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CONTENTS

PAYROLL COMPLIANCE
Funding Retirement Contributions 2
According to the Department of Labor, retirement contributions must be paid as soon as "administratively feasible" but no later than the 15th business day of the following month from when deferrals are withheld.

ACCOUNTS PAYABLE
Obtain W-9s From Exempt Corporations 3
If your AP department is no longer collecting W-9s from corporations, it is time to retrench and insist on a W-9 from each and every payee—including corporations.

1099 REPORTING
How to Report Payments to Attorneys 3
Payments to attorneys and law firms must be reported properly to the Internal Revenue Service (IRS) in order to stay in compliance with tax regulations and avoid costly penalties.

PROFESSIONAL DEVELOPMENT
Bean Counters No Longer: How Controllers Are Elevating Their Game 5
The image of the bean-counting, number-crunching controller has become a thing of the past. Over the last decade, there has been a notable shift in how the position is being viewed.

FINANCIAL LEADERSHIP
Four Keys to Winning Presentations 6
Financial presentations have a reputation for being dry or confusing. But they don't have to be if controllers follow these key tips.

ACCOUNTING AND REPORTING
What Controllers Need to Know About the New FASB/IASB Revenue Recognition Standard 8
The co-developed FASB/IASB standard has been designed to improve, on a global basis, the financial reporting of revenue and the comparability of the top line in financial statements.

PERFORMANCE MANAGEMENT
Boost Employee Proficiency and Engagement to New Heights in 2015 9
A recent study reveals that the most engaged workplaces are more likely to report higher profitability, lower staff turnover, and above-average productivity.

MOBILE TECHNOLOGY: A REVOLUTION RIFE WITH RISKS
How to Protect Your Organization From a Security Breach 10
Controllers must understand the benefits and risks of mobile technology and put security measures in place to ensure that financial transactions are safe from fraud and identity theft.

DEBT REDUCTION
Ten Steps for Reducing High-Debt Service Costs: A Strategy for Success 12
Here is how one controller mounted a debt-reduction challenge to deal with high-interest rates and some assessments related to debt covenants.

Calendar 13

News Briefs 14

PAYROLL COMPLIANCE

Funding Retirement Contributions

(Quick Code 011507)

By Raeann Hofkin, CPP

According to the Department of Labor, retirement contributions must be paid as soon as "administratively feasible," but no later than the 15th business day of the following month from when deferrals are withheld. For plans with fewer than 100 participants, contributions deposited to the plan no later than the 7th business day following the withholding will be considered in compliance.

The question that always confuses employers involves the definition of "administratively feasible." An employer's failure to deposit deferrals in the plan or trust as soon as they can be separated from the employer's general assets can be a fiduciary violation resulting in penalties and loss of qualified status for tax purposes.

With electronic banking and filing, most employers can separate the employee contributions much sooner than the 15th business day of the following month, but there could be a practical reason this should not be done. Many employers remit them at the same time they fund the payroll and/or pay employees. However, this could result in unintended penalties.

Perform an Annual Plan Audit

Companies should have annual retirement plan audits. One of the items that should be audited is the timely deposit of employee contributions. This can be reviewed by matching the withholding date, the funding date, and the deposit date for each payroll. If the auditors have not raised this as a problem, then it is most likely your plan is in compliance, even if the third party vendor is not funding the accounts as quickly as a previous vendor.

Correction Options

If the funding was not done according to the regulations, then there are two correction programs available for this type of error: the DOL's Voluntary Fiduciary Correction Program (VFCP) and the Internal Revenue Service's Employee Plans Compliance Resolution System (EPCRS). The VFCP's goal is to avoid civil penalties, while the goal of the EPCRS is to preserve the tax benefits resulting from qualified status.

To correct for late deposits, the company must contribute the earnings that those late deposits missed. The earnings are what the delayed deposits would have accumulated had they been made timely, measured from the earliest date the employer could have segregated them from its general assets to the date the deferrals were deposited in the plan.

Tip for success: Review the summary plan document (SPD). If the SPD specifies a time frame to follow, then the company must abide by that deadline for the plan.

Resources: IRS 'fix it guide' for 401k plans: http://www.irs.gov/Retirement-Plans/401(k)-Plan-Fix-It-Guide-You-have-not-timely-deposited-employee-elective-deferrals; IRS 'fix it guide' for SIMPLE IRA plans: http://www.irs.gov/Retirement-Plans/SIMPLE-IRA-Plan-Fix-It-Guide-You-made-incorrect-employer-contributions-for-eligible-employees. ❑

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ACCOUNTS PAYABLE

Obtain W-9s From Exempt Corporations

(Quick Code 011508)

At one point, 1099 reporting was extended to include corporations. "During that time, many AP departments undertook a W-9 gathering project and were able to collect quite a few W-9s from their corporate payees," says Pam Miller, IOFM's Director of Education. "The exemption was rescinded, but following a huge outcry, Congress changed its mind and the exemption was reinstated."

"Once the requirement was dropped, AP departments became more lax when it came to gathering corporate W-9s. Some departments simply stopped requesting W-9s from corporations. Others continued to insist on collecting corporate W-9s, anticipating that the exemption was likely to be rescinded again sometime in the future. Overall, however, the practice of collecting corporate W-9s waned," says Miller.

"If your AP department is no longer collecting W-9s from corporations, it is time to retrench and once again insist on a W-9 from each and every payee—including corporations. Why? Because of FATCA, the Foreign Account Tax Compliance Act," she says.

What Is FATCA and Why Be Concerned About It?

Simply put, FATCA requires that U.S. companies collect and validate specific pieces of information, such as non-U.S. taxpayer identification numbers, from their non-U.S. payees or withhold 30 percent of their payments. Penalties for not complying are steep. In addition to the potential for interest and penalties, the organizations that fail to do the withholding must also pay the tax they should have withheld.

