7 Habits of Effective Controllers

CPE Edition

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7 Habits of Effective Controllers

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Course Information

Course Title: 7 Habits of Effective Controllers

Learning Objectives:

- Recognize the difference between being effective and efficient.
- Describe the issues involved in the adjustment of employee workloads.
- Recognize the positions that may be involved in closing the books.
- Specify the ways in which a controller can influence the cash flows of a business.
- Describe the contents of a controller's job description.

Subject Area: Personal Development

Prerequisites: None

Program Level: Overview

Program Content: The *7 Habits of Effective Controllers* course discusses the top seven tasks that a controller should address in order to be as effective as possible. The suggestions cover a broad range of topics, including how to develop a system for eliminating transaction errors, the alternatives for eliminating reports, and how to point out financial problems to management. The course also notes how these recommendations vary from the contents of a typical controller job description. *7 Habits* is specifically designed for the controller who wants to improve his or her job performance.

Advance Preparation: None

Recommended CPE Credit: 1 hour

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About the Author

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7 Habits of Effective CEOs
7 Habits of Effective CFOs
7 Habits of Effective Controllers
Accountant Ethics [for multiple states]
Accountants' Guidebook
Accounting Changes and Error Corrections
Accounting Controls Guidebook
Accounting for Breweries
Accounting for Casinos and Gaming
Accounting for Derivatives and Hedges
Accounting for Earnings per Share
Accounting for Income Taxes
Accounting for Intangible Assets
Accounting for Inventory
Accounting for Investments
Accounting for Leases
Accounting for Managers
Accounting for Mining
Accounting for Retirement Benefits
Accounting for Stock-Based Compensation
Accounting for Vineyards and Wineries
Accounting Information Systems
Accounting Procedures Guidebook
Activity-Based Costing
Activity-Based Management
Agricultural Accounting
Auditor Independence
Behavioral Ethics
Bookkeeping Guidebook
Budgeting
Business Combinations and Consolidations
Business Insurance Fundamentals
Business Ratios
Business Valuation
Capital Budgeting
CFO Guidebook
Change Management
Closing the Books
Coaching and Mentoring
Conflict Management
Constraint Management
Construction Accounting
Corporate Bankruptcy
Corporate Cash Management
Corporate Finance
Cost Accounting (college textbook)
Cost Accounting Fundamentals
Cost Management Guidebook
CPA Firm Mergers and Acquisitions
Credit & Collection Guidebook
Crowdfunding
Developing and Managing Teams
Effective Collections
Effective Employee Training
Employee Onboarding
Enterprise Risk Management
Entertainment Industry Accounting
Ethical Frameworks in Accounting
Ethical Responsibilities
Excel Charts and Visualizations
Excel Data Analysis Tools
Excel Data Management
Excel Formulas and Functions
Fair Value Accounting
Financial Analysis
Financial Forecasting and Modeling
Fixed Asset Accounting
Foreign Currency Accounting
Franchise Accounting
Fraud Examination

(continued)

Fraud Schemes
GAAP Guidebook
Governmental Accounting
Guide to Analytical Procedures
Health Care Accounting
Hospitality Accounting
How to Audit Cash
How to Audit Equity
How to Audit Fixed Assets
How to Audit for Fraud
How to Audit Inventory
How to Audit Liabilities
How to Audit Payroll
How to Audit Receivables
How to Audit Revenue
How to Conduct a Compilation
How to Conduct a Review
How to Run a Meeting
Human Resources Guidebook
IFRS Guidebook
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Introduction to Excel
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Nonprofit Accounting
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Optimal Accounting for Payables
Optimal Accounting for Payroll
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Purchasing Guidebook
Real Estate Accounting
Records Management
Recruiting and Hiring
Revenue Management
Revenue Recognition
Sales and Use Tax Accounting
Succession Planning
The Balance Sheet
The Income Statement
The MBA Guidebook
The Soft Close
The Statement of Cash Flows
The Year-End Close
Treasurer's Guidebook
Unethical Behavior
Working Capital Management

On-Line Resources by Steven Bragg

Steven maintains the accountingtools.com web site, which contains continuing professional education courses, the Accounting Best Practices podcast, and thousands of articles on accounting subjects.

7 Habits of Effective Controllers

Introduction

When hired, a controller can diligently attend to each item listed in his job description, and yet fail in the job. The reason is that some elements of the controller job description are relatively minor, while others are essential for delivering timely information to other parts of the business, keeping costs low, and minimizing errors. The new controller needs to be able to distinguish between these elements and focus on the few that are really necessary. In addition, the controller may find that some critical aspects of the job are not even listed in the job description, making it even more difficult to decide how to proceed. In this course, we point out the seven most essential aspects of the controller position, even if they are not listed anywhere in the job description.

