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BENCHMARKING AND METRICS

Best Practices and KPIs for Expense Reimbursement

(Quick Code 071504)

There are clear differences between companies that excel in the area of expense reimbursement and those that fall behind. The good news is that controllers who wish to improve in this area can learn and adopt the best practices that distinguish top performers, according to Mary Driscoll, Practice Lead, Financial Management, APQC.

Driscoll and her team identify best practices in expense reimbursement and other finance processes by analyzing benchmarking data derived from a vast array of companies. "APQC has developed a Process Classification Framework (SM) (PCF), which is a list of processes that organizations use to define work. The PCF enables organizations to objectively compare their business processes' performance—cost, speed, labor productivity—and facilitate improvement through deliberate change efforts," she explains. APQC's PCF is free to the public for download at www.apqc.org/pcf.

Selecting KPIs

Recently, Driscoll and her team compiled a data report, *Top Performers in Financial Management* (sponsored by IBM), which presents APQC's findings on best practices in accounts payable and expense reimbursement using the PCF.

"In preparing this analysis, we decided to select key performance indicators (KPIs) that would be empirically sensible and capable of broad application," Driscoll explains. "We conducted statistical analyses to determine which KPIs for expense reimbursement best capture top performance in the core areas that affect cost: process efficiency, cycle time, and staff productivity. Statistical tests yielded a subset of five KPIs for the expense reimbursement process."

These five KPIs are as follows:

1. Total cost to perform the "process expense reimbursements" as a percentage of revenue
2. Total cost to perform the "process expense reimbursements" per $1,000 in revenue
3. Cycle time in days to approve and schedule T&E reimbursements
4. Number of expense report line items per "process expense reimbursements" FTE
5. Number of T&E disbursements per "process expense reimbursements" FTE

"Our statistician went into our database of companies that had filled out APQC's benchmarking assessment and gathered information on 670 companies' T&E processes," Driscoll explains. "We then created 'top performer scales' for the top 10 percent by adding up the rankings each

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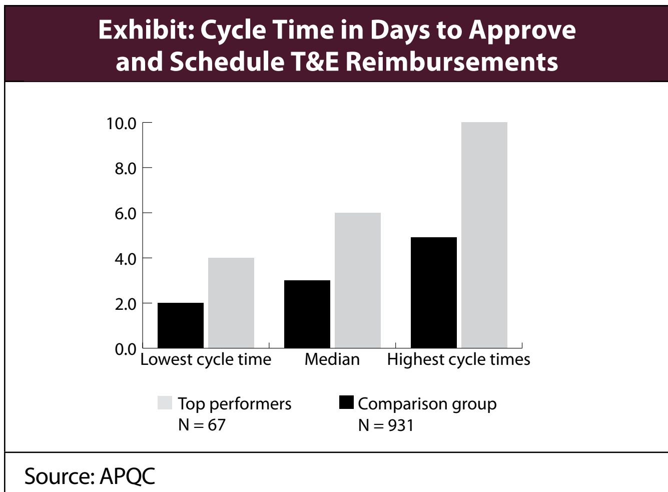
organization achieved in each of the KPI sets."

One top performer scale can be seen in the following Exhibit. The scale shows that the top performers range from between 2 and 4.9 days to reimburse their traveling employees, whereas the comparison group's range is between 4 and 10 days.

"In a Top Performer Scale for another KPI, number of T&E disbursements per 'process expense reimbursements' FTE, we found that the top-performing finance groups were able to process 33,540 T&E reimbursements per 'process expense reimbursements' FTE, compared with a maximum of only 7,297 T&E disbursements for the comparison group—a more than fourfold difference," says Driscoll.

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.❑

Exhibit: Cycle Time in Days to Approve and Schedule T&E Reimbursements



Source: APQC

BEST PRACTICES MAKE THE DIFFERENCE

What specific practices distinguish the top performers from the comparison group? Here are some that Driscoll and her team identified:

Establish rules and stress compliance. "It's important to establish and enforce clear rules about which service providers travelers are authorized to use, spend amounts, and submission deadlines for reimbursements," Driscoll emphasizes. "Companies also need to stress those rules and guidelines more than once a year through training and online tools, such as lists of approved hotels and car-rental providers, to which they can easily refer when they're on the road."

"Note that it shouldn't be up to the finance department to act as the 'T&E police,'" she says. "Finance/accounting can process the reimbursement request submissions, but it's the travelers' managers who should be responsible for approving and enforcing spending behaviors." Controllers should give managers "friendly reminders" that they are accountable for holding employees to the spending rules that have been established.

When managers approve amounts that are out of compliance, or don't even look at the amounts they are approving, it erodes the bottom line. "Remind managers to inspect all receipts before they approve them, and to set the cultural tone and stress that staff need to get the most out their travel dollars," Driscoll advises.

Research and negotiate to get the best deals from suppliers. "Best-practice companies use spend analytics to determine which suppliers have the best prices—and then negotiate to get good deals, such as discounts on hotel room rates," Driscoll says. "Then they provide travelers with lists of approved hotels, airlines, and so on."

"Top companies are then taking this further by implementing automated systems that immediately reject any submitted expense that violates the established policy, and sending the request to the manager to deal with. Such systems can also be programmed to produce reports on what percentage of travelers are complying and not complying with policy, so controllers know when additional training and enforcement are needed to get costs under control. This can become a very important and effective cost management tool," Driscoll points out.

Carefully analyze labor costs. "The way an organization reimburses its travelers can have a huge impact on the overall cost of the reimbursement process," Driscoll says. "Our findings show that the labor component takes up 60 percent or more of the total process cost."

"Controllers are always looking for ways to automate and reduce headcount, but it is important to carefully analyze labor costs and determine whether it would be more cost-effective to incur the costs of implementing end-to-end process automation or to maintain a staff of T&E clerks. The question of outsourcing T&E to a country that has low labor costs further complicates the question of how to achieve the best ROI on T&E processing," Driscoll notes.

Automate T&E expenses through the payroll system. "Top performers often use a paperless enterprise content management system that takes advantage of central storage and online access. These systems, which are integrated with the payroll system, organize, archive, and create audit trails," Driscoll explains.

