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CONTROLLER'S REPORT

MEMBER BRIEFING

ISSUE 14-09 SEPTEMBER 2014

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CONTENTS

ETHICS AND FINANCIAL MISCONDUCT

Controllers Are the First Line of Defense in Keeping Organizations Aboveboard

(Quick Code 091401)

By Dawn Hackney, Corporate Controller, Meridien Research and Insearch

Whether private or public, companies must avoid ethical and financial misconduct. Although privately held companies do not have the same responsibilities to shareholders and the SEC as public companies, they should still establish stringent ethical accounting and finance guidelines.

Any organization that fails to abide by a "moral code" risks losing its reputation in the marketplace and the loyalty of its customers, suppliers, employees, and other stakeholders. Violations can result in a significant loss of revenue—or even lead to bankruptcy. So it behooves both public and private companies to adopt strong internal controls to ensure ethical conduct.

In the public arena, financial gains can begin to create a haze over core values among some corporate leaders. The famous fall of Enron is a prime example of executive management at a public company violating the company's Code of Ethics.

Improper behavior such as this by senior management led to changes in legislation pertaining to the roles and responsibilities of accounting and finance leadership. The violation of accounting standards drove the Securities and Exchange Commission (SEC) to closely look at the segregation of duties and the values of management running public companies.

The SEC made significant disclosure requirements regarding "the tone at the top." Disclosure now requires clear articulation of the fundamental values the entity follows, including how executive management is measured and compensated.

A Code of Ethics

While public companies are required to have a Code of Ethics (Section 406 of Sarbanes-Oxley requires public companies to disclose their Code of ethics and to disclose whether any violations have occurred against the Code of ethics), private companies would be wise to establish such a code as well.

A Code of Ethics is a written document that a company adopts that is based primarily on the values of honesty and integrity. To create a Code of Ethics, an organization must take the following steps:

- ✓ Define its most important guiding values;
- ✓ Formulate behavioral standards to illustrate the application of those values to the roles and responsibilities of the persons affected;
- ✓ Review the existing procedures for guidance and direction as to how those values and standards are typically applied; and

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Elaine Stattler, APM

Contributing Writer
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Chris Horner

Production Associate
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Member Services
Liz Fallon

THE CONTROLLER'S REPORT
PO Box 781, Williamsport, PA 17703
570-567-1234
fax: 203-516-2396
e-mail: customerservice@iofm.com
www.controller.iofm.com

Published by
Diversified Business Communications

diversified
COMMUNICATIONS

The Controller's Report (ISSN 0895-2787) is published monthly as part of the controller's membership service for $495 per year by the Institute of Finance & Management, 121 Free Street, Portland, ME 04101. Periodicals postage paid at Portland, ME, and additional mailing offices. POSTMASTER: Send address changes to The Controller's Report, PO Box 781, Williamsport, PA 17703-0781; 570-567-1234; fax: 203-516-2396; e-mail: customerservice@iofm.com. To renew, e-mail customerservice@iofm.com.

✓ Establish the systems and processes to ensure that the code is implemented and effective.

A well-developed Code of Ethics is established in a series of discussion sessions by the board of directors, senior management, and finance leadership. Debate takes place and decisions are vetted to determine the core values, roles and responsibilities, expectations, and behavioral standards. A typical Code of Ethics consists of the following five categories:

- An introduction section;
- A statement of core values and principles;
- Examples of noncompliant behavior;
- A discussion of the company's support system; and
- A statement regarding personal responsibility.

If senior management acts, operates, and manages in a manner that upholds the values of honesty and integrity, employees will follow.

The 'Tone at the Top' Is Critical

Controllers are the first line of defense in upholding the company's Code of Ethics from a finance and accounting standpoint. However, controllers are often put in situations where they are asked to stretch the ethics line. For example, they may be asked to interpret certain accounting standards that would lean in the company's favor financially.

This is a very difficult and delicate situation to be in. Controllers should fully understand and explain the disclosures required by the SEC (if they work for public companies)—and the standards that pertain to their organization—and handle every situation with knowledge, honesty, and integrity.

It's better to educate senior management about the rules and regulations than to approach the situation as a negative debate. Controllers who are accountants or CPAs take an ethical oath to remain independent and honest and to uphold integrity. These core values should not be violated for any reason. ❑

METRICS

Customize Your KPIs (Quick Code 091402)

By Bob Sefton, Controller, Nomacorc LLC

In the June issue we wrote about the merits of performance metrics, a.k.a. KPIs, in today's global competitive marketplace. In this issue we expand the discussion to an examination of how controllers can decide which performance metrics would best suit their specific organizations.

Use a Systematic Approach

KPIs are a cluster of quantifiable metrics that measure information streams and trends relating to specific areas of organizational focus. They help controllers identify the current status of performance in the finance operation as well as help set improvement goals and track progress toward those goals.

Organizations may differ in what is most important to achieve their strategic objectives, but the methods they use to determine their key metrics are similar. Controllers should follow these basic principles:

1. Clarify strategy and articulate business priorities and objectives;
2. Define and manage action plans to ensure that activities and initiatives are in place to achieve the priorities and objectives;
3. Monitor progress on an ongoing basis and benchmark against past performance;
4. Adjust strategy as necessary to achieve continuous improvement; and
5. Phase out and replace metrics as performance goals are met.

Ask the Following Questions

The process of choosing and measuring KPIs must be carried out methodically or the metrics will not provide the desired result. All KPIs should relate to distinct improvement goals and be directly aligned to the form, fit, and function of the specific organization. To select effective KPIs, controllers should ask the following questions:

✓ What metrics do we use now and what is the current baseline against which we measure progress?

