



FINANCIAL OVERSIGHT

- CFO Support
- Financial & Accounting Roles
- ♣ Operational Structure
- Internal Controls Matrix
- Tax Compliance Support



CFO SUPPORT



The factional CFO can help a business thrive along all stages of growth. At the core of any business success is to set up your internal systems, external relationships, and processes properly from the beginning. Then, especially at early stages, you can hire your external specialists (accountant, lawyers, and bankers) as part-time support at a faction of the cost for full-time support. Below represents a roadmap for financial success by headcount and general business staging.

Headcount	Business Stage	Financial Focus	Typical Roles	Outsourced vs In-House	Factional CFO
1-15 People	Startup / Seed	Simple bookkeeping, basic financial tracking	Bookkeeper	Outsourced (or part-time in-house)	Possible
15-30 People		Growth management, budgeting,	Bookkeeper, Controller, part- time CFO	Outsourced or Hybrid (mix)	Yes
30-50 People	Series A / Scaling	structured financial oversight,	Bookkeeper, Controller, fractional CFO	Mostly In-House with some Outsourced CFO services	Yes
50+ People		Complex financial strategy, capital raising, scaling		In-House (CFO), outsource FP&A, could still outsource for specific services (e.g., audit)	Yes
100+ People			CFO, full financial team	Fully In-House financial team	Possible



FINANCE LIFE CYCLE AND LEVEL OF SERVICE ENGAGEMENT

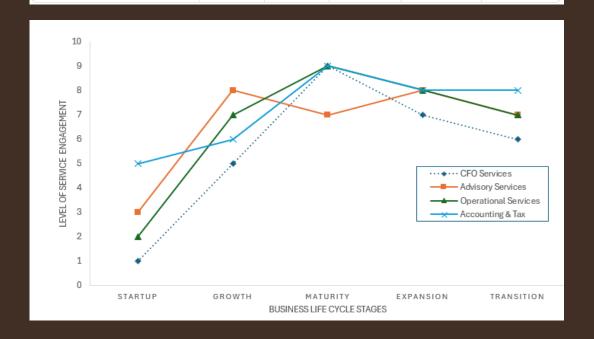
Investing in an operational team to meet your corporate governance needs is key in every stage of the finance life cycle.

A company should utilize accountants, lawyers, and investment advisors for governance at a fraction of the cost of in-house expertise as they make their way through the life cycle.

This shows the level of service engagement for CFO services, Advisory services, Operational services, and Accounting & Tax services across the different business life cycle stages. Each curve represents how the demand for these services changes from Startup to Transition.

Business Life Cycle Stage	Funding Stage	
Startup	Seed	
Growth	Pre-Series A	
Maturity	Series A	
Expansion	Series B	
Transition	Later Stage (Exit/Transition)	









FINANCE LIFE CYCLE LIST OF SERVICES ENGAGED

- Core Business Process Optimization
- Story Telling Support
- Operational Challenge Support



What type of Service Support do you need at each stage of your business?



















Fundraising Support

- Financial Statement for accurate and timely reporting
- Financial Models
- Pitch Decks
- Investor Meetings
- Valuation
- Negotiating Terms
- Managing new funds
- •Cap Table, Waterfall and Equity Dilution Scenarios

Startup Stage

- Basic Operational setup
- Setup financial systems
- Prepare financials to attract investors
- Accrual Accounting
- Banking Relationships
- •Corporate Tax Compliance
- Customer Collections
- Vendor Management
- •Internal Controls (SOPs)
- Data Standardization

Growth Stage

- Strategic Planning & Budgets
- Cash Management
- Optimize spending
- Revenue targeting and analysis
- Cap Tables, Valuations, and Fundraising Support
- •Compensation Structure and Comp Market Studies
- •Source & Uses
- •Closing Statements & Flow of Funds Analysis
- •Corporate Governance
- Systems Automation

Maturity Stage

- Monitor KPIs
- Scenario Planning
- •Monthly PE Reporting Package
- •EBITDA monitoring
- Predictive Analytics
- Customer Segmentation Study
- •Advanced Equity Comp Structure
- Cultural Gaps & Risk Management
- •Comprehensive Value Levers Analysis

Expansion Stage

- Navigate financial complexities
- •Audit Prep
- •M&A
- •International Expansion
- Manage Foreign exchange risk
- Prep for Transition
- Continued Fundraising Support



FINANCIAL AND ACCOUNTING ROLES

There are three main roles to be played on the responsibilities pyramid as you scale:

- Bookkeepers focus on daily transactional work and record-keeping
- Controllers oversee the accuracy of financial reporting, compliance, and manage staff
- CFOs develop strategies, oversees financial risk and works with C-suite on high-level business decisions



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Develops Financial Strategies

Planning and risk management

Manages relationships with banks, investors, and financial institutions

Drives key decision making on M&A and expansions

Monitors liquidity, cashflow management, and capital structure

Oversee budget, forecast and resource allocation

Focus: Strategic Force

Fundraising

Controller

Oversees all accounting operations

Oversees all aspects of financial reporting (including budget, forecasting, and variance analysis)

Implements and maintains Internal Controls

Manages month-end close process

Compliance tax and reporting requirements

Manages external audit process

Maintains internal systems and procedures

Oversees
Reporting

Bookkeeper

Records daily transactions

Payable

Billings and Contracting

Payroll Processing

Expense Management

Maintain General Ledger and track accounts

Reconciles the bank

Handle data entry related to accounting tasks

Focus: Day-to-Day



OPERATIONAL STRUCTURE

Comp. Reward, Incentives & Recognition

As a business enters both the growth & mature stages, department function build outs become the key for infrastructure investments. This way you have function areas in place allowing you to expand and acquire. Here is a sample functional map for a consulting business.

