INSTITUTE of FINANCE & MANAGEMENT
IOFM

CONTROLLER'S REPORT
MEMBER BRIEFING

ISSUE 15-02 FEBRUARY 2015

View The Latest Controller Tools & Resources at controller.iofm.com

CONTENTS

PROCESS IMPROVEMENT

Tips for a Better Operational Planning Process

(Quick Code 021501)

If an organization's operational planning process is haphazard, there's no way that company will be able to effectively set or meet critical strategic finance goals. To uncover some tips for controllers who need to revamp their operational planning process, *Controller's Report* interviewed Brad Graham, Vice President and Corporate Controller at Granite Construction Incorporated (Watsonville, CA), who recently built a more systematic and measurable operational planning process.

"Our prior planning process was ad hoc and was not consistent from internal group to internal group, making analysis of actual results to plan challenging to produce and understand," Graham explains. "It also made analysis of risk and relative performance between our four internal groups difficult. Root cause analysis for underperforming groups was difficult and time consuming."

Looking at Solutions

Graham and his financial planning and analysis (FP&A) team set out to create a better approach to designing the annual operational plan. To revamp the process, they took the following approach:

1. **Look at the existing process.** The team analyzed the existing process, pinpointed the problem areas, and came up with a new operational planning process framework and model that would eliminate any bugs and allow for a "more systematic, consistent, and risk-based approach to creating the annual operational plan," says Graham.

2. **Create a business case.** To sell the idea to upper management and other departments, the FP&A team came up with a list of observable negative outcomes to the previous approach and described them, as well as describing how the new approach and framework would address each of the negative outcomes.

3. **Provide training.** "We trained the financial infrastructure (i.e., group and region controllers) on the new framework and related process," he says.

4. **Present the new approach.** "We presented the new framework and model to the operational SVPs and VPs, with the help of the group and region controllers," says Graham.

5. **Provide the appropriate supporting documentation.** "We provided written instructions, templates, and system functionality consistent with the new framework and process," he adds.

Dealing With a Glitch

The team ran into one problem along the way, which they managed to tackle effectively. The problem was a lack of understanding on the part of some staff members.

INSTITUTE of FINANCE & MANAGEMENT
IOFM

Editor-in-Chief
Elaine Stattler, APM

Contributing Writer
Anna Maria Trusky

Group Vice President
R.D. Whitney

Group Publisher
David Beck

Marketing Manager
Lucy Sullivan

Copy Editor
Chris Horner

Production Associate
Sokvonny Chhouk

Member Services
Liz Fallon

EDITORIAL ADVISORY BOARD

Albert Antoine, Chief Financial Officer
Southeast Milk, Inc.

Brad Graham, Vice President, Corporate Controller
Granite Construction Incorporated

Raeann Hofkin, Payroll Manager
2013 Pennsylvania Payroll Professional of the Year

Laurie McMurray, Controller
BT | Retail & Commercial Systems
SIEMENS Industry, Inc.

Mike Sbrocco, Director of Finance / Controller
Junxure

Bob Sefton, Controller
Nomacorc

Carolyn Siepiela, Controller
Top Notch Distributors

Wayne Smith, President
Working Capital Concepts, LLC

Mircea Stanciu, Finance Controller Central & Eastern Europe
BIC

THE CONTROLLER'S REPORT
PO Box 781, Williamsport, PA 17703
207-842-5557
fax: 203-516-2396
e-mail: customerservice@iofm.com
controller.iofm.com

Published by
Diversified Business Communications

Copyright © 2015
Diversified Business Communications
PRINTED IN U.S.A.

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. Copyright 2015. Institute of Finance & Management, Diversified Business Communications. All rights reserved. A one-year subscription includes 12 monthly issues plus regular fax and e-mail transmissions of news and updates. Copyright and licensing information: It is a violation of federal copyright law to reproduce all or part of this publication or its contents by any means. The Copyright Act imposes liability of up to $150,000 per issue for such infringement. Information concerning illicit duplication will be gratefully received. To ensure compliance with all copyright regulations or to acquire a license for multi-subscriber distribution within a company or for permission to republish, please contact IOFM's corporate licensing department at 207-842-5557, or e-mail lfallon@Divcom.com. 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; 207-842-5557; fax: 203-516-2396; e-mail: lfallon@Divcom.com. To renew, e-mail lfallon@Divcom.com.

"Staff below the controller level who were involved had difficulty fully understanding the new framework," says Graham. "We learned that we had to provide extra training support to the controllers so they would be able to help their staffs work within the new system. Understanding the framework well enough to execute it does not necessarily make one an effective trainer."

Positive Results

The initiative to improve the operational planning process yielded the following positive results:

- **Better understanding of risk.** "We now have improved understandability of the operational plan, most importantly regarding the relative risk profiles of the regional operational plans and their link to the strategic plan."
- **More consistent and accurate results.** "The new process allows for more consistent and timely actual-to-planned performance," Graham says.
- **Improved analysis.** "We spend the same amount of time on our operational plans as before but we have experienced significant improvement in the quality of our operational plans and the related periodic analysis," he notes.

Advice for Controllers

Graham has the following advice for other controllers who wish to implement an improved operational planning process:

Link your operational planning process to strategic objectives. "Develop an operational planning process that is systematic and risk-focused, developed from a framework that is linked directly to your organization's strategic business objectives," he recommends.

Demand consistency. "Insist that the process is closely and consistently applied by all of your organization's operational groups," Graham stresses. ❑

ACCOUNTING AND REPORTING

Unraveling the Confusion about the New Revenue Recognition Standard

(Quick Code 021502)

Many controllers are still confused about the new Revenue Recognition Standard issued last June by the International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB). The standard was designed to improve the financial reporting of revenue.

To help clarify matters, *Controller's Report* interviewed Steve Thompson, Accounting Change Services Lead Partner for Revenue Recognition at KPMG, LLP, a global audit, tax, and advisory firm. According to Thompson, there are five key facts controllers need to keep in mind.

