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CONTENTS

ACCOUNTING

What Controllers Need to Know about the New FASB Lease Accounting Standards

(Quick Code 051501)

Accounting for leases in the United States is regulated by the Financial Accounting Standards Board (FASB) through the Financial Accounting Standards No. 13, or FAS 13.

Currently, a revised set of lease accounting standards is being developed by FASB, which is expected to be finalized in the third quarter of 2015. The standards will have an effective date of January 1, 2018.

"Even with a 2018 release date, however, a two-year look-back period will be required for any comparable periods presented in a company's financial statements," says Sean Moynihan, Principal, a Tenant Advisor with Office Properties Group, Avison Young. "Most important, there will be no grandfathering of leases."

Keep These Factors In Mind

According to Moynihan, controllers should be aware of the following aspects of the new standards:

More leases will need to go on the balance sheet. "All leases with a maximum possible term greater than 12 months will be on the balance sheet in the new lease accounting standards," says Moynihan. "Those leases will be recorded on the company's books as a 'Lease Liability' and 'Right-of-Use Asset.'"

"The measurement of the lease liability will be the present value of the lease payments, including any renewal options with a Significant Economic Incentive (SEI) to renew the lease," he adds.

Moynihan explains that one of the key points of SEI is that what is a significant economic incentive to one company may be insignificant for another. "Briefly, what establishes an SEI are Discounts, Penalties, Tenant Improvement Values, and Strategic Value. If a company's SEI is not established and consistently applied across their portfolio, then a 10-year lease could be treated as a 20-year deal because of the renewal options and the lease may even be classified as a Type A," he notes.

Leases will be classified differently. "All leases will be classified as a 'Capital Lease' in the new standard," Moynihan points out. "Effectively, the revised standards will put an end to the 'Operating Lease.'"

"FASB will classify leases as a Type A (similar to the current definition of a Capital Lease) or a Type B (similar to the current definition of an Operating Lease and where 95 percent or more of real estate leases will fall)," he explains. Under IFRS (International Financial Reporting Standards) standards all leases will be Type A, there will be no Type B for the IFRS.

New data will need to be tracked. "The approach of using Excel spreadsheets to track real estate leases will be as archaic as listening to music on a Walkman

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cassette player," Moynihan suggests. "The current systems out there to quantify the financial impact of real estate leases do not track all of the data elements that will be required for the new standards."

"One FASB Comment Letter states that companies will need to 'employ robust lease administration systems to ensure the accuracy and consistency of the financial statements.' It will be critical that the financial information that will be required, moving forward, be kept in a fairly sophisticated database to provide all of the documentation that auditors will likely need to support the modifications to the balance sheet," says Moynihan.

"The system that we utilize at Avison Young from our Atlanta office to distinguish which is the better deal for our clients from a rate, cash flow, and balance sheet and income statement perspective is LeaseCalcs," he says. "LeaseCalcs is the leader on the lease accounting front. Their analyses and insight have been used and cited by the IASB and FASB in the course of establishing the new rules." ❑

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THREE CRITICAL STEPS FOR CONTROLLERS

Moynihan advises controllers facing the challenge of complying with the new FASB Lease Accounting Standards to do the following:

1. **Reexamine the terms of existing leases before the new standards take effect.** "There is a critical opportunity to strategically evaluate and renegotiate leases now," Moynihan stresses. "Starting with any lease negotiated this year, a company can run the risk of major unintended consequences to their financial statements if they do not structure their TI, term, and options correctly. Perform a strategic review of current leases in light of new standards and identify any potential opportunities."

2. **Understand how the changes will impact income statements.** "There are several ways in which the changes will impact a company's income statements. Primarily, if a lease is classified as a Type A it will benefit companies that are more concerned with their profitability during the latter stages of their lease term, and less concerned with the impact on their P&L during the first half of the lease term. The Type B lease is more focused on near-term profitability because it provides a straight-line rent expense that is very similar to the current Operating Lease methodology."

3. **Start planning now.** "I strongly advise financial officers to begin planning now so that they can make educated decisions for the future financial success of their company," he stresses. To get prepared, Moynihan advises controllers to take these additional steps:

- Determine how and where you will draw the line on subjective issues (SEI items).
- Establish internal controls to ensure consistency across the lease portfolio.
- Understand renewal, termination, and restoration obligations within your leases.
- Develop a proactive real estate strategy that incorporates a lease analysis on a pre- and post- accounting rule change basis to understand the full impact of a lease before it is signed.

There is an opportunity to benefit from being proactive—and there will be dire consequences for companies that are *not* prepared for the upcoming lease accounting changes," he says.

AUTOMATION & TECHNOLOGY

Getting the Best Results From Your V-Card and ACH Payment System

(Quick Code 051502)

In 2012, Wake Forest University (Winston-Salem, NC) implemented a new third-party, cloud-based system that enabled vendor payments through virtual cards (V-cards) and ACH. Within just four months of implementation, the University slashed its check-processing costs in half and gathered rebates totaling nearly $15,000.

Three years later, the university is still reaping tremendous benefits from the system, reports Kim Crewey, Assistant Controller. "When our new system was initially brought on board, there was a great deal of focus on generating revenue and reducing the actual cost of payment processing," she explains. However, the university has seen an additional benefit: the ability for AP to adjust to heavier workloads without increasing staff.

