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CONTENTS

SALES AND USE TAXES

Is Your Company Likely to Encounter State Tax Auditors?

(Quick Code 031320)

Within the last ten years, states have ramped up efforts to enforce sales tax compliance. Audits have become more frequent and states have identified increased sales tax audits as a way to close the budget gap without raising taxes or cutting services.

As a result, companies that have never been audited—or at least not in years—are now hearing from state auditors, reports Diane Yetter, IOFM editorial advisor and president and founder of YETTER.

Since traditional "field" audits are time-consuming and costly, some states are conducting "managed" audits, "desk" audits, or "observation" audits.

Related Tools and Resources

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

Sales and Use Tax Rates by State as of February, 2013 *(Quick Code 021396)*

Link: Streamlined Sales and Use Tax Agreement *(Quick Code 021397)*

Related Premium Resources

See Training Resource Library at **ap.iofm.com** to order.

Accounts Payable Compliance & Tax Reporting Handbook

What Is a Managed Audit?

The objective of a managed audit is to speed up the completion of the auditing process. Factors that are considered in determining whether a managed audit will be allowed include:

- The taxpayer's history of compliance;
- Amount of time and resources available to the taxpayer for dedication to the audit;
- Availability of the taxpayer's records; and
- The level of expertise at the taxpayer or the taxpayer's advisor.

In a managed audit, the auditor sets up a plan, but the taxpayer does the work. Instead of the auditor conducting the detailed audit review, the auditor will instruct the taxpayer on what sorts of things are deemed taxable. Then the taxpayer identifies exceptions that should be scheduled in the audit.

Taxpayers that voluntarily participate in a managed audit program may not be assessed a full penalty on any tax liability and may be entitled to the waiver of all or a part of any interest that may be due. The waiver of penalty and interest can amount to a significant savings for the participating taxpayers.

"For example," says Yetter, "in places like Ohio and Florida there is some reduction in interest or penalty charges to compensate for companies doing all the work."

What Is a Desk Audit?

A desk audit is one where the auditor does not physically visit the taxpayer's office to conduct the audit. Rather, a document request will be sent to the taxpayer

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with a list of records to submit, and the taxpayer must send all the records to the auditor. Some states, such as Hawaii, use this type of audit regularly due to travel limitations.

Such audits put a significant burden on the taxpayer and also require that the taxpayer duplicate all their records to send to the auditor. As companies have more records stored electronically, the burden decreases. But the risk is still high. Also, there is less contact with the auditor and it is more difficult to demonstrate the business operations to the auditor.

What Is an Observation Audit?

In one New York observation audit, reveals www.salestaxaccountants.com, the method of estimation the state used was to observe a restaurant's sales for a day, then compare it with the same date on a previous year. The previous year's reported sales were 25 percent lower, so the auditor took that percentage and multiplied it over each day's sales of the three-year period, deciding the restaurant did enough unreported business to owe an additional $330,000 in sales tax.

With an observation audit in New York, once a company is found to owe additional taxes, the auditor requires that the organization assume the burden of proving that the state's claim of unreported business is not justified.

"The National Federation of Independent Business lobby, made up of 10,000 small business owners, recently requested that New York State Comptroller Thomas DiNapoli probe the state's auditing practices, calling them overly aggressive and unfair," reports www.salestaxaccountants.com. "However, such methodology is used and upheld in tax court."

Audits can be particularly hard on small businesses. "The issue is not that people are collecting tax money and not remitting it," said David E. Gross, owner of Sales Tax Solutions and Consulting. "That would be fraud, and the state would prosecute it. The issue is deeming that people do not have adequate records and are being penalized on the basis of that."

For example, in New York, as part of the audit process, when the state initially finds information prompting it to target a business, the state asks for *additional* records to review. Many businesses, particularly smaller businesses, don't have what New York State considers adequate records.

The taxpayer is given the option of admitting without penalty that they have underreported sales tax, and a small number of organizations take advantage of that option.

Other businesses are ultimately able to provide the additional records to clear up the state's questions, ending the process and avoiding audit. However, those taxpayers that are unable to provide the additional records may be vulnerable to additional scrutiny or possible penalties.

The key message of these examples is the importance of complete records—for businesses of all sizes. Yetter is also seeing a number of states becoming stricter on enforcement. "With exemption certificates," she says, "auditors are now challenging things they never challenged before. For example, for 100 percent resale, an organization must have all its resale certificates. If a company claims a manufacturing or research and development (R&D) exemption, it must now document how items are used. State auditors also want documentation of customer and vendor tax payments."

CRIMINAL PENALTIES ARE BEING ASSESSED MORE FREQUENTLY

States have both civil and criminal penalties that they can impose for sales tax and use tax, reveals Diane Yetter, president and founder of YETTER.

"States have historically focused on civil penalties, but have turned to criminal penalties more frequently now—mostly on collected but unremitted taxes. These are considered to be similar to withholding payroll taxes that aren't remitted."

Civil penalties can be imposed for:

- Late payment (5% to 25% of tax due–additional on filing);
- Late filing (5% to 25% per month of tax due) even if your organization has a zero liability—there are minimum penalties and there are minimum penalty amounts;
- Failure to pay via EFT (5% to 10% of tax due, or flat penalties in the $5 to $200 range); and
- Intent to evade (25% to 300% of tax due).

Criminal penalties include:

- Late payment (generally a felony: fees and jail);
- Late filing (generally a misdemeanor, but could be a felony especially if repeat offense: fees and jail); and
- Intent to evade (generally a felony: fees and jail).

"At one time, states assessed only one penalty, now they are charging all that apply—and this can add up very fast," Yetter noted.

The Result Is a Backlog of Appeals

"If a customer or vendor has already paid the tax–either as use tax or under their own audit, states historically would accept a letter, but now they are demanding proof—copies of the use tax return or the audit documentation," says Yetter.

