

# WASHINGTON BUSINESS JOURNAL

October 28, 2010



CEO Ted Rose of Rose Financial Services, which is hired to handle back-office accounting functions, is getting more business from defense contractors because of stricter auditing requirements imposed by the Defense Department. Photo by Joanne S. Lawton

## Contractor compliance crunch fuels boom at outsourced accounting firm

By Bryant Ruiz Switzky

During tough economic times, efficiency is king. That's part of the reason Rose Financial Services is riding high these days.

Rockville-based Rose Financial offers accounting services that essentially replace the back-office accounting functions of companies by doing accounts payable, billing, collections, tax compliance and strategic financial planning. It also does Defense Contract Audit Agency (DCAA) compliance work for federal contractors.

The accounting outsourcing firm says it can often give clients a 30 percent cost savings in the first year compared with the costs of doing the work in-house.

In an economic environment where companies are trying to do more with less, Rose Financial has seen a surge of business, growing from 35 to 48 employees since the beginning of this year. It expects to hire 11 more before the year is out and reach 100 by the end of 2012.

Like many ventures, Rose Financial was born out of an earlier entrepreneurial bust.

CEO Ted Rose, a former auditor for PriceWaterhouse, the predecessor to PricewaterhouseCoopers LLP, was a controller for a biotech company in the early 1990s. After inconclusive clinical trials for its drug, the biotech effectively folded in 1994, but asked Rose to stick around and help wind things

down at the publicly traded company.

One of his tasks was to help the company file its quarterly statements with the Securities and Exchange Commission. Rose looked for a business that could do that for him and realized no one was filling that niche.

"I said to myself, 'This really could be a good opportunity,'" Rose said. "I have to imagine there are more companies out there who need access to sophisticated accounting resources, but don't have accounting departments."

So Rose did the books for the biotech and started finding other clients that wanted someone to take over their entire accounting functions.

"There was no term for what I was doing back then," he said. After some research, Rose stumbled across the term "outsourcing" and decided he was in the accounting outsourcing business.

The company has come a long way from the days when Rose ran a one-man shop. The firm now has clients all over the world, and The Black Book of Outsourcing ranked Rose Financial 11th in customer satisfaction on its list of the top outsourcing firms in 2010.

Unlike many outsourcing companies that ship jobs to India, all of Rose's staff is based in the U.S., something he touts to customers.

Rose Financial works primarily with companies that have less than \$100 million in revenue, though it expanded last year into the large company market, serving business with up to \$1 billion in revenue.

To accommodate its recent growth, the company is expanding its Rockville headquarters by about 40 percent to 14,000 square feet over the next couple of months.

About half of the company's revenue, which it declined to disclose, comes from the government contracting sector.

Demand in that sector is growing, thanks partly to changes over the past few years in the way the DCAA conducts its audits of Defense Department contracts, Rose said.

As a result, a lot more contractors are looking for expert help on their DCAA compliance, which requires them to use the government's specialized cost accounting standards, rather than traditional commercial accounting methods.

In the past, if a contractor's accounting system didn't pass muster, the agency provided guidance about what the company needed to do to become compliant. Now, the DCAA has essentially converted to a pass-fail method and no longer gives failing contractors any details on why they flunked their audits, Rose said. "There's less wiggle room."

If contractors fail an audit, the government could stop paying them until they regain compliance -- a process that could take two to three months.

"A lot of contractors couldn't sustain that kind of lag without getting paid," Rose said. "So the stakes are higher."

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