

216

Chapter 10 Department Management

Introduction

If there is one department that responds well to a high level of organizational structure, it is the accounting department. This area involves a large number of scheduled activities, procedures, and controls, so the new controller can take a number of steps to ensure that everything is completed both on-time and without error. In this chapter, we cover several management techniques that a new controller can use to improve department operations.

Related Podcast Episodes: Episodes 165 and 180 of the Accounting Best Practices Podcast discuss how to set up an accounting department, and training, respectively. You can listen to them at: accountingtools.com/podcasts or iTunes

Controller Responsibilities

The issues described in this chapter are mostly of a tactical, day-to-day variety, and so represent responsibilities that are likely to appear regularly in the controller's work schedule. Those responsibilities are:

- Monitor and plan for all due dates associated with the accounting department.
- Examine and streamline the flow of accounting information.
- Examine and streamline the physical flow of work in the accounting department.
- Consolidate accounting operations to the extent needed to minimize overall costs.

Schedule of Activities

The controller should collect information about when accounting activities must be completed, reports issued, payments made, and so forth, and organize them into a department-wide schedule of activities. It is quite likely that each member of the accounting department is well aware of when their work is supposed to be done, so this may not initially appear to improve the situation in the department. However, there are three good reasons for creating it:

- *Vacations.* Employees leave for vacations and forget to tell their replacements about due dates.
- *Departures.* An experienced employee leaves the company, and the rest of the department has to scramble to figure out when that person's work should be done.

- MBWA. This is management by wandering around. The controller can use the schedule of activities to chat with the staff about upcoming due dates. This may sometimes detect issues that would otherwise have been forgotten, and is also an excellent excuse to talk to the staff, which may bring up other issues worth investigating.

Error Tracking System

The accounting department handles an enormous number of business transactions, and some of those transactions will be processed incorrectly. Fixing them requires a considerable amount of time by an experienced accounting person. Further, if an erroneous transaction is visible outside of the accounting department (such as an error on an employee paycheck), it gives the department a reputation for substandard work. Thus, one of your first steps as a new controller should be to set up an error tracking system.

An error tracking system is a manual one, and involves digging through the accounting records each month for adjusting transactions, such as special journal entries to correct an improper expense accrual, or a credit memo to a customer to correct the price stated on an invoice. Examples of accounting errors are:

- Compiling an incorrect number of hours worked by an employee
- Deducting the incorrect amount from an employee's wages
- Not remitting payroll taxes to the government
- Not recording a supplier invoice
- Paying a supplier invoice when the amount was not authorized
- Not taking an early payment discount on a supplier invoice
- Recording a supplier invoice in the wrong expense account
- Sending a supplier payment to the wrong address
- Billing the incorrect amount to a customer
- Not charging sales taxes to a customer
- Applying a cash payment to the wrong customer account
- Incorrectly completing the monthly bank reconciliation
- Incorrectly calculating depreciation expense on a new fixed asset
- Not reversing an expense accrual in the following period
- Incorrectly applying overhead to inventory and the cost of goods sold

The preceding list of errors is by no means complete, and yet is so long that you can see how possible it may be for the accounting department to be buried under an avalanche of errors. Consequently, it is critical to obtain an understanding of transactional errors.

Once uncovered, compile all errors in a spreadsheet or more formal database. This database should include the following information:

- Type of error
- Description of error
- Date when error occurred

Department Management

- Person responsible for error

A sample error database is:

<u>Error Area</u>	<u>Description</u>	<u>Date of Occurrence</u>	<u>Person Responsible for</u>
Timekeeping	Overtime recorded as regular time (Rogers paycheck)	Mar. 15	P. Doyle
Timekeeping	Hours not totaled correctly (Smith paycheck)	Mar. 15	P. Doyle
Billings	Incorrect pricing on invoice (Verity invoice)	Mar. 18	C. Breeze
Billings	Incorrect pricing on invoice (Standard invoice)	Mar. 18	C. Breeze
Payables	Early payment discount not taken (Arnold Distributors)	Mar. 19	K. Dithers
Payables	Invoice charged to wrong account (Lightspeed invoice)	Mar. 20	Q. Mathers
Payables	Invoice charged to wrong account (Casey invoice)	Mar. 20	S. Jingle
Timekeeping	Overtime recorded as regular time (Elinora paycheck)	Mar. 22	P. Doyle
Billings	Customer invoice not sent (Bosley customer)	Mar. 27	C. Breeze
Closing	Depreciation entry not made	Mar. 30	R. Sommers
Closing	Accrued wages not set to reverse	Mar. 31	R. Sommers
Payroll	Insurance not deducted from pay (Marlowe paycheck)	Mar. 31	P. Doyle

Tip: You might also include a "severity of error" column in the database, which reveals those items causing either a great deal of investigative work to fix or which cost the company money. In the preceding sample error database, not sending a customer invoice would likely have received a high score for error severity.