Since the intent of FATCA is to collect taxes from U.S. persons who avoid them by depositing their funds outside of the U.S., one might think it applies just to financial institutions. Think again. The changes FATCA has made to reporting requirements actually affect nearly all organizations that issue payments.

Complying with FATCA means that it is important to know the status of every payee in terms of whether they are a U.S. payee or a non-U.S. payee. Clearly, this means that AP departments must step up their collection of W-8s from their non-U.S. payees.

Documentation Is Critical

How can you tell if a corporation is a U.S. payee or a non-U.S. payee and whether it is subject to FATCA rules? You need to see documentation to determine their status, and a W-9 can satisfy that need.

The W-9 contains information that indicates the payee is a U.S. person. The address, first of all, will demonstrate that. The W-9 also requires a certification that the entity completing the W-9 is a U.S. person for tax purposes. Even better, the new W-9 revised in August of 2013 (http://www.irs.gov/pub/irs-pdf/fw9.pdf) includes a place for the payee to indicate its FATCA exemption code. ❑

1099 REPORTING

How to Report Payments to Attorneys

(Quick Code 011501)

It's important for controllers to know how payments to attorneys and law firms must be reported to the Internal Revenue Service (IRS). To help companies avoid costly penalties and to clarify the process, *Controller's Report* interviewed tax expert Marianne Couch, JD, a co-founder of the Cokala Tax Group. The following explanation and rules assume that the payees have been determined to be U.S. persons.

According to Couch, payments to attorneys and law firms can require 1099 reporting under either of two sections of the tax regulations, 1.6045(f) or 6041A(a)(1).

"The IRS defines the term 'attorney' to include 'law firm.' Legal services are defined as work done by or under the direction of an attorney," Couch explains. She outlines the following provisions companies need to know to stay in compliance with tax regulations concerning attorney fees:

1099-MISC, Box 7: Attorney fees of $600 or more paid in the course of trade or business are reportable in Box 7 of Form 1099-MISC. "Box 7, 'Nonemployee Compensation,'

covers fees, commissions, prizes, and awards for services performed as a nonemployee and other forms of compensation for services performed for your trade or business," says Couch. "Six hundred dollars is the aggregate threshold. There are no corporate exemptions for attorney fees reported in Box 7, although tax-exempt and government exemptions are still permitted."

1099-MISC, Box 14: "While payments to attorneys or law firms that performed services for the payer organization are to be reported in Box 7, you must report payments to attorneys or law firms that performed services for someone else in Box 14, 'Gross Proceeds Paid to an Attorney,'" Couch continues. "Under section 6045(f), you must report in Box 14 any payments that are made to an attorney/law firm in the course of your trade or business in connection with legal services and that are not reportable in Box 7."

1099-MISC, Box 3: "If an attorney's or law firm's name is on the check or payment, the payer must report the total amount of that check in Box 14. However, if the legal damages payment to the claimant is taxable, you must also report this amount to the claimant in Box 3, 'Other Income'—even if the claimant's name is not on the check (because of the assignment of income doctrine)," Couch explains.

"This means you may be issuing two or more Forms 1099 for a single check—for example, one to the attorney, reporting the amount in Box 14, and one to the claimant, reporting the amount in Box 3," says Couch. "In general, use the 'Other Income' box for entering other income of $600 or more that is required to be reported on Form 1099-MISC but is not reportable in one of the other boxes on the form."

Box 3 for claimant/plaintiff reporting is to be used for legal damages/settlements and other payments. "The payments are reportable if they are taxable. What is *not* taxable includes personal physical injury or sickness and medical expense reimbursement," says Couch.

"Items that are *possibly* taxable but not reportable include non-fixed and determinable amounts of income (e.g., property damage payments). Taxable back pay is a wage payment that must be reported on Form W-2 and is subject to all applicable income and employment tax withholding. Punitive damages are always taxable and reportable. Interest is always taxable and is reportable on Form 1099-INT if it meets or exceeds the $600 reporting threshold," she says.

Payers must report aggregated amounts of $600 or more on Form 1099-INT. "If the aggregated amount is under $600, you are not required to report, and you do not report interest on the 1099-MISC," Couch adds.

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Four Examples

To illustrate how the 1099-MISC reporting for attorneys' fees works, Couch provides four examples:

Example 1: *Check for $100,000 to attorney and claimant.*

"If the attorney's name is on the check or other form of payment, such as a wire transfer, and the attorney did not perform services for the payer, then $100,000 goes in Box 14 to the attorney. You must get the attorney's or law firm's EIN or backup withhold 28 percent," Couch explains.

"To determine how to do claimant reporting, you need to get more information, such as what the payment is for and whether there are taxable or nontaxable legal damages," she says. "If the payment is for a broken limb, for example, there is no reporting to the claimant because the payment is to compensate for a personal physical injury. If, however, the claim is for defamation, report $100,000 in Box 3 to the claimant—and in this case you would need to get the claimant's SSN (assuming the claimant is an individual) or backup withhold 28 percent."

Example 2: *Check for $100,000 to the claimant.* "In this case there is no attorney reporting," says Couch. "Claimant reporting depends on the nature of claim. If there are taxable damages, report in Box 3. Obtain the TIN or backup withhold. If it is not taxable, there is no reporting necessary."

Example 3: *Check to attorney for $100,000.* "The attorney payment of $100,000 would be reported in Box 14," she says. "There may need to be claimant reporting, depending on what the payment is for. If the payment is taxable, report to the claimant in Box 3, even if the claimant's name is not on the check."