✓ What is important to the finance function and the organization as a whole in terms of completing strategic objectives?

✓ What is important to our customers, both internal and external?

✓ What factors dictate cost within the finance group?

✓ What can we measure to help identify areas of opportunity?

✓ What measures can we identify consistently, repeatedly, and systematically?

✓ Who comprises the finance team and what are their responsibilities and expected contributions?

✓ What is a "relevant" measure, and is it equitable and relational to the achievement of common goals?

✓ What is the final goal for each measurement and for how long will measurement be needed?

Determine Corrective Actions

As performance goals are met, corrective actions should be implemented based on what is learned through measuring KPIs. Good steps to help determine corrective actions include the following:

✓ Implement disciplined and robust reporting systems.

✓ Document issues and concerns.

✓ Solicit ideas from others in finance and other functional areas.

✓ Identify team members and define responsibilities and authority.

✓ Establish team goals to achieve (and associated incentives).

✓ Perform root-cause analysis.

✓ Define containment and counter measures to stop problems from worsening.

The bottom line: The implementation and maintenance of KPIs need to be systemic, interactive, and provide a framework where issues, concerns, ideas, and other criteria are exchanged and communicated effectively throughout finance and the larger organization. ❑

SPEND CONTROL

Get a Handle on Unauthorized Spending (Quick Code 091403)

In order to get a handle on how spending is actually being done at their organizations, and to ensure that spending is well under control, controllers need to ask and answer three key questions—and then implement improvements as needed. Simon Dadswell, marketing director, PROACTIS Group, a company that specializes in spend control and eProcurement, explains:

Question 1: Do the right people really have control of what the organization is purchasing? "This is important because without the proper authorization controls, employees may buy things that are not budgeted, are not a priority, or are even inappropriate for their job function," says Dadswell. "This behavior must be eliminated for several reasons."

"Although the vast majority of out-of-compliance (and off-contract) purchases are essentially well-intentioned, there is always the risk of fraudulent buying and exposure to supplier non-compliance and risk, which must be prevented. Furthermore, to ensure that such purchases as capital equipment and computer hardware are appropriate, you may need to involve an expert who understands issues specific to those types of items. This person would need to give a thumbs-up before such a purchase would be approved," says Dadswell.

Know the danger signs. Dadswell advises controllers to root out problems in this area by looking for the following danger signs:

- **Invoices that have no PO numbers.** "When you have a lot of invoices coming into AP without an approved purchase order on file, you may be lacking the proper authorization controls," he points out.
- **Excessive workflow in AP.** "There may be a situation where a high percentage of invoices are being coded in AP and then sent to various departments for approval but AP is effectively getting approval on what has already been spent," says Dadswell.
- **Frequent surprise among managers:** "When managers are surprised to hear that certain purchases have been made by their employees, there is clearly a problem with the authorization process," he says.

Remedies:

✓ **Develop well-defined rules for purchase approvals.** "Base approval requirements on such criteria as monetary value, item category, and department," advises Dadswell.

✓ **Build awareness of the rules.** "Communicate the policies and their purpose throughout the organization. Get buy-in for adherence by explaining the potential damage to the company's financial well-being when buying goes unchecked," he says.

✓ **Track and address unauthorized spend patterns.** "The controller can enlist the aid of the AP manager and eProcurement technology in tracking invoices with no PO. Usually frequent offenders come to light. The controller can then work with the culprits' managers to help rein in the unauthorized spending," says Dadswell.

Question 2: Do managers have sufficient visibility into their departments' spending to properly manage their budgets? "Since purchase commitments are made well in advance of when the items bought are actually paid for, trying to manage a budget using only last month's financial statement is very difficult," says Dadswell. "Furthermore, managers are often asked to help manage cash flow in addition to managing their budgets; this is much simpler when managers can see the commitments that are already made when approving requests."

Dadswell explains that productivity and operational results will invariably suffer if a manager needs to spend an inordinate amount of time e-mailing employees or walking around asking them about their open commitments and then suddenly having to rework their budgets because they realize their departments have gone over the limit.

Know the danger signs. Dadswell encourages controllers to look out for the symptoms of trouble such as surprise on the part of managers that they are over budget, confusion about whether their departments' spending and budget are in alignment, or excessive caution on the part of managers who seem concerned that they could go over budget due to expenditures of which they are not aware.

Remedies:

✓ **Take a close look at the organization's overall spending pipeline.** "Assess whether, as controller, you truly know what your organization's overall cost pipeline is and how well you can see into that pipeline to know where the organization stands with respect to budget and bear-future cash requirements," advises Dadswell.

✓ **Implement effective authorization procedures.** "This is critical in order for managers to know about their employees' purchase commitments before invoices actually arrive," he says.

✓ **Capture purchase activity early.** Put in place a way of capturing purchase requests and commitments as early as possible. Try to capture enough detail to enable managers to really know what the request or commitment is, who originated it, what it's for, and why it's needed. Be sure proper account coding is done up front.

✓ **Make the information accessible.** Make it easy for managers to see summaries and details of open commitments in addition to their financial statements. Enable this at multiple levels of organizational roll-up.