"In higher education, there is pressure to avoid increasing our administrative costs. Our volume in AP continues to increase exponentially and the payment environment is becoming more complex," says Crewey.

The AP department currently handles 75,000 invoices per year. There are six staff members in AP, with four people handling invoices and payroll reimbursements. The new system, PayNetExchange from Ellucian, which Crewey and her team call "PNE," has allowed financial services to keep up with increasing payment volumes without hiring additional AP staff.

Four Tips to Ensure Ongoing Success With Your New Payment System

"When setting up a new payment system, it's important to maintain a focus on generating revenue, reducing the cost of payment processing, and staying aligned with the organization's overall strategic objectives," says Crewey.

"You also need to look at supplier relationships, manage cash flow, and compare what you did when you first implemented the system to your ongoing results. As you move forward, ask whether what you are doing today will still makes sense tomorrow, or whether you need to make some adjustments to continue to get the results you and your organization need," advises Crewey.

Crewey recommends the following steps for controllers who are considering implementing an electronic payment solution, including V-card and ACH payments:

1. Sell the benefits to vendors. "Have a dedicated person in AP who reaches out to suppliers and sells the benefits of switching from receiving payments in paper check form to using your new payment system," says Crewey.

"Keep in mind that some suppliers do not want to deal with a third party—they want to deal directly with your organization. Having a dedicated team member will add another layer to your supplier relations. It will open up negotiations, allow you to examine payment terms and contracts, encourage a dialogue with your vendors, and enable them to build a relationship with your organization. It's important to have someone on the team who can be strong in supporting and marketing your payment system," stresses Crewey.

Through the university's system, vendors may be paid through V-cards that are set up to remit a certain total of invoice payments. They use a new card for each invoice or batch of invoices.

"Receiving payment this way is much more secure and many times faster than getting a check through postal mail," Crewey explains. "In addition, being paid immediately positively impacts vendors' cash flow."

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"It is also better for your organization, because it minimizes the cost of cutting checks, cuts down on stale dating, and eliminates the need to issue new checks in the event that a check is lost in the mail" she adds. The university saves approximately $2.92 per payment by not having to issue a check. The system also allows vendors to set up and monitor their own accounts. Once in the system, vendors can view their payment history at the click of button.

"When vendors have a question, they can quickly and easily find the answer without calling, hoping we're available, and waiting for AP to get back to them," Crewey points out. "This helps accounts payable staff to be more efficient because it significantly reduces the number of calls coming into AP from vendors trying to manage their payment histories."

2. Involve procurement. "In addition to taking steps to strengthen relationships with vendors, build stronger ties with your procurement services department," says Crewey. "When procurement and AP work seamlessly together, it help your organization get better results from the system."

"At the university, we are making a transformational change to create a cohesive, seamless procure-to-pay process. AP is encouraged to take advantage of every opportunity to establish partnering between AP and procurement. Procurement helps financial services build relationships with vendors and promote the PNE system as the preferred way to pay for goods and services. Having the system also helps procurement services take advantage of dynamic discounting and negotiate payment terms," says Crewey.

3. Assign a bank liaison. "Implementing and running a payment system like PNE, which pays vendors through ACH as well as V-cards, requires getting your bank on board," Crewey points out. "To ensure that everything goes smoothly with ACH payments, have a person on your team who is specifically dedicated to acting as a liaison with your bank."

4. Keep an eye on the big picture. "It is important to look at your payment system from the CFO's perspective," notes Crewey. "That means thinking of the system as a component of your organization's overall strategy to reduce costs, generate revenue, and improve cash flow management."

An electronic payment system frees up resources so that AP can spend less time on payment administration and more time supporting how the CFO and senior management want to do business.

At Wake Forest, that means cutting costs, generating more revenue through supplier rebates, and enabling additional funds to be allocated to providing scholarships and enhancing students' experience at the university. ❑

CORPORATE GOVERNANCE

The Controller's Role in Promoting Trust

(Quick Code 051503)

Trust is crucial for a company's financial success, and controllers are in an ideal position to be a "trust champion" at their organizations.

"The controller position has long been the hub for 'value stewardship,'" says Jeff Thomson, CMA, CAE, president and CEO, the Institute of Management Accountants (IMA). "The job involves safeguarding assets, processing transactions, producing investor and regulatory reports with accuracy and integrity, and protecting the rights of investors and other organizational stakeholders," he explains.

"As the key influencer for management, the board, and the stakeholders, the controller sets the 'tone at the top,'" Thomson continues. "The position is becoming more strategic and connected to operations and technology, which further accentuates the need for the controller to send a strong message regarding ethics, trust, and values."

Curt Verschoor, Ph.D., CMA, CPA, and chair of IMA's Committee on Ethics, stresses the role of ethics in accounting. "As the chief accounting officer, the controller has a leadership role in determining the organization's fair and honest application of accounting principles in public reporting, while also assuring that decision-support information is complete and unbiased."

Three Key Trust-Building Measures

Thomson and Verschoor offer the following advice on how controllers can become champions of trust and ethics at their organizations:

1. Develop a code of conduct, along with supporting policies. "Participate in developing a code of conduct that reflects the strong ethical values the organization believes in, and then make sure that every decision you are involved in applies those ethical values," says Verschoor.