Example 4: *$33,000 to attorney and $67,000 to claimant.* "If a company has made one $33,000 payment to an attorney and one $67,000 payment to a claimant, that company should report the $33,000 to the attorney in Box 14 of Form 1099-MISC," Couch explains. "If the damages are non-taxable, then no reporting to the

claimant is required. However, if damages *are* taxable, then the company must report $100,000 to claimant in Box 3 of the Form 1099-MISC."

Special Cases: "Attorneys acting as closing agents in real estate transactions are not subject to Box 14 gross proceeds reporting requirement," says Couch. "Nor are attorneys appointed by the federal bankruptcy court acting as trustees."

"Attorneys named as payees on checks for amounts garnished from an employee's wages or contractor's payments are subject to Box 14 reporting requirement; you would need to get the TIN or backup withhold. Use the backup withholding requirement as leverage to get the information you need," Couch advises. "The garnisheed amount is also reportable on the employee's Form W-2 or contractor's 1099."

"Remember that if any of the damages payment constitutes taxable back pay, this amount must be reported on a Form W-2, and subjected to all applicable wage withholding, even if the employee is no longer on your payroll," says Couch. "Interest must be reported on Form 1099-INT if the aggregate amount is $600 or more."

The bottom line: "Payments to attorneys/law firms that performed services for your organization and that meet or exceed the aggregated $600 threshold are reported in Box 7; payments to attorneys or law firms that did not perform services for your organization and that meet or exceed the $600 aggregated threshold are reported in Box 14. Remember that there is no corporate exemption to these reporting requirements."

Editor's Note: Marianne Couch, JD, is an advisor on U.S. federal and state tax information reporting compliance. She is a frequent lecturer at major tax conferences, author of *The Master Guide to Form 1099 Compliance,* and a former member of the IRS Information Reporting Program Advisory Committee. 2015 Instructions for Form 1099-MISC can be downloaded at http://www.irs.gov/pub/irs-pdf/i1099msc.pdf. ❑

PROFESSIONAL DEVELOPMENT

Bean Counters No Longer: How Controllers Are Elevating Their Game

(Quick Code 011502)

By Mike Sbrocco, Director of Finance/Controller, Junxure

The image of the bean-counting, number-crunching controller has become a thing of the past. Over the last decade, there has been a notable shift in how the position is being viewed, and controllers are increasingly being asked to take on more strategic responsibilities within their organizations.

Finance professionals in organizations of all sizes and industries are now occupying top senior executive roles both inside *and* outside the finance department. Thanks to their financial acumen, risk-management skills, compliance knowledge, and governance experience, controllers are taking on roles that fall far beyond their traditional finance job descriptions.

It is becoming a trend to assign additional responsibilities to current members of the leadership team and to promote from within. By doing so, companies have the assurance that the individual already knows the lay of the land, gets the culture, and has the sensitivity to relate appropriately to the various personalities on the leadership team.

Business Trends Behind the Shift

While it has never been unusual for controllers to be promoted within their finance departments, there was formerly little movement or crossover between finance and other areas of the company. This pattern shifted in the 1990s, when audit firms began to groom their top performers to tackle larger problems for their clients. When these individuals left their audit firms to take jobs elsewhere, they were better equipped as a result of this experience to make significant contributions to their organizations and elevate into executive positions within the companies.

Examples in Action

In what specific ways are finance leaders taking on additional responsibilities in their organizations? Here are some prominent examples cited recently in *Crain's Chicago Business*:

- Ford Motor Co., Twitter Inc., and Tiffany & Co. eliminated the chief operating officer (COO) position in 2014. In each of these businesses, some—if not all—of the COO responsibilities were inherited by the CFO.

- At PetSmart, when the COO left the company, the CFO acquired the chief information officer (CIO) as a direct report.
- When McDonald's Corp. announced that it wouldn't replace its COO after he retired in October, the company announced that it was designating CFO Peter Bensen as head of the worldwide supply chain, development, and franchising functions. "We have operated in the past with and without a COO and have used a number of different reporting structures over the years," revealed McDonald's spokeswoman Becca Hary in an interview with S.S. Swanson of *Crain's*. "This current structure allows our CEO to remain close to the business and our customers."

How Can Controllers Prepare for the Transition?

What are some concrete steps that controllers and other finance leaders can take to prepare themselves for increased roles? Here are just a few suggestions:

1. Proactively seek to take on additional responsibilities within the company. Don't wait until you are asked— take the initiative to get involved in other areas of the organization whenever possible. For example, most organizations set up task forces, committees, and other initiatives to tackle various challenges. Ask to be included. Volunteering is an excellent opportunity to get involved with different areas of the company and to showcase and develop your leadership abilities

2. Become a change agent. Stay on the lookout for areas that are ripe for change. Volunteer to help other functional areas make changes and improvements that will contribute to the organization's strategic business goals.

3. Embrace job diversity. Welcome every opportunity to handle tasks outside the bailiwick of finance—even if it involves something that isn't particularly interesting to you. Never say never.

4. Embrace continuous learning. Obtain a certification, study for an advanced degree such as an MBA, or take courses in such areas as leadership, engineering, and computer science. This can prepare you to take on increased responsibilities that involve other areas of the company.

Invest in Yourself

For controllers, the pinnacle in the finance profession used to be the CFO position. Now, controllers and CFOs are being viewed as successors to CEOs.

The best investment that you can make as a controller is an investment in yourself. If you are looking to grow your career and expand your leadership footprint, be prepared to put some work into it, have an open mind, and be willing to step outside of your comfort zone.❑

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FINANCIAL LEADERSHIP

Four Keys to Winning Presentations

(Quick Code 011504)

Most controllers are called upon to present information to their management teams, including financial reports, cost-reduction strategies, and budgets. Financial presentations have a reputation for being dry or confusing, but they don't have to be if controllers follow some key tips, according to Mircea Stanciu, Finance Controller—Central and Eastern Europe at BIC. Stanciu advises his fellow controllers to adopt the following approach:

1. Clearly establish the topic, purpose, and objective. "The first step is to decide precisely why you need to deliver a presentation," says Stanciu. "There has to be a very clear objective."

