

# Budget Data Review Analysis

[Apartment Community]

[Community Manager], Sponsor

10.14.2018

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## Introduction

[Apartment Community] Community (i.e. Property) Manager is one of eight community managers administering the [Property Management (Parent) Company] portfolio of properties. In early-October, 2018, [Property Management (Parent) Company] Director emailed his community managers about formulating their 2019 operating budgets.

The director acknowledged. This would be the first time community managers would be involved in the annual budgeting process. To ease individuals' participative concerns, if any, the director mandated a collaborative process - the [Property Management (Parent) Company] staff would support community managers, and community managers would support one another.

## Collaborative Budgeting

The director released a schedule with guidance to meet a December 31, 2018 deadline.

### Schedule<sup>1</sup>

- ❑ **Oct 3:** Templates to community managers. Managers start compiling data/information.
- ❑ **Oct 15:** Budget meeting at [Property Management (Parent) Company] home office to discuss/review budgets.
- ❑ **Oct 15 - Nov 1:** Community managers develop respective budgets.
- ❑ **Nov 1:** Community managers submit completed budgets.
- ❑ **Nov 1 - 15:** [Property Management (Parent) Company] staff review, confer with managers, make potential changes.
- ❑ **Nov 15 - Dec 1:** [Property Management (Parent) Company] staff reviews budgets internally.
- ❑ **Dec 1 - 15:** Final budget review by all parties (Manager, [Property Management (Parent) Company] staff)
- ❑ **Dec 15:** Budgets are approved.
- ❑ **Dec 16 - Dec 31:** Budgets adopted as guidance for 2019 operations. [Property Management (Parent) Company] submits respective operating budgets to community managers.

## Compiling Data

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<sup>1</sup> [Property Management (Parent) Company]'s Director. "FW: 2019 Budgets Kick off." Received by [Community Manager]; forwarded to Rehr Consulting, 12 Oct. 2018.



[Community Manager] has sponsored a community resident, Danny Rehr, MBA, who works under the name Rehr Consulting, to provide pro bono consultation and complimentary support. Together, they determined non-proprietary, unidentifiable, and non-revenue-related data to review, analyze, assess and determine suitable for the 2019 community budget development.

## Executive Summary

What follows are findings, an assessment and recommendations culminating from a review of [Apartment Community]'s accounts payable data that spans from April 9, 2018 through October 12, 2018 and across 29 [general ledger] accounts.

## Findings

### Basic Data

Expense records	<b>744</b>
Timespan of expenses	<b>April 9, 2018 - October 12, 2018</b>
Total expenditures	<b>\$</b>
# of accounts reviewed	<b>29</b>
Largest 3 expenses by account	1. 6175 <b>\$ total, or 24.36% of expenses</b> 2. 5200 <b>\$ total, or 12.23% of expenses</b> 3. 5375 <b>\$ total, or 10.90% of expenses</b>
Findings	<b>52</b>



## Notable Observations

Description	Additional Info
Potential Duplicate Payments	<ul style="list-style-type: none"><li>• \$ total (27 duplicate payments)</li></ul>
Unique (or appropriate) billing numbers not used (See list in <a href="#">Appendix 2</a> )	<ul style="list-style-type: none"><li>• \$ total, or 33% of expenses</li><li>• 121/744, or 16.3% of all payments made</li></ul>
Check number not recorded	<ul style="list-style-type: none"><li>• \$</li></ul>
Checks paid on Purchase Orders	<ul style="list-style-type: none"><li>• 3 checks, \$ total</li></ul>
Checks cut for \$0.00	<ul style="list-style-type: none"><li>• 6 checks; 5 matched to invoices</li></ul>
Check voided, then paid again 1 week later	<ul style="list-style-type: none"><li>• [Vendor], \$</li></ul>
2 Checks cut on same day for same invoice, 1 for \$0	
1 Check for \$0 cut for invoice already paid	
Vendor name field left blank for deposits (credits)	
Significant increase in bill from [Vendor] (Bldg A) with no reason given	<ul style="list-style-type: none"><li>• 4/20/18     \$</li><li>• 6/13/18     \$</li><li>• 8/22/18     \$</li></ul>
Clark Public Utilities uses same invoice number across monthly bills	
Vendor uses same account (not invoice) number across monthly bills	
[Vendor] average pricing has significantly increased over the past 6 months	<ul style="list-style-type: none"><li>• \$ increase or 20.44%</li></ul>