Finally, Dadswell advises, sit down and talk with managers. "Gauge whether there's really trouble by asking managers how they decide if they can approve a purchase request, what they look at to know where they really stand vis-à-vis their budgets, and how much guessing they're actually doing," he says. Good communication can go a long way toward rooting out the causes of inappropriate spend behavior. ❑

FINANCIAL PLANNING

Support Your Multi-Year Financial Forecasts

(Quick Code 091403)

A multi-year financial plan is a controller's knowledge and research put into written format so that others can review and understand the financials.

"The biggest challenge for controllers lies in writing the supporting documentation for the plan and fully understanding the underlying assumptions," says David Hughes, Executive Vice President of Operations, On Target Performance Group. Hughes offers the following advice for getting the job done right.

Do your research. Know the competition's operational strengths and weaknesses and understand your own organization's strengths and weaknesses.

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Get help. "To ensure that all the appropriate people, process, and technology challenges are addressed in your write-up, talk with anyone who can shed light on those issues," says Hughes.

"It is often the line workers who provide the most insight," he notes. For example:

- Sales and marketing people can provide data on the products and competition;
- Management can bring you up to speed on operational challenges;
- HR can brief you on personnel issues; and
- IT can inform you about trends in technology.

Take a methodical approach to creating the write-up. "There are no right or wrong segments to include. It all depends on the business, the audience, or the preparer," Hughes explains.

In general, he advises that a plan should always include the following sections:

- Products and services;
- Competition;
- Personnel;
- Technology;
- Operations; and
- Research and development.

"Add to each section a write-up that includes how you arrived at your assumptions, why you believe they are accurate, what justifies your numbers, and what factors internally or externally might change them," says Hughes. "For example, in the personnel section, provide the number of people by department and note where the numbers came from."

Crosscheck your assumptions. "Crosscheck some of your assumptions with multiple sources," he advises. "This creates more support and buy-in for your write-up." "For example, if IT says it has budgeted for 5 people, crosscheck this with the operations manager. He or she might reveal that 5 people are too few. Operations might have a big IT project planned, which IT knows about, but IT thought operations would provide the manpower, and vice versa," says Hughes.

Get executive staff direction. "Look for direction from the executive staff in terms of vision or mission," he adds. "It is helpful when the executives issue a letter that translates the mission into a strategy. In some cases the controllers are part of this process, but often they are not."

"With senior management's clear message in hand, the controller can ensure that the plan supports the organization's vision, mission, and strategy. You don't want your plan to conflict with the executive's intentions," Hughes points out.

Editor's Note: David Hughes has 30 years of experience as a financial and operational leader in profit planning, capital planning, profit and cost modeling, financing/banking activities, cost containment, and budgeting in national and international organizations. ❑

INTERNAL CONTROLS

Establish and Enforce a Sound Expense Reporting Policy

(Quick Code 091404)

Next to payroll, T&E expenses are the biggest expenditures a company has to manage. Setting up rules and guidelines for expense reporting is critical for reining in costs. Controllers can play a powerful role in establishing clear policies and procedures for spending and expense reporting.

Here are some tips on how to do just that from Vik Agrawal, co-founder and president of ExpensePath, Inc. Agrawal works with controllers and other finance leaders to understand and improve their expense reporting processes. Agrawal suggests that controllers:

1. Consider what employees need to do in the context of their jobs. "Controllers need to consider what can be reasonably asked of employees in terms of controlling spend and expense reporting while allowing them to do their jobs most effectively," says Agrawal. "Think about the employees who will be doing expense reports and what they need to do in the context of their jobs related to incurring and reporting expenses. Start with that as a base for setting policies."

Keep this in mind: Employees are mostly concerned with what they need in order to be successful on the job. For example, sales staff may need to entertain prospective clients while on the road. A suitable policy should give them enough flexibility to build customer relationships and close deals. Also, employees don't want to spend a lot of time filling out expense reports—time that could be allocated more productively in fulfilling their primary job responsibilities.

"Expense reporting should not get in the way of employees doing their main jobs," says Agrawal. "When creating rules, a controller needs to keep this in mind or you could become the 'bad guy' and the situation could become adversarial."

2. Set fair limits. "For most companies, one set of limits covering all employees does not make sense," he says. " This is not only true between levels of employees (executives vs. rank and file), but also based on job function." For example, you want your salespeople using their cell phones for business, so their monthly limit should allow for this. However, covering a high monthly cell bill for non-sales and non-executives doesn't make much sense.

"In addition to function and seniority, consider geographic realities when considering expense policies; a meal for an employee based in Europe is not the same as one based in China. This goes back to considering what each group of employees needs to be effective in their jobs, and then making sure that policies allow them to do this," Agrawal explains.

One area that can get sticky is in setting spend limits for executives. "As a leader in the finance function, the controller should bring expertise and discipline to the company with respect to expenses," he points out. "Executives have an overall responsibility for the successful management of the company so will hopefully be willing to rely on their controller's suggested process and rules as a subject matter expert.

Controllers should assume that executives are driven foremost by what is best for the company, including how to best do their own jobs, and not by personal interests. The vast majority of executives will listen to reason."

3. Communicate expense policies throughout the organization. "This can be challenging because in truth very few employees actually read policy and procedure manuals," says Agrawal. "Real-time, in-process guidance on rules is the best way for employees to learn what is expected of them. Immediate feedback that comes up while employees are creating an expense report can tell them when their spending is out of policy.

"This will prompt employees to either keep their expense report within the predefined limits or provide a justification for surpassing those limits. This approach provides a good learning opportunity and most employees will keep this in mind the next time they incur a similar expense."