"Strong and actionable ethics policies, codes of conduct, and whistleblower policies serve as organizational guideposts for appropriate business behavior, which is the foundation of trust," adds Thomson.

2. Set a correct tone throughout the organization. "In addition to setting the tone at the top, the controller must set the tone throughout the organization," stresses Thomson. "Studies have shown that internal personnel are responsible for about 80 percent of an organization's fraud losses. Further, about 90 percent of financial statement frauds involved the CEO and/or CFO."

"It's critical for controllers to get weigh-in before achieving buy-in from multiple and diverse stakeholders," says Thomson. "This means that you will need to have candid conversations, and plenty of them, with people at all levels of an organization in order to make trust, ethics, and values tangible, rather than intangible."

3. Build core values into the performance management process that promote trustworthy and ethical behavior. "When you build a set of core values into your organization's performance appraisal process, you make values and the ethics policy very real on a day-to-day basis, and you go well beyond an annual compliance or attestation exercise," says Thomson.

Trust Translates Into a Stronger Bottom Line

"The ethical values of trust, honesty, and fairness lead to a strong ethical culture in which managers and staff 'do the right thing' for customers, other employees, suppliers, and the community," says Verschoor.

"Trustworthy behavior leads to a positive reputation," he continues. "Credit rating agencies, bankers, and other finance professionals will recognize the superior financial outcomes from your ethical practices. In addition, your organization will attract superior employees, see lower turnover rates, and experience higher productivity."

"There have been studies performed indicating that people and service are among the few differentiators left to create and sustain success in a hyper-competitive business environment," adds Thomson. "At the core is a high-performing team that will not negotiate on ethics and core values. They are foundational to an organization's reputation, as well as its business and societal purpose."

Bring Ethics and Trust to the Table

"Over the last couple of decades, we've witnessed colossal scandals involving hundreds of executives, in which executive misbehavior arose primarily from bad judgment or lapse of integrity, leading to the manipulation of company resources and deception of stakeholders," Thomson points out.

"Finance and accounting professionals, given their roles in safeguarding assets and protecting investors and stakeholders, have a particular obligation to demonstrate ethical and trustworthy behavior at all times," he adds.

"It cannot be stressed enough: ethics and trust are foundational 'table stakes' for success," says Thomson. "They are not conditional on business outcomes, including financial performance." ❑

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FINANCIAL LEADERSHIP

How Controllers Can Help Managers Stay on Budget

(Quick Code 051505)

By Bob Sefton, Controller, Nomacorc

Many factors can cause actuals to differ from budgets, including lack of adherence to budget on the part of group managers. Controllers can play a significant role in helping managers to stay on budget.

It Starts at the Beginning

The process starts as the budget is being developed. The controller stands a better chance of achieving budget compliance if a leadership role is developed early on in the process.

1. Facilitate the process. Explain to group managers what the company's business goals are, how to express the goals in financial terms, and how to align group goals with the overall company objective.

2. Establish the guidelines and timeline each group is to follow. Help managers develop reasonable assumptions that each group manager can use in building his/her departmental budget.

3. Issue spending limits in relationship to revenue generation. Ensure that competing resources are balanced and equitable for the organization as a whole.

4. Pull the pieces together. Compile the budget data from all the constituents into one cohesive, well-organized plan that focuses on company objectives while allowing for flexibility. This requires a strong organizational strategy on the part of the controller as well as good communication skills to deliver the budget plan.

5. Establish a periodic measurement system. Create a timeline for conducting key performance measurements of actual results to budget for each month, quarter, or fiscal year. This measurement system can be designed for both the company as a whole and for individual operating groups.

Work Proactively With Group Managers

Once the budget and measurement system are established, follow up to make sure the results are being captured and measured accurately. Where variances are occurring? And why?

Rather than having variances result in a negative conversation, work with your managers to help them understand that the budget is not just a financial exercise but is rather a company strategy and roadmap with many critical implications.

Here are some suggestions on how to drive positive and collaborative behaviors throughout the year:

- **Listen for things that managers cannot control.** This includes changing economic conditions such as the price of oil or regulatory issues. Even if they are running at budget, the controller should ask if there are new circumstances developing that might impact future results.

- **Ask thought-provoking questions.** For example, if managers are getting unfavorable results, what corrective actions would help solve the problem? Can they offset unfavorable circumstances with some offsetting favorable circumstances? Are there any developing trends that are making it hard to meet goals? Are resources in balance to allow the achievement of budget goals?
- **Recheck the budget assumptions with managers.** Determine whether budget assumptions were correct to begin with. Sometimes, key budget assumptions can overlook something important.
- **Ask managers to identify factors that are driving cost activity.** For example, there may be too much inventory on hand that may be driving space rental or material handling costs upward. Look for cause-and-effect type issues.
- **Share with group managers how their budget performance may impact performance in other areas and ultimately the organization as a whole.** Help them understand the role they play and the concept of competition for limited resources within an organization.
- **Focus on understanding and respect for each group and the issues they face.** Do not place blame for budget deviation; instead, listen to the "voice of the process" and find solutions.
- **Discuss risks and opportunities to ensure understanding.** Look for areas for continuous improvement in spending practices to increase efficiencies.
- **Ask department managers for a rolling forecast for the next four weeks or months or to the end of the year.** This encourages managers to think about of how future periods may come to bear, helps them formulate new courses of action if needed, prevents surprises, and allows for corrective action before unfavorable results happen.

