

THE CONTROLLER'S REPORT

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EXERCISING LEADERSHIP

Survey Reveals Going 'Green' Is Good for the Bottom Line

Sixty-five percent of participants in Buck Consultants' *Greening of the American Workplace 2009* survey reported cost savings related to a reduction in the use of paper.

In addition, 63 percent have lowered their electricity costs, 49 percent have reduced their heating and cooling bills, and 43 percent are spending less on water (see Exhibit 1.)

Ninety-four percent of the respondents pointed to cost savings as the most desired return on investment. Other ROI measures cited by participants included improved stakeholder perception (59 percent), employee retention (29 percent), and attraction of top talent (24 percent).

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Case studies featuring cost-saving strategies.

KEEPING CONTROL

Excise Tax Expected to Drive Up Costs for Many Employers

More than 60 percent of large employers' active health plans will be affected by the excise tax by 2018, reports the Towers Watson's *2010 Health Care Cost Survey*.

"The original concept of the excise tax was to penalize employers with excessively rich health benefit plans," says Randall Abbott, a senior consultant for Towers Watson.

"Assuming even reasonable annual plan cost increases, many of

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STAYING CURRENT

Treasury Will Require Electronic Payments

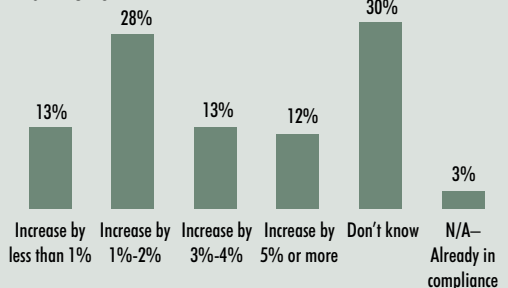
The U.S. Department of the Treasury expects to save more than \$400 million and 12 million pounds of paper in the next five years alone.

The savings will take place through an initiative aimed at dramatically reducing the number of

CONTINUED ON PAGE 15

One-fourth of employers expect PPACA-related changes to push up 2011 cost by 3% or more.....page 8

Employer estimates of cost increase due to covering children up to age 26 and eliminated benefit maximums



(Source: Mercer's 2010 Survey on Health Reform—Sizing Up the Challenge)

Accounting & Performance Measurement: Surprise Audits Deter Fraud

Businesses lose an estimated 5 percent of their annual revenues to fraud, according to a survey of certified fraud examiners (CFEs) by the Association of Certified Fraud Examiners (ACFE).

The median loss caused by the occupational fraud cases in the ACFE study was \$160,000. Nearly one-quarter of the frauds involved losses of at least \$1 million.

Key findings from the report include:

- Financial statement fraud schemes made up less than 5 percent of the frauds in the study, but caused a median loss of more than \$4 million—by far the most costly category.

- Asset misappropriation schemes were the most common form of fraud in the study, representing 90 percent of cases—though they were also the least costly, causing a median loss of \$135,000.

- Corruption schemes comprised just under one-third of cases and caused a median loss of \$250,000.

- Frauds committed by owners and executives were more than three times as costly as frauds committed by managers, and more than nine times as costly as employee frauds. Executive-level frauds also took much longer to detect.

- Schemes can continue for months or even years before they are detected. The frauds in the study lasted a median of 18 months before being detected.

- More than 80 percent of the frauds in the study were committed by individuals in one of six departments: accounting, operations, sales, executive/upper management, customer service, or purchasing.

- The industries most commonly victimized in the study were the banking/financial services, manufacturing, and government/public administration sectors.

Create a Perception of Detection

Surprise audits are an effective, and underutilized, tool in the fight against fraud. Less than 30 percent of victim organizations

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in the study conducted surprise audits. However, those organizations tended to have lower fraud losses and were able to detect fraud more quickly.

While surprise audits can be useful in detecting fraud, their most important benefit is in preventing fraud by creating a perception of detection. "Occupational fraud perpetrators only commit fraud if they believe they will not be caught. The threat

of surprise audits increases employees' perception that fraud will be detected and thus has a strong deterrent effect on potential fraudsters," says the ACFE's president, James D. Ratley, CFE. □

Source: 2010 Report to the Nations on Occupational Fraud and Abuse, Association of Certified Fraud Examiners. A copy of the report can be downloaded at www.acfe.com/RTTN/2010-rtn.asp.

Compensation

VIRTUAL WORK OPTIONS COULD RESULT IN \$10,000 SAVINGS PER EMPLOYEE PER YEAR

Implementing flexible work options helped Sun Microsystems reduce its annual real estate costs by \$68 million, save \$3 million per year due to reduced power consumption, and cut IT costs by \$25 million, according to research in a new report from Citrix Online and the Telework Research Network (TRN).

Sun Microsystems realized those savings with 2,000 employees working primarily from home and another 15,000 working from home one or two days per week.

Other success stories are cited in the report, *Workshifting Benefits: The Bottom Line*. McKesson Corporation attributes a \$1 million savings per year in real estate costs to its telework program. And the U.S. Patent & Trademark Office saved \$11 million in

new real estate expenses through the use of telework and office hoteling. (Citrix Online defines office hoteling as "shared offices at a company location" where workers with occasional needs for an on-site presence can reserve a shared office on an as-needed basis.)

Businesses Need to Understand Cost Savings

"It's time for businesses to develop a better understanding of the direct impact virtual work styles have on the bottom line," explains Bernardo de Albergaria, vice president and general manager of global marketing and e-commerce of Citrix Online.

"Enabling an environment where people can work where it's most optimum regardless of location . . . can fundamentally change the business landscape by boosting productivity and lowering operating costs," says de Albergaria. The company terms this trend "workshifting."

"Employees who workshift tend to be happier, healthier, more motivated, and more productive. Companies also reap

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the benefits of lower real estate costs and office-related expenses, so it's a win-win for everyone," he adds.

Billions of Dollars at Stake

U.S. businesses could save more than \$400 billion per year in increased productivity, lower office costs, reduced absenteeism, and less staff turnover by offering virtual work policies, according to the report.

"Half-time home-based work among those with compatible jobs could save employers over \$10,000 per employee per year."