➢ **Case in Point:** "For example, if my finance manager asks me to deliver a presentation of the Q1 results, that is very straightforward. Or if some customers are not paying but the customer service department is continuing to send orders to those customers, it is a serious internal control issue, so that would be the clearly defined topic of the presentation."

"The clearer your purpose and objective, the stronger

your presentation will be," says Stanciu.

2. Know who your audience will be. "Just as you are clear about your purpose, you need to be clear on whom you will be presenting to. Is it your boss, the entire finance and accounting department, some other departments—such as sales, procurement, marketing, or warehouse operations—the top management of your company, or the general managers of your region? Find out who will be there and what their stake is in the topic you will be addressing. That way you will be able to include information that will be engaging and relevant to all your listeners," says Stanciu.

➢ **Example:** "Often I need to present to people who are outside my finance department, because issues involve more than just finance. However, I might make an initial presentation to only my department, so I can get feedback and commitment from 'our side' at first, especially from my boss, who must be my number-one supporter in any initiative I want to present to others within our company," Stanciu points out. "It is always best for controllers to be able to back up a presentation with the buy-in of the rest of finance in order to present a united front."

3. Decide on your approach. "Peter Senge, a systems scientist from MIT's Sloan School of Business, describes five different approaches to making a presentation: 1) Tell, 2) Sell, 3) Test, 4) Consult, or 5) Co-create," says Stanciu. "Each approach implies a different level of commitment and involvement from the participants' side."

➢ **Example:** The approach you use will depend on your audience. "By Senge's definition 'telling' means *telling* someone what to do," says Stanciu. "This is okay if you are presenting to people who work under you, but you cannot just *tell* other departments what to do, even if you have your boss's support, because other departments do not report to you or your boss."

"So in these cases you would need to use your presentation to *sell* the ideas, or convince/influence the other departments. Yet in some cases, simply trying to *sell* your point might not be enough to motivate other departments to want to meet your objectives," he says. "So you might need to test your ideas with the other department by asking them to try your suggestion. Or you could *consult* with them—actually work with the other department to come up with a common solution that was arrived at together."

4. Begin your presentation in a compelling way. "A major factor that can drive the success of your presentation is starting it in a way that really grabs attention," says Stanciu. "You need to hook your audience with the very first sentence or you will lose them before you even start. There are three ways to accomplish that."

- **Start with a powerful statement or statistic.** "You might say something like, '40 companies from FTSE 100 were defrauded last month alone' (the FTSE 100 is an index composed of the 100 largest companies listed on the London Stock Exchange (LSE). 'As your controller, I will show you how we can protect our business from this risk and avoid losing X dollars.'"
- **Begin with a personal anecdote or question.** "The anecdote or question should be compelling and relevant to the subject. This will get the audience thinking so you can follow up with the explanation or answer," says Stanciu. "Whatever way you start, you need to do it in such a way that your audience wants to know more."
- **Lead with a confession.** "For example, I recently started a presentation by saying, 'I have a confession to make. The last time I spoke with you about internal controls, I delivered the wrong message to you.'"

➢ **Example of using all three approaches:** "By admitting that I delivered the wrong message, I pulled in the audience's interest right away. They started asking, 'What do you mean?' Instead of giving the answer right away, I continued to draw in their attention by asking a question: 'How many of you use credit cards for online shopping?' Several, of course, raised their hands."

"Then I said, 'How would you feel if all the money disappeared from your account in 10 seconds?' The audience was shocked. I continued with a story about how I had learned about this the hard way by being a victim of Internet fraud last month."

"Next, I stated my objective: 'Today I will deliver a much better message to you about internal controls, and

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after I'm finished you will know exactly what we need to do to keep our business safe from fraud.' The audience was hooked through my entire presentation!"

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. ❑

ACCOUNTING AND REPORTING

What Controllers Need to Know About the New FASB/IASB Revenue Recognition Standard

(Quick Code 011506)

In June 2014, the International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB) jointly issued a converged standard for the recognition of revenue from contracts with customers.

IASB is responsible for International Financial Reporting Standards (IFRS) and FASB is responsible for the U.S. Generally Accepted Accounting Principles (US GAAP). The co-developed standard has been designed to improve, on a global basis, the financial reporting of revenue and the comparability of the top line in financial statements.

The FASB and IASB consulted extensively with interested parties throughout the life cycle of the revenue recognition standards project, seeking public comment at each stage of the development process and further refining their proposals in response to that feedback. The two boards also established a Transition Resource Group that has been working since last July on facilitating the transition to the new standard.

"The new revenue recognition rules will create a new global environment with enhanced comparability across industries and geographies. The biggest change will be the shift from industry-specific guidance to the application of general principles across all industries," explains Diana Gilbert, a technical accounting specialist in finance and accounting services at RoseRyan.

"Companies will have to reconsider how revenue is to be recognized for their transactions. In some cases, they will be able to record revenue earlier than they do now," Gilbert continues.

"It is important to keep in mind that only arrangements involving the transfer of goods or services to a customer are within the scope of the new standard. So companies will need to evaluate their vendor-customer relationships. If the transaction is essentially a partnership, it would fall outside the scope of the new standard," she says.

Better Accounting and Reporting

As every controller knows, revenue is a key metric for users of financial statements to help assess a company's financial performance and prospects. However, the previous requirements of IFRS and US GAAP did not coincide, which often resulted in conflicting accounting for transactions that were economically similar. In addition, while revenue recognition requirements of IFRS lacked detail, the accounting requirements of US GAAP were overly prescriptive in certain areas.