There is a backlog of appeals, so delays on hearings can result in additional interest. "An appeal might sit for one to two years, and some states have high interest rates," says Yetter. "Wisconsin's is 18 percent, for example. To avoid some of this financial risk, organizations may want to pay the part of the assessment that they agree with, so as not to incur interest on those amounts."

"In addition to imposing more penalties, fewer states are waiving penalties on appeal, says Yetter. "You must prove extraordinary circumstances to get an abatement."

Since taxpayers are dealing with the reality of more audits, corporate tax departments need to develop strategies to retain proper records and to reduce the administrative burden and costs that result from the increased workload that audits create, adds Yetter.

Editor's Note: Diane Yetter is president and founder of YETTER, a consultancy that works closely with financial and tax department leaders to address complex sales and use tax compliance issues. ❑

UNCLAIMED PROPERTY

Create a Review Policy to Resolve Your Outstanding Accounts (Quick Code 031321)

Accounts payable professionals need to be vigilant in their efforts to stay on top of the changes in escheatment laws and regulations. While unclaimed property (UP) laws are not tax laws, they have common elements because of the annual filing requirement governed by state law. As with tax compliance, there is a compliance element to UP as well.

Sales and use taxes are a significant revenue source for governmental authorities. States searching for new revenue sources in the last 20 years have increased enforcement efforts. Some businesses continue to ignore unclaimed property laws in hopes of avoiding detection. However, the risks associated with noncompliance are great, and can include:

1. Protracted audits with broad scopes. Suspected noncompliance can trigger a state to conduct an unclaimed property audit. Many states use a longer audit scope period if a business has never reported and remitted unclaimed property. This could mean a 20-year review period, rather than a 10-year audit period. Also, since many audits are conducted by third-party auditing firms, there is a built-in incentive (because of their fee structures) to drag out the audit period or make unfairly large assessments.

2. Penalty and interest assessments. States, in addition to seeking out organizations for noncompliance, also look for "undercompliance," to determine if property is reported late or improperly. The result of noncompliance or undercompliance can be the imposition of stiff penalty and interest changes for the holder.

Related Tools and Resources

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

Escheatment (Unclaimed Property) Checklist (Quick Code 101212)

Sample Due Diligence Letter (Quick Code 111244)

Related Premium Resources

See Training Resource Library at **ap.iofm.com** to order.

Accounts Payable Compliance & Tax Reporting Handbook

3. Damage to business reputation and vendor relationships. The publicity that sometimes surrounds an unclaimed property audit and the disclosure of documents that public companies must file and provide to their shareholders may contain information that reflects unfavorably on the business undergoing audit. Also, businesses that do not comply with unclaimed property requirements may damage customer relationships and trust.

Why not get a review process ready now to determine if you are holding unclaimed property and prepare your organization for the next reporting deadline?

Here are six steps to take in setting up a review process:

1. Research outstanding checks and payments on a regular basis, such as 60 to 90 days after an item becomes "stale dated."

2. In reviewing records, check to see if the owner is really lost, or if supplemental information may lead to a current address. Contact the payee if possible and resolve outstanding items. Companies generally set minimum "materiality limits" and research outstanding items above that limit. If appropriate, do database address searches for better addresses for owners of outstanding items valued over the materiality limit.

3. Reverse your identified accounting errors and make appropriate offsets, with journal/entry descriptions. Keep good documentation of reversals, research, or contact, because an audit might occur up to 20 years later.

4. Create and maintain written procedures for record review and make them a part of your company's policy or manual and make a review of adherence to these procedures part of your company's internal audit checklist.

5. Assign one person to be responsible for escheat compliance, and put this in their job description.

6. Take caution with outstanding items that may be exempt from unclaimed property requirements. Not all states allow business-to-business exemptions, and many that do have very strict descriptions of what is allowed.

One of the objectives of state unclaimed property laws is to give the state, rather than a holder, the benefit of any economic windfall resulting from the property owner or their heirs being truly lost. The state wants to ensure that the benefits of such property are shared by the public at large and not by the entity that is holding the unclaimed property. Thus, the burden falls on the business (the holder) to identify and report unclaimed property.

Editor's Note: For more information, go to: Unclaimed Property Professionals Organization (UPPO): www.uppo.org; National Association of Unclaimed Property Administrators (NAUPA): www.unclaimed.org; and NAUPA II Standard Reporting Format: www.unclaimed.org/uploads/resources/81/naupa-iii.pdf. ❑

COMPENSATION

2013 Salary Outlook for AP Professionals

(Quick Code 031322)

What is the salary forecast for professionals in finance for this year? To shed light, Creative Financial Staffing has issued its *2013 CFS Salary Guide*. This guide provides comprehensive data on base salaries for all levels of accounting and finance professionals in the United States.

Understanding the Data

The *CFS Salary Guide* presents low, middle, and high end of salaries of AP positions across companies of different sizes. The data is based on placements CFS has made, CFS interviews with accounting and finance professionals,

Related Tools and Resources

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

Certification Leads to Higher Pay *(Quick Code 031329)*

Asking for a Raise or Promotion: Does it Feel Like Going to the Dentist? *(Quick Code 031331)*

Related Premium Resources

See Training Resource Library at **ap.iofm.com** to order.

