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Office Systems and Procedures

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IN ORDER to place the subject of Office Systems and Procedures in proper perspective, it is desirable first to spend a few moments defining the term. Dropping the "Office" modifying word, Systems and Procedures might be broadly defined as the corporate policies, procedures, forms, and equipment necessary to conduct a business. It would be a mistake to limit this discussion to the office per se, since we should be concerned with all paper work and paper-work processing wherever it exists throughout the organization.

Thus, we are talking about all the various activities that include paper work and the carrying out of management policies. They include time reporting and payroll, inventory control, budgeting and cost accounting, order entry and invoicing, accounts receivable and payable, purchasing and receiving, and management control reporting. The approach to these activities that follows is directed to the small and medium-sized office with 10 to 15 clerical employees, since this is the type of operation of most interest to your group.

Why is this subject on the program today? First, the number of persons engaged in handling paper work is constantly increasing and the cost of performing this work therefore represents a larger and larger share of the cost of doing business. In order to stay competitive, these costs need to be reviewed and controlled. Second, also because of competition, more information—timely and valid—is necessary for effective decision-making—a requirement also arising from competitive considerations. Thus, for businessmen such as yourselves a first duty is to make a periodic self-appraisal of the systems and procedures in force in your operations.

How can these objectives be accomplished in your particular operation? How should you proceed to make a review of your present operations? These are the questions I shall try to answer in the course of the discussion.

The basic systems and procedures tools are (1) forms design and control and (2) written policies and procedures.

FORMS DESIGN AND CONTROL

Any systems effort starts with the design and use of proper forms. To ensure that each form is readily understandable, contains the right

information, and has the right number of copies, is a difficult task. In analyzing the forms included in a particular procedure there are many questions to be asked.

Does each form serve a separate and distinct function? Or, conversely, do the forms tend to overlap functions? If two overlap, can they be combined by modifying the forms or by adding copies to one so as to serve the purposes of both? Can multi-purpose forms be designed to replace several single-purpose forms? Can one multi-purpose, multi-copy form be used as a combination purchase requisition, purchase order, receiving and inspection ticket; as an invoice, shipping ticket, and accounts-receivable record?

One decided advantage of multi-purpose forms is the ability to write or type data once, proofread them, and then not have to rewrite the same information on other forms. This avoids the opportunity for error inherent in transposing numbers, one of which may be simply the misreading of information to be copied.

A disadvantage of multi-purpose forms is that they tend to become too complicated. A clerk has to study the form in detail to locate just the information he is interested in.

When is a form complicated and when is it simple? It appears that the more printing on a form, the more complicated it becomes. However, in the design of forms, one consideration must be to determine how many times the same information is typed on a preprinted form. Is there a series of commonly used phrases entered on the form? Could they be preprinted on the form preceded by a series of boxes with a *check the applicable box* caption? This technique tends to minimize form-preparation time on purchase orders, shipping tickets, etc. Efficiency of form preparation must be considered when studying the complicated versus the simple structure of forms.

Another question to be asked about forms concerns the number of copies and the justification for each. Are any of the copies maintained in file simply for defensive purposes? Are copies sent to people as "nice to know" information or do they really serve a purpose? If a copy of the form is needed only infrequently, is it not less costly to prepare a copy only when it is required rather than to have it made up as part of a multi-copy set? Are the copies color-coded to aid in distribution? Each copy of a form contains its own cost—cost of printing and paper, processing, distribution, and filing. Can these costs be justified?

As important as the effective use of forms is the effective use of form letters. Is the same type of data used in letters to customers or

suppliers over and over again? Can a form letter be used? With present-day methods of preparing form letters, every copy can very readily look like an original either by typing a master and reproducing it or by using equipment such as the Friden Flexowriter. With this unit, a form letter can be punched into a paper tape which, in turn, is placed in a reading device on the Flexowriter for typing of form letters. This unit is programmed so that the automatic typing halts at each place in the letter where variable information is to be typed in.

In Victor Lazzaro's book, *Systems and Procedures*, Milton Reitzfeld, of the Third Naval District, in his chapter entitled "Records Management," wrote that form letters are economical if they are produced in quantities of three-months' supply:

If the line count is :	and the monthly usage is :
5	80 or more
10	20 or more
15	15 or more
20 or more	10 or more

This appeared to be a very interesting approach to the use of form letters, although no mention was made in the article of how these figures were determined.