The core principle of the new revenue recognition standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the payment to which the company expects to be entitled in exchange for those goods or services. Accordingly, the standard will:

- Provide principles for reporting useful information to users of financial statements about the nature, timing, and uncertainty of revenue from contracts with customers.
- Create a more robust framework for addressing revenue issues.
- Result in enhanced disclosures about revenue.
- Give guidance for transactions that were not previously addressed comprehensively.
- Simplify the preparation of financial statements by reducing the number of requirements to which an organization must refer.

Implementation Dates

"There is time before companies have to issue financial statements under the new standard," says Gilbert. "The first interim period is 2017 for public companies with fiscal years beginning after December 15, 2016; these companies will need to disclose the expected impact

of the new standard right away. They will also have to be tracking transactions under the new principles beginning in 2015."

Companies using IFRS will be required to apply the revenue standard for reporting periods beginning on or after January 1, 2017, while Public companies using US GAAP will be required to apply it for annual reporting periods beginning after December 15, 2016, including interim reporting periods therein. U.S. private companies and organizations have a one-year deferral; they are to apply the revenue standard for annual reporting periods beginning after December 15, 2017, and interim and annual reporting periods thereafter.

Tips for Controllers

Controllers should lay out a plan for implementation as well as follow some best practices. The steps Gilbert advises controllers to take include the following:

1. Conduct an assessment early to identify the impact of the standard on the company, transactions, and revenue recognition.

2. Evaluate a representative sample of transactions and extrapolate the impact. "Beyond the financial impact, consider the impact on internal resources, external audiences (e.g., investors, lenders, analysts), and how management looks at the business," Gilbert recommends.

3. Follow the activities of the IASB/FASB Transition Resource Group. "They are considering issues raised through the implementation process and will be providing recommendations to the FASB for additional guidance and possibly changes in effective date or interpretations," Gilbert points out.

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4. Be proactive and collaborate with your auditors. "Make sure your auditors understand the basis of your conclusions and agree with your approach," she advises.

5. Monitor what your peer groups are discussing in their new accounting pronouncements disclosures. "For example, if most companies in your industry are planning a retrospective adoption, you may want to consider doing the same to keep your financials comparable. They may also raise issues or interpretations you have not considered," Gilbert points out.

6. Choose a transition method and build an implementation plan to support that approach.

Editor's Note: Diana Gilbert has 30 years of professional experience in technical accounting, revenue recognition, SOX/internal controls, business systems, and process improvements. She blogs regularly on www.roseryan.com. To follow the developments of the Transition Resource Group, go to http://www.ifrs.org/About-us/IASB/Advisory-bodies/Joint-Revenue-Transition-Resource-Group/Pages/Home.aspx. ❑

PERFORMANCE MANAGEMENT

Boost Employee Proficiency and Engagement to New Heights in 2015

(Quick Code 011509)

By Laurie McMurray, CPC, MBA, Controller, SIEMENS Industry, Inc.

Employee motivation is increasingly being considered an integral part of performance management in the finance department. When you listen and respond to your finance staff's ideas—and involve them in decision-making—you create engaged and invested employees.

A recent white paper from ADP, *Engaging and Empowering Employees in the New Workplace,* reveals that "the most engaged workplaces were 27 percent more likely to report higher profitability, 50 percent more likely to have lower staff turnover, and 38 percent more likely to have above-average productivity." These are statistics to take seriously!

Here are five tips I have found to be particularly effective in developing engaged employees:

Co-create customized goals. At one time, goals were simply assigned to employees. Today, finance leaders provide employees flexibility and offer them

more involvement in developing customized goals for their jobs. It has been demonstrated through numerous studies that if employees are given the opportunity to help set their own goals—rather than having those goals dictated to them—they are much more enthusiastic about doing the work necessary to meet those goals.

For example, a strong finance leader sets sales and revenue targets and then allows employee input about how to reach the targets. The goals should be clearly aligned with the corporate vision, and should also allow employees some control over how they are to achieve the goal. This strongly increases job satisfaction.

Foster open two-way communication. Talk frequently with your employees, attend employee events, and present small rewards throughout the year. This encourages team building and creates social events for all the team—including you—to come together.

Make work fun. Granted, as busy controllers we typically don't have a lot of time for fun! But when you see your staff morale breaking down, it's definitely time to lighten the mood and decrease the stress level.

For example, I was concerned, during a particularly heavy week in which the finance department was under pressure, that the team's low spirits and lack of communication were going to impair productivity. I scheduled an afternoon meeting in one of the conference rooms for my team.

Instead of having a typical meeting, however, we took a break, enjoyed some games and snacks, unwound, and had fun with one another. This turned out to be a fantastic way for us all to break down the walls and start communicating with one another again. My team enjoyed the opportunity to have fun with me and I found that they were much more comfortable about coming to me about work issues after that.

Show appreciation—freely! Even if financial rewards are not feasible, there are many economical ways controllers can reward their employees. One often overlooked (and absolutely cost-free) way is *simply telling an employee that he or she is doing well.*

Even the most dedicated "numbers person" is a human being—and all human beings like to hear, directly from their bosses, that their efforts have been noticed and they've done a good job.

Another way to show appreciation is to start a "Finance Employee of the Year" award. There are countless ways to select an employee for this recognition. You can choose the person yourself, have members of the management team select the employee, have peer nominations, or all of the above.

During the ceremony, give the person who is chosen an official certificate that he or she can put on a wall, along with a small prize such as a gift card or gift certificate to a restaurant. Also make sure to give every person who is nominated an honorable mention.