Those figures are based on the assumption that 40 percent of U.S. workers could work from home at least some of the time and, if given the opportunity, 79 percent of those workers would. According to the report, if those workers worked remotely half of the time, U.S. businesses would realize the following annual costs savings:

- \$235 billion in increased productivity;
- \$124 billion in office costs;
- \$46 billion in reduced absenteeism; and
- \$31 billion in reduced employee turnover.

The report breaks down those cost savings by the number of employees who would

be affected if companies implemented this option and employees accepted it according to the numbers laid out above (see exhibit).

Productivity Increases With Workshifting

The report offers good news for controllers who anticipate concerns from the C-suite about the potential for lost productivity from workshifting.

According to the report, "study after study shows that people who work from home are more productive than their office counterparts."

In fact, the report states that a company with 50 half-time home-based workers would realize a productivity increase valued at \$288,176 per year, while companies with 100 or 500 half-time home-based workers would see productivity savings of \$576,351 or \$2,881,756, respectively.

Office Costs Are Cut Drastically

"Workshifting programs can reduce the capital drain of owning or leasing a building," the report states.

"Along with the lease/purchase costs, a workshifting program can save on parking lot leases, furniture, supplies, maintenance, security, janitorial, insurance, taxes, common area, and other related costs. These programs can also reduce ADA, EPA, and OSHA compliance costs."

Citrix Online and TRN report that a company with 50 half-time, home-based

A business with 50 half-time, home-based workers would realize savings of \$56,700 a year.

Total Annual Employer Savings for Businesses

Half-time, home-based workers	50	100	500	U.S.
Productivity increase	\$288,176	\$576,351	\$2,881,756	\$235.4 billion
Real estate/ electricity savings	151,846	303,692	1,518,462	124.0 billion
Absenteeism savings	56,700	113,400	567,000	46.3 billion
Turnover savings	38,046	76,092	380,459	31.1 billion
Total savings	534,768	1,069,535	5,347,676	436.8 billion

(Source: Citrix Online and the Telework Research Network, *Workshifting Benefits: The Bottom Line*)

workers would save \$151,846 annually in real estate and electricity costs, while a company with 100 such workers would save \$303,692. A company with 500 employees working at home half time would save \$1,518,462 in those expenses.

Telework Reduces Unscheduled Absences

"Unscheduled absences cost employers billions," the report states. "They necessitate redundancies, they inconvenience coworkers and customers, and they reduce productivity. Telework has proven to be the second most effective method of reducing absences (flexible scheduling is first)."

Citing research from Hewitt LCG, Citrix Online and TRN explain that "unscheduled absences cost employers \$1,800/employee per year; that adds up to \$300 billion per year for U.S. companies."

However, workshifting reduces that cost, because workers who work from home are absent less often, resulting in substantial savings each year.

A business with 50 half-time, home-based workers would realize savings of \$56,700, according to the report. That figure doubles for a business with 100 half-time, home-based workers. A business with 500 such workers would save \$567,000 due to reduced absenteeism.

Employee Turnover Held in Check

"The cost of replacing an employee extends far beyond the recruiting process; it includes separation costs, temporary replacement costs, training costs, and lost productivity," the report explains. "A lost employee can also lead to lost customers, coworkers, and corporate intelligence."

Workshifting can help companies attract and retain employees and, in the process, result in companies saving a collective \$31.1

billion. That includes \$38,046 in turnover savings for a company with 50 half-time, home-based workers, \$76,092 in savings in an organization with 100 half-time home-based workers, and \$380,459 for a company with 500 such workers.

Other Benefits Outlined

In addition to detailing employer benefits, the report lists some benefits of workshifting to employees (reduced gasoline and work expenses, time savings) and to communities (oil savings, greenhouse gas savings, reduced traffic accidents and related costs, less highway maintenance).□

Source: Workshifting Benefits: The Bottom Line, Citrix Online and Telework Research Network/Aerodite Inc. The full report can be downloaded at no cost at www.workshifting.com.

Coming in future issues of *The Controller's Report*

- **Costs and Benefits of 401(k) Automatic Enrollment:** The latest research shows that 92 percent of employees participate in 401(k) plans after they are automatically enrolled compared to only 72 percent without auto enrollment. While most employers are aware of the potential benefits of auto enrollment, an overwhelming majority—nearly 60 percent—report that they have not adopted automatic enrollment in their 401(k) plans.

THE CONTROLLER'S CALENDAR

The 5th Annual CFO Rising West Conference and Exhibition, October 25-27, Las Vegas. Contact: www.cfo.com/conferences.

CFO Summit XXI Fall 2010, November 4-6, Red Rock Casino Resort, Las Vegas. Contact: Marcus Evans, www.cfosummits.com.

AICPA Controllers Workshop East, November 11-12, Hyatt Regency Grand Cypress, Orlando. Contact: AICPA, www.cpa2biz.com.

29th Annual Current Financial Reporting Issues (CFRI) Conference, Nov. 15-16, New York. Contact: Financial Executives International, www.financialexecutives.org.

AP Automation

SUCCESSFUL BUSINESSES UNLOCK CAPITAL TRAPPED IN INEFFICIENT FUNCTIONS

In a recent survey of more than 160 companies worldwide, the Aberdeen Group found that businesses adopting electronic channels have been able to achieve a 16 percent decrease in accounts receivable (AR) processing costs and a 14 percent decrease in accounts payable (AP) costs year over year.

“While the adoption of electronic payment vehicles requires businesses to alter their payment behavior and restructure their financial processes, the companies that make the shift will gain a competitive advantage,” says Nasreen Qubria, senior analyst at Aberdeen.

Report Findings

The Aberdeen survey identified two main pressures creating the need for improved payment processing:

- Corporate mandate to reduce overall payment transaction costs, such as staff and processing (65 percent); and
- Stakeholder demand for improved operational efficiency, such as reduced reliance on paper documents (47 percent).

According to Aberdeen, 50 percent of best-in-class companies integrate their electronic payment solutions with their accounting, enterprise resource planning

(ERP), or other financial systems. At the same time, 39 percent of best-in-class companies identify a lack of integration between electronic payments and accounting systems as a barrier to increased electronic payments.