4. Have a process for handling exceptions. "Exceptions will certainly happen and should be accommodated, but inconsistent enforcement is the equivalent of having no rules," says Agrawal. "Getting support from executives and managers can relieve the enforcement burden as well, so that employees are more directly monitored by their managers." "Information on exceptions should always be filed with the expense report," he adds. "This should include an indication of who approved the expense report and, ideally, some justification for the exception."

5. Deal with rule-breakers. "Nothing works against chronic rule-breakers like holding back something they care about, such as holding their paycheck or reducing their reimbursements until they comply," says Agrawal. "However, this would require the support of management and a willingness to be the 'bad guy' in a potential confrontation with a difficult employee."

"What we have found helps with most rule-breakers is the ability to set a process that has some benefits for the employees—for example, making it easy for them to create and submit expense reports, helping them avoid losing receipts, automatically converting foreign currency transactions for them, and getting them reimbursed faster. If all else fails, having the ability to easily pull historic data on that employee's expenses and expense reports can be used to make the case to them, their manager, and/or upper management," says Agrawal.

The bottom line: "If controllers provide an expense reporting process that makes things easier and more transparent for employees, they will be viewed more as partners than adversaries," says Agrawal. "Controllers can help ensure adherence to the policies by setting forth a clear and consistent expense reporting process."

Editor's Note: Prior to founding ExpensePath, Vik Agrawal had more than 15 years of experience in finance, corporate development, and operational roles with leading technology companies including Intuit, Time Warner, McAfee, and Toshiba. ❑

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COST CONTROLS

Control Credit Card Transaction Costs (Quick Code 091405)

While accepting payments via credit card is good for business, it can also take a bite out of the bottom line. To get some tips on how to control credit card costs, *Controller's Report* interviewed Steve Kahn, controller at Carolina Lumber & Supply Company (Atlanta, GA).

"We accept credit card payments because this makes it easier for our customers to do business with us, but we need to control the costs as much as possible," says Kahn. "Credit cards have a very wide range of costs associated with them. The fees can get confusing and can really add up—especially when you consider the add-on fees from the credit card processor."

Credit card costs arise from three main areas, according to Kahn: 1) from transactions where the card is not present (for example, telephone sales); 2) from the use of credit cards as opposed to debit cards (debit cards usually charge a low, fixed amount while credit cards charge a variable amount); and 3) from the rewards associated with the card (rewards cards generally have higher fees for the merchant).

"A credit card payment is the only business transaction we enter into without knowing what the cost is going to be before the transaction occurs," says Kahn.

"The fee charged depends on what features the customer's card happens to have on it; it could be from 2 percent to 3.5 percent but we can't tell that just by looking at the card."

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Advice for Controllers

Kahn has the following advice for his fellow controllers:

Understand the types of charges added by credit card processors. Credit card processors' fees can be bundled or unbundled, says Kahn. "When charges are bundled, the credit card processor basically shields the merchant from the myriad of credit card fees by delivering services at a set of simpler rates (like x percent per credit card dollar processed plus y cents per transaction). The processor makes estimates of what kinds of cards they think your customers will be using based on historical patterns of the percent of transactions on rewards cards, debit cards, etc."

"The blended rate the processor offers is higher than their estimated cost so it can make money," he says. "Under the bundled approach, it seems there is an incentive for processors to guess card usages of expensive cards at the high end of the range so they have less risk of losing money."

On the other hand, when charges are unbundled, the credit card processor passes on whatever the credit card company charges per transaction dollar-for-dollar, and then on top of that there is a processor fee based on a set percentage, Kahn explains. "For me this is a better approach. I don't have to worry about the processors' estimates of what kind of card is being used, and I can get any benefit if customers move to a lower costing card usage (but I have a risk of customers moving to higher fee cards, too)," he adds.

"If your credit card transaction volumes are low and you have expensive transactions, bundling may be a simpler approach because it helps you understand what you are being charged and gives you a tool to help manage the cost. However, if your volumes are higher and you have a reasonable mix of kinds of cards, then the unbundled approach tends to work better," says Kahn.

Use the debit card option when possible. "If a customer has a debit/credit card and their purchase is over $45, we prefer the transaction as a debit so we can process the payment at a low, fixed rate without the extra fees," he says.

Compare fees from year to year. "I compare my credit card fees to what they were the previous year and compare that against the change in sales. If things are not looking to be in tandem, I have to look again in more detail to determine the problem," says Kahn. "However, if credit card fees went up by 15 percent, and sales volume also went up by 15 percent, then we are probably doing okay."

Shop around. Talk with other credit card companies and processors to negotiate for better rates. "Collect a few months' worth of transaction activity and share it with a few candidates to see who will give the better rate. Include your current provider in the mix; you may be able to get a lower rate without the hassle of changing processors," says Kahn.

Provide required information. Make sure staff who handle credit card transactions are trained to take all the information the credit card company requests at the point of sale. This could include the three-digit security code on the back of the card, customer's street address and/or zip code, and the amount of sales tax charged. If your company does not provide this, the credit card company will charge add-on fees.

The bottom line: Monitor credit card-related fees from a big-picture perspective to make sure the total costs remain reasonable. "Also consider the costs of control as well as the benefits," says Kahn. "You could put a lot of effort into bringing down your credit card costs but end up spending more than you save. So look at the overall costs and potential savings before embarking on any large cost control process."