Become the Go-To Person

Partner with your group managers to help them succeed. Offer advanced measurement systems if needed to dive deeper into detail and show group managers how they may use certain data to their advantage. ❑

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REGULATORY COMPLIANCE

Handle Unclaimed Property Correctly and Avoid Potentially Huge Liabilities

(Quick Code 051504)

Unclaimed property is a source of concern and a potential liability for companies. "Many companies are being audited, and a number of states use third-party auditors who are paid on a contingency fee basis," says Karen L. Anderson, J.D., Vice President, Reporting Compliance at Keane Unclaimed Property.

"In addition, the costs of noncompliance can be exorbitant, and the audits can be long. Some companies' audits go on for six years or more," says Anderson. "Many states have significant penalties, and we've seen situations in which penalties are much higher than the total amount of the past due property. In the pending federal court case, *Temple Inland v. Cook et al*, it is noted that the holder acknowledged a single uncashed payroll check totaling $147.30, which was ultimately extrapolated to a liability of more than $2 million related to payroll and accounts payable items."

"Anybody responsible for unclaimed property has to be even more vigilant than in the past because not only are states conducting more audits—with third-party auditors who are paid on a contingency-fee basis—they are reinterpreting laws so they are more expansive in the definition of 'unclaimed property.' States are also requiring earlier reporting of some unclaimed properties," she adds.

Anderson advises controllers to take the following steps:

Stay on top of the changing laws pertaining to dormancy periods. "Each year, legislation is introduced to reduce dormancy periods, which emphasizes the point that anyone who has the responsibility for unclaimed property for their company must be more aware of trends and reinterpretations," Anderson says.

Know what constitutes unclaimed property. Unclaimed property includes unclaimed wages and accounts payable; credit balances, including refunds and rebates; accounts receivable; unredeemed vendor credits; uncashed dividend checks, interest and dividend payments; unredeemed rebates and unused gift cards; amounts distributable from some employee benefit plans; and distributions from IRAs, stock, and other securities.

"The types of property that are reportable to the states are continuing to expand, as evidenced by the extension of statutory coverage to health savings accounts and flexible spending arrangements," Anderson says.

Review accounts. "This time of year, businesses need to be reviewing accounts and files for outstanding items that might be due to states that have Fall reporting deadlines," Anderson stresses. "Review and remediate all items to make sure they are actually outstanding, and then do outreach to the property owners, such as the company's payees and customers."

"Many states require that property holders conduct outreach and mail due diligence letters 60 to 100 days before the states' reporting deadlines," she continues. "However, some require even greater advance due diligence, such as California, which requires property holders to send due diligence letters at least six months ahead of time of their notice reporting deadline. So now is the time for businesses to work through their Fall compliance efforts."

Take a close look at voided checks. "If your accounts payable department voids a check, make sure you know why it was voided and maintain a clear and thorough trail of the ultimate disposition of check payments that were issued and then voided," Anderson advises. "Keep good notes in ledgers and files about why checks were voided or 'stop payments' were put on checks."

"If you are audited, there is a strong likelihood you will have to report voided checks as unclaimed property even if they are not eligible for escheatment, and if you have no way to substantiate the disposition. Make sure your procedures are airtight when it comes to stops and voids and keep good records."

Maintain all appropriate records for the required period of time. "Companies must establish and maintain a precise method of retaining information pertaining to unclaimed property, including what was reported and what was not reported and why," says Anderson. "Many states require that a holder keep records back 10 or more years plus the dormancy period."

Pay special attention to mergers and acquisitions (M&As). "M&As can cause a lot of problems when it comes to unclaimed property. If your company acquires another company, it is critical to determine whether the acquired company has been compliant in terms of its unclaimed property process and procedures. Many times the acquisition deal provides for the acquiring company to accept the acquired company's liabilities. If it hasn't been compliant with state unclaimed property laws, you need to know this ahead of time and determine how to mitigate the liability and become compliant," says Anderson.

Have unclaimed property processes audited internally. "From an oversight perspective, ask that unclaimed property policy and procedures be reviewed regularly by internal audit staff to make sure they are being followed to the letter. That way, you can uncover any noncompliance so that you are assured that all unclaimed property is being captured and handled as required by state laws," she says.

Editor's Note: The Council on State Taxation (COST) has produced a scorecard, "The Best and Worst of State Unclaimed Property Laws," which compares state statutes governing unclaimed property and holders' rights and responsibilities. (Unclaimed property "holders" are U.S. businesses that are required by law to remit unclaimed property for safekeeping by the appropriate state until the property is claimed by its rightful owner.) The scorecard can downloaded at no cost at: http://www.cost.org/WorkArea/DownloadAsset.aspx?id=85349. ❑

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PAYROLL COMPLIANCE

Taxability of Prizes, Awards, and Back Pay

(Quick Code 051506)

By Raeann Hofkin, CPP

Employers must be careful when awarding benefits and gifts designed to motivate employees or demonstrate appreciation. The unexpected "benefit" your organization bestows may turn out to be tax nightmare for the employee.

