

# would you manage **\$10 MILLION** in Excel?

A company has \$10 million of revenue annually. This significant dollar amount has a complex set of inputs and rules associated with it that governs how employees are compensated, while also affecting the company's taxes and profits. One would surmise, based on accounting and management best practices, that this process is managed with a high-powered enterprise system backed by numerous audits and security checkpoints. Ten million dollars is an amount that must be handled with great care for even large corporations.

**COULD IT BE POSSIBLE THAT \$10 MILLION IS MANAGED MANUALLY?** Could the dollars that make up this amount be entered into multiple systems manually? Could management of the inputs and calculations even be done on paper? Could the compensation of employees tied to this revenue be handled by individuals outside of accounting, payroll or human resources? Is it feasible that no audit trail is available?

Yes, to all of the above.

This company happens to be a hotel and the \$10 million is food and beverage revenue. Roughly 21 percent of this amount ends up as service charges that must be distributed to employees such as servers and bartenders. The management of this \$2.1 million is based on multiple inputs including paper timesheets. In addition, the distribution of this money is managed by manually copying data from multiple systems (POS and time and attendance) into one or more spreadsheets—a job performed in many cases by banquet managers, not the payroll department. From this piecemeal process, payroll checks are then generated by again manually tallying outputs from this spreadsheet and entering them into a payroll system.

The situation in the sidebar is a common scenario, and it often gets worse.

Now, consider the errors and mistakes—not only in the paper inputs and manual data entry but also in the spreadsheets used. Industry research conducted by PricewaterhouseCoopers and the University of Hawaii details that spreadsheets are filled with errors. This research shows a 90 percent error rate on corporate spreadsheets, with that rate reaching 100 percent in spreadsheets with over 200 rows. If you conservatively assume that the error rate

was a meager 10 percent, \$210,000 of the \$2.1 million described above could have been managed incorrectly. This is \$210,000 of employee compensation that carries over into taxes and benefits well outside the scope of food and beverage revenue.

Why does this situation exist?

The above would be surprising for anyone looking at this approach from the outside. Applying this process to manage this amount of money is almost unfathomable. The root of the problem can be traced back to the evolution of the process and the fixes that were applied as the system became more involved. Spreadsheets are an analytical tool that can be extremely useful in defining a set of rules and testing a complex set of calculations. As the distribution of service charges became more complex (See “Divvying up the Tip Jar”, HFTP *BottomLine* Dec 2007/Jan 2008 issue), human resources, accounting or food and beverage would use Excel to test a new service charge distribution process. The danger becomes evident when this test is then pushed out to the field and used to perform the real distributions. It is too easy to set up this test spreadsheet and move it into this new role for calculating actual payroll distributions.

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Going through the proper steps—design, testing, validation, sign-off and training—to transform a spreadsheet into an actual working process is an extremely arduous task. Before long, the test spreadsheet is being adjusted, updated and used by multiple users with little thought toward testing, security or integration. Data is manually entered into the spreadsheet, as was done during the test, and then manually entered again into another system to pay employees. Testing and reviewing the overall process is often ignored and the spreadsheet begins its evolution as it is revised and used again and again. Furthermore, any documentation explaining the rules and formulas within the spreadsheet is rare. As employees transition from the property, so does the knowledge that built the logic, but the spreadsheet carries on.

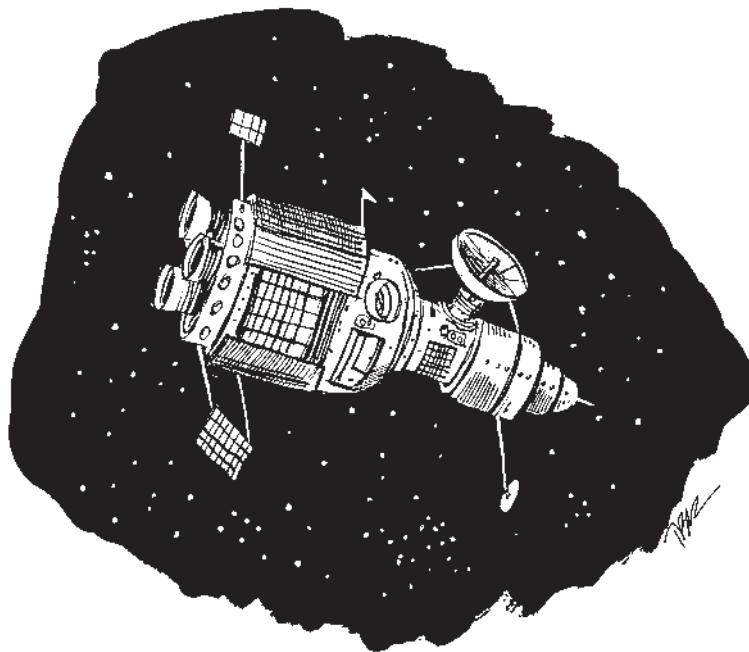
In the example above, we analyzed the food and beverage revenue and corresponding service charge distributions for a hotel. This is just a portion of the hotel's revenue that is managed through this process. Consider the amount of money in room service, valet, bellhops, spas, golf, tennis and restaurants that is managed in much the same way. For example, it is not uncommon to find that a hotel with multiple restaurants managed hundreds of pieces of paper per day where each server manually

tallies his or her total tip and the amounts to tip out to server assistants and bar staff. Just as with banquet service charges, these tips are then manually entered into a spreadsheet, reconciliation is performed, and then the totals are again hand-keyed into a payroll system. The examples across the hospitality industry are endless and the problems are rampant.

Real dollars are at stake and the consequences of continuing this process are dangerous. Mistakes and errors can be, and will be, uncovered given enough time. Audits prompted from unfair compensation practices can be extremely time consuming and costly. Fraud, labor disputes and the loss of money are inevitable with a process that can carry on unchecked. Beyond all the numbers, at great risk are employee trust and morale. If employees do not trust their compensation, morale and performance is reduced, and costly employee turnover increases.

With all of this at stake and the technology that is available today, use of spreadsheets in the hospitality industry must be reconsidered. Spreadsheets have their place as analytical tools, but using a spreadsheet to manage real dollars, including employee compensation, is a precarious practice. Sum your property's potential losses in Excel for yourself and see what is truly at risk—just remember to check your spreadsheet for errors.

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*"Dear TripAdvisor: I'd like to review where I stayed last night. A unique and nearly undiscovered gem with spectacular views, limitless horizons and lots of special treatment. On the downside, amenities are few, accommodations are cramped and check in is a real pain in the neck..."*