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CONTROLLER'S REPORT

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CHANGE MANAGEMENT

Managing Turnover of Financial Personnel

(Quick Code 081501)

By Bob Sefton, Controller, Nomacorc

No matter how well a finance department is run, it is inevitable that there will be some degree of personnel turnover. Turnover can be caused by any number of reasons—either positive or negative—but when it occurs it can disrupt work schedules and threaten operational consistency.

It is the controller's responsibility to ensure that there is minimal disruption to the preparation and flow of accurate and timely information to management and other groups within the company. This is not an easy task, but if a controller has a good plan in place, he or she can steer the finance department through personnel changes without missing a beat.

The Controller's Plan of Action

The following plan of action will allow controllers to accomplish this challenging task:

Be clear on job descriptions. Review all the job descriptions for the various positions in finance. Understand the requirements of each job and the skill sets needed for each.

Cross-train all finance staff. Ensure that current staff is cross-trained and knowledgeable regarding critical functions that need to be performed on an ongoing basis.

Communicate with staff and enlist their help. When someone unexpectedly leaves, the controller must "rally the troops." Explain how you need the help of everyone who remains to make sure important tasks are covered until a replacement has been hired. Lay out clear priorities, timelines, and expectations.

Hire cautiously. Controllers should never bring a new hire in quickly simply to fill a vacant spot. This can lead to disaster. Managing turnover will take more than just hiring a replacement—it has to be the *right* replacement.

The selection of a new hire must be strategic and focused on what is best for the existing workforce as well as the company. The process requires good due diligence on the part of the controller. In addition to looking for the right job skills, controllers need to look for someone who will be a good cultural fit with the finance department.

First, define the skills and attributes you are looking for (but be open to candidates with additional skills that could enhance positive change and innovation). Then consider the type of employee that would best augment the work group and the organization. For example, what type of employee is needed most? Is it someone who is task orientated, a team builder, a planner, a strategist, a communicator, or a technocrat?

Coordinate hiring efforts with the HR department. Be fully engaged in the process and personally review the credentials of the top tier of qualified

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individuals, while relying on your own skills and judgment to determine who will make it on to the interview stage. Ask open-ended questions that target workforce requirements, judgment, skill level, and experience. Then listen carefully to the interviewee's response to gauge whether the person has the qualities you are seeking.

Properly integrate and develop the new hire. Bring the new person into the department in a way that ensures successful team dynamics—a team that is efficient, cohesive, and focused. No matter what the person's experience level, you cannot expect any new employee to fully understand the dynamics of a new organization without some introductory guidance and mentoring. Here are some tips for ensuring that the new employee is effectively brought on board:

- Enlist help from existing employees. Ask them to assist the new employee during the transition and assign a mentor or "buddy" to the new hire.
- Explain the culture of the finance department and the organization.
- Introduce the new hire to managers and staff in other functional areas.
- Explain unique jargon or language used by finance and the organization that may not be used in other companies.
- Provide appropriate training.
- Provide short-term and long-term goals for the employee to accomplish within the first three months, six months, or other time blocks, and give prompt and clear feedback.

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Seven Ways to Keep Your Finance Team Trained, Engaged, and Loyal *(Quick Code 071506)*

- Define the measurement standards for success.
- Ensure that workloads are balanced and that timelines are met.
- Have weekly follow-up meetings with the new employee and other team members to measure individual and departmental progress.

Ensure ongoing performance excellence. Once a new team member has been successfully integrated into the finance workgroup, it is the controller's responsibility to ensure the ongoing development of the recent hire and the whole team. Continue to balance team strengths and provide stretch goals. Implement a workforce strategy that not only accomplishes current requirements but also provides for new projects that will enhance performance and promote continuous improvement.

The bottom line: Turnover is expensive. If it is not managed effectively, the disruption and dysfunction can take a long time to overcome. Look at the big picture and recognize that managing turnover requires a coordinated effort. It represents much more than just hiring a replacement. ❑

ACCOUNTS RECEIVABLE

Three Secrets to Billing Success

(Quick Code 081503)

Having an effective billing process in place is essential for keeping cash flowing into the company coffers. To learn some "success secrets" for effective billing, *Controller's Report* interviewed Controller Laurie McMurray, CPC, MBA, who works for the BT Retail and Commercial Systems division of Siemens Industry, Inc.

"Our business provides energy management solutions to large retail chain stores across the United States and Canada," says McMurray. "The energy management system (EMS) is affixed to real property and linked to the lighting and HVAC systems to manage data set points. For instance, lighting can be preset to turn on and off at specific times and the HVAC systems can be set for standard temperatures. Customers have access to our Enterprise Portal, where they can monitor all their locations for repair or maintenance needs as well as for energy consumption. All of this activity is managed remotely from our Austin location."

"The components that make the entire billing process successful are documentation, communication, and critical thinking," McMurray explains.

Here's a closer look at each of these factors:

Documentation. "Documentation is truly key to our billing process. Information flows from many sources into finance and accounting and we must use that information to accurately bill the customer," says McMurray.

"All stakeholders are required to maintain detailed records and documentation of purchasing activity. These stakeholders are the finance team, the program/project managers, distribution staff, procurement staff, service technicians, and contractors/installers. Each party has specific documents that must be submitted before final billing can be completed. This ensures that accounting can verify that all equipment is installed and working properly and therefore now billable to the customer."

Communication. "Thoughtful communication is also important when preparing our billing," McMurray points out. "By 'thoughtful' I mean we need to think and assess who our audience is whenever we are preparing a bill or communicating to someone within our organization with a billing issue."

