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PARTICULARITIES OF THE FINANCIAL INFORMATION SYSTEM IN NONPROFIT ORGANIZATIONS

Case
Study

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Abstract

Due to the crucial importance of financial information in the context of a knowledge society like ours, the present paper aims to highlight the typical aspects of the financial information system in nonprofit organizations, for the very reason that, inside it, the financial information is produced, which is so necessary to the decisional process. Starting from the hypothesis that the financial information system is influenced by the features specific of the nonprofit organizations, we have applied a methodological approach that has led us to the formulation of certain conclusions. We have studied the literature, the legislation in this domain and the practical realities of the nonprofit organizations analyzed. We concluded that the financial information system of the nonprofit organizations is structured according to the activities undertaken, the programs assumed, the type of funding, the type of target group, the budget-based activities and the presence of volunteers.

1. Introduction

The appearance and the development of the information society, consisting in the integrated, massive and generalized use of information and communications technologies in all the domains of the economic-social life, including therefore the nonprofit organizations, strongly marked the development of the information systems, in an attempt to manage the information mass and allow its managers to use it profitably. (Ivan, 2011)

In the context of globalization, the information generated by the information system of the nonprofit organizations represent an important resource, in the situations in which there are a multitude of such organisms functioning as true multinational companies in which we are dealing on the one hand with donors providing material and financial resources, and, on the other hand, with beneficiaries of the programs managed by the organizations. Consequently, the organizations need to show their accountability. This represents “the capacity to give an account for one’s own actions or for those carried out as a representative of one’s own organization, to answer either for your own actions or for the actions of your organization. The term is used to refer to the responsibility of a nonprofit organization to inform the donors regarding the way their donations have been used” (Arpad, 2009). Under these circumstances, by standardizing the way the financial information is obtained and presented, it becomes easier to compare the information emitted by nonprofit organizations from different countries, but also to put them together on the level of the mother organization.

Due to the importance of the financial information on the world level in the knowledge society, it becomes crucial to know and understand the financial information system of nonprofit organizations, as social actors. Within this system, the financial information is produced, which is important both for the internal, and for the external users, in the decision-making process. Therefore, to know the particularities of the financial information system it is necessary to know its place and role in the entity, to identify, later on, those aspects that determine the existence of some characteristic features of it on the level of nonprofit organizations.

2. Research methodology

Our study aims to highlight the typical aspects of the financial information system of nonprofit organizations. Our hypothesis is that this system is strongly marked by the defining aspects of nonprofit organizations. To validate it, we have studied the literature, the legislation in force for the domain of nonprofit organizations. Practically, we studied the structure of the financial information system in nonprofit organizations and we have

initiated discussions on this topic with accounting practitioners of this domain.

The research methods include general and specific approaches regarding the critical analysis of the financial information system. Consequently, we have used non-participative observation, classification, information ordering and systematization, comparative analysis (between the sector for profit, the public sector and the nonprofit sector), and interpretation of the data in the financial information system to bring to light its typical aspects.

3. Literature review: the role and place of the financial information system (F.I.S.) in nonprofit organizations

The information system can be defined as the sum of the closely interdependent components used to accomplish the organizational objectives, (Gelinas, Dull, 2011) its components representing informational subsystems specialized on certain domains.

From the perspective of the departments in the organization, the information system is made up of several subsystems, permanently connected to the external environment. The core of the information system is represented by the financial subsystem, for the very reason of the high volume of financial information (the specialists of this domain affirm that this information represents over 40% of all the economic information). By means of this financial subsystem, the economic events that take place are recorded and information-carrying financial reports are drafted. (Pan , 2011)

We have represented the place of the financial information system in the information system by the figure no. 1

Just like private firm directors, the managers of nonprofit organizations need financial information. They need to attract funds and use limited resources. They need to plan payments and reimburse credits in due time. Moreover, they are obliged to report the financial results obtained. (Ivan, 2011)

The difference between the economic agents, state and nonprofit organizations, resides in what they do, namely they do an activity for the general welfare of the society, using adequate resources to provide services in the domain in which they carry out their activity.