“Integrating electronic payment networks with back office ERP systems is a challenge faced by all businesses,” reports Aberdeen. “This challenge can be overcome by tightly integrating accounting and ERP solutions, on both the AR and AP sides, with the most widely used electronic payment networks, including credit and debit cards, electronic check, ACH, and even private label networks.”

The report continues, “While electronic payments data integration is the foundation, exponential value will be gained through a suite of connected services focused on streamlining the financial supply chain.” □

Source: Global Payments: Maximizing Cash Flow with Electronic Payments and Process Automation, the Aberdeen Group (www.aberdeen.com) and Sage Payment Solutions (www.sagepayments.com). To download a complimentary copy of the report, go to www.aberdeen.com/link/sponsor.asp?spid=30411867&cid=6594.

AP Automation Case Study

PILOT TRAVEL CENTERS LLC

Pilot Travel Centers LLC is the nation’s largest retail operator of travel centers, catering to professional drivers and traveling motorists in over 40 states

with 309 retail interstate properties. The company is headquartered in Knoxville, Tenn., and employs 14,000 people nationwide.

"We process 182,000 invoices a month at a cost per invoice of 36 cents," says accounts payable manager Estelle Bluhm. "We recently instituted a system of paying vendors by credit card as a form of payment out of the AP system." "While we are over 50 percent automatic clearing house (ACH), we had many vendors still on check payments," she says. "We wanted to increase our electronic payments, and this provided

us an opportunity. In addition, increased spending on the p-card program would increase our rebates."

Bluhm explains further, "Specifically, we were looking to eliminate about 10,000 checks annually and increase p-card spend in order to increase the rebate by \$175,000 annually."

Implementing the Process

The company's purchasing manager, controller, and CFO were involved in the approval process. The proposal did not require the preparation of a formal business case and was approved in about 30 days. "We did not have to do a request for proposal (RFP) to vendors, since we currently have a p-card vendor, and we have a contract with them," says Bluhm. "Their product for this solution is excellent, so it was a fairly smooth and seamless process to implement the new initiative. From start to finish, it took us only 60 days to implement."

Assessing the Results

"We are still adding vendors to the program," says Bluhm. "We have completed phase one (highest dollar vendors) and are currently in phase two (medium dollar vendors)."

She adds, "At this point, the results are meeting our expectations. We changed our vendor packet to show this offering (along with our conversion campaign to existing vendors) and have had many vendors sign up for this option. This payment method is very easy to use and track.

"For our department, there is really no difference between the new system and ACH processing, except that we have to create an additional bank file. For the company, it gives our vendors another option on receiving payment (CCR and ACH) since we

Eight Tips for a Successful Automation Project

Catholic Healthcare West (CHW), a health care system that serves communities across California, Arizona and Nevada, recently implemented technologies for workflow and electronic data capture.

Beverly Carling, manager of business process optimization for CHW's accounts payable service center, offers the following tips to companies planning an AP automation implementation:

1. Be knowledgeable about your product before making design decisions.
2. Start simple and build.
3. Spend the time to create business rules, and test your system.
4. Don't underestimate the training effort.
5. Realize that a new process may result in a major shift in duties.
6. Optimize the use of generic and specific learning; use this functionality to identify root causes of read errors, and assign resources to research and correct in a timely manner.
7. Compile a representative control sample and use it to test, test, test.
8. Ensure process readiness prior to implementation.

"Timing is everything," says Carling. "Plan your strategy and prioritize your initiatives for a successful implementation."

are moving toward complete elimination of paper checks," Bluhm says.

"I was pleasantly surprised at the response. When vendors received their money quicker (within 10 to 15 days) than

the normal terms (30 days), it gave them the incentive it took to sign up for this program," says Bluhm. □

Source: IOMA's Guide to AP Automation. For more information, go to www.ioma.com.

Benefits Costs

HOW MUCH WILL HEALTH CARE REFORM COST YOUR ORGANIZATION?

Twenty-five percent of surveyed employers expect their projected 2011 health plan costs to increase by at least 3 percent due to compliance with the first round of mandates implemented under health care reform legislation. About one in 10 employers expects a hike of 5 percent or more, according to Mercer's *2010 Survey on Health Reform—Sizing Up the Challenge*.

Twenty-eight percent of companies in the survey anticipate a relatively modest cost impact of 1 percent to 2 percent, while 13 percent expect mandates under the Patient Protection and Affordable Care Act (PPACA) to increase their plan costs by less than 1 percent (see exhibit on page 1).

Only 3 percent of the nearly 800 employers surveyed by Mercer indicated that they are already in compliance with the new law's mandates, while 30 percent do not know yet what the cost impact will be on their business.

"Average health benefit cost per employee has been rising consistently at about 6 percent for the past five years," said Tracy Watts, a consultant in Mercer's Washington, D.C., office. "That seems to be employers' threshold of pain. If compliance with health insurance reform pushes the cost increase up toward double digits, employers will be exploring ways to bring it back within their comfort zone."

Few Think Law Will Control Rising Costs

While 96 percent of surveyed U.S. employers say that controlling rising health care costs was a high health care reform priority, few think that the new law will help accomplish that, according to an online survey, *Towers Watson Health Care Reform Pulse Survey*, conducted in May. Like the Mercer study, Towers Watson found a majority of employers—94 percent in this case—expect that health care reform will drive up their costs.

However, 74 percent of the 661 large organizations surveyed by Towers Watson plan to continue to offer subsidized health care coverage for active employees.

"Employers are currently weighing the short-term challenges and long-term opportunities of the new law," said Mark Maselli, North American health and group benefits leader for Towers Watson. "While many employers have not yet assessed the full impact that reform will have on their businesses, they do realize that the responsibility to hold costs down will fall primarily on their shoulders."

In light of the increased costs expected due to health care reform, Towers Watson found that employers plan to:

- Pass along increases to employees (88 percent);

- Reduce health benefits and programs (74 percent);
- Absorb costs in the business (33 percent); and
- Pass on increases to customers (20 percent).

