Chapter 1

Setting Up and Improving the Accounting Department

Before we can dig into the minutia of how to improve each of the various accounting functions, it is first necessary to set up the infrastructure to ensure that the accounting department will function in a reliable manner. These basic tasks are ignored all too frequently when first setting up an accounting department.

In many instances, accountants are given a pile of work to complete, with no hint as to the priority of each item or how they interrelate. The result is a daily scramble to complete whatever is ‘‘hot’’ on that day. Assignments of accounting staff members are often changed with excessive regularity, so that no one acquires an area of expertise in which he or she can improve skills and overall level of confidence. As a direct result of this unstructured work pattern, the number of transactional errors is extremely high; employees do not have the expertise to ‘‘lock in’’ the procedures and related training that will keep errors from occurring. Once errors are found, considerable staff time must be reallocated to fixing them. Thus, we enter into a vicious circle of constant daily problems, with the department always struggling to keep up with the workload. The simple organizational techniques outlined in this chapter can resolve many of these problems.

FORECAST CASH

The single most important priority is forecasting the flow of cash. Without money to pay employees or suppliers, a company will very quickly find itself out of business. All other considerations are secondary to this issue. Accordingly, there should be a weekly cash forecast, such as the one shown in Exhibit 1.1. This report reveals the time periods when there may be cash flow difficulties, thereby enabling management to plan well in advance for additional financing or other activities that will avoid any cash shortfalls. This format can vary considerably by type of business, and may be an automated report in some accounting systems.

The forecast in Exhibit 1.1 starts with a sales forecast for each company subsidiary, showing expectations for the next eight weeks. Next is a breakdown of the largest accounts receivable items by expected date of cash receipt, as well as a single "Cash, Minor Invoices" line item that summarizes all other small cash receipts. The next section lists all expected cash outflows from payroll, payables, and capital expenditures. The bottom of the spreadsheet lists the rolling cash balance at the end of each reporting period.

This forecast should be verified with the sales staff, collections personnel, and purchasing employees to ensure that the numbers are accurate. Accounts payable tend to be the most accurate, since these figures are under the direct control of management, and can be managed to some extent to fit the requirements of the forecast. Also, compare previous cash forecasts to actual results to see what differences arose. By incorporating these differences into future reports, the cash forecast can gradually become a reasonably accurate indicator of future results.

The report is hand-delivered to key recipients each week, along with a verbal or written discussion of any key problem areas. Leaving

Exhibit 1.1 Sample Cash Forecast

Company Cash Forecast								
	For the Week Beginning on							
Week Beginning Date	9/6/2009	9/13/2009	9/20/2009	9/27/2009	10/4/2009	10/11/2009	10/18/2009	10/25/2009
Beginning Cash	$ 300,000	$ 142,992	$ 32,022	$ 171,485	$ 6,077	$ 3,660	$ 698,445	$ 656,380
Receipts from Sales Projections:								
ABC Subsidiary						$ 170,500		
DEF Subsidiary						$ 500,000		
GHI Subsidiary						$ 584,425		
Uncollected Invoices:								
Amber Exploration		$ 63,667		$ 62,501		$ 64,975		
Botany Bay Drilling		$ 38,425		$ 18,872	$ 12,521			
Callow Consulting Co.	$ 29,423		$ 100,472					
Deep Drilling Divers		$ 41,290						
Eastern Europe Pipeline	$ 62,976	$ 53,135	$ 24,772	$ 6,676	$ 22,327	$ 33,816		
Franklin Moss Consulting	$ 81,005		$ 20,440		$ 29,500		$ 14,935	
Guttering Oil and Son		$ 54,564		$ 55,000				
Hinter Drilling		$ 80,250			$ 21,204			
Indian Express Pipe Repair		$ 121,360			$ 99,231			
Cash, Minor Invoices	$ 5,380	$ 14,029	$ 28,990	$ 48,044				
Total Cash In	$ 178,784	$ 466,720	$ 174,674	$ 191,093	$ 184,783	$ 1,353,716	$ 14,935	$ —

(Continued)