The main function of the financial information system is to fulfill the information need of the decision-makers in the organization. The accounts represent the source of data to be processed in the system, the financial information being born following this process. This financial information represents a source of knowledge for the leadership and not just for them. We can state that the role of the financial system is to provide information allowing the substantiation of the future decisions.

Consequently, the financial system also accomplishes other functions, such as:

- Forecast: deducing information necessary in a given situation;
- Interpretation: the condition of the system is established based on the analysis of the information generated;
- Training: non-specialists in financial information can be familiarized with it using dialogues under the form of tiered menus;
- Design: determining technical objectives;
- Control: by own subsystems and monitoring interfaces;
- Diagnosis: becoming aware of the flaws of the system. (Ivan, 2011)

The data processed by the financial information system, as subsystem of the information system of the organization, are taken over from the information system and from other sources.

To attain the organizational objectives, the financial information system is interdependent with the means needed for its operation and facilitates a rapid access of the leadership to the information on determining factors, allowing the management to exert an efficient and effective control.

The financial information system is also important for the outside of the organization, for the users of financial information interested in the activity of the nonprofit organization. In the figure no. 2, we shall present the place and the role of F.I.S. in the organization, yet in relation to the external users.

We can notice that financial information serves as a decisional basis not just for the decision-makers in the organization, but also for those outside it. Both of these categories of users, through the actions undertaken following the decisions substantiated in this way can influence the activity realized by the organization.

4. Financial information system: the structure and the aspects influencing it – case study

The financial information system operates on two levels, and the tasks of each level in nonprofit organizations are presented in the figure no. 3.

In the profit-oriented entity, a single system operates, in which goods and services are produced, and the profit obtained following the sales, is distributed among the shareholders and/or reinvested in the manufacturing activity (by means of investments in capital assets, salaries, raw materials etc.). With nonprofit organizations, this is different, because, in order to attain their goal, two systems operate in them, according to Ardelean and Str inescu (2007):

1. The resource development system: demands → donors → resources and
2. The services/goods distribution system: goods/services → target group → gratitude.

On the level of both of these systems, financial operations and transactions take place, so that in the financial information system are recorded data concerning both of these systems, as we can see in figure no. 4 with the mention that in some cases, gratitude may generate revenues under the form of minimal prices or contributions from members of different organizations.*

The practical documentation highlights the fact that in the resource development system there may be running a trading system and sometimes even a manufacturing system, materialized as related economic activity in order to complete the necessary funds for the realization of the nonprofit activity. At the same time, a special activity may be carried out, funded from public contributions, while the financial resources received can be distributed only for certain destinations foreseen by the law. The financial information pertaining to the special activity is generated in the same financial information system of the organization, yet the funds with special destination and their uses are reflected separately, using analytical accounts to reflect the operations pertaining to them.

To determine the components of the financial information system, it is necessary to answer the following questions: what financial-accounting data are processed?, how?, using what means?, what results after the processing? (Ulrich & Dull, 2011)

The answer to these questions leads towards the specific structure of the financial information system operating on the level of nonprofit organizations. The civic sector includes entities operating in various domains, each of them characterized by specific aspects. In this context, a financial information system developed on their level will be marked by the following aspects specific of the nonprofit sector:

- types of activities realized beside the nonprofit one;
- sources and way of funding;
- existence of budgeting activities;
- programmes or projects under way;
- target groups of the activities undertaken;
- human resource used: employees and volunteers.

The financial information system of a nonprofit organization is delineated in a typical way, according to its defining features, in order to answer the information needs of the leadership and of other users, either from within it, or from outside it.

To produce information that is as relevant as possible, the financial system needs to be permanently adapted to the specific of the organization. Next, we shall present the scheme of a possible general structure of the financial system in a nonprofit organization.

As one can note from the Figure no. 5, the subsystems of the financial information system are many, yet not all of them operate on the level of every nonprofit organization, because the operation of some subsystems depends on the internal organization of the entity.

The systems operating only on the level of certain nonprofit organizations would be *the special activity system and the economic activity system*, which, in their turn, are subdivided on modules.

