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OLD RECORDS NEVER DIE—

THEY'RE JUST FILED AWAY

Here is a workable retirement
plan for those paper records.

by John N. Bell
Dayton

Records management is not a subject that stirs men's souls. It does not have the romantic flavor of "Selective Inventory Management," "Profitability Accounting" or "Electronic Data Processing." Yet firms that have a records management program are enthusiastic about it as a real cost-cutter.

The term *records management* is defined here as the organization for control, storage and timely destruction of all business records. This article presents an over-all view of the pertinent points which should be considered in designing a records management program and some suggested steps to carry it out.

Paper records have a regular life cycle—birth, working life, retirement and death. They are costly at every stage. Cost estimates of preparing a business letter range from \$1.50 to \$2.00—add to this the costs of handling and storage (up to \$300 per four-drawer file per year). Based on national averages, a Dayton client estimates that paper creation and storage costs them roughly \$7 million annually, a figure equal to about half their tax bill in 1959.

There are several well-recognized symptoms of a records management problem. Requisitions for more filing cabinets, requests for additional clerical personnel, poor filing efficiency and poor housekeep-

ing are a few. In effect, there are too many retired records that should be dead ones.

What Records to Keep

What records to keep in retirement is a function of what questions are going to *need answering* in the future. To assure an answer to every future question all records should be kept permanently. If we rule out this alternative as impractical, we can approach a practical solution by asking what types of questions have needed answering in the past; then we can modify these requirements by estimating future needs. I emphasize—*need answering*. The president's 1955 Christmas card list may or may not be a necessary record requirement. A record should be kept only with the idea that it will be important some time in the future.

Records retained should tell a complete story. For example, the complete history of a disbursement is described by the purchase request, purchase order, vendor's invoice, receiving report, voucher copy of the check and cancelled check. A similar analysis can be made in other functional areas such as payroll, personnel, and engineering. The objective is to group records by the function they serve and wherever possible to save only one copy of each. Also I think it is logical to keep all records in a particular functional category the same length of time. In the example above, all purchase requests, purchase orders, vendors' invoices, receiving reports, voucher copies of checks and cancelled checks pertaining to a particular period of time should be destroyed together.

Storage

Retained records that have only occasional reference value should be stored outside high-cost office working areas in a dry and evenly heated place. Disorganized records kept where they will deteriorate rapidly are of little value. Transfer files or specially made paperboard boxes are good containers for this purpose.

To the extent possible, files in storage should be subdivided so that related records (time cards, cancelled checks, etc.) may be kept together. Each drawer or carton should contain records that are to be disposed of at the same time. These should be cataloged to facilitate referencing if a particular record is needed—a 3 x 5 card file showing box number, contents and location is sufficient. A charge-out system is also recommended to insure that borrowed records are returned.

Labels on drawers describing the contents can be of different colors and keyed to destruction dates; when the housecleaning is done, it is a simple process to select all "green drawers" for destruction. These are small points but real timesavers.

Microfilming, from a record retention viewpoint, is a controversial subject. Miniaturization saves space but also costs money, roughly one to two cents per image. If records are to be stored less than ten years and a low cost storage area is available, microfilming is usually not justified. Indexing material so that it can be found easily on microfilm is often a tedious and costly job. Also, the legal status of microfilmed records versus original documents is not entirely clear cut. Microfilm has not always been held a legal substitute for originals.

Retention Schedules

Modern business practice generates many paper records which are of diminishing value as time passes. The purpose of retention schedules is to provide a systematic means of quickly purging records that are no longer useful. The retention time for a particular record is a function of the statutory requirements of various governmental agencies, applicable statutes of limitation and internal usefulness to the business.

Records which are under governmental regulation should be kept for at least the minimum time specified by applicable laws. Payroll records subject to the Federal Wage-Hour law are an example. However, records need not always be kept for a period corresponding to the statute of limitation affecting them. The calculated risk of destroying supporting records before the statutory limitation has expired is frequently warranted.

Consider this situation. A mill supply wholesaler finds that 75% of all records are supporting evidence for:

- 1—disbursements to vendors (purchase orders, vendors' invoices, cancelled checks, etc.).
- 2—sales to customers (customers' purchase orders, record copies of invoices, bills of lading and remittance advices).

In this business, if there is no inquiry about a particular disbursement or sales transaction within three months, chances are there will never be any. From an internal usefulness viewpoint, these records could be destroyed after the annual audit even though the statute of limitation on open contracts in Ohio, for example, is six years.

For contrast consider the problem of a job shop producing relatively

few high-cost industrial presses which will be in the field 20 years or more and which are sold under complicated financial agreements. This business would require that detail engineering, cost and legal records be kept over the useful lives of these presses.