What the IRS Says

According to the Internal Revenue Code (IRC) 74; IRC 3121 (a)(20), the value of any award or prize given by an employer is taxable to an employee as wages, included in the employee's Form W-2, Wage and Tax Statement, and is subject to federal income tax, Social Security income tax, and Medicare income tax.

Here are some examples of awards and prizes to employees that are taxable:

- Cash awards;
- Gift certificates with a monetary amount indicated on the certificate;
- Non-cash gifts of tickets for sporting or cultural events, electronics, T-shirts, and flowers (***Note:*** The value of these items is treated in the same way as cash for tax purposes);
- Length-of-service awards for fewer than five years of service or exceeding $400 in value;
- Retirement gifts if the employee received a length-of service-award within the previous five years;
- Bonuses given as awards for outstanding work or prizes such as vacation trips for meeting sales goals (***Note:*** If the prize or award is goods or services, the fair market value of the goods or services is treated as taxable income); and
- Back-pay awards (such as awards from a settlement or judgment for back pay), payments made for damages, unpaid life insurance premiums, and unpaid health insurance premiums.

Exceptions to the Rule

There are some notable exceptions to the tax rule. The following items are *not* taxable:

- Prizes and awards that are transferred to charitable organizations prior to the employee receiving the payment.

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- Educational achievement awards.
- Certificates for goods or services that have no monetary value associated with them, such as a certificate for a turkey at Thanksgiving.
- Safety achievement awards. (***Exception:*** If the award is given to white collar workers only, then it is taxable. In order for the award to be considered nontaxable, ten percent of an organization's employees must have received the safety award—not just management.)
- De minimis fringe benefits, awards, or prizes that are of nominal value and given only on an occasional basis so it is impractical to account for them.
- Length-of-service awards after a minimum of five years of service, not to exceed $400 in value. These awards are not to be cash or cash equivalent, and no other length-of-service award is given within the previous five years of service.
- A retirement gift if the employee did not receive a length-of-service award within the previous five years.

Advice for Controllers

When giving gifts, awards, or prizes to employees, it is highly recommended to explain the tax implications in advance and in writing. If grossing the gift up makes the gift too expensive, an even better idea would be to provide tax-free gifts such as a certificate for a turkey or the actual frozen turkey during the holidays.

This will eliminate any surprises later that may decrease—rather than increase—morale. In addition to the employee goodwill, the distributed food of nominal value to your employees at the holidays can be used as a deduction for de minimis gifts and is not subject to the 50 percent deduction limit that generally applies to meals. ❑

PRICING STRATEGY

Tips and Caveats for Discount Pricing

(Quick Code 051507)

By Regis Quirin, MBA

Discounts have their place, but more often than not, they are used incorrectly. Prior to offering a discount, controllers involved with establishing pricing strategy need to take the following steps:

Understand your business economics. If you have a 15 percent profit margin and for a period of time you are willing to give up a third of the margin to offer a discount, that may be a correct business decision. However, if you have a 15 percent margin, and for a period of time you give up an amount equal to 150 percent of the margin to offer a discount, that approach will hurt your business.

Establish the discount duration. Discounts should have a finite life. If they continue into perpetuity, you are just resetting price with the word "discount." A discount is simply a marketing tool—a program that is planned, fielded, and completed. At a certain point, once the program ends, it is important to calculate the return on marketing investment received to understand whether the expense was worthwhile.

Understand the client's needs. Some clients are driven by the word "discount." In this situation, you should find the price that allows you to achieve your required returns, and increase the price of the product/service by the discount you will be giving. Billing and applying the discount will result in the attainment of your profit requirements. This approach is quite common in all businesses.

Different Types of Discounts

There are three types of discounts that work, as they benefit each party in the transaction. These are:

1. Discount to try your product or service. For a service, this includes discount pricing while the service provider gains the required knowledge to provide the client with the maximum service possible. During the early days of a relationship, a client should not be asked to pay full price, while you learn their business. For products, a discount provides an incentive for consumers to try your product vs. staying with their usual selection.

2. Discounts provided to clients based on their purchase volume, i.e., relationship pricing. The philosophy behind this type of discount is as follows: "If I can count on you to purchase 10 units of my product or service, I will charge you full price. But as you purchase more, I can take advantage of economies of scales, which I can pass down to you."

3. Discounts provided for early payments. To incentivize early payment, it is common to offer a benefit (discount) to consumers. Receipt of your money sooner rather than later is worth the customary two-to-three percent in discount. But if your profit margins are already razor thin, simply raise the price by the discount amount. Billing and applying the discount will result in the attainment of your profit requirements.

Whichever type of discount is used, the greatest responsibility of the manufacturer/service provider is to communicate the discount terms and when they will expire. In fact, over-communicate these items. If you implement a discount to benefit the client but the discount goes away prior to when the customer was expecting it to go away, the relationship will be disrupted. The discount expense will be a waste.

Avoid Three Common Discounting Errors

Controllers also need to be aware of the following three common errors when offering discount pricing:

1. Offering a discount to customers to entice them to pay their late bills. The message you relay here is, "Do not pay on time and I will reduce your price."