WRITTEN POLICIES AND PROCEDURES

Effective systems and procedures effort requires the continuing use of written operating policies and procedures. The reasons why written procedures are essential to a business operation are many. The more important are:

- a) Written procedures make it possible to analyze and study the procedures easily.
- b) Written procedures assist in the training of new personnel in their jobs.
- c) Written procedures aid supervision and office personnel in handling each other's work when required because of sickness and vacations.
- d) Written procedures aid management and outsiders in studying operations and becoming familiar with them.
- e) When contemplating a change in existing procedures, the fact that these procedures are written serves a distinct purpose in ensuring that all aspects of the existing procedures are taken into consideration and that no aspect will be neglected causing restudy at a later date.

There are a number of methods of writing procedures. One of the best appears to be *The Playscript Procedure: A New Tool for Management* as described by Mr. Lester Matheis in his book of that title. Treatment of the subject is quite brief but the "playscript procedure" is set forth in some detail. An advantage of the method is format standardization of the procedures. For example, only the title of the position performing a specific operation is written on the outside edge of the page, in much the same manner as an actor's name is entered on a script. Operations are described very briefly on the left-hand side. Each *operational* sentence begins with an action verb, such as *post*, *originate*, *stamp*, and so forth. Procedures written in this manner appear to be more easily understood and followed than in some of the other formats.

Another method of procedure writing is that of flow charting. This method has become fairly common in the past several years, primarily owing to its use in data processing. Recently we were engaged by a client to write a procedure manual based on flow charts rather than on narrative procedures. We agreed to prepare the manual in flow-chart rather than narrative form because of the complex nature of the client's operations. In this instance, the flow charts tended to depict much more accurately and understandably the total operation than narrative procedures could have done. Notes and comments were supplied with the flow charts in order to explain in detail certain operations that could not otherwise be made sufficiently clear.

Some time ago, we were engaged by a new organization to help their accountant and office manager develop operating procedures, forms, and so forth. The initial approach was to develop flow charts of what appeared to be the required flow of data. From this flow chart it was decided what and how many forms were necessary. For example, it became obvious that the combination of a purchase requisition and a purchase order was not required. Because so few copies of a purchase order were required, a set of receiving documents could very readily be combined with it.

These conclusions, and other similar ones, became obvious as a result of the use of the flow-charting technique.

Before leaving the subject of written procedures, the value and importance of written procedures must, once more, be emphasized. The method by which this is done is not nearly so important as is the job of getting it done. Also, the obvious necessity of up-dating the written procedures as changes occur must be emphasized. Written procedures

lose all value if they are allowed to become dated. We have worked with clients who prefer to make procedural changes and up-date the procedure manual only after they are convinced that the changes are working. This allows for the possibility of out-of-date manuals if the changes are not very carefully policed and issued in accordance with predetermined schedules. Possibly it is desirable not to put procedures or changes into effect until the revised procedures are issued. This certainly aids in training employees in the new or revised procedures.

The two systems and procedures tools just discussed—*forms design and control* and *written procedures*—are basic to all systems applications. Some of the more important systems and procedures applications are discussed in the sections that follow.

ORDER-ENTRY AND BILLING SYSTEMS

One of the most comprehensive procedures that concern us is order entry and billing. Customers' orders received by mail, telephone, or over-the-counter are carried out by preparing the necessary instructions for order-filling, shipping, and invoicing. Normally, speed is requisite. The customer wants the material; you want to bill him and have him pay for it. The type of system adopted here depends on many considerations. Where are inventory records maintained and what kind of records are they? Are the orders edited and by whom? How are prices determined? Are the orders costed and, if so, by whom and when?

The object of asking these questions is to attempt to establish a reasonably effective procedure to minimize paper work. For example, it is usually advisable to prepare shipping and invoicing papers in one machine pass; that is to say, to pre-bill. This means extending the prices for quantities-shipped in advance of shipment. A procedure of this type can minimize paper work if it is practicable. However, if pre-billing is used, stock shortages must be known and back orders taken into consideration before preparing the paper work. Invoices must be held until the shipping department gives notice of shipment.