"It works like this: An employee requests reimbursement for travel expenses. The request is approved and is sent automatically to a T&E employee who, working online, enters the payment into the system. The payment is then processed through the payroll system, which sends the employee the reimbursement for airfare or some other T&E related expense," Driscoll says.

Use mobile T&E solutions. "With mobile T&E applications, travelers can enter data into an online reimbursement request form directly from their mobile devices, which then puts the request directly in the accounts payable or payroll system. This ensures that the expense reimbursement functions efficiently, smoothly, and most important, paperlessly," Driscoll points out. "Getting the paper out of the expense reimbursement process is in itself a critical best practice."

AUDITS

An Audit Preparedness Primer

(Quick Code 071501)

Whether public or private, all companies are subject to financial audits—and major headaches await those who are ill prepared. By putting a relatively simple preparation strategy in place, controllers can help their companies avoid costly penalties and sidestep a host of pitfalls.

"A lack of audit preparedness can demoralize the finance team and distract finance management from managing the operational side of the business," says Julie Gilson, finance and accounting expert at RoseRyan, a specialized consulting firm based in Silicon Valley. "The audit prep becomes a 'rush project' that seems never-ending, which negatively affects the team's ability to focus on keeping current with their normal jobs."

Key Areas of Focus

Being fully prepared for an audit, Gilson points out, requires controllers and their teams to focus on the following three key areas:

1. Revenue recognition and equity transactions. "Revenue recognition and equity transactions generally involve complex transactions that have a great effect on the entity's overall financial position," Gilson points out. "So they require more analysis of all aspects and nuances. There are more accounting rules in these areas to understand and apply, and there is often some judgment involved in applying the accounting rules. In addition, there is usually more involvement by the senior level of the finance management team."

2. Accounting systems and new monetization models. "An example of a 'new monetization model' would be Web-based businesses built to make money from a variety of Web transactions, such as number of clicks, or 're-directs' to partner websites," Gilson explains. "Clearly articulating and documenting the company's process and systems for capturing and collecting this revenue will assist the outside audit staff in performing their audit."

3. Monthly financial statements and reconciliation of general ledger accounts. "These two items are critical as well because they are the means by which company management keeps track of financial performance and the overall health of the company," Gilson notes. "Completing both in a timely and accurate manner means the finance organization is healthy, is operating effectively, and has the basic building blocks for providing financial 'snapshot' and 'dashboard' data to management quickly."

"In terms of audit preparation, the statements and reconciliations are the minimum requirements for an external audit to start—and if either is missing, inaccurate, or incomplete, it will delay the audit and increase its cost," Gilson warns. "Getting the statements and reconciliations 'out of the way' easily allows companies to focus on more substantive issues and have deeper discussions with their auditors."

Cover All the Bases in Pre-Audit Reviews

Controllers should put in place a pre-audit review process that encompasses a top-to-bottom analysis of their companies' accounting methods and practices, Gilson advises. "This will allow controllers and their teams to identify problems, recommend solutions, and implement improvements and best practices."

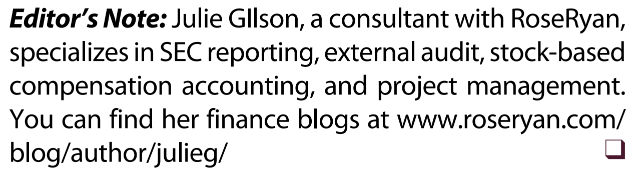
Gilson explains that a thorough audit review must cover all the following bases:

- **Revenue** (recognition, allowances, cutoffs)
- **Cost of sales** (recognition, reserves, overhead)
- **Expenses** (proper classification and within the correct period)
- **Liabilities** (AP, accruals, deferred revenue, leases, debt)
- **Assets** (cash, AR, inventory, fixed assets, capitalized expenses)
- **Equity** (stock, warrants, and stock-based compensation)
- **Operational practices** (systems, policies)

"This list is comprehensive, as it addresses all the areas of an entity's financial statements," says Gilson.

The bottom line: "Lack of audit preparedness can have many financial consequences," Gilson warns. "One such consequence is delay in obtaining financing, which affects an entity's cash resources for operations and increases the chances that future financing will be on less favorable terms to the company. Each day an audit report is delayed allows risk of the business running into a 'speed bump.' It's always better to have financing in place before that occurs so entity has more resources to get beyond the

bump. A well-performed audit experience can ensure that necessary cash resources are on hand, delays are avoided that could adversely affect a company's stock price, and the finance team is functioning at peak levels of efficiency—itself a boost to the bottom line."



Editor's Note: Julie GIlson, a consultant with RoseRyan, specializes in SEC reporting, external audit, stock-based compensation accounting, and project management. You can find her finance blogs at www.roseryan.com/blog/author/julieg/ ❑

MORE ADVICE FOR CONTROLLERS

In addition to covering all the important bases for an audit prep, controllers should follow these tips:

Consider audit preparation to be "part of the job." "Controllers must consider audit prep part of their job and have a plan in place and underway early—well before the audit starts," Gilson stresses.

Take a realistic approach to time. "Controllers must ensure that there is enough time for their teams to prepare for the audit," Gilson stresses. "Get all the prep work complete well in advance of the actual audit. Make sure the team knows the schedules ahead of time so they can manage audit tasks well while completing all their other responsibilities."

Keep the right people informed. "Controllers must make sure the right people are involved in the audit prep process—above and beyond the finance team itself," Gilson says. "For example, controllers will need to advise operational managers in manufacturing and human resources that the auditors may want to interview them about processes and review their records. For manufacturing, the focus will be on inventory, while for human resources, the focus will be on employment processes to understand entity controls over information flowing to personnel expenses in the financials."

FOUR WAYS TO BUILD GOOD RELATIONSHIPS WITH AUDITORS

Julie Gilson of RoseRyan, a finance and accounting firm, strongly advises controllers to build good working relationships with their auditors before, during, and after the audit process. The following steps will help:

1. **Communicate with auditors well in advance.** Gilson explains that an audit firm typically develops a PBC (prepared by client) list of schedules and other documents the company will need to provide for the auditors.