2. Offering a discount to match the competitor's price. This approach assumes your economics are the same as those of your competitor. That assumption is often very wrong. For example the competitor may be giving up a piece of their margin, while you may be giving up your entire margin.

3. Offering a discount on one product or set and losing money, expecting to make it up in other products/services. In some situations, one product is heavily discounted while other products are premium priced. The goal is to lose money on a few items in order to entice the client to also buy others, while making a higher margin on those other products/services. However, this approach will always backfire when you work with clients who understand the market price.

They will understand where to focus their purchasing, for example, only on the lower-priced products.

The Bottom Line

A business will not thrive when it competes on price. Ensure that your value proposition is strong. Customers should seek out your company because the value you provide exceeds the cost of cost of doing business with you.

When considering discounts as part of pricing strategy, controllers would be wise to take the following steps:

- Always calculate the projected cost of the discount to the company prior to implementing.
- Consider a key performance indicator that measures discount usage and report on it.
- Ensure that discounted sales are booked separately from non-discounted sales, so discount usage is clearly quantifiable.

Editor's Note: Regis Quirin is a financial executive with 23 years of corporate experience. He currently works as Director of Finance at the law firm of Gibney, Anthony, and Flaherty, LLP. ❑

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HEALTH CARE COMPLIANCE

Cover Key ACA Bases and Avoid Tax Liability

(Quick Code 051508)

The typical business today is unprepared to comply with the provisions of the Affordable Care Act (ACA). The result of such a lack of preparation can be sky-high tax penalties. Controllers need to be aware of key requirements and help their organizations avoid risk.

"Most companies think they have ACA covered, but 80 percent of executives we polled say that they are not completely ready to implement it," says Jodi Bahl, Principal at Ernst & Young. "Major risk areas include workforce analytics—determining who is eligible for coverage—as well as IRS reporting, which will have to happen early in 2016."

It is important for controllers to recognize that ACA is a *business* issue, not just a benefits issue, Bahl adds. "Shareholders, boards, and audit committees are eager to understand the costs and tax liabilities and plan for mitigating their exposure."

"In addition, external auditors will want to make sure that companies' controls are appropriate to mitigate significant risks," she says.

Bahl advises controllers to make sure they know whether the employer mandate pertains to their companies. "Employers with fewer than 50 full-time equivalents (FTEs) are not subject to the employer mandate—however, employers with 50 or more FTEs are subject to the employer mandate," Bahl explains.

Understand the Potential Risk of Tax Penalties

The IRS may impose taxes under IRC §4980H(a), as in the following examples:

- **Tax for not offering coverage.** "A large employer member that does not offer coverage to its full-time employees and their dependents may face a tax of $2,000 multiplied by the total number of FTEs if at least one FTE is receiving a premium tax credit," Bahl explains.
- **Tax for unaffordable coverage under IRC §4980H(b).** "A large employer member that *does* offer coverage to its FTEs and their dependents—but the coverage is unaffordable to certain FTEs or does not provide minimum value—may face a tax of either the lesser of $3,000 multiplied by the number of FTEs receiving a premium assistance tax credit *or* $2,000 times the total number of FTEs," Bahl says.

According to Bahl, controllers need to know about the following additional taxes and fees under the ACA:

- **PCORI.** "Starting with plan years ending September

30, 2012, there is a per-capita fee that funds the Patient-Centered Research Outcome Institute (PCORI). The fee is $1 per covered life during fiscal year 2013 and $2 thereafter through 2019. This applies to both insured and employer self-insured plans," Bahl explains.

- **Transitional reinsurance.** "HHS estimates a per-capita contribution rate of $63 for benefit year 2014 and $44 for benefit year 2015. The program also will be in place in 2016 and will collect $25 billion for benefit years 2014 through 2016," says Bahl.
- **High-cost plans.** "Beginning in 2018, there will be a 40 percent excise tax on the value of health plan coverage that exceeds certain dollar thresholds under IRC §4980I," Bahl points out.

Be Aware of the Affordability General Rule

"The employee's share of the self-only premium for the employer's lowest-cost plan that provides minimum value cannot exceed 9.5 percent of household income, or the employee may be eligible for a premium tax credit to purchase Exchange coverage," Bahl explains.

Establish Systems and Processes to Prepare for Significant IRS Reporting Requirements

"The IRS has implemented onerous reporting requirements related to the ACA. Generally, the reporting is due to employees by February 1, 2016 and to the IRS by March 31, 2016. Employers need to have processes in place for IRS reporting, which means they need to assess where the data for IRS reporting is housed and determine how to aggregate the data," says Bahl.

"This means employers need to have ACA on every checklist of critical things they have to think about in all their business operations," Bahl stresses. "Controllers need to quantify soft and hard costs increases in order to budget for the process and systems changes needed to comply with the IRS reporting."

"The ACA is expected to expand health coverage to an estimated 25 million previously uninsured Americans by 2024. Depending on your workforce, expanded governmental coverage may be available for some employees," Bahl says.

"Companies also need to include the ACA in the due diligence process during mergers and acquisitions," she points out. "They need to have a clear picture of how M&A activity will affect worker eligibility."

