IT SOLUTIONS TO ADDRESS FINANCIAL REPORTING CHALLENGES
IN INTERNATIONAL DEVELOPMENT

This paper reviews the challenges of International Non-Governmental Organization (INGO) financial management and reporting, and then examines the role of information technology solutions to address such challenges. The author considers Enterprise resource planning system (ERP) solutions for INGO financial management, explores desired ERP system architecture, its specific features and requirements. The discussion and conclusions reflect on the benefits of using IT solutions for financial management and reporting in the INGO industry.

Key words: International Development, International Non-Governmental Organization (INGO), international financial management, Enterprise resource planning system (ERP), online account payable system, multi-currency transactions, funder compliance, project accounting, budgeting and Business Intelligence (BI)

Due to their nature of business, financial operations in International Non-Governmental Organizations (INGOs) are highly complex. There are a number of challenges that differentiate INGO financial management from commercial entity and/or domestic non-profit organization financial operations, including foreign currency transactions and exchange rate fluctuations, political risk and implication of various host country regulations, particularly in labor and taxation.

INGOs, even though are independent from state governments and international governmental organizations, get funded by them. This requires INGO finance to be highly compliance-focused, and adds an additional layer of funder and stakeholder requirements on top of regulatory agency and tax authority reporting. An INGO must be able to transparently distribute costs by source of funding, purpose of payment, and other attributes. Such transaction visibility translates into a systems requirement for “drill down” capabilities [6], so that the detailed transactions within a project or a given fund can be examined and audited.

In terms of accounts receivable, outstanding pledges, donations grant payments and contract reimbursements from a variety of international sources need to be collected and managed.

Accounting for INGOS typically follows fund accounting rules and standards, whereas funding is grouped into projects that capture inflow of funds from donations, government grants, private foundations, etc. and outflows of funds, or expenditures grouped according to the purpose of payment (as per chart of accounts). Oftentimes local state law requires INGO field offices to follow locally accepted state chart of accounts, which
may lead to setting up multiple general ledgers that are eventually consolidated into one. Additionally there is a need for multi-currency transaction execution and reporting capabilities, as expenditures, including payroll are processed in foreign currencies.

INGOs may also need to consolidate different or multiple accounting periods to support calendar year reporting in field offices as well as fiscal year reporting in the home office (which usually follows the fiscal year of its main funder, such as US Government). Funder reporting requirements differ between each other and may follow calendar or fiscal period basis, or both. Furthermore, projects get rolled out and closed out regardless of the fiscal period deadlines.

There are a number of information technology (IT) solutions that are aimed to address the challenges of INGO financial management. IT plays an integral role in the International Development industry, helping companies to improve business processes, achieve cost efficiencies, drive revenue growth and maintain a competitive advantage in the marketplace.

IT-based finance productivity solutions facilitate for global operational integration using 24/7 interconnectivity. Thus for instance, an INGO home office located in Washington, DC would get daily updates on community dialogue project spending in Sloviansk, Ukraine.

Reduction in project implementation costs caused by the introduction of IT financial management solutions helps INGOs to achieve competitive advantage in proposal bidding simply by the means of cost savings. For example, a project accounting and financial staff costs would be significantly decreased in an INGO that is utilizing an online payment approval and processing system. Furthermore, as finance and accounting staff time are oftentimes considered to be an indirect cost, the company may be able to demonstrate a sustainable way to reduce its indirect spending.

To address the geographical and political risks in International Development, IT systems allow for increased and timely financial consolidation for better managerial decision-making. This enables an INGO to demonstrate its accountability and stewardship to funders, and engage its leadership (e.g. Board Members) by analyzing ‘the big financial picture.’

Enterprise resource planning (ERP) systems allow access to costs, funding and other operating metrics on one integrated software platform, usually in real time, thus making internal processes more efficient and cost-effective. Integrated series of operations in an ERP begins with transactional processing and includes work flow technology to enable business automation, exception monitoring, data management and end-use reporting. Such systems facilitate for enhanced analytical capabilities, including the use of data to test risk and explore predictive scenarios built around various decision paths of an international project.