Editor's Note: Steve Kahn, MAcc, CPA, has more than 35 years of experience in public accounting, corporate finance, management consulting, and information technology. He is an associate faculty member at the University of Phoenix. ❑

BENEFIT COSTS

Cash Pricing Can Reduce Healthcare Costs (Quick Code 091406)

By Peter Boland, PhD

It is not news to controllers that businesses operate in tight markets for profitability. Controlling operating costs is essential for survival. The cost of providing an Employer Sponsored Health Plan (ESHP) represents one of the major costs for doing business.

The primary ESHP models implemented by businesses at this time are high-deductible health plans that transfer the majority of financial risk for healthcare to the employee. However, there is a new option—cash pricing—that directly addresses the ESHP cost issue by dramatically reducing the amount that the ESHP pays for medical services. In a cash pricing initiative, both employers and employees benefit. Employers save on healthcare costs and employees save by avoiding employee deductibles and copays.

How Cash Pricing Works

When an employee or beneficiary requests an elective procedure based on the recommendation of an attending physician (e.g., primary care doctor), the request generally goes to the ESHP for utilization review and authorization. There are hundreds of elective procedures (e.g., MRI, colectomy, hip and knee replacement) that can be paid for with cash pricing.

With a cash pricing option, the employee is given a choice, when authorized, of either electively participating in a competitively bid cash pricing plan or remaining within the ESHP's contracted network and contracted pricing structure (e.g., PPO network) for the procedure. If the employee or beneficiary chooses to explore the competitive bid cash pricing option, that employee will be given the option of choosing among providers that compete to render the elective procedure.

This ESHP enhancement does not disrupt the company's existing relationships with brokers, consultants, reinsurers, or plan administrators. Furthermore, the cost for a consumer purchasing agent does not cost the ESHP anything until actual savings below existing managed care fee schedule costs are realized. In other words, the consumer purchasing agent does not get paid until the employer saves money.

Cash Pricing Is a 'Win' on Three Levels:

1. **It is a "win" for the provider.** By using this model, providers are incentivized because they are paid cash at the time of service rather than having to haggle with managed care companies for months about payment authorization issues. Cash payment reduces the provider's administrative overhead associated with servicing managed care contracts by between 30 percent and 40 percent. And it eliminates the provider's accounts receivable problems and bad debt collection when patients are not able to pay their high deductible when seeking medical care. Plus, providers decide the price of their bid.
2. **It is a "win" for the patient.** Patients are incentivized because their deductibles and copayments are waived.
3. **It is a "win" for the employer.** Employers are incentivized through lower medical costs and more predictable pricing and spending.

Rather than being a win-lose financial model in which the incentives are completely misaligned, cash pricing is a win-win-win business model.

Example: An advisor from the healthcare plan, such as MedCost*solutions*, would work with the employee and attending physician to fully define the scope of the elective procedure by defining the specific CPT codes for all the services within the procedure (institutional, professional, and technical fees). This structure gives the competing bidding providers the defined scope of services for which they can generate a guaranteed price bid.

A number of local providers, who have a record of accomplishment in performing such a procedure, are invited to bid on the procedure and to supply relevant data on their record of accomplishment for such a procedure (outcomes, volume, patient satisfaction, etc.). MedCost*solutions* would likewise generate quality-related data on each provider by accessing publicly available databases.

The patient would then use this information and his/her attending physician to select a particular bid based on the performance characteristics that are most important to them, which may or may not be the lowest price. If the patient decides not to select such a bid, then the patient stays with the PPO provider network (and the higher fee structure).

Should the patient elect to stay within the PPO, then the existing plan's cost-sharing features (deductible, co-payment, and co-insurance) apply. If a competitor's bid is selected by the patient and accepted by the ESHP, the plan's administrator funds a cash payment fund that is released to the provider when the procedure is performed.

Employees exposed to the actual cost for services that they pay for out of their own pockets can become engaged consumers under this competitive pricing system. The ESHP can further incent engagement by sharing the resulting savings through waiving the cost-sharing requirements in the ESHP design. There are not parallel incentives for employee engagement in negotiating service pricing in managed care (i.e., PPO networks or HMO plans).

Moving Beyond the Old Business Model

Managed care insurers are now limiting employee choice through narrow networks. Cash pricing puts employees and their primary physicians in the driver's seat by restructuring the pricing process so that it is consumer-centric and conforms to the norms for pricing in the rest of the U.S. economy.

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This structure enables the informed consumer to select the best provider (e.g., quality, experience, satisfaction, and price options), and that choice is not limited to a particular provider network.

Competitive bundled pricing forces provider groups to compete with one another on a guaranteed total service cost basis rather than on an a la carte basis where prices are negotiated with insurance companies.

The bottom line: Cash pricing produces savings of between 30 percent and 60 percent below managed care prices with no downside to the employer or the employee. Controllers can monitor cash flow much more closely (e.g., there is no tail of expenses that stretch out) and can lower the overall cost of premiums, reinsurance rates, and exposure to risk. In other words, it is more predictable and more stable; it does not automatically go up each year.

The Role of Controllers

Controllers can suggest offering financial incentives for employee participation by sharing the resulting savings from competitive cash-based pricing. Waiving deductibles and copays represents a powerful positive motivating factor. Furthermore, by removing the barrier of deductibles, employees will be assured of access to their provider in the event that they do not have enough funds on hand to pay the deductible, which may range from $1,500 to $10,000.

Under a provider-centric system, employees receive no benefit from the insurance coverage until they exceed their deductible limit. For example, at an annual deductible threshold of $2,500, only 11 percent of beneficiaries meet their deductible limit in any given year. That figure declines to 2 percent with a threshold of $10,000 (see Exhibit). Each employee not meeting his/her deductible limit is self-financing the services they and their families receive. Thus, the level of interest in comparative pricing by consumers is directly correlated with their level of financial risk for healthcare services.