Of course, you don't want to forget that *all* employees are important. Make sure to personally recognize each member of your staff in some small way—at least once a year—in addition to giving praise often throughout the year.

The bottom line: Simple as it sounds, by taking this approach in 2015, you will find that your employees will be more engaged, their morale will be higher, and they will be more willing to go above and beyond when the need arises. And a year from now, you'll find that your finance department's performance has reached levels you may not have believed possible! ❑

MOBILE TECHNOLOGY: A REVOLUTION RIFE WITH RISKS

How to Protect Your Organization From a Security Breach

(Quick Code 011503)

More financial transactions are being processed through mobile devices than ever before—and this trend is only going to increase in 2015 and beyond. Controllers must know the benefits and risks of mobile technology and put security measures in place to ensure that financial transactions are safe from fraud, identity theft, and other costly breaches, stresses Randall Frietzsche, CISSP, Regional Information Security Analyst, Enterprise IT Security, Risk, and Compliance, Catholic Health Initiatives (Louisville, KY).

"There is an evolving culture of working from home or remotely to save companies the costs of maintaining the infrastructure of a workplace," says Frietzsche. "Companies can utilize cloud and mobile technology to operate the business virtually and eliminate overhead.

Controllers naturally like the cost savings but need to be aware that along with the savings and convenience of mobile technologies come potentially costly risks to company information."

Some risks are subtle and easy to overlook, says Frietzsche. "For example, an accounts payable employee could be at a local coffee shop reviewing invoices on a tablet through a wireless public network, and the information could be intercepted and stolen. Or a virus could be introduced onto the device—and the company's system—via that unprotected network."

Smart Security Measures

"While the value of mobile technology will eventually outweigh the risks, controllers must understand how to reduce the risks today," stresses Frietzsche. An effective mobile risk-management program includes the following steps:

1. Implement strong corporate governance with sound mobile device policies. "The goal of corporate governance and policies for mobile technology is to maximize the value and efficiency that can be gained through mobile devices while protecting sensitive and proprietary financial data," says Frietzsche. "Work with IT and other areas of the company that are involved in creating controls, security policies, and policies governing purchasing and sales transactions. Establish policies and procedures that specifically address the risks presented by mobile technology in your particular environment."

2. Use administrative and technical controls. "All mobile devices that have financial data or other sensitive company information on them must be equipped with encryption so that if they are stolen it will be impossible for the thief to access the data," says Frietzsche. "In addition, devices used by staff in finance and other areas that handle private information should always be loaded with software that safeguards against viruses, malware, worms, and Trojan horses."

3. Enforce strong access controls. "Secure corporate-owned mobile devices with locks only allow use by authorized users with strong PIN codes and passwords," says Frietzsche. "Other measures to consider are virtual private network tunnels—which protect data when users access it on mobile devices through public wireless networks—and tools that block users from sending or receiving texts or personal e-mails on company-owned mobile devices."

4. Restrict/control personal mobile devices (BYOD). "Ideally, companies would not allow employees to bring personal mobile devices to work and/or use them for work," says Frietzsche. "However, this isn't always feasible in the real world. So it's critical that companies establish clear guidelines and controls on what work-related processes and transactions employees are able to perform on their own devices."

5. Restrict the installation and use of apps on mobile devices. "There could be situations where an employee loads a game app onto a personal mobile device that is also used for work, or onto a company-owned device. That game could have a secret functionality to steal data from mobile devices, access corporate e-mail, or steal passwords," he explains. "It is paramount to have a policy that specifically restricts or forbids apps on any device used for work-related transactions and processes. At the very least, companies should put data protections on devices so that game apps can't touch corporate data."

6. Have the capacity to remotely wipe lost or stolen devices. "Regardless of whether employees are using company-owned or personal devices, the company must have the ability to remotely wipe lost or stolen devices of all financial information and other sensitive or proprietary information," says Frietzsche.

7. Teach users about the risks. "All finance staff and other employees who use mobile devices for work need to be fully trained on what the risks are regarding mobile devices and how to avoid them (such as installing apps on the devices or connecting to public Wi-Fi networks)," says Frietzsche.

Equip Yourself to Handle the Risks

"Attend expos, conferences, and other industry events," advises Frietzsche. "Talk with vendors, security experts, and other finance professionals. Discuss your concerns and get their feedback. Find out what solutions are available, what solutions will soon emerge onto the market, and what others are doing to protect their financial information and other proprietary data."

"Use the knowledge you gain to make recommendations to colleagues at work who are instrumental in establishing and implementing security measures.

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Involve information security and privacy staff in defining requirements for projects or purchases of mobile technology. Staying on top of this evolving technology is the best way for controllers to have the confidence that all the right security controls are in place, data is being protected, and costly breaches will be prevented," says Frietzsche.

The bottom line: "The financial security risk presented by mobile devices can never be zero, but by taking these steps controllers *can* reduce the risk to an acceptable minimum," he says.

Editor's Note: Frietzsche is a fellow with the Information Systems Security Association (ISSA) and has been the President of the ISSA Kentuckiana Chapter for 8 years. He's also an adjunct professor for Information Security at Ivy Tech Community College of Indiana, and has presented at IOFM conferences about the risks of using mobile technology in accounts payable. ❑

DEBT REDUCTION

Ten Steps for Reducing High-Debt Service Costs: A Strategy for Success

(Quick Code 011505)

Having to deal with high-debt service costs reduces available cash and increases expenses. To discover an effective way to reduce high-debt service costs, *Controller's Report* interviewed Albert Antoine, Chief Financial Officer at Southeast Milk, Inc., a dairy cooperative based in Belleview, FL.

Antoine recently mounted a debt-reduction challenge to deal with high-interest rates—as well as some assessments related to debt covenants—that were a part of an original loan agreement with one of the financial institution that Southeast Milk works with.