"We also ask that the accounting team be kept in the loop on all information," she adds. "The billing process is smoother from the beginning if the communication is good and we understand the question or issue. (For example, it is critical to know if there is a shipping question.) We find that the best way to communicate with our stakeholders about billing is through e-mail. An e-mail offers the opportunity to explain the situation with attachments containing the pertinent documents, such as billing templates, commissioning documents, and purchase orders."

Critical thinking. "Billing specialists should never simply bill what is put in front of them. They should have the skills and frame of mind to question everything that is out of the norm," says McMurray. "Of course, that means they must be fully trained and updated to know what the norm is so they can properly review all documentation associated with the billing process."

"The suppliers of information will make mistakes," she points out. "It is the job of the finance team and billing specialists to catch and correct the errors. The role should not be considered a data entry position. In truly successful billing processes and teams, the billing specialists own the process and feel a great sense of responsibility to the customer and the business to make sure every bill that goes out is accurate, complete, and timely."

The bottom line: A good billing process is all about excellent customer service. "In my experience, I have learned that we cannot treat every customer exactly the same way—whether we're doing billing, invoicing, or collections," says McMurray. "BT Retail and Commercial Systems is a unique business. Some of our customers require one kind of document with an invoice, another customer may require that we submit invoices through their Web portal, and yet another customer has us submit invoices through a third-party services management group. That's why I always say, 'Know your audience!'"

Editor's Note: Ellen Strawn, Accounting and Collections supervisor at the Siemens BT Retail and Commercial Systems division, contributed information for this article. ❑

LEADERSHIP

Five Ways Controllers Can Be Stronger Business Partners

(Quick Code 081502)

By Mircea Stanciu

Today, the finance function needs to be more of a strategic business partner for companies than in the past. Most controllers are aware of this, but many are not sure exactly what this means in practice—or precisely how to make the shift.

To help, here are five ways controllers can don the all-important "strategic partner hat" and wear it successfully:

Fully understand the strategic mission of corporate leaders (and help them understand yours). To be strategic partners, the parties involved need to fully understand one another's mission. This will ensure not only that they do not inadvertently impede one other's actions, but also that they each use their unique abilities to support one another and create synergies.

Make a long-term commitment. Strategic partnership between finance and other business functions involves a long-term commitment to cooperate in order to contribute to the growth and stability of the business. Long-term commitment is necessary to avoid the pitfall of focusing too much on short-term results. Sometimes, one year's profitability may need to be sacrificed in order to achieve a five-year strategic business plan. Finance and the rest of the business need to be fully focused on, and aligned to deliver on, long-term goals.

Master business intelligence tools. Information technology is becoming more and more important for businesses. The amount of information available to companies has expanded exponentially in the past few years. Given the analytical and technical abilities existing inside the finance department, controllers and other finance professionals can become key resources by mastering business intelligence tools and learning how to interpret the data. Controllers are in an ideal position to wade through the data and discern which information is relevant to the business and which is not. This qualifies controllers and other finance people to become more involved in the strategic decision-making process and in making key business recommendations.

Become a font of (comprehensible) information. In order to become a full strategic partner, controllers must learn how to transform financial information and make it digestible for the rest of the business. They must help their management colleagues in leadership and operations understand the implications of their decisions by showing them the facts behind the numbers.

➢ **Case in point.** Let's say a controller is presenting a cost deviation from a recent advertising campaign. Simply presenting that cost deviation in terms of dollars is not providing useful financial information to the business. It would be much more helpful if the controller split the total impact in dollars between the volume impact of gross rating points (GRPs) and the price impact for each point. (A GRP is an advertising metric that measures the size of the audience reached by a particular advertising campaign.) Once the data has been broken down this way, then corrective alternatives can be implemented, such as decreasing the number of GRPs purchased or negotiating a better price per GRP.

Similarly, controllers doing gross profit analyses should present the information in such a way that management understands the implications of volume impacts, price impacts, and mix impacts. Based on this information, the reasons behind deviation in gross profit will become obvious.

Controllers should be able to take this even one step further by making recommendations such as increasing prices on some products, changing the range of products available to some customers, or choosing to sell less to some unprofitable customers (such as those who are getting high discounts). Being able to do this effectively means controllers have to explore potential recommendations, know the business implications, and understand what actions may not be possible. For example, some customers have minimum agreed deliveries in their contracts and stopping deliveries would generate penalties. Also, some price increases wouldn't be possible because they would not be in line with the company's marketing strategies.

Follow up on recommendations. In order to help the business in tracking the progress of the agreed-upon actions, the controller should provide follow-up. For example, if some price reductions have been put into place for a limited period, the controller's subsequent reports should provide visibility on how these reductions affected revenue and other performance metrics. Depending on the results, the controller should again act as a business partner and advise a change of course as needed.

The bottom line: As the meeting point of operational and financial information, controllers are in an ideal position to become true business partners for their companies.