However, surveyed employers indicated that they are still committed to longstanding initiatives aimed at stemming the tide of rising medical costs and improving employee health, such as wellness/health promotion programs. The survey found that only 12 percent plan to eliminate or reduce such programs and that 48 percent of employers expect health care reform to increase wellness offerings by employers.

Cadillac Tax Tops List of Concerns

Even though the excise tax on high-cost plans does not go into effect until 2018, participants in the Mercer survey identified this tax on so-called Cadillac plans as their top concern among six major PPACA provisions. (See story on page 1 and also Exhibit 1.)

Twenty-nine percent of respondents said the excise tax poses “a significant or very significant concern” to their organization, while another 29 percent say it is “a concern” and 42 percent said it is either not an issue for their organization or only a very slight concern.

“Employers who rely on generous medical benefits to help attract and retain top employees are concerned about the excise tax,” said Watts. “And let’s not forget that there are reasons other than richness of benefits that drive up costs, such as having an older population or being located in a high-cost metropolitan area—both factors that are not under an employer’s control.”

Five Other Provisions Drive Up Costs

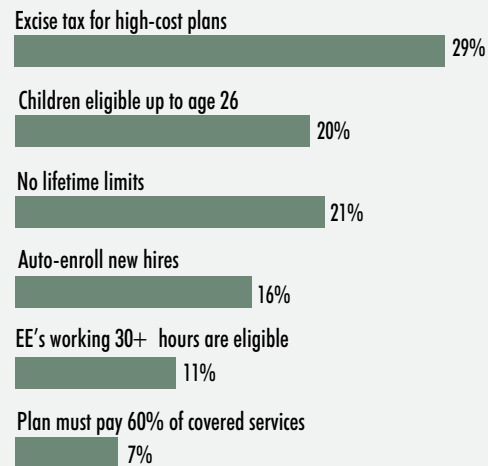
Controllers also will want to be aware of the five other major PPACA provisions addressed in the Mercer survey, since they could drive up costs as well:

1. No lifetime limits. The ban on the use of lifetime benefit dollar limits is a

CONTINUED ON PAGE 12

Exhibit 1. Excise tax is the reform provision that worries employers the most

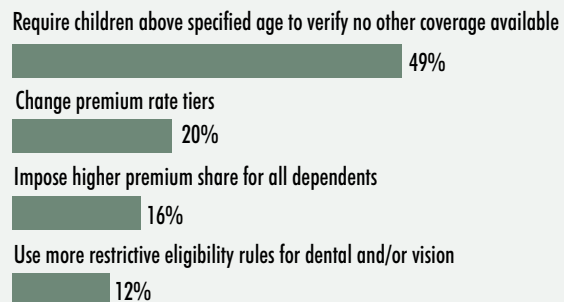
Percent of employer saying provision is a significant or very significant concern



(Source: Mercer's 2010 Survey on Health Reform—Sizing Up the Challenge)

Exhibit 2. Will strongly consider the following actions with regard to dependent eligibility

Based on employers that will need to change dependent eligibility rule



(Source: Mercer's 2010 Survey on Health Reform—Sizing Up the Challenge)

THE CONTROLLER'S FORUM

SIMPLIFY THE REPORTING PROCESS

Challenge: Our data is maintained in four separate SAP Business databases—one for each division—and is shared with sales and management personnel in dozens of weekly and monthly reports. Generating and distributing these reports for four different business divisions required at least 20 hours of weekly Crystal Reports work, and it would wreak havoc among employees every Monday because of an all-day report-related network slowdown.

Action: We explored several Crystal Reports viewers and ultimately chose Automate from Network Automation, a program that could automate hundreds of tasks with plain-English commands. The program could:

- Open an Excel file listing report names, company divisions and sales personnel.
- Select the relevant report and validate it to ensure that it has not already been run.
- Run the report by executing a series of keystrokes.
- Save the finished report in a specific folder on a specific server or email it to designated sales and company managers.

We then set up loop actions to run the same report for the other three divisions, built automation sequences for the remaining weekly reports, and assembled the routines into a single task to allow them to run consecutively without having to manually trigger each document.

Gradually, we automated the monthly reports, switched several monthly reports to weekly to equip managers with fresher information, developed new reports, and automated other processes as well—including a time-consuming, error-prone annual budgeting task involving the cre-

ation of hundreds of password-protected Excel spreadsheets. Inventory reports no longer slow the network down because they do not run during working hours. Year-end budgeting is also faster and more accurate, eliminating errors that sometimes were repeated through hundreds of spreadsheets.

—Systems analyst, home products manufacturer, 50 employees, Washington

ACHIEVE SARBANES-OXLEY 404 COMPLIANCE

Challenge: We wanted to establish a best practice accounts payable process that would enable us to achieve Sarbanes-Oxley 404 compliance. In addition, we had to find a way to improve the poor quality of the data on invoices (10 percent of all the invoices entered had errors). To make matters worse, we were dealing with disappearing and reappearing invoices, a high level of duplicate invoices submitted by industry vendors, reliance on vendors for delivery of credits, and a lack of well-defined business rules for accounts payable processing. We were paying invoices late and paying them multiple times. The cost to process all of these invoices and manage this process was very high.

Action: Working together with our vendor, IQ BackOffice, we developed a new accounts payable system. Detailed business rules were developed to ensure consistency of outcome and quality. The new system provided us greater control, three-sigma quality per invoice, and much greater levels of efficiency for our employees. We also implemented a new credit process, ensuring that all credits due were taken. The result has been a Sarbanes-Oxley 404 compliant process, full management control over every accounts payable transaction, and complete accountability. We were able to eliminate

THE CONTROLLER'S FORUM

errors, including payment of duplicate invoices, saving us millions of dollars annually. Also, as an unexpected consequence, we were able to reduce our AP staff.

—*Controller, restaurant chain, 200,000 employees*

MOVE INFORMATION EFFICIENTLY

Challenge: Find a way to shorten invoice processing cycle time and reduce payment processing time.

Solution: We instituted an automated workflow system by Yardi, which shortened our invoice processing cycle time. By routing approvals and payments electronically, rather than copying invoices and mailing them around our offices, we saved money and paper. Our payment processing costs were also reduced through a new software program, which gives our clients the option to pay online. For clients who pay with checks or money orders, we now use a check scan system to scan those payments as electronic transactions. Our vendor provides hosting services to us through its cloud computing model. The vendor also serves and maintains our programs and database from its data center and assumes responsibility for all application updates, network security, hardware, bandwidth and infrastructure. This allows us to focus on our principal business.