Here are some suggestions for controllers who are seeking to help their organizations contain healthcare costs:

Think clearly about the incentives of the current managed care model. Too many employers are captives of doing the same thing year after year while their ESHP costs inflate relentlessly.

Consider a different business model such as cash pricing for elective services. Elective services constitute 60 percent of medical spend. Cash pricing can be layered on top of the existing benefit structure and presents no risk to the employer or the employee because it is an optional benefit enhancement.

The cash price model is used throughout the procurement process for the rest of the U.S. economy. This process can be applied to medical care through competitive bidding among providers and cash payments. It is not a new business concept, nor is it a radical idea. It is just new to healthcare, where it is now being installed and is proving to be effective.

Exhibit: Increasing Level of Beneficiary Financial Liability

Deductible	Percent Meeting Deductible Each year
$2,500	11%
$5,000	4%
$7,500	3%
$10,000	2%

Source: eHealthInsurance.com, 2013.

Editor's Note: Peter Boland, PhD, is president of Boland Healthcare (Berkeley, California). For more information contact him at peter@bolandhealthcare.com. ❑

TAX & REGULATORY COMPLIANCE

Use Audits to Boost Performance—and Revenue

(Quick Code 091407)

By Vivek Kumar, SOX Audit Specialist, Rose Ryan

Editor's Note: *While this article focuses largely on Sarbanes-Oxley (SOX) compliance in public companies, controllers can apply the same ideas and strategies to audits of all kinds, both within and outside the organization. Following the SOX audit process can help controllers uncover opportunities to generate revenue, increase process efficiency, and enhance performance.*

The audit process of Sarbanes-Oxley (SOX) can be used as a highly effective improvement tool in finance for both public and private companies. The key is to view SOX audits—or any audits—as a positive process, rather than as a "necessary evil," and to regard auditors as not only allies, but also partners.

Different Lines of Defense, Same Objective

In SOX audits, there is one purpose: to make the corporate environment and controls the best they can be, while the company achieves its business objectives. Controllers, as part of their responsibilities, do just that. They ensure that the financial reporting is fair and accurate for the business they support. Hence, SOX auditors and controllers have the same objective. This common ground is a good foundation upon which to build a solid mutual partnership.

So what is different between the auditor's and the controller's role? In a nutshell, if SOX auditors are doing their job optimally, the controller's mission to ensure controls over number reporting should be made easier, because there is now an extra set of eyes looking out for the controller. By the same token, since controllers are more deeply entrenched in their world of number generation, they can give a deeper perspective to the SOX controls framework.

This combination of two sets of professionals—the SOX auditor and controller—looking at essentially the same core objective (integrity of financial reporting), albeit from a different viewpoint (in depth for the controller and outside in for the SOX auditor), makes them trusted partners. In fact, this relationship is inherent in the nature of their jobs.

How Audits Yield Process Improvement

Improving processes is a real benefit of SOX work and it can come from either side, since controllers and SOX pros each bring their own perspectives to the work and can enhance one another.

Controllers often correctly look at SOX audits as that independent set of corroborative eyes, and SOX auditors bring their "control mindset" to the numbers generated by the Controller's Office. This sets up the synergy that can happen from either party.

Controllers, for example, might want to increase their confidence in their processes, so they can look at the independent SOX auditors to corroborate this idea. Or the SOX auditors—who live and die by the control framework—might suggest control enhancement to the controller, who may be so deep in his or her world that the bigger picture is shrouded or hard to see. The SOX auditor is looking at the framework of controls for the whole entity, and often at various entities. This wider perspective is something controllers can leverage to improve their own processes in finance.

Generating Revenue by Looking Objectively at the Entire Cycle

Most controllers, rightly, are focused on their month, quarter, and year-end close. This makes them laser-focused in the generation of accurate numbers, month after month. However, this intense focus also means that as "recorders of revenue," most times they don't get the luxury of time or the perspective to see beyond the recording and look into the generation of revenue itself. SOX professionals, on the other hand, are looking objectively at the entire cycle of product creation from revenue generation to quarterly reporting.

As the SOX auditors get to spend time with the professionals along the entire supply chain of number generation, they are often able—if they keep an open mind—to get a wider perspective on the revenue and product (or services) cycle of the entity. As a result of this bigger picture, and, again, visiting different areas and specialists in the order-to-cash cycle, SOX pros can unearth, either on their own or as a result of a discussion or test, additional revenue generation opportunities.

Tips for Controllers

To make the most of the SOX (or any auditing) process, controllers would do well to implement the following approach:

Start off with a teamwork mindset. The perfect start to any SOX audit year is to initiate the process in a joint manner, with the controller and the audit team calling a kick-off meeting and involving the entire finance team. This sends a universal message that the controller and the auditors are two sides of the same coin—and that coin is called "integrity in financial reporting for the entity as a whole."

Communicate! It is important to have continuous communication between the Controller's Office and the SOX team, keeping the communication transparent and the tone professional and collaborative.

Utilize the work of the auditors to achieve third-party corroboration that all is well in their world. Controllers can achieve that peace of mind and comfort while they are simply going about their normal duties.

Use audits and auditors as sounding boards for control enhancements. A controller might like to improve a process but may not be getting the necessary support from their peers or bosses. By running their process improvement idea by the auditors, the controller may very well get positive reinforcement that the idea is a valid and worthy one. With the SOX team's support, the controller's idea now carries more weight!

