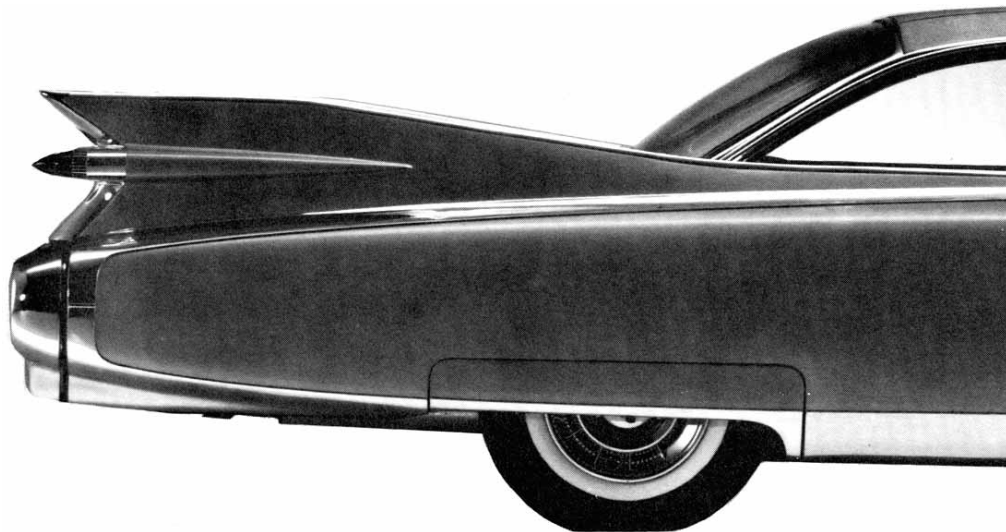


THE CADILLAC OF FILING SYSTEMS



**STRANDED
IN A
TRAFFIC
JAM OF
PAPERWORK?**

**LEARN HOW
TO BUILD
A LEAN,
MEAN
FILING
MACHINE.**

BY JUDITH MILLER

Working in an office without an efficient filing system is like working on a job site littered with random piles of lumber, half-open boxes of nails, and scattered heaps of tools. Even if you know more or less where everything is, searching through the mess wastes time and money, and the lack of organization increases the chances that something will be damaged or lost.

To diagnose the condition of your filing system, try this simple test: Find your 940 FUTA return from two years ago. If you have no employees and don't file a FUTA return, instead find the contract for the last job you completed that year. If you can put your hands on these documents in less than three minutes, your filing system is already in the luxury class. But if you can't, you need a filing system that's powerful and built to last — a "Cadillac" filing system. It takes time and money to set up, but it's worth it in the long run, whether you're just starting out or only need to fine-tune the system you already have.

Procedures

Papers don't file themselves, so everyone in your office who does any filing should handle the flow of paper the same way. Write down a step-by-step description of how you handle different kinds of paper, and

store your notes in a folder labeled "Office Procedures Manual." This file is a kind of owner's manual for the Cadillac — a complete system of office procedures that helps you maintain your system and gives you a map of how paper flows through your office. Don't let the scope of the project scare you. You can build your Cadillac over the next few months. If your tax year ends on December 31, start organizing, cleaning out, and preparing files now for next year.

A Place for Everything

Builders need quick access to several different types of information to keep their business running smoothly. File each type of information where the person who needs it most can get at it easily (see Figure 1, next page). In a small company with just you and a part-time bookkeeper, all materials relating to estimating and running jobs should be close to your desk, while accounting, payroll, and correspondence files should be near your bookkeeper's workspace. If you wear all the hats, consider setting up two separate desks, one for each kind of activity. At the very least, keep job-related files on one side of your desk and accounting and other files on the other side. Store historical files in the garage or attic.

Everything in Its Place

The three most important kinds of files in a builder's office are *job files*, *asset and liability files*, and *detail files*. Job files hold all information for jobs in progress. Asset and liability files are accounting files that hold the documents needed to support the numbers on your balance sheet and profit-and-loss statements. Detail files hold other accounting documents, like vendor invoices, needed to support the first two types of files. If you can't build the whole filing system at once, start with the job files and detail files because they're most important to the day-to-day operation of your business.