Editor's Note: Jodi Bahl recently delivered an IOFM Controllers Exchange webinar on the Affordable Care Act. ❑

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COST CONTROL

Tips for Trimming Supply Costs

(Quick Code 051509)

As part of any strategy to cut costs, controllers need to look closely at the area of supply chain management. To uncover effective ways to slash costs, *Controller's Report* interviewed Keith D. Dabbs, MBA, CMRP, APM, and Senior Manager of Procurement and Sourcing at Riverside Health System, a healthcare company that has earned awards for supply chain management excellence.

Dabbs suggests that controllers take the following steps:

Make AP automation a priority. "First, look at your AP function. If you are still writing checks for invoice payment, consider implementing a system for paying vendors electronically," Dabbs advises. "Utilizing electronic funds transfer (EFT) to ensure more rapid turnaround for invoice payments can give your contracting team a better negotiating edge. If you are making expeditious payments to your vendors, you can to use that edge to negotiate for discounts in your contract terms. Vendors will look favorably at your business if they know they will be paid on a timely basis. This forges positive relationships with vendors and enhances their willingness to support your company. In addition, most financial institutions provide incentives such as cash back or better rates for organizations that use EFT."

"If your company currently utilizes a software system that links purchasing to finance, there are products that can automate invoice payments," adds Dabbs. "Also, when evaluating technology to automate your invoice payment process, look at those vendors who offer OCR (optical character recognition) technology—the electronic conversion of printed text into machine-coded text. This process allows you to scan a paper invoice with the software and have it electronically match to your PO pricing and complete payment without human intervention," he explains.

Perform supply-cost audits. "These audits can be accomplished a couple of different ways, depending on the size and breadth of your company," Dabbs points out. "For example, controllers can work with their purchasing departments and review samples of purchase order pricing versus the pricing shown on invoices and compare this to the prices in your vendor catalog or item master. Larger companies may hire third-party auditing firms for this purpose."

Request updated pricing lists and comprehensive reporting from your vendors. "On a periodic basis, ask vendors to provide you with updated price lists and catalogues as well as statement of account reports that illustrate prices your company has paid. It's important to ensure you are always being charged accurately as well as to stay on top of changing prices so you can renegotiate contacts if prices get out of control," says Dabbs.

"Controllers may request this information semiannually or even annually, depending on the spend amounts with each vendor, or at least request the information for each new contract term," he continues. "This allows you to see the most current pricing so you can compare to invoices and purchases orders. Chances are, if you haven't seen your vendor's latest pricing you may be missing lower pricing that was negotiated previously."

"Many times vendors are only performing the sales but someone else at their companies is maintaining the accounts," Dabbs notes. "Therefore, the purchasing company may experience lag times between an agreement and when the pricing actually goes into effect. When a vendor sees that finance, accounts payable, and purchasing departments are working in concert, the purchaser is more likely to get better pricing and service from them," says Dabbs.

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Form alliances with those who are in the same industry, whether local, regional, or national. "There is strength in numbers," says Dabbs. "At the end of the day it is always good to know what others are doing within your industry in terms of vendor relations and pricing."

"It *is* possible to maintain a dialogue with those who are in the same line of business without sharing top-secret information," he adds. "When a vendor knows or suspects that clients, or potential clients, are talking to one another, it provides a different perspective on how willing they are to give you a better price, or a better deal. Also, companies that purchase the same types of supplies might be able to form alliances that allow them to share purchases, thus achieving volume discounts."

Editor's Note: Riverside Health System has received 2014 and 2015 Supply Chain Excellence and Innovation awards from Premier, Inc., a healthcare improvement company with an alliance of 3,400 members dedicated to achieving higher-quality, safer, and more cost-effective care. ❑

THE CONTROLLER'S CALENDAR

Order to Cash (OTC) Summit, June 17-19, Fairmont Chicago Millenium Park, Chicago. For more information, go to www.iofm.com/order-to-cash.

IOFM's *Controller's Conference & Expo,* September 9-11, The Westin O'Hare, Chicago, IL. For more information go to www.iofm.com/controllers-conference

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AVOIDING CREDIT CARD FEES

Credit card processing fees can be one of the banes of a controller's existence. Now new research indicates how business-to-business (B2B) organizations can reduce these increasingly burdensome costs. According to *Credit Card Payments a Growing Burden on Business-to-Business Organizations*, a Research Insight from REL Consulting, a division of The Hackett Group, Inc., companies can significantly improve their profit margins by changing acceptance policies.

REL's research estimates that B2B companies in the United States incur an average of $2.2 million in credit card processing fees per billion dollars of revenue. Credit card usage for B2B payment increased dramatically over the past few years, and represented about 10 percent of all payments in 2014.

"It's not hard to understand why B2B customers have doubled their use of credit cards over the past few years, even for five- and six-figure payments," says Veronica Wills, REL Customer-to-Cash Practice Leader. "It's an easy way to extend time to payment, and transaction processing cost to the purchaser is low. In addition, companies can often accrue rebates and rewards. But Visa, MasterCard, and other credit card companies have tripled their U.S. swipe fees in the past decade and they are now the highest in the world. As a result, the spiraling cost of allowing credit card payments can easily cut into bottom-line profitability."