In many cases, tax considerations are the limiting factor in disposing of records. Assuming the taxpayer has submitted returns which are substantially correct, the normal period of review by taxing authorities is about four years. In any event questionable items on returns will be recognized and necessary supporting records can be saved as long as any investigation is open.

Because of the many variables involved, there are no pat rules for establishing retention schedules; each instance should be considered individually. Canned retention schedules, as distributed by office equipment companies and firms specializing in records management, are often not applicable because they only reflect statutory requirements and statutes of limitations; or they are a survey of the actual practices of a sample group of companies. In the first case, the internal usefulness to a particular business is not considered. In the second, the actual retention periods suggested by the sample of companies may not be the best. I think these canned schedules are conservative. The times quoted are too long for many manufacturing applications.

"Birth Control"

The greatest cost savings result from the elimination of paper records. The costs of preparation, movement, storage and disposal are eliminated. Forms analysis and control is the largest potential cost saving area in a comprehensive records management program. This aspect of the program revolves around office systems and procedures. For our present purposes let's recognize this potential and pass on.

Getting Underway

A records management program should be established with the intention that it will operate continuously. From the beginning, one person should be responsible for the program and have the authority to carry it out. If this is done the client can handle much of the detail work and gain valuable experience during the formulation of the program.

The over-all problem should be attacked on two fronts: by eliminating useless paper already accumulated in files, and by establishing a system to prevent a similar accumulation in the future.

The best way I know to get the feel for a records management problem is to actually walk through the major records storage areas asking these questions:

- 1—Approximately how many cubic feet of records are maintained?
- 2—Do office working areas appear cluttered with files?
- 3—Are there semi-active record storage facilities?
- 4—What effect does the nature of the business have on record requirements?
- 5—Do a few kinds of records require most of the file space?

Typical answers to these questions are:

- 1—The company maintains roughly a 10-year supply of old records. This figure is based on two rules of thumb. Manufacturing businesses generate about one cubic foot of records per year per employee. About half of all records generated are retained. The rest are distributed outside the firm.
- 2—Office working areas usually have more than two years' records in "current" files.
- 3—Semi-active record storage consists of some dilapidated unlabeled boxes ". . . in the corner of the warehouse down by the river . . . the river overflowed last spring."
- 4—As previously noted, record requirements of particular businesses vary according to their estimated future need for historical information.
- 5—Generally speaking, relatively few functional categories account for the majority of all records in files. Disbursements and sales records, including correspondence, are prime candidates for initial analysis.

The next step after the initial walk-through analysis is to set retention times for those functional record categories which account for the majority of filing space. The principles outlined previously should provide a guide to accomplish this phase of the work.

The firm's legal counsel should review the proposed retention sched-

ule to assure conformity with statutory requirements and to challenge any calculated risks to be taken in areas where statutes of limitation apply.

Low activity records should be transferred to semi-active storage “. . . down in the warehouse . . .” but above the water line!

During the first stage of the program, it is frequently worthwhile to keep score of the amount of paper destroyed. Reductions of 25-40% in the volume of records maintained are not unusual. Management can understand this kind of result and it provides a potent argument for the continuation of the program.

Notice that we are working backwards in the life cycle, reducing the volume of retired records to a minimum; then attacking the working records area. In effect, we are looking for retired records in disguise. Some people have the impression that if a record is dated in the current year it is a working record. Yet on January 2 they are quite willing to throw, or more accurately, file away records dated in the previous December. The useful life of a record can vary in time from almost zero to infinity. Retention schedules should reflect this fact.

If a thorough job is done in the beginning stages of the program—retention schedules prepared, outdated records destroyed, current files purged of non-current material, low activity records moved to a low cost storage area—people become intimate with the paperwork system. They begin to notice weaknesses themselves and make good recommendations for change.

Then ultimately someone asks: Did we *ever* need all this paper? Nothing promotes change and “birth control” like a questioning attitude.



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Born in Cincinnati, Ohio, Mr. Bell has a B.S. degree in Mechanical Engineering from Youngstown University, an M.S. in Industrial Administration from Carnegie Institute of Technology, and a degree in Liberal Arts from the Krogerup Folk School, Copenhagen, Denmark. Mr. Bell joined Touche, Ross, Bailey & Smart in 1958 and is a member of the management services staff.

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New Educational Director for Touche, Ross, Bailey & Smart Is Announced

Our new Educational Director is Curtis Verschoor. He will administer the firm's training programs in accounting and auditing and will assist in developing training activities in tax and management services.

Born in Grand Rapids, Michigan Mr. Verschoor received his MBA from the School of Business Administration, University of Michigan, in 1951. He worked for Arthur Andersen & Co. during 1952-53 and served in the Army Audit Agency. Mr. Verschoor joined our Boston Office in 1955, later transferred to Detroit.

A holder of an Elijah Watt Sells Award, Curtis Verschoor has taught accounting classes at Wayne State University and the University of Michigan Extension Service.