Complete Guide to AP Best Practices

Exhibit 1. 2013 National Salaries — Accounts Payable Positions at Large Companies

Position/Title	Low	Middle	High
AP/AR Manager	< $58,750	$58,750 – $74,750	> $74,750
AP/AR Clerk	< $40,000	$40,000 – $45,500	> $45,500
Billing Clerk	< $37,250	$37,250 – $42,750	> $42,750

(Source: 2013 *CFS Salary Guide*)

Exhibit 2. 2013 National Salaries — Accounts Payable Positions at Medium Companies

Position/Title	Low	Middle	High
AP/AR Manager	< $48,000	$48,000 – $62,000	> $62,000
AP/AR Clerk	< $37,500	$37,500 – $42,750	> $42,750
Billing Clerk	< $34,500	$34,500 – $40,000	> $40,000

(Source: 2013 *CFS Salary Guide*)

Exhibit 3. 2013 National Salaries — Accounts Payable Positions at Small Companies			
Position/Title	**Low**	**Middle**	**High**
AP/AR Manager	< $42,500	$42,500 – $53,250	> $53,250
AP/AR Clerk	< $32,000	$32,000 – $37,500	> $37,500
Billing Clerk	< $32,000	$32,000 – $37,250	> $37,250
(Source: 2013 *CFS Salary Guide*)			

and job orders CFS has received from clients.

The guide sorts salary ranges according to large companies (with revenues over $500 million; see Exhibit 1), medium-sized companies (those with revenues between $100 and $500 million; see Exhibit 2), and small companies (those with revenues up to $100 million; see Exhibit 3).

Exhibits 1, 2, and 3 represent national averages for accounts payable positions for specific regions of the United States. ❑

PURCHASING CARDS

Seven Controls AP Can Put in Place to Limit P-Card Misuse

(Quick Code 031323)

By Pam Miller, APMD

Many corporate executives fear that employees will use p-cards improperly or run amok and buy indiscriminately. These impressions are reinforced by the stories about p-card abuse appearing in the media.

In reality, the incidence of p-card abuse is not widespread. In IOFM's recent survey of p-card professionals, only 28.9 percent of respondents indicated they had an incident of p-card misuse or abuse in the last twelve months (see Exhibit 1).

To ensure that p-card misuse does not occur, it is critical that effective controls be put in place. Here are seven best-practice strategies to keep tight control of all p-card usage:

1. Limit the opportunity for abuse. Accounts payable has the opportunity to control the use of a p-card in three major ways:

1. Limiting how much can be spent on the card;
2. Limiting what may be purchased; and
3. Carefully screening potential cardholders.

2. Conduct statement reviews. P-card statement reviews provide a means by which AP can monitor card usage and react quickly to any transgressions—real or perceived. It offers visibility into who made the purchase, what was purchased, and when the purchase was made.

3. Limit the dollars by time period. Spending limits can be set by the month, by the week, or even by the day. They can be customized by cardholder or by group of cardholders. According to the IOFM survey, 67.9 percent of the respondents customize spending limits for their cardholders (see Exhibit 2).

When determining how high or low to set spending limits, look at the average amount spent per week or month by the potential cardholder. Start by setting their card limit at approximately the same amount.

Some organizations set default spending limits for their entire cardholder population. About a quarter (25.4 percent) of survey respondents follow this philosophy. While not reflected in the survey, some organizations opt for a mix of default and customized limits.

4. Limit the dollars by transaction size. Spending limits can also be set by the amount a cardholder can spend on one transaction. These limits are often set fairly low, since p-card programs are often put in place to manage small dollar transactions. Over half (58.5 percent) of survey respondents indicated that transaction limits on their cards are less than $500.

Related Tools and Resources

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

Ten Tips to Help You Reap the 'Revenue Sharing' Benefits of P-Cards *(Quick Code 121212)*

AP P-Cards Generate Revenue Sharing at the University of Louisville *(Quick Code 101229)*

Related Premium Resources

See Training Resource Library at **ap.iofm.com** to order.

Master Guide to P-Card Policies & Procedures, Plus P-Card Best Practices Survey

Some cardholders try to get around spending limits by splitting a transaction that is over their limit into two or more smaller transactions. These transactions are easy to spot when reviewing card activity. A conversation with these cardholders will generally determine if there is a need for a higher transaction limit or if the cardholder requires education and careful supervision.

5. Limit what can be purchased. Goods and services are classified by Merchant Category Codes (MCCs) in the credit card world. There are hundreds of categories. Organizations merely need to tell their card issuer which categories should be prohibited to their cardholders. It is important to review the categories carefully. Blocking too many categories can stifle the use of the card. On the other hand, blocking too few can offer the opportunity for some cardholders to go astray.

Many organizations start their programs with a significant number of blocked categories with the intention of watching the transactions that are declined. Then they research the situations and open appropriate categories as required. In general, categories can be opened virtually instantly. They can also be opened temporarily for a special project or purchase.

Use of MCC blocking is very common. More than two-thirds (68.3 percent) of the IOFM survey respondents indicate that they take advantage of this means of restricting what is purchased.

6. Control who gets a card. One of the easiest ways to control use of the cards is by overseeing who gets a card. Cardholders should demonstrate a need for a card because they do a significant amount of purchasing. Cards should not, in general, be given to employees who tend to skirt or flaunt other rules or requirements (such as those who are always submitting questionable expenses for reimbursement).

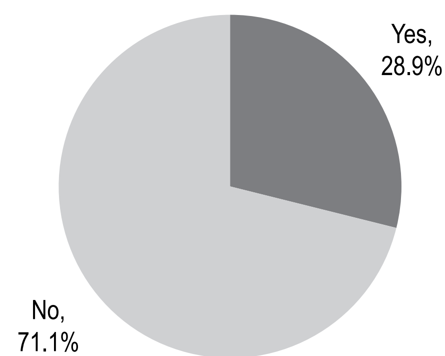
Determining just who should have a card can be difficult for a centrally administered card program. Many organizations solve this problem by requiring that their business units participate when deciding who should have a p-card. The survey shows that at least 50 percent of respondents whose programs contain more than 10 cards indicate that the business units make this determination.

