn't!) accept incomplete, inaccurate, or late information from your staff accountant, you shouldn't accept that from an outside vendor either.