

Recordkeeping for Small Business

by Glenn Sanders

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What is Recordkeeping?

Recordkeeping involves creating, organising, storing, archiving and discarding records of all the activities involved in managing and running a business - buying stationery, recruiting and paying staff, developing and ratifying policies of all sorts, correspondence with customers and suppliers, and so on. The management of this process is called records management. Archiving involves preserving historical records and is a specialist part of recordkeeping.

Why keep records?

There are two reasons why we keep records:

- Because we need them for business purposes
- Because someone else tells us to (eg the Taxation Laws)

What must we keep, and for how long?

Deciding what types of records to keep, and how long to keep them, is important, or you will be either swamped with paper, or throw out something you will need a short time later. Keep in mind two things here:

- You must store records for at least as long as legally required, but you do not have to store them immediately at hand. Very few records are needed at hand once they are 18-24 months old, and can be stored in archive boxes in a basement, storeroom or another building (in the private sector we usually call this archiving, whereas in the government sector we call it secondary storage).
- Sometimes you will want to keep records longer than the law requires. For example, student records are vital for school reunions, alumni activities and long term fundraising. Most schools keep them permanently, regardless of what the law might say.

But what is a record?

A record is created when you do any business-related activity. It can be on paper, as a letter, computer printout, your work diary and day notes, or a post-it note. It can be electronic - an email message, a phone conversation or a fax is just as much a record as a formal letter or memo. Those who can require you to produce records no longer differentiate between records by type of media, and funding authorities, the tax office, the courts and your own auditors may require access to records in any format - even your 'personal' work diary, or files on 'your' hard disk.

This is absolutely vital. We are, unfortunately, operating in an increasingly regulated and litigious environment. The law, and regulatory authorities, define record very broadly, including both electronic and paper records, and including work-related records that you may regard as personal.

Who does it, and when?

All this recordkeeping sounds like a lot of extra work, but it does not have to be. Legislators and regulators are coming to recognise that they should not impose onerous requirements, and that good recordkeeping follows as a byproduct of sound work practices. If you work the best way, you won't even notice you are doing good recordkeeping. For example, the best time to decide how long to keep a record is when you create or modify it. Then it takes only a few extra seconds per record, which is better than taking a few weeks every year or so to do a massive archiving and culling exercise when the filing cabinets overflow.

It also helps if everybody accepts their recordkeeping responsibilities. Only a few people need be involved in records management and archiving, but every employee, board member and office-bearer, volunteer or paid, management or staff, has an explicit legal obligation to keep clear and accurate records. However the main reason is that if you don't keep clear and accurate records, how can you possibly run your business properly?

Set up procedures and checklists, so that recordkeeping is tied to events, and the responsibility for it is given to specific people. For example, when a staff member leaves, their staff records should be properly closed off and archived (transferred to secondary storage). Add this to the exit procedure!

Good recordkeeping, done properly, is nothing more than good common sense.

Can we store records electronically?

At the time of writing (mid 2001) the short answer in Australia is almost. The Tax Office, and courts in the Federal and most state jurisdictions do not care how you store records, as long as you can produce them in a human-readable form, promptly, and with documented procedures and policies that give some assurance that there has been no opportunity to tamper with them. For example:

- You could keep all your letters, accounts and reports on your hard disc, and even scan in all incoming correspondence, invoices and receipts, but you would not be able to prove that no-one had later altered something using your word processor or an imaging program. You would be in a better position if all your files and images were stored immediately on CD ROM or some other storage medium which cannot be altered once recorded, but this is more complex and expensive.
- If you use a PC accounting system set up so that changes can only be made by putting through reversing transactions which can be seen in a full audit trail, you probably can keep all your accounts on line. But if, for example, you have set up your system so changes can be made by correcting the original transaction, then you will need another form of recordkeeping, probably on paper.

The legal situation is changing rapidly, and we are really waiting for the first test case, so if in doubt ask your solicitor or the local branch of the Records Management Association of Australia.

It is also your responsibility to keep electronic records available regardless of changes in format, media or software versions. The Tax Office will not be impressed as they watch you trying to convert a 1986 WordPerfect 4.1 file into the latest version of Word, especially when the 5 ¼ inch diskette won't fit in the 3 ½ inch slot in your PC.

For most small, low technology organisations, the cheapest, most practical storage is still paper.

What about Backup?

There are two important aspects of backing up your PC's:

- You must do it - both religiously and regularly
- It has little or nothing to do with records management or archiving

I think, therefore I am: hard discs spin, therefore they crash. You must back up your files. PC's are easily and often stolen. You must back up your files.

And you must must must keep some of your backups offsite: if they steal the PC they will probably take all the diskettes as well, and a fire certainly won't discriminate. You must have backup copies stored offsite, at least in another building. Take them home!

You should consult a computer specialist for specific advice on backing up your PC's, but a general protocol could include:

- A daily backup of all data files (meaning all your word processing files, spreadsheets and accounting data, but not the programs themselves) added or changed since yesterday. The discs are recycled weekly, so you always have five generations of additions and changes to your data.
- A weekly backup of all data files. This weekly backup is stored offsite and recycled monthly, so you always have four generations of all your data.
- A quarterly backup of all files (programs and data), stored offsite and re-cycled annually, so you always have four generations of all your files.

There are many possible variations on this, but the important thing with backup is that you do it. Please.

Why cannot backup discs serve as records and archives? As we mentioned for electronic storage, there are changes over time in data formats, media and software, and you cannot guarantee that you can still access electronic media into the future. Do you know anyone who still has a Beta videorecorder?

It is even worse for backup. Most backup programs store the data in a format that cannot be used directly by your programs - it must be restored first. Often, the backup format is proprietary, so the backup files cannot be restored by other backup programs. Even within one manufacturer there are conflicts, and backups created, for example, by older backup programs cannot always be restored by newer versions.