"Controllers should talk with their audit firms before the auditors prepare the PBC list. Tell them about your business, if necessary," she suggests. "This will help ensure that the list is manageable and doesn't contain extraneous items."

2. **Request templates.** "If your PBC list specifies a particular format or level of detail for schedules, reconciliations, or roll-forwards, don't automatically start to create something new. Instead, ask your auditors if the documentation you have is in the correct format and if not, to send along any templates they would like you to use," Gilson recommends.

3. **Be your auditor's BFF.** "Controllers should treat their auditors like true business partners. Communicate concerns and questions with them before they come on-site; this will help avoid unpleasant surprises during the actual audit. Also, controllers should make sure that they and their teams are available to answer questions once the auditors arrive on the premises to conduct their audit," Gilson advises.

4. **Designate an audit coordinator.** "If possible, controllers should identify someone on the finance teams who has an audit background to coordinate the audit and be the liaison with the audit firm," she says. "The liaison should not prepare all the audit information, but rather assign tasks to those on the finance team who have the deepest knowledge of each key area covered in the audit. This will help the entire audit process to go more smoothly."

BUDGETING

A Common Sense Way to Improve Budgeting and Forecasting Accuracy

(Quick Code 071502)

By Alan Hart, MBA

The vast majority of corporate budgets include forecasted revenue and expenses, which—when properly compiled and consolidated—produce a budget by period. These data also provide a forecasted income statement (P&L) on an accrual basis for each budget period (e.g., 12 months, 4 quarters, 18 months).

This information is useful in planning sales and other revenue streams as well as budgeting expenses such as cost of goods sold, operating expenses, payroll, and related costs. However, there is something crucial missing from this type of budget—a forecast of the future financial health of the organization. This can only be achieved by analyzing a forecasted balance sheet through budgeting a company's entire chart of accounts (COA).

Just as a Company's Accounting System Uses the Entire COA, So Should its Budget

A typical COA—a list of all the accounts whose transactions a company records in its general ledger (GL)—presents balance sheet accounts

(assets, liabilities, and equity) first, followed by income statement accounts (operating revenues and expenses).

In recent years, a new generation of planning, budgeting, and analysis software has emerged that allows forecasting of the entire COA. This software has a built-in general ledger that mimics the actual accounting GL, with COA and transaction processing similar to a GL. As budget assumptions and data are placed into the model, credits and debits are automatically entered in the right accounts, in the correct budget periods, and in the right amounts.

Using the System to Maximum Advantage

There are many benefits for controllers who implement such a system. Because future-period cash balances and other key balance sheet accounts are available, controllers can accurately forecast the future financial health of their organizations. They can identify cash shortages and assist management in taking corrective measures well in advance—such as selling assets, considering new loans, offering stock for sale, or realigning revenue streams.

Here are some ways controllers can utilize such a system to maximum advantage:

1. Assign a budget GL account to each budget line (revenue, expense, etc.). These accounts in the system should exactly mirror the actual accounting system GL so that all transactions and balances are directly associated with the budget model. The forecast will automatically create journal entries in all budget periods, using these budget GL accounts and all business rules, drivers and allocations set up in the software.

The result is that the system will give the controller a forecasted account balance of each of the COA accounts in all budget periods. Having ending balances for each account (or a trial balance for all budget periods) enables the system to automatically generate financial statements, including a complete and accurate forecasted balance sheet and a forecasted statement of cash flows, using either the direct or indirect method.

Other practical benefits are forecasting in advance certain financial ratios, determining whether or not loan covenants will be met, understanding how much of a bank credit line can be tapped in each budget period, and many other benefits associated with having a complete set of future period financial statements.

2. Compare future period financial statements with actual financial statements as soon as an accounting period is closed. This analysis will help controllers to immediately identify variances from budget (e.g., revenue or expense items that are different than their budget counterparts). Controllers can investigate these variances and make recommendations for management decisions with greater confidence.

3. Develop a robust set of KPIs. Over time, using accumulated historical data, controllers can develop key performance indicators (KPIs) specific to their company.

➢ **Example:** A controller at a catalog business or the direct-mail division of a sales organization—recognizing a correlation between orders and printing and postage expenses used to mail catalogs to targeted customer groups—can set up a driver in the planning and budgeting software that will establish a budget for catalog printing and postage expenses based on forecasted catalog sales.

As the budget is revised (e.g., projected catalog sales are increased), a corresponding revision to the

WHAT ARE THE DIRECT AND INDIRECT METHODS OF PREPARING A STATEMENT OF CASH FLOWS?

Direct method. "When using the direct method, you list cash flows in the operations section of the cash flow statement," says Eric Bank of Demand Media, reporting for the *Houston Chronicle*. "Cash flows due to operations arise from customer collections and cash paid to suppliers, employees and others. The section also reports cash paid for income tax and interest. The problem in trying to use the direct method is that a company might not keep the information in the required form. For example, companies using accrual accounting lump together cash and credit sales. They would have to make special provision to track cash sales separately."

Indirect method. "In the indirect method, you adjust net income to convert it from an accrual to a cash basis," Bank explains. "This requires you to add back non-cash expenses such as depreciation, amortization, loss provision for accounts receivable and any losses on the sale of a fixed asset. You also adjust net income for changes between the starting and ending account balances in current assets—excluding cash—and current liabilities for the period. These accounts include accounts receivable, inventory, supplies, prepaid assets, payable liabilities and unearned revenues."

Considerations. "The indirect method uses readily available information and most companies find it easier to employ," he says. "Management and shareholders might fret if a company consistently reports net income exceeding cash flows—they will want to identify the sources of non-cash income and determine whether these are masking serious problems with the business."

forecasted postage expense will be automatically updated in the model set up in the software. At the same time, actual printing and mailing activities can be adjusted accordingly.

The bottom line: Forecasting the entire COA gives controllers the ability to "see" future period financial statements, which provides the insights controllers need to make adjustments to the budget (via reforecasting), make modifications to the strategic plan anticipating certain performance results, or both.

With the right analysis software, the controller can also drill back from the trial balance account total into the detail transactions that caused that account balance and see the causes of variances. With the obvious benefits, controllers have a strong incentive to implement one of the new generation of planning, budgeting and forecasting software applications that are now available.