On the level of the first of them, we can identify accounts used to cash in special funds from people obliged by the law to contribute to their formation, and accounts for payments (expenses) related to the activity having a special destination.

In the system of economic activity, the modules that are part of it differ depending on the activity undertaken, namely:

- manufacturing activity (encountered less often on the level of nonprofit organizations): stock accounts, production accounts, clients accounts, providers accounts, cashing-in and payment accounts;
- trading activity (the most common one): stocks accounts, clients accounts, providers accounts, cashing-in and payment accounts;
- services activity: stocks accounts, clients accounts, providers accounts, cashing-in and payment accounts.

We can notice how the specific of the activity undertaken by the organization shapes the structure of the financial-accounting information system operating on its level.

The budgeting and budgetary control system should be closely connected to every other system operating in the organization, because by the budget there are allocated the sums that can be spent, yet there are also forecast those that should be cashed in. Consequently, this system includes treasury management, but also the budgeting of the investments through the evaluation of the profitability and of the financial consequences of the different investments projects realized in order to facilitate the realization of the activity of the nonprofit organization. On the level of this system there are also realized the financial planning and forecasts: the most adequate funding methods are chosen, and according to the activities one wants to accomplish, one can calculate the financial resources needed and depending on them, the financial forecasts can be calculated using the budgets system.

The structure of the budgeting system and the modules developed on its level are valid for all the other subsystems. The budgetary control and implicitly the usefulness of the budgeting activity in the organization can be realized only if there is this connection between subsystems reflecting the

economic events realized and the budgetary system. In this way, the budgeting activity can help the leadership in substantiating their decisions, while the financial information produced on the level of each subsystem becomes relevant for the decision-makers, by comparing it to the forecasts.

The system of programs/projects undertaken may differ, from an organization to the next, depending on their activity. For example, Mutual Aid Funds will have a system of programs with a strongly financial specific, related to certain events in its members' life. In exchange, a social canteen will undertake programs having a structure similar to that of a restaurant, except that the stocks may be received as donation, and the menus obtained are also distributed as donation to the beneficiaries enrolled in the program. The activities that are part of the programs can be funded from:

- sums from fund-raising activities;
- public funds;
- contributions of members and/or sympathizers;
- financial and/or material sponsoring from other organizations or private companies.

According to its activity domain, a nonprofit organization can distribute the sums cashed in directly to the beneficiaries; use those sums to provide services to its beneficiaries or to buy material aid distributed to them. In this last case, in the organization, there will be a supply and/or design system. Acquisitions automatically trigger the use of providers' accounts, stocks accounts and payments accounts.

The fundraising activity can be outsourced, yet even in this case, the nonprofit organization needs to pay certain quid pro quos, according to the contractual clauses. If the fundraising activity is integrated in the activity of the organization, on its level there shall be realized the acquisition of some materials or services needed to realize the activity. In agreement to the specific of the fundraising activity opted for, in the system there shall exist modules pertaining to the *providers accounts* and the *donations accounts*.

The salary processing system in nonprofit organizations is similar to that of any other entity, referring to the personnel hired based on labor contract. In this system there are received and recorded the data regarding the employees' presence and other data about the employees (medical leaves, days off etc.). On the level of the salary system there are produced labor payment and analysis reports. Here the payments to the employees and the contribution related to them withdrawn and due are realized, and also reports to managers, employees and state regarding the payments realized. Based on the information provided by this system, one can analyze the efficiency of the personnel, in correlation to information generated by other systems.

Regarding the volunteers, one can record: the number of volunteering contracts, certain expenses reimbursed to them, the number of hours worked by each of them. At the same time, the information regarding the volunteers can be correlated to the information regarding the employees, but also with information generated by other systems to construct and calculate certain indicators highlighting the contribution of volunteering work in the organization. This information can be used successfully in the activities of promotion of the nonprofit organization, meant to raise funds, recruit new employees / volunteers or access certain public (governmental or European) funds.