Exhibit 1.1 Continued

	Company Cash Forecast							
	For the Week Beginning on							
Cash Out:								
Payroll + Taxes		$ 330,500		$ 331,500		$ 332,500		$ 332,500
401k Payments		$ 32,000			$ 32,000		$ 32,000	
Commissions		$ 12,000				$ 12,000		
Contractors	$ 26,628	$ 168,190				$ 279,431		
Rent					$ 53,000			
Medical Insurance	$ 69,200				$ 69,200			
Capital Purchases	$ 81,500				$ 8,000			
Expense Reports	$ 5,000	$ 15,000	$ 5,000	$ 5,000	$ 5,000	$ 15,000	$ 5,000	$ 5,000
Other Expenses	$ 153,464	$ 20,000	$ 30,211	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000
Total Cash Out:	$ 335,792	$ 577,690	$ 35,211	$ 356,500	$ 187,200	$ 658,931	$ 57,000	$ 357,500
Net Change in Cash	$ (157,008)	$ (110,970)	$ 139,463	$ (165,408)	$ (2,417)	$ 694,785	$ (42,065)	$ (357,500)
Ending Cash:	$ 142,992	$ 32,022	$ 171,485	$ 6,077	$ 3,660	$ 698,445	$ 656,380	$ 298,880

the report on someone's desk is an invitation for future trouble, since the recipient may not see the prime indicators of a cash shortfall that are so evident to the person who prepared it.

REVIEW CONTRACTS

A complete examination of all unexpired legal agreements ranks high on the accounting priority list. These may contain any number of requirements for cash expenditures or receipts that should be included in the cash forecast, such as a balloon payment on a debt agreement, or a scheduled increase in a rent payment. Another example is a periodic minimum royalty payment. If not carefully tracked, these issues can result in very unpleasant and sudden crises, as well as missed opportunities to collect additional funds.

Rather than just reviewing legal agreements in a cursory manner, it is better to organize them into a summary–level format, such as the one shown in Exhibit 1.2. This summary should be included in the standard calendar of department activities (described later), so that actions can be scheduled based on the agreements. By using the exhibit, a manager can quickly determine the dates when payments are due, when key contractual dates occur, and the names of the other parties to the agreements. These are the key factors to be aware of when incorporating legal agreements into the accounting department's activities. Organize the filing system for the legal documents that are referenced in the summary, so that anyone can quickly access the original document.

Better yet, scan all legal agreements and store the scanned documents in a file server, where they are easily accessible from remote locations. Then store the original documents in a locked fireproof safe, so that no one can remove or misfile them.

Proper custody and knowledge of the contents of legal agreements is a fundamental requirement for the proper management of the accounting department.

Exhibit 1.2 Sample Format for Legal Summary

Party Name	Start/Stop Dates	Revenues or Expenditures	Description
Acme Leasing	Jan. 2009 – Dec. 2012	\$504.52/mo, due on 15th of the month	Copier lease. Requires balloon payment of \$5,400 on 12/31/2012
GEM Leasing	Ongoing	\$228.15/mo, due on 10th of the month	Storage trailer lease. Ongoing. Review need for trailer each quarter.
Bartony Design Co.	June 1, 2010 Renewal	8% of sales on Kid-Jump product, due on 20th of the month	Royalty on Kid-Jump product, payable as long as there are product sales. Agreement renews on 6/01/2011.
Play & Go Inc.	Lifetime franchise	4% of sales, incoming franchise fee, due on 5th of the month	Franchise fee paid by operator of Play & Go store, based on percentage of net sales.

ESTABLISH JOB DESCRIPTIONS

Accounting staffs do not always know precisely what they are supposed to do. Instead, they are hired, trained briefly in a few key tasks, and then left alone. They do not know if there are additional tasks to be completed on a less frequent basis, nor do they know when tasks are to be completed, or what constitutes a good job. This has several ramifications. First, it is impossible to review the work of such a person when there is no baseline against which to judge. Second, key tasks that are performed infrequently tend to be completely ignored, because no responsibility has been assigned. Third, it is difficult to determine an employee's pay scale when there is uncertainty about the boundaries of that person's job. Finally, many employees do not know for certain to whom they report. All of these factors present a

Exhibit 1.3 Sample Job Description

Position Name: Cost Accountant

Reports to: Assistant Controller

Supervises: None

Basic Function: This position is accountable for the ongoing analysis of process constraints, target costing projects, and margin analysis. The cost accountant must also construct and monitor those cost-effective data accumulation systems needed to provide an appropriate level of costing information to management.