—*Chief technology officer, real estate management, 400 employees, Pennsylvania*

PREPARE FOR E-COMMERCE GROWTH

Challenge: Our Midwest facility, which is responsible for the distribution of Web-based business, was experiencing a 50 percent growth in online sales volume. We wanted to reduce the cost per order filled and needed a more efficient e-commerce material handling system.

Action: We integrated ASAP's Exacta Order Management System into our existing warehouse management system. A high-speed small-item sorter was added, as well as an auto manifest shipping system. As a result, we were able to handle the growth in our e-commerce sales volume, along with seasonal volumes. The new system provides real-time Web-based visibility into inventory levels and order status with shipping costs and delivery times. It also provides rapid customer response while minimizing cost per order handled.

—*E-business director, retail drug store chain, 37,000 employees, Rhode Island*

CONTROL ENERGY USAGE DURING POWER SHORTAGES

Challenge: We were suffering from rolling electricity blackouts and paying record-high wholesale electricity prices. This gave us concerns about the future cost and supply of energy for our enterprise.

Solution: We worked with Energy Logic to devise and implement an energy management plan that would help insulate our stores from surging demand charges and rolling blackouts. The plan involved the installation of wireless control technology that allowed our personnel to send electronic pages from the Internet to automatically reduce the lighting and HVAC loads at selected stores. Because the system is based on wireless Internet paging technology, the lighting and HVAC equipment at our 119 stores can be controlled from our headquarters in Massachusetts. The project was fully funded by our state's energy commission. We now have the ability to curtail up to 2.8 MW of demand within minutes without affecting customer comfort. This leads to significant savings in demand charges during peak periods.

—*CEO, retail chain, 52,300 employees, Massachusetts*

Benefits Costs

CONTINUED FROM PAGE 9

significant or very significant concern for 21 percent of survey respondents.

2. Expanded coverage for older children. Twenty percent of employers have a significant or very significant concern about providing health care coverage for employees' children up to age 26. According

to Mercer, only 24 percent of surveyed employers who do not already cover children in that age group are likely to expand coverage before their next renewal (January 2011 for most plans).

Towers Watson also found a wide gap—16 percent versus 78 percent, respectively—between employers who expect to expand dependent coverage early or by the mandatory deadline.

Beware: Health Care Tax Credit May Not Yield the Savings You Expect

A new health care tax credit offers qualified small employers with a credit of up to 35 percent of contributions to employees' health care premiums. However, controllers need to understand that some of the small print in the new health care reform law can reduce their net savings or make them ineligible for the credit altogether.

Credit Geared Toward Small Employers

The small business health care tax credit is aimed at encouraging smaller employers to offer health insurance coverage for the first time or maintain coverage they already have. The credit is generally available to small employers that pay at least half the cost of single coverage for their employees in 2010. And it is specifically targeted to help small employers that primarily employ low- and moderate-income workers, the IRS reports.

The maximum credit is 35 percent of premiums paid for tax years 2010 through 2013. According to the IRS, the maximum credit goes to employers that:

- Have 10 or fewer full-time equivalent (FTE) employees; and
- Pay annual average wages of \$25,000 or less.

The credit is not available to employers with more than 25 FTEs or with average wages of more than \$50,000.

Penalty for Increasing Wages

"The tax credit is supposed to offset part of the burden of a new employer mandate to provide

health insurance for their employees," said Pamela Villarreal, senior policy analyst with the National Center for Policy Analysis (NCPA) and co-author of a report about the tax credit. "However, as firms grow, they will be penalized if they hire more workers or raise employee wages."

In fact, for every additional \$1,000 in average pay over \$25,000, the tax credit decreases by 4 percentage points, according to the report.

The NCPA provides examples to illustrate the dollar impact of that penalty on an employer with 13 workers and an average pay of \$25,000. If that firm hires an additional worker and raises the average pay overall, the total tax credit would be reduced as follows:

- If the firm's average wage increases 10 percent to \$27,500—as a result of hiring a supervisor, for example—the \$36,400 tax credit otherwise available to that employer would drop by \$3,640 to \$32,760.
- If the firm's average pay jumps 20 percent to \$30,000, the tax credit falls to \$27,300—a \$9,100 decline.
- If the firm's average wage climbs 50 percent to \$37,500, the firm will be eligible only for a \$14,560 tax credit—\$23,660 less than the original credit for which it qualified.

"Although the tax credit is meant to benefit small businesses, it will cause some employers to substitute capital for labor and more highly skilled workers for less skilled ones," said NCPA senior fellow Devon Herrick, co-author of the report.

"It's easy to see why employees want this provision to go into effect now," said Mercer's Watts. "But this change is a pretty big deal for employers, with new notification requirements, employee communication and tax implications. Not to mention that it would be an immediate, unbudgeted business expense."

To offset increased costs associated with this provision of the PPACA, 49 percent of

surveyed employers will strongly consider requiring proof that dependents are not eligible for coverage through their own employers, 20 percent will likely change contribution rate tiers, 16 percent will consider requiring higher contributions for dependent coverage, and 12 percent will look at using more restrictive eligibility rules for dental and/or vision coverage. (See Exhibit 2.)

"Some low wage workers will be unemployed who otherwise would not be."

Credit Not as Broadly Available as Expected

"Small business owners have been told to expect help right away, and now some of them are starting to do the math and finding out the help isn't for them," said Sen. Chuck Grassley (R-Iowa), ranking member of the Senate's Committee on Finance.

"The authors of the health care reform bill should be clear with people that the tax credit is limited and that only a pretty narrow category of small business owners will see any benefit. Also, this tax credit, for those it will help, is available for only two more years after the health care exchanges are up and running in 2014. The Congressional Budget Office estimates that in 2016, only 3 million small business employees out of 159 million Americans with employer-sponsored private coverage would actually benefit from the small business tax credit for health insurance. That's less than 2 percent of those with employer coverage benefiting."

