

## **Drowning in Detail and Thirsting for Knowledge: Why Outsourcing Accounting Makes Sense**

Have you ever heard the old phrase, "just because you can, doesn't mean you should?". This is often the case with the internal accounting department. In this day and age, of technology and information as an asset, the internal accounting department is quickly becoming the epitome of something that "just because you can, maybe you shouldn't." In my work with small to midsized companies, I often hear the complaint that it is much easier to have an in house accounting department. But, easier why?

Because it's easy to hire accountants that say they have all of the experience you are looking for. If a business owner places an ad for an accountant in these economic times, odds are they will receive at the very minimum 100 to 150 resumes. I know I do and I place those ads in a relatively small market.

And how many of these business owners are accountants? As versed as they may or may not be in the financial aspects of their own company, do they know how to siphon through the accounting terms in a would-be employee's resume? Bottom line, does that business owner know what questions to ask to determine what kind of skills this individual has to handle their money?

Maybe a better question for that business owner to ask would be "while we need accounting do we really need accountants?"

Companies are at a point in their histories where cutting costs is not just a good idea, but a means to survival. Where owners aren't taking paychecks so that they may cover overhead in their organizations as revenues decline. Labor, including that of the accounting function, is almost always the largest line item in overhead and the line item that can be cut the most when scrutinized. The chit chat by the water cooler is no longer an expense that the business owner is willing or able to absorb.

In the grander scheme of things, a small to mid-sized business does not, even if they have "accounting" in house, have the wherewithal to employ the various levels of expertise that allow them to have a full spectrum of accounting knowledge such as a CFO, controller, accounting manager, or clerk level employees. Also, small to midsized companies are notorious for lacking internal controls within their accounting function thus making themselves twelve times more likely to suffer an embezzlement from internal accounting staff.

By having access to higher level financial expertise that can be obtained by outsourcing the internal accounting function, a company can gain all levels of accounting and finance as well as put in place, through that outside firm, a sound set of internal controls that leave them much more protected from the risk of employee dishonesty. Higher level financial expertise means less meaningless details and more answers for business owners.

There are five basic functions that your accounting department should fulfill whether in house or outsourced.

1. **Simplicity.** No matter how great your accounting function may be, if you as an intelligent professional and the business owner cannot understand what they are saying, it will not be a productive relationship.

2. Timeliness. Information after the fact is only so useful. The more time that passes, the less useful that information becomes. You should be receiving information quickly enough from your accountant that it is not already obsolete by the time you receive it.

3. Reliability. This includes accuracy, consistency and relevance. The numbers should be correct and be thoroughly reviewed. They should not be constantly changing. They should give relevant consistent information from period to period so that you can manage your business.

4. Control. Internal control is not very exciting to many business owners but it is critical to a company's survival. Too many business owners become the victim of embezzlement because they did not put in place sound internal controls to protect their assets. This is not a matter of "trust." Internal controls protect all parties to a transaction so that there is no misunderstanding or, worse, opportunity for embezzlement.

5. Cash management. Your accounting function should play a part in the healthy cash management of your organization. This comes in many forms. It includes ensuring adequate cash flow to cover normal expenses included in payroll and accounts payable. It also includes analysis such as controlling costs, monitoring purchasing decisions and projecting for future savings or debt reduction.

Outsourcing your accounting can help you as a business owner attain an accounting function that meets all of these needs of the organization. Here are some tips for finding the right firm to work with.

1. Find a firm that's more than a "sole proprietor." One of the most important goals of the finance function is to have multiple levels of expertise and internal control. This is not possible with a single person firm. Additionally, they can often serve as a bottleneck if you need something quickly since they do not have the bandwidth to work on multiple client projects at one time.

2. Do your homework and check references. I can name two examples of bookkeeping services started by individuals with criminal records for embezzlement- one that is out on parole and one that is currently serving time in prison.

3. Look for the expertise of a CPA and/or an experienced CFO in the firm you choose. These individuals will have experience in internal control and the higher level financial expertise that small companies are often lacking.

By demanding better information and a stronger finance function, you can more effectively manage your business because you as the business owner will receive more accurate and timely information. By working to outsource your accounting, you can gain all of this while reducing costs. The right outsourced accounting firm can be a strong part of your company's team.

For more information on how outsourcing your accounting can work for your company, please feel free to call Tanya McCaffery at The CFO Group at 775-232-7671.