By using this format to collect error information, you can sort the information several ways to see if there are clusters of errors. If a particular accounting area is revealing a cluster of errors, there may be a procedural issue that can be readily fixed. Alternatively, if errors appear to be clustering around a specific individual, the solution is likely to be the application of training, though fraud is also a possibility. For example, sorting the preceding report by name shows that P. Doyle appears to be causing a variety of problems in the timekeeping and payroll areas, which will likely call for more training, and perhaps the application of new controls. Similarly, C. Breeze is causing a number of errors on customer invoices, which may require a similar solution.

Tip: Do not use the error tracking system to fire employees, unless their performance cannot be improved by any reasonable means. Otherwise, the system will be looked upon by employees as the basic tool used for an ongoing witch hunt in the accounting department.

The most effective way to use the error tracking tool is to look for clusters of errors that have a common solution, and then implement that solution in order to eliminate

an entire swathe of errors. This is a cost-effective approach, since you can avoid all of the error correction activities associated with multiple errors by implementing just one correcting activity. This approach rapidly reduces the grand total number of errors, which allows the accounting staff to concentrate their attention on a reduced pool of errors.

Process Reviews

There are a number of processes that run through the accounting department. For example, it is involved with customer billings, cash disbursements, and payroll. These processes change periodically to accommodate changes elsewhere in the business. Each incremental change may alter the efficiency with which transactions can be completed, usually making them slower. Over time, a series of these incremental changes can seriously impact the efficiency of the accounting department.

To counteract the ongoing decline in process efficiency, schedule periodic process reviews that are designed to root out inefficiencies and streamline processes. A typical review involves documenting each step in a process, including an examination of all forms, reports, and controls, as well as the movement of paperwork between personnel. The process review team then documents errors created by the system, the time required to complete an average transaction, and the queue time during which a transaction sits between processing activities. Based on this information, the team configures a new process flow that may contain any of the following improvements:

- Eliminate approvals. A process may require multiple approvals, where only one is needed.
- Eliminate data. A transaction may call for the entry of more data into the accounting system than is actually needed.
- Process moves. A process may require the movement of paperwork between employees, so concentrate activities with fewer people. By doing so, queue times are eliminated from the process.
- Automation. In a few cases, it may be possible to shift manual processing to an automated solution. However, only use this approach when there is a solidly favorable cost-benefit tradeoff. In many cases, an expensive automation solution will not yield much of an overall benefit to the company as a whole.
- Report reductions. Are reports really needed? In many cases, a process may result in a variety of reports being issued that are not used by the recipients. Interview recipients to determine which reports can be eliminated, or which information on specific reports can be eliminated.
- Eliminate controls. Some controls are redundant, and so only interfere with a process without reducing risk. However, only eliminate controls after having consulted with the auditors, who may have a different opinion.

A process review is a time-consuming activity that involves a number of people both within and outside of the accounting department. For this reason, it is impossible to engage in a continual review of processes. Instead, consider scheduling reviews on a rotating basis, so that a single process is reviewed in detail perhaps every six months to a year. The exact review interval will depend upon the amount of change within a company. If little has changed in the past few years, there may be little reason to invest in a process review. However, if there have been substantial changes, such as acquisitions, you may need to engage in an ongoing series of reviews.