How do we decide which aspects of the job are important? They must result in the controller being as effective as possible. A highly effective controller is one who always does the right thing. In essence, this means that the actions of the controller result in a business achieving its intended goals. Very few controllers are truly effective, since many of them are waylaid by insignificant issues, or incorrectly place a premium on being excessively efficient. Being *effective* means that a person has a strategic mindset, always ensuring that the organization is deploying its resources correctly. Being *efficient* is more of a tactical issue, where the organization is maximizing its productivity. The trouble with an excessive focus on efficiency is that the organization may be highly efficient in activities where the business should not be engaged. Consequently, a strong focus on effectiveness results in a more financially viable business over the long term.

EXAMPLE

The new controller of Henderson Industrial is trying to be as efficient as possible, in order to keep the costs of the accounting department low. He notes that $2,000 of overtime costs are usually incurred as part of the closing process. He decides to forbid all overtime hours for this activity, which saves the $2,000 but also delays the issuance of financial statements by three days. If the financial statements had been issued sooner, management would have realized that there was a problem with the gross margin, and traced it to a theft of inventory in the warehouse. As a result of the delay, the company lost $5,000 in the form of stolen goods.

In this example, the controller was focusing on being overly efficient from the perspective of his department. From the perspective of the entire company, this action resulted in a net loss of $3,000.

A key part of the following recommendations is that each one is described as a *habit*. This means the controller engages in the activity on a regular basis, to the extent that it is hard to give up. Ideally, the controller gives these habits an extremely high priority, so they are always addressed before less critical activities. By maintaining a tight focus on the following seven recommendations, the controller is maintaining a high level of effectiveness on a continuing basis.

In the following sections, we will describe a situation that needs to be addressed, the negative impact of not giving it a proper level of attention, and then note why the controller is the best person to deal with it.

Habit #1 – Search for Errors

When an error occurs anywhere in a business transaction, it takes an inordinate amount of time to locate and fix. Further, correcting an error requires more than a base-level knowledge of the transaction; usually,

a senior-level person within the company must be assigned to track it down and fix it. The result is an inordinate amount of time being spent by the best employees in the company to make repairs. If a less-experienced person is involved in correcting errors, this may result in yet another error, which requires even more work to track down and correct. The issue is exacerbated by the sheer extent of the problem. Transactional errors can occur anywhere in a system, and there can be multiple errors related to each transaction – here are just a few examples that relate to customer billings:

- A customer is billed for the wrong amount
- A customer is billed for the wrong product or service
- A customer is billed twice
- A customer is not billed at all
- A customer is billed an incorrect sales tax
- A customer is billed an incorrect shipping charge
- The resulting invoice is not sent to the customer
- The resulting invoice is sent to the wrong customer location
- The resulting invoice copy is filed incorrectly

Thus, we have identified nine errors just related to the production, delivery, and filing of a customer invoice. Errors can also occur in such areas as sales orders, production tracking, inventory tracking, shipping, cash receipts, payables, the general ledger, and payroll. When employees make a large number of transactional errors, the correction task can swamp the accounting department, leaving the staff with no time for any other activities. This can also result in large amounts of overtime, employee frustration, and a high level of employee turnover.

Our first habit for an effective controller is to actively search for errors. By proactively locating, measuring, and then correcting errors, the controller can eventually arrive at a situation where the department is no longer reacting to errors, and instead has enough time to work on other activities. To reach this state of perfection is not easy. The controller must first accomplish these four steps:

1. *Change the mindset*. An accounting clerk likely does not want his errors to be found, on the grounds that blame for the error will be pinned on him. This mindset needs to be changed, so that the focus instead is on bringing all errors to the attention of the controller as soon as possible. In essence, the staff must understand the controller's plan to eradicate errors, and be willing to participate. This can require a great deal of discussion before they accept the new approach.
2. *Track the errors*. Once located, all errors are recorded in an error log. The intent is to create a listing that notes the exact nature of each error and the circumstances under which it was created. The previous example related to customer billings indicates the level of detail needed – a customer invoice is not just in error, the log needs to state that the error was an incorrect sales tax. Once the errors have been itemized, the controller then aggregates the errors by error type to determine which ones occur the most.
3. *Target specific error types*. With the information from the error log, the controller then targets which errors are to be permanently corrected by eliminating the underlying issue. The targeted item is usually the one that occurs the most often, but it could also be an error that requires an inordinate amount of corrective effort. For example, the mis-filing of customer invoices occurs the most frequently, but the correction of incorrect sales tax billings requires the most work to correct, since it also involves a re-filing of sales tax documentation with the state government. Consequently, sales tax errors are flagged as the top error to be corrected.
4. *Correct the underlying issue*. The best accounting personnel are assigned to the selected error. The intent is to figure out exactly why it is occurring, and adjust the system to make sure that the error rate drops to zero. For example, it may require an adjustment to a procedure, additional training for a staff person, or perhaps the inclusion of a new control point in the system. Once the resulting error is eliminated, the focus of the department moves to the next highest priority error.

