

## Choosing the Right Financial Person for Your Business

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We've had a lot of interest in knowing more about the support roles in finance. Here's a series of questions from the owner of a service company, located in Connecticut. They are doing about \$1 million in annual revenue, and the owner is anticipating growth over the next 2 years, as they get traction from several of their marketing programs.

What are all of the support roles in finance? When is it the right time to hire one role, or to upgrade to the next level of support? How do I put together a team of financial people, and still keep control. What can I do to protect myself from fraud?

Let's look at the various roles in finance, including a few of the roles this type of position is usually charged with handling. Timing is a tricky question, as it is as much about profitability and quantity of transactions as it is about the company's gross revenue. We'll take a look at some questions you can ask, to help determine the need to upgrade positions, add skill, or add depth to the accounting function. Finally, the fraud question is a big one. Every year, companies large and small lose money due to financial fraud. And the person left holding the bag on the obligations is the owner. There are ways to protect yourself, we'll look at some of them.

Let's start with a look at the role of financial people in small business. There are lots of titles, including clerk, bookkeeper, controller, treasurer, and accountant. Your most important tool will be the accounting system you use. If you have QuickBooks as your accounting system, it should be relatively easy to find people who are already trained on, and working with, QuickBooks, at every financial level. Remember, especially as you get to the higher skill levels that you're looking to fill, look for an individual who already has had experience doing what your company needs done.

Let's start at the entry level of finance, and work our way up. A clerk is someone who makes entries into your accounting system, and handles basic paperwork such as bills from vendors and invoices to customers. If you are using QuickBooks for accounting, you will find that it is fairly easy to train someone to make basic entries into accounts payable and accounts receivable, as the invoicing and billing systems in QuickBooks are very straightforward.

Basic skills for a clerk include attention to detail, ease of working with numbers, a high degree of accuracy, desire and commitment to do work correctly. Depending on the volume of work, you may wish to have one clerk handling accounts payable,

and another handling accounts receivable. If your payroll is extensive, you may want to have a clerk assigned specifically to manage payroll. Typically, a clerk will handle both the input of bills or invoices and the receipts of payments or income.

Clerks, if they have good phone skills, can also be assigned duties of following up –answering customers questions on outstanding balances and pursuing open balances, employees on paycheck questions, or vendors with questions related to payments and credits. You may also want to have clerks regularly prepare pre-formatted reports on the outstanding amounts in their area of responsibility – such as reports on outstanding accounts payable, payroll, or outstanding accounts receivable. A clerk's responsibility would include producing the reports, someone else still needs to manage the information in the reports.

The next level up that we'll talk about is a bookkeeper. The job description includes basic accounting functions related to record keeping, producing financial reports, and balancing accounts. Bookkeepers come with all kinds of experience, from having learned on the job, to having trained in a professional setting, to having passed a certification program. Bookkeepers can work full time, or part time. Many bookkeepers

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work for accounting firms, and then are assigned to work for specific small business clients, for portions of a week or month.

Many small business owners have one bookkeeper who covers all the financial jobs. That person is responsible for many functions, from clerical, to high level bookkeeping. In such cases, the bookkeeper creates invoices for customers, enters bills from vendors, as well as payroll, and reconciles the company's bank and credit card statements. A bookkeeper should be qualified to adjust accounts, correct basic accounting errors, properly assign payroll, handle both book and tax depreciation, record and cost out merchandise inventory and deal with internal controls and fraud prevention. The bookkeeper may use QuickBooks to produce regular, pre-formatted financial reports, such as the P&L and Balance Sheet. And they may provide some commentary on how things are going financially.

When looking for a bookkeeper, check out their background and references. Many bookkeepers are home grown, and do not have a professional education on accounting practices. They may say they can do a lot of things, but you have to check the references to be sure they can do what they say. You may be able to test out their accounting skill, by asking your accountant to interview a candidate. And you

can also look for credentials, such as Certified Bookkeeper, which is a designation from the American Institute of Professional Bookkeepers, in which case the candidate must have at least 2 years of work experience, pass a national licensing exam, and sign a code of ethics.