Editor's Note: Vivek Kumar has been a finance and accounting professional since 1991 and is a member of the consulting team at RoseRyan (www.roseryan.com) in the San Francisco Bay Area. In addition to his work as a SOX auditor, Kumar carries out engagements as an internal auditor and controller. For additional examples regarding the benefits of SOX audits, check out Kumar's blog at www.roseryan.com/blog/2014/06/unearthing-revenue-and-expense-opportunities-through-sox. ❑

PAYROLL COMPLIANCE

To Pay or Not Pay? Questions to Address in an Inclement-Weather Policy (Quick Code 091408)

By Raeann Hofkin, CPP

September is upon us, which means winter isn't far behind. Companies along the East Coast and in other areas hit hard last year are bracing themselves for another round of winter storms.

Before the storms start brewing, companies should take the opportunity to review or create a solid inclement weather policy. This policy should address more than just the basic two-hour snow delay or closure—it should also address how employees are to be paid in these situations.

Factors to Consider

Inclement weather and other emergencies not only affect the company's ability to open for business but employees' ability to get to work; the safety of employees should be a concern in any emergency policy.

Other factors to consider: When the company is closed for extreme amounts of snowfall, power outages, flooding, or a state of emergency declared by the governor, the business may be closed for a day or longer. Do you require your employees to use vacation time or some other paid time off balance? Do you pay your exempt employees? Do you require your employees to work from home? Do you have a way to communicate that the business has been closed?

Two Important Questions

When creating a policy for closures due to weather events and other emergencies, employers have to determine the answers to two questions:

✓ What legally guides your decisions about whether or not to pay employees?

✓ How will your employees feel about your decisions?

The policies established can potentially affect morale, which can affect production and turnover. Companies also need to consider whether the business was closed voluntarily or due to a state of emergency declared by the governor.

The decisions that need to be made will also depend on whether employees are exempt or nonexempt according to federal and state laws.

Exempt rules. The Federal Department of Labor (DOL) states if an exempt employee performs any work during the work week, he/she must be paid the full, normal salary. Therefore, if the company closes for only one day, the employer cannot make any deduction from the exempt employee's pay.

In addition, if an exempt employee is willing and able to work, an employer cannot take deductions from his/her pay when work is not available (e.g., due to a weather closing). If the exempt employee worked part of the day and then a state of emergency was declared, the exempt employee must be paid for the entire day.

According to the Department of Labor, docking exempt employees' pay is allowed under the following conditions:

- When an exempt employee is absent from work for one or more full days for personal reasons other than sickness or disability;
- For absences of one or more full days due to sickness or disability if the deduction is made in accordance with a bona fide plan, policy, or practice of providing compensation for salary lost due to illness;
- To offset amounts employees receive as jury or witness fees, or for temporary military duty pay;
- For penalties imposed in good faith for infractions of safety rules of major significance;
- For unpaid disciplinary suspensions of one or more full days imposed in good faith for workplace conduct rule infractions;
- In the employee's initial or terminal week of employment if the employee does not work the full week, or
- For unpaid leave taken by the employee under the federal Family and Medical Leave Act.

Nonexempt rules. Nonexempt employees are handled differently than exempt employees. There isn't a requirement to pay them unless they have physically worked. The Fair Labor Standards Act (FLSA) does not require employers to provide paid vacations, sick days, jury duty leave, holidays, lunch breaks, or coffee breaks to employees. The DOL elaws, FLSA Advisor (http://www.dol.gov/elaws/faq/esa/flsa/006.htm), emphasizes this and points out that vacation, sick pay, and holiday pay are benefits that are a matter of agreement between an employer and employee.

It may be advisable to give the nonexempt employees the option of using paid time off (PTO) days, making up the time in the same week (to avoid OT), or take the time as unpaid. Each individual employee will have to notify the appropriate supervisor and the supervisor should notify payroll.

The bottom line: When creating a policy for inclement weather, make sure to check your state's laws and regulations and ensure that your policy is compliant. When questions are up to company discretion, make the decisions that will have the least negative impact on productivity, morale, and the bottom line. When a blizzard hits, questions can arise about whether you must pay employees for the work time they miss. If you have a compliant policy on file, you will have the answers at your fingertips when you need them most. ❑

NEWS BRIEFS

Quick Code 091411

FINANCE TEAMS WEARING MORE HATS, NEED TO EXPAND SKILL SETS

Controllers and their teams are wearing more hats than ever, as the responsibilities of finance professionals continue to expand beyond traditional accounting and financial reporting to encompass such areas as IT development, cyber security, and strategic business planning.

This is one of the key findings of a recent survey of 1,200 senior-level Chartered Global Management Accountants (CGMAs), conducted by the American Institute of CPAs. The survey, which was carried out in May and included input from CPAs who hold such positions as controller, CFO, and CEO, also found that business complexity is a significant factor driving the need for finance to focus on additional areas—and this trend is only expected to increase.

"Increasing business complexity has become the new norm, and it's not surprising that businesses are having to adapt and manage to the rapid change," points out Arleen R. Thomas, CPA, CGMA, senior vice president of management accounting and global markets for the AICPA. "As a result, organizations are calling upon financial management to play a larger role than ever before."