Principal Accountabilities:

1. Construct data accumulation systems for a cost accounting system
2. Create and review the controls needed for data accumulation and reporting systems
3. Conduct ongoing process constraint analyses
4. Update bill of material standard costs
5. Report on breakeven points by products, work centers, and factories
6. Report on margins by product and division
7. Report on periodic variances and their causes
8. Analyze capital budgeting requests
9. Perform cost accumulation tasks as a member of the target costing group
10. Coordinate physical inventories and cycle counts
11. Accumulate and apply overhead costs as required by generally accepted accounting principles

Update Date: July 1, 2009

strong case in favor of creating a job description for every employee as soon as possible.

An example of a job description is shown in Exhibit 1.3. It states reporting relationships, gives a general overview of the position, and then itemizes specific accountabilities. It is also useful to list the last date on which the job description was updated, which can be used as a trigger to periodically review the description.

ISSUE PERFORMANCE REVIEWS

The job description does not provide a sufficient amount of detail about exactly what level of performance is expected to conduct a performance review. To use the job description in Exhibit 1.3 as an example, item number one is ''construct data accumulation systems.'' Does this mean that all possible systems must be created to give the cost accountant a good review, or is some lesser achievement acceptable? How will this translate into a salary adjustment? If neither the supervisor nor the employee knows the answers to these questions, the expectations of both parties may be far apart, resulting in an interesting performance review.

To resolve this problem, it is necessary to precisely define expected performance levels in advance. This information should be developed as soon as the job description is complete, and then be reviewed with the employee in detail to make sure that there is no confusion about the expectations for each item. The description of these performance levels takes considerable effort to develop; the effort is needed, since they are the basis for a great deal of ensuing employee activity that is vital to the operation of the department.

One way to write performance level expectations is to list them in terms of low, medium, and exceptional performance. Each of the categories should be thoroughly described. Exhibit 1.4 contains a review that is based on item 1 in Exhibit 1.3—for the cost accountant to create data collection systems.

The cost accountant's performance review criteria will take a great deal of time to complete if all other job functions are described in the same manner as the example. Nonetheless, this level of detail is needed to convey to the employee the exact expectations for the job. Since job requirements will change, the manager must review and adjust these written expectations frequently. Each time a change is made, the manager must review the changes with employees.

The performance review format can also be expanded to include the precise amount of pay change that can be expected as a result of meeting each objective. For example, the low performance category in

Exhibit 1.4 Example of Performance Level Expectations

Performance Expectations:

1. Create costing data collection systems.
   a. Low performance. The cost accountant creates no additional data collection systems beyond those already in place, but may create plans for new ones.
   b. Average performance. The cost accountant creates new data collection systems, but the level of data accuracy is not increased by more than 10% or the amount of labor required to collect the data does not decrease by more than 20%.
   c. Exceptional performance. The cost accountant creates new data collection systems that result in data accuracy improvement of more than 10% and reduction in data collection labor of more than 20%.

Exhibit 1.4 might have listed alongside it a pay decrease of 1%, with average performance worthy of no change, and a 2% pay increase associated with the exceptional performance level. Using this approach, an employee can tell precisely how much of a pay change will be occurring before a pay review even begins, which takes all of the tension and uncertainty out of the process. However, this approach can result in excessively high or low pay changes if the person preparing the document does not pay sufficient attention to the difficulty of completing those tasks against which automatic pay changes are listed.

CREATE WORK CALENDARS

Even with a job description, an employee does not know *when* tasks are to be completed. It may be necessary to always complete a report on a Monday, so that it is available for a Tuesday meeting, or perhaps one employee has to complete a deliverable so that it can be used as input to some other process by a different employee on the following day. These are issues that have a major impact on the efficiency of the entire department.