Job Files

A good job file provides cost records to control budgets and help with future estimates. If also documents all direct income and all expenses for your tax return.

For each job, create two sub-files: a field file and a cost file. Label both with the job name or number. The field file has two parts, a pocket folder (see "Office Equipment and Supplies") to hold the plans and specs and an expanding indexed folder (sometimes called an "accordion file") with 12 divisions, each with its own label and containing the following:

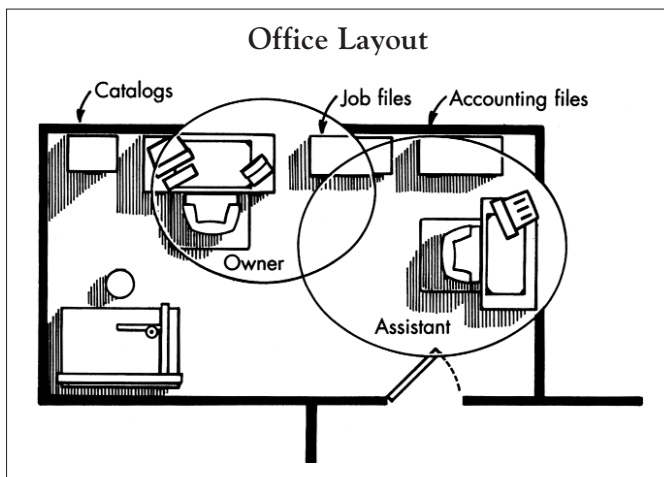


Figure 1. Locate filing cabinets and other storage equipment close to the desk of the person who will use them most. Use a simple sketch of your office with "bubbles" to outline work areas. The bubbles in this two-person office overlap at the job files, which are used frequently by both office workers.

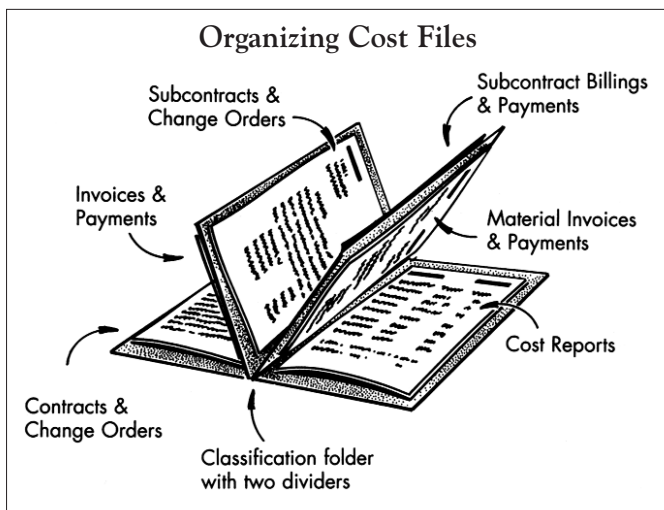


Figure 2. Segregate different kinds of information in a cost file for each job by using a classification folder with two dividers. Label the outside of the folder as well as both sides of each divider.

- contract
- permits and engineering reports
- estimates
- schedule
- contract change orders
- subcontracts
- subcontract change orders
- correspondence, memos, and notes
- foreman's job notes and daily job log
- safety folder
- material specifications and warranties
- punchlist and close-out checklist

Keep the cost file for each job in a pressboard classification folder with two dividers. Use the left and right sides of each section of the folder to organize payments, change orders, and other cost-related documents (see Figure 2).

Asset and Liability Files

Keep all paper related to assets and liabilities in a file drawer that's

organized in the same sequence as your chart of accounts.

Current assets. File current assets, like checking or savings accounts, first. Create a separate sub-file for each one, using a durable pressboard fastener folder. Put original bank statements on the folder's right-hand side and store notes and copies of the monthly reconciliation on the left.

Fixed assets. Store each fixed asset, such as vehicles or equipment, the same way. Keep original purchase documents on one side of the fastener folder and loan papers on the other. Track equipment depreciation on the asset side with copies of the Amortization and Depreciation Schedule (IRS form 4562) from each year's tax return, and document business vehicle use with copies of IRS form 2106.