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, as controller, VP of finance, and CFO in a wide range of industries. ❑

TAX COMPLIANCE

Avoid Risk Through Proper Reporting of Attorney Payments

(Quick Code 071503

The IRS requires that payments to attorneys—including payments to an incorporated law firm—are reportable on Form 1099-MISC.

According to Marianne Couch, J.D., cofounder, COKALA Tax Information Reporting, LLC, there are a number of factors that payers must keep in mind regarding attorney payments.

For example, to report payments to an attorney on Form 1099-MISC, payers must obtain the attorney's TIN (per IRS language, "attorney" also means law firm and the TIN payers must obtain will generally be an EIN [employer identification number]). Payers may use Form W-9, Request for Taxpayer Identification Number and Certification, to obtain the attorney's TIN.

Payments to attorneys are reportable either in box 7 (nonemployee compensation) or box 14 (attorney gross proceeds). Payers report in box 7 payments to attorneys performing services for them; payers report in box 14 payments to attorneys not performing services for them, such as in a legal settlement situation.

Gross proceeds are reportable in Box 14. Payments totaling $600 or more that are made to an attorney in connection with legal services in the course of trade or business (for example, as in a settlement agreement) that are *not* reportable in Box 7, need to be reported in Box 14: Gross Proceeds Paid to Attorneys. Typically, Box 14 is often (but not exclusively) used for payments made to a claimant's attorney in conjunction with a court judgment against a defendant.

The way to remember whether to use Box 7 or Box 14 is as follows, Couch explains: "If the attorney or law firm performed services for your organization, report these payments in Box 7. However, if the attorney or law firm performed services for someone else, report these payments in Box 14."

"The exemption from reporting payments made to corporations does not apply to payments for legal services," she adds. "Therefore, taxpayers must report attorneys' fees in Box 7 or gross proceeds payments in Box 14, even if the payee is incorporated."

"Exemptions can include wages paid to an attorney (these are to be reported on Form W-2), as well as payments by the entity to its own defendant, which should be reported on 1099-Misc Box 7," says Couch. "Payments to nonresident aliens are also excluded. These payments are to be subjected to a Form 1042-S, not a Form 1099, analysis."

Payments also may need to be reported to a claimant in 1099-MISC Box 3. "If the attorney's or law firm's name is on the check, you must report the total amount of the check in Box 14. If the legal damages payment to the claimant is taxable, you must also report this amount to the claimant in Box 3—even if the claimant's name is not on the check," Couch stresses. "This means you may be issuing two or more Forms 1099-MISC for a single check—for example, one to the attorney, reporting the amount in Box 14, and one to the claimant, reporting the amount in Box 3."

Backup withholding rules. "Payments reportable on Form 1099-MISC are subject to the backup withholding

rules. If there is no recipient TIN at the time a reportable payment is made, the payment will be subject to a backup withholding rate of 28 percent," Couch explains.

Editor's Note: Marianne Couch recently presented the IOFM webinar, "IRS 1099 Reporting of Legal Damages and Payments to Attorneys: Learn How to Identify Reportable Payments and Avoid Tax Risk." For more information, go to www.cokala.com. ❑

LEGAL DAMAGES REPORTING AND ATTORNEY PAYMENTS CAN BE VERY COMPLICATED

"Several 1099s and maybe a W-2 may need to be issued for a single check," Couch points out. "You will need certain information to report these payments appropriately. These payments are subject to the TIN solicitation and backup withholding requirements. If the payments are for large dollar amounts, the tax withholding liability will also be large. If the appropriate information is not obtained, the payer can be held liable for large sums of tax, interest, and penalties."

Important: "Because multiple 1099s … may need to be issued, multiple withholding obligations may apply to the payment," Couch cautions.

➢ ***Example:*** A $100,000 payment is made to the claimant and attorney. If the legal damages payment is taxable to the claimant, and if there is no TIN for the claimant, withhold $28,000. If there is no TIN for the attorney, withhold another $28,000. "If this is not handled appropriately, the payer will become liable for the $56,000 in taxes, plus interest, plus penalties," says Couch.

"Use backup withholding requirement as your leverage," she advises. "Someone in your organization or under contract to you—for example, your organization's law firm—knows how the settlement is identified. No confidentiality agreements need be broken, as all you need is basic information on the types of damages: physical injury, medical expense reimbursement, or property damages. If the claim has proceeded to a court filing, unless otherwise directed by the court, filed complaints are matters of public record. Complaints will include significant details about the claim."

"If push comes to shove and you have to backup withhold 28 percent against the gross proceeds payment to the attorney, that amount of tax withholding will be credited to the attorney on the 1099—and Box 4 is used to report the amount of federal tax withheld," Couch explains. "However, the amount of withheld tax credited to the attorney is actually the attorney's client's money. [A settlement payment is] all the client's money: she/he is just satisfying the obligation to pay the attorney for his or her services out of the proceeds of the claim/litigation."

PAYROLL COMPLIANCE

Caveats for Courtesy Withholding

(Quick Code 071508)

By Raeann Hofkin, CPP

Courtesy withholding takes place when a company agrees to withhold and remit taxes for an employee who has a personal income tax liability in the state in which he or she lives. (The company is required to withhold taxes for the state where the employee works but some employees still owe taxes for where they live.)

For some companies, however, this seemingly simple arrangement could turn out to be a payroll nightmare. Here are some tips to help controllers and their companies weigh whether it would be wise to offer courtesy withholding to employees.

Understand How the Concept of Nexus Applies

While income tax withholding for all states is essentially the same, employers that voluntarily withhold for an employee's resident state may create *nexus*—a business connection—in that state. The criteria for determining nexus depend on the law in each individual state.

Nexus generally means having a place of business in that jurisdiction. An office, store, factory, or even an employee working from home will create nexus, but so will a salesperson or service provider working in the state. Employers should review their jurisdictions' definitions of "doing business" in that jurisdiction to properly determine whether nexus exists.

States Dictate the Garnishment Process

The garnishment process provides a good example of the potential complexity courtesy withholding can introduce. In general, the wage and hour and garnishment laws that employers must follow are dictated by the states in which employees work. If an employer receives a garnishment for an employee who works in Texas, for instance, the State of Texas dictates the terms of the garnishment even if the garnishment is from another state. The Texas Constitution does not allow Texas courts to issue a garnishment on employee wages for a creditor debt.