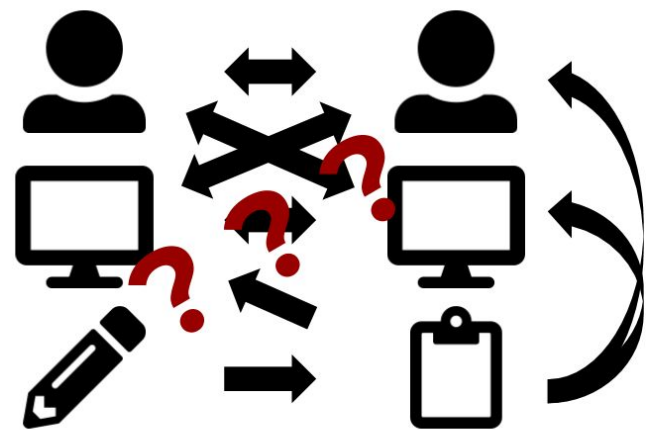
## Assessment

### Business System

A business system is an organization's framework and/or methodology(ies) for operating the business according to some strategy. There are many systems that make up the overarching business system. Accounting system, property management system, and property maintenance systems are just a few examples. Our mind's eye immediately points to technology; however, all systems are based on analogue techniques for achieving goals.

[Apartment Community]'s business system appears to operate with loose controls.

How does data move from person to person, vendor to property, property to vendor, system to system, etc. to preserve quality, meaning, and context? The resulting accounts payable data as reviewed by Rehr Consulting offers insights. Those insights may be the basis for recommendations for improvements.



### Potential Impacts of Unsatisfactory Business System Rules and Protocols

Financials should be auditable. Past spending should be easily aggregated and understood. There should be no reason for double-paying vendors. Nor should there be any reason to cut two checks to the same vendor, one being for \$0.00. Did the vendor provide supplies and service or not. If not, then no check should be cut. Furthermore, multiple checks for \$0.00 may become matters of suspicion and contrary to accurate and complete financial recording. Similarly, voided checks that are replaced later with legitimate checks may point to decision-making without proper guidance. Check numbers should be traceable.

Concerning, purchase orders by definition are not financial bills to the issuer. [Apartment Community] should not have the burden of maintaining financial controls for the vendors to whom they offer purchase orders. That's the vendor's job; and it's their job to issue an invoice once that purchase order has been fulfilled.



If the financials are confusing, then how can the community manager develop an accurate operational budget? It is inappropriate--surely unacceptable--for a vendor to supply the same invoice number across time. If it is not the vendor following this practice, then rules must be put in place to avoid the practice of recording the same invoice number for multiple payments across pay periods. Invoice numbers should be unique and used only once per bill.

[Recommendations](#) follow in the next section.

## Procurement

Negotiating is about coming to a wise, fair and mutually beneficial agreement on, in this case, pricing of supplies and services to [Apartment Community]. Preparations and awareness are critical. Interests must be served for both parties, so fairness is a subjective metric that should be black and white. Controlling costs is a necessity for all parties; however, when they appear to be significantly increasing, it would be an intelligent posture to have alternatives if not reasons to question (see case in point in [Appendix 13](#)).

### Costs As Ratios of the Overall Budget

Understanding the makeup of actual spend lends itself to better budgeting and negotiating practices. Pragmatically, the community manager can better articulate property risks, reasons for need and can defend proposals for unit rent price increases or decreases. For example, it appears as if [accounts 6175, 5200 and 5375] made up about 47.4% of the operational spend over the past 6 months at [Apartment Community] (see [Findings > Basic Data](#) table). This information is very important both for budgeting for these services in 2019, and potentially renegotiating vendor contracts or seeking alternative vendors. There may even be reason to take other action, for example, being in contact with [vendors]

### Potential Impacts of Lack of Preparation to Negotiate Costs

In the assessment of [Business Systems](#), there is a point to be made of associating with vendors who are managed well and operate accordingly. Their organization begets [Apartment Community]'s organized operation and recordkeeping.

Beyond the holistic supply chain, there is the one-to-one relationship with a vendor.

