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Strengthened Back-Office Functions Add to Bottom Line

By Janet Halbert

Many business owners are feeling great pressure to streamline their functions, especially those that don't generate revenues – for example, back-office accounting.

But this is not the time to mount a slash-and-burn campaign in the back office. It is a good time to focus on the basics of accounting and financial management procedures to maximize their impact on your bottom line. Back-office people generate money. They also help manage it in uncertain times and can make a difference in preparing a company to prosper when better times return.

Start by looking at your back office as an information-producing diagnostic tool to help probe the present health of your business and gauge its current prospects. In particular, an in-depth look at accounts payable and accounts receivable will diagnose your cash position – an all-important survival item.

In manufacturing businesses, for example, the back office can track and report orders on a daily or weekly basis, enabling you to forecast cash flow requirements far ahead of time.

Producers, distributors or retailers of seasonal goods – clothing, furniture, and toys, for example – can probe historical data to predict the immediate future. How did things look during this month or quarter last year? What results flowed from business activity at that time? When? What's different now? Why?

When studying the data, take care to adjust conclusions to special circumstances that may have surrounded your company's activity last year or may face it this year – weather, turmoil in the Middle East, uncertainty in the local economy.

In a professional practice, calculate how many new-matter meetings your firm held last month or quarter and how many you expect to hold in the next 30 days. How many of these can you reasonably expect to produce business? Study your accounts receivable and bill your clients for work in progress.

Mining Accounts

Start collection calls early; you don't want to become your clients' bank. If your aging report shows any accounts overdue by 90 days or more, assess the chances you will collect. A moment's thought shows you how much power you can gain from this kind of forecasting.

In addition, your back office staff can "find" money by mining accounts payable for discounts, with significant impact on cash flow. Many companies wait until the last possible day before paying suppliers and vendors. But with interest rates at near-historic lows, many suppliers and vendors are happy to discount their bills by 1 or 2 percent, sometimes more, if paid within ten days.

Your bank may prove another source of found money. Does it consider the compensating balances across all of your accounts when calculating fees? Are the fees it does charge you reasonable, including credit-card merchant fees?

Now may also prove a good time to renegotiate your line of credit for working capital – but if you go down this road, take a hard look at your financial statements first. Do they accurately reflect all of your liabilities, including workers' comp, costs for returned goods, uncollectable debts, accounting and legal fees, and pension and profit-sharing contributions?

Keep an eye open for evidence of any trends hidden in your statements so that you can anticipate questions from your lender, who will surely spot them when you begin negotiating. Do your financial statements reflect your true business position or do you shape them to lower your tax liability?

Back-up Procedures

Your back-office procedures deserve careful study for prudential reasons, too. Do you segregate certain duties as a matter of routine so as to limit the possibility of employee fraud? In any well run back office, different people should:

- Reconcile your bank statements
- Deposit money into your business bank accounts
- Authorize purchases
- Approve invoices for payment
- Write and sign checks
- Record customer payments
- Prepare and distribute payroll checks

You should also make sure you see the bank statements for all business accounts before you give them to the individual who reconciles them. Look for missing checks, for checks made out to

unexpected payees or for unexpected amounts.

These procedures take time to institute and discipline to maintain. But even if you believe your employees scrupulously honest, the bitter lesson of employee theft is caution exercised too late – and it is a lesson better learned before someone bites into your company's substance.

It is equally important to cross-train your back-office staff members in case of absence at a critical time. That way if the individual who does payroll or payables is absent, someone else can take over. As part of this effort, get every staff member to document his or her duties and write a procedures manual – a time-consuming effort but worth doing.

As to the dangers inherent in this effort, they are of course real; in an emergency, if you don't segregate duties, you open the door to temptation. The solution is simple: Extra vigilance on your part until the emergency passes.

Your back-office can help cut costs and speed cash flow in scores of ways, given proper training and a few simple incentives for outstanding performance, possibly including gift certificates to favorite stores, dinners out, and the like. Properly organized and managed, your back-office is a tool that can keep your company running smoothly in bad times and good. If it is not a profit center, it is surely a profit killer if mishandled.

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