In the *general reporting system*, the final financial information is generated, and it is made up of two modules: great book and financial statements. In the module *great book* is consolidated all the information coming from modules of the other subsystems (including the information of the accounts of beneficiaries, clients, providers, stocks, payrolls, and other, according to the specific of the activity realized by the nonprofit organization. At the end of each period, the consolidated information from each module is taken over in the check balance and the result is found out. Based on this information, the financial statements and different reports are realized, on the activity undertaken, needed by the internal and external financial information users.

5. Conclusions

Due to the significant role of the financial information system, its operation needs to be given a special importance, because, on its level, the financial information is produced. In the present context, it is necessary to use a highly efficient financial information system, allowing the users concerned to have real time access to the information they need. Maintaining the quality of such a system at a high level increases the chances that the information generated shall be more relevant both for the internal and for the external users. This requires a detailed knowledge of the particular features of the financial information system of nonprofit organizations.

The aim of the financial system is to take over the data pertaining to the economic actions in the organization and process them to obtain the financial information useful to the people concerned. The relevance of the information produced in the system could increase if the structure of this system agrees with the specific of the nonprofit organization. By what they represent for the society and by their mission, these organizations acquire their own mission, which, as we have noticed, influences the structure of the financial information system. Moreover, the domains in which the organisms of the civil society

can operate are multiple, which triggers a diversity of financial information systems on their level.

The main aspects that influence the structure of the financial information system of nonprofit organizations are: types of activities undertaken (nonprofit, economic, special), programs organized, fundraising activity, presence of volunteers, ways of funding, target group, budgeting activity.

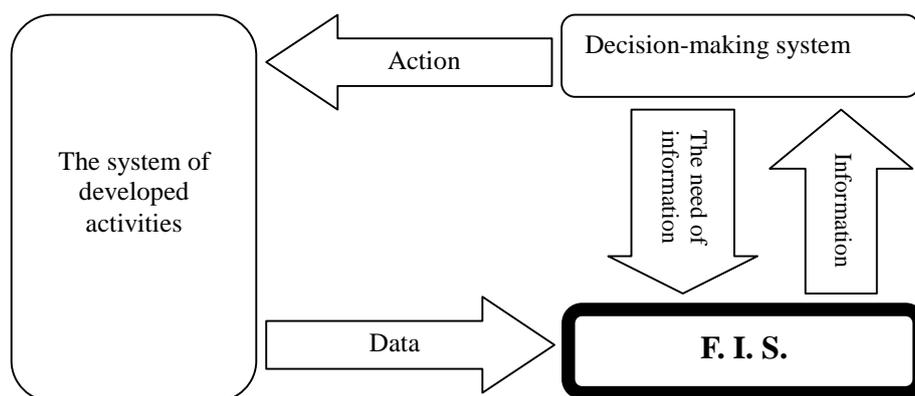
Regardless of their activity domain, the specialists need to give special attention to the structure of the financial information system because by maintaining an adequate structure, the relevance of the financial-accounting information produced can increase.