1. All industries and transactions will be affected. "The new standard provides a single revenue recognition framework that applies to all industries, and all types of transactions," Thompson explains. "The new standard replaces over 100 separate rules, many of which were unique to specific industries or types of transactions." While *all* companies will be impacted to some extent as a result of increases in disclosure requirements, industries most highly impacted by the new revenue recognition rules include construction and defense contractors; software vendors; franchisors; real estate; life sciences/biotechnology; and telecommunications," he says.

2. The standard is principles-based, not ruled-based. "The new rules are principles-based, as opposed to today's rules-based standards," says Thompson. "As a result, many revenue recognition decisions that are clear-cut under today's rules will require significant estimates and judgment on the part of preparers."

3. The new requirements will entail the disclosure of more information. "New disclosure requirements will increase the amount of information disclosed in financial statements related to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers," he says.

This means that companies will have to change their financial processes to collect new information and data that will allow them to comply with the new calculations, estimates, and disclosures necessary to apply the new standard, says Thompson.

"Since some of these changes will impact systems, companies will most likely be considering the implementation of new systems or upgrades to existing systems. Internal controls will also need to be evaluated and adjusted to address new risk points," he points out.

4. The standard does not allow prospective adoption. "The new standard is the first set of revenue rules that do not allow companies to adopt prospectively. Instead, companies are required to adopt the new rules either retrospectively or on a cumulative effect basis," Thompson says.

"Under either approach, companies will have to apply the standard not only to new revenue arrangements entered into after the effective date, but also to arrangements entered into before the effective date. This will greatly complicate the implementation process for many companies," Thompson notes.

5. Companies need to determine the impact on their accounting policies first. "While the requirements for each organization will vary, many companies are working today to fully assess the impact of the new revenue recognition standard on their company's accounting policies and disclosures," he says. "Once the impact on accounting policy is determined, then the remaining steps to implement the standard can be planned and prioritized as appropriate."

Related Tools and Resources

The following related content can be found online at **controller.iofm.com** by typing the Quick Code into the search box

Related Article

What Controllers Need to Know about the New FASB/IASB Revenue Recognition Standard
(Quick Code 011506)

The bottom line: "Companies that expect significant changes to the timing and amount of revenue recognized will need to begin a full implementation process sooner rather than later," Thompson adds. "Companies that are able to determine that significant changes will not occur may be able to delay implementation efforts until later in 2015. However, given the potential for these new accounting rules to impact process, systems, controls and other areas of the business, an early start may be wise."

Editor's Note: Please see the related story in News Briefs on Page 14. Steve Thompson has more than 20 years of experience in revenue recognition, financial reporting, and accounting, and is a frequent speaker and instructor on matters related to revenue recognition. ❑

AUTOMATION & TECHNOLOGY

Set the Stage for 2015 Tech Implementations

(Quick Code 021503)

Controllers who are considering the implementation of new technologies in 2015 will need to set a solid foundation first to help ensure a successful project. One controller who has learned this from experience is Mircea Stanciu, Finance Controller Central & Eastern Europe at BIC.

"Whenever I prepare to implement automation or any sort of major technology project, I take a very methodical approach—and my planning process begins well in advance," says Stanciu.

Before the Decision

Based on his experience, Stanciu recommends that controllers take the following steps before making the decision to implement a particular system or application:

1. Determine the costs of implementation. "With the help of people in your IT department, calculate the time it would take to implement the new tool. Add up the hours required and cost per hour for each staff member that would be involved," advises Stanciu. "Consider the impacts on productivity while getting the tool up and running and factor this in, as well. Also evaluate the cost of outsourcing the project versus developing it 'in house.'"

"Once you have calculated all the costs, take a hard look at your budget. Make sure the dollars are there. It can be easy—even for controllers—to get caught up in the desire to put a new system in place. But you need to know the time and effort that would be required to implement it, and weigh this against your budgetary constraints," says Stanciu.

2. Perform a cost-versus-benefit analysis. "No controller wants to spend money on a tool that will end up costing more than it will save, or generate. That's why it is critical to perform a thorough cost-benefit analysis for any technology you are looking at," stresses Stanciu.

"Sometimes the automation cost is higher than the existing manual process, but we still choose to go for it because the manual process is inherently inaccurate, leading to costly errors and wrong decisions that have quantifiable financial risks," he continues. "Just make sure to always factor in the costs of the people and processes that will be attached to a new tool. For example, the new tool might reduce the workload in finance but require more work from another department. This happened when BIC wanted to implement a new process that would require our marketing department to submit purchase orders."

3. Evaluate the complexity of the tool. "Look carefully at the tool you are considering and evaluate its capabilities against what your current system or process gives you—as well as what capabilities you need to add," Stanciu advises.

"Sometimes implementing the new tool requires extensive training for the users and heavy modifications in the processes attached to the tool. Complexity is seen as a cost, as a setback. If adding complexity makes sense in the big picture of things, then it needs to be carefully sold to users," he says.

"Also assess whether the new tool will be compatible with any systems you currently have that you are planning to keep in place. Sometimes it's preferable that you develop an existing ERP system to automate some process, instead of adding new tools that require costly interfaces or extensive maintenance or reconciliations between two systems," Stanciu points out.

After the Decision

Once the decision has been made to bring a particular tool on board, Stanciu advises taking the following steps before the actual implementation process begins:

✓ **Plan the transition.** "Set up a transition team made up of people from finance, IT, and any other department that will be touched by the new tool or system you are implementing," Stanciu advises. "Determine a timeframe for launch that will work effectively within everyone's schedule. Get all the key stakeholders on board."

✓ **Pay special attention to end users.** "Special attention must always be paid to end-user training. Make sure you provide sufficient information and training to end users to ensure that the new tools are accepted and can be used," Stanciu says. "Include key users in the loop if the implementation is complex. They would become the interface between the implementation team and the end users."