Ideally, INGO financial and operational management requires robust integrated enterprise resource planning systems that automates processes and meets its internal and external reporting needs, supports multi-currency transactions, and has a cloud-based platform accessible from all over the globe.

Such ERP solutions are now emerging across the International Development industry, and are typically characterized by the following key elements. The author of this article prefers to break down them into general and industry-specific parameters.

General IT financial management system features and requirements:

Improved accountability facilitated by delivery of real-time financial information through secure, controlled data access and full audit tracking

High transparency and visibility that allows to quickly obtain project data to be more proactive in mitigating issues and risks
Efficiency and Accuracy: ability to store, process, use and re-use information of all
types and from all sources; elimination of manual, error-prone processes and automation
of work-flows

Collaboration of tightly integrated systems that allow to build-on for additional
components (for example, travel expense reporting component added as a separate layer
of expense reporting)

Connectivity that makes information synchronized and accessible globally from
multiple devices

Flexibility that allows quick and easy control over process management, languages,
currencies and multiple business units

Business capabilities that provide increased performance and risk analytics,
comprehensive pre-built and ad-hoc reporting, and facilitate for proactive ‘what if’
scenarios

Detailed pipeline budgeting that allows to drill-down all the way from organizational
level down to individual project sub-tasks; and consolidates current projects with new
business at assigned probability levels

Improved labor management and talent retention capabilities that allow to
track staff utilization between multiple projects, and ensure that project milestones are
delivered on time and on budget; and provides for corporate resource overview for short
and long term planning

INGO industry specific IT financial management system features and requirements:

Fund accountability ensures maintenance of Account Payable and Account Receivable
project balances and allows to track revenues with purpose restrictions against the
expenditures made

Project funds management facilitates for project tracking and reporting, even if the
life of the project supersedes the fiscal year

Restricted funds management provides the ability to define and manage how cash
is received and expended and eliminates the chance of commingling different fund sources

Encumbrance accounting provides INGOS financial snapshots at any moment or at
least periodically, and protects from overspending the project budget

Budget verification and validation allows for setting up project specific restrictions
on spending that would put the organization in an over budget scenario

Enhanced audit trail that stretches across all business units and provides an
understanding of every transaction’s parameters: who, when and where entered and
approved and submitted the payment

Enhanced internal controls that provides for access restrictions within all system
modules and enforces individual ownership and accountability

Improved employee time-collection features ensures fast and complete time
capture

Cost allowability tracking provides for increased identification of funder-restricted
costs, such as gifts, alcohol, penalty payments, etc.

INGO Financial Management System Architecture

The author suggests that an INGO financial management system should comprise of
the following components as outlined in Table 1 below.
Table 1