By taking this error correction approach, the worst issues are resolved first, leaving more staff time to fix an ever-shrinking pool of errors. Eventually, this habit can be shifted into maintenance mode, where the system only has an occasional error to examine. However, the system should not be dismantled, since a change in procedures or the business model could eventually result in a new group of errors that must be corrected. A situation that is especially likely to generate more errors is an acquisition, since the company must now deal with the errors caused by the accounting systems of the new subsidiary.

Habit #2 – Adjust Workloads

The accounting department tends to be organized into a cluster of niches, where each person has a clearly defined set of responsibilities. For example, the payroll staff engages in no other activity than payroll, while the cost accountant solely addresses any number of asset valuation issues and financial analyses. This might initially appear to be an excellent department to manage, since everyone is consumed with their own tasks and requires little direction. However, digging deeper into the situation reveals that some employees experience sharp spikes in their work schedules that may require them to incur overtime, as well as significant declines during which they must find work to stay busy. During these periods of work declines, employees are not being especially productive. These variations in work schedules represent a potentially excessive expense for the company.

Our second habit for an effective controller is to understand when there are changes in employee workloads within the department, and reallocate job assignments in order to smooth out the workflow across the entire department. To use the payroll group as an example, these employees are extremely busy while preparing a payroll, but experience a sharp decline in the demands on their time during most other periods. The controller can review the situation and determine the amount of excess staff time that is available during the "down" periods. If there is a significant amount, it may be possible to provide training to certain payroll employees in a secondary skill area, such as customer billings or accounts payable, and have them move over to their secondary areas of responsibility and assist in that area. This controller habit is not that easy to set up or maintain, for the following reasons:

- Employees are unwilling to divulge when they are less busy.
- Periods during which someone is less busy may be relatively short, and so are not usable for assignment to a secondary area of responsibility.
- Extra training is required, so areas that require more complex or lengthy training may not be suitable candidates for backfilling in this manner.
- The periods during which one functional area experiences downtime may not match up with a peak usage period in another functional area, so employees cannot be easily shifted from one location to another.
- It may be necessary to provide separate workspace for employees that are being moved into a different area.

Despite this multitude of issues, the shifting of work across the department can be quite worthwhile, since it can potentially result in a smaller workforce being able to handle the existing workload of the entire department. This could imply that the controller intends to reduce headcount by adjusting workloads – this is not necessarily the case. Instead, a good time to examine the possibility of workload adjustments is when there is an expectation of an increased amount of work hitting the department, perhaps due to a forecasted increase in sales for the company. The result may be level staffing, despite more work for the department as a whole.

A side benefit of assigning secondary areas of responsibility is that the skill level of the department rises. As many employees gain experience, the controller will have a reasonable excuse for raising their pay, which in turn may lead to a decline in employee turnover. Thus, the department experiences a higher level of efficiency by keeping headcount down, and gives back some of this improvement to employees in the form of pay increases. The net result should still be a net decline in departmental expenses.

Another opportunity for adjusting workloads is when the controller is actively engaged in Habit #1, the search for errors. Error analysis is an ongoing activity that may last for years, so it is always available for anyone who has some spare time. Gaining skill in hunting down the causes of errors is quite a useful skill, so when the department finds that it has achieved an error-free operating environment, the accounting staff can even be loaned out to other departments to engage in process reviews and the correction of errors elsewhere in the company.

Once a workload balancing program is in place, the controller will need to make some provision for constantly monitoring it, for this type of program tends to fall apart unless it is regularly reviewed. The reason is that employees tend to be more comfortable remaining in their primary areas of responsibility, and so will be more inclined to concentrate their efforts in those areas.

Habit #3 – Eliminate Reports

The accounting department is essentially a service department. That is, it fulfills requests for information that arrive from other departments. For example, the sales manager may request a standard report that summarizes sales by product type for the European sales region. Or, the production manager requests a standard report that itemizes variances from budgeted costs for the full range of raw materials. Or, the information technology manager requests a standard report that shows every type of expense billed to the IT department in each of the past 12 months. Individually, none of these reports are bad – after all, the purpose of the department is to provide useful information to other departments. The problem is the use of the word "standard" in each of these report requests. In other words, department managers expect many of these reports to be delivered to them in perpetuity. Over time, each innocuous request for a report is piled onto the existing heap of reports, making it progressively more difficult for the accounting department to meet its reporting obligations.

