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Abstract

The end of month financial closing process is a time consuming and challenging task for most organizations. Being able to minimize the amount of time invested during the end of month closing process, and instead have the accounting department dedicated to more value add activities, is a priority across all types of industries. The methodology of DMAIC (Define, Measure, Analyze, Improve and Control) was used to reduce the lead-time of the end of month process in a Pharmacy Benefit Management company. It was found that by standardizing the data gathering process and establishing a more robust procurement process, the lead-time was reduced by 25%.

Introduction

An opportunity was identified in the Finance Department of a Pharmacy Benefit Management company, located in San Juan, Puerto Rico. Even though, the company has existed over 10 years, there are still a lot of processes that lack standardization. As it occurs with most of organizations, the end of month, financial closing process was one of the processes that was highly inefficient.

Problem

The process was taking an average of 20 days to complete, since the data gathering process step until the presentation of the financial statements. The amount of time required to complete the end of month financial closing was considered unacceptable for the company's President and CEO.

Objectives

1 Reduce process lead-time by at least 15%

2 Reduce non-value add activities such as waiting time & rework

3 Standardize input reports to improve reconciliation of accounts process

Methodology

In order to achieve the established objectives, the DMAIC methodology was applied. DMAIC is a well-structured methodology that guides an improvement effort from definition until its conclusion. The methodology consists of five phases: Define, Measure, Analyze, Improve and Control. During the Define phase, the problem is outline, along with detailed customer requirements. The Measure phase, focuses on quantifying the current state performance. During the Analyze phase, root causes of variations and poor performance are identified. Next, the Improve phase focuses on eliminating or reducing the root causes identified during the Analyze phase. Finally, the Control phase establishes mechanisms to ensure the improved state is maintained through time.

Current State

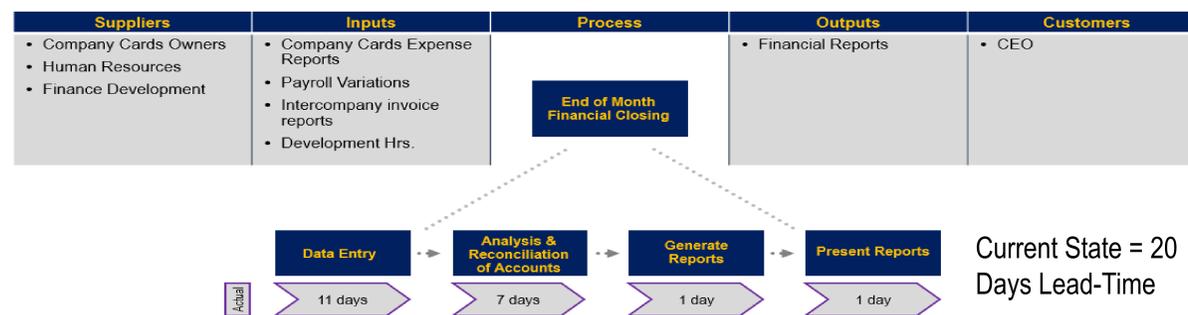


Figure 1
SIPOC Diagram

Areas of Opportunities

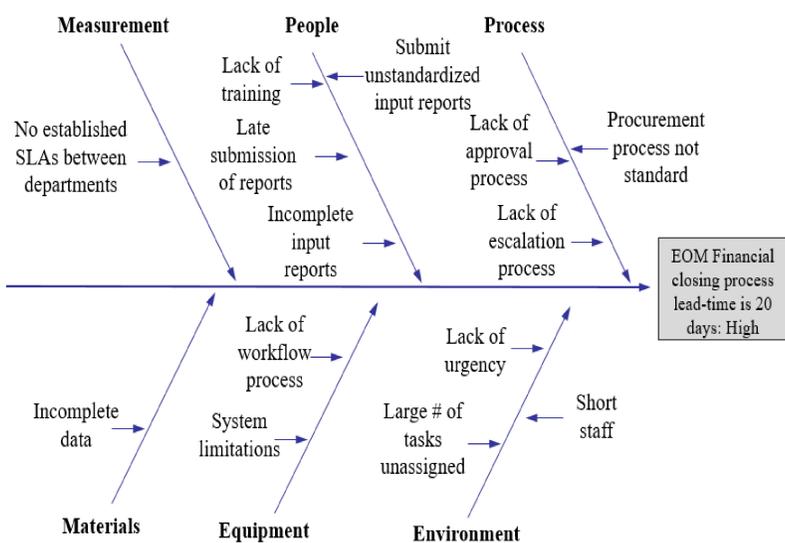


Figure 2
Cause & Effect Diagram

When analyzing the root causes identified in more detail, it was determined that the main drivers affecting the process were:

- Incomplete input report
- Late submission of reports
- Lack of standard of procurement process

Results

Due to all of the implemented improvement initiatives, a 25% of lead-time reduction was obtained, which translates in a 5 days reduction; from 20 days to 15 days.

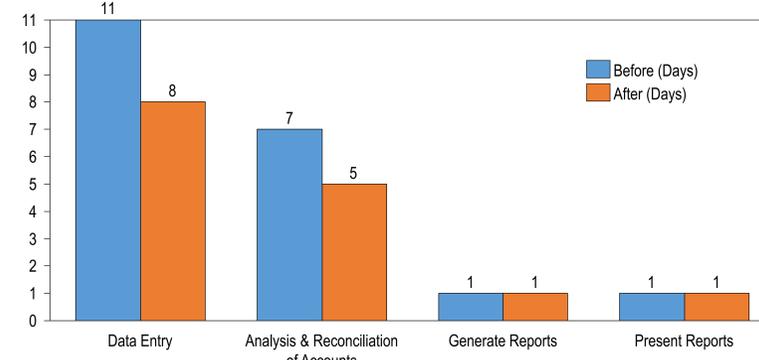


Figure 3
Before & After lead-time (days)

Conclusion

The aim of the project was to improve the end of month financial closing process by reducing process lead-time by at least 15%. Also, reduce non-value added activities, such as rework and waiting time, by applying Lean principles and standardizing input reports to improve reconciliation of account process. These objectives were successfully achieved. After the process improvement initiatives implementation, it was observed a 25% of lead-time reduction.

Given the limitations and short time available to complete the project, several recommendations were identified for future work. First, to create an automated tool for purchasing and approval activities. Also, it is highly recommended to continue monitoring the end of month financial closing process to ensure improvements are sustained over time. Finally, continue applying process improvement concepts and Lean principles to obtain further reduction to process lead-time.

Bibliography

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