Key findings. Here are some noteworthy findings of the survey:

- When asked to gauge the change in the level of business complexity over the last three years (given the U.S. and global economic and regulatory environment as reference points), 93 percent of CGMAs reported experiencing more complexity.
- When asked to look ahead three years, 94 percent of CGMAs said that complexity in the business environment will increase further. Of those, almost three in four (72 percent) predict a moderate or significant increase in business complexity.
- Only 5 percent of respondents predicted no change in complexity.
- Less than 1 percent said they expect business complexity to decrease in the next three years.

New areas of focus. Eighty-five percent of CGMAs said that the role of the finance leaders has expanded, citing the following areas of increased involvement for controllers and CFOs:

- Strategic business planning (58 percent);
- IT development and cyber security (55 percent);
- Management and corporate governance (46 percent);
- Legal and compliance (44 percent); and
- Human resources (40 percent).

"By utilizing a skill set that encompasses the strategic understanding to drive business and the financial understanding to mitigate risk and ensure compliance, CGMAs are uniquely positioned to help their organizations meet the challenges of a rapidly changing environment," says Thomas.

As they look toward taking on additional responsibilities, the CGMAs surveyed said that over the next three years the following skills will be essential to their effectiveness:

- Strategic business planning (69 percent);
- Change management (41 percent); and
- Communications (38 percent).

Editor's Note: The complete study is available upon request. Contact Mitchell Slepian at mslepian@aicpa.org or Gil Nielsen at gnielsen@aicpa.org.

THREE KEY FOCUS AREAS FOR FINANCIAL PLANNING AND ANALYSIS

More companies are focusing on innovation as a strategy for growing revenue and improving profit margins. This is putting pressure on Financial Planning & Analysis (FP&A) organizations to achieve transformation in Enterprise Performance Management (EPM) and business intelligence, according to The Hackett Group, Inc.'s study, *Key Issues 2014: Reinventing Enterprise Performance Management to Support Sustainable Innovation-Based Growth*.

The Hackett Group's EPM Key Issues research is based on a study of executives from more than 150 companies across the globe conducted in late 2013. The study took a close look at business strategies, revenue and budget expectations, and key initiatives for 2014.

Three keys to success. On the basis of their findings, The Hackett Group researchers recommend that

NEWS BRIEFS

FP&A groups focus on three main areas of transformation:

1. Integrating EPM processes and development of better business partnerships;
2. Improving core processes to recalibrate FP&A's value proposition; and
3. Developing better business intelligence (BI) capabilities.

"EPM and BI are critical competencies as companies pursue innovation-based growth," says Sherri Liao, The Hackett Group's North American EPM and BI Executive Advisory Practice Leader. "These competencies extend well beyond the FP&A organization, but the implications for FP&A are significant. There's a real requirement for organizations to rethink their value proposition and reinvent their service offering and decision support capabilities."

"Many companies have let these analytics areas fall by the wayside in the past," adds Erik Dorr, The Hackett Group Vice President of Strategic Research. "Over time, the business has grown, mergers and acquisitions have taken place, and markets and customers have changed. But the way [companies] report and plan has not. They're left with outdated systems that don't generate real insights, compromising competitiveness. In today's business environment, this simply isn't something companies can afford to do."

The Hackett Group's research has consistently found that business intelligence and analytics rank among the most important technology investments. As the "preeminent value-added information provider to the organization," FP&A is at the center of the "BI revolution" and is in the ideal position to drive organizational focus on the most critical analytics. FP&A is also best suited to bridge the gap between analytics in finance and those in sales, marketing, operations, and other functional areas—therefore, FP&A will need to develop solid capabilities in transforming and innovating the way information is delivered throughout the organization.

Volatility remains high. The Hackett Group notes that business volatility remains high in 2014, and as companies face significant risk and instability in such areas as competition, regulation, and talent, they are focusing on growing revenue and improving margins. Many are trying to maintain growth rates through innovation strategies that have historically been linked to speeding up growth.

Efficiency gap expected. The research also found that overall, finance budgets are expected to see only a small increase of 0.7 percent in 2014, while staffing is expected to be reduced by 0.3 percent. When expected revenue growth of 6.7 percent is factored in, the result is expected to be an efficiency gap of 6 percent and a productivity gap of 7 percent. Therefore, most FP&A transformation efforts will likely need to be self-funded, The Hackett Group points out.

Improvement a top priority. More than half of all companies in the EPM Key Issues study said they were planning major initiatives, or making improvement a top priority for 2014, in three areas:

1. Annual budgeting and forecasting,
2. Analysis, and
3. Accuracy and timeliness of financial information.

Most are focusing on a combination of improving processes, enabling technology, and reducing complexity.

Continuous improvement in the organization's core financial management control cycle—in the areas of financial planning and budgeting, forecasting, and performance reporting—is needed to achieve cost reductions and remove inefficiencies from the annual financial budgeting process, The Hackett Group researchers noted. They also observe that providing better value to the enterprise will rely on the FP&A group's improved ability to integrate and garner business operational knowledge that will take financial insights to the next level.

Editor's Note: A complimentary copy of *Key Issues 2014: Reinventing Enterprise Performance Management to Support Sustainable Innovation-Based Growth*, is available with registration at www.thehackettgroup.com/research/2014/reinventing-epm/.

THE CONTROLLER'S CALENDAR

IOFM's Controller's Conference & Expo 2014, Sept.14-16, 2014, The Westin O'Hare, Chicago, IL. For more information, e-mail Liz Fallon at LFallon@Divcom.com.

AFP Annual Conference, Nov. 2–4, Washington, D.C. For more information, go to www.afponline.com.

THE CONTROLLER´S REPORT
Institute of Finance & Management
121 Free Street
Portland, ME 04101

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