Annual Audit file. Use another fastener folder for the annual audit file, which will help you and your tax preparer verify profit and loss for

the year. Use photocopies of the originals from the individual asset and liabilities files, keeping assets on the right and liabilities on the left. For example, a copy of the year-end statement from the bank showing the balance remaining from the purchase of a truck goes on the liabilities (left) side, and copies of monthly statements and payments from the fixed asset file for the truck go on the asset (right) side.

Detail Files

There are more detail files in this system than any other kind of file because they serve as a cross-reference for other files. Each detail file holds just one kind of information, which is also filed in at least one other location.

Income file. Use a fastener folder for the income file. Store a copy of each statement you send during the tax year on the right side. When you receive payment, mark the statement "Paid" and move it to the left side of the folder together with a copy of the check. By the end of the year, this folder should hold a complete record of every invoice billed as well as total job receipts.

Use a separate folder labeled "Miscellaneous Income" to hold copies of each check received for non-job income — for example, income from the sale of equipment.

Expense files. Invoices for materials, supplies, and overhead expenses make up the bulk of paper in a builder's office and should be kept in expense files. These files are critical because all of the paper they contain requires timely handling. Job expenses, for example, must be included in cost reports immediately so you can adjust your billing, and overhead expenses must be included in cash flow projections every month.

• **Vendor Files:** A large number of expense files are vendor files. Use separate manila folders to hold paid invoices and statements for each vendor with whom you do business regularly. Label one "Miscellaneous Vendors" and use it to file invoices and statements from vendors you use only occasionally. Because tracking expenses is so critical, you need to strictly control the flow of vendor invoices and statements through your office (see Figure 3).

• **Overhead expenses:** File overhead expenses by expense type, regardless of vendor. For example, invoices for accounting fees should be stored in a "Legal and Professional Services" folder, and one-time overhead expenses in a "Miscellaneous Overhead" folder.

• **Payroll files:** Payroll files hold all current calendar year payroll records and should be organized according to the conventions of quarterly tax reporting. Use separate

rate manila folders for each month to hold time cards, copies of payroll checks, and payroll summary records for every pay period during the month. Use a fastener folder to hold quarterly payroll reports, with state forms on the left and federal forms on the right. At the end of the year, put W-2s and state and federal transmittal forms into another separate folder.

Check file. A check file provides protection against errors, overdrafts, and theft, and should contain originals or copies of all checks written during the year. Most small builders object when I suggest that they purchase checks in duplicate, but the additional cost is more than recouped through increased efficiency. After sending the original to the payee, attach a copy to the invoice and file it. When the original returns, file it in numerical order in the check file with all other checks written that fiscal year. Store checks in a small, expanding folder with a closure flap or in a small check box with a lid.

Other Files

Several other types of information should be filed in separate categories.

Employee files. Store individual employee files alphabetically in separate folders. Include the original employment application and W-4, amended W-4s, changes of address, reprimands or cautions, and notices of raises. Many companies also include a paper signed by employees stating that they have read and understand the company's employment policy manual, which usually outlines pay schedules, benefits, vacation and sick leave policies, and the safety program.

Correspondence. A correspondence file should be organized chronologically and contain a copy of every letter or memorandum sent during the calendar year, regardless of its content, with a note on the cover page describing where to find the original. For example, a letter written on August 14 to Benson Plumbing regarding the Smith job would be filed in a minimum of two places: the original in the subcontract section of the Smith job field folder and a copy in the correspondence folder between letters written on August 13 and 15. If the letter mentioned an invoice or discussed payment terms, another copy should be placed in the subcontract section of the cost folder for the Smith job.