✓ **Incorporate feedback of management and users.** "As controllers discuss and work through their implementation plans, it is important to get feedback from the management team as well as any staff who will be using the new system. By listening to them and using their suggestions whenever possible, you will not only ensure that the system is more applicable and accessible, you will win commitment and buy-in throughout the organization," Stanciu points out.

✓ **Determine how to harmonize/integrate the new tool/automation.** "The new system you implement and the data it produces will need to be harmonized with other systems already existing inside the company."

✓ **Benchmark other companies.** "Look in user groups and among your peers at conferences, association meetings, and similar venues to find other controllers whose companies have implemented the same tool you are planning to implement," says Stanciu. "Talk with them about the best practices that have made their implementation a success. Integrate all the ideas you find that can be adapted to your company."

"In the past, BIC has used benchmarking like this to prove that, based on other companies' experiences, we really needed to implement certain functionalities in applications that others in our company were resisting at first," he says.

Editor's Note: Mircea Stanciu manages Finance Affairs for eight of BIC's business clusters comprising 38 geographical areas. He has been working as a finance professional for 17 years, owned an accounting and tax consulting practice for 10 years, and has completed the Association of Chartered Certified Accountants (ACCA) program. ❑

Related Tools and Resources

The following related content can be found online at **controller.iofm.com** by typing the Quick Code into the search box

Related Article

How to Protect Your Organization from a Security Breach *(Quick Code 011503)*

FINANCE MANAGEMENT

The Keys to Q1 Success: You Only Have One Chance to Make a First Impression

(Quick Code 021504)

By Steve Jackson, RoseRyan

Controllers are smack in the middle of Q1 and it is time to divide and conquer a multitude of responsibilities and deadlines in order to drive success in the accounting organization and the overall company.

With such critical tasks as budgeting, cash forecasting, closing the books, AP, AR, and payroll on their plates, controllers need to make sure that all aspects of their companies' financial well-being are in order.

Why is the first quarter of the year so important? Getting off to a quality start will keep controllers from having to fight fires in Q2 that could have been put out as part of their Q1 management process.

Right Place, Right Time, Right Actions

A good quote for controllers to keep in mind when managing Q1 tasks is this one from Ray Kroc: "The two most important requirements for major success are: first, being in the right place at the right time, and second, doing something about it."

How do controllers accomplish this? By dividing their time into four quadrants, each allocated to one letter in the acronym "PACE." In this way, controllers will be able to wrap their arms around everything they need to do, stay on the right track to make Q1 a success, and grow within their organization and profession.

"PACE" stands for Planning, Action/Activity, Communication, and Education. Adopting this strategy and taking the initiative to implement it effectively will set controllers apart and make a big difference in the results of their efforts.

Let's take a close look at each component.

1. Planning. The controller's responsibility has evolved so much in the last 20 years that working late and taking work home can only get them so far. Controllers need to plan out their workload and properly split their time toward each of their areas of responsibility.

Prepare a calendar of deadlines for each individual activity in Q1, for example:

✓ Finalizing the 2014 books,

✓ Scheduling the auditors for tax and financial review,

✓ Supporting all the company meetings relating to 2014 results and 2015 plan, and

✓ Sitting down with each department to review their budgets and answer any questions that they have.

2. Action/Activity. Once controllers have set up their plans, they need to properly divide their time in order to tackle each task efficiently and effectively. Controllers should sit down with their calendars and use them as a resource for determining how they will best allocate their staff and time between each item that needs to be accomplished.

All too often, controllers get sidetracked on issues that come up moment-to-moment and then fall behind on important items. To help prevent this, controllers should make sure to allow for time for such activities as answering phone calls, responding to e-mails, and meeting with staff and executives.

Controllers would be wise to treat the February month-end close like a Q1 close. They should publish all their financials and budget reports and distribute the reports accordingly to management and department heads, while requesting report recipients to review the information and ask any questions they might have. This will get controllers ahead of the curve and get everyone in the company on the same page when it comes to the financials, budgets, and other essential information.

3. Communication. For Q1 to come off without a hitch, controllers need to do an excellent job of communicating and coordinating activities with their staff. This discipline needs to be expanded to all other suppliers and customers with the organization. Controllers should:

a. Publish a Q1 close schedule. Send a copy to all related constituents.

b. Publish FAQs. If controllers commonly get the same questions on company financial policy, it's a good idea to publish a Q&A page on the company intranet. This will save controllers time answering the same questions over and over.

c. Hold meetings. For meetings, controllers should set up an agenda and publish action items with owners and deadlines; this will go a long way in terms of driving results.

d. Conduct post mortems. Part of good communication involves conducting post mortems after each month and quarter close and publishing the results, with the goal of making improvements to the close process each and every month.

Education. As finance professionals, controllers are constantly reading up on GAAP updates, changes in taxation, and general business trends. However, they don't always distill this information and share it with the rest of the organization.

Providing brown-bag lunch seminars is a great way for controllers to provide a forum to educate the finance staff and the rest of the organization on educational topics that will help them be more successful in their work.

There is a multitude of rich on-demand and scheduled content relating to topics on accounting, budgeting, finance, HR, and general business that can benefit the organization. Having a discussion of key topics and how they pertain to effective financial management in the Q1 close, and in general throughout the year, will help controllers showcase the value that their position brings to the table in their organization.

The bottom line: All controllers will get 2015 off to a great start by using PACE to make a difference in the efficiency and effectiveness of their work.