Our third habit is that the controller actively pursues the elimination, not only of these reports, but also of the data collection, report preparation, and distribution activities related to as many reports as possible. There are a number of ways to address this activity reduction. For example:

- *Withdraw reports without notice*. A rather sneaky approach is to simply stop issuing reports and see if anyone notices. If not, it is acceptable to stop delivery permanently. However, this approach may not be considered the most politically correct way to deal with the issue.
- *Distribute a report list*. Circulate a list of reports to all departments, and ask them to scratch from the list those reports they no longer need. This tends to exhibit a weak response, since the department managers must go out of their way to have a report eliminated.
- *Charge for reports*. The controller could charge an interdepartmental fee for each report delivered, which tends to capture the attention of other department managers. However, if the price is set too high, other managers may elect to drop reports that they actually need. A variation is to only charge for reports that require manual preparation by the accounting staff. If a person can simply access a report over the company intranet, then there is no charge.
- *Eliminate labor-intensive components*. The bulk of the information in most reports is easy to acquire, but there may be a few data items that require manual data collection work, which is much more expensive. The controller could make inquiries to see if these data items can be eliminated from the reports.
- *Only report changes*. A characteristic of many types of data is that it does not change from period to period. Instead, there is a steady pattern that fluctuates only slightly. When there is no change in the information, there is no need for a report. Thus, a more effective way to deal with reports is to only issue them when there is a change that breaks through a predetermined threshold level. For example, an expense is only reported when it is 15% higher or $25,000 more than the three-month rolling average. This approach draws immediate attention to those report items most in need of attention. If there are no changes that break through a reporting threshold, then no report is issued.

- *Automate reports*. The ideal situation is to set up all reports on a report writer that links to the accounting database, and set up the reports to run automatically on that software. Then give all report requesters access to the standard reports on the company intranet, and have *them* run the reports. In essence, the accounting department is taken out of the reporting business, other than setting up the initial reports.

The concept of eliminating reports can be extended to the size of the financial statements delivered by the department. Only the core set of statements – the income statement, balance sheet, and statement of cash flows – should be delivered. These three reports are easily printed from the accounting package. Any other information, such as operational information, should be excluded from the basic financial reporting package, perhaps to be delivered at a later date. By doing so, the financial statements can be delivered much more quickly. This is a key point, as noted in the next habit of an effective controller.

Habit #4 – Close the Books Fast

A common situation is for the accounting department to be deeply involved in closing the books and producing financial statements by the end of the first week of each month. This can involve a number of people, including the following:

- A general ledger accountant, who records journal entries and examines account balances.
- The billings supervisor, who ensures that all customer invoices have been issued.
- The payroll supervisor, who ensures that all payroll registers are correct and that wage and payroll tax accruals are accurate.
- The payables supervisor, who ensures that all supplier invoices for the preceding month have been received or accrued for.
- The cost accountant, who compiles the cost of ending inventory and allocates factory overhead.
- The controller, who supervises all of the preceding activities.

This group comprises the bulk of the management team of the accounting department. So, as long as they are concentrating on issuing financial statements, they cannot engage in any other activities, such as making the department more efficient or responding to requests for information. Thus, a lengthy closing period is a major distraction for the department.

An additional concern is that, the longer the books are kept open, the greater the opportunity for the management team to force the controller to make adjustments to the financial statements to enhance the company's reported performance or financial condition – for example, by continuing to ship goods as though they are still in the reporting period, instead of the next period.

Our fourth habit is that the controller close the books and issue financial statements as rapidly as possible, preferably in a single business day. By doing so, the accounting department does nothing but the financial statements for a brief period of time, and can then return to its normal activities as soon as possible. A side benefit is that the opportunities to fraudulently alter the financials are greatly reduced, since the statements are being prepared for such a brief period of time.

A number of tightly-sequenced activities must be completed in order to close the books fast. These steps are described in detail in the author's *Closing the Books* course. The following bullet points present a selection of the more common tasks needed to issue the financial statements rapidly:

- Print preliminary financial statements in advance, search them for indications of errors, and correct the errors.
- Reconcile the general ledger accounts in advance, so that any anomalies can be researched and corrected prior to the close.
- Use a standardized and simple overhead allocation methodology that requires little adjustment over a period of months.

- Create a payables accrual by comparing the receiving log to the payables register, rather than waiting for supplier invoices to arrive after month-end.
- Accrue for as many expenses as possible prior to the end of the period.
- Centralize the accounting system, to avoid delayed results coming from outlying accounting systems.
- Use a completion chart to monitor which closing steps have not yet been addressed.

A variation on the fast close concept is the soft close, where certain closing steps are avoided in months other than the end of the fiscal year or quarter. See the author's *Soft Close* course for more information.

Besides refocusing attention on the management of the department, closing the books rapidly also contributes to a positive opinion of the accounting department by the rest of the company, since it is providing feedback about company performance as quickly as humanly possible.