7. Use alternate card options. To capture more transactions on a p-card without issuing hundreds or even thousands of cards, many organizations use "ghost cards." (In reality, there are no actual "cards.") With this system, an account number is given to a specific vendor. Employees are instructed to identify themselves to the vendor and ask that their purchase be placed on the ghost account. The vendor then uses the account number to process the transaction Ghost cards are currently used by 47 percent of survey respondents.

While in most cases fear of p-card misuse or abuse is unwarranted, careful use of available controls—in addition to an ongoing review of transactions—can ensure that the number of incidents of misuse or abuse will remain small, or will even decrease over time. ❑

Editor's Note: For more information, see IOFM's *Master Guide to P-Card Policies and Procedures*, available for purchase at ap.iofm.com. Also, attend p-card workshops at IOFM's Spring AP Conference & Expo in Washington, DC, April 10-12.

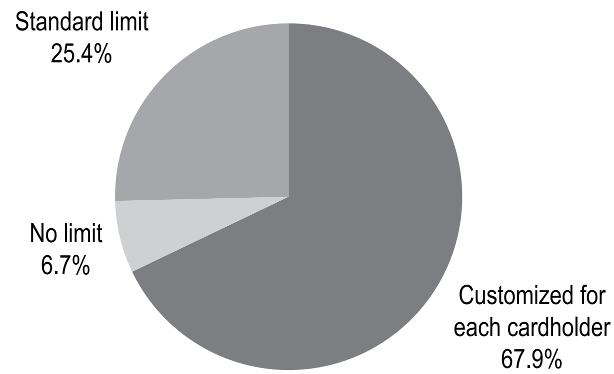
Exhibit 1. Incidents of P-Card Misuse Total



Any incidents of misuse (out-of-policy spending) over the past year?

(Source: IOFM's *Master Guide to P-Card Policies and Procedures*)

Exhibit 2. Methods Used to Set Monthly P-Card Spending Limits



(Source: IOFM's *Master Guide to P-Card Policies and Procedures*)

CASE STUDY

Weathering a Staff Reduction (Quick Code 031324)

How can you make sure that all the key tasks in AP are fulfilled when AP is required to operate with fewer staff? Debbie Johnson, APM, accounts payable manager at Sumco Phoenix Corp. (Phoenix, AZ), emphasizes the importance of planning and cross-training.

Before her company downsized and reorganized, Johnson's company had six manufacturing plants around the country and five sales offices. "Our operation was decentralized, with an AP department at each plant," explains Johnson.

In 2002, Sumco began closing plants across the country. The decision was made to centralize and then downsize the accounts payable. "In Albuquerque, we were never a large department. At the most, we had four full-time employees with one or two temporary employees," says Johnson. "Our temps were the first to go, and then after that, one person retired and one went back to school. Now, we have two people in AP."

"Our biggest challenge has been making sure that all the tasks that were being done by specific employees were passed on and not forgotten about. For example, among the tasks that needed to be taken care of were:

- Several AP reports that were run every month;
- The special handling of invoices or checks; and
- The processing of W-9s and 1099s."

Johnson took several steps to meet the challenge. She recommends the following process for other AP managers whose companies are also in transition:

1. Document each employee's functions. "While they are still with the company, have all staff members compile detailed lists of their individual job functions and duties," says Johnson.

Duties in her department include the following:

- Enter service invoices and contracts, scan for approval, e-mail to approvers, match e-mails to the invoices, and release invoice for payment.
- Run checks once a week. Match invoices to checks. Transmit check runs to the bank.
- Process wire payments.
- Run and distribute month-end reports.
- Maintain the GR/IR (goods-receipt/invoice-receipt) report and clean up any problems.
- Research problems and run various reports as needed.
- Print e-fax invoices, and invoices that have been e-mailed.
- Do monthly accruals.

2. Appoint key employees to take over specific functions. Before departing employees walk out the door, make sure you have someone to take over their responsibilities.

3. Get skills up to snuff. If you have one employee who has been handling e-mail or scanning, for example, have that person train all the other staff members on the process to get them up to speed on procedures.

4. Keep all staff up to date on changes. As changes are made during the reorganization, make sure everyone in AP is well informed. "We found it best to confirm the AP changes by sending an e-mail to the entire staff," says Johnson. "Then, we'd send an individual reminder to each staff member to reiterate what their new tasks will be. Do not take people's word that they know what they have to take care of. Put it in an e-mail," she stresses.

5. Update e-mail addresses. "E-fax is a tool we use for companies that can't e-mail their invoices to us. They put the invoice into their fax machine and it is e-mailed directly to us. Whether your suppliers use e-fax or e-mail, make sure that when the person who was in charge of receiving the invoices leaves your department, you update the receiving e-mail address so that the invoices will still be received by AP," advises Johnson. "Another option would be to create a dedicated e-mail address for AP. Then, all invoices that come in through e-fax or e-mail would simply go to that address, and you don't have to worry about staff changes."

Related Tools and Resources

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

5 Best Practices AP Pros Use to Make Shared Services a Success *(Quick Code 031332)*

Related Premium Resources

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Complete Guide to AP Best Practices

6. Assign a backup person for manual processes. "If you still handle some invoices manually and you normally have one person in charge of such tasks as printing invoices, make sure that there is a backup person. "If you can avoid it, however, do not manually track invoices sent out for approval. Scan them and let your e-mail track them for you," says Johnson.

7. Review and update your desktop procedures. "Keep everyone apprised of procedural updates," says Johnson. "That way, everyone will know exactly what to do and how to do it."

8. Make sure that every member of your AP staff is fully cross-trained. "No matter how busy you are, take a few hours every month and make sure that AP employees are cross-trained on your desktop procedures. It will pay off in the long run."

"In the end, we had very few problems with downsizing," says Johnson. "That's because our controller insisted on cross-training and reviewing our procedures. Those steps really paid off."