Without vigilance and consistently reviewing vendor pricing, pricing can slowly increase such that it would be hard to notice over time. Aggregate pricing (see [Costs As Ratios of the Overall Budget](#)) may be or become problematic, too. In all





fairness, scenarios such as these and more may be a result of the market. That's even more reason to stay prepared.

The question must be asked: is [Apartment Community] getting the best pricing it can?

Market fluctuations, personal challenges for small businesses, macro-level issues (e.g. a hurricane wipes out supply of raw materials), and many other variables happen every day.

There is only one way to know. Prepare to negotiate. Without preparing, [Apartment Community] opens itself to risks of which it may not even be aware ('unknown unknown').

[Recommendations](#) follow in the next section.

## Business Operations

It is Rehr Consulting's understanding that [Property Management (Parent) Company] is a small outfit, only about [#] people. That they are pushing down annual budgeting to their community managers--even in light of the fact that a number of them have never conducted such a task before--may suggest the need to delegate further operations.

Business operations are inherently strategic. As strategy must change due to dynamic markets, external influences, access to and supply of resources, etc., it is logical to state. Business operations change, too.

This is especially the case if community managers must take on more responsibility. Staff members will be impacted. Residents will be impacted. The work will reverberate through day-to-day tasks and activities. Efficiency will become critical.

That makes continuous improvement a must to remain competitive, profitable and adept enough to scale and grow.

## Potential Impacts of Growing Business Operations

Added responsibility could lead to several negative impacts and still some very positive outcomes.

### Negative Impacts

#### [Additional Stress On Community Managers](#)

Particularly in the instance that a community manager does not have the necessary or requisite experience to skillfully conduct expansive business operations, the stress of inability may plague the community. Inefficiency is not a state. It is a result.



### Increased Attrition and/or Employee Turnover

[Property Management (Parent) Company] must move forward. If a community manager proves unable to handle additional responsibility or exhibits inability to learn, then replacement is a reasonable solution. This would increase the burden of talent acquisition which would effectively and quantifiably negate much of the value of delegating responsibility to the property-level.

### Less Ability of [Property Management (Parent) Company] To Focus On Its Business, i.e. More Focus Required On Supporting the Properties.

Inexperience is not easily solvable without additional resources. Those resources are expensive - in dollars, in time, in effort, in emotional spend, in disposition (organization behavior), etc. Those with the experience must carry the burden for those who do not have experience. There are too many derivative issues to list thereafter; although, one is worth mentioning. The *Haves and Have Nots* in an organization create silos, cliques, communication breakdowns, jealousy, and many, many more problems.

### Positive Impacts

#### Career Skill-Building

Organic growth of responsibility is a constructive opportunity. Those who embrace and take advantage of new, broader responsibility--to learn, to support their team, to firmly establish their values through performance--will reveal themselves as up-and-coming leaders in the [Property Management (Parent) Company] organization.

#### Growth and Scale

[Property Management (Parent) Company] likely wants to grow its business. Streamlining operations, reducing costs, leveraging economies of scale, standardizing systems and on-boarding, setting clear expectations, and inducing a modular methodology of growth, i.e. taking on more properties without having to alter [Property Management (Parent) Company]'s core competencies, are ingredients for success.

#### Crowdsourcing Ideas

The aggregate experience and observations of community managers will serve [Property Management (Parent) Company] well in its efforts to fulfill its strategies. Offering additional business operations responsibilities to its eight community managers should channel new perspectives and creative solutions.



## Exhibit Leadership Through Human Resource and Operational Improvement

[Investment Company / Property Owner] needs to have faith that its property management partners are not only capable of sustaining its competitive posture, but improving it. A large metric for that--what would translate to [Property Management (Parent) Company]'s ability to succeed--would be entrusting additional properties under the [Property Management (Parent) Company] umbrella. Additional properties would mean larger profit opportunity if not [Property Management (Parent) Company]'s chance to fulfill its corporate mission, goals and vision. A sure way to attain that level of trust by the investors is to nurture its staff and improve its operations holistically.

[Recommendations](#) follow in the next section.