Editor's Note: An accountant with RoseRyan in Silicon Valley, Steve Jackson is a specialist in revenue recognition, contract review, SOX, systems implementation, budgeting, financial analysis, and process improvement in finance. Read Steve's year-end blog here: http://www.roseryan.com/blog/2014/12/what-every-good-controller-should-be-up-to-this-december/ ❑

Related Tools and Resources

The following related content can be found online at **controller.iofm.com** by typing the Quick Code into the search box

Related Article

Four Keys to Winning Presentations
(Quick Code 011504)

FINANCIAL LEADERSHIP

Improve the Bottom Line Through Sustainability

(Quick Code 021505)

What's green and a top priority for controllers? Of course, the answer is money. But there is another way the color green can—and should—pertain to a controller's job, and that relates to environmental sustainability and the importance of a "clean economy."

Operating "greener" isn't just the right thing for companies to do, it also creates efficiencies that significantly boost the bottom line, says Kristine Brands, CMA, CPA, a member of the Global Board of Directors at the Institute of Management Accountants (IMA).

Brands advises controllers to take the following steps:

Understand the connection between a cleaner business, reduced risk, and a better bottom line (and impart this knowledge throughout the company). "There is increasing global pressure for organizations to embrace cleaner, more sustainable business practices that reduce risks and cut costs," says Brands.

"In most organizations, material financial risk factors are well understood. However, material *non*financial risk factors, like sustainability, aren't as well understood," she says. "Controllers and financial leaders are ideally positioned to implement strategies in their organizations to mitigate both financial and nonfinancial risk factors."

A case in point: Delta Airlines' 2014 Fuel Savings Initiatives saved 13.7 million gallons of fuel, resulting in a reduction of 135 thousand metric tons of CO_2e emissions and a cost savings of $42.1 million. (For more information, go to: http://www.delta.com/content/www/en_US/about-delta/corporate-responsibility/environmental-sustainability.html).

Develop sustainability cost-benefit metrics. "Controllers, as strategic partners in their organizations, can raise awareness of the benefits of cleaner business practices by facilitating the inclusion of sustainability in their organizations' strategic plans and goals." says Brands. "Once the goals are set, controllers can develop sustainability cost-benefit metrics for financial and nonfinancial performance measures to support the business case for implementing sustainable practices."

A case in point: "Fuel costs are a major expense in the airline industry" notes Brands. "By acquiring a fleet of newer, fuel-efficient airplanes, an airline can reduce fuel usage, which in turn reduces a nonfinancial performance measure: carbon footprint. This strategy also reduces fuel costs, improving financial performance measures. Lower fuel costs lead to higher profitability."

"Higher profitability leads to higher ROI—a traditional financial measure," she says. "Instead of only tracking *financial* strategies' contributions to ROI, we see a connection between sustainable business strategies and ROI through the measurement of carbon footprint." As the emphasis shifts to include the measurement of sustainable business practices and processes, ROI drivers at the organization will increasingly include sustainability factors as a matter of course.

Maximize the use of traditional financial tools to measure and track sustainability ROI. "Controllers and management accountants can use traditional financial tools to measure and track the ROI of operating cleaner," Brands points out. "The controller's tool kit includes Activity Based Costing (ABC) and the Balanced Scorecard (BSC). Both tools can integrate sustainability measurements and metrics. For example, companies can add sustainable business practice objectives to the BSC to raise its visibility in the company's overall performance measurement system."

Benchmark and collaborate. To become more forward thinking when it comes to sustainability, controllers should start looking at companies that have successfully implemented sustainable business practices, Brands advises. "Some good examples are SAP AG, Starbucks, and Interface Corporation. Take a look at SAP AG's 2013 Integrated Report to see the connections between financial and non-financial performance measurements promoting sustainability initiatives." (Go to: http://www.sapintegratedreport.com/2013/en/strategy-and-business-model/integrated-performance-analysis.html.)

"Starbucks' 2013 Global Responsibility Report is another excellent example," she says. (Go to: http://www.starbucks.com/responsibility/global-report.) Also, one of the earliest examples of a company embracing a sustainability business strategy is Interface Corporation. The company is celebrating its twentieth anniversary of sustainable business practices in 2014. You can read about their story on their website. (Go to: http://www.interfaceglobal.com/Sustainability/Interface-Story.aspx.)

"Controllers can also turn to their industry peer groups, both to collaborate and to identify the sustainability factors for their businesses that need to be addressed and measured," Brands adds.

Related Tools and Resources

The following related content can be found online at **controller.iofm.com** by typing the Quick Code into the search box

Related Article

Bean Counters No Longer: How Controllers Are Elevating Their Game *(Quick Code 011502)*

Move beyond strictly financially focused disclosures. To reflect positive changes in the clean economy, "corporate reporting is moving beyond financially focused disclosures to include nonfinancial disclosures—such as sustainability reporting—to present a more balanced view of an organization's performance," Brands explains. "An organization's stakeholders increasingly want to know that an organization is not only financially successful but also sustainable over the long term, as well as engaged in activities that are adding value to society."

Embrace the concept of "integrated thinking." "U.S. businesses need to embrace 'integrated thinking' through setting goals to support both the clean economy *and* financial performance in their operations," says Brands. "There is tremendous opportunity for controllers to be the leaders that embed this integrated thinking in their companies in order to develop awareness and processes—focused on sustainability—that will improve the bottom line to achieve both financial *and* sustainability goals."

Takeaway: Promoting a clean business can add value to that business by building stakeholder loyalty. "The strategy can be used to help the bottom line, not only in terms of measuring a company's financial results but also in terms of measuring its commitment to sustainability and society, which satisfies stakeholders' demands," she adds.

"There is a growing scarcity of natural resources such as energy and water, along with the threat of climate change, which are all placing society at risk. The 'clean economy' represents the importance of these issues and of taking steps toward preserving natural resources and using them in ways that don't cause irreversible damage to the environment, are renewable, and are available for future generations," says Brands. "Controllers can and should play a leadership role in their organizations to develop sustainability strategies."

The bottom line: Organizations that do not integrate cleaner, greener business practices risk reputation damage as their stakeholders scrutinize the organization's commitment to sustainability. The finance and accounting profession—and controllers in particular—can play a central role in developing and maintaining sustainable business practices."

