ENTERPRISE PERFORMANCE MANAGEMENT

December 2009

GRC Case Study: How a Global 100 Retailer Mitigated Compliance Risk While Enhancing Visibility and Efficiency

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Risk management casts a long shadow over enterprises in every industry. Ideally, executives are not willing to turn a blind eye to business practices that may expose their company to untoward financial and operational risks. They know in their heart of hearts they could expeditiously be monitored and mitigated with the appropriate use of technology.

But sometimes companies perceive the risks just aren't worth the expense or effort to resolve. After all, they may have muddled along without incident so far.

Fortunately for one Fortune 100 retailer, it didn't take a passive stance. The company isolated a significant area of concern—account reconciliation activities as part of the monthly financial close process—and applied a disciplined and diligent approach supported by technology. It also achieved some unexpected benefits:

- **Better visibility**—Before, the retailer had no insight into the scope or status of the problem. Now it does.

- **Increased efficiency**—The process is now well automated, process times are significantly reduced, and the management team knows they're fully in control of the reconciliation process, not a slave to a never-ending task.

The business problem

In 2006, the financial leadership team knew the company was still exposed. They had spent considerable time and effort addressing a broad slate of financial controls in support of Sarbanes-Oxley (SOX) compliance, but still had a blind spot. They weren't exactly sure how many financial and operational accounts required monthly reconciliation. Although the firm had standardized on a single general ledger system, it had several different subordinated sub-systems—also known as subledgers—that had to be reconciled to the main accounting system to ensure financial reporting accuracy.

These systems spanned the breadth of the retail environment and included the following:

- A fixed asset sub-ledger that tracked and accounted for the physical assets of the firm

- Bank reconciliations for all manner of receipt and disbursement activity, including payroll expense

- Inventory accounting, which was directly tied to merchandising processes

- Sales audit, which tracked revenue by store and channel

There were nearly 200 people involved with periodic reconciliation activities, with the bulk centrally located at headquarters along with a handful outside the country. The retailer estimated that there were approximately 33,000 detailed accounts that needed to be reviewed each month. But it was just that—an estimate. Sure, the leadership team knew they were exposed, but by how much?

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Evaluating options for risk mitigation

From the retailer's perspective, the first step was clear. It needed to establish better repeatable control over the account reconciliation process to reduce risk inherent in the monthly financial close process. It still didn't know the true scope of the issue, but the initial estimate was enough justification to kick off a project to evaluate what software might be available to automate the process.

During the third and fourth quarters of calendar year 2006, the company reviewed software products that might have fit the bill. In November, it finally selected **BlackLine Systems**, a California-based firm that specializes in account reconciliation and financial close process automation.

Detailed project planning uncovered a risk much larger than anticipated

Next was to find the right internal leader. The retailer recruited an individual who had a direct role in the company's first-phase SOX program. Her expertise allowed her to effectively lead a structured discovery program that would eventually become the blueprint for deployment once the software was installed.

In December 2006, the leader assembled the core team consisting of finance, merchandising, and payroll representatives. They initially met once a month in order to assess overall impact, make decisions on work priorities, draw up a plan of attack, and prepare for system implementation. Four months later, the program formally rolled out to the entire accounting team, with strong endorsement from management.

Now the detailed work began. The team enlisted everyone's help to gather as much intelligence about the process in its current state. They distributed detailed questionnaires to those involved, asking a series of pertinent questions: Who prepares the account reconciliations? What detailed accounts get reconciled? When in the closing cycle are they reviewed? Where is the work done? Who approves the finished work?

It turned out there were significantly more reconciliations—approximately 76,000 versus the initial guesstimate of 33,000—included in the reconciliation process. That meant that more hands would be needed to assemble the data from each source in order to hit an implementation schedule that would commence in mid-June 2007.

System operational in two weeks, fully implemented in two months

With data prepped, the BlackLine Systems implementation team arrived onsite to install the system. The vendor's guarantee was that, within two weeks, the reconciliation system would be operational. The retailer indicated the guarantee was met, and the second week was spent training key individuals who would then train the broader user group.

