An Accounting Parable: Beware Operator Error

There is no question that computers have proven a boon to business operations, especially in accounting. We have been working with many of our clients to set up QuickBooks to manage accounting for businesses of all shapes and sizes. It can be a wonderful reporting tool, but only if you know how to deploy it properly to meet your needs.

No matter what kind of business your own, it's imperative that your bookkeeping not only track transactions in and out, but provide the intelligence you need to understand how your business is doing. QuickBooks, of any other accounting software for that matter, can not only help you run your business more efficiently, but make it easier to prove your financial performance in the event of an audit or an acquisition. Here's a case in point.

One of our clients, a 60-year-old company that distributes refrigerator case cabinets for supermarkets, was earning approximately $2.4 million annually. The company had built a successful business in the Bay Area, selling cases to a few well-known local market chains. In 2006, the company was acquired by a $50 million Italian firm, and that's when the holes in the bookkeeping processes began to emerge.

After the acquisition, the company hired a new bookkeeper who installed QuickBooks to manage accounting. When she moved away, she continued to manage the bookkeeping remotely, until a new bookkeeper was hired, and then a new controller was hired in 2008.

During this process, the new parent company wasn't getting the level of financial reporting they wanted. Their independent CPA firm was looking for financial reports for 2006 and the data was lacking. The company came to us to conduct an internal audit and provide an independent report to complete the parent company's consolidated financial report.

What we discovered was that the company had installed QuickBooks, but it wasn't set up properly. We found that accounting entries for the acquisition had not been properly recorded, and items for purchase and sale not properly defined. There were credit balances in asset accounts and debit balances in liability accounts, and payroll and liability expenses were improperly recorded. Even job files, purchase orders, and estimates were not available in any form that would be meaningful for reporting.

Rather than trying to correct the existing records, we decided to create a new account file and chart all the transactions from April 2006 to April 2008. The whole process took less than a month, and we were able to deliver the proper reports to the parent company in time for them to meet their filing deadline in Italy.

The moral of this story is never assume that your internal processes are running they way they need to be. Audit your processes, and audit your auditors to make sure that you can derive the intelligence you need from your books to keep track of your progress and help your business grow.