streetwise

BY STEPHEN BARLAS, CHRISTOPHER DOWSETT, KATHY WILLIAMS

[NEWS]

How Do You Handle Invoice Reconciliation and Payment? | Kathy Williams, Editor

CONTINUED ECONOMIC PRESSURES AND REGULATORY CHANGES SUCH AS THE Sarbanes-Oxley Act have placed a renewed emphasis on invoice reconciliation and payment as a way for companies to save money and ensure proper procedures and processes are in place. As companies focus on the entire order-to-cash process to enforce compliance with procedures and maximize the use of negotiated preferred-trading agreements, they have come up with strategies to pursue within their IR&P programs. The top four strategies, according to recent research by the Aberdeen Group of more than 700 companies, are to focus on managing cash flow (71%); avoid penalties, duplicate payments, and overpayments (60%); integrate purchasing, payables, and treasury decision making and process changes (46%); and improve visibility and enforcement of policies and contract terms (40%).

The first thing that comes to mind is that technology could be the solution, but here's what respondents are reporting: "Making the business case for automation and technology" is their greatest challenge. Right now, more than two-thirds of the companies receive 80% of their invoices in paper format via the mail, and they use a paper-based routing and approval process. Other ways to receive invoices and route the workflow, such as fax, e-mail, and electronic forms, aren't being used or are being used in combination with manual processes. In fact, fewer than 25% of the respondents use electronic data interchange (EDI), electronic receipts settlement (ERS), or electronic invoice presentment and payment (EIPP). Yet the use of procurement cards and automated clearinghouse (ACH) processing for check payment is gaining ground.

For those using electronic means, the savings have been great. On average, per-invoice cost reduction improvements were 50% to 60%. For example, the average cost for most companies to process an invoice is $34.38, but for those companies that use P-cards, ACH, or EIPP, the cost is $12.51 per invoice.

Aberdeen says that the order-to-pay business case needs to pick up where legacy financial systems, EDI, and e-procurement applications leave off—at the point of order—and follow it through invoice execution, reconciliation, dispute resolution, and payment. IR&P managers need to make a good case for how they directly reduce supply and regulatory risks, and they must ensure that any strategic sourcing and e-procurement efforts "end up in the bank."

To obtain a copy of the entire report, visit www.aberdeengroup.com, and click on *Invoice Reconciliation and Payment Benchmark Study*. ■

GAO CHANGES NAME

Last month, the General Accounting Office (GA0) became the Government Accountability Office as part of the GAO Human Capital Reform Act of 2004. The organization said "the change better reflects the modern professional services organization GAO has become."

U.S. Comptroller General David M. Walker noted, "A name change is a small step, but it does speak to a larger issue: the need to transform what the federal government does and how it does business to ensure its relevance for the 21st Century. At today's GAO, measuring the government's performance and holding it accountable for results is central to who we are and what we do. We continue to believe that the public deserves the facts on all aspects of government operations—from spending to policy making." ■

[GOVERNMENT]

Dueling Over Corporate Tax Shelters | Stephen Barlas, Editor

ONE OF THE BIG DIFFERENCES BETWEEN THE HOUSE FSC/ETI replacement bill (H.R. 4520, American Jobs Creation Act of 2004) introduced in June by Ways & Means Chairman Rep. Bill Thomas (R.-Calif.) and the FSC/ETI replacement bill passed by the Senate in May is the money they raise from shutting down corporate tax shelters. You won't hear a lot about this because most of the attention is focused on new corporate tax cuts, especially for domestic manufacturers, to replace the FSC/ETI ruled illegal by the World Trade Organization. But the Senate pays for those new tax cuts—this has been discussed in previous columns—as well as energy tax incentives by eliminating corporate tax shelters to the tune of $85 billion over 11 years. Contrast that with the $23.3 million the House bill would raise. That's a huge difference. Both bills get the most revenue from closing the shelter where companies lease public facilities. The Senate bill (Jumpstart Our Business Strength (JOBS) Act, S. 1637) actually uses the revenue from the closing of tax shelters to pay for all the tax cuts in the bill. The House bill, on the other hand, would cost the Treasury money, thereby inflating the worrisome federal deficit further.

Senate Bill Protects Companies Against Payroll Tax Fraud

A Senate bill would insulate companies against IRS bills for back employment taxes when the company had paid those taxes through a payroll services firm, which pocketed the money instead of sending it along to the federal Treasury. Senator Olympia Snowe (R.-Maine) was responsible for tucking the payroll amendment into the Tax Administration Good Government Act (H.R. 1528), which the House had previously passed. Now, since it includes the Snowe amendment and a couple of others the Senate inserted, the House must pass the bill again. Under current law, the IRS doesn't have the legal authority to assess payroll/accounting firms who function as their clients' "agents" for any tax liability due. Instead, the IRS is only able to assess the liabilities directly to the taxpayers themselves. The Snowe amendment would identify payroll agents such as payroll/accounting firms as "responsible persons," which will enable the IRS to assess 100% of penalties against those firms themselves. The U.S. Justice Department, in conjunction with the IRS, has taken action against a number of these fraudulent payroll services companies. In April 2003, for example, a federal court in Salt Lake City, Utah, issued a preliminary injunction shutting down Paysource, LLC, which had failed to file nearly 300 tax returns on behalf of clients.