Editor's Note: Mircea Stanciu, Finance Controller, Central and Eastern Europe at BIC, manages Finance Affairs for eight of BIC's business clusters comprising 38 geographical areas. He has been working as a finance professional for nearly two decades, owned an accounting and tax consulting practice, and has completed the Association of Chartered Certified Accountants (ACCA) program. ❑

A CHECKLIST FOR CONTROLLERSS

According to Controller Mircea Stanciu, here are some quick tips for controllers who would like to enhance their strategic business role:

- Meet regularly with senior and operational management to discuss their areas' needs and goals.
- Learn about the processes and performance metrics that are used in every functional area of the organization.
- Teach others in the company about how having more financial information will help them make sounder business decisions.
- Adapt technical financial language to non-finance people to enhance understanding.
- Understand the facts behind the numbers (for example, the people and actions involved) and the correlation between them, imposed by business.
- Visit the production facilities where your company's products are made and the stores where they are sold to get greater insights into these aspects of the business.

BUDGETING AND PLANNING

Forecast Financial Ratios and Gain Insight into Your Company's Future Financial Health

(Quick Code 081504)

By Alan Hart, MBA

While some companies grow and thrive, others struggle to stay afloat. Quite often, during their last years, struggling companies experience a gradual deterioration in financial performance driven by poor operational performance and questionable management decisions that are often based on bad data, untimely data, or no data at all.

Many controllers and finance managers at such companies are unable to detect financial deterioration until it actually occurs because their budgets focus primarily on a forecasted income statement that is prepared on an accrual basis to match the actual income statement format and content. These controllers have no visibility into their companies' future balance sheet or statement of cash flows. Tools such as actual and forcasted financial ratios—that are great indicators of the present and future financial health of an organization—are not available to help leadership make timely, strategic decisions in response to forecasted data.

Deterioration Can Be Prevented

Many company failures can be predicted and actually prevented through timely analysis of the forecasted organizational financial health. Here's how:

1. Put a comprehensive budget plan in place. There must be a complete plan and budget in place, spanning the entire chart of accounts, that includes the ability to generate a forecasted balance sheet and statement of cash flows. The controller can then set up a set of financial ratios (e.g., current ratio, debt-to-asset ratio) that will extend into the company's budget period (next fiscal year, next 18 months, etc.). With this system in place, the controller and management can adjust the budget and instantly see how these ratios change, tweaking the budget until an acceptable range can be achieved.

2. Track results monthly. During the execution of the plan and budget, and as actual results come in from the accounting system, the actual ratios can be analyzed against the forecasted ratios (as part of the actual vs. budget analysis). If this is done periodically—for example monthly, as soon as the accounting period is closed—the controller and management can assess the future financial health of their organization and make the proper changes and decisions in response to this data.

3. Forecast financial ratios. Of paramount importance is the controller's ability to accurately forecast the company's set of financial ratios to stay continuously apprised of the financial health of the organization. A well-executed plan and budget must include all GL income statement and balance sheet accounts. This will produce the essential financial ratios for each period of the proposed plan and budget, and will detect any deterioration in the financial position of the company well ahead of time, while changes to the plan and budget can be made.

The bottom line: Management decisions must be based on solid data rather than intuition or speculation. When controllers establish budget plans and track results in a timely and disciplined manner, they will be better able to provide management with the data needed to allow corrective actions to be implemented. This will prevent or stop deterioration in the financial condition of the company and maintain its good financial health.

Editor's Note: Alan Hart is a consultant with Pacific Shine Group, a West Coast-based firm that specializes in accounting, financial, and compliance services. Hart has more than 30 years' experience in the accounting and finance professions, including as controller, VP of finance, and CFO in a wide range of industries. ❑

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A Common Sense Way to Improve Budgeting and Forecasting Accuracy *(Quick Code 071502)*

RISK MANAGEMENT

Manage Risk—Don't React to It

(Quick Code 081505)

By Regis Quirin, MBA

Some senior managers take a passive or reactive approach to protecting their company's systems from cyberattacks and other risks. While they may acknowledge the risks, they believe that the risks are too minimal—or the costs too high—to actively address the causal issues. Their solution may be to purchase cyber insurance to prevent a monetary loss if a breach were to occur.

This approach is not advisable. The insurance strategy may limit immediate financial loss, but the long-term damage to the company's brand—and bottom line—can be great. The company may even be liable for legal penalties.

According to the Federal Trade Commission in its *Prepared Statement of the Federal Trade Commission on Protecting Personal Consumer Information from Cyber Attacks and Data Breaches*, presented on March 26, 2014 before the Committee on Commerce, Science and Transportation in Washington, D.C.:

> A company [is considered to be engaging] in unfair acts or practices if its data security practices cause or are likely to cause, substantial injury to consumers that is neither reasonably avoidable by consumers nor outweighed by countervailing benefits to consumers or to competition. The Commission has settled more than 20 cases alleging that a company's failure to reasonably safeguard consumer data was an unfair practice.

An organization that addresses risk in a passive manner may also be negatively impacting its own growth. It is no longer uncommon for large clients to engage in the discussion of risk when considering purchasing your product or service. Risk is often reviewed during initial discussions prior to the development of a relationship, and risk is assessed during periodic vendor reviews during the relationship in client surveys and audits of the company's business practices. Common areas of concern are the following:

- What means are used to protect information?
- What are the policies for the security, access, and retention of documents (in both electronic and paper formats)?
- Is there a plan for disaster recovery?
- Is the company in compliance with industry-specific regulations?
- Does the company have insurance coverage?
- Does the company have a plan for physical security?

If the company is unable to fulfill the client's requirements, it may lose lucrative business, negatively affecting cash flow and leading to even more lost business when word spreads that doing business with you would be a risky move.