Habit #5 – Automate Transactions

A large proportion of the accounting department is comprised of accounting clerks. These people are involved with the preparation of payroll, paying suppliers, billing customers, processing cash receipts, and so forth. Each of these people requires a small incremental amount of human resources and management overhead, so the total cost of each person is higher than their base pay and benefits. There tends to be a relatively large number of people in the department, because so many accounting transactions require manual effort to complete. Thus, between the cost per person and the number of people employed by the department, the accounting function is a relatively expensive part of a business.

Our fifth habit is that the controller automate as many transactions as possible. By doing so, the number of people needed to run the department declines, along with their cost. There are a number of places in which automation can be used. For example:

- Have suppliers enter their own invoices into the accounting system via an interface on the company's website, thereby eliminating payables data entry.
- Convert suppliers to electronic payments, to eliminate the printing and mailing of check payments.
- Have suppliers inquire about payment status through an on-line system, so that employees are not involved in researching these requests.
- Have employees enter their hours worked through a computerized timeclock, so that all hours are verified automatically and forwarded to a payroll database.
- Have employees enter their own wage withholding information through an interface to the payroll system, so that the payroll staff is not involved.
- Pay all employees electronically (either with direct deposit or debit cards), to eliminate the printing and distribution of check payments.
- Have the warehouse improve the accuracy of their inventory records, to avoid physical inventory counts.
- Upgrade to a more comprehensive accounting system, so that sales orders can be automatically converted into customer invoices.

The result of these changes will be a department that relies on computer systems and automated routines much more than had previously been the case. This change will likely require an upgrade in employee capabilities, so that the department changes from being largely staffed by clerks to being staffed by analysts. The analysts monitor the accounting systems for failures or transaction errors, and step in to make adjustments to the systems as necessary.

In effect, the automation of the accounting department changes the orientation of this group from one that is primarily focused on data entry to one that reviews the flow of information and acts on anomalies.

Habit #6 – Improve Cash Flows

Many types of cash flows that are triggered elsewhere move through the accounting department. For example, the marketing department sets product prices, and the engineering department creates products that cost a certain amount, while the sales department convinces customers to buy these products. Once all of the selling transactions have been completed, the resulting customer payments arrive in the accounting department. Similarly, buyers in the purchasing department decide when to make purchases and at what price points, while the accounting department is tasked with paying for them. Thus, it appears that all parts of the company are involved with the generation of cash flows, but no one is responsible for them. This presents a risk of inadvertently generating negative cash flows.

Our sixth habit is for the controller to exercise some control over these cash flows, to accelerate incoming cash and delay outgoing cash. The outcome can be a significant improvement in cash flows. Here are some of the ways in which the accounting staff can enhance cash flows:

- Reject customer requests for credit if a customer does not have sufficient financial fundamentals. This is one of the most critical cash flow actions that can be taken, but it may not be available to the controller if the credit function reports to a different manager.
- Issue invoices to customers as soon as shipments are delivered or services are completed.
- Use the fastest and most reliable methods to deliver invoices to customers, which may include electronic invoices or overnight delivery services.
- Use aggressive collection efforts to obtain customer payments as soon after due dates as possible.
- Negotiate for automated payments from customers, using ACH debit transactions that pull funds directly from customer accounts.
- Issue payments to suppliers on the last possible date, consistent with the original payment terms.

This habit can include an ongoing examination of instances in which payments were received from customers excessively late or paid to suppliers excessively early, to see if the company can develop policies or procedures that will eliminate these issues in the future.

A truly effective controller will go beyond the points noted here, to advise the rest of the company on issues that will further enhance cash flows. For example, one could point out that certain products have very low profit levels, and push for a more focused product development effort that places a greater emphasis on higher margins. Or, the controller could educate the purchasing staff on the negative consequences of having to pay up front for a high-volume purchase, when cash could have been preserved by ordering in smaller quantities.

Habit #7 – Point Out Financial Problems

When financial statements are delivered, the recipients see information that is highly aggregated. There may be hundreds or perhaps thousands of individual transactions included in each line item. In addition, each financial statement might contain information for just the current reporting period, or perhaps a comparison to just the immediately preceding month, which gives recipients no real trend analysis. The result is only a high level of information about the financial results, condition, and cash flows of the organization, with no way to drill deeper into the information.

Our seventh and final habit is for the controller to routinely dig deep into the financial statements to locate issues and trends, and present this information to the financial statement recipients, perhaps also with recommendations for what to do. This analysis can also be forward-looking, indicating how revenues and expenses will change in future periods. This information is a great help to the management team, which then has the precise information needed to manage the business. Here are several examples of the types of financial problems on which a controller could report:

Revenue Commentary

The Air Force contract will run out of funding by the end of May, which will reduce the company's sales by $10,000 in each of the following months. We may need to cut back on consultant staffing levels as soon as the contract terminates.

Sales of the purple widget declined by 80% in April. The decline was entirely in the Canadian market, where the government has banned the purple dye used in the product. We recommend reformulating the product to exclude the purple dye.