## Recommendations

1. Lessons learned meetings and reports should be derived from the 2019 annual budget development efforts of both [Property Management (Parent) Company]'s management and respective community managers to begin
  - a. Developing best practices.
  - b. Avoid mistakes in the future.
  - c. Consciousness of risk triggers.
2. Training should be provided to community managers to comprehend their business systems as they relate to [Property Management (Parent) Company]'s requests for information, and required articles of operations, e.g. annual budgets. (See also Recommendation #7)
3. Business systems rules and protocols should be reviewed to ensure they meet the ethical financial controls of an accounting system and the needs of
  - a. [Property Management (Parent) Company].
  - b. [Apartment Community]'s
    - i. Management.
    - ii. Departments and staff.
    - iii. Vendors.
    - iv. Stakeholders, e.g. current and future residents.
4. (A follow-on to #3), business system improvement opportunities may come in the form of ensuring
  - a. Data integrity.
  - b. Accounts payable and procurement recordkeeping practices and naming conventions.
  - c. Data entry protocols.
5. [Apartment Community] should devise cyclical reviews of vendor pricing over the course of each month to identify opportunities for negotiating leverage.
  - a. Setup a communication plan with existing and potential vendors.
  - b. Keep track of market risks.
  - c. Statistically observe vendors' pricing over time (see [Appendix 13](#)).
  - d. Highlight significant cost increases and/or unusually expensive supplies and services.



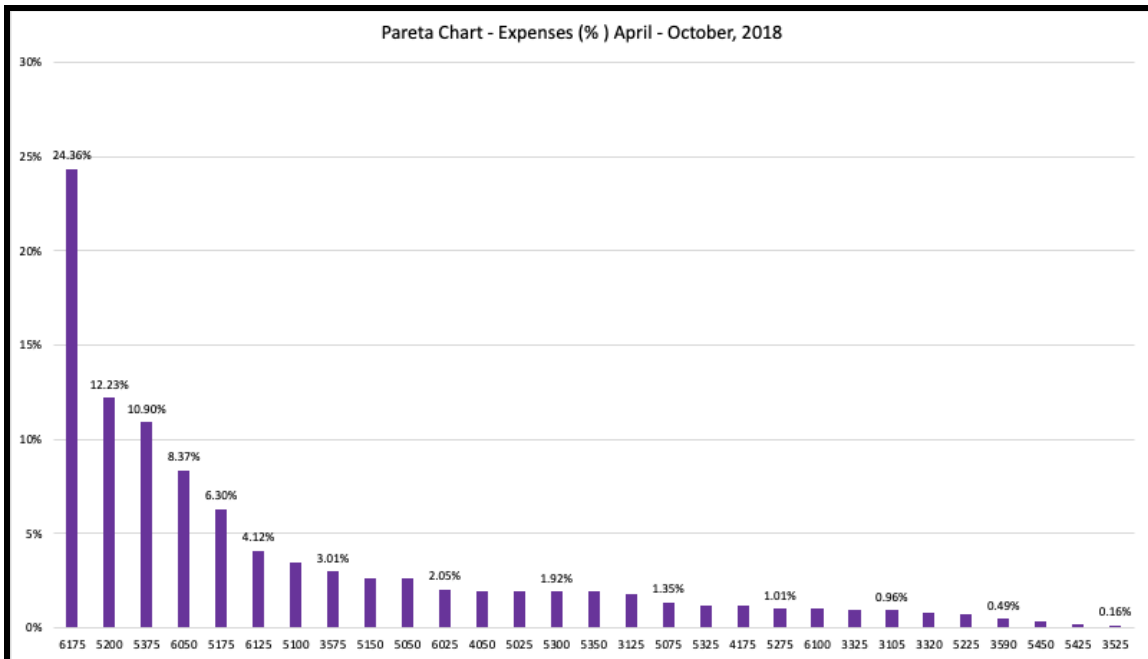
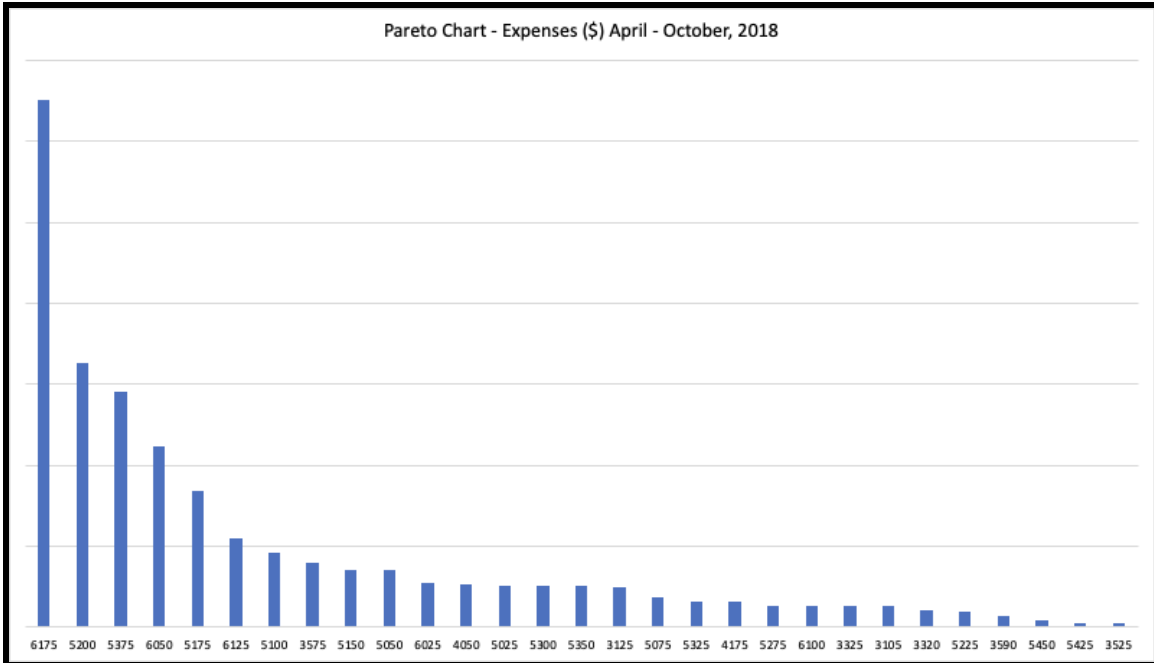
6. A dashboard should be created as well as month-over-month reporting to understand costs as ratios of the overall operational budget. (See also Recommendation #5)
7. [Property Management (Parent) Company] should provide holistic business operations training to its community managers so that they can become comfortable, capable, competent, efficient and excellent at property management beyond their current levels.
  - a. Continuous improvement programming.
    - i. Lessons learned programming.
    - ii. Risk management programming.
    - iii. Leadership development.
    - iv. Career advancement mentorship.
    - v. Career coaching.
    - vi. Life coaching.
  - b. Developing procedural documentation for repeatable processes.
    - i. Process development.
    - ii. Standard Operating Procedures (SOPs).
    - iii. Technical writing training.
  - c. Key metric development and reporting.
    - i. Excel for managers.
    - ii. Fundamentals of data analysis.
    - iii. Visual communication.
    - iv. Fundamentals of financial accounting.
    - v. Fundamentals of managerial accounting.
    - vi. Fundamentals of facilities management.