The Debt-Reduction Strategy

To solve the problem and reduce debt, Antoine considered three possible avenues: selling off assets to reduce debt, raising equity capital, and refinancing.

"Since there were not enough idle assets to achieve significant advantages, the idea of selling off assets to reduce debt was abandoned," says Antoine. "We also discarded the idea of raising equity capital. After some analysis, we decided the best overall solution would be refinancing."

Why did Antoine decide to refinance as opposed to the other options? "We already had the debt on the books. So, restructuring the debt put us in a better position by reducing costs and increasing cash flow. Selling assets or raising equity capital would have introduced new risks to the organization," he says.

Here are the steps Antoine took to refinance the debt:

1. Set targets. "We set targets for what we wanted to achieve in terms of loan amounts and interest rates," he says. "We identified key elements upon which to judge the lenders: interest rates, terms, advancement rates, debt covenants, overall process costs, and timing. Based on our needs, we assigned weights to each factor."

2. Contact financial institutions. "We contacted several banks to advise them of our plan to refinance (we nurture relationships with a few bank contacts at all times)," says Antoine. "The strategy was to find a pool of interested lenders who were really hungry to do business with us."

3. Send the institutions information. "We sent each bank a packet consisting of such information as past audited financial statements, projections for future results, aging of accounts receivables, and listing of inventory on hand," he says.

4. Hold meetings. "We held at least two face-to-face meetings with each potential lender," says Antoine.

5. Compare strengths and weaknesses. Antoine obtained term sheets from each lender and compared the terms sheets to determine the strengths and weakness of each lender.

6. Apprise lenders of results. "We advised each lender of the results (strengths/weakness) of our analysis without exposing the particulars of the other lenders under consideration," says Antoine.

7. Develop a short list from the term sheet discussions/negotiations. "We started with six potential lenders, but developed a short list of three," he says.

8. Hold additional meetings with finalists. Antoine met again with members of the short list to continue negotiations.

9. Choose the lender with best overall loan package. "We awarded the loan to the best score, derived internally," says Antoine.

10. Sell the idea of refinancing to upper management. Antoine sold the idea of refinancing to management and other departments by demonstrating costs versus benefits. "To demonstrate the best choice, we developed a chart that benchmarked the lenders against one another and against the existing loan," he explains. "The chart listed each bank's proposed interest rates, terms, advancement rates, debt covenants, and loan processing costs."

Money-Saving Results

The financing initiative helped Antoine to develop an improved treasury relationship and increase cash flow in the process.

"We reduced our debt service costs by over 40 percent," he reports. "By increasing our available cash, we were in a better position to self-fund several of our capital equipment projects rather than borrowing additional monies or having to forgo the project altogether. It also allowed us to have additional working capital available to fund increases in accounts receivable and inventory as the business grows and/or to pay down existing lines of credit."

Challenges Met and Lessons Learned

While the project was successful, it was not without its share of challenges. "The process required a significant amount of my time—three to four months—and new banking regulations slowed the process down," Antoine recalls.

However, the benefits far outweighed the drawbacks—and Antoine learned some helpful lessons along the way. For example, going through the debt-reduction process had other, more far-reaching, outcomes. When Antoine and his team applied the same approach to financing the introduction of a new production line, they were successful in trimming eight percent of the costs from a multimillion dollar project.

"This exercise helped improve my understanding of the various requirements of financial institutions and how these have changed over the past few years," he says. "Also, the refinancing process improved my negotiating skills by helping me understand how the banks judge critical factors of potential borrowers. Lenders are interested in typical financial performance like profit/loss and cash flow, but they are also interested in a prospective borrower's critical factors such as debt-to-equity ratio, fixed charge coverage ratio, current ratio, and senior funded debt to EBITDA." ❑

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ADVICE FOR OTHER CONTROLLERS

Albert Antoine, Chief Financial Officer at Southeast Milk, Inc., has the following tips for other controllers who wish to refinance to reduce debt:

- Choose several lenders and offer them the opportunity to participate in the project. "You should maintain casual contact with a few lenders continuously," he advises.
- Hold your first meeting with each lender to discuss the project, let them educate you on the current lending environment, and explain their bank's abilities.
- Identify at least one lender that is truly hungry for your business. "Through your discussions, you should be able to determine which lender has the greatest interest in your business," says Antoine. "For instance, lenders who have a footprint in another region could be hoping to grow in your geographical area. Look for this type of opportunity so you can use this lender to drive the overall negotiations."
- After receiving and reviewing the first proposal from each lender, develop a short list of potential lenders, advising each of their position.
- Continue the negotiations with the final two or three, identifying the strengths and weakness of their individual proposal until the best deal emerges.

"Make sure you fully understand the project along with its financial advantages and disadvantages, so that you can sell the merits to the potential lenders," says Antoine.

THE CONTROLLER'S CALENDAR

Corporate Performance Management Summit, January 28–29, New York. For more information, go to http://theinnovationenterprise.com/summits/cpm-new-york-2015.

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

NEWS BRIEFS

Quick Code 011510

SAVE DOLLARS WITH WORLD-CLASS PROCUREMENT PRACTICES

Controllers seeking to improve cost efficiencies would do well to focus on the procurement department, advises Penny Weller, PhD, CMA, Senior Director, North American Advisory Practice Leader, Global Business Services, The Hackett Group. The Hackett Group's *2014 Procurement World-Class Performance Advantage* research found that "world-class" procurement operations share the following features:

- Run at nearly 20 percent lower cost as a percentage of spend;
- Have 27 percent less staff than procurement groups at typical companies; and
- Generate purchased cost savings equal to more than nine times the cost of procurement—more than double the ROI generated by procurement operations at typical companies. (While the ability of world-class procurement operations to generate savings declined by 17 percent in 2014, ROI is expected to improve by up to 7 percent in 2015.)