Editor's Note: Kristine Brands is a member of the IMA Technology Solutions and Practices Committee and a professor at Regis University in Colorado. ❑

PAYROLL COMPLIANCE

How to Handle Payroll Repayments

(Quick Code 021506)

By Raeann Hofkin, CPP

Many employers pay sign-on bonuses, tuition reimbursements, or other bonuses that come with certain conditions. For example, an employer might require employees to work for the company for at least a year—or even two—before the employees can voluntarily leave their jobs. A condition might be included that if those employees jump ship before the prescribed time has elapsed, they must pay back a prorated portion of the bonus upon termination.

If the repayment is made in the same year, the adjustment is made by simply voiding out the payment (or the prorated portion thereof). However, when an employee is paid the conditional bonus in one year and leaves the company prior to working the required timeframe and crosses into the following year, the repayment gets tricky.

A case in point: An employee paid a tuition bonus in September 2014 is required to work for the company for two years after the payment has been made. Instead, the employee leaves in September 2015. The employee would be required to pay half the bonus back since he or she worked only 50 percent of the required timeframe. However, the repayment becomes more complex because the employee already received the tax benefit in 2014. Therefore, the employee would not only have to pay the 50 percent of the net check received, he or she would also need to repay the *taxes* paid. In other words, the employee would be required to pay 50 percent of the *gross* pay.

When repayments are made in the following calendar year, the company must follow these steps:

- Require the employee to pay back the gross (not net) amount, since the taxes were already paid to the government.
- Reimburse the employee for his or her portion of the Social Security and Medicare taxes.
- Have the employee sign a statement certifying that he or she received the reimbursement of over-collected Social Security and Medicare taxes and will make no claim for a refund of those taxes. (Sample language may be found in Part 2 of the Form 941-X instructions, on page 5, at http://www.irs.gov/pub/irs-pdf/i941x.pdf.) The following is an example of the written statement that is required from employees:

Employee Name ______________________

Employer Name ______________________

I have received a repayment of $ ______________ as over-collected Social Security and Medicare taxes for 20____. I have not claimed a refund of or credit for the over-collected taxes from the IRS, or if I did, that claim has been rejected; and I will not claim a refund or credit of the amount.

Employee Signature ______________________

Date ______________________

- Do not adjust the income taxable wages or the taxes withheld as reported on the previous year's W-2. However, do complete Forms 941-X and W2C to correct only the Social Security and Medicare wages and taxes.
- Allow the employee to claim an itemized miscellaneous deduction of this amount on his or her income tax return for the year of repayment. (The employee would need a letter certifying the gross amount and date of repayment.)

Keep in mind that the W-2 for the current year of repayment does not include the adjustment for the repayment, as the adjustment was made by taking the steps listed above.

Communication With Employees

Since employees are likely to be confused because they received the net payment but are paying back the gross, it is a good idea to explain why the employee is repaying the taxes in addition to the net pay. The employee received not only the net pay but also the benefit of the withheld taxes included on the W-2. Since the employee may be repaying only part of the bonus, the gross amount would need to be computed.

Provide the employee with a letter stating that he or she had until 12/31 to make the repayment. It is fine to offer a repayment plan—as long as the full amount would be paid back by the end of the year. Ask the employee to contact you with his or her intentions, and if you do not get a response in a timely manner, back out the wages and issue the 1099.

If the employee does not make the repayment, the employer is left with few options, as the amount may not be large enough to warrant a court case. It is a good idea to back out the rest of the payment before the quarter closes and W-2s are issued. Then send the employee a 1099 for the amount owed. After printing the W-2s, send the W-2 and the 1099 with a letter stating that the amount of the bonus was backed out from the W-2, a 1099 was issued for the balance, and if the repayment is received within two weeks, the 1099 will be reversed.

The bottom line: If no response is received and no payment made, the employee will owe the tax on the money he or she wasn't due. The employee can either pay back the amount owed or pay the employee and employer portions of the Social Security, Medicare, Federal, and State taxes. ❑

Related Tools and Resources

The following related content can be found online at **controller.iofm.com** by typing the Quick Code into the search box

Related Article

Ensure the Proper Timing for Funding Retirement Contributions *(Quick Code 011507)*

INTERNAL CONTROLS

Don't Settle for Flimsy Internal Controls or Your Organization Will Be Exposed to Liability

(Quick Code 021508)

By Pam Miller, APMD

While the Sarbanes-Oxley Act (SOX) was directed at public companies in the U.S., its effects are more far-reaching. Many private organizations are acting now to adopt SOX requirements in an effort to improve controls. The SOX requirements are stringent, to be sure, but they are highly recommended—and highly effective—for cleaning up and maintaining an organization's internal control processes.

To meet and implement the SOX requirements, most organizations have adopted the framework developed by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. The framework provides clear, thorough, and easy-to-follow guidelines that, if followed, ensure strong internal controls.

Update Your Processes Now to Reflect COSO Changes

COSO created an updated framework in 2013, which will be put in place by early 2015, to ensure that all aspects of internal controls are closely monitored.

Organizations that have used the COSO Framework as the basis of their internal control system need to review and, if necessary, update their controls to conform to the updated requirements. While the original COSO Framework was released in 1992, changes have been made to reflect the increasing complexity of the marketplace, as well as the advances in technology, enhanced regulatory requirements, increased potential for fraud, and rapid globalization.

Make Sure You Understand the Features of the COSO Update

The updated framework expands internal controls to address operations and reporting objectives. It also includes 17 principles to address how organizations should identify, respond to, and mitigate risk—including risk of potential fraud. Each of the 17 principles and five components must be present and functioning in order for an internal control system to be judged effective. The five interrelated components of internal controls are:

1. Control environment. This is the foundation of internal control systems. It sets the tone of the environment by providing the structure and discipline. Characteristics of a control environment include a commitment to integrity, ethics, values, and competence.