# Appendix 1: Largest 3 Expenses By Account

Largest 3 expenses by account

- 1. 6175  
\$ total, or 24.36% of expenses
- 2. 5200  
\$ total, or 12.23% of expenses
- 3. 5375  
\$ total, or 10.90% of expenses





## Appendix 2: Potentially Paid Twice

# of potential duplicate payments	<b>27</b>	
Total amount potentially duplicated	<b>\$TOTAL</b>	
Amounts by account	5300	\$
	6175	\$
	5075	\$
	4050	\$
	5050	\$
	5225	\$
	6050	\$
	6025	\$
	5325	\$
	5450	\$
	3325	\$

## Potential Reasons for Duplicate Payments

5300	<ul style="list-style-type: none"> <li>Same invoice number used across monthly billing.</li> </ul>
6175	<ul style="list-style-type: none"> <li>Same invoice number (account number) used across monthly billing.</li> </ul>
5075	<ul style="list-style-type: none"> <li>Same invoice number used across monthly billing.</li> <li>Earlier bill may not have been coded correctly.</li> </ul>
4050	<ul style="list-style-type: none"> <li>Either same invoice number was used across monthly billing, or a duplicate record was created in order to break out costs per month.</li> </ul>
5050	<ul style="list-style-type: none"> <li>Same invoice number used for different billing amounts.</li> </ul>
5225	<ul style="list-style-type: none"> <li>Vendor with two names paid twice. (See 5450)</li> <li>PO# apparently used as an invoice was paid; had exact same amount of invoice 6 months later, also paid. (See 5325)</li> </ul>
6050	<ul style="list-style-type: none"> <li>Same invoice number used across monthly billing.</li> <li>Account # used as invoice number then subsequent invoice paid, too.</li> <li>Use of the phrase 'closing bill' on apparently duplicate invoice/bill.</li> </ul>
6025	<ul style="list-style-type: none"> <li>Bill called 'BALANCE FORWARD' paid, then subsequent invoice paid, too.</li> </ul>
5325	<ul style="list-style-type: none"> <li>Same invoice number used across monthly billing.</li> <li>Purchase Order apparently used as an invoice to pay bill. (See 5225)</li> </ul>
5450	<ul style="list-style-type: none"> <li>Vendor with two names paid twice. (See 5225)</li> </ul>
3325	<ul style="list-style-type: none"> <li>No Invoice # used; different 'Memo' field entries.</li> </ul>







## Appendix 4: Check # Not Recorded

Acct	Date	Type	Check No.	Name	Memo	Amount
5325	9/12/18	Check	<input type="text"/>	[Vendor]	[Memo]	\$379.40

## Appendix 5: Checks Paid on Purchase Orders

Acct	Date	Check No.	Name	Memo	Amount
5175	4/20/18	4016	[Vendor]	PO #1	\$27
5325	4/20/18	4020	[Vendor]	PO #2	\$1
5325	4/20/18	4028	[Vendor]	PO #3	\$4



## Appendix 6: Checks Cut for \$0

Acct	Date	Check No.	Name	Memo	Amount
3105	5/9/18	4051	[Vendor]	INV # 1	\$0.00
3105	5/9/18	4051	[Vendor]	INV # 2	\$0.00
4050	6/26/18	4124	[Vendor]	INV # 3	\$0.00
5075	4/20/18	4013	[Vendor]	INV # 4	\$0.00
5075	4/20/18	4013	[Vendor]	INV # 5	\$0.00
5075	4/20/18	4013	[Vendor]	INV # 6	\$0.00
5150	5/14/18	4067	[Vendor]	VOID - INV # 7	\$0.00
5150	4/20/18	4025	[Vendor]	INV # 8	\$0.00
6100	5/10/18	4058	[Vendor]	INV # 9	\$0.00

## Appendix 7: Check Voided, Then Paid Again 1 Week Later

Acct	Date	Check No.	Name	Memo	Amount
5150	5/14/18	4067	[Vendor]	VOID - INV # 1001	\$0.00
5150	5/21/18	4071	[Vendor]	inv # 1001	\$1600.00



## Appendix 8: 2 Checks Cut on Same Day for Same Invoice, 1 for \$0

Acct	Date	Check No.	Name	Memo	Amount
5075	4/20/18	4034	[Vendor]	INV # A	\$92.08
5075	4/20/18	4013	[Vendor]	INV # A	\$0.00
5075	4/20/18	4034	[Vendor]	INV # B	\$117.21
5075	4/20/18	4013	[Vendor]	INV # B	\$0.00

## Appendix 9: 1 Check for \$0 Cut for Invoice Already Paid

Acct	Date	Check No.	Name	Memo	Amount
5250	4/17/18	4009	[Vendor]	Invoice # AA	\$1
5150	4/20/18	4025	[Vendor]	Invoice # AA	\$0.00



## Appendix 10: Vendor Name Field Left Blank for Deposits (Credits)

Acct	Date	Type	Name	Memo	Amount
6050	7/18/18	Deposit		Refund from	\$(6.04)
6050	8/8/18	Deposit		Refund from	\$(7.24)
6050	9/18/18	Deposit		Refund from	\$(5.55)
6050	9/18/18	Deposit		Refund from	\$(9.19)
6050	9/18/18	Deposit		Refund from	\$(6.10)
6100	9/18/18	Deposit		Refund from	\$(38.26)

## Appendix 11: Significant Increase In Bill From [Vendor] (Bldg A) With No Reason Given

Acct	Date	Check No.	Name	Memo	Amount
6175	4/20/18	4015	[Vendor]	[Memo]	\$1
6175	6/13/18	4096	[Vendor]	[Memo]	\$2
6175	8/22/18	4208	[Vendor]	BLDG A	\$5