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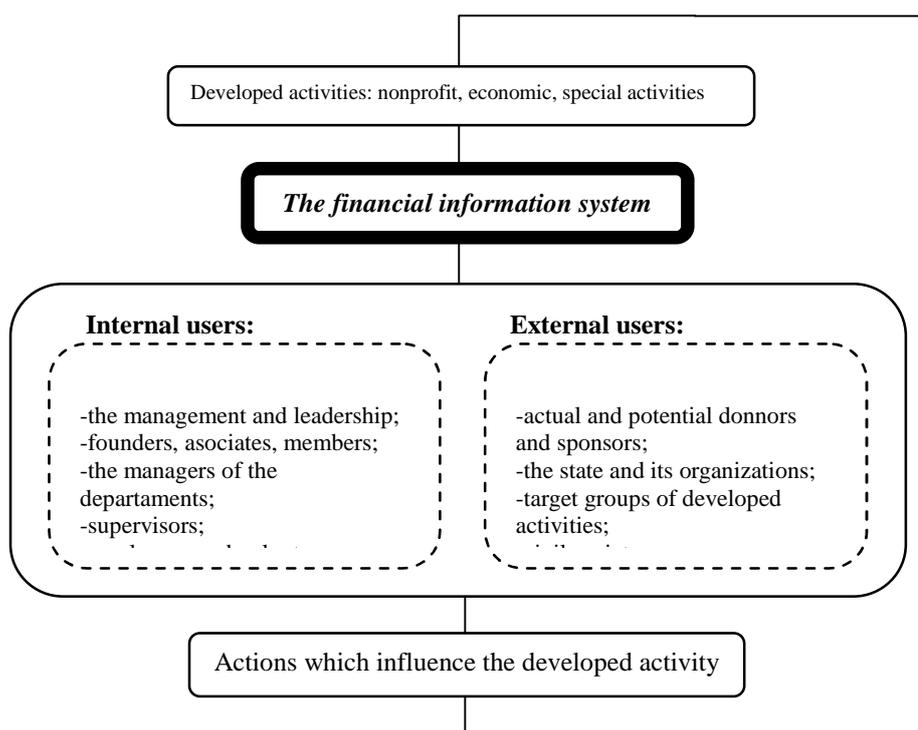
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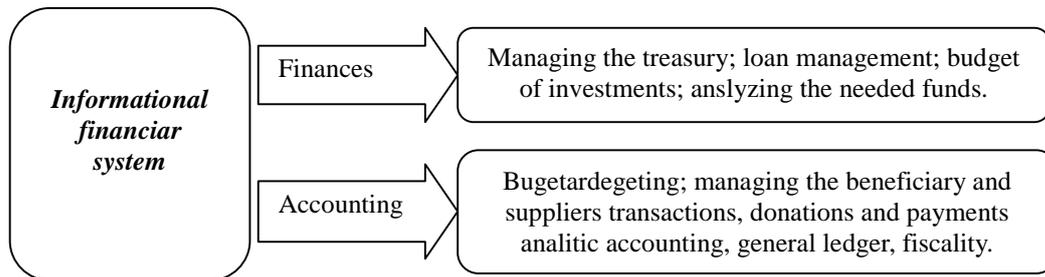
Source: adapted after B. E. Needles, Jr., H. R. Anderson, J. C. Caldwell,
Principii de baz a contabilit ii, p. 3.

Figure no. 1 – The place of the financial information system in the information system



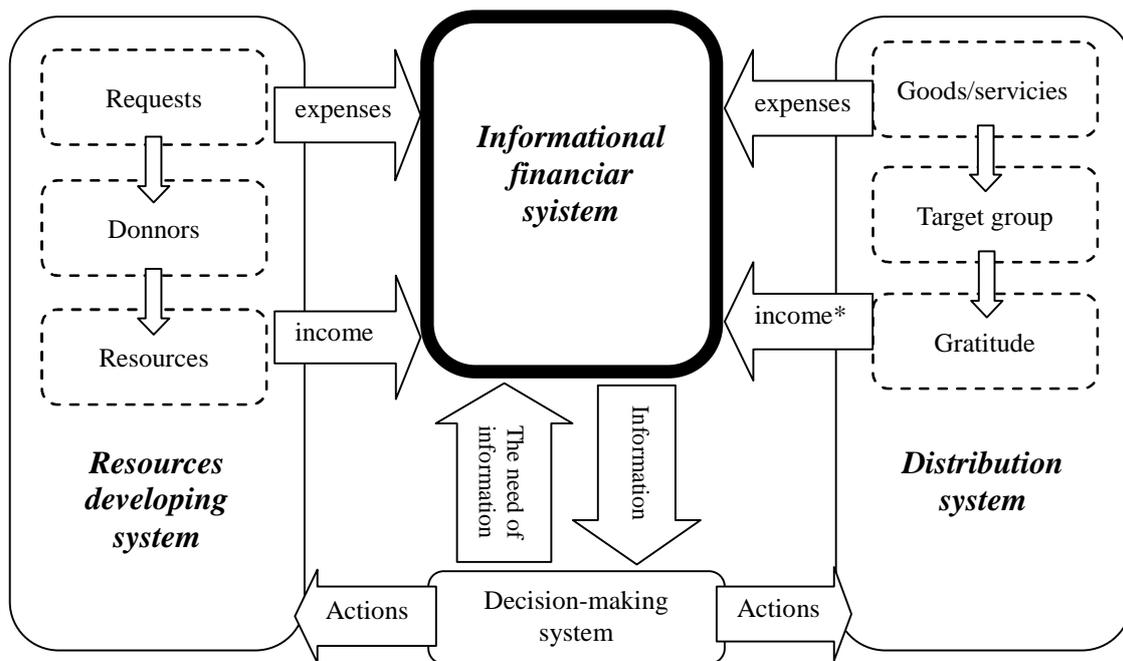
Source: adapted after E. B. Needles Jr., H. R. Anderson, J. C. Caldwell,
Principiile de baz ale contabilit ii, p. 8.