Sales of the cell phone line increased by 14% in July. This was likely a one-time event, since it encompassed a steep discount on sales of the Mini cell phone, for which stocks were being eliminated prior to the introduction of the Mini Deluxe cell phone.

Expense Commentary

The gross margin on sales of the portable gas grill line declined by 10% in the period, due to an increase in the price of the product's propane tank. We suggest a review of other suppliers to see if a better price can be obtained.

The rent expense on corporate headquarters will increase by 4% as of July; this is a scheduled increase. The lease agreement expires in 24 months. The company is now paying rent at a level that is 8% above what is currently available for similar properties in the surrounding area.

The compensation cost in the customer service department rose by 20% in January. This is an expected seasonal event, as the customer support staff is expanded to deal with after-Christmas return requests. The expense will return to normal levels in February.

Balance Sheet Commentary

The reserve for obsolete inventory has been increased by $20,000, due to the discovery by the materials review board that a large quantity of sheet metal is out of specification. We are attempting to obtain remediation from the supplier.

The company incurred a one-time $100,000 liability in November that was caused by an adverse court judgment. The payment must be made to the plaintiff no later than December 31.

The amount of common stock has increased by $1,000,000, due to a stock sale to existing shareholders during the month. Since all current shareholders participated in the sale, there is no change in the ownership proportions.

Cash Flow Commentary

There will be a $40,000 cash outflow next month for the annual shareholder dividend. This is an increase of $8,000 from the dividend paid last year.

The cash from operations was lower than expected, because Big Retailer is delaying a $2.7 million payment to the company, complaining that the paint is peeling on the swing set product. The engineering department is reviewing the allegations. In the meantime, we have activated an emergency credit facility with the bank to cover the cash shortfall.

When issues appear to be inordinately important, the truly effective controller will not wait until month-end to issue a report. Instead, the best approach is to take the matter straight to the person most capable of correcting the situation, point out the problem, and present any backup information needed to prove the case.

A certain amount of discretion may be needed when delivering bad news, since it can reflect poorly on certain managers. If so, it may be more politically correct to first deliver the news to the responsible parties, thereby giving them time to correct the problem before the information is issued to a wider audience.

This habit can conflict with Habit #4, to close the books fast. When the goal is to issue the financial statements within a short period of time, adding on an analysis of financial problems may take so much time that delivery of the financials is delayed. If so, issue the analysis at a later date, perhaps one or two days after the financial statements have been delivered. An alternative is to begin writing the commentary before the reporting period has ended, so that it can be completed in time to accompany the financial statements.

Bonus Habit – Sit at the Management Table

The controller can be treated like a mid-level manager, who is supposed to take orders from above without complaint – and also without giving advice. The problem with this treatment is that the controller is also the most knowledgeable person in the company about cash flows and how processes work. With this knowledge, it makes much more sense for the controller to be regularly involved in many management decisions, in order to provide input about how those decisions will impact existing processes and require the creation of new ones. Here are several examples of situations in which the controller can offer advice:

- When management wants to have field service personnel issue invoices and take payments from customers on the spot, the controller can discuss the controls needed to ensure that the field service personnel cannot pocket any of the proceeds.
- When management wants to extend credit to more financially questionable customers, the controller can point out the negative impact on both cash flows and bad debts.
- When management wants to shift raw material sourcing overseas, the controller can discuss the need for letters of credit and the resulting changes in cash outflows.

It may not be easy for the controller to gain access to the more senior-level management discussions, but doing so can be an effective way to head off problems before decisions have been finalized.

Comparison of the 7 Habits to the Controller Job Description

We have just described seven of the most crucial activities in which a controller should be engaged. How do these items compare to the standard job description of a controller? The controller is responsible for all of the accounting operations within a business. This responsibility can be split into the following five general areas:

- *Management*. This involves overseeing the operations of the accounting staff, as well as of any outsourced activities. There should also be a management infrastructure in place, such as policies, procedures, and calendars of activities.
- *Transactions*. This involves the proper processing of all types of business transactions, which includes supplier invoices, billings to customers, payroll, and cash receipts and disbursements. It also requires the use of a system of controls to ensure that transactions are processed properly, and a record keeping system in which transactions are recorded and archived.
- *Reporting*. This involves the preparation of the standard set of monthly financial statements, as well as a variety of management reports.
- *Planning*. This involves coordinating the creation of the annual budget, as well as the investigation and reporting of any subsequent variances between it and actual results.
- *Compliance*. This involves compliance with a variety of tax reporting requirements, government reports, debt covenants, and accounting standards.

More specifically, the controller's job includes the following tasks:

Management

- Manage the operations of the accounting department.
- Oversee the activities of any supplier to which functions have been outsourced.
- Oversee the accounting operations of any subsidiaries of the parent company.
- Maintain a system of accounting policies and procedures.