Bill Rys, tax counsel at the National Federation of Independent Business (NFIB), adds, "The fact is less than one-third of small businesses meet the firm size and contribution requirements to qualify for the tax credit. While a temporary credit certainly isn't a bad thing, it won't solve small businesses' health care cost problems."

Calculators Help Estimate Tax Credit

Controllers who want to estimate the amount of tax credit that their organization may qualify for

can use a free online tax credit calculator.

The NFIB offers such a tool at www.NFIB.com/creditcalculator. To calculate the credit amount, you need to have the following information:

- The number of full-time employees in the company;
- The number of employees who participate in the company's health insurance plan;
- The amount that the company contributes toward each employee's insurance premium; and
- The average wage per employee.

Another calculator is available from the Small Business Majority at <http://smallbusinessmajority.org/tax-credit-calculator/>. This calculator requests the following information:

- The number of full-time equivalent employees;
- The total annual wages paid for all employees;
- The total annual employer premium contribution; and
- Whether you are a tax-exempt/nonprofit employer.

(Source: For more information, go to Internal Revenue Service (www.irs.gov); National Center for Policy Analysis (www.ncpa.org/pub/ba703); National Federation of Independent Business (www.NFIB.com); or Small Business Majority (www.smallbusinessmajority.org).

Penalty to Be Assessed Against Employers Offering 'Unaffordable' Coverage

If a company's health care coverage is deemed "unaffordable" for employees, and at least one employee receives government assistance to buy individual coverage through a health insurance exchange, the employer must pay \$3,000 per full-time employee who gets government assistance and buys coverage in an exchange (to a maximum of \$2,000 times the number of full-time employees in excess of the first 30), reports Mercer.

The penalty provision included in the Patient Protection and Affordable Care Act (PPACA) goes into effect in 2014.

Many Current Plans 'Unaffordable'

Mercer determined that 38 percent of the 3,000 U.S. employers who participated in its National Survey of Employer-Sponsored Health Plans have at least some employees for whom coverage would be considered "unaffordable" under the new health care reform law (see exhibit).

Under the law, "affordable" coverage means "full-time employees must generally be asked to pay no more than 9.5 percent of their household income for coverage," Mercer reports. Mercer also notes that federal officials will have to issue regulations "to clarify whether the 9.5 percent affordability standard applies to just employee-only coverage or to family coverage as well—and whether all plans offered or just the lowest-cost plan will need to meet the standard."

It is unclear how employers will determine an employee's household income. "Lawmakers did not take into account that employers don't have access to information on employee household income," says Tracy Watts, a partner in Mercer's Washington, D.C., office.

"Employers question how they are going to get that information and what other administrative challenges might come along with this new requirement. For example, what happens if an employee's total family income changes during the course of a plan year?"

Part-Timers Particularly Problematic

Currently, only 51 percent of large employers provide coverage to part-time employees who work at least 30 hours per week, according to Mercer.

Employers with "large part-time populations that don't provide coverage to any part-time employees or [that] require them to work more than 30 hours per week for coverage eligibility" may be hardest hit by health care reform, Mercer reports.

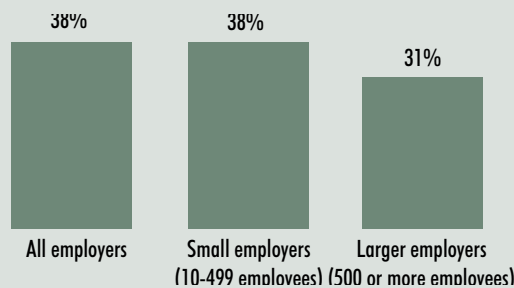
That's because the law specifies that "all employees working an average of 30 hours per week or more in a month must be eligible for affordable coverage, or the employer may be subject to a penalty," Mercer explains.

"This rule will require employers with a lot of part-time employees to make some hard choices," says Watts. "If they don't currently offer coverage to part-timers, can they afford to start, or to raise the minimum hours required for coverage eligibility? How do they respond if costs rise as a result of other reform rules? Certainly, employers can choose to limit a part-time employee's working hours to avoid incurring penalties, but that may bring other consequences."

(Source: Mercer's 2009 National Survey of Employer-Sponsored Health Plans and April 2010 Mercer press release announcing analysis of the data. For more information, go to www.mercer.com)

At Risk for Incurring 'Unaffordable Coverage' Penalties.

Percentage of employers requiring employee premium contributions that are greater than 9.5% of the average annual salary in the organization.



(Source: Analysis of Mercer's 2009 National Survey of Employer-Sponsored Health Plans)

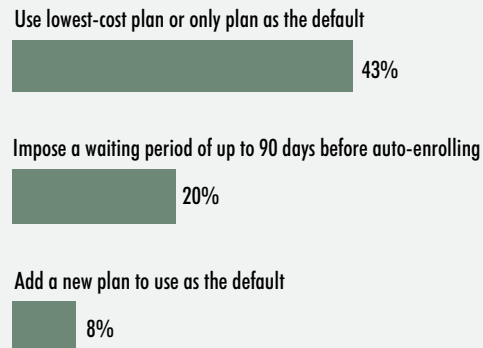
3. Auto-enroll of new hires. Eighty-eight percent of surveyed employers do not currently automatically enroll new hires in a health plan. Sixteen percent view this provision of the PPACA as a significant concern. To manage the cost of this requirement, about 43 percent of respondents will strongly consider using their lowest-cost plan as the default, 20 percent may implement a 90-day waiting period (the maximum allowable) before enrolling new hires, and 8 percent expect to add a new plan to use as a default. (See Exhibit 3.)

4. Coverage for part-time workers. Only 11 percent of survey respondents overall have at least a significant concern about a provision requiring employers to offer “affordable” coverage to employees who work an average of 30 or more hours per week in a given month, according to Mercer. However, given their heavy reliance on part-time labor, retailers are particularly concerned about this provision (24 percent). To control costs, 20 percent of survey respondents would strongly consider changing their workforce strategy so that fewer employees meet the 30-hour per week threshold, and 16 percent would strongly consider adding a lower-cost plan for new part-timers.