The next level up is the Controller. This person focuses on financial reporting, interpretation, and the development of accounting systems. Embedded in the title is the word "control", which is what this job is all about. Your controller is there to make sure that payables, receivables, the balance sheet, cash, payroll, and workflow are all in order and "under control", through the use of systems and reviews. A controller has experience conducting audits of records and functions of the business, resulting in tightened controls and procedures. A controller is looking for opportunities to improve the company's bottom line. They reduce losses due to unpaid customer accounts, cut costs through negotiations with vendors regarding payment terms and pricing, and look for opportunities to improve cash flow.

A controller must have good communication skills, and be able to explain the numbers in layman's terms. They must have accounting experience, typically a bachelor's degree in accounting,

finance, economics or business administration is a minimum. Controllers are involved with the company's banks, providing financial reports and updates, and handling all credit lines and bank accounts. The controller should be the person taking responsibility for setting annual budgets and insuring the company is on track with its financial plans. This is a manager position, and this person is expected to be regularly providing input to the business owner on how to make the business run more efficiently and more profitably.

The next position we're going to look at is Treasurer. This may be the same organizational level as a controller, with entirely different duties, or it may be the position to which the Controller reports. Very few small businesses have, or require, a Treasurer. For the most part, the duties of Treasurer are supplied by the company's accounting firm. The role of Treasurer is all about funds management, investment and disbursement. Typically it is the role of the Treasurer to set the financial goals for the company, set and oversee the budgets, and deal with banking relationships.

Every business should have a qualified accountant. In general terms, accounting is all about helping businesses track income, expenses and assets, over time. The accountant's role includes preparing taxes, helping balance

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the books, advising on costs, efficiencies and ratios. Your accountant should be able to help identify investors and bankers, provide audited statements, if necessary, and act as an advisor to the owner of the business. Skills vary widely, from one accountant, to another, and from one firm to another. Many accountants focus strictly on tax planning, while others get more into business planning. You want to find a firm that can provide both tax and business planning. One mistake that many small business owners make is to focus strictly on tax planning, and overlook the potential for growing the business with proper business planning from a qualified accountant.

Whatever roles you may need in your company, one thing you want to pay attention to is fraud prevention. Many firms are done in by staff they trusted, and to whom they gave too much trust. Other firms have hired people to handle the firm's finances, without doing enough background checking, only to inherit some other company's problems. Here are a few things you can do to protect yourself. First, make it clear that you regularly check records, look into QuickBooks, and that you watch the finances. Remember that oversight can be a powerful tool to prevention of problems. Have all bank and credit card statements mailed to your house, or to a post office lock box, to which only you have

access. You open each statement, and flip through each transaction, to see if there is anything out of order. Do not allow the person who inputs data to do the reconciliations – separate the functions. Do not let employees sign the checks, or give out a stamp – it can be a passport to trouble.

Finally, when deciding on what level of financial support you need in your company, here are a few things for you to consider. If you have a tremendous amount of menial tasks that need to be done on a regular basis, such as volumes of transactions to record each month, a clerk may be the best person for the job. They can get the job done for the least amount of money. It is best to hire a bookkeeper, however, when you are first starting up a company, have only a few employees or you do not feel comfortable yourself with numbers. You may be ready hire a controller when you want to spend your time focusing on the bigger issues. Juggling too many balls at once will eventually lead to one or more of them being dropped. In-house financial management will help to keep you moving in the right direction. If you have grown to \$1.5 to \$3 million in sales and you find your cash flow is too tight, too many times, hiring a controller may be your next best move. Also if you are considering changing your financial software package a controller can facilitate a smooth

transition. You need to hire an accountant to work along side you when your company has more than 1 or 2 employees, when you are adding a partner, when you need to secure outside financing or when you have complex billing requirements.

Looking for a good book? Try *The Small Business Valuation Book* by Lawrence Tuller; I am a big fan of Tuller; he is practical, appropriately detailed, and understands finance in privately held businesses.

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