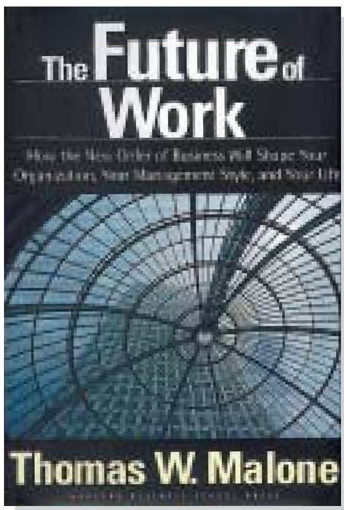
SEC Enforcement Bill Slow to Move

With New York Attorney General Eliot Spitzer cutting a wide swath on securities enforcement, there has been some pressure to legislate a reduced role for states in the corporate financial enforcement area. In fact, there was a "state preemption" provision in the Securities Fraud Deterrence and Investor Restitution Act of 2004 (H.R. 2179), but it was eliminated, in part because of pressure from the North American Securities Administrators Association, the state regulators' trade association, before the bill was voted on and passed by the House Financial Services Committee in late February. But apparently there are still some people who would like to see the Senate stick that state preemption provision back in the bill when the legislation comes up for a vote there. Sen. Paul Sarbanes (D.-Md.) alluded to that fact during hearings in the Committee on June 2. Sarbanes, of course, is the Sarbanes in "Sarbanes-Oxley," that major piece of financial disclosure legislation that has led to numerous new requirements on corporate financial and accounting departments. Actually, H.R. 2179 itself is another outgrowth of Sarbanes-Oxley. The bill improves the Commission's ability to satisfy judgments against securities law violators by removing state law impediments when the SEC seeks to enforce judgments based on securities fraud claims. But SEC Chairman William Donaldson has apparently told Senate members that he wants them to hold off on passing the bill, which was drafted in consultation with his predecessor, Harvey Pitt. ■

BOOKS

The Next Evolutionary Step in Business

✷ **THE EVER INCREASING SPEED OF IT DEVELOP**ments, along with the declining costs of communication, is leading to a coming trend that will change how businesses are run, according to Thomas Malone. In his book, *The Future of Work*, published by the Harvard Business School Press, he tells how the new technologies such as the telegraph, the radio, the phone, e-mail, and the like, made communication easier, cheaper, and faster and had profound effects on businesses and the way they were run. Malone equates this progression in the business world to the evolutionary development of societies—from roving bands to monarchies to democracies. With the speed at which new IT innovations are coming today—many of which nearly eliminate communication costs—Malone says it is time for businesses to step out of their monarchies and move forward into democracy.



One of the key changes that can already be seen in how companies are shaped and managed is the move to a decentralized organizational structure. But according to Malone, the current decentralization models barely scratch the surface of what is and what will be possible. To Malone, this decentralization is akin to freedom. In order to operate in a decentralized environment, managers must place more trust in their employees, not just by giving them more say—more freedom—in how they do their jobs, but in other aspects that impact them, too, such as how to obtain and use resources they need or even having a say in the hiring and firing of their superiors.

Extensive delegation is required in a decentralized environment. With workers more in charge of what they do on a daily basis, there will be much less need for instruction. Managers will have to move away from the current command-and-control mode to what Malone calls a coordinate-and-cultivate style. The responsibility of managers when coordinating will be to create the right situation that leads to a positive outcome. The focus here is on the activities that need to be done and the relationships between them. Cultivation, on the other hand, focuses on the people involved in the activities—employees, external suppliers, and customers. Aside from finding out what they need or what they're good at, it's also the manager's duty to look at how they can help each other accomplish the tasks more effectively and efficiently.

This is a very limited description of what Malone addresses, and none of what he proposes is meant to be total or complete. There will be times when a centralized structure is more appropriate or when employees will need closer supervision, and Malone knows this. In this new work environment, he says, it will be the manager's duty to make these decisions—to find the right balance between decentralized and centralized, to set up the organizational structure, and to act as the guardian of the company's core values when needed.

Malone presents his concepts clearly and straightforward in a simple, direct style that keeps you engaged throughout. Real-world examples of companies that employ one or more of these new practices are included, not only providing a clear view of how these changes can be put in place, but also showing the positive impact they have on the company, its employees, and its customers. Finally, the concepts he describes (and their explanations) seem very logical, intuitive, and—most important—possible.—*Christopher Dowsett*