Editor's note: Debbie Johnson, APM, is a recent graduate of IOFM's AP Certification Program. She is an accounts payable manager at Sumco Phoenix Corp. in Phoenix, Arizona. During Sumco's reorganization process, the company downsized from six manufacturing plants and five sales offices to two manufacturing plants and three sales offices. ❑

AP DEPARTMENT MANAGEMENT

Conduct a Customer Satisfaction Survey—It's Worth the Pain

(Quick Code 031325)

By Pam Miller, APMD

An often-recommended means of improving AP processing as well as the overall reputation of AP is the customer satisfaction survey. Yet few AP departments actually put this concept into play. Why? Most often the answer is that AP just doesn't want to know!

Related Tools and Resources

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

Checklist of Best Practices for Customer Relations *(Quick Code 101263)*

Vendor Satisfaction Survey *(Quick Code 101264)*

Related Premium Resources

See Training Resource Library at **ap.iofm.com** to order.

Complete Guide to AP Best Practices

Surprise Your Customers by Asking for Their Input

It's really hard for us on the inside to understand how we are perceived from the outside. It's even harder to understand how accounts payable procedures, which seem perfectly logical to us, may appear confusing, repetitive, and unnecessarily cumbersome to others who are required to follow them.

That's why it's important to ask customers for their feedback. True, some responses may be negative (they may even be hostile). Customers may point out specific areas in which they have had legitimate beefs with AP. But looking at the negative feedback in a positive light, your customers may actually want to help improve their interaction with AP. They probably would be pleased (and likely surprised) to be asked for their opinions or help.

Determine the Scope of Your Customer Satisfaction Survey

When developing the survey, it is important to determine the parameters. Do you want to know, in general, how AP is perceived? Will the survey allow the respondents to comment on any subject they choose? Or will it focus on one or two areas, such as where AP interfaces with other employees regarding expense reporting, p-cards, check requests, or expense approvals?

For AP's first survey attempt, it might be best to go with a general survey. Then, in the future, AP could focus on the areas that respondents mention most frequently as problem areas, or where they have made suggestions for improvement.

Should the Survey Responses Be Anonymous?

Another important consideration is whether the respondents should be asked to include their contact information. Such information is helpful if a great suggestion is offered that AP might want to follow up on or discuss. Also, when respondents' names are included the comments are likely to be less negative. However, the drawback of asking for contact information is that the responses may be less open and truthful.

Set Emotions Aside

When reviewing the responses to the survey, it is important to look at the responses objectively. An open mind is key. This is a learning exercise, after all.

Set aside responses that are baseless complaints, and consolidate the comments that focus on specific areas.

If the same processes are mentioned repeatedly, review AP processes in those areas and determine if they need improvement. Compile the suggestions that are practical and doable.

Share the Results

Once the responses have been reviewed and sorted, set up a meeting with the AP staff to discuss the findings. Share some of the responses and open a discussion with the group about identified problem areas. Don't forget to share the positive comments as well.

Build on the Ideas

While many of the suggestions from the survey may be impractical—due to control or compliance requirements, for example—some may provide "out of the box" ideas and solutions. These ideas could perhaps be expanded upon to improve processes or procedures.

Spark brainstorming on those processes with the AP staff. AP might even want to invite the people who made suggestions to attend a meeting at which their ideas are discussed.

Make Changes

If you initiate changes that are based on survey comments or suggestions, let people know that AP has made these changes as a result of their help with the survey. Not only will this give you the opportunity to acknowledge those who made the suggestions, it will also reinforce to your customers that you:

1. Care about what they say;
2. Are willing to listen; and
3. Are going to act on their responses.

This will encourage them to respond to future surveys and will help raise the image of AP as a responsive organization in their eyes.

Surveys Are Not a One-Time Thing

Determine with what frequency the AP customer survey should be done. It's not a good idea to inundate people with surveys. Also, you don't want the survey to be AP's only means of communication with customers. However, you *do* want to be able to track customers' sentiments regarding AP over time. Once every six months, or once a year, is about right. Set yourself a reminder so you don't let it slip through the cracks.

Keep Other Lines of Communication Open, Too

Encourage your customers to communicate with you in other ways as well. An open door policy is one way to encourage visiting from employees in other departments. Also, AP might even want to give that old idea—the suggestion box—some thought. In some organizations it is an effective means of communication. ❑

TRAVEL & ENTERTAINMENT

Still Using a Spreadsheet? Bring T&E to the Next Level With Automation (Quick Code 031326)

Although many organizations are looking to T&E technology to improve operational efficiencies, at least half are still bogged down in paper. Managing T&E with a manual, paper-based process can be fraught with challenges.

Here are five common T&E challenges and five good reasons to break free of spreadsheets once and for all so that AP can take T&E processing to the next level:

Challenge: AP is still using a spreadsheet T&E form and a paper-based data entry process. No matter how slick the formatting of your T&E report, if AP is using a spreadsheet for T&E, it is still using a manual process. With a spreadsheet, all the data must be entered into the appropriate cells manually, and even though a spreadsheet can add up and total all the expense entries, there is a great deal of room for human error. AP still has to deal with receipts, go over the paperwork, and verify the manually entered figures to make sure they are accurate. All this is very costly and time-consuming.

➢ **Solution:** Most automated expense reporting solutions can capture data from credit card transaction data and load it directly into an expense report. Using a corporate travel card or p-card has had the most significant positive impact on the T&E process by providing visibility into expenditures made with the card. Companies can automate the extraction of data, collecting spend data from the card and linking it to the expense management system. Some automated systems can even automatically assign expense classifications, such as "meal" or "office supplies," based on the information provided by the credit card transaction.

Challenge: With a manual process, it is difficult to enforce compliance with T&E policies. For example, transactions are often made with no controls in place at the point of purchase. In addition, receipts and paperwork are often lost—and reports filed late.