Subject files. Every builder has lots of magazines, catalogs, and seminar notices that must go somewhere. You can store magazines in cardboard boxes for a year. Clip or photocopy valuable articles and store them in separate subject files

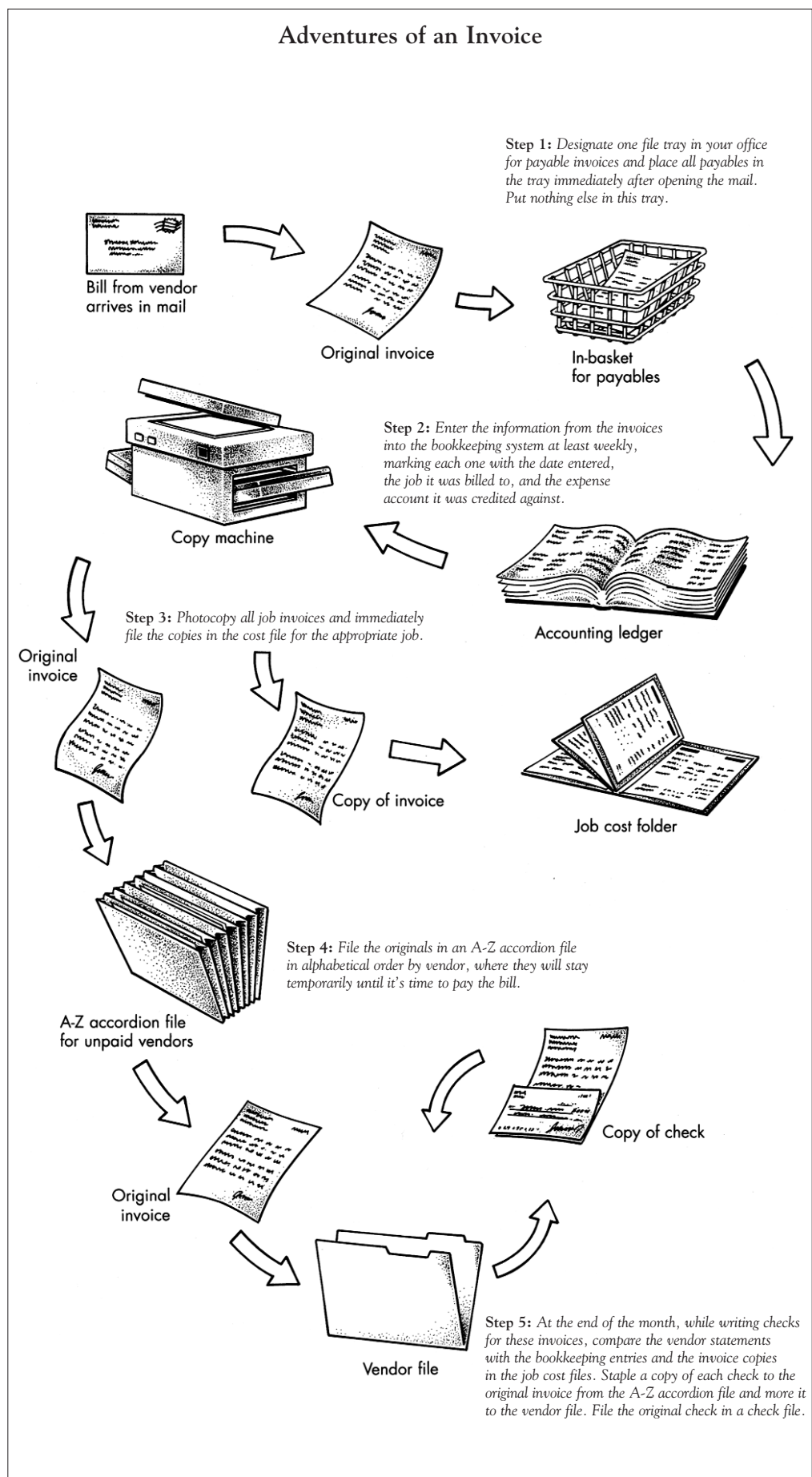


Figure 3. This flow chart traces the path that a vendor invoice follows in a well-organized office.

Office Equipment and Supplies

Controlling the flow of paper in your office is easier if you use materials made for the purpose.

Filing cabinets. The biggest expense in a filing system is the filing cabinets. Lateral filing cabinets cost more than vertical files, but they take up less aisle space and provide almost 30% more storage. Whichever type suits your budget and layout, be sure it has full-extension glides and can be locked.