In an effective control environment, people understand their responsibilities and the limits of their authority. They are committed to doing what is right and in the right way. In addition, they are held accountable.

2. Risk assessment. An organization must assess both internal and external risks in light of its strategy and objectives. The organization must also identify and assess the impact of changes on the internal control system. Any assessment of risk must include consideration of the potential for fraud.

3. Control Activities. These are the policies and procedures established by the organization to ensure that its objectives are achieved. Examples of control activities include authorization, approvals, verification and reconciliation, security of assets, and segregation of duties. The requirement that controls be developed and implemented over the organization's systems reflects modern organizations' dependence on technology.

4. Information and Communications. An effective information and communication system must be established to ensure that employees comply with all the requirements of the internal control system. Reliable, relevant, and timely information from both internal and external sources must be captured, processed, and communicated to all the people that need it.

5. Monitoring. Monitoring ensures that internal controls continue to operate efficiently and effectively. Ongoing and/or separate evaluations such as self-assessments, peer reviews, and internal auditing should be employed to evaluate the effectiveness of the controls. In addition, deficiencies must be identified and addressed in a timely manner.

Related Tools and Resources

The following related content can be found online at **controller.iofm.com** by typing the Quick Code into the search box

Related Article

Why AP Should Insist on a W-9 From Exempt Corporations *(Quick Code 011508)*

What Will These Changes Mean for Controllers?

For Controllers in public companies or those that have determined to comply with SOX requirements, the update in the COSO framework is a great opportunity to review the controls that are in place and determine how effective they are.

It could be that some changes in the controls finance works with will be necessary. While this review can be undertaken by finance on its own, it may be a good idea to consult with the internal auditors for some guidance. They may already be working on a comparison of current controls and the requirements of the updated framework.

A finance department that is proactive regarding processes and controls is an asset to the organization in terms of both efficient processing and avoidance of risk. This is a great opportunity for controllers to demonstrate exactly that.

Editor's Note: See related story in the News Briefs on Page 14. ❑

STAFFING

Managing the Impact of Key Personnel Changes

(Quick Code 021507)

By Bob Sefton, Controller, Nomacorc

Over time, every organization will experience a change of personnel in the finance department. This usually happens at year end or at the new budget year interval, when the workload is at peak demand. Whether personnel changes are the result of promotions, retirements, terminations, attrition, or some other reason, it is extremely important for controllers to manage the changes proactively to ensure continuity.

Critical knowledge, task completion, accuracy, and organizational integrity are all at stake and lapses in any of these areas can have lasting consequences if personnel changes are not planned for in an organized manner. The finance department's function is important to any organization and there is low tolerance for gaps in performance by senior management, other departments, and third-party stakeholders who rely on timely and accurate financial information.

Common problems that could result from a poorly managed staff transition include missed payroll (leading to angry employees); inaccurate financial reports (causing wrong decisions to be made by leadership); and missed reporting to government agencies (resulting in penalties in fines and interest). So the controller needs to place high importance on managing the personnel change process in a very deliberate and organized fashion.

Seven Tips to Keep in Mind

There are several common mistakes that can lead to poor performance of the finance group and are usually the result of rushing decisions and ignoring the big picture of the transition. With this in mind, here is a list of tips for controllers:

1. Begin the selection/realignment process sooner rather than later. If you know that a staff member in finance is going to retire at the end of the year, begin looking for a replacement several months before. Or, if you know you will be promoting someone and this will necessitate a realignment of responsibilities among the rest of the staff, have a clear plan for that process well in advance.

2. Take your time with hiring—and keep an open mind. Do not hire the first person who seems qualified. Also, avoid the assumption that the best person must come from the same industry or job description; you could miss out on some talented individuals who would bring many benefits to your finance department.

3. Be clear on the incumbent's job responsibilities. The controller may not really know all the tasks and assignments the incumbent is currently handling, or understand the process the person performs on a daily basis. It is important for controllers to sit down with exiting employees to find out exactly what they are doing, how, and why. That way, the controller can make sure nothing important falls between the cracks when a new person is hired or reassigned to take that position.

4. Give new hires time to get acclimated. Avoid assuming that a candidate with experience in a similar position will be able to perform to full capacity right off the bat. Company procedures, methods, and culture are all different.

5. Invest in training. Learning curves differ with the level of skill sets in the finance department. The business cost of turnover is insignificant when compared to the cost of compromising performance or integrity by not properly training new hires or staff members in new positions.

6. Provide new hires with clear performance expectations and short-term goals to accomplish in the first week, month, etc.

7. Offer a comprehensive orientation. Provide an overview of the company structure, culture, and the flow of information, along with guidance for the best resources.

Related Tools and Resources

The following related content can be found online at **controller.iofm.com** by typing the Quick Code into the search box

Related Article

Boost Employee Proficiency and Engagement to New Heights in 2015 *(Quick Code 011509)*

Always Be Ready

The following checklist can help controllers to be ready to handle personnel changes:

✓ Ensure that job descriptions are constantly kept up to date and that key tasks and priorities are always clearly identified.

✓ Periodically take a skills inventory of personnel and match skills and strengths to tasks to ensure that personnel are in the right positions, or determine where changes should be made.

✓ Try to avoid the use of specialists in areas such as AP, AR, and payroll. Instead create positions that have a mix of responsibilities with cross-trained personnel. This provides balance in knowledge and workload and helps ensure you will always be covered in the event of an abrupt personnel change.

✓ Maintain controls and audit procedures to ensure early detection of performance problems, especially after there has been a transition involving new or reassigned employees.

✓ Create a transition plan. Identify key players who are willing to assist, and line up some "buddies" who will be willing to shadow new employees when they come on board.

✓ Have a succession plan in place that allows for maximum growth and advancement of finance personnel. Use changes as an opportunity to broaden responsibilities or move people up. This will help keep finance staff engaged and loyal.