5. Requirement for plan to pay 60 percent of covered services. Seven percent of survey participants cited this as a significant or very significant concern.

“While each of these new rules that adds administrative burden has the potential to increase cost, employers have certainly had to cope with compliance challenges in the past,” said Beth Umland, Mercer’s research director for health and benefits. “Nothing in our survey results suggests that they’re about to scrap their health plans and head for the hills.” □

Exhibit 3. Will strongly consider the following actions with regard to auto-enrolling new hires



(Source: Mercer’s 2010 Survey on Health Reform—Sizing Up the Challenge)

Sources: Mercer’s 2010 Survey on Health Reform—Sizing Up the Challenge. For more information, go to Mercer (www.mercer.com). Towers Watson Health Care Reform Pulse Survey. For more information, go to www.towerswatson.com.

Electronic Payments

CONTINUED FROM PAGE 1

transactions that businesses and individual taxpayers conduct on paper—and moving those transactions to electronic systems.

Businesses Must Pay Taxes Electronically

Under the new initiative, most businesses currently allowed to use paper federal tax deposit coupons (Form 8109-B) will have to make those deposits electronically beginning in 2011.

While nearly 98 percent of all business tax dollars already pay electronically through the Treasury’s free electronic federal tax payment system (EFTPS), the Treasury says it will save an estimated \$65 million over five years by requiring that even more businesses go electronic.

Some exceptions will apply, however. For example, businesses with \$2,500 or less in quarterly tax liabilities that pay when filing

their returns will be exempted from the requirement.

While this initiative is sure to save the Treasury money, there are also benefits to business taxpayers.

IRS research has shown that businesses using EFTPS are 31 times less likely to make an error.

Benefits Go Beyond Cost Savings

In addition to significant cost savings, the Treasury expects the move will enhance customer service; minimize the Treasury's environmental impact; and increase reliability, safety, and security for taxpayers.

"Treasury must lead the way in developing methods to deliver payments that are safe and secure in a manner that is efficient and reliable," said Treasury Secretary Tim Geithner.

"By moving to all-electronic payments, Treasury will save hundreds of millions of dollars and substantially reduce its environmental impact, making this a win-win for all Americans," he says. □

Excise Tax

CONTINUED FROM PAGE 1

today's average plans will easily exceed the cost ceiling primarily directed at today's 'gold-plated' plans."

40 Percent Tax Will Be Levied

The excise tax provision "levies a 40 percent nondeductible tax on the annual value of health plan costs for employees that exceed \$10,200 for single coverage or \$27,500 for family coverage in 2018," Towers Watson reports.

"When the average 2010 cost of medical coverage (\$5,184 for an active single plan

and \$14,988 for an active family plan) is "projected out to 2018, with reasonable estimates of future health care inflation, the excise tax is often triggered."

For example, in 2018, a plan with single coverage costs of \$11,200 would exceed the limit by \$1,000, resulting in a \$400 excise tax being assessed, Towers Watson explains. That would translate to a \$4 million tax bill if 10,000 employees were enrolled in that plan.

Employers May Pass Costs Along to Employees

"The tax is paid by the employer either through increased premiums on an insured plan or a surcharge levied by the administrator of a self-funded health plan. Employers will be forced to either absorb the additional tax or pass some, or all, of it back to employees in the form of higher premiums."

"All it takes to drive costs above the excise tax cap for six in ten employers is an 8 percent average annual cost increase," says Dave Osterndorf, a consulting actuary with Towers Watson. "And, without making plan design changes, that's what many employers are projecting.

"This rate of increase has been typical for the past several years," Osterndorf continued. "We see it as an open question as to whether the recently passed Patient Protection and Affordable Care Act (PPACA) will mitigate cost trends in the near term for employers."

Companies That Manage Costs Buy Time

Towers Watson is careful to note that employers who are top performers at managing their health benefit strategies typically face an annual plan cost increase of only 6 percent, which would give them an

anticipated five-year buffer before reaching the excise tax ceiling.

"These top performers may avoid hitting the excise threshold until 2023 or beyond due to their focus on workforce health improvement, wellness, chronic condition management, and communicating the prudent use of health care goods and services," says Osterndorf.

Given the fact that the 2018 effective date for the excise tax is still eight years away, Osterndorf said employers have time to strategize ways to minimize the impact on them. "Employers have a long runway to plan for 2018, so there is time to approach the issue strategically and thoughtfully. But reform and the excise tax may have unintended consequences," he says.

"As employers strive to preserve the affordability of core health coverage, there will be difficult decisions to change or eliminate ancillary benefits like dental coverage and health flexible spending accounts, which are included in the excise tax definition."

Retiree Health Plans Also in the Mix

Employers will also need to think about the potential impact of the excise tax on any retiree plans they may sponsor, according to Osterndorf. That's because some employers must recognize the projection of that future excise tax on their financial statements today, even though the actual tax would not be charged until at least 2018.

"This is one of the more poorly understood impacts of the excise tax—and one that employers are just beginning to address with their actuaries and auditors," says Osterndorf.

Towers Watson reports that, among employers likely to be subject to the excise tax, 55 percent will probably eliminate or reduce retiree medical programs.

"Just as many baby boomers are deciding whether to delay retirement, employers will be determining if it makes financial sense for them to remain in the retiree medical business," he added.

"Post-65 retirees already have a range of cost-effective options as individual consumers. Beginning in 2014, when health insurance exchanges become operative, pre-65 retirees will have access to competitive plan choices without preexisting condition underwriting.

"This important development will likely accelerate employers exiting sponsorship of retiree health programs and, in many cases, adopting account-based solution," Osterndorf concludes. □

Source: 2010 Health Care Cost Survey. For more information, go to www.TowersWatson.com/Consulting.

All it takes to drive costs above the excise tax cap is an 8 percent average annual health care cost increase.