➢ **Solution:** Automated systems, along with the use of corporate travel cards, often have built-in spend limits in place. Some T&E solutions allow users to scan receipts—or photograph them with a smartphone camera—and electronically attach them to an automated expense report. In that way, all the receipts are available for viewing online, associated with the appropriate expense entry, recorded at the point of purchase, and in electronic format for easy storage.

Challenge: Manual T&E approvals and reviews bog down the process and result in lost paperwork. With a manual system, once an employee fills out a T&E form and attaches the necessary receipts, someone needs to approve it. Then, it must be reviewed and processed for payment in AP. Even with policies and procedures in place, T&E processing can still become a lengthy process and can be difficult to track, since a T&E report can sit on someone's desk indefinitely.

➢ **Solution:** If T&E reports are compiled using data from an employee's corporate card or scanned electronic receipts, the process is speeded up considerably. The employee simply looks over the electronic file online and then e-mails it to the approver. The approver then reviews it online and sends it along to AP for review and payment. The advantage of this is that, with an online approval system, T&E can be reviewed and tracked—with a full audit trail.

Challenge: Manual T&E processing makes reporting and recordkeeping more cumbersome. In order to be in compliance, T&E records must be tightly managed. Two main sets of laws govern the corporate T&E process: the Sarbanes Oxley Act (SOX) and IRS federal tax law. SOX requires correct and accurate recordkeeping, visibility at all levels of the process, and safe storage and retention of information. IRS tax law deals with whether or not reimbursement to employees is taxable income. With manual T&E processing, if AP needs to retrieve a T&E report and receipts from one or two years ago, it may mean sorting through paper files and searching for lost receipts.

➢ **Solution:** With an automated system, expense data is securely available online, and is maintained in a form that can be analyzed easily for compliance purposes.

Related Tools and Resources

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

We've Come A Long Way, But T&E Automation Still Needs to Go Farther *(Quick Code 011318)*

Related Premium Resources

See Training Resource Library at **ap.iofm.com** to order.

AP Automation Report

Use of Automated Travel and Expense Reporting by Company Size

	In Use Over 3 Years	In Use 1-3 Years	In Use Under 1 Year	No Plans to Use	Currently Implementing	Plan to Purchase/ Implement within 1 year	Plan to Purchase/ Implement in 1-3 years
Less than 1,000	12.6%	13.7%	2.1%	53.7%	7.4%	0.0%	10.5%
1,000 - 5,000	30.2	11.1	6.3	27.0	7.9	9.5	7.9
5,000 - 10,000	38.5	7.7	3.8	26.9	11.5	7.7	3.8
10,000 - 50,000	25.9	11.1	3.7	18.5	18.5	7.4	14.8
More than 50,000	45.5	27.3	0.0	9.1	18.2	0.0	0.0
Grand Total	23.9	12.6	3.6	36.5	9.9	4.5	9.0
More than 30	48.0	20.0	0.0	12.0	16.0	0.0	4.0
Grand Total	23.9	12.6	3.6	36.5	9.9	4.5	9.0

(Source: IOFM)

Is AP Truly Breaking Free of Manual T&E Processing?

Large companies have the best track record for moving to automation. A recent American Express Business Travel survey reported that 65 percent of the Fortune 1000 firms have automated their expense reporting process. IOFM's research also confirms that large companies are the biggest users of automated T&E solutions (see exhibit).

However, that percentage decreases substantially with small-to-medium companies. Surprisingly, many are still using manual T&E processes and have no plans to implement an automated solution. For example, at companies with less than 1,000 employees, only 12.6 percent have had an automated T&E system in place for three years, and more than half (53.7 percent) have no plans to implement one.

Likewise, only a third (30.2 percent) of companies with 1,000 to 5,000 employees have had an automated system in place for more than three years, and nearly another third (27 percent) have no plans to implement one.

More automation activity appears to be occurring in the 10,000 to 50,000 employee category, in which about a quarter (25.9 percent) of companies have had automated systems in place, and a higher percentage plans to implement automation in the next one to three years.

When looking at the IOFM survey results in terms of the size of the AP department, larger companies again take the lead in automation. A substantial 40 percent of companies with 16 to 20 AP staffers have already automated T&E reporting, and another 20 percent are currently implementing a system. Yet at midsize companies, with 11 to 15 AP employees, a full 40 percent of the respondents have no plans to implement an automated system.

Many organizations, in auditing their current T&E processes, have identified potential control weaknesses and risks within their manual processes, which points to the need to automate. Not only does automation improve compliance, it cuts time and costs, makes it easier analyze T&E data, and enables finance to track spending. ❑

AP OPERATIONS

10 Steps To Ease the Move Toward Shared Services

(Quick Code 031327)

If your organization is in the midst of a reorganization, downsizing, merger, or acquisition, there's a good chance that AP will experience a shift to a centralized platform and structure.

While any change can be disconcerting, the change to a shared services environment can be a positive development for AP. There are numerous benefits, including streamlined, automated, and standardized processing—and, of course, lower costs (see Exhibit 1).

"The idea behind shared services is to continually evolve core processes so that AP can see productivity gains. AP can also develop additional service capabilities that help internal customers do their jobs better," reports APQC (American Productivity & Quality Center).

How Prevalent Are Shared Service Centers?

Research reveals that shared service center (SSC) adoption continues to increase. In a recent study by Paystream Advisors, 53 percent of organizations report that they have a shared service center, and 21 percent say they are planning to implement a shared service center in the future (see Exhibit 2). Of those planning to have a shared service center, the majority (80 percent) report they plan to implement a SSC within six to 12 months.

Related Tools and Resources

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

'Mining' AP Expertise to Get Buy-in for Centralization *(Quick Code 031333)*

Related Premium Resources

See Training Resource Library at **ap.iofm.com** to order.