The bottom line: Changes in accounting and finance personnel can be disruptive and create performance problems. Controllers should always invest sufficient time in planning and facilitating changes in personnel. This should be an ongoing process that not only occurs at the time of a personnel change but also as a long-term succession plan before a change occurs, so that there is adequate time to orient and train personnel while ensuring continuity with minimal disruption. ❑

TAX & REGULATORY COMPLIANCE

Three Updates on Sales and Use Tax Regulations

(Quick Code 021509)

By Diane L. Yetter

One of the most talked-about issues in the sales and use tax field this year has been whether the Marketplace Fairness Act of 2013 would pass before this Congress adjourns.

The Marketplace Fairness Act of 2013 would authorize states that meet certain requirements to require remote sellers that do not meet a "small seller exception" to collect their state and local sales and use taxes. There is a $1 million remote sales threshold. SST states are authorized automatically. Other states must meet simplification requirements.

Since the Marketplace Fairness Act was passed by the Senate on May 6, 2013, it has been pending in the House. On September 18, 2013, the House Judiciary Committee released seven principles outlining priorities for the bill. The House principles eliminated the small business exception, but requires "simple and inexpensive compliance."

On March 12, 2014, the U.S. House Judiciary Committee held a hearing called "Exploring Alternative Solutions on the Internet Sales Tax Issue" intended to spark new creative solutions and ideas regarding the Internet sales tax issue. There was some expectation that this would be included in the year-end budget bill. However, this did not happen and there is no expectation that any more action will occur in this Congressional session. There have been comments from supporters that they will reintroduce another version in 2015.

Click-Through Nexus

In the meantime, additional states have passed or proposed legislation referred to as "Click-Through Nexus" which imposes a tax collection responsibility on remote sellers who otherwise do not have nexus in the state. These provisions require sellers who compensate any in-state agent for referrals that result in sales to register and collect tax on all sales made into the state.

New Jersey recently passed legislation, Illinois amended its legislation after losing a court case, and Michigan has proposed legislation pending. Controllers need to monitor their sales activities in states where they do not otherwise collect sales tax to determine if these new provisions apply. Uncollected sales taxes could be imposed on the seller. With the average sales tax rate near 9 percent, any uncollected tax could significantly affect revenues.

Significant Sales and Use Tax Compliance Changes

2014 saw a few amnesty programs offered by the states in an attempt to encourage voluntary compliance improvements. It is unknown at this time whether any will be enacted for 2015.

Controllers should be aware of amnesty programs as the trend is for states to include additional penalties and interest on assessments issued after conclusion of the amnesty on all taxes determined to be due that should have been reported during the amnesty program. Controllers can monitor amnesty programs by visiting http://www.salestaxinstitute.com/resources/sales-tax-amnesty.

Editor's Note: Diane L. Yetter is president of YETTER-tax meets technology, a sales and use tax consulting firm, and is the founder of the Sales Tax Institute. ❑

THE CONTROLLER'S CALENDAR

Medical Group Management Association's (MGMA's) 2015 Financial Management and Payer Contracting Conference, March 1-3, Phoenix. For information, go to www.mgma.org/fmpc2015

The Annual CFO Rising East, March 11–12, Miami. For more information, go to www.theinnovationenterprise.com/summits/the-annual-cfo-rising-east-miami-2015

Construction Financial Management Association's (CFMA's) Annual Conference, June 27-July 1, Chicago. For information, go to www.cfma.org

CFO Dimensions 2015: The CFO as Chief Future Officer, October 19-20, Conrad Hotel, New York. For more information, go to www.proformative.com/cfo-dimensions

NEWS BRIEFS

Quick Code 021510

CHECKLIST FOR IMPLEMENTING THE NEW REVENUE RECOGNITION STANDARD

Steve Thompson of KPMG advises companies to consider the following key steps for 2015 as they work on their plans for implementing the new revenue recognition standard issued last June by the International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB):

- ✓ Establish a revenue recognition standard project team and governance.
- ✓ Determine impacts to accounting policies and disclosures.
- ✓ Identify new information requirements.
- ✓ Identify system and process gaps.
- ✓ Consider impacts to internal controls.
- ✓ Involve tax resources.
- ✓ Identify other parties that need to be involved.
- ✓ Develop initial thoughts regarding a transition approach.
- ✓ Build a project plan.
- ✓ Determine resource needs.
- ✓ Communicate with stakeholders and those charged with governance.
- ✓ Involve external auditors throughout the process.

The standard was designed to improve the financial reporting of revenue.

2015 Priorities Focus on Cash Basics

What will finance leaders be focusing on this year? According to the 2015 Finance Priorities Survey by Financial Executives Research Foundation (FERF) and consulting firm Protiviti, finance leaders are placing top importance on such bottom-line basics as cash flow and working capital management. Among the other areas given strong focus are the following:

1. Gaining greater transparency into financial performance. This can occur through strategic planning, budgeting, periodic forecasting, risk management (assessing risks tied to strategy, forecasting, etc.), profitability analysis (product, customer, channel, etc.) and business intelligence.

2. Attracting and retaining top finance staff with technical knowledge, analytical expertise, and strong people skills.

3. Aligning strategy, risk management, and performance management. Rather than applying patchwork fixes to individual processes, finance professionals want to manage and improve related processes to improve overall corporate performance management.

4. Staying on top of emerging issues. Finance leaders ranked several emerging issues as priorities for this year, including sustainability, changes to U.S. health-care regulations, revenue recognition in light of the impending new accounting standard, globalization, and workforce mobility.

Editor's Note: For the complete study, go to www.protiviti.com/financesurvey.

ASSESSING THE EFFECTIVENESS OF YOUR INTERNAL CONTROLS WITH COSO

To assist organizations in assessing the effectiveness of their internal auditing function, the Committee of Sponsoring Organizations (COSO) of the Treadway Commission developed the following checklist:

- ✓ Does internal auditing have the support of top management, the audit committee, and the Board of Directors?
- ✓ Is the organizational relationship between executives and internal auditing and senior management appropriate?
- ✓ Does internal auditing have and use open lines of communication and private access to all senor officers and the audit committee?
- ✓ Is there an internal audit plan (reviewed by the audit committee) describing internal audit responsibilities?