Figure no. 2 – F.I.S. and the users of nonprofit organization financial-accounting information



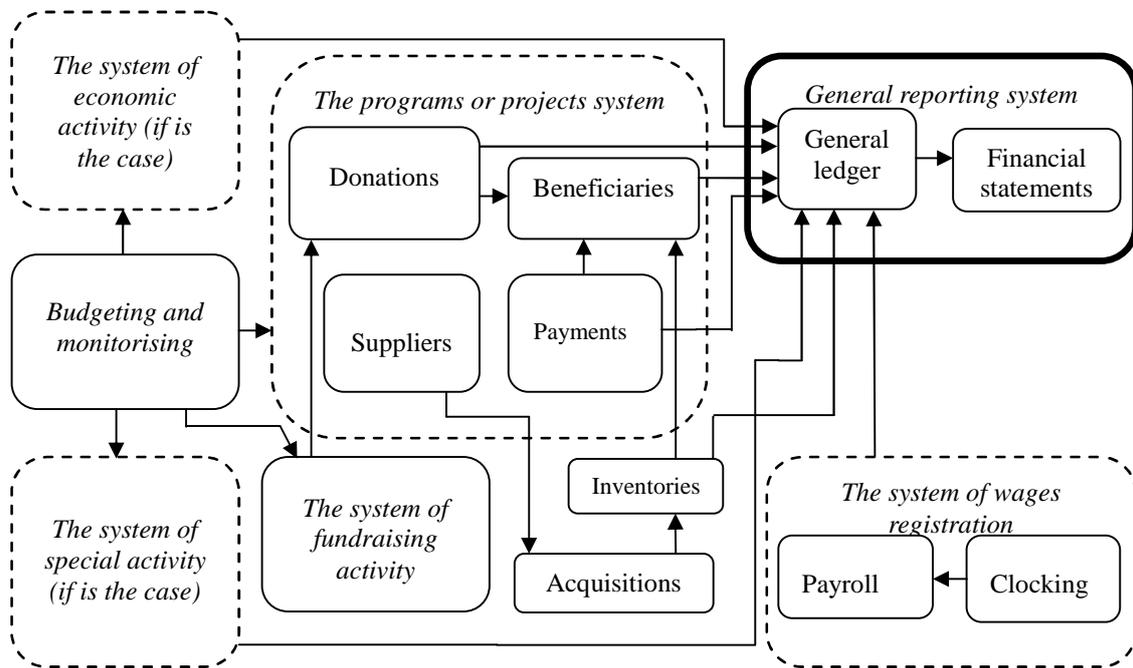
Source: adapted after J. O'Brien, *Les Systèmes d'information de gestion*, DeBoeck Université, Montreal, p. 453 and practical documentation.

Figure no. 3 – Functional tasks of the financial and accounting information system



Source: adapted after I. Str inescu, B., Ardelean, *Managementul ONG*, p. 16 and B. E. Needles, Jr., H. and R. Anderson, J. C. Caldwell, *Principii de baz a contabilit ii*, p. 3.

Figure no. 4 – The place of the financial and accounting information system of nonprofit organizations in their information system



Source: data resulted from the empirical documentation

Figure no. 5 – Structure of the financial and accounting information system of nonprofit organizations