The Proactive Approach

The implementation of a proactive approach to manage risk begins with taking the following steps:

1. Know and implement the COSO Internal Control—Integrated Framework. COSO, the Committee of Sponsoring Organizations of the Treadway Commission, is a joint initiative of five private-sector organizations, including the American Institute of CPAs (AICPA), dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control, and fraud deterrence. COSO's framework continues to be the gold standard for risk management and is a logical place to begin the process.

When you look at what the framework represents, it is obvious that both public and private organizations of all sizes will benefit from its adoption. The purpose of the framework is to prevent and detect fraud. It is a standard framework for designing, implementing, and conducting internal controls as well as assessing the effectiveness of your current internal controls. The framework was recently updated from the original 1992 version to the 2013 revision to account for the ongoing changes in the business environment. Some of those changes include evolving technology, increased outsourcing, and the changing regulatory environment. (Companies that report to the Securities and Exchange Commission were expected to have fully transitioned to the 2013 framework by Dec. 31, 2014.)

Start by reviewing the COSO Internal Control—Integrated Framework's core areas, principles, and focus areas. Document how your organization addresses the concerns embodied in the core areas, principles, and focus areas. This framework will be the basis of your plan. In general terms, the framework is as follows:

Control Environment. This relates to the responsibility of preserving an internal control environment, concentrating on people (ethics and integrity); employee development and training; and management and accountability. The importance of proper employee training cannot be understated. Employees represent an organization's greatest assets and its greatest risks. All employees within an organization must become part of the risk management process.

Risk Assessment. This area is geared to the identification of entity objectives and the associated operations risks. Consider compliance with applicable regulations specific to your industry, as well as external financial reporting requirements. Identify areas where policies and procedures may allow for fraud to be conducted. Consider outside threats.

Best practice is to assign a seasoned veteran with a complete understanding of the organization's business model to develop the risk-assessment plan.

Control Activities. The primary focus of this area is on the establishment and ongoing maintenance of policies and procedures; accountabilities; and security management, such as the segregation of duties and segregation of information access.

Information & Communication. This area concerns the gathering and dissemination of information related to support internal control activities.

Monitoring Activity. COSO's risk management model recommends that on an ongoing basis, management evaluate internal controls to understand their presence and effectiveness, communicate deficiencies, and report on the status of corrective measures.

Tips for success: The first three sections do not need to be completed by the same person, as they look at different but related activities. In fact it may be better to divide the tasks among senior managers to foster mutual ownership and responsibility of the plan.

Augment this information with other framework standards that may apply, including risks identified by industry-specific trade groups and associations. Some good examples of additional framework standards are the ISO 27001, or Framework for Improving Critical Infrastructure Cybersecurity.

Get approval and implement the plan throughout the organization. Once your plan is complete, seek board/management approval on the concept implementation. After approval has been obtained, execute the plan throughout the organization. Be sure to include communication throughout the entity so all employees understand their roles and know exactly what the plan entails.

Continually update the plan. To be effective, a risk-management plan must be fluid and continually evolve. For example, if during the course of the year, your company receives an audit request of your product delivery or service, and during the course of completing your audit you discover an area not covered by your plan, immediately update your risk plan, as you must assume the same client will ask the same question at the time of the next audit.

Editor's Note: Regis Quirin is a financial executive and author with 23 years of corporate experience. He currently works as Director of Finance at the law firm of Gibney, Anthony, and Flaherty, LLP. For more information on COSO, go to: www.aicpa.org/interestareas/businessindustryandgovernment/resources/corporategovernanceriskmanagementinternalcontrol/pages/coso_integrated_framework_project.aspx. For more information on ISO 27001, go to: www.iso.org/iso/home/standards/management-standards/iso27001.htm. ❑

PAYROLL

Taxation of Catchup Deductions

(Quick Code 081506)

By Raeann Hofkin, CPP

When employees go out on an unpaid leave, they are not receiving a paycheck. This can cause them to fall behind on healthcare and other deductions. That's when the need to catch up the healthcare deductions arises, along with the question of taxability of those deductions. Are these deductions considered taxable or pretax?

There are some general guidelines (of course, for specific rules and policies, always consult your company's plan administrator). The most important one is to *know the laws*. There are several laws for leave of absence that have different benefit provisions. These are as follows:

Family Medical Leave Act (FMLA). The FMLA requires employers to continue medical benefit coverage for the FMLA leave period under the same conditions as would have been provided if the employee were an "active" employee. State and local laws may extend FMLA rights and other leave obligations or provisions.

American Disabilities Act (ADA). The ADA requires an employer to analyze whether a definite leave of absence is a reasonable accommodation for an ADA-protected disability, and will assist a qualified individual to return to work to perform the essential functions of the job. The ADA does not generally require continuation of health coverage or other benefits during a leave of absence.

Uniformed Services Employment and Reemployment Rights Act (USERRA). USERRA requires that an employer provide health coverage, based on the regular employer-employee premium rates, to persons on military leave for periods of less than 31 days. After this period, an employer must offer the employee COBRA-like coverage provided for under USERRA for up to 24 months.

Employers may require an employee who chooses to continue coverage while on FMLA leave to be responsible for the share of premiums that would be withheld from their paycheck. FMLA requires the employer to continue to contribute their share of the cost of the employee's coverage.

Options to keep in mind include the following:

- **Cafeteria plans.** A cafeteria plan is a type of employee benefit plan offered pursuant to Section 125 of the Internal Revenue Code. Cafeteria plans may offer one or more payment options. These options are pre-pay, pay-as-you-go, and catch-up.
- **Paid leave.** The employer may elect to continue all health coverage for the employee while he or she is on paid leave and continue to deduct the employee's share of the contributions with each pay. (In other words, no change.)
- **Unpaid leave.** If an employee goes on a qualifying unpaid leave under FMLA, the employer is required to maintain the same level of benefits options that provide health coverage on the same terms and conditions as though the employee was still active to the extent required by FMLA. In other words, the employer will continue to pay its share of the insurance premium.

