

## Risk and Performance Quarterly

# Take Your Accounting and Financial Functions to the Next Level

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Over the past two years, we have noted a significant increase in interest among our clients in transforming their accounting and financial functions into high-performing units. Many executives and Board members now expect their internal financial team to not only ensure that the organization remains fiscally sound and maintains a strong internal control environment, but also that the team's leadership serves as an agent of change and acts as a "strategic advisor." Businesses, governmental entities, and not-for-profits want their financial staff to help uncover opportunities for growth, new services and cost savings, as well as to provide the forward thinking critical to overall success.

### Conditions Likely Requiring an Objective Review

If your organization finds itself in any of the circumstances described in this newsletter, now may be the time to turn to PKF O'Connor Davies, LLP to perform an assessment of your staff, practices, processes and systems and to layout a transformational roadmap.

- **The financial team is overwhelmed, and we seem to be in perpetual close.** Our monthly financial reports are distributed 4-6 weeks after period-end and the staff are immediately consumed with the next closing cycle. We are burning out people and turnover is constant. Perhaps we need more resources and additional skills to keep pace with the workload.
- **Our organization may be out of compliance with various reporting requirements.** We are already on a "watch list" for missing filing deadlines with government funding sources, and we are uncertain if we are using restricted funds appropriately. If we lost our funding, we would be forced to curtail the retraining, housing and support programs we run for the benefit of those individuals and families we serve.
- **There is no single version of the truth.** Different financial reports derived from different systems, schedules and spreadsheets often show different results. When we ask questions, we get inconsistent answers so we do not have a good sense of our real financial condition.
- **Poor internal controls allowed an employee to divert funds for personal use.** The fraud was detected by accident, and we still do not know the size of the loss, the duration of the fraud and if there was collusion.
- **Unpleasant surprises have become the new norm.** Since we have no closely-monitored actual and expected cash availability, we often delay paying vendors in order to meet payroll. We used to operate with a budget, but we lost confidence in the process because all we did was roll forward last year's actuals without considering what might change going forward. Now, we have no effective management planning tool to detect variances other than comparison to prior year results.
- **Most of our company's financial knowledge rests with one long-term employee so we have "key person risk."** We were very concerned that we had no succession plan in place to deal with the Controller's retirement in a few years, but when she had to go out on extended medical leave,

a crisis unfolded because so much of the financial reporting was performed by her in undocumented spreadsheets, outside of the accounting system.

- **The financial reports we receive are hundreds of pages long so we have no idea what to focus on.** The electronic version is nothing more than the PDF form of the print copy that used to be distributed by interoffice mail. Either due to a lack of time, interest or skills, there is no attempt made to analyze the results or provide a more visual presentation that would enable us as managers to flag exceptions, identify trends and capitalize on market opportunities.
- **The external auditors found numerous account balance and reporting issues that required adjustment and we believe that they plan to report a number of material weaknesses and significant deficiencies in the management letter.** For example, we booked sales in the wrong period, forgot to accrue certain expenses because the department heads held the vendor invoices, had weaknesses in information technology security and many of our written policies and procedures are out-of-date.
- **We often invest in capital projects without knowing the return.** If it takes \$3M to modernize a warehouse and the justification is predicated on providing the additional capacity to improve customer fill rates and increasing personnel productivity — before committing to a similar project in another facility — we really should know whether the investment was worthwhile.
- **Our shareholders are putting pressure on us to cut costs and the Board has targeted what they perceive to be very high information technology expenses.** We need to be able to demonstrate that by investing in systems, the company is able to do more with less people in operations and that simply outsourcing the work overseas would hamper our ability to provide the level of service that our employees and customers have grown to expect.
- **When we rollout new products, we have no idea if they are really as profitable as we were led to believe.** We know that our list sales price for the items we sell covers the costs we incur to purchase them from suppliers, but we are unable to evaluate the effect of discounting or compute the all-in costs associated with shipping, returns, warranty claims and related expenses.
- **Bank auditors identified differences between the inventory on-hand in the distribution center and the amount we had reported to them under our financing arrangement.** Some product was missing and other lot-dated items were stale.
- **Government auditors challenge the costs submitted for reimbursement under our various grants and contracts.** When we are audited, various charges we believed were allowable end up rejected so we recover far less money than we expect.
- **Audit reports and other special examinations become public records and adverse findings pose reputational, legal and financial risks.** Customers and suppliers are reluctant to do business with companies with issues and donors tend to avoid contributing to not-for-profits that are criticized for wasting funds.

## Step Up

Whether you are involved with a not-for-profit organization, public or private company or a governmental entity, if any of these concerns apply to you, we are here to help. Our team of consultants can provide the objectivity and experience to help reposition your people, processes, policies, systems and controls so your accounting and financial functions can take the necessary steps to get to the next level.

## Contact Us

If you have any questions about how we can assist your organization, please contact either of the following or any partner of PKF O'Connor Davies, LLP:

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## **About PKF O'Connor Davies**

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