Queue Management

You may find that certain employees operate with a perpetual backlog of work, or do so at certain times of the month or year. This may not be a problem, as long as these queues do not interfere with cash flow. For example, an accounts payable clerk may have a five-day backlog of supplier invoices to enter into the accounting system, but this is not a problem if payment terms state that the company does not have to pay its suppliers for 30 days. However, if a billings clerk has a two-day backlog of customer invoices that have not yet been issued, this is a much greater concern, since customers will now pay the company a few days later, which impacts cash flow. This latter case may call for an alteration in the work load of the billings clerk, or the use of additional staff. Consider using the following techniques to improve your management of work queues:

- Narrowly define the job description of the person who has a persistently large queue, thereby permanently offloading some work. This is a common solution when transaction volumes gradually increase to the point where an employee is persistently using overtime to complete his or her work.
- Shift work temporarily when the work in a queue is time sensitive. This can involve shifting work to other full-time employees or bringing in part-time help. For example, this works well when processing month-end customer invoices.
- Examine the process flow to see if the activities related to a work queue can be streamlined. This may involve an investment in technology. This approach is more cost-effective when there is a persistent work queue.
- Structure jobs so that some employees are scheduled to have little required work at the same time that there are spikes in the work load elsewhere in the department. This allows employees with low utilization levels to assist those in the reverse situation.
- Compare scheduled vacation times to expected changes in work queue levels. Restrict the use of vacation time during those periods when work queues are expected to be high.
- Delay the performance of routine tasks that have no impact on cash flow, so that staff can concentrate on reducing queues during peak work periods. This is a common solution during the month-end close, when the department stops all other work in order to create financial statements.

Queue management is a nearly daily activity that requires considerable attention to workloads throughout the department, as well as anticipation of queue levels in the near future. Proper scheduling and shifting of personnel among tasks can reduce the most crucial queues and makes the department run more efficiently.

Department Layout

If the accounting department appears to be operating at near-maximum capacity, with employees working furiously throughout the day, then you may be able to squeeze some extra capacity out of the department by altering its layout. The goals are a combination of improving the workflow within the department and reducing the amount of employee travel time within the building. Here are several layout improvements to consider:

- *Printers.* Provide employees with decent-quality printers that are positioned adjacent to their computers. Doing so eliminates the startling amount of travel time between employee work areas and a central printer; employees may travel back and forth many times during the day. You should still retain the central printer for higher-speed printing jobs.
- *Furniture.* If there is unused furniture or office equipment cluttering the department, then dispose of it. By doing so, you can not only improve the traffic flow within the department, but (better yet) compress the accounting department into a smaller work area, so that total travel times within the department are reduced.
- *Clustering.* Monitor the travel patterns of employees within the department. It is likely that some people must interact with others on the far side of the department, or must access filing cabinets located well away from where they sit. Based on this information, configure the department to cluster together those employees who interact most frequently. This may also result in the central document storage area being broken up and distributed closer to users.
- *Cubicles.* It is difficult to reconfigure the accounting department into clusters when everyone uses cubicles, since they require skilled furniture movers to disassemble and rebuild. Instead, eliminate the cubicles in favor of clusters of desks, which can more easily be moved around in the department.
- *Carts.* An enhancement on the concept of clustering is to issue mobile office carts to employees. They can then shift any documents they need from fixed storage locations into the carts, and roll the carts to where they are working. If employees switch to different workstations during the day, they can just move the carts along with them.
- *Supplies.* Stock an office supplies cabinet, and place it in the middle of the accounting area. Then forbid anyone to keep an excess "stash" of office supplies at their desks. By doing so, you can eliminate a considerable amount of clutter in employee work areas.

Department Management

The reconfiguring recommendations just noted do not preclude the use of offices. There is still a need for private meetings from time to time, as well as meeting rooms. However, the proportion of offices to the general work area assigned to the accounting department should be low.

Once you have completed a realignment of the department, undertake a formal review of the situation about once a year, which may even involve the use of a consultant who specializes in office workflow. In addition, make minor reconfiguration tweaks to the office layout whenever an opportunity presents itself, possibly at the suggestion of an employee, or as the workload shifts among employees.

Tip: If you have a highly configurable office where most employees use desk clusters, consider shifting them for each month-end close, so that the closing team is positioned in a group. Then move employees back to their usual positions as soon as the financial statements have been issued. This improves the level of coordination during the closing process.

The improvements outlined in this section will be much less useful in situations where there is clearly excess capacity in the accounting department, since the incremental improvement in efficiency afforded by changing the department's layout will only create a moderate increase in the level of available capacity.

Skills Review and Training

It is common practice to decide which accounting employees are deficient in certain skill areas, and then give them training in those areas. However, doing so can involve a considerable amount of additional (and expensive) training, much of which may never be used. If a company pays for some portion of an employee's college education, then this cost-benefit effect becomes even more glaring. In short, many training programs result in employees learning skills for which they have no use within the company.