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Caveats for Courtesy Withholding
(Quick Code 071508)

In the event of unpaid FMLA leave where the employee opts to continue the group health coverage, the employee may pay his or her share of the contribution in one of the following ways:

- **Pre-pay.** If duration of the leave is known in advance, the employee may pre-pay all or a portion of their share of the contribution for the expected duration of the leave with pre-tax contributions. However, pre-payments of pre-tax contributions may not cross years—each plan year is a stand-alone.
- **Pay-as-you-go.** The employee may "pay as you go" with after-tax dollars by sending a check to the employer on a monthly or other agreed-upon basis. This payment is with "after-tax" dollars, since the deduction is not being withheld from a paycheck.
- **Catch-up.** The employee may "catch up" by withholding amounts from the compensation upon return from leave. Catch-up deductions are pre-tax. (The downside is the risk that the employee does not return to work.)

The bottom line: If an employee is on unpaid leave and missed deductions are "caught up" through payroll deductions, those are pretax deductions as long as they occur in the same year. Catch-up deductions in a *previous* or *subsequent* year cannot be treated as pretax because that would defer taxable wages from one year to another, and such deferral is prohibited by cafeteria plan regulations. In other words, the employee may not prepay in one plan year that pays for coverage in the subsequent plan year. Finally, the pay-as-you-go option cannot be pretax, as the payments are not made through payroll. ❑

ACCOUNTS PAYABLE

AP Practices That Yield Top Performance

(Quick Code 081507)

What best practices allow AP operations to achieve top performance on several key performance indicators (KPIs)? The answers can be found in recent research from APQC, *Top Performers in Financial Management: Close-up on Accounts Payable and Expense Reimbursement and Accounts Payable as a Competitive Advantage* (both sponsored by IBM).

"We pored through data from nearly 1,000 companies that completed our benchmarking survey to assess process productivity in the area of accounts payable (AP). The goal was to determine what the top performers were doing differently from average performers," explains Mary Driscoll, Senior Research Fellow, Financial Management, APQC.

As a first step, Driscoll and her team sought to identify KPIs that would apply universally to all AP operations and relate to the core activities that affect process performance—specifically, cost-efficiency, cycle time, and staff productivity. Their statistical analysis produced the following eight KPIs for accounts payable:

- Total cost to perform the process "process accounts payable" per payment;
- Total cost to perform the process "process accounts payable" per invoice line item processed;
- Total cost to perform the process "process accounts payable" per invoice processed;
- Cycle time in days from receipt of invoice until it is approved and scheduled for payment;
- Cycle time in days from receipt of an invoice until payment is transmitted;
- Cycle time in hours to enter invoice data into the system;
- Percentage of invoice line items received electronically; and
- Number of disbursements per "process accounts payable" FTE.

"Using these KPIs, we looked at performance statistics for nearly 1,000 companies and isolated the top 10 percent. We then conducted personal interviews with several to see what the top performers were doing differently. We were able to identify six clear practices that distinguished the best companies," Driscoll explains. These are:

1. Clear corporate vision. "At one best-practice company APQC studied, Aera Energy, the corporate mission focuses on process excellence, commitment to superior information management systems, and emphasis on continuous process improvement. Aera has purposefully embedded these principles into everything it does—emphasizing high standards of efficiency, quality, customer value, and effectiveness," Driscoll points out.

2. Electronic invoice-matching systems to automate AP. "Organizations that have implemented electronic invoice-matching see significantly reduced costs," Driscoll adds. "The average cost per invoice line item is $1.30 for the top performers, $2.08 for the median performers, and $3.58 for the bottom performers. And we know empirically that cost-efficiency in this instance is typically enabled by sensible process automation. Companies that have implemented electronic invoicing report faster approvals in addition to greater visibility and control over payments," Driscoll notes.

"The top performers also tend to be faster, which puts them in a better position to capture more discounts. For example, we found that by taking early payment discounts that offer a term of '2 percent 10 Net 30,' an organization can gain returns equivalent to an annual percentage rate of 36 percent. These returns are a result of reductions in the cost of producing goods or delivering services over a 12-month period."

3. Streamlined approval process. Aera Energy, for example, has streamlined its approval process so AP gets invoice data out to field managers quickly. This way the managers can see in a timely manner how charges made the precious day or so are reflected on the books.

"AP does not 'batch' its invoice approvals for the end of the week or month. A vendor may arrive and fix several wells out in the field on a given day. When the manager in the field receives the line-item invoice data quickly, those requisitions are still very top-of-mind. The manager can easily and quickly tell whether the charges are accurate and can dispute any erroneous charges," Driscoll points out.

4. Content-management tools. "Many top performers automate non-PO purchasing using content-management tools. For example, employees that need supplies can go into a system with an e-commerce portal that contains online catalogues. Employees select a vendor number to fill out a form electronically, and the system automatically populates the form with information on the vendor," Driscoll explains.

"The system then automatically routes workflows for proper approval; for example, it might have a built-in business rule that purchases over a certain amount have to go up to the corporate controller. The approval request would then be routed directly to the controller's email to alert the controller that sign-off was needed on the purchase," Driscoll continues. "Once approved, the payment goes to AP for processing, and suppliers are paid electronically through an ACH transaction or some other form of e-payment. This way the purchase-to-pay process is expedited significantly," she notes.