CFO Function Sales Function F/U inbound leads with team **Track Sales Opportunities** Facilitate internal SOW review process Negotiate w/ clients 01 07 **Accounting Function** W, IT Function 0000 $\left(\begin{array}{c} \\ \end{array} \right)$ 02 06 Software Systems Mgmt. 05 03 04 **People Resources** 8 (<u></u>) 8 8 **Investors Relations Function** > Talent Acquisition w/ CEO

Definitions:

EVP – Employee Value Proposition SOW – Statement of Work AP – Accounts Payable Mgmt - Management

Legal & Compliance Function

- Client Contract Review
- Vendor Contract Review
- Contract Management & Maintenance

Develop & Enforce Policies
Board & Shareholder Events

- HIPPA Compliance
- Banking & Financial Compliance
- Employment Compliance





INTERNAL CONTROLS MATRIX

1. **Segregation of Duties**: Ensure that no single employee has control over all aspects of a financial transaction. For example, the person who approves payments should not be the same person who reconciles bank statements. This creates checks and balances, making it harder for fraud to go undetected.

6. **Monitoring of Cash Flow**:

Establish clear protocols for monitoring cash flow and use accounting software that flags unusual patterns in transactions, such as large withdrawals or payments to unknown vendors.

7. **Vendor Management**: Regularly vet and review all vendors to ensure that they are legitimate and that payments to them are for actual goods and services.

2. **Access Controls**: Limit access to sensitive financial systems and data to authorized personnel only. **Implement strict user permissions** for systems that handle financial transactions to minimize exposure to fraud. 5. **Reconciliation of Accounts**:

Reconcile bank statements, accounts receivable, and payable regularly to ensure that all transactions are legitimate and accounted for.

Discrepancies should be investigated immediately.

8. **Bank Account Reconciliation**:
Have someone independent of cash
disbursement and collection functions
reconcile the bank accounts regularly to
detect unauthorized transactions or
discrepancies early.

3. **Dual Authorization for Payments**: Require two or more individuals to approve significant payments, especially wire transfers, to prevent a single person from initiating unauthorized transactions. 4. **Regular Financial Statement Review**: Conduct regular variance analysis of the budget vs actual along with prior vs actual with the CEO each month end close. In addition, there should be a preparer and a reviewer for each month's financial production.

9. **Rotate Job Responsibilities**:
Rotating roles or requiring employees
to take vacations can help uncover
fraud that someone might otherwise
hide by having continuous control over
a process.



To mitigate the risk of embezzlement or fraud within a business, a CFO can help with implementing robust financial controls that are essential to a business. See additional articles for sample recommendation by stage of business



TAX COMPLIANCE SUPPORT

Cleaning up missed tax deadlines and tax reporting requirements can be not only very costly, but also extremely time intensive to work through corrections with tax agencies.

It is important to establish a good team early as your company begins to grow. We strongly encourage the following:

- Hire a tax firm or individual tax accountant that can get your forms filed and submitted timely and accurately
- Seek out tax experts within your specific industry. Similar to getting a medical surgery, ask how many procedures they have performed and do they have experience in which states.
- Ask about tax credits that are specific to startup business such as the Qualified Small Business Stock (QSBS) Exemption, R&D Credits, and Startup Cost Deductions (IRC Section 195) to name a few.
- Ensure your corporate structure is setup for not only growth, but positioned properly as either a S-corp, C-corp, or LLC taxed as a partnership based on your growth plans. There can be substantial tax savings to owners based on the structure.
- ❖ Sale Tax nexus is tailored and almost different for each state. Ensure you review the nexus requirements not only if you have a physical presence in a state, but do you have significant economic activity. CA, NY and others are very aggressive to get their money. Sale Tax can be a filing nightmare if not completed correctly.

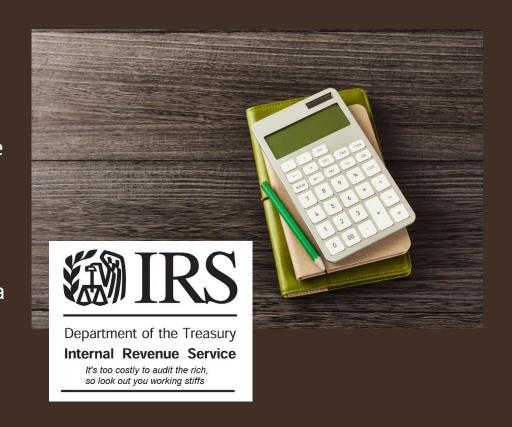


TAX COMPLIANCE SUPPORT (CONTINUED)

45

Payroll Processing Tax Issues to look out for:

- In addition, HR experts should be consulted for paying people in the proper states and proper payroll tax filings. ADP can help setup states for \$150 per state so you don't have to complete the paperwork or phone calls. They can also ensure quarterly filings, power of attorneys, and annual payroll tax filings are completed timely and correspondence with each state.
- ❖ Payroll taxes over a certain \$ threshold will have to be deposited by wire the next day to IRS. If not in compliance, the business will get fined for late filing and accessed penalties. This usually triggers when a company is above 40 people.



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