Going Green

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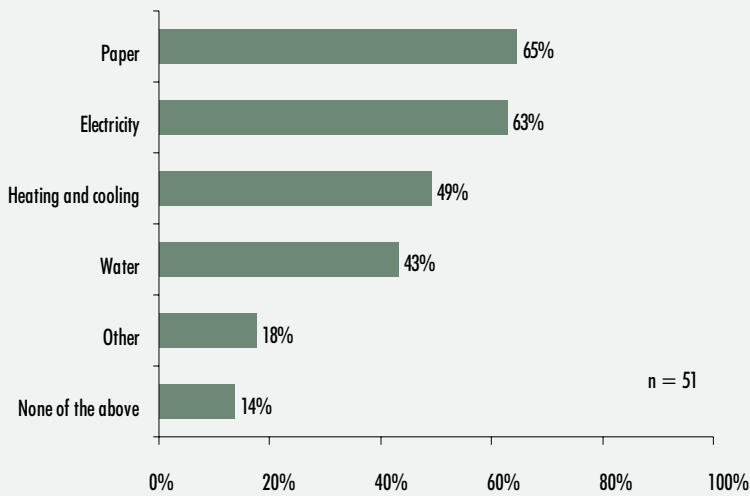
Buck Consultants surveyed more than 100 organizations of varying sizes and in a variety of industries. Fifty-three percent of the organizations have green programs in place—an increase of 10 percentage points compared with the 2008 survey—and 39 percent of survey respondents have measured cost savings associated with such programs (see Exhibit 2).

Recycling/Paper Reduction Is Most Common Initiative

The survey found that 95 percent of those with a formal green program have implemented recycling and paper reduction.

Respondents also report implementing the following initiatives:

Exhibit 1. Organization's Green Program Has Realized Cost Savings for the Following*

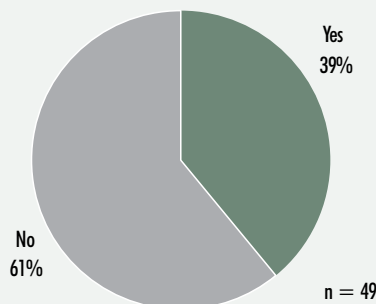


*Respondents were allowed to select more than one answer.

(Source: *The Greening of the American Workplace 2009, Survey Results January 2010*)

- Healthy living and wellness programs, which help to decrease health care costs (80 percent);
- Internal green communication program to encourage environmental awareness among employees (78 percent);
- Online HR communications that decrease use of paper (72 percent);
- Online summary plan descriptions, which cut down on paper usage (57 percent);

Exhibit 2. Organization Has Measured Cost Savings



(Source: *The Greening of the American Workplace 2009, Survey Results January 2010*)

- Green training for employees, to educate them about environmental practices (28 percent); and

- Training for green procurement, to foster sustainability in purchasing (24 percent).

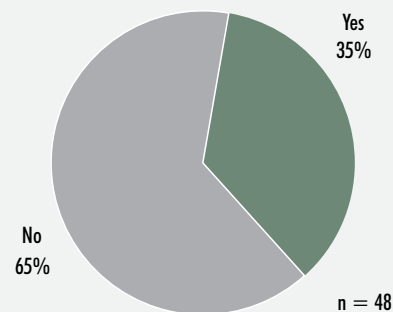
In addition, 35 percent of organizations have "assessed the cost impact of potential governmental energy initiatives," according to Buck Consultants (see Exhibit 3).

Leadership Support Critical to Success

Buck Consultants reports that support from controllers and other upper management is a critical success factor for green initiatives in the workplace. In fact, 80 percent of surveyed employers that have green programs include the C-suite in development and communications.

"The survey indicates that more companies are deploying green programs in the workplace and realizing the significant benefits to their business," says Allison Artnak, creative director at Buck Consultants. "From increased employee involvement to costs savings, the survey is evidence that going green can boost morale and the bottom line."

Exhibit 3. Organization Has Assessed the Cost Impact of Potential Governmental Energy Initiatives



(Source: *The Greening of the American Workplace 2009, Survey Results January 2010*)

Compensation, Rewards Tied to Green Efforts

Although 87 percent of survey respondents reported that their compensation programs are not tied to green objectives, Buck Consultants found that 8 percent of participating companies tie annual bonuses to green objectives and 4 percent award salary increases to those who meet green objectives.

Among employers that provide incentives to encourage green behaviors, 31 percent offer special employee recognition, 24 percent give prizes, and 9 percent provide a monetary reward. □

Source: The Greening of the American Workplace 2009, Survey Results January 2010. For more information, go to Buck Consultants, www.buckconsultants.com.

Cut Energy Costs With Enhanced Automation

Is your building modernized to minimize energy costs?

- Are the lights in your building off when they are not in use?
- Is your HVAC system optimizing the mix of inside/outside air?
- Can you respond to comfort complaints quickly and efficiently?
- Can you adjust light and HVAC levels from a central location?
- Does your system automatically vary lighting levels in response to available daylight?
- Does your system allow you to communicate with your utility to receive price signals?
- Are you taking full advantage of the capabilities of your Energy Management System (EMS), beyond just using it as an expensive timeclock?
- Are you able to provide management reports on energy costs quickly?
- Are your current systems simple to operate and maintain?

If you answered "No" to any of the above questions, your business can benefit from enhanced automation.

Enhanced Automation Helps Control Costs

Enhanced Automation (EA) helps businesses lower energy costs and improve building operations by improving the efficiency and control of buildings.

The potential benefits from EA include:

- Reduced Energy Costs
- Reduced Operational and Maintenance Costs
- Improved Energy Use Monitoring and Analysis

Improved building system automation techniques can provide important information on energy demand, equipment usage, and costs.

Proactively Manage Energy Increases

Businesses using EA can more effectively manage energy costs and participate in demand-responsive and peak-load reduction programs. In addition, EA can enable businesses to receive and respond to energy price signals from their utility.

Additionally, EA investments now can provide long-term benefits including the ability to identify new opportunities for energy saving projects and to better forecast and manage energy costs.

Automate Your Heating and Cooling Systems

EA systems can manage a variety of building systems, including heating, ventilation and air conditioning (HVAC), lighting, and other systems such as security and building access.

Automation enhancements include adding a new Energy Information System (EIS) or Energy Management System (EMS), as well as re-programming or expanding the network of sensors and control devices on an existing EMS.

(Source: "Enhanced Automation," The California Energy Commission. For more detail on EA technologies, go to www.energy.ca.gov/enhancedautomation)

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