5. Strict management of the master vendor file. "Keeping tight control over the master vendor file was also cited as a key to success for the top performers. Among the lower performers, there was poor control—one company even admitted discovering it had 11 different accounts listed in the master vendor file for one supplier," Driscoll says.

6. Collaboration between AP and procurement. "Often inefficiencies in AP are caused by errors made in the procurement function, such as inconsistent information on invoices. When we asked companies about the nature of collaboration and communication between AP and purchasing, the vast majority said 'we make a good-faith effort to communicate but it's inconsistent.' However, the top AP performers said it's 'effective or very effective,'" Driscoll says. "The top performers reported that AP and procurement work together to look at the end-to-end procure-to-payment process and find ways to improve the efficiency and effectiveness of that end-to-end process."

Editor's Note: APQC's benchmarking database is available to members and companies that take the benchmarking assessment for finance and other areas. For more information go to www.apqc.org. All of the above AP Best Practices are defined and detailed on The Accounts Payable Network (TheAPNetwork.com), a procure-to-pay resource for finance professionals. ❑

COST CONTROL

Is an Automated Expense-Management Solution Right for Your Company?

(Quick Code 081508)

According to research by Aberdeen, best-in-class companies are 57 percent more likely than other companies to utilize an end-to-end travel and automated expense management solution. Furthermore, using these solutions allows the best-in-class to have a 60 percent lower expense-processing cost than all other organizations, and to achieve a 31 percent higher rate of compliance with corporate spend policy.

There are a growing number of expense-management solutions on the market today that allow companies to automate spending activity with the goal of increasing control, enhancing visibility, and reducing overall costs. It behooves controllers to research the various offerings and consider whether such a solution would aid in cost control at their companies. Reviews of many current offerings can be found at http://www.capterra.com/expense-report-software/.

"The cost savings can be significant," points out Bill Vergantino, President and CEO of ExpenseWatch, one provider of expense-management software. "Paystream Advisors, in its *2015 Travel and Expense Management Report*, states that the average cost of manually processing expense reports is $26.60, as compared to the average cost of $17.31 when some degree of automation is used and $6.85 for a fully automated expense management system. Costs for processing invoices and purchase requisitions/purchase orders are similar."

"Another huge benefit is time savings," Vergantino continues. "An expense management solution enables them to shave days or weeks off approval and reimbursement/cycle times, in some cases going from weeks to hours. A further benefit is the ability to empower approvers and accounting to be able to manage many more transactions than a manual system without having to hire additional staff."

How Expense-Management Solutions Work

Many solutions on the market enable companies to automate and control (and ultimately, reduce) spending by employees who make purchases. The systems can be set up with the company's spending policies and rules, so any out-of-compliance spending is flagged or even rejected by the system.

"Submitters can create expense reports, purchase requests, and invoices to route for approvals," Vergantino explains. "For expense reports, submitters can build reports using a mobile app or the online system. Integrated credit card feeds and booked travel itineraries can be dropped onto expense reports, automatically filling in much of the data submitters have to fill in. Receipts can be attached via the approach the user prefers, such as a mobile app receipt capture feature or an integrated faxing service. For invoices, submitters create an online invoice, add any electronic documentation such as an image of a paper invoice, and then route it for approvals."

The system can be set up with approval workflows; invoices that have been approved for payment are sent by the system to the selected payment/reimbursement solution, such as ACH providers, accounting systems, or payroll providers, Vergantino explains. "Reports can be generated to provide finance, managers, and executives with visibility into spending, no matter where it is in the approval process."

"With an automated system, submitters can't submit spending requests that don't include all of the company-required information, plus they can see right away if a spending request is in policy," he continues. "Approvers can see all supporting documentation and whether items are within company spending policies. Accounting can see that all approvers have reviewed the spending request and can quickly make any last-minute adjustments before scheduling the payment/reimbursement. Further, executives can see all spending—what's been approved as well as what is waiting in the pipeline to be approved or paid. This visibility enables them to take action on spend that is in process should the situation dictate."

Questions to Ask—and Answer

How can a controller gauge whether an expense-management solution would benefit his or her organization? Ask and answer the following questions, advises Vergantino:

- **Are more people spending on behalf of the organization?** "As companies grow and more people spend money on behalf of the organization, spending processes can become strained and employees can become frustrated," Vergantino points out.
- **Are current processes providing the visibility and control necessary to effectively and efficiently manage company spending?**
- **Are paper purchase requisitions, purchase orders, invoices and expense reports being mailed or overnighted to approvers and/or the accounting team?** "Also consider whether the amount of paper being processed is increasing as the company is growing," Vergantino suggests.
- **Do executives have the spending information they need, readily and quickly available, so they can stop spend *before* it happens?**
- **Are employees grumbling or showing signs of frustration?** "If employees who purchase goods, services, or travel are exasperated by how long it takes to get approvals or to be reimbursed, it might be an indication that you need to implement an expense-management solution," Vergantino points out.

"Other indications would be if those who approve spending are annoyed because they lack visibility into spending on a day-to-day basis, yet they are still being held accountable for their teams' spending. Or the accounting team is irked because it spends way too much time categorizing and recoding expense reports or purchase requests, or chasing down employees to approve spending. Or, vendors are complaining because payments are late," Vergantino says.