However, certain states, such as Arizona and New Mexico, have laws stating that they have jurisdiction over the employer if the employer does business in their state. In other words, the employer might be held responsible for the entire garnishment for failing to make the deduction

if the employer has a business connection or physical presence. If the employer does *not* have a physical presence—but does a courtesy withholding for the convenience of the employee—the employer opens the door to possible litigation concerning garnishments and other wage and hour laws.

A case in point: A garnishment order was received from a court in Arizona for an employee who lives and works in Texas. Since the employee works in Texas—and Texas does not allow creditors to garnish wages—the garnishment was returned to the creditor with an explanation that no deductions would be made. The creditor replied by taking the employer to court. The Arizona court claimed that the employer has nexus in Arizona and the debt may be garnished wherever personal jurisdiction may be exercised over the garnishee. In this case, the garnishment order was served on the *employer*, and the court in Arizona has jurisdiction over the employer because the employer has a tax filing account to pay the courtesy withholding.

Failing to obey the order will result in the employee's debt becoming the employer's debt.

The Bottom Line

Employers may mean well by offering courtesy withholding to their employees, but they can end up creating an unnecessary and time-wasting administrative burden. By opening a withholding account in a particular state, a company can make itself liable for other taxes such as sales tax, business privilege tax, or even corporate income tax.

Always keep in mind that having an account may establish nexus in a local or state jurisdiction. Having nexus opens a company up to being sued in the courts of that jurisdiction. So before voluntarily withholding taxes as a courtesy to employees, it is highly recommended that employers check with their tax or legal departments to make sure they won't end up with a payroll tax nightmare on their hands. ❑

BEWARE THE POTENTIAL TAX CONSEQUENCES

There can be negative consequences for employers that choose to establish a withholding account in a particular state and begin withholding taxes for their employees. When a company registers for a withholding account in a state, it opens the door to inquiries from the state about *other* taxes, such as sales and use or corporate income taxes.

Even though the employer *voluntarily* registered and agreed to withhold and remit payments on behalf of the employee, the account now becomes subject to withholding, reporting, and depositing penalties just as if the company were mandated to withhold. In certain jurisdictions, paying over withheld taxes makes a company subject to legal processes in that state.

Furthermore, from a practical standpoint, offering courtesy withholding can take a bite out of payroll efficiency. It is time-consuming to set up the withholding accounts, answer questions from the states about possible other taxes, and officially close the accounts when the employees no longer work for the companies.

FINANCIAL LEADERSHIP

Seven Ways to Keep Your Finance Team Trained, Engaged, and Loyal

(Quick Code 071506)

Being a successful controller involves much more than managing numbers—it also requires managing *people*, which means taking steps to keep the stars on the finance team motivated, engaged, and committed.

One controller who excels at the "people side" is Patrick Dunne, Vice President Finance & Controller at Novolex, a national packaging products company. Dunne's direct reports comprise two business unit controllers who oversee multiple businesses as well as one financial reporting manager and one accounting manager. His indirect employees total 26.

"Our company is a $550 million business with 12 facilities in North America. It's critical that we have a highly skilled and motivated finance team in place to meet all the challenges of a dynamic and growing company," Dunne stresses.

Here are seven ways Dunne builds and retains a top-notch team:

1. Communicate, communicate, communicate. "The simple things accomplish a lot—such as engaging each person in discussions about their jobs. I take an informal approach to communication with my staff. We might simply sit down and talk about problems that come up during the day. Or, in the case of people

who work in different states or countries, I call them at least once a day," Dunne explains.

"I make sure to have a conversation with each person on the finance team weekly at a minimum. We also have biweekly group meetings at which all topics are fair game," he adds.

2. Make development a priority. "I periodically ask each team member what he or she wants to accomplish professionally, and I determine how I can get them there," says Dunne.

"I actually start the career development at the job interview stage," he adds. "When I'm interviewing people, I ask them what they want to do in their careers. I can't know how to retain them unless I know what they want to do in the future, whether it's move up the financial track or move into the operations area. You will get people on board—and keep them for much longer—if they know you are committed to helping them achieve their career goals."

3. Provide a solid set of objectives. "Most finance people are highly objective-driven. They like to have a good set of objectives and the tools with which to achieve them. That's why I give my team smart goals for their jobs that are specific, measurable, achievable, realistic, and time-oriented," says Dunne. "It's important to make sure your staff knows what they need to do in order to be successful."

Controllers should always make sure they get employees' input by involving them in setting their own performance objectives. This will help build buy-in and enthusiasm. "That's the kind of thing that will help you retain people," Dunne notes.

4. Build employees' communication skills. Dunne has had people who were very strong technically but were not strong communicators. They were much more into texting and e-mail than having conversations in person. Since communication is such a huge part of success on the job—and is vital for people who wish to broaden their horizons and advance—a lot of effort is put into helping people develop strong communication skills.

"For example, I had one employee who was outstanding with Excel applications, so I asked her to do Excel training for some of the other groups in finance, such as AP and AR," says Dunne. "They had 'lunch and learn' sessions during which she did presentations on how to use Excel to extract information from our accounting system on the deductions our distributors take, and then send that information to the sales reps. In the process, this employee honed her communication skills and the training groups learned a lot. They all had great feedback about the experience."

5. Make performance reviews a "living, breathing" process. "Instead of just looking at the review once a year, I treat the review like a 'living, breathing' document," says Dunne. "This means looking at performance goals throughout the year with the employee, setting incremental goals, and adding new goals as needed. It keeps employees actively interested in, and committed to, their goals."

6. Keep morale high with rewards (especially when the heat is on). "I take special care to keep staff motivated and keep their morale high when times are stressful—for example, during a merger or acquisition or after a big project has been completed," adds Dunne.

Rewards include bonuses (when possible) as well as giving a half or whole day off with pay, tickets to sporting events, or meals. "For example, when the finance group is working on the close process, we bring in lunch or dinner," he notes.