If pre-billing is not possible, two typing or processing operations are normally required—one for preparation of shipping papers, the other for invoices. By adding in the quantities shipped, prices, and extensions added on the second processing cycle the two operations should still require only one form. Some companies, however, save time by eliminating "formal" shipping papers and merely stamping the customer order in, checking items ordered for correctness, and assign-

ing an order number to the customer order. They then prepare a copy of the customer order and use it as a shipping ticket. This is a very simple and expeditious system, provided the proper control of order numbers and processing is available to ensure good internal control.

The order-entry and billing system is normally one of the most time-consuming and costly to operate. Do we really know how much it is costing us? How much does it cost to process each order; each line item per order? Can we afford to accept a mail order for one dollar; for five dollars? Minimum-price orders have become a reality. Considerations such as customer good will must be taken into account when analyzing the order-cost situation. However, we must be sure that acceptance of small orders is not doing us more harm than good in the long run.

There is available on the market today a wide range of machines having high-speed calculating ability and through the use of edge-punched or hole-punched cards, having the capability of preparing, automatically, at least a portion of the invoice. From time to time, new and improved equipment is announced. These machines offer the user faster and more accurate processing at less cost than has formerly been possible. Burroughs, National Cash Register, Friden, SCM and IBM are among the companies that have made significant contributions in this field. Much of this equipment has been designed for use in order-entry and billing procedures and should be very carefully considered.

ACCOUNTS RECEIVABLE

Another area we are concerned with is that of accounts receivable. Accurate maintenance of accounts receivable is essential. There are two primary methods of maintaining this file. The simplest to maintain, but also the hardest to control, is the open-invoice file. This approach consists simply of filing a copy of each invoice in some sort of sequence, probably by customer name. Problems with this type of system relate to control of the movement of paper in and out of the file, maintenance of the dollar control of the receivables in the file, and the necessity for originating another form for the monthly statement. The other, and more common, method is the ledger-card system in which an account card is maintained for each customer. Under this system control of billings and payments and preparation of the monthly statement is simpler. This second approach takes more effort to maintain, however, and

can be considerably more time-consuming since more operations and paper work are required.

The advent of tabulating and data processing equipment has allowed companies to mechanize all or part of their accounts-receivable system, but when they do they still use one of these two basic systems; the open-invoice file concept (represented by cards) is the most common.

Preparation and mailing of monthly statements is an accounts receivable related operation, the necessity of which must be given careful consideration. Like any other office function, monthly statements cost money. Do you mail monthly statements to all of your customers and if not, to which ones: those who did business with you last month? those with an account balance? Are your customers remitting to you on the basis of monthly statements rendered them? Is this procedure delaying your intake of cash? If the answer to this last question is yes, monthly statements are probably costing you more than you thought.

ACCOUNTS PAYABLE

A third area of systems applications we are concerned with is accounts payable, and the particular aspect of interest to us is that of approval of invoices for payment.

Frequently, invoices are routed to the originator of the purchase order for approval regardless of any other considerations. Logically such referral is required for purchased services, but is it necessary for purchased materials? Consider the following questions in relation to purchased materials.

- Was the purchase order approved in accordance with company policy?
- Did it refer to a quotation or specify the actual terms?
- Has a receiving-ticket copy been received?
- Is the invoice amount in agreement with the quotation or purchase order?

If the answer to each of these questions is yes, is it necessary to obtain any additional approval of the invoice before payment? When the system elements—purchase order, receiving ticket, and invoice—are all in agreement normally an invoice should not have to be routed for approval. For an auditable record the necessary approvals should all be accounted for. Under these circumstances, routing of invoices for approval tends to become duplication of effort, consuming valuable time of high-level personnel who would be required to approve each invoice.

Do you batch invoices and pay them regularly once or twice a

month or do you pay them each time they are received in order to take advantage of terms such as 2%, *ten days* or something similar? Batch processing (holding invoices until predetermined payment dates—for example, the fifth and twentieth of the month—then processing as a batch) provides for more efficient work scheduling in the office. Accounts-payable batch processing can be scheduled, for example, so as not to conflict with payroll processing. It also may provide for combining multiple invoices received from a single supplier into a single voucher.

CONTROL REPORTS

The last area of interest to management that we shall be concerned with this morning is that of management reporting. In the last few years this area has probably undergone more change than any other, primarily because of the advent of data processing and high-speed printers. More paper can now be processed and written than ever before in history, and this has resulted in many problems. It has also caused us to think about these problems to the extent that we have come up with some solutions.