Solving Expense-Management Challenges

For George Kneip, controller at Rombauer Vineyards, Inc. (St. Helena, CA), the biggest expense-management challenge is timely submittal and appropriate documentation associated with expense reports.

"We manage travel and entertainment expenses by carefully and regularly reviewing our general ledger accounts," he points out. "We also implemented a solution that enables employees at multiple locations to submit expense reports weekly so reimbursements would be made on time," he explains. "The system gives approvers greater visibility so travel and entertainment expenses and expense reports can be approved remotely. Expense report processing is now much more efficient all the way through the process—for the submitters, approvers, and for accounts payable."

Marko Vukosavovic, CFO of the Academy of Management, a professional association for management and organization scholars, has used ExpenseWatch to manage organizational expense reporting spending at four different companies where he has held the titles of VP Business Intelligence and Financial Analyst. "Our two greatest expense-management challenges were manual processing of expense submission and handling expense reporting for large numbers of volunteers. Our organization has a small core staff base located in its headquarters and large number of various type of officers and volunteers, including board members, committees, journal editorial teams, and member divisions volunteers," he explains.

"Our manual process for expense submission was labor intensive, requiring personal interaction of accountants with expense submitters and their approving managers," says Vukosavovic. "With increasing number of employees and volunteers, manual processes prevented economies of scale and required adding employees to process expenses. By introducing an expense management solution, we were able to automate submission processes to get appropriate managerial approvals before expense reports are submitted to the accounting department. This results in time savings and greater efficiency."

Employees and volunteers submit expenses through the automated system that are then routed to the approving managers. Once the managers approve the expenses, the expense reports are routed to the accountants. "After accounting approval, expenses are exported into our accounting system. If expenses get rejected, for example because of a violation of our T&E policy, the expense reports are sent back to the submitters," Vukosavovic explains.

An automated system helps Vukosavovic's organization manage expenses by providing an opportunity to "perform deep-dive analysis on all travel expense categories, to understand patterns, and to propose appropriate changes to travel policy," he points out. "It also helps to improve efficiency—expense submitters are motivated to submit reports on time so they can get reimbursed in the shortest possible time."

Tips for Success

Vukosavovic, Kneip, Vergantino, and other providers and practitioners recommend following these tips for success:

- **Rethink—and where necessary redesign—all your spending policies and management approval levels.** The goal is to establish the most effective possible process before you add automation.
- **Look for a provider that offers strong support services.** Customer support is critical to ensure that employees are able to use the system comfortably and effectively.
- **Continue to look for ways your organization can streamline and support successful spending.** "For example, if an organization is not using a corporate credit card, perhaps it might make sense to look into one," Vergantino says. "Or if an organization isn't using ACH for payments, it may be time to look into that as an option."
- **Make sure your company is ready for this change.** "Integrating a system like this into your organizational process requires change," Vergantino adds. "As with any change, there needs to be strong leadership over the organization's commitment to change and, ideally, communication around the value associated to the change. Without leadership, many may resist change. The trick for success will be to convey value to every individual playing a role in the spending process—including submitters, approvers, accounting, accounts payable, and finance leadership."
- **Assign a point person/administrator for the system.** "This person needs to be willing and able to convey or reinforce to their users the enhancements and important communications as necessary," Vergantino notes.
- **Decide how you want your process to work.** "From a process perspective, the organization will need to make decisions on such matters as how it wants to categorize spending, what its approval workflows will be, whether it will define/leverage a budget in concert with approval decisions, and what its spend policies will be," Vergantino points out.
- **Communicate benefits to employees.** "From an organizational culture perspective, companies find an automated spend management system improves morale because it improves the entire spending process," Vergantino says. "While change is not always easy, letting employees know up front the benefits the organization hopes to achieve by implementing an expense-management solution will go a long way toward making the process a welcome change."

"In addition, a system like this also helps employees feel like they are a part of the success of the company, by being able to do their part in managing company spending," he adds. "It is empowering and allows employees to spend with confidence.". ❑

THE CONTROLLER'S CALENDAR

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.

NEWS BRIEFS

Quick Code 081509

REDUCING WORKERS COMPENSATION CLAIM COSTS

A study by the National Council on Compensation Insurance (NCCI) provides insights on how companies can reduce workers compensation claim costs. NCCI used recent industry-wide data to analyze the relationship between reporting time and claim costs. NCCI also compared its findings to a study by The Hartford, which had concluded that the average cost of a workers compensation claim generally rose as the delay in reporting the claim increased. NCCI came to the following conclusions:

- The median cost of claims reported between one day and two weeks after an accident is significantly lower than the median cost of claims reported either on the day of the accident (Day 0) or more than two weeks after the accident.
- While the Hartford study had found that injuries reported in Week 2 had a higher median cost than claims reported in Week 1, NCCI found a slightly different relationship, which depends on the nature of injury. For sprains and strains and for contusions, the minimum median cost is for claims reported in Week 1. For fractures and lacerations, the minimum median cost is for claims reported in Week 2.
- In states that have three-day and seven-day waiting periods, the median claim cost for claims reported in Weeks 1 and 2 is lower than the median claim cost for claims reported on either the day of the accident or more than two weeks after the accident.
- Median cost of a sprain or strain injury reported in Week 4 is about 70 percent higher than the cost of a similar claim reported in Week 1.
- Overall, median claim cost is lowest for claims reported in Weeks 1 and 2. Median claim cost rises for claims reported in Week 3 by about 35 percent relative to Week 2. In Week 4, the median cost rises another 12 percent. Median claim cost drops a bit for claims reported after Week 4 but is still higher than for those reported in Weeks 1 and 2.