7. Keep the job fresh. "The accounting/finance world can sometimes seem like the movie *Groundhog Day*—people find themselves doing the same work every day, month after month. This can lead to boredom and cause you to lose good people. That's why controllers need to keep it fresh and give their people new activities to do," Dunne stresses.

"Cross-train to broaden people's skills," he advises. "This not only provides a benefit in terms of improved morale and engagement, it means you will have more than one person who can do a particular task, which helps immensely if an employee is out on vacation or leave. Let people find different and better ways to do their jobs. In any organization, whether finance or operations, the only way you can continue to survive is to continue to improve. For example, there may be a pivot table your people can use instead of just dumping data into a spreadsheet."

Dunne takes every opportunity to give his people a chance to do something new. "We've done a lot of acquisitions and divestitures, and this requires some analysis," he explains.

➢ **Cases in point.** I had a person in my group who was always focused on doing things for one business unit. I pulled him in and had him do some analysis on customer profitability, margin percentages, and profitability per unit. This kept him engaged and in the process, we found he had many more talents we

can tap," says Dunne.

"In another case, I asked a person who did collections and credit checks to do fixed assets. She had a thirst for knowledge and really wanted to learn," he points out.

"Job enrichment in this way helps reveal hidden talents and helps identify people you really want to keep, so you can take extra steps to encourage them to stay," Dunne says.

Dunne's approach is working well: "I've been here almost nine years, and most of my top employees have been here the entire time," he reports. ❑

BRING THE BEST ON BOARD

In addition to training, motivating, and engaging the stars on their staffs, controllers need to remain on the lookout for top talent when budget dollars are available for bringing new people on board. Patrick Dunne offers the following tips for successful hiring for the finance team:

- **Look for lovers of learning.** "It's important to find individuals who want to learn new things," Dunne stresses. "These are the people who will help you grow your business. During interviews, ask applicants what they want to learn, what they liked in college and why, and what they've learned that they could apply elsewhere. Ask what they're doing now and what they'd like to do differently. Look for people who want to continually push themselves to do 'different and better.'"
- **Seek candidates with a mix of skills.** "We need individuals who have both accounting skills and analytical skills," he points out. "It is challenging to find people with this mix of skills, but we work hard to find people who can do both because they will be able to generate the numbers and tell us what they mean."
- **Polish "diamonds in the rough."** "For professional roles, we target diamonds in the rough. They may not have specific job experience in a key area, but they may have education and drive that are untapped. We are willing to give them the opportunity to use those skills," Dunne says. "We bring them in, cultivate the skills they want to leverage, and promote them as high as we can."

COMPLIANCE COSTS

Lightening the Load of Compliance Costs

(Quick Code 071507)

The cost burden of ensuring compliance with a growing mountain of regulations is getting heavier—a fact of life that is no doubt robbing many a U.S. controller of a good night's sleep. To find out some ways to help lighten this load, *Controller's Report* interviewed Tom Thompson, Senior Associate at Financial Executives Research Foundation (FERF).

"FERF's 2014 and 2015 *Benchmarking the Accounting & Finance Function* surveys found that approximately three-quarters of U.S. companies predict their compliance burden will continue to rise over time," says Thompson, who co-authored the reports. "Based on these last two years of results, it is unlikely that we will see much change in the compliance burden for U.S. companies in the next few years."

Finance Bears the Brunt

The global financial climate is largely to blame for spawning the plethora of new regulations affecting a broad swath of industries and sectors—a stricter regulatory environment that is indeed weighing heavily on U.S. companies, according to Thompson.

"Overall, 74 percent of U.S. companies expect their compliance burden to rise, while only two percent expect their compliance burden to decrease," he points out (see Exhibit) "One assistant controller interviewed for the report revealed that much of the cost of compliance at his company stems from a human resource issue," says

Exhibit: Compliance Burden Over Time by Company Size and Location

	Less than $25M	$25M–$99M	$100M–$499M	$500M–$999M	$1B–$4.9B	$5B and over	United States	Canada
Increase	74%	71%	73%	67%	69%	61%	74%	67%
Decrease	1%	4%	3%	0%	4%	13%	2%	4%
Stay the same	24%	25%	24%	33%	27%	26%	24%	29%

Source: FERF, Reprinted by permission

Thompson. "He reported that his finance team spent a 'significant' amount of time monitoring compliance."

Global Companies Are Challenged With New Mandates

FERF's research found that the compliance challenges vary according to the type and size of company, but global companies bear the brunt.

"Big public multinationals are grappling with a vast array of regulations, including the Dodd-Frank Act and anticorruption and bribery laws," Thompson points out. "They are also dealing with new mandates by the Financial Accounting Standards Board (FASB) and the Public Company Accounting Oversight Board (PCAOB). And in Mexico and Central America, new money-laundering laws are adding to the costs of doing business for some U.S. companies. Other emerging regulatory and compliance pressures are coming from the Affordable Care Act (ACA)." ❑

MITIGATING MEASURES

How can controllers ensure that their companies reduce risk and effectively manage the growing complexities of compliance while not breaking the bank in the process?

Despite the burdensome regulatory outlook, there are some key strategies that can help beleaguered companies to effectively ensure compliance and avoid potential penalties and other risks.

1. **Look for commonality.** "Identify regulatory elements that are common to various compliance requirements and address them through an integrated approach," Thompson advises. "When companies take a scattershot approach to managing compliance, they can end up with redundant controls, control gaps, blurred lines of responsibility and ownership, and fragmented reporting of risks and controls—all of which add up to higher costs."

2. **Connect policy and risk.** "Map regulatory changes against the organization's internal policies and processes. This provides transparency and enables better decision-making based on a clear understanding of risk," he says.

3. **Leverage technology.** "Advanced analytics can help companies anticipate upcoming risks and make appropriate mitigating decisions."

4. **Invest in training.** "Staff training is also a prerequisite for building and maintaining a compliance program that will appropriately address the risks," Thompson stresses. "Finance employees must be prepared to address new and existing rules—and staying abreast of regulatory changes can provide companies a substantial competitive advantage."

5. **Rethink your business model.** "Controllers and their management teams must rethink business models and reorganize them to better manage the people, processes, and technology that contribute to avoiding and mitigating compliance risk."