<table>
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<tr>
<th>Component</th>
<th>Services</th>
<th>Features</th>
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| Payment automatization (AP) system | Payment order and purchase requisition approval and release  
Expense report processing  
Travel expense reporting as a separate component due to its heavy compliance requirement (e.g. Fly America Act, etc.) | Linked to General Ledger, Procurement and Payroll  
Supports complex coding (organization, division, project, account, etc.) and cost allocations  
Provides robust workflow: purchase requests are validated against corporate policies and routed for approval  
complex, multi-layer approval chains are set up once approved, purchase order is generated and sent to the supplier when the invoice is received, it is matched to previously approved payment orders |
| Procurement approval and authorization system | Sub-grant authorization  
Contract and Agreement authorization  
Purchasing authorization (over certain threshold as per internal policy) | Linked to General Ledger and AP  
Allows complex approval chains  
Compliant with funder, regulatory and accounting requirements  
Provides robust workflow, whereas accounting codes and funds availability are verified directly against organization’s accounting system |
| Payroll and Labor system | Project time collection and allocation  
Leave and compensation  
Benefits | Linked to General Ledger and AP  
Facilitates for expense report integration  
Allows complex approval chains |
| Accounting system | General Ledger  
Accounts Payable (AP)  
Accounts Receivable (AR) and Billing  
Assets and Liabilities  
Cost and Revenue processing  
Inventory  
Project Accounting | Linked to AP and BI Reporting  
Multi-currency  
Compliant with funder, regulatory and accounting requirements  
Complex data export/import capabilities  
Built-in internal controls |
| Planning, Budgeting and Business Intelligence (BI) reporting system | Bid & proposal costing  
Project, division and corporate-level budgeting and forecasting  
Forward pricing models  
Indirect rate analysis and Provisional rate evaluations  
Resource Planning Utilization Forecasts | Real-time reporting and dashboards  
Built-in and ad hoc reporting  
Connects all ERP component information and produces multiple layer project reporting |
Similar INGO Financial Management System Architecture is demonstrated by some of the INGO ERP software market leaders, as demonstrated below in Figures 1 and 2.


**Research of INGO Financial Management System Efficiency**

According to the Aberdeen’s Group Research on the goals of INGOs and other organizations, 55% of respondents wanted to enhance visibility into organization’s overall spending. The same research indicates that organizations leveraging financial management technology solutions have achieved the following benefits as compared with peers:

- 56% lower expense-processing costs
- 37% higher rate of compliance to travel policies and guidelines
- up to 70% reduced travel booking fees (due to extermination of reliance on travel agent-assisted reservations)
- up to 72% decreased time in document workflow due to reduced bottlenecks and delays in manual processing

The Aberdeen Group published a framework of strategies for ‘best-in-class’ invoice management systems called PACE – Pressures, Actions, Capabilities, Enablers [1, p. 6]. This framework helps determine financial management system goals and expectations, milestones to meet these goals, and indicators of achievement:

- Pressures come from internal performance issues and expectations for improvement
- Actions include steps taken for improvement
- Capabilities and Enablers include tools and measures for process, technology, knowledge and performance management enhancements

### Table 2. Best-in-Class PACE Framework for AP Invoice Management

<table>
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<th>Pressures</th>
<th>Actions</th>
<th>Capabilities</th>
<th>Enablers</th>
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<tr>
<td>Lack of visibility into invoices and AP documents</td>
<td>Invest in automation of invoice receipt and workflow processes</td>
<td>Ability to match invoices against purchase orders, receipt documents, and contracts</td>
<td>Electronic approval workflow</td>
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<tr>
<td>Corporate directives to lower cost</td>
<td>Conduct assessment of current AP process, technological, and strategic capabilities</td>
<td>Centralized invoice management processes (single location or shared service center)</td>
<td>Invoice image repository</td>
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<td>Integrate payables with procurement, finance, or other back-end systems</td>
<td>Standardized invoice management processes across locations / units</td>
<td>Electronic invoicing network</td>
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<tr>
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<td>AP systems fully integrated with ERP or financials solutions</td>
<td>Spend analytics / BI for invoices</td>
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<td>Procurement network with support for electronic invoicing</td>
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<td>Dynamic discounting</td>
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<td>Supplier portals</td>
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<td>Electronically Captured Receipt Settlement (ECS)</td>
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Fig. 1. Sample INGO Financial Management System Architecture, INTACCT

Fig. 2. Sample INGO Financial Management System Architecture, Unit 4
Conclusion

Some of the driving factors for the use of technology in INGO financial management are faster information, greater transparency and improved risk management. Continuing advances in technology will allow the INGO industry to deploy increasingly complex and high end analytics to meet funder requirements and facilitate for more informed project decisions. Innovations such as cloud computing and mobile access will bring a host of benefits to the industry. Finally, IT facilitated financial management is vastly more cost and time effective.