The Hackett research, based on an analysis of more than 100 procurement benchmark studies, revealed that one of the principal keys to success is end-to-end process alignment in procure-to-pay (P2P). There is actually a 38 percent gap in process cost (labor and outsourcing costs) between those companies *with* end-to-end P2P alignment compared to those *without* such alignment.

"The value proposition of procurement is clearly evolving," says Chris Sawchuk, principal and Global Procurement Advisory Practice Leader, The Hackett Group. "Top procurement organizations are running extremely lean. Our forecasts show that world-class procurement organizations are unlikely to be able to generate significant additional cost savings or ROI improvements next year. But they are expanding their value proposition in other areas, to better differentiate themselves."

The Hackett Group reported that world-class procurement areas:

Act as partners to the rest of the business. For example, world-class procurement groups are highly involved in planning and budgeting nearly four times more often at world-class companies than at average companies. They proactively seek to understand what drives the requirements of the business, as opposed to simply facilitating the buying process. This allows procurement and finance to work together to reverse-engineer costs, explore less expensive and/or higher-quality alternatives, and come up with strategies to reduce costs.

Drive supplier innovation. World-class procurement groups work with suppliers to reduce costs, create innovative solutions, and achieve continuous improvement. Top companies drive more than twice as much incremental revenue as typical companies through supplier innovation efforts that derive quantifiable value from this supply-chain strategy.

Provide insights. World-class procurement groups work closely with finance, operations managers, and other business leaders during operational planning and budgeting periods to provide insights on supply markets and assist with planning, forecasting, and budgeting. The best procurement groups provide predictive analytics, market intelligence, and benchmarking data to key stakeholders in finance and other areas of the organization.

Protect their organizations against risk. World-class procurement groups have formal risk-management programs to ensure supply continuity and regulatory compliance. Organizations with a formal, broadly applied strategy for assessing risk have nearly 25 percent greater procurement ROI than those without them, The Hackett Group's research found. These procurement groups carry out supplier risk assessments and work with finance and other stakeholders to determine the best mitigation strategy when risk exposure is identified.

Controllers who wish to reap maximum cost benefit from their organizations' procurement groups will do well to offer procurement a seat at the table at key finance discussions. Forge a true partnership with procurement and finance to create a world-class P2P operation.

Editor's Note: A complimentary excerpt from The Hackett Group's research insight, "Five Characteristics of World-class Procurement Organizations in 2014," is available with registration at this link: http://www.ariba.com/assets/uploads/documents/Five-Characteristics-of-World-Class-Procurement-Organizations.pdf.

NEWS BRIEFS

NEW SECURITY STANDARDS FOR PAYMENT DATA

Businesses can achieve efficiencies by using third-party vendors, but they can also put payment data at risk since security vulnerabilities introduced by third parties are often cited as a leading cause of data compromise. According to *Securing Outsourced Consumer Data*, a 2013 study by the Ponemon Institute, the biggest mistake organizations make when entrusting sensitive and confidential consumer information to third-party vendors is failing to apply the same level of rigor to information security in vendor networks as they do in their own networks.

To help organizations and their business partners reduce risk by better understanding their respective roles in securing payment card data, the PCI Security Standards Council (SSC) recently published a *Third-Party Security Assurance Information Supplement*. Developed by a PCI Special Interest Group made up of merchants, banks, and third-party service providers, this guidance provides recommendations for meeting PCI Data Security Standard requirement 12.8, which says that if a merchant or entity shares cardholder data with a third-party service provider, certain requirements must apply to ensure that continued protection of this data will be enforced by such providers. The new supplement focuses on helping organizations and their business partners achieve data security by implementing a robust third-party assurance program.

The guidance includes practical recommendations for businesses, including the following:

- Conduct due diligence and risk assessment when engaging third-party service providers to help the organizations understand the services provided and how PCI DSS requirements will be met for those services.
- Implement a consistent process for engaging third parties that includes setting expectations, establishing a communication plan, and mapping third-party services and responsibilities to applicable PCI DSS requirements.
- Develop appropriate agreements, policies, and procedures with third-party service providers that include considerations for the most common issues that arise in this type of relationship.
- Implement an ongoing process for maintaining and managing third-party relationships throughout the lifetime of the engagement, including the development of a robust monitoring program.

The guidance includes suggestions for clarifying how responsibilities for PCI DSS requirements may be shared between an entity and its third-party service provider. "This guidance is an excellent companion document to the standard in helping merchants and their business partners work together to protect consumers' valuable payment information," says Bob Russo, PCI SSC General Manager.

Editor's Note: The *Third-Party Security Assurance Information Supplement* is available on the PCI SSC website at: https://www.pcisecuritystandards.org/security_standards/documents.php.

Compensation Is Top Cause of 'Ship-Jumping'

Companies that try to save dollars by pulling compensation purse strings too tight may risk lost dollars from employee attrition. Two recent surveys of finance executives and employees by Robert Half revealed that the top reason good employees quit their jobs is poor compensation and benefits.

CFOs were asked, "Which one of the following is most likely to cause good employees to quit their jobs?" In the second survey workers were asked, "Which one of the following is most likely to cause you to quit your job?" Their responses were as follows:

Reasons Good Employees Quit Their Jobs

	CFOs	Employees
Inadequate salary and benefits	28%	38%
Limited opportunities for advancement	22%	20%
Unhappiness with management	14%	16%
Overworked	12%	9%
Lack of recognition	12%	6%
Bored with their job	8%	10%
Don't know/no answer	4%	0%
	100%	99%

Editor's Note: For more information, go to http://www.roberthalf.com. ❑

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