Compare the Costs: Compliance vs. Noncompliance

Although the costs of compliance can seem daunting to controllers, the alternative is far more costly. "While there is always a cost of compliance, controllers should consider the cost of non-compliance with regulations, which can be staggering," Thompson concludes.

PROCESS IMPROVEMENT

Ensuring a Smoother Monthly Close Process

(Quick Code 071509)

Closing the books month after month with absolute accuracy and super speed is every controller's dream—yet, principally due to obstacles in the process, some controllers find that dream rarely comes true. By making some savvy process adjustments, however, controllers can prevent common glitches before they have a chance to hamper the close.

Common Challenges: Gathering Data and Resolving Issues

According to Albert Antoine, chief financial officer of Southeast Milk, one of the most common close challenges is making sure all invoices have been received and accounted for.

"We have multiple divisions based at different physical locations," Antoine explains. "Not all divisions utilize the purchase order (PO) system correctly—therefore, we often run into a situation where POs have not been issued for all purchases made by the people at our divisions."

Another challenge that comes up concerns invoice approvals. "Invoices from suppliers are always sent for approval to the division that has ordered the goods or services," Antoine says. "However, the divisions do not always return the invoices to corporate accounting in a timely manner." Consequently, the accounting team can be in the middle of the close and realize that purchase orders and/or approved invoices are missing.

Yet another close challenge that Antoine's accounting team faces is making sure that all monthly expenses have been accrued. If this does not happen, the consequences can be an understatement of total liabilities and expenses and an overstatement of net income.

"The accounting staff is responsible for resolving these

issues," Antoine points out. While most issues are resolved in advance by the accounting staff without upper management involvement, doing so still results in the waste of precious time as people from accounting interrupt their work to try to track down the missing information.

Editor's Note: The complete white papers mentioned in this article are all available for download at no cost. For Gallina LLP's *Improving the Financial Close Process, a Practical Guide*, go to: www.gallina.com/assets/resources/Improving%20the%20Financial%20Close%20Process%20-%20Manufacturing.pdf. For Protivi's *Improving the Close Cycle by Better Managing Close Tasks*, go to: www.protiviti.com/en-US/Documents/POV/POV-Improving-Close-Cycle-Protiviti.pdf. For PricewaterhouseCoopers's *How to achieve more timely, accurate, and transparent reporting through a smarter close*, go to: www.pwc.com/en_US/us/advisory-services/assets/transparent_reporting.pdf. ❑

THESE FIVE SOLUTIONS CAN SAVE THE DAY

The following solutions can help controllers and their accounting teams avoid these and other common close challenges:

1. Review all account details in conjunction with analytics. "This helps to alert us to missing expenses," Antoine explains.

2. Ask for the info you need—*before* you need it. In *Improving the Financial Close Process, a Practical Guide*, CPA firm Gallina LLP warns of the dangers of "passively waiting for information" when doing the monthly close. "Frequently, a team member in the accounting department will state that certain account reconciliations cannot be completed because necessary information has not yet been received."

"This could be an invoice from a vendor, a payroll report from a payroll processor, or information from the warehouse," notes Gallina. "Finance staff cannot passively wait for information to arrive on their desks. They must proactively seek out and request the missing information."

3. Put a "close manager" in place. The Protivi white paper, *Improving the Close Cycle by Better Managing Close Tasks*, suggests creating a comprehensive close timeline and checklist, and putting a close manager in charge of the monthly process. This close manager's responsibilities should include monitoring accounting tasks against the checklist on a daily basis to ensure that all tasks are on track—and taking immediate steps to remedy any issues that come up well in advance of the close deadline.

4. Focus on the three stages of the close and reporting cycle. PricewaterhouseCoopers (PwC), in *How to achieve more timely, accurate, and transparent reporting through a smarter close* , advises finance/accounting teams to achieve optimum close efficiency by improving the primary stages of the process:

- ***Inputs*** (transaction processing and sub-ledger cutoffs). Look for opportunities to improve data quality, standardization, and timeliness of information feeds to the general ledger.
- ***The process itself*** (executing the close and consolidation process). Focus on distributing workload, prioritizing activities, and eliminating activities that do not add value.
- ***Output state*** (internal and external reports). Throw out activities that do not clearly support regulatory requirements and strategic decision-making.

5. Standardize purchasing processes and provide training. "It's important to work on changing the company culture to align with purchasing processes," Antoine stresses. "Implement clear and consistent purchasing processes—and train purchasers at all divisions so they know exactly how to handle invoices and purchase orders." This can save the accounting team countless hours of precious time during the close process—when time is most of the essence."

HUMAN RESOURCES

Bridge the Gap Between Finance and HR

(Quick Code 071505)

For a company to achieve maximum bottom-line results from its human resources function, there must be a solid bridge between finance and HR. The controller is in a great position to help build this bridge, according to Jeff Higgins, CEO and president of the Human Capital Management Institute.

Higgins has a unique vantage point on this topic, as he has extensive experience as both a finance leader and as an HR executive. "When I was in finance, I didn't realize that there needed to be a bridge between finance and HR," he acknowledges. "In terms of HR, I just focused on 'how many bodies does finance have and how much do they cost?'"

Higgins worked in finance for 15 years and then switched to running analytics and compensation in the HR department. He quickly realized the need for HR people to understand numbers and metrics so they'd be able to demonstrate ROI for prospective projects and activities.

"As a controller and CFO, I would often find myself shooting down HR's proposals. I didn't want to do it, but HR wasn't making a clear business case for the improvements it wanted to implement, such as a new training program," says Higgins.

"As a controller, you have to efficiently allocate funds to the departments that can demonstrate the best ROI. HR is traditionally steeped in laws and compliance, not numbers. What I learned is that HR needs to become more business savvy and be able to communicate to finance in its own language," he says.

Steps for Building the Bridge

Higgins says controllers can build a bridge with HR by taking these steps:

Start a dialogue. "Set up an informal meeting with HR leadership," Higgins advises. "Start the dialogue by saying: 'Every year, questions come up in leadership meetings about productivity, talent, and budget costs. We know HR has a wealth of data about these areas. Let's talk about some of the data that's in HR and figure out how we can utilize it to better lead, manage, and develop the workforce. We're on the same team—let's get everyone rowing in the same direction.'"