Complete Guide to AP Best Practices

Use This Time to Plan and Benchmark

If you have been informed that your AP department is moving toward a shared services environment, you may be wondering where to start and what is expected.

IOFM recommends the following best practice steps for preparing for transition to shared services:

1. Keep senior management involved. You'll need C-level support in your transition and in communicating the changes to the organization at large. It is very difficult to change company culture when upper management does not appear not to be in agreement with your project's goals.

2. Standardize your AP processes. Eliminate redundant processes and apply uniform practices. Processes should be adjusted and brought up to par before the shared services center is operational.

3. Consider time zone issues. If the shared service center is located in a different time zone from some of the locations AP will be serving, be prepared to adjust staffing and hours accordingly.

4. Review and update written policies. The AP process in a shared services center needs well-written and well-executed policies and procedures. If strong policies are in place, a shared services center can strengthen Sarbanes-Oxley and IRS compliance.

5. Consolidate in phases. Consolidating AP functions spread out over many different entities into a shared services center is no easy feat. Start with a pilot program, consolidating just a few entities that have similar invoice processing procedures.

6. Foster a customer service mind-set. Be committed to providing a high level of service to your customers. A high level of customer service can decrease the amount of antagonism that can sometimes result between a centralized service center and its customers.

7. Develop an SLA. The relationship between a shared services center and its customers (internal or external) should be governed by a service level agreement (SLA). The agreement describes the products and/or services the customer receives, each party's responsibilities, the financial agreement, and how the service provider measures and reports services. The objective is to present a clear, concise, and measurable description of service.

8. Automate. Through its critical mass, the AP shared services center can rationalize the affordability of advanced technology. AP shared service managers and directors often have enough clout to be enablers of AP automation progress whereas individual site managers rarely do.

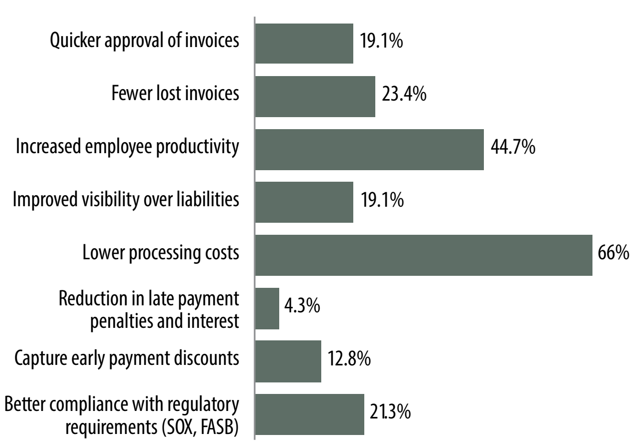
9. Track key performance indicators (KPIs). One of the most common metrics is the number of invoices processed per full-time equivalent (FTE) staff member. The second most frequently used KPI is process/cycle time, and the third is the number of payment errors. Other KPIs that AP managers track include discounts captured; processing cost per invoice; and the quantities of electronic invoices and electronic payments.

10. Consider people issues. Be aware of the ripple effects caused by the fact that some employees are going to be redeployed or terminated, yet during the transition they are still working in the decentralized AP offices. The decision to move to a shared services center can lead to bitterness or even fraud. Put some extra controls in place to help prevent this.

Final Advice

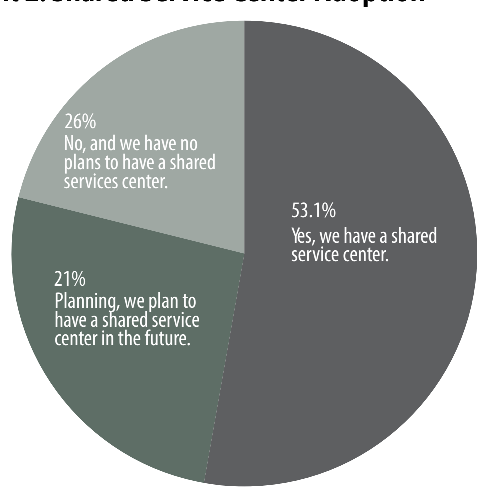
Despite some negative behavior among a few employees, most of your key staff can be a tremendous help in the transition. Allow them to give their input—it will make them more involved and more accepting of the changeover. ❑

Exhibit 1. Advantages of Shared Service Operations



(Source: PayStream Advisors)

Exhibit 2. Shared Service Center Adoption



(Source: PayStream Advisors)

NEWS BRIEFS

(News Briefs Quick Code: 031328)

GETTING RID OF PAPER? MAKE SURE YOUR SOLUTION SUPPORTS THE ENTIRE P2P PROCESS

A key component for minimizing paper in AP is, of course, automation. But far too often, organizations maintain "silos" in their systems—divisions between departments and a lack of interactivity—even after a technology implementation.

"A selected solution should not be limited to the AP process only, but should be flexible enough to enable the entire P2P automation in the future—including elements such as electronic catalog management, e-ordering and e-invoice exchange with the supplier base," reports Basware, a technology provider.

In many companies, the ERP systems play a key role in whether the AP automation can integrate with the broader P2P process. "Multiple ERP systems are commonplace," reports Basware. "Providers can encounter as many as 75 in one company, making it difficult, if not impossible, to get a single consistent view over the P2P process."

Purchasing Insight concurs that very real interoperability obstacles that exist today still need to be overcome: "The obstacles to wider P2P adoption need to be removed by creating the infrastructure for a true, interoperable automated environment."

The solution? Integration between the ERPs and the new P2P solution should be a prerequisite when trying to build visibility and control across the entire organization, states Basware. "In order to allow for eventual end-to-end P2P processing, it's important to bring the ERP master data into the invoice automation system and to integrate other current and future systems such as an e-procurement solution."