A good way to handle the timing of work steps is to schedule them on an individual work calendar that is handed out to each employee. There should be two calendars—one that lists the major tasks to be completed on a monthly basis, and another that itemizes the daily tasks within each month. An example of a monthly calendar is shown in Exhibit 1.5 . This calendar itemizes those tasks that are not necessarily repeated constantly, such as government reports that need only be created once a year (such as the VETS-100 report in August that lists the number of employees who are veterans), and which could easily be forgotten if not itemized.

A monthly calendar of activities contains all of the tasks noted on the annual calendar, plus all of the continuing daily activities that are

Exhibit 1.5 Annual Calendar of Activities

January	February	March	April
1st Commissions 10th 1099 Forms 15th NM Sales Tax 20th UT Sales Tax	1st Commissions 20th Merker royalty 28th Property Taxes 28th Trademark review	1st Commissions 15th 401(k) Enrollment 22nd Audit Begins	1st Commissions 15th Property 20th Merker Royalty
May	**June**	**July**	**August**
1st Commissions 20th Rent increase 31st Update Procedures	1st Commissions 15th 401(k) Enrollment 28th Property Taxes	1st Commissions 15th NM Sales Tax 20th UT Sales Tax	1st Commissions 10th VETS-100 Report 20th Merker Royalty
September	**October**	**November**	**December**
1st Commissions 15th 401(k) Enrollment 20th Merker Royalty	1st Commissions 10th Initial Budget Mtg	1st Commissions 30th Budget Due 30th Update Procedures	1st Commissions 15th 401(k) Enrollment 30th Mail W-9 Forms

repeated within the department. An example is shown in Exhibit 1.6. Of the two calendars, this one is used much more frequently; it becomes a daily reference for every employee.

Though the concept of the calendar is an extremely simple one, it is highly effective, for it ensures that the accounting staff completes its assigned tasks on time, every time. However, this degree of effectiveness will continue only if the accounting manager constantly updates these calendars. This typically means that a new calendar should be issued to all accounting employees at the end of every month or quarter.

Exhibit 1.6 Monthly Calendar of Activities

Monday	Tuesday	Wednesday	Thursday	Friday
2 Cash Forecast Flash Report Pay Rent	**3** Issue Financials Staff Meeting	**4** Print AP Checks Pay Sales Taxes	**5** Job Profit Report	**6** Open AR Review
9 Cash Forecast Flash Report	**10** Staff Meeting	**11** Print AP Checks Process Payroll	**12** GSA Payment	**13** Open AR Review Update GSA Schedule Issue Paychecks
16 Cash Forecast Flash Report	**17** Staff Meeting	**18** Print AP Checks	**19** Holiday	**20** Open AR Review
23 Cash Forecast Flash Report	**24** Staff Meeting	**25** Print AP Checks Process Payroll	**26** Pay Summary Report	**27** Open AR Review Issue Paychecks

CREATE POLICIES AND PROCEDURES

Job descriptions and work calendars tell an employee what to do and when to do it, but they do not contain any details regarding *how* to perform any tasks. This is not a problem for an employee who has been working in the department for a long time. However, new employees or those who are filling in on unfamiliar tasks on a short-term basis need assistance.

One possibility is to assign an experienced employee the task of providing training to anyone who needs it, but this is a very expensive proposition, and will not work well if there are too few employees who possess a comprehensive knowledge of procedures. A better approach is to document all accounting policies and procedures in a manual that is issued to all members of the department. This codifies all information needed to complete the daily tasks of the department. It can be posted online for ready access by employees, where its text can also be more readily updated.