Share information. "When controllers and CFOs see white papers and research reports about HR analytics and metrics, share this information with HR," he says. "Tell them, 'I strongly recommend that you take a look at this. If you can start backing up your proposals with these types of analytics and metrics, I will be much more likely to support and approve your project.'"

Designate a finance business partner to HR. "If the resources are there, it's a great idea for finance to designate one or more people to act as finance business partners to the HR department," Higgins adds. "They can help HR understand accounting terminology and train HR in how to make a simple business case. Other good training topics for HR include scenario planning and calculating cost versus benefit—such as the variance in the cost of a training program or resource cost versus estimated benefit."

Ask HR to quantify benefits. "Encourage HR to look at results of past training programs and other initiatives and start quantifying the results and benefits. If finance knows that a training program yielded measurable improvements in quality, or a motivational program measurably reduced costly absenteeism, the controller and CFO will be much more likely to want to invest in that kind of program in the future," Higgins notes.

Support off-site finance training. "If there is nobody in finance who is a good trainer and is comfortable with training, the controller can suggest that HR take a basic course in 'the language of finance' and/or business acumen. There are inexpensive courses offered in most areas," he points out.

Propose ways to partner. "Think about some of the business questions that come up in meetings with top management from a talent and human capital management standpoint," Higgins suggests. "How could improvements in human capital management provide the solutions to these business challenges?"

➢ **Case in Point.** If sales need to be boosted in a key area, look at your sales force and identify the top performers. Partner with HR to create a detailed profile of the most outstanding performers. Where did they go to school? Where did they work before? What qualities make them so successful? What training did they receive? "Identify their characteristics to optimize chances of hiring and developing more sales people like them," Higgins advises.

The Bottom Line

"People are a company's number-one source of success and value creation, so it pays for finance to partner with HR to maximize human capital management," Higgins emphasizes. "When there is no partnership, HR is ineffective, which indirectly affects finance when the company loses its best talent."

"HR has unique data about the workforce—the ones who deliver product and service quality to customers—that can help finance improve the bottom line," he says. "Finance and HR need to use that data to determine how to develop skills, enhance work life, and bring in the right talent. When I was in finance, my old answer was always 'less is more.' But you can't grow revenue with *fewer* people—you can only do so with the *right* people. Marry financial cost data with insightful HR data to get the whole story."

Editor's Note: Jeff Higgins has a unique combination of expertise, having worked in accounting and finance as a controller and CFO at such companies as Johnson & Johnson, Baxter International, and Colgate Palmolive—*and* as a senior HR executive at organizations including The Irvine Company and IndyMac Bancorp Inc. He is a frequent speaker and presenter at HR events, where he presents breakthrough information on predictive analytic and workforce planning tools that yield verifiable ROI cost savings, revenue increases, turnover reductions, and productivity improvements. ❑

NEWS BRIEFS

Quick Code 071510

STAYING ON TOP OF TECH

Forward-looking controllers know that keeping their tech knowledge current will give them the insights they need to recommend the best upgrades and yield the best ROI for their organizations.

Yet, when asked to identify the single greatest pressure facing the finance function, respondents to a recent Robert Half Management Resources survey of more than 2,200 senior finance leaders acknowledged that keeping pace with changing technology was a challenge for them (see exhibit).

Single Greatest Pressure Facing the Finance Function	
Keeping pace with changing technology	41%
Meeting regulatory compliance mandates	24%
Harnessing/managing big data	17%
Finding and keeping skilled staff	16%
Don't know	1%
	99%*

*Responses do not total 100 percent due to rounding.

Paul McDonald, senior executive director for Robert Half, stresses that in order for finance leaders to stay current with technology, they must "hire highly skilled accounting and finance staff who are proficient with enterprise resource planning systems, are able to automate financial processes, and can tap business intelligence tools to mine data they can turn into strategic guidance."

Editor's Note: For more information go to: www.roberthalf.com/management-resources.

NOT-FOR-PROFIT FINANCIAL STATEMENTS MAY BE GETTING SIMPLER

In late April, the Financial Accounting Standards Board (FASB) issued a proposed *Accounting Standards Update* (ASU) designed to achieve the following:

- Better reflect financial performance in the statement of activities by showing available amounts that have been generated by, or directed at, carrying out the mission of a not-for-profit in the current period;
- Simplify the existing net asset classification scheme along with enhanced note disclosures;
- Enhance information in the notes to help users of the financial statements to better assess a not-for-profit's liquidity and how it is being managed;
- Make information about expenses more comparable and useful by requiring that all operating expenses be reported by both function and nature; and
- Make the statement of cash flows more understandable by (a) presenting cash flows provided by operating activities using the direct method of reporting, rather than the indirect (reconciliation) method, and (b) classifying cash flows in ways that are more consistent with classifications in the statement of activities.

Stakeholders are encouraged to review and comment on the proposed ASU, *Presentation of Financial Statements of Not-for-Profit Entities*, by August 20, 2015.

Editor's Note: To download the draft ASU, go to: www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176165949852&acceptedDisclaimer=true.

FINANCIAL PROJECTIONS POSITIVE

Controllers at manufacturing companies across several industries can expect looser purse strings and a strong bottom line going forward, according to Prime Advantage's *2015 Group CFO Survey*, an annual poll of financial leaders from U.S. manufacturers with revenues between $10 million and $4 billion.

Ninety-three percent of responding financial executives said they expect their industry to grow or remain constant in 2015, and 100 percent anticipate revenue growth with their key customers over the next three years.

Much of this optimism can be attributed to strong order pipelines, as 50 percent of member companies reported that new orders for 2015 are exceeding the levels they saw last year.

"In the race to achieve 2015 growth goals, financial executives are leveraging digital tools, additive manufacturing (technologies that build 3D objects by adding layer-upon-layer of material), and other advancements to operate more efficiently while building superior products," says Louise O'Sullivan, founder, president and CEO of Prime Advantage.

Editor's Note: To request a copy of this survey, go to: www.primeadvantage.com/public/companynews/surveys/ ❑

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.

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