

## **Reorganize Your Chart of Accounts and Provide Endless Efficiencies**

**Tina M. Frodyma, CPA**

Saint Xavier University

3700 West 103<sup>rd</sup> Street

Chicago, Illinois 60655

(773) 298-3912

[frodyma@sxu.edu](mailto:frodyma@sxu.edu)

## **Abstract**

A Chart of Accounts is a list of all the accounts in a general ledger, each one identified by a reference number. Its purpose is to organize the finances of the entity by segregating assets and liabilities, revenue, and expenditures, in order to give interested parties a better understanding of the financial health of the institution. A strong chart of accounts allows information to be analyzed systematically so as to better understand the organization's strengths and weaknesses develop efficiencies within business units and provide controls to eliminate deficiencies. The University had been functioning with a chart that was disorganized and ineffective for decades. Revenues and expenses were not aligned and a profit and loss statement by profit center was virtually impossible to produce as expenses for various items were posted to areas totally unrelated to those expenses. Revenues were recorded in yet another area and these revenues could not easily be matched up with their respective expenses so that things like profitability analysis were not possible. Reorganization of the chart was imperative to understand key areas of profit and loss and to allow easy yet meaningful reporting to the end user. The chart of accounts reorganization would further allow the University to begin to develop responsibility center management (RCM). In a typical RCM implementation, the responsibility for managing a schools expenses vis-à-vis the revenue generated based on the assets expended (expenditure budget) would allow the school or profit center the potential to negotiate with the central administration for more resources as they demonstrate how successful they can be managing their affairs. None of this was possible with the old chart of accounts. We are now in a position to analyze our expenses relative to our revenue and make decisions that support our Vision 2017 (strategic plan).

## **Introduction of the Organization**

Saint Xavier University, located in Chicago, Illinois and founded by the Sisters of Mercy in 1846, extends the teaching ministry of Jesus Christ to those seeking higher education. As an officially recognized ministry of the Catholic Church, the University grounds its core activities of teaching, learning, scholarship, and service in Catholic theological principles that affirm the goodness and value of all creation and posit a view of human persons as created in the image of God and thus free, rational, relational and endowed with inherent dignity. The Saint Xavier University, a Catholic institution inspired by the heritage of the Sisters of Mercy, educates men and women to search for truth, to think critically, to communicate effectively, and to serve wisely and compassionately in support of human dignity and the common good.

Saint Xavier University serves a population of nearly 4,400 undergraduate and graduate students; it is situated within the top 20 of most economically diverse institutions in the Midwest. Nearly 50% of our undergraduate students are federal PELL recipients. Nearly 60% of our population is still first generation college students. The undergraduate population reflects the demographic of the 21<sup>st</sup> Century: 50% report their race as white, 27% report their race or ethnicity as Hispanic, and 15% report their race or ethnicity as African American.

Our students enjoy a selection of 43 undergraduate programs and 25 graduate programs offered through the College of Arts and Sciences, School of Education, School of Nursing and the Graham School of Management. Additionally, our School for Continuing and Professional Studies features programs and services tailored to the unique needs and experiences of adult learners. The University also sponsors enrichment opportunities, including, international education, religion and public discourse, campus program development and several on-campus

clinics. Through these collective academic offerings, Saint Xavier University strives to provide its learning community with a solid foundation in liberal arts and professional education, establishing well-rounded members of society.

### **Statement (Restatement) of the Problem/Initiative**

The University's Chart of Accounts was in dire need of reorganization. Revenues and expenses were posted to the general ledger in such a disorganized fashion it made analyzing a financial statement an overwhelming task. Board members constantly asked for an analysis of the profitability of our schools. The Board even wanted to look at and analyze the profitability of programs within a school, if possible. A profit and loss statement was virtually impossible to produce by department as expenses were posted to areas that did not have fiscal responsibility for those expenses. Departments had been created to capture revenue from special events and separate departments existed to house expenses from various activities. Duplicate segments had been created, using the same description for a department and object code; allowing unlike expenses to be coded similarly. Nothing about the existing chart was practical and the end result was a massive chart confusing to all users. It was imperative the chart be reorganized to understand key areas of profit and loss and to allow ease of reporting for the end user.

## **Design**

All Chart of Account restructures should start with an understanding of the current structure and a vision of the desired end result. A time line of tasks and resources was created while recognizing that flexibility may be necessary as issues often arise during the implementation of a new practice. This particular implementation required the efforts of the Accounting staff, Information Technology, the Provost, the Deans and Vice Presidents, a consultant and a software utility to convert prior and current year accounts to the newly created accounts. The utility combined multiple accounts for any segment into a single account reducing the size of the overall chart. The cost of the utility was approximately \$15,000 and the consulting fees were an additional \$20,000. As referenced above, both the University's Information Technology and Accounting departments were heavily involved in the restructuring. We began by exporting the existing chart from our database using Excel. Each segment in the general ledger structure was assessed. The first step involved defining new segments, one at a time. We analyzed/assessed, then collapsed the old and cross walked to the new. A crosswalk shows where to put the data from one scheme (old chart of accounts) to another scheme (new chart of accounts). The crosswalk allowed us to refer back (and preserve historical information) if the need arose. The most familiar component of a general ledger string is Unit or Departments and Natural expense categories or Objects. Undertaking the reorganization of departments was the most painstaking task. There were hundreds of old departments that had not been used in years, so the decision was made to combine the departments with no activity into the appropriate active departments within the school. This analysis required weeks of research and discussion with our Deans and Vice Presidents to gain a clear understanding of which