Folders. The Cadillac works best if you use several different kinds of folders. Folders are cheaper when you buy in bulk, and you can probably beat the prices at your local stationery store by ordering from a mail-order office supply company, such as Quill Corporation (P.O. Box 94080, Palatine, IL 60094; 708/634-6650).

One measure of a folder's durability is its "weight," which is measured in "points." One point equals .001 inch of thickness. Medium weight (9 1/2-point) and heavy weight (11-point) manila folders are the least expensive folders you can buy. Folders made of 11-point *kraft* stock (which consists entirely of wood pulp) or 18-point *tag* stock are more durable and more expensive than manila. Folders made of a rigid, 20-point or 25-point material called *pressboard* have cloth-gusseted, expandable bottoms and hold up well to active handling. *Plastic* (polypropylene or polyethylene) folders are nearly indestructible and come in solid or translucent colors.

Folder types. In addition to the variety of materials used to make them, file folders come in many

different shapes and configurations. *Hanging folders* (see Figure A) are usually used to hold other types of folders. They have removable plastic index tabs and slide on metal clips on the sides of filing cabinet drawers or on special racks. *Plain file folders* (called "interior folders" when used with hanging folders) come with four common sizes of raised index tabs — *straight cut*, *1/2 cut*, *1/3 cut*, or *1/5 cut*. Choose a size that most closely matches the length of your labels.

Fastener folders have metal prongs attached to the inside of the front or back covers (sometimes both) to hold loose papers together. The fasteners can also be purchased separately. *Section or classification folders* have one or more interior dividers with both fasteners and index tabs. *Filing jackets* are plain folders with the sides fully joined to make a kind of pouch, and come with or without expanding bottoms. *Filing pockets* are heavy folders with the sides joined only in the lower half. The bottom is expandable and the front flap can be folded down for easier access to the contents.

Although plain *expanding files* are available, they are usually indexed in one of three ways: *alphabetical*, with 21 divisions (sometimes called an A-Z accordion file), *days*, with 31 divisions, and *months*, with 12 divisions. They are made with either an open top or with a cover flap and a velcro or elastic closure.

Labels. If you use the expanding indexed files and partitioned

classification folders I recommend, be sure to label both the outside and each section within. The main feature of each label should be a concise description of the file's contents. You can also include other information, like an account number or phone number, that you don't want to have to look up every time you use the file.

No copy machine? Cross referencing with photocopies is fast and easy. But if your business is small and you have the discipline to follow a strict routine, you can still drive the Cadillac without buying a copier or ordering your checks in triplicate. The key is a reference log that uses a standard form to duplicate the information contained in the original document.

For example, instead of putting a copy of a vendor invoice into the cost file for the job for which the purchases were made, simply list critical information from the original invoice on a standard form, (see Figure B). List invoices for different jobs on different forms. If one invoice has materials for more than one job, split the entry between two forms.

When you need a copy of a check — with a paid invoice, for example — substitute a tamped or handwritten note on the invoice giving the date and check number. The same is true for other documents: File the original in one location and, in all other locations that require a copy, file a form telling you where to find the original.

— J.M.

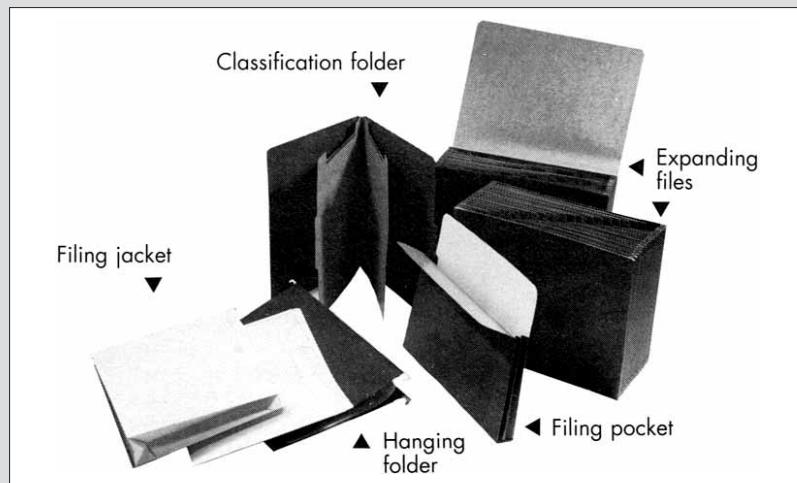


Figure A. To make the cadillac filing system run smoothly, it's best to use a variety of folders. Each type of folder organizes and holds its contents in a different way.