This manual takes considerable time to complete, since each person in the department must be carefully interviewed regarding his or her work, which must then be translated into both text and a flowchart that adequately explains what he or she does. Also, this information requires constant updating, since procedures change over time. Despite the time required for these activities, it is highly profitable to have up-to-date policy and procedure manuals available to the accounting staff at all times. Policies and procedures are addressed further in Chapter 11, Process Documentation, and much more comprehensively in the author's *Accounting Policies and Procedures Manual.*

ESTABLISH TRAINING SCHEDULES

All of the groundwork for running an effective accounting department has now been laid—job descriptions, performance criteria, work calendars and a policies and procedures manual. However, employees may lack the skills required to use these tools to the fullest degree. There are two types of training that will overcome these issues:

1. *Orientation training* for new employees or those who are transferring to a new position. This relatively short seminar presents each person with the various tools already described in this chapter. Conducted one-on-one, this training ensures that an employee gets up-to-speed as soon as possible. There should be a series of one-on-one follow-up training sessions for the first few weeks of each person's new job, so that any questions regarding unfamiliar tasks can be adequately answered. A vital part of these ongoing sessions is the development of a training plan by the trainer that identifies the weaknesses in each person's job knowledge; this training plan becomes the foundation for the second type of training, which is skills enhancement.
2. *Skills enhancement training* is specifically designed to eliminate any weaknesses in each employee's package of skills, rather than being a broad-based set of training requirements that all employees must complete. For example, rather than requiring all employees to attend a seminar on the legal requirements of reporting foreign exchange transactions (which is usually of interest to only a select few), some employees may attend a remedial English class, while others will need to improve their electronic spreadsheet skills. These are much more basic issues than the high-level topics that are typically taught to employees.

Determining training requirements at this much more basic and individualized level requires very specific training programs that are tailored to the needs of each employee. Here are some options for locating those training programs:

- *College degree classes*. A small number of carefully-selected classes works best; paying for an entire program of study is expensive, and probably imparts more knowledge than is needed for a specific job.
- *Continuing professional education (CPE)*. CPE is a relatively inexpensive option that is targeted at very narrow topics, and which can involve seminars or home study. A number of CPE providers are listed at www.accountingtools.com.

- *One-on-one training*. If there are sufficient resources available, this form of training is best, because the instructor can directly observe a trainee's comprehension of a topic and revise the training method on the spot. Unfortunately, the trainer is usually a senior staff person who has little time available for training.
- *Seminars*. A full-day seminar may cover substantially more than an employee's specific need, so review the exact contents of the program before sending an employee off for what may be a day of wasted training.
- *Specially-designed in-house classes*. If there is an in-house training department, request that it design a set of courses for the accounting department. This is not normally a cost-effective option unless the accounting department is large. It may be justified, however, if the topic covers an area in which the company occupies a particular niche in an industry; for example, a company that sells to the federal government may be justified in creating a comprehensive course that covers all accounting aspects of dealing with the government.
- *Trade association training*. There are a number of trade associations that publish a multitude of specialized books, many of which will be applicable to a company's training needs. Examples are the American Production and Inventory Control Society, the American Institute of Certified Public Accountants, and the Institute of Internal Auditors.

There can be considerable resistance to any type of training by employees, who often feel that they do not have enough time available for it. This issue is best dealt with by creating a formal training tracking system that records the hours spent on training, as well as any resulting test scores. These training results can then be incorporated into each employee's ongoing performance reviews. Also, if the accounting manager is responsible for updating each employee's monthly calendar of activities, she can add the training sessions to the calendars. Continuing attention to these issues is necessary to ensure that employees become fully trained in all areas of responsibility.

REVIEW WORK CAPACITY

Once all of the preceding issues have been implemented, it is still necessary to ensure that a sufficient number of personnel are available to complete the scheduled number of tasks. There are a wide variety of accounting tasks to be completed throughout the month, and they do not occur in a steady stream—requiring more people on some days than others. There are several ways to predict personnel capacity problems, as well as ways to deal with them. However, there are no analytically precise ways to ensure that the exact number of trained personnel are available as needed—capacity management involves a mix of experience, metrics, and guesses to arrive at an approximately correct solution.