Organizations that have used the COSO Framework as the basis of their internal control system will need to review and, if necessary, update their controls to conform to updated requirements effective 2015.

AVOID THE HIGH COSTS OF POOR HIRING CHOICES

Controllers seeking to control hiring costs will be wise to keep in mind some insights from Robert Half

NEWS BRIEFS

Finance & Accounting. The staffing firm recently asked more than 2,000 finance leaders the following question: "Which one of the following, in your opinion, is the single greatest impact of a bad hiring decision?" The responses are reflected in the following exhibit:

Costs of Poor Hiring Choices		
Lower staff morale	28%	38%
Lost productivity	22%	20%
Monetary cost	14%	16%
Other/don't know	12%	9%
Source: Robert Half Finance & Accounting		

At first it may seem surprising that money isn't the number-one concern, yet experienced finance executives know that diminished morale and productivity can have a devastating effect on an organization.

"A poor hire can cause friction as other employees are left to take on extra work and fix projects that weren't done right the first time," points out Paul McDonald, senior executive director for Robert Half. "Bad hiring decisions also can cause staff to question management's judgment and even lose faith in company leaders. This ripple effect could no doubt lead to a catastrophic lack of engagement and devastating level of attrition."

To help make sure new hires are a good fit, McDonald advises organizations to:

- Take the time to conduct thorough interviews,
- Check references consistently for all job candidates, and
- Bring in professional recruiters when needed to help in the hiring process.

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

FINANCE LEADERS FORECAST STRONG GROWTH IN 2015

Financial executives believe the U.S. economy is doing well. For example, 74 percent predict a positive outlook for their companies and many anticipate strong growth in several key areas in 2015, according to the *2015 CFO Outlook* survey from Bank of America and Merrill Lynch. Specifically, the survey pointed to the following:

Optimism on the economy is peaking. On a 100-point index, with zero being extremely weak and 100 being extremely strong, CFOs gave the U.S. economy an average score of 59, compared with 53 in 2014. This represents the highest level since the recession in 2008.

Further, respondents indicated that they are more optimistic that the economy will expand in 2015 than they have been in the past four years: 52 percent forecast expansion this year compared with 47 percent in 2014. Another 37 percent expect the economy to remain stable.

Employment is expected to increase. For the first time in seven years, more than half (52 percent) of CFOs report they expect to hire additional full-time employees in 2015.

To attract and retain qualified employees, most companies are providing benefits: 96 percent are offering healthcare insurance, 92 percent are funding retirement programs, and 87 percent are offering bonuses or other compensation.

Sales growth is looking up. A significant 63 percent of respondents expect to see an increase in sales in 2015, up from 54 percent for 2014. Forty-one percent expect their profit margins to increase, and 45 percent believe they will remain the same.

Risk management will be a big focus. The majorityof respondents said their organizations have implemented programs to mitigate risks. The most common programs address data security (92 percent), disaster coverage/protection (88 percent), other types of fraud (83 percent), and operational risk (81 percent). Approximately two-thirds of companies also have plans in place to address succession planning, technical/intellectual property protection, and reputational risk.

The study also found that more than half of finance leaders will be spending more time on strategic issues, such as technological advances (61 percent), risk management (60 percent), data management (59 percent), human resources issues (49 percent), and communications strategies (40 percent). Finance executives are "leveraging their broad base of knowledge to influence decisions across their company," notes Borthwick.

Editor's Note: For more information go to www.bankofamerica.com. ❑

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

PERIODICALS

BECOME A MEMBER TODAY!

❑ **Yes!** I would like to join today. Membership includes 12 issues of *CONTROLLER'S REPORT*, 24/7 access to the corporate financial management information portal at controller.iofm.com, regular ealerts, two FREE special reports: *Controllers' Book of Key Benchmarks* and *Improving the Financial Close*, plus discounts worth thousands of dollars depending on your need on research reports and Webinars, all for just $295*.

❑ **YES!** I would like to enroll in the Certified Professional Controller Program ($695).

❑ Enclosed is my check for $_______.

❑ Bill me/my company.

❑ Charge my: __Visa __MasterCard __AMEX

Card #: Exp.

Signature:

Tel.: ❍Home ❍Office

Name/Title

Company

Street

City State ZIP

E-mail:

❑ Send my subscription via e-mail

MAIL TO:

Institute of Finance & Management
Membership/Subscription Department
PO Box 781
Williamsport, PA 17703-0781

CR 15-02

Phone: 207-842-5557 or fax to: 203-516-2396

* By purchasing an individual membership/subscription, you expressly agree not to reproduce or redistribute our content without our permission, including by making our content available to non-subscribers within your company or elsewhere.

CERTIFIED PROFESSIONAL CONTROLLER PROGRAM

As a senior executive in corporate finance, you face a constantly changing compliance and regulatory landscape. To provide your organization with effective guidance, you need to be aware of all the risks, challenges, and internal control requirements within your company.

Invest in training that will ensure that you provide the best possible executive guidance to your staff and your organization.

The Certified Professional Controller (CPC) training class is the best way to gain the operational knowledge required of the corporate controller and to demonstrate that you have a firm understanding of the key areas of compliance, regulation, and effective management.

The class will provide an in-depth review of:

- Ethics and compliance
- Governance, regulatory updates, risk management, and controls
- Corporate transaction processing
- Business planning, budgets, and forecasts
- IT, security, and business continuity
- Shared services and outsourcing
- Leadership skills
- Measuring success
- Process Improvement

You'll leave the class prepared and ready to take the Certified Professional Controller exam and earn the CPC designation.

To learn more, call 207-842-5557
or visit: www.iofm.com/cpc