Takeaway: While NCCI researchers acknowledged that their data only allowed them to identify a correlation, not a causation, the results were consistent with the earlier study by the Hartford: Early intervention after a workplace injury can lead to lower claim cost. An insurer cannot begin to manage a claim until it has been notified that a worker has been injured. By effectively managing a workers compensation claim, an employer can ensure that the injured worker receives benefits in the most efficient and cost-effective manner.

Editor's Note: To download the complete NCCI research brief, go to: www.ncci.com/documents/Relationship-Accident-Report-Lag-Claim-Cost-WC-Insurance.pdf.

ECONOMIC INSIGHTS FROM FINANCE LEADERS

Business confidence among finance leaders is at a higher level than it's been in years, according to Financial Executives International (FEI), an advocacy organization comprised of controllers, treasurers, and CFOs.

One of the biggest indicators that, overall, economic optimism is high among U.S. finance leaders pertains to employment and wage levels:

- **Head count.** More than three-quarters of respondents (77 percent) said they have not been forced to reduce headcount at their company over the last 12 months.
- **Wages.** Another 74 percent of respondents said that their companies' wage levels are increasing compared to this time last year.
- **Hiring.** Sixty-seven percent of respondents noted plans to hire during the second half of 2015 (the highest percentage of CFOs to respond positively to this question since 2012).

Respondents also provided the following insights on specific aspects of the "big picture" for their businesses:

- **Interest rates.** Fifty-four percent of U.S. finance leaders expect the Federal Reserve to raise interest rates in the first or second half of 2016. However, 82 percent rated their concern level about U.S. interest rates at three or lower on a scale of one to five.
- **Inflation.** On average, respondents expect the inflation rate to increase to 2.72 percent around June 2016. However, they did not express great concern about inflation; 75 percent said their concern had not changed since the previous quarter and 89 percent rated their concern at three or lower on a scale of one to five.

NEWS BRIEFS

- **Cash/Capital.** On average, 59 percent of company balance sheets comprised equity and 28 percent long-term debt obligations. A significant majority (81 percent) of respondents said their firm is not "capital constrained" in terms of access to credit from banks or capital markets. U.S. finance leaders are most commonly accessing capital from banks (51 percent). On average, respondents' companies hold 13 percent of assets in cash. Close to half (43 percent) of respondents reported cautious spending, while only 17 percent are making ambitious investments in capital expenditures. Among those making capital expenditures, this survey noted a 17 percent increase in the number of finance leaders focusing investments in IT—up to 69 percent from 59 percent in February.
- **M&A.** One-third (33 of respondents) indicated that their companies' interest in making an acquisition has increased; 71 percent are targeting acquisitions in North America. (Only 21 percent said that interest in their company as an acquisition target has increased.) Nearly half (41 percent) of respondents said they believe the recent increase in M&A activity is indicative of a lack of other investment opportunities, while 28 percent said it is indicative of a strengthening economic recovery.
- **Tax law.** Respondents ranked their confidence in the ability of Congress to reform U.S. tax law at a low 1.5 (on a scale of 1 to 5); 10 percent have considered changing their company's country or state of incorporation to reduce their tax obligation.
- **Revenue recognition.** More than one-third (35 percent) of finance leaders from public companies said their company is impacted by the Financial Accounting Standards Board's (FASB) decision to defer the effective date of the new revenue recognition standard by one year, as it allows them more time to evaluate existing contracts, or evaluate software to help with the transition.

One quarter of respondents reported that they experienced a cyber attack on their IT systems within the last six months. However, finance leaders are taking action: 78 percent of respondents are considering increases in their budgets to prevent cyber attacks; 70 percent are upgrading their security software and/or encryption protections; and 64 percent are establishing off-site backup systems/plans (up from 47 percent in February).

"It is reassuring to see that U.S. businesses are positioning themselves to face global challenges, like cyber security threats through a number of specific measures," Kramer says.

Editor's Note: The *CFO Quarterly Outlook Survey FEI* interviewed finance leaders from more than 200 public and private companies from a broad range of industries, revenues, and geographic areas. The survey is available for free download to FEI members; for more information, go to: www.financialexecutives.org.

KEEP THE CREAM OF THE CROP ON BOARD

While controllers might be the last people to endorse salary boosts, they might need to sweeten the pot to prevent top performers from jumping ship as the economy continues to recover. Finance leaders interviewed recently by Accountemps, a staffing service for temporary finance professionals, were asked: "What steps are you taking or do you plan to take to retain your employees as the economy improves?" More than half said they are either promoting top performers or raising salaries to retain staff.

Their responses were as follows:

Promoting top performers	63%
Raising salaries	52%
Increasing investment in professional development or training programs	50%
Enhancing employee benefits, such as health insurance or retirement packages	48%
Reinstating or increasing bonuses	32%
None/no steps	21%*
*Multiple responses were allowed.	

"Businesses can lose their competitive edge if they don't have key players in place as new growth opportunities arise," cautions Bill Driscoll, an Accountemps district president. "Employers who aren't actively engaging with their best people and providing competitive salaries risk losing them to other offers. To attract and retain employees, regularly evaluate compensation levels to ensure they're in line with other firms in your industry and region, and, when possible, pay slightly more than your competitors," he advises.

Editor's Note: For more information, go to: www.accountemps.com.

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