One way to predict personnel needs is through metrics. For example, if one person can process 125 invoices in a day, then this number can be extrapolated over a larger number of invoicing clerks to determine how many of these people should be employed. Clerks who work on multiple tasks, as is the case in smaller organizations, are usually less efficient because they switch from task to task, requiring time to get up to maximum speed in each task. There is some setup time associated with each task—the longer the ''production run'' (in this instance, the number of invoices created), the smaller the amount of the setup cost on a per-invoice basis. Thus, a clerk who creates only a few invoices at a time must spread the setup cost of doing so across just a few invoices, which makes the per-unit cost more expensive. Consequently, proper metrics calculation requires a considerable knowledge of how the transactions are processed within an organization.

Another method for predicting personnel usage is the size of work backlogs. If work backlogs change, this is a sure sign of capacity overload or underload.

It is also possible to have employees form their own review group to ascertain the need for more or fewer employees. Though there is always some reluctance to recommend a cut in their own ranks, such a group can achieve surprisingly accurate estimates of projected capacity.

The final method of capacity problem analysis is the most common—to periodically review a trend line of overtime hours worked. Even if employees are paid on a salaried basis, they can still be asked to complete timesheets that reveal the amount of overtime worked. If the level of overtime is excessive, then it is probable that more employees are needed. However, by itself, this is an inaccurate method; hourly employees may take advantage of overtime pay situations, even if the amount of work on hand does not justify it, while the recorded time of salaried personnel tends to be quite inaccurate.

All of the preceding methods can be used, preferably in combination, to arrive at some reasonable estimate of future headcount needs. This is a difficult management task and should involve as many different methods of estimation as possible to provide the best input to the decision.

There are several ways to deal with capacity-related problems, which are as follows:

- *Accept the current workload.* The nature of accounting is that some transactions absolutely must be completed at certain times of the month, so there will be surges in transaction volume that require extra work. Employees can be told that overtime will be required during these intervals.
- *Share work.* If the accounting department is sufficiently compartmentalized, there will be situations where some employees are working less than others. If so, use cross-training so that more people can be brought to bear on a particularly large task.
- *Create a queue.* Determine which tasks can be safely delayed a few days or weeks. Then put these tasks on hold during periods of heavy transaction volume and complete them at a later date. The main problem is that the work in queue may never be done if the volume of work rises more than expected, which eventually results in a crisis situation until the work can be brought back under control.
- *Use temporary employees.* If there are predictable short-term surges in demand, then consider hiring temporary staff to assist.

However, their level of expertise will be problematic, so they can only be used for a limited number of tasks that require minimal training.

- *Hire new employees*. When all of the preceding options are no longer sufficient, it is time to hire extra employees.

Unfortunately, many managers do not first go through the earlier capacity management steps before hiring additional staff, so they end up with accounting departments where the workload is very uneven, and there are more personnel than are actually needed.

REVIEW CONTROLS

The accounting manager is largely responsible for establishing an adequate system of controls for the accounting transactions. Unless the controller is assisting with the formation of an entirely new company, there should already be a system of controls in place. In this case, the first task is to determine if there are any significant gaps in the existing control system. There are several ways to do so:

- *External auditor management letters*. Read the last few auditor management letters. These letters are issued by the company's external auditors, and point out various problems that the auditors uncovered during their audit.
- *Internal auditor reports*. If there is an internal audit staff, read any reports they have issued that describe control-related problems.
- *Schedule internal audit reviews*. If there is an internal audit staff, request a series of ongoing reviews of the various processes. It may take a long time for the audit staff to squeeze these requests into their schedule, but they can eventually provide relatively detailed appraisals of the key control systems.
- *Investigate transaction errors*. The accounting department is constantly fixing transactional errors of all kinds—incorrect customer

invoices, missing payments to suppliers, incorrect inventory counts, and so on. Each of these errors is a prime indicator of a possible control flaw, and should be used as such.

- *Hire a consultant*. The accounting department rarely has the manpower or the expertise to conduct an in-depth review of control systems. However, due to the requirements of the Sarbanes-Oxley Act, a large number of controls consultants have emerged who have the requisite level of expertise. Consider retaining one on a permanent basis to investigate controls throughout the company.