Transactions

- Verify that supplier invoices should be paid, and pay them by the designated due date, taking early payment discounts where this is economical to do so.
- Issue invoices to customers as soon as goods have been sold or services delivered.
- Collect accounts receivable promptly.
- Process payroll information with minimal errors, and issue compensation payments to employees by scheduled pay dates.
- Record cash receipts in a timely manner and deposit them promptly.
- Complete bank reconciliations for all bank accounts at regular intervals.
- Make scheduled debt payments as needed.
- Operate an adequate accounting software package.
- Maintain a chart of accounts that fulfills the record keeping needs of the business.
- Maintain an orderly filing system for all paper-based accounting records, including a system of document archiving and destruction.
- Maintain a comprehensive system of controls over all accounting functions.

Reporting

- Compile and issue accurate financial statements on a timely basis.
- If the company is publicly-held, prepare reports for filing with the Securities and Exchange Commission.
- Measure the financial and operational performance of the business and report this information in ongoing reports to management.
- Prepare various financial analyses for management.
- Assist in the preparation of the company's annual report.
- Provide information needed by outside auditors to examine the company's financial statements and accounting system.

Planning

- Coordinate the creation of the annual budget, as well as testing it for achievability.
- Calculate variances between actual and budgeted results, and report the reasons for the variances to management.

Compliance

- Monitor the company's compliance with debt covenants and warn management of covenant breaches.
- Comply with any filing requirements imposed by local, state, or federal governing authorities.
- Comply with all tax reporting and payment requirements.

In short, most of the controller responsibilities involve detailed "nuts and bolts" transactions and their summarization into the financial statements. In essence, this is a middle management position that involves a considerable amount of staff and process monitoring.

Our first habit, searching for errors, does not appear in the job description at all. This is because a search for errors spans all functional areas of the accounting department, and is not specific to any particular area. Our second suggestion, adjusting the workload, also does not appear in the standard job description, because it involves shifting work *between* the different functional areas. The third habit, eliminating reports, also does not appear in the job description. The job description covers the reasons for having reports, rather than the need to eliminate them. The fourth habit, closing the books fast, is tangentially referred to in the job description, which states that financial statements should be issued on a timely basis. We prefer to accelerate the process in order to remove this monthly bottleneck from the department. The fifth suggestion, automating transactions, is barely referenced in the job description, which notes the need for an adequate accounting software package. Our position is that every possible opportunity for automation should be explored, which is well beyond the level advocated in the job description. The sixth habit, improving cash flows, is referenced in several places in the job description; we have elevated its importance. Finally, the seventh habit, to point out financial problems, is not noted in the job description, other than a requirement to measure the performance of the business. We feel that a more proactive approach is needed to ensure that management is fully aware of the key financial issues that the business faces. In short, most of our recommended habits for an effective controller are not even mentioned in a standard controller job description.

Another concern with the standard controller job description is the extent to which it is unrelated to any of the seven habits. We note the following items:

- Oversee the activities of suppliers to which functions were outsourced
- Maintain a system of policies and procedures
- Complete bank reconciliations
- Make scheduled debt payments
- Operate an adequate accounting software package
- Maintain a chart of accounts
- Maintain an orderly filing system
- Maintain a system of controls
- Assist in preparing the annual report
- Provide information to outside auditors
- Conduct a variance analysis
- Monitor compliance with debt covenants
- Comply with government filing requirements
- Comply with tax reporting and payments

The preceding items from the job description are essentially busy work for the controller. They involve daily management tasks, but do not elevate the effectiveness of the organization as a whole. Consequently, the controller needs to minimize the time spent on these tasks or delegate them, perhaps to an assistant controller, in order to focus more attention on the seven habits.

Summary

In this course, we have shown that the actions of an effective controller depart substantially from the actions stated on a normal controller job description. By focusing on our seven habits, a controller can focus on the activities that really matter in a business, creating a department that delivers the right information to management in a timely manner, and doing so at a low cost and with minimal errors. By following the seven habits, the controller becomes a valued, proactive member of the management team.

A controller may find that he is already overwhelmed with the daily minutiae of the job, and so cannot block out the time to engage in these seven habits. If so, it may be necessary to delegate a number of tasks

to others in the department, as noted in the last section. This delegation can be directed towards those who appear likely candidates for promotion, so they can work on some elements of the controller's job.