The next eight weeks were spent fine-tuning the system and grouping accounts together for consistent management and processing. Originally, the system required this grouping work to be done manually. But at this volume, the approach was a non-starter.

The vendor quickly introduced a bulk load process to input rules from an external data file. The retailer used a business intelligence (BI) report to generate the groupings that was uploaded to the BlackLine system, which went live in September 2007.

How automated account reconciliation has changed the way the company works

The program leader indicated that "BlackLine Systems is clearly an efficiency tool, enforcing policy, procedure, and monitoring of our monthly reconciliation process. But the big win for us was increased controllership." Controllership—management, monitoring, and mitigation of risks in the financial accounting process—was and remains the primary benefit derived from this system implementation.

There are many procedural changes affected by this system:

- Team managers were able to implement the task module, building process checklists that would ensure workers were doing what they should be doing. Before, managers had to actively manage staff to ensure they were on track with required work. Now, they can monitor the status of each task from a management dashboard, addressing only the situations where work is behind schedule or not yet started.

- Reconciliation is only one of many tasks the accounting staff is responsible for, so automatic reconciliation—systematized balancing of account transactions—is a huge time saver. If nothing is flagged as problematic, the account is deemed to be reconciled. Before, each account needed to be reconciled regardless. The program leader questioned, "How could you say accounts are being reconciled on a timely basis and based on policy if you have no visibility into the scope of the issue?" The company is now well in control of this critical component of the financial process. She added, "Now that I have this system, I can't imagine what it would be like to really track this manually. There's no way you can track all your reconciliations and guarantee they're being done."

- The data needed for the account reconciliation process was scattered through the retailer's IT architecture. One source system was a homegrown application, described as the "green screen system," which provided no easy way to access data. Since all pertinent information is now stored, processed, and reconciled in one centralized, accessible system, there are no gaps in data or process. The company loads about 30,000 detailed transactions once a month.

- The system is used heavily two weeks per month by the 200 staff members. The program leader is still the system administrator and spends about three hours a month on general maintenance and administration. Business unit administrators are responsible for managing account assignments. Before, this responsibility was spread throughout the accounting department, and since no system existed, it was a very inefficient process. The monitor and control point for account reconciliations is now the BlackLine system.

- External and internal auditors are now users of the application, too. They're able to tap into the system of record directly without having to request data from the operating staff. The auditor has been able to elevate reconciliation controls to an entity level and can now sample the tests of others, which has led to a more transparent relationship.

Lessons learned

Consider the following:

- **Determine what constitutes success up front.** Some companies have a singular investment motivation: Any money spent on business systems must return huge financial gains, especially in tough economic times. While this program was implemented during good times for retailers, its charter hasn't changed. The organization clearly articulated what it wanted to accomplish: establish effective controls, increase controllership of the reconciliation process, and eliminate inefficient processes. These goals guided all decisions for this project and remain in place today.

- **Establish a working partnership with your technology provider.** As a Fortune 100 retailer, the company wanted to make sure it could establish an ongoing relationship with its vendor that included constructive give and take. The retailer also knew it didn't want the system to become a customized product for itself alone. Ideally, it wanted to influence development in concert with other users. To date, the relationship has progressed well, with new functionality being added on a timely basis. The program leader reports the broader user group needs are being met, with enhancements delivered twice a year. The company has engaged the vendor for customizations, but they're the rare exception rather than the rule.

- **Connect the dots between original justification and ongoing improvements.** The increased controllership the retailer wanted was achieved, but now the same investment has reaped dividends in better visibility—monitoring of tasks, scope, progress, and issues—and much improved process efficiency. As the program leader stated, "Once we established a culture of controls, I didn't see a way to go back." Instead, she and the team have moved forward, building on the baseline accomplishments. When a process becomes repeatable and sustainable, it certainly will mature to a cost-effective activity that pays unexpected dividends.

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