The preceding steps will give a controller a reasonable view of any control inadequacies, but does not provide a comprehensive view of the entire system of controls. It is extremely useful to document a complete set of controls for all key transactions, which can then be referenced whenever a systems change (which is what the remainder of this book is about!) is contemplated. The accounting staff will probably not have time to create such a document, so consider hiring a controls consultant to do so. This person should have considerable documentation skill, and also be able to spot missing or overlapping controls. For more information on this topic, please refer to the author's *Accounting Control Best Practices* book.

ESTABLISH FILING AND RETENTION SYSTEMS

Accounting transactions inevitably involve vast quantities of documentation, which an accounting department must store in such a manner that it can locate the documents within a reasonably short period of time. Many managers give the lowest possible priority to this task, since there is *usually* not a great deal of risk associated with an inadequate filing and retention system.

However, there are times when such systems can be invaluable. For example, if a government entity requires documentation of certain transactions (as is common for federal contracting arrangements) or if a company is subject to a lawsuit that requires the production of older documents, there may be the prospect of penalties or at least significant research costs to produce documents. Also, for more recent documents, such as those associated with transactions in the past year, there is a strong chance that the accounting staff will need ready access to the information. There are a number of techniques for establishing an adequate filing and retention system that do not require a great deal of staff time. A synopsis of several advanced systems follow; for more information, please refer to Chapter 10, Data Collection and Storage Systems:

- *Time clock storage*. Rather than record hourly employee time on cardboard time cards, have employees punch their time directly into a computerized time clock, which in turn is accessed by a local computer.
- *Direct entry through web site*. Have suppliers enter their invoices directly into the company's accounting system through its web site. Though this requires more effort by suppliers, it allows the company to completely avoid the data entry or subsequent storage of supplier invoices.
- *Electronic document storage systems*. As documents arrive in the accounting department, scan them into an electronic document storage system, from which they can be more easily accessed. In most cases, the original documents can be eliminated at once, thereby reducing a great deal of storage.
- *Data warehouse*. A company can design a centralized data warehouse, which pulls in selected information from the accounting and other systems, and stores it for various reporting purposes for a number of years. This is typically a very expensive option.

At a minimum, when a reporting year is completed, be sure to store the related documents in banker's boxes and clearly mark the contents on each box, as well as the document destruction date. Given the frequency of document review, it is generally best to keep the immediately preceding year's archives in a location relatively close to the accounting operation. Documents from years prior to that date can usually be safely stored in a secure location in a warehouse, since they will rarely be accessed again.

Some documents must be segregated from the regular accounting documents, and retained for a substantially longer period of time. Board minutes, title records, contracts, and similar documents should be retained in the most secure location, and be available for ready access. These documents are not usually stored in banker's boxes, but rather in filing cabinets, for easier access. The most critical documents should be retained in a fireproof filing cabinet. By segregating these documents, it is much less likely that they will be accidentally destroyed during the annual document destruction process.

A final thought is that the cost of on-site document storage is much higher than one might suppose: the costs of office rental space, storage cabinets, and fire suppression systems can add up. For a larger corporation with a lengthy history, the cost can be quite dramatic. Thus, it behooves the controller to actively minimize the total amount of documents stored, and particularly the amount of on-site storage.

IMPROVE THE DEPARTMENT

Once the accounting department is set up, there is the potential for an endless series of improvement projects. Being a department that handles large quantities of paper, the accounting area can rapidly become choked with it, which greatly impedes the flow of work. Also, certain employees are more comfortable with clutter than others, and so will allow unusual quantities of materials to proliferate. Managers can attack this problem by focusing on the ongoing elimination of the following items, all of which interfere with the orderly flow of work:

- Unneeded chairs, desks, filing cabinets, and carts.
- Unneeded computers, printers, phones, copiers, and fax machines.

- Unneeded posted items, such as outdated labor law posters, white boards, corkboards, and old messages on those boards.
- Excess quantities of office supplies at employee desks, such as printer paper, staplers, tape, and so on.

