



Case Discussion:

Bop the Weasel! Effective Solutions to Plaguing Problems

Comments by Rod Hoagland – Financial and Accounting Project Series

Business situation

A few years ago I was called in by the owners of a several-hundred-million dollar distribution company to help them understand why the monthly accounting close took so long to complete. They also wanted to know why product line results or specific warehouse location results regularly appeared inaccurate. The owners wanted to know if these issues were due to the competency of the CFO, or if they needed a new Enterprise Resource Planning (ERP) system.

Upon investigation it became clear to me that the CFO was competent, but was caught in a game of 'Bop the Weasel', sometimes also referred to as 'Whack a Mole'. He was solving problems as they occurred, but during that process two more problems would pop up. The CFO did not have the time to analyze the full scope of the issues, and was never able to implement an effective solution.

Solution

One thing I experienced early in my career as an operational auditor with two Fortune 500 companies was that accounting becomes the garbage dump if the data feeding the accounting system is garbage. This is often referred to as 'garbage in, garbage out'. In this situation there was plenty of 'garbage in' coming from a breakdown in operational discipline at the warehouses.

Procedural cycle counts were being used to confirm inventory accuracy, but instead of entering a traditional cycle count adjustment when needed, thereby creating a dollar value change transaction in the financial records, a shortcut process was being used. This shortcut adjusted the count quantity only, and did not create a dollar value change. The warehouse personnel had no idea how they were impacting the inventory value, and neither did the finance team. Implementing a procedural change and educating the warehouse staff on the benefits of properly recording cycle counts for both inventory and financial accuracy solved this.

Another problem was the way the system was set up to receive incoming inventory. The perpetual inventory records for quantity were updated upon item receipt, but no financial transaction was created. The financial transaction was only input upon receipt of the vendor invoice. This disconnect made the process of reconciling outstanding vendor invoices at month end a manual exercise that took financial department manpower to complete and significantly delayed the financial close, a major frustration to the owners.

After spending a few hours reviewing the ERP system manuals, and a quick call to the software vendor, I determined that a system flag was incorrectly set which ignored tracking un-vouchered receipts. Changing this option immediately solved the problem, greatly reducing the time required for reconciliation at month end. Two major problems still existed for the accounting and finance team; the consolidation of results from multiple locations and understanding the unexplained anomalies in product line performance and warehouse locations.

So, the question of replacing the ERP system still needed to be considered. Ideally, a new system which provided more capability was the solution, but not in this case, at this time. None of the other key departments were on board with bringing in a new system since it was not a major problem for them, and they would have no input on selection. Implementing a new ERP system under these conditions would be a costly and poor decision.

Instead, the best solution for solving the accounting and finance teams' remaining issues was implementing a well designed, documented, and tested Microsoft Excel consolidation model. The consolidation model allowed for quick, consistent measuring of results across locations by individual general ledger accounts and financial statement summary lines. The model graphed product line and warehousing results to display performance across locations, by trend at individual locations and by all product lines at individual locations. This provided the detailed information needed by the owners. The differences from expected results could be easily identified as deltas, and could be confirmed either as a bucket problem, or a real unexplained variance requiring additional research.

Benefits

Hiring an additional pair of eyes to help analyze problems is often a good step to help define root causes and effective solutions. Using outside experts with an external view can provide a faster response, since direct staff has conflicting priorities with day-to-day operations. Experts also have access to additional tools to utilize for specific problems.

Three full years have now passed and a new CFO was recently brought on board. The excel consolidation model is still in use. I was recently asked to come in and provide an overview of the consolidation model design and add capability for a new year of data and a couple of new warehouse locations. Continued use of the model, and the easy updates for current business changes are a testament to the value of the initial design and documentation of the model.

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