A more prudent view of training is to use the error tracking system described in a preceding section to determine where employees require additional training *in their current jobs*, and apply the exact amount of specific training to reduce the number of errors that they are causing. Or, consider linking training to specific upgrades that you plan to make to the department's systems. Here are several examples of targeted training:

- The department's error tracking system reveals that the accounts payable staff is not using the automated three-way matching feature in the accounting software, which has resulted in several payments to suppliers that should not have been made. The controller has a trainer come to the company's offices to train the accounts payable staff in this feature, as well as to monitor their usage of it over the next few days.
- A company is planning to install direct deposit as a new feature in its in-house payroll system, so it provides training to only those employees in

Department Management

volved with employee paychecks, to give them sufficient knowledge to set up direct deposit payments, investigate errors, and answer employee questions pertaining to direct deposit.

- A company has just upgraded its accounting system to a new version of the same software. The controller pays the software supplier to send a consultant to the company to give users a training session on the specific changes that were made to system features, and how best to take advantage of them.

In short, avoid broad-based training, such as paying for accounting degrees at the local university, or sending employees to conferences. Instead, expend funds on training that very specifically improves the operations of the department. Also, as you may have noticed in the examples of targeted training, it is more effective if conducted on-site, where employees can use the training immediately. It may be more expensive to bring in consultants to conduct such training, but the results easily offset the costs.

Because of the need to engage in extremely specific training, it is nearly impossible to create a long-term training plan for employees. Instead, training needs are usually uncovered and addressed in the short term. The only case where you can involve employees in a longer-term training plan is when you intend to promote someone to a different position, and have created a course of study for them to learn all aspects of their new position.

Consolidate Accounting

A business may have a divisional organizational structure, where all business functions are duplicated within an operating division. While this approach works well for localized decision-making, it has the following failings from the perspective of the corporate controller:

- *Cost.* Functional duplication requires headcount duplication, so each division has its own controller, assistant controller, payroll staff, cost accountant, and so forth.
- *Closing speed.* Local accounting departments need to close their books first before sending their results to corporate headquarters. Thus, it only takes a delayed submission from one division to delay the release of financial statements for the entire company.
- *Procedures.* When there are many divisions, there are many different procedures for handling essentially identical business processes, which can lead to both inefficiencies and control problems.
- *Knowledge.* When there are only a few accounting staff at the division level, they are unlikely to be up-to-date on the most recent work efficiencies.

You can eliminate these issues by centralizing the accounting function in a single area that services the entire company. Doing so eliminates redundant positions, improves the speed at which the company closes its books, improves the uniformity of procedures, and results in the most efficient operational practices.

Department Management

A move to consolidate accounting may very well be met with resistance from the division managers, who like to have control over their accounting functions. If so, point out the reduced overall accounting cost that will be assigned to their divisions, since the cost of the entire accounting function will decline. Also, it may be necessary to maintain a small local accounting presence to appease the local managers.

~~If you elect to consolidate accounting, the best way to do so is by centralizing one functional area at a time. For example, aggregate all accounts payable functions into one location, then centralize payroll, and then move on to billing and collections – the exact items consolidated and the timing for doing so will depend on the circumstances of the company.~~

Tip: Consolidation does not necessarily work well for all accounting functions when a company is a conglomeration of many different types of businesses. Accounting systems vary by industry, so they cannot always be easily consolidated. In these cases, it is best to restrict centralization to only those activities that are similar across divisions, such as payroll processing.

A variation on the consolidation concept is to outsource certain types of accounting work away from the divisions, rather than to a central location. A prime example is employee expense report processing, where employees submit their expense reports to a website that automatically matches submissions against company travel policies, and then sends all approved expenses back to the company's accounts payable system through a custom interface. This approach works well if the corporate accounting department does not have the expertise, and the price offered by the supplier is reasonable.

Tip: When acquiring businesses, insist upon moving their entire accounting functions into the corporate accounting group. This is easier to do in an acquisition situation, since the acquiring entity has most of the power; local managers are less likely to resist the change.

Summary

The new controller faces a number of opportunities for improving the accounting department. You can use scheduling and work queue analysis to improve the allocation of labor among the various work products that the department must complete, while engaging in workflow improvements, process reviews, and functional consolidations to achieve a substantially higher degree of efficiency. All of the management issues noted in this chapter are not to be treated as one-time events, however. You need to continually monitor and adjust the condition of the department to achieve a state where the accounting staff is completing its assigned tasks in the most efficient and effective manner possible.