It is particularly important to search in all possible areas for these items: in corners and behind desks, and especially in drawers, cabinets, and closets, where such items tend to accumulate. To keep accumulation from occurring in these areas, consider removing all doors and drawers in the department. This means that all items are out in plain view, where they can be more easily monitored and therefore eliminated.

Whenever these items are removed from the accounting area, don't immediately throw them out or send them back to a storage area. Instead, pile them in a holding area that is readily accessible to the staff, so they have a few days to retrieve anything they really need. Then remove the remaining items from the holding area. It may be necessary to tag each item in the holding area, to identify where it came from and how long it should stay there until it is removed. If it is unlikely that an item in the holding area will be used within the next year, then don't even consign it to storage—instead, put it in the trash or donate it. Otherwise the storage area will become excessively cluttered.

There is the particular problem of what to do about those employees who persist in piling up vast quantities of paperwork and supplies in their work areas. One possibility is the complete rebuilding of a work area. This involves *completely* emptying out someone's work area; even removing computer equipment and related cables. Then clean the entire area, and only put the most necessary items back. All other items are removed to a location well away from the employee, who then spends a week deciding how many items that were shifted elsewhere are actually needed. This process will likely liberate a startling number of supplies, and also allow a great deal of paperwork to be filed away.

This process is by no means an annual event—think more in terms of a weekly or monthly review of the accounting area. Clutter increases constantly, so only continual attention will keep it in check.

In addition to clutter reduction, consider reviewing work flows within the department. To do so, create a map of the department, noting all cubicles, office furniture, and equipment. Then note on it the travel paths taken by employees for *all* activities and note their frequency of travel. A likely result will be the repositioning or removal of furniture and equipment. Also, if the department relies on high-capacity, centralized office equipment, such as printers, faxes and copiers, it will likely make more sense to acquire a large number of lower-capacity units to position very close to individual employees or small groups of staff. Further, the map will clarify which employees need to be clustered together, along with certain document storage areas. By making these changes, travel times within the department can be substantially reduced.

A key detractor from optimum workflow is the filing cabinet. It is a central source of documentation, and because it is extremely heavy, it cannot be moved. Instead, employees must travel to it—possibly many times over the course of a day. An alternative is to buy a number of office carts with wheels; employees load these carts with the files they will need for that day, and position the carts nearby in their work areas. The amount of travel time reduction can be astonishingly high.

The cubicle can be a considerable detriment to an efficient department, because it cannot be easily moved. Instead, swap out cubicles for desks, which can be easily reconfigured to match work flows. For example, group together the desks of the billing, cash application, and collection employees, so they can more easily discuss payment issues. If there is an increased need for more staff in this area, then simply move another desk into the group. If there is no way to avoid cubicles, then at least reduce their wall height, so that employees can more easily interact. High cubicle walls are the bane of employee communications.

Another issue that is frequently overlooked is the storage and replenishment of supplies. There is usually a central storage area for the department, but this is not always the best way to position supplies. For example, consider positioning printer and copier supplies right next to those items, so that users do not have to travel anywhere to find them. Also, assign replenishment responsibility to a single individual, and make sure that person uses a standardized checklist to update supplies on a daily basis. Otherwise, the department will lose valuable time searching for supplies that do not exist.

The result of these activities should be a reduction in the accounting department's required amount of square footage, which in turn results in less travel time within the department. Thus, a good metric for departmental improvement is either total square footage or (better yet) square footage per person. This metric can be taken to an extreme, since the staff could end up packed together like sardines in a can, so don't use it as an exclusive metric.

In summary, the accounting department can be continually streamlined to improve its efficiency. The top improvement considerations are to move high-usage items as close to the users as possible, and to remove anything that physically gets in the way.

SUMMARY

The steps described in this chapter for setting up the accounting department may seem quite obvious; yet the accounting manager who has gone through these steps and regularly revisits them is a rare one. The main reason why such basic organizational steps are not done is that they require a considerable amount of management time. Those managers who think they do not have time for these activities should revisit their own job descriptions; they will find that organizing the department is the primary task of a true manager—all other activities are secondary to ensuring that the department runs with the greatest possible degree of efficiency and effectiveness.