TEAMWORK IS ESSENTIAL WITH SALES & USE TAX AUTOMATION IMPLEMENTATIONS

If your organization is thinking of implementing a sales and use tax technology solution, it is essential to gather the right team. "A sales and use tax system implementation affects many departments of a company," reports the Sales Tax Institute. "Far too often, companies assign the task to one department without seeking the input of other departments."

However, while a team approach is essential, the most critical decisions of the project should be made by the group that has the business technical knowledge to do so—the tax department. "When the project leader is from the IT department, decisions tend to be based on infrastructure or timing rather than business and tax requirements," reveals the Sales Tax Institute.

According to the Institute, the following departments are all integral to any sales and use tax process and should be involved in all aspects of the implementation process:

- Tax
- Accounting including Fixed Assets, General Ledger and Financial reporting
- Accounts Payable
- Accounts Receivable
- Customer Service
- Order Entry
- Master Data Maintenance including customer, vendor, item and plant (the company's own locations)
- Information Systems

"Any decisions that have been made and processes that have been agreed upon should be documented and distributed to the implementation team members, so everyone remains involved and informed at every step of the process," the Sales Tax Institute reveals.

DOING BUSINESS IN DELAWARE? IT'S NOT AS SALES TAX FREE AS IT FIRST APPEARS

Delaware is one of several states, along with Alaska, Montana, New Hampshire, and Oregon, that do not have a statewide sales tax. The Tax Professionals' Resource reveals that the state has instead levied a tax known as the "manufacturers' and merchants' license tax."

"Much like a sales tax, this tax is also levied on gross sales; however, it only applies to manufacturers, contractors, wholesalers, retailers, restaurants, food processors, grocery markets, and farm machinery and commercial feed dealers," the tax consultancy reports. Each of these business areas is given a different tax rate, and there are 14 separate tax rates.

Here are the license fee rates for various manufacturers and merchants in Delaware, as reported by The Tax Professional's Resource:

- Occupations that require any type of state license: 0.4147% of the total gross receipts
- Manufacturers: 0.1944% of total gross receipts

NEWS BRIEFS

- Contractors: 0.6739% of total gross receipts
- Food processors: 0.2074% of total gross receipts
- Wholesalers: 0.4147% of total gross receipts
- Retailers: 0.7776% of aggregate gross receipts
- Transient retailers: 0.7776% of total gross receipts
- Petroleum product wholesalers: 0.2592% of all taxable gross receipts from sold petroleum or petroleum products
- Farm machinery retailers: 0.1037% of total gross receipts
- Commercial feed dealer wholesalers: 0.1037% of total gross receipts
- Grocery stores: 0.3402% of the first $2 million per month to 0.6372% of the total gross receipts following
- Restaurants: 0.6739% of total gross receipts
- Leasing: 2.0736% of the rent paid under the leasing agreement of any tangible personal property
- Lessors: 0.3110% of the received lease rental payments

"This tax has no provision written into law that mandates the tax be shifted to the purchaser or consumer," reports The Tax Professional's Resource. "So anyone operating these kinds of businesses in Delaware needs to understand how to determine this tax amount."

PAYMENT FRAUD: E-INVOICING CAN NIP IT IN THE BUD

Organizations without proper controls leave their operations wide open to payment fraud. With manual or paper-based processes, fraud can often go undetected for years. Many companies are often shocked to discover that a seemingly trusted employee or supplier has been robbing them blind.

Receiving invoices from suppliers electronically can hep prevent fraud, according to Susie West of sharedserviceslink.com. Here are some everyday AP situations that allow for fraud, along with some solutions that West maintains can prevent fraud from occurring:

Two invoices with the same invoice number are received from a supplier. "Most of the time, duplicate invoices are sent without fraudulent intent, either by accident or because a 'copy' invoice has been requested," says West. "But sometimes a supplier may notice that a customer paid twice for an invoice on one occasion, by accident, and then may decide to exploit this opportunity the next time by sending two invoices intentionally, hoping for double payment."

➢ **Solution:** Institute controls at key stages in the purchase-to-pay process, either manually or as a built-in control in an automated system in which invoices are received electronically. With an automated e-invoicing solution, data can be systematically checked for a repeated invoice number from the same supplier. When a duplicate invoice is detected, the invoice is bounced back automatically to the supplier.

Low-Dollar Invoices. Fraudsters often send bogus low-dollar invoices, complete with bank details, so that the payment is credited to their bank accounts. They get away with it because some companies choose not to question low-dollar questionable invoices. That is because it can be more costly to investigate an "exception" than it is to simply pay it.

➢ **Solution:** Prevent a random entity from sending an invoice by implementing a secure vendor portal. If an organization has done a good job of maintaining its master vendor file, it can be reasonably assumed that the suppliers are legitimate and vetted before they are permitted to e-invoice via the portal. A supplier that has had suspicious activity in the past would not likely be added to the e-invoice network.

Rerouting of Payments. AP may receive what seems to be a legitimate request to change or reset a vendor's bank details. This allows payment to be redirected to a new bank account—the fraudster's.

➢ **Solution:** Require that suppliers update their own information within a vendor portal, which will then automatically update the supplier's vendor master file. Another way to ensure that the proper bank account is being used is to require that banking information appear on all invoices. That way, an automated system can be programmed to pick up on any exceptions.

"The larger AP's invoice volume and the larger the supplier base, the greater the exposure," says West. "The most fraud-free system is one in which there are robust controls—and electronic invoicing is such a system."

ACCOUNTS PAYABLE CALENDAR

Don't Miss This Event!

IOFM's Accounts Payable Conference & Expo, April 10-12, Marriott Crystal City, Arlington, VA. Contact: www.iofm.com/event/apconf-spring13.

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