Wills notes that many B2B companies have been slow to respond to the problem, in part, because they are afraid of losing customers and don't want to give their competitors an edge. "Accounts receivable staff can also be indifferent," she adds, "because to them, a payment is a payment . . . and sales staff are often unsupportive, because their compensation is generally tied to simple revenue."

Here are some steps REL advises companies to take to reduce credit card costs:

1. Review credit card acceptance policies. "Any company that is not actively reviewing how and when it accepts credit cards is willingly squandering away margin," Wills cautions.

2. Change acceptance policies. REL estimates that 60 percent to 85 percent of credit card fees could be eliminated if companies made changes to credit card acceptance policies that were keyed to their business model, customer base, customer risk, and competitive landscape.

3. Evaluate forms of payment accepted. REL encourages companies to carefully evaluate what forms of payment they accept from clients, and consider both incentives and disincentives to encourage customers to use other electronic payment methods that benefit both the payer and the payee. Such an analysis should include an evaluation of the impact of payment methods on cash flow, cost, risk, and service.

4. Consider multiple strategies to reduce the use of credit cards by customers. Through a strategic analysis of their customer bases, companies can develop stratified payment method acceptance plans that take into account payment terms optimization, migration to other forms of payment, and modeling to evaluate concessions such as discounts in lieu of payment by credit card.

When evaluating cost, companies should consider that electronic payment methods are much less expensive, labor-intensive, and error-prone than checks, which are still the most popular form of payment for B2B companies. However, some electronic payment methods such as EFT and ACH are preferable to the seller, as they offer lower processing costs than credit card acceptance, faster turnaround times than checks, and are less labor intensive to process.

5. Communicate changes to employees and customers. "Companies are understandably cautious when making changes like the ones we're proposing," acknowledges REL Associate Rob Crowder. "They need help understanding how and when they can apply new regulations to their credit card policies, because there's a lot of room for interpretation, and not a lot of guidance out there for B2B companies. There's also concern that policy changes may spark customer discontent. But we are not aware of any B2B company in our database ever reporting a loss of business due to a strict credit card acceptance policy."

"Still, communication is a critical element of success here," Crowder emphasizes. "Internal staff need to understand policy changes and why they're being made and how to answer questions. Customers need to be told what's happening and how they can potentially

NEWS BRIEFS

benefit by changing their payment procedures. There's potential for a win/win. But it takes careful analysis, thoughtful planning, and real cooperation."

B2B companies can also reduce credit card costs by adopting the following strategies:

- Renegotiating credit card fees
- Considering alternative payment processors
- Surcharging credit card transactions
- Establishing convenience charges
- Implementing multi-tier pricing
- Eliminating settlement of receivables by credit card where credit terms are offered (ensuring total mitigation of credit card fees and other processing costs)

Editor's Note: A free download of this Research Insight is available with registration here: www.thehackettgroup.com/research/2014/creditcard/.

TIPS FOR FRAUD INVESTIGATIONS

Despite a controller's best attempts to prevent fraud, incidents can still take place, according to H. David Kotz, Managing Director, Berkeley Research Group, LLC (Washington, D.C.), who has investigated several high-profile fraud cases.

"Once a fraud incident occurs, controllers and other company officials should take immediate steps to ensure that a thorough and comprehensive investigation will be conducted," Kotz advises. He recommends the following steps:

- **Consider hiring an independent investigator.** "Independence and credibility are the two most important elements in fraud investigations. In high-profile cases, companies should look outside the firm for an independent third party with no previous ties to the company to conduct the investigation," Kotz says.
- **Look at the "big picture."** "Once the investigation begins, before taking any first steps, it is useful for the investigator to look at the 'big picture' of the investigation and consider what information or evidence is needed to unravel the allegations," he says. "One should consider all possible sources of information and determine what would be the most effective way to obtain the evidence needed."
- **Examine all key sources of information.** "The two primary ways of obtaining information in an investigation are through reviewing documents and conducting interviews of witnesses," he adds. "One should also never assume that electronic documents such as e-mails are not available in an investigation. E-mails can be recovered, even if they have been deleted," Kotz points out. "It is also critical, prior to conducting interviews, to think about the appropriate strategy or tactic for the particular interview. For example, one should also speak to coworkers of the subject of the investigation to learn about the individual's tendencies and personality."
- **Create a thoroughly documented report.** "The investigative report is a very significant part of the investigation. While sometimes companies wish to have an oral, rather than written, briefing of the findings, in most instances the findings are documented in an investigative report. In those cases, it is important that the investigative report be well written, well sourced, and persuasive in nature," Kotz says. "Where an internal investigation finds wrongdoing, the report should include specific and concrete recommendations to take disciplinary action against the wrongdoers, and also to improve the structures or controls within the company that allowed the wrongdoing to occur."
- **Ensure effectiveness of implemented remedies.** "Where recommendations have been implemented, companies should test the improved structures or controls to ensure that they are operating effectively. Generally, companies should conduct reviews of their compliance programs after any significant allegations have been brought forward to ensure that the procedures in place are working appropriately," Kotz advises.
- **Conduct a post-mortem.** "After each fraud incident, conduct an exercise to learn from what occurred and have tangible recommendations to implement to fix things," he says.

"By handling investigations properly, controllers and their risk management teams can gain great insights into how to prevent additional instances of fraud in the future," Kotz concludes. ❑

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