departments could be combined since, over the years, multiple departments for similar purposes had been created. The object code problem was similar in that there were many object codes bearing the same name as a department. Analyzing history and researching the vendors was the basis for aligning our new expense categories. With these general ledger string components, the overall goal was to combine and crosswalk to the new. Once combined, the new description was captured with a definition and finally, a crosswalk was created. The next task was to develop a numbering scheme. Each software system an institution uses might predefine the breakdown of each segment and length. Our reporting software and general ledger security is driven by segments, which plays an important role in strategically assigning the numbering system. Given this information, we chose to group departments by schools as we did with overhead and administrative departments. This is generally dictated by an entity's organizational chart. Once the numbering scheme is defined, both old numbers and segment names are cross walked to the new numbers and segment names.

## **Implementation**

We were then ready to put our hard work to the task of testing the chart. The crosswalk was loaded into the test environment using the utility provided by the software designer. Before this could take place, the new definitions for the segments were entered into the general ledger set up using a step by step predefined process that is part of the utility package. Once all segments had been imported, which can take several hours, the testing phase began. The testing was comprised of employees from our accounting group and a handful of savvy end users. The accounting group was charged with running and creating reports ensuring bottom lines for previous reports matched dollar for dollar with the new reports. The accounting team was also responsible for testing the posting of journal entries, running daily processes and reviewing the end results. In the meantime, the information technology group was reviewing links to financial information available to end users via our Intranet ensuring the segments translated to all connections. The savvy end users tested the system on the front end to ensure that budget dollars and actual expenditures matched and they tested a few transactions in the test environment to ensure that the results were posted as expected. Any discrepancies were noted, researched and resolved. From start to finish, this project lasted five months.

Concurrently throughout the whole conversion, constant notification and news updates about the process were sent to the university community, so as to keep our customers up to speed on the progress of this massive undertaking. During the testing phase, which lasted three to four weeks, and in anticipation of our “go live” date, training sessions were offered to all end users. If areas could not attend the predetermined training sessions, the accounting team went out to

the various departments that could not attend the training sessions to ensure that everyone was familiar with the new chart of accounts. The crosswalk and definitions were posted on the Intranet along with definitions of use for the new segments. Once we were comfortable that we had properly cross walked our old accounts to our new accounts, that our processes worked and financial reports tied out, we were prepared to import to our live database. As a precaution we took the system down over a holiday weekend when we would have far fewer interactions with our customers. In the event we would need to restore, our live environment was copied prior to the implementation. During the upload process, we encountered some formatting issues which were easily resolved by the information technology department. We anticipated being offline for a full three days but were offline for just one evening. The reason for our success was the dedication on the front end to train and test to ensure that our “go live” was a success.

## **Benefits**

The benefits have truly been endless. The University's reports are all object based. Using traditional, natural expense categories, the numbering scheme follows numerical order and is simple to create and maintain. Grouping profit and loss statements for schools has allowed us to shed light on profitability. The Board of Directors, as well as management, for the first time ever, was able to see P & L statements by profit center. Accolades were given to the Vice President for Business and Finance and his staff for creating these reports. It was quite an eye opening event for all of management to see where the profits were and where we needed to make adjustments for less profitable areas. For example, through the P & L for student housing, we have been able to analyze our housing costs and determine that for years we were not pricing housing correctly. By creating a P & L for Auxiliary Services (including food service) we were able to renegotiate our food service contract which saved us over \$500k just for one venue of our food delivery. The accounting department was reorganized and recognized a savings of approximately \$50k. We have a more streamlined mechanism available to help us analyze and run reports for our Development (Advancement) Office. We continue to reap the benefits as we update our GL security with ease. Having the ability to create ad hoc reports on demand is far less agonizing than before. Our end users are able to understand object definitions making it painless to code invoices. We fully expect to be able to continue to analyze and present trend analysis that identifies problem areas related to maintaining a profit margin sufficient to support allocated overhead charges for non-revenue producing units. Having this

information available to us will ensure that proper budgeting (zero based) is available so that as we move toward fulfilling Vision 2017 (our strategic plan), we can identify areas (a school or a department within a school) where we want to invest more money into or to make the determination that an area (a major, for example) that is not as popular as it had been twenty years ago, can be reduced in size (reallocation of resources) or eliminated if demand dictates. Responsibility Center Management (RCM) can be used to reward successful schools or departments to aid in the growth of the school or department as we move forward.

## **Retrospect**

In retrospect, I believe our implementation was successful. Considering the enormous amounts of segments that were needing consolidation, we did have a few crosswalk errors that went undetected. These minor crosswalk issues were corrected and we moved on. We are still able to utilize our conversion utility to consolidate due to errors or elimination of programs, etc. We continue to provide ongoing training to end users and post updates to our chart on the intranet. I cannot emphasize enough about the importance of notice and communication and training opportunities to our customers, the end users.