Backup is designed to restore your computer system in case of a crash or a disaster of some sort. It is not designed to meet your long term recordkeeping and archiving needs.

Putting things in boxes (archiving)

The main thing to remember here is that someone, you or your successors's successor, will have to be able to find things again, often many years later. There are some simple rules which will make this easier:

- Preserve the sequence! This means archive the records in the same sequence you have them in for everyday use. Don't just chuck things in a box in random order, please. If you use them alphabetically, box them alphabetically. If you use them numerically, box them numerically. Particularly for correspondence and minutes of meetings, the chronological sequence is important to the meaning, so preserve the sequence.
- Identify each box. Write Archives - do not throw out! in big letters on the outside. Preferably buy some specialised archives boxes, they are only a few dollars each.
- Give each box a unique number. Make a list of what is inside the box, write the box number on the list, and make two copies. One goes inside the box, the other goes in the master box list kept in the office. Preferably do all lists as spreadsheets, so they are in your offsite backup files.
- Be specific when listing contents - remember those who will later thank you when they are looking for records. Descriptions like "Misc. correspondence" are no help - try something like "Building lease - correspondence with landlord"..
- Try to keep box contents within logical time periods. It is much easier to look for "Invoices 1997" than to look for "Invoices 5 August 1996 - 18 March 1997". Likewise it is easier to find "Customer records A-M" than "Customer records Andrews - McBurnie". If this means some of the boxes are not full, so be it.
- Try and make sure that each box only contains records of the same type, or at least that all records in the box have the same destruction date. Then you can later destroy the whole box without having to look at each document inside it. If this means some of the boxes are not full, so be it.
- Write the box number and destruction date on the outside of the box, if necessary in several places: you must be able to see it when the box is stacked amongst others.

Further Reading

There are a lot of sources of further reading, in the business section of bookshops, and on the Internet. The tricky bit is finding something specific to the country or state in which you operate.

One place to start is the *Australian Standard AS 4390: Records Management* (Standards Australia), which is rather expensive, so go to your local or state library. It contains a good checklist you can use to see how you match against accepted best practice, particularly in your preparation and thinking about how to incorporate recordkeeping into your business culture (so you don't even notice you are doing it well).

There are lots of government publications, which have a somewhat more legalistic attitude to archiving, get very involved with thesauruses, and differentiate between archiving and secondary storage. The Web site of the State Records Authority of NSW is a good place to start (<http://www.records.nsw.gov.au>).

Records Retention Policy

It makes good sense to have a formal retention policy (sometimes known as a disposal policy or schedule, but retention is the more positive jargon). A written retention policy means you do not have to re-think everything when you have your cleanup (every two or three years because you have ignored our advice to do a little bit often, haven't you?), and could be considerably to your advantage if you do end up in court: it could be the difference between the court accepting with reluctance that a record has been legitimately destroyed, and you being held personally responsible for destruction of evidence.

A retention policy is quite simple. It is a list of record types, specifying for each type how long you keep it. It may also specify things like where you keep it, and how you dispose of it (you don't want to get in the paper because your old customer or staff records were found blowing in the breeze at the local tip). It is safest to specify that all records kept longer than one year are then destroyed by shredding, or by a commercial contractor. Many organisations have been embarrassed (or worse) by assuming that paper put in a garbage bin has been destroyed.

(It is not strictly recordkeeping, but be aware of the need to keep an eye on your unused stationery. Would you let anyone have access to the company chequebook? They can do nearly as much damage with a blank order form or sheet of letterhead paper)

You don't need to specify every type of record right from the start. A retention policy must be flexible, as needs change. You could start by listing the 20% of record types that take up 80% of your space, and add the rest later. You will need to have the original policy, and any later amendments, endorsed formally by your Board of Directors.

You can buy retention schedules (eg from most State Government Records Offices), but most are aimed at government organisations, and are too complex for our needs. In particular, if you follow the strict letter of the law, you end up with too many different retention periods. Some schedules use every number between one and thirty years. It is simpler and hence better to classify all records into, for example, five groups (you may have a different number), with identifying codes like this:

- c - current only, discard once no longer needed
- 3 - 3 years
- 7 - 7 years
- 12 - 12 years
- P - Permanent (in practice 20-30 years, the acid paper falls apart then anyway)

The following table is an example only, to show you the layout. Please do not use these examples as authority to destroy records in your situation. If you need more detail, see Further Reading. Keep in mind that there are differences from state to state, and country to country.

Record type	Retention	Notes
Accident records (public and staff)	P	Medical problems can show up many years later, and it can also be important to show that policies and procedures have been applied consistently. For Workers' Compensation, some records are required till age 70.
Anti Discrimination <ul style="list-style-type: none"> • Policy, procedures • Other records 	P 7	It can be important to show that policies and procedures have been applied consistently
Directors meeting minutes, agendas and papers This also applies to meetings of significant sub-committees, such as Finance committees and Building committees, even if they are not called subcommittees.	P	The Board of Directors is the ultimate legal body within the business - all its decisions are important. Courts and regulators no longer distinguish between the responsibilities of directors and senior staff.
Financial and Tax records	7	Many records can be discarded after they have been superseded by permanent records and have been audited, eg deposit slips and cheque butts can probably be discarded after 3 years as audited statements serve as a permanent record. Often the Tax Act specifies 5 years but the Companies Code says 7. Overall, it can be simpler to specify 7 years for all financial records.
Working drafts and successive developmental versions of reports, policies, committee papers etc <ul style="list-style-type: none"> • If the version shows significant changes in policy development • If the version changes are minor or editorial 	7 C	It can be legally or historically important to record the evolution in your thinking about an issue.