We close with a reiteration of the seven habits, which are as follows:

1. Search for errors
2. Adjust workloads
3. Eliminate reports
4. Close the books fast
5. Automate transactions
6. Improve cash flows
7. Point out financial problems

Review Questions

1. The following are steps needed to search for and correct transactional errors, except for:
    a. Target specific error types
    b. Reward employees
    c. Change the employee mindset
    d. Correct the underlying issue

2. The following is one of the better ways to reduce the reporting burden of the accounting department:
    a. Only report information that has not changed
    b. Introduce new reports without notice
    c. Charge for report withdrawal
    d. Have users download their own reports

3. The following is an example of accounting system automation:
    a. Suppliers enter their invoices through a website interface
    b. Employees submit time cards to report their hours worked
    c. All employees are paid in cash
    d. Suppliers call a payables specialist to inquire about the status of their payments

Answers to Review Questions

7 Habits of Effective Controllers
Review Answers

1. The following are steps needed to search for and correct transactional errors, except for:
   a. Target specific error types
   b. Reward employees
   c. Change the employee mindset
   d. Correct the underlying issue

   a. Incorrect. A key part of the error reduction process is to classify each error by type, so that high-occurrence errors can be targeted first for elimination.
   b. **Correct. There is no need to reward employees once an error has been eliminated, since the outcome already makes life easier by removing error correction activities from their jobs.**
   c. Incorrect. Employees must be convinced to reveal information about errors. This can be difficult, if they fear that they will be blamed for the errors.
   d. Incorrect. The final step in the process is to determine the underlying reason why an error is occurring, and correct it.

2. The following is one of the better ways to reduce the reporting burden of the accounting department:
   a. Only report information that has not changed
   b. Introduce new reports without notice
   c. Charge for report withdrawal
   d. Have users download their own reports

   a. Incorrect. The accounting staff could report only information that has changed a significant amount, on the grounds that this is the only actionable information.
   b. Incorrect. A somewhat questionable tactic is to remove reports without notice. Adding reports just increases the workload of the department.
   c. Incorrect. If the department were to charge users a fee for withdrawing a report from use, no reports would ever be withdrawn. A better approach is to charge when reports are used.
   d. **Correct. By setting up reports on a report writer, the accounting department can step away from the report generation task, letting employees run reports whenever they want.**

3. The following is an example of accounting system automation:
   a. Suppliers enter their invoices through a website interface
   b. Employees submit time cards to report their hours worked
   c. All employees are paid in cash
   d. Suppliers call a payables specialist to inquire about the status of their payments

   a. **Correct. When suppliers enter their own invoices into the accounting system, there is no need for an in-house data entry staff to engage in the same activity.**
   b. Incorrect. When employees submit timecards, a clerk must summarize them, which is a manual activity. A better approach is to have them use a computerized timeclock.
   c. Incorrect. Cash payments to employees require a large amount of manual effort to count out and track the cash. A better approach is to use direct deposit or debit cards.
   d. Incorrect. Having a person take calls from suppliers is less efficient than having suppliers contact an automated system that pulls the required information from the accounting database.

Glossary

C

Cash flow. The net amount of cash moving into and out of a business.

Controller. The senior position in an organization that is responsible for all accounting operations.

E

Effective. To do the right thing or produce the desired result.

Efficient. The maximization of productivity.

F

Financial statements. The income statement, balance sheet, and statement of cash flows, which are typically issued as a group.

H

Habit. Engaging in an activity on a regular basis, to the extent that it is hard to give up.

T

Transaction. A business event that has a monetary impact on an entity's financial statements, and is recorded as an entry in its accounting records.

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Final Examination

The final examination for this course is provided below. Feel free to circle your choice for the best answer to each question. To enter your answers online and receive an immediate grade and completion certificate, follow these steps:

1. Go to www.accountingtools.com/cpe
2. Click on the "Access the Training Module | Complete a Test" button near the top of the page.
3. Login with your user name and password.
4. Select the **Take a Test** option and then select the **Programs** option. Click on the program that you want to take.
5. Take the test. You can stop and restart the test at any time.

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1. An example of effectiveness is:
    a. A product is designed within the minimum possible time frame
    b. A product is designed that meets the expectations of customers
    c. A company invests in computer-aided design software to assist its product developers
    d. Product design specifications are discussed by e-mail, rather than in person

2. The adjustment of employee workloads can be difficult, because:
    a. Safety rules can interfere
    b. Low activity periods tend to be quite long
    c. Extra training may be required to backfill another position
    d. The result may be a reduced amount of workspace

3. The following position is not involved in closing the books:
    a. Cost accountant
    b. Payroll supervisor
    c. Cash receipts clerk
    d. General ledger accountant

4. A truly effective controller will go beyond the normal cash flow enhancement techniques to also:
    a. Push for a reduction of compensation throughout the business
    b. Suggest which suppliers to use for raw material purchases
    c. Take control of the credit department and cut back on the granting of credit
    d. Advise the rest of the company on issues that will further enhance cash flows

5. The following is an activity found in a typical controller job description that is not related to any of the seven recommended habits:
    a. Maintain an orderly filing system
    b. Issue financial statements on a timely basis
    c. Engage in collection activities
    d. Use the best possible accounting software