Vendor	Date	Inv.#	Amount	Job Name	Notes
M&M LUMBER	9-23-92	12398	234.65	SMITH	PORCH MAT'LS
ABC PLMBG	9-26-92	P130	674.87	SMITH	SINK, ETC.

Figure B. If you don't own a copier, use standardized forms to duplicate critical information for cross-referencing. The form shown here contains invoice information for the Smith job and would be filed in the job's cost file.

Adventures of an Invoice

Type of File	Retention Period (yrs.)
Accident reports/claims	7
Accounts payable/receivable	7
Audit reports	permanent
Bank statements/reconciliations	3
Chart of accounts	permanent
Canceled checks	7*
Contracts, mortgages, notes, leases (expired)	7
Correspondence:	
General	2
Legal	permanent
Depreciation schedules	permanent
Deposit slip duplicates	2
Employment applications (inactive employee)	7
Financial statements (year-end)	permanent
General ledger	permanent
Insurance policies (expired)	3
Insurance records	permanent
Invoices (to customers or from vendors)	7
Journals	permanent
Minutes of meetings, bylaws, charter	permanent
Payroll records and summaries	7
Personnel files (inactive employees)	7
Property records and appraisals	permanent
Purchase orders	7
Tax returns and worksheets	permanent
Tax withholding statements	7
Time cards	7
Training manuals	Permanent
Voucher (travel reimbursements, etc.)	7

* Permanently retain checks for expensive, important purchases

Figure 4. You should periodically remove files from your office and either store them as historical files in another location or dispose of them. Some records must be retained for several years or permanently. Consult an accountant to develop your own record retention schedule.

with labels like "Moisture Problems" or "Roof Venting." Review the oldest issue of a magazine before rotating it out of the file and replacing it with the latest issue.

Keep catalogs and material and equipment fliers within easy reach of where you do your estimating and organize them by cost category. For example, all information on locksets should be stored together in a folder labeled "Door Hardware." Toss outdated versions into the trash or recycling bin as soon as

you get new material.

Tickler file. You should also make a "tickler" file using an accordion file indexed with the days of the month. If you are unsure about the worth of a particular piece of paper, file it in the tickler file two weeks away, and reevaluate it then. If you haven't used it within six weeks, toss it.

Historical Files

Although the Cadillac filing system is designed around the calendar

and tax year, some information should be kept semiactive for several years. In fact, you should consult an accountant about legal requirements for keeping tax information and follow a "record retention schedule" (see Figure 4). But you shouldn't keep everything in your office forever. Take inactive files from prior years out of your filing cabinets and store them in cardboard boxes as historical files. Number each box and list the contents on the outside. Keep a combined list of the contents of all your historical files in a separate binder, and review it annually to determine which files can be destroyed and which must be kept for another year. When you finally clean out a file, dispose of its contents, but not the folders. They can be reused.

Upkeep

Building your Cadillac with teach you the worth of each piece of paper that crosses your desk, where to file it, how to cross-reference it, and where to find it. But you also need to pay attention to periodic maintenance. Be prepared to spend a few weeks getting into the habit of cross-referencing your information. At the very least, establish a good system for handling job records and review it weekly. Review your accounting files at least monthly. Be sure everyone who handles files understands the procedures and follows them. Simple things, like always returning files to their correct location after using them, can make or break the system. Nothing is more frustrating than searching for a file only to find it on someone else's desk or in the wrong filing cabinet. If you're consistent and give it the attention it deserves, your Cadillac will run smoothly for years to come. ■

Judith Miller consults with local builders in Oakland, Calif., about accounting, financial management, computerization, and office procedures. Her clients own trucks, but drive Cadillacs around the office.