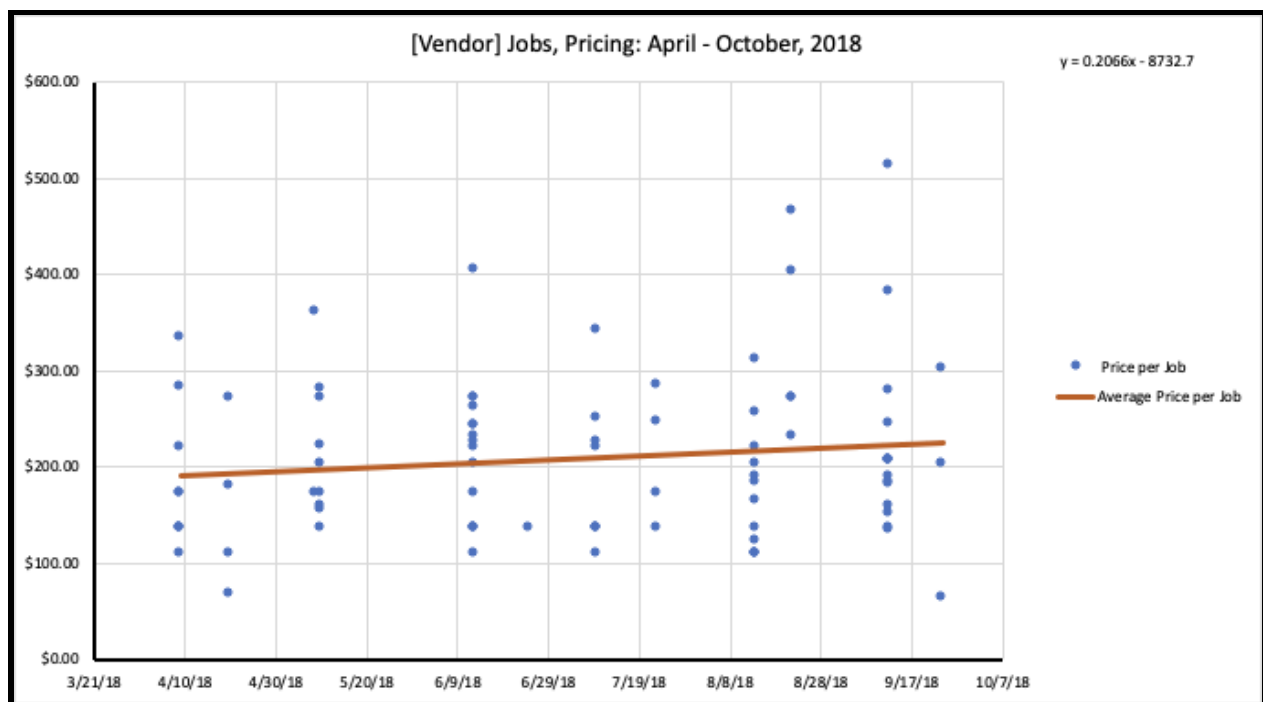
## Appendix 12: Vendor Uses Same Account (Not Invoice) Number Across Monthly Bills

Account	Date	Check No.	Name	Memo	Amount
6100	6/13/18	4105	Vendor	8888	\$60
6100	7/23/18	4158	Vendor	ACCT # 8888 - OFFICE	\$70
6100	8/22/18	4206	Vendor	ACCT # 8888 - OFFICE	\$80
6100	9/12/18	4240	Vendor	ACCT # 8888 - OFFICE	\$90
<hr/>					
6100	6/13/18	4105	Vendor	9999 - FITNESS	\$160
6100	9/12/18	4240	Vendor	ACCT #9999 - FITNESS	\$170
6100	7/23/18	4158	Vendor	ACCT # 1111 - FITNESS	\$180
6100	8/22/18	4206	Vendor	ACCT # 1111 - FITNESS	\$190



## Appendix 13: [Vendor] Average Pricing Has Significantly Increased Over the Past 6 months

Starting Average (April, 2018)	Ending Average (October, 2018)
\$188.00	\$226.43



**Trendline Equation:**  $y = 0.2066x - 8732.7$