The technique most widely adopted in connection with control reporting is *exception* reporting. Exception reporting calls for summarizing data into specific categories such as those established in the budget. Both current period and year-to-date values are reported and compared to the budget. As long as the data reported are within predetermined limits of the budgeted amount—for example, plus or minus 2%—no additional data are required. If the data are outside this limit, a detailed explanation might be required to explain the difference. This explanation need not be presented strictly in written-report form. Visual presentation by charts and graphs is a very effective means of showing the direction of the business.

The type of information reported to management is also of real concern. We have been working with a client who installed a Friden Computyper to do his invoicing operation. This unit has a paper-tape punch attached. He sends this tape to a service bureau on a monthly basis for processing and reporting of inventory information. The supervisor, basing his work on such a report, prepared a summary report to management, consisting of monthly and year-to-date *net sales* and *units sold* data for each of some eleven classes of products. Since information on inventory cost, inventory turnover ratios, and gross margin contribution for each class of product for each reporting period

was available in the tape, we suggested adding this material to the summary reporting to management. The supervisor had been unaware of the desirability of reporting it.

Most manufacturers of accounting machines and similar order-entry and invoicing equipment have paper-tape punch devices of this type, available at relatively low cost, that can be attached to the basic unit. At the time of processing accounts payable, payroll, billing, and so forth, on these machines, it is very easy to capture various types of data on tape than can be sent periodically to service bureaus for sorting, analysis, and report preparation. We have recommended that several clients use this approach for sales analysis, cost and labor distributions, and other similar reports. It is proving to be a workable solution in that it provides these companies with excellent data for analysis purposes on a relatively inexpensive basis. There is a wealth of essential data available on each supplier invoice and each sales invoice if it can only be sorted and totaled into meaningful classifications.

Sales analysis and inventory data are normally difficult to gather in a typical small organization because the operation is performed manually, is long and tedious, and is highly susceptible to error. For management to have at its fingertips, data in a variety of classifications is very helpful. Some frequently used classifications are: gross or net sales by territory, salesman, or customer; gross margin contribution by territory, salesman, or customer; inventory cost and turnover data by class of product or vendor. In each of these arrangements very interesting comparisons can be made between actual and budgeted amounts, between prior and current periods, and so forth. Availability of this information at low cost (through conversion into a machine-processible language and format for processing at service centers) is proving to be extremely helpful to a number of clients.

HOW TO STUDY YOUR OPERATIONS

We have talked about a number of systems and procedures applications and, in most instances, various alternative approaches. At the same time we have suggested that there is probably a *best* or *most reasonable* way to handle them in a particular company. How do you determine this *best* or *most reasonable* way to perform each particular function in your operation? Certainly there is no standardized way of approaching this determination. There are, however, logical ways to go about a systematic review of your paper-work procedures.

One of the most commonly used approaches and, incidentally, the one we at Haskins & Sells normally use, is to pick a logical sequence of operations; study each operation, flow chart the movement of paper and the operations performed en route. Ask the usual analytical questions: why, what, when, where, and how; study the forms used, the data on the forms, the number of copies of the forms, how they are routed, and so forth.

Analyze the flow charts and notes that have been prepared and relate the various operations to one another: Are there duplications, are all operations really necessary, are the forms being used properly, can forms be combined, are there enough copies, too many copies, can you eliminate copies, combine, change sequence, change place, change people, improve? As this study and analysis continues, your conclusions and the resulting new or revised procedures are developed almost as a by-product.

The initial study and the analysis of the facts must be in detail; accordingly, it can take up much the greater portion of time. However, even if you do not have time to extend the study to all applications, the chances are that benefits will accrue from whatever portion you are able to complete.

Once you have completed such a study and have converted to the new procedures, do not be satisfied that they will suffice forever. As your organization continues to expand and grow, the *best* system will tend to change with your growth. Your systems and procedures must be reviewed and studied periodically to keep up-to-date.

IN SUMMARY

This morning we have talked a little about systems and procedures in general; about two basic tools of systems and procedures—forms design and control, and written procedures; about some systems and procedures applications, namely, order entry, accounts receivable, accounts payable, and management reporting; and finally, about how to study your own operations.

I sincerely hope that this has stimulated you to consider a review of your own operations and has given you some ideas for improving your systems and procedures.