



**Virtual Premise™**  
INTELLIGENT REAL ESTATE MANAGEMENT. **MADE EASY.**

## **The Path to Easy and Profitable Desktop Audits**

### **Overcoming Operating Expense Reconciliation Challenges**

In the landlord – tenant relationship, the burden rests squarely on the shoulders of the tenant to verify that real estate expenses are billed accurately. Unfortunately, the tenant's real estate group is typically understaffed and under prepared to handle the volume and complexity of managing these expenses and verifying their appropriateness. With the proper processes and tools, however, companies can focus their resources in those areas that give them the highest return possible in the form of cost avoidance and recovery. These cost savings are not insubstantial – it is very common for companies to save \$0.25 per square foot in operating expenses and much more when real estate taxes, insurance and landlord co-tenancy claims are taken into consideration.

In response to direct feedback from our customers, Virtual Premise launched the 2009 IMPACT Cost Savings Program to answer the urgent call from our customers for tools to help them save money and improve efficiencies.

One component of the IMPACT program is VP's Advanced Desktop Audit Manager (ADAM) – an operating expense and reconciliation tool.

**The problem starts with the audit process**

With the right system in place, desktop auditors will uncover errors in the billing process of their landlords' invoices and save money in areas such as common area maintenance (CAM), real estate taxes, and insurance. At the same time, those involved in the desktop audit process are overwhelmed with the volume and inefficiency of their current process – requiring them to approve CAM expenses when they are “close enough” or fall under an arbitrary ceiling; waste time as they comb through landlord invoices to find random mistakes; and build / re-build spreadsheets to analyze expenses. A tool that makes it easy to do this changes the equation.

Although most tenants claim they are doing some level of operating expense reviews – from basic tracking and recalculation to the more labor intensive landlord audit – most admit they are not doing it consistently across their entire leased real

estate portfolio. There are many reasons for this, but the bottom line is that performing and managing the desktop audit process associated with operating expense reconciliations is cumbersome; standardized processes typically don't exist or aren't followed; and valuable resources are expended in the wrong areas.

**The solution starts with identifying opportunities for process improvement**

This paper will (1) highlight the challenges making the desktop audit process onerous, (2) identify the characteristics that make a desktop audit software product effective, and finally (3) review the top two benefits of streamlining the desktop audit process.

**Benefit #1 - ROI**

The desktop audit may uncover discrepancies in the landlord's expense reconciliation methodology or calculations, which, if disputed and settled, can have a significant impact on the current year's

reconciliation invoice, as well as past year's invoices and future reconciliations.

## Benefit #2 - Improved Data Integrity

If a standardized process is incorporated for the entire real estate portfolio, every single lease will be reviewed at least once per year as part of an annual review to help reveal any data abstract discrepancies that may have occurred.

## Seven desktop audit process challenges

While it is well known that desktop audits can result in substantial savings and/or a credit from the landlord, it is questionable whether or not it is worthwhile to always conduct an audit. From a classic return-on-investment (ROI) point of view, the answer is a resounding "yes," if the savings found outweigh audit process costs.

To help determine the cost associated with performing a desktop audit, look at the process and identify where the following challenges lie within the process. Here are the seven most likely desktop audit process challenges an organization faces:

1. **Complex calculations:** Improving accuracy for calculations that are inter-related and recursive in nature
2. **Data compilation:** Tracking year-over-year audit data
3. **Disputes:** Learning to pick your battles and avoid landlord disputes that are subjective in nature; defensible positions that are based on lease language and mathematical calculations are preferred
4. **Landlord information management:** Producing, receiving and tracking information from the landlord
5. **Fragmented process:** Starting and stopping throughout the process
6. **Managing multiple leased locations:** Maintaining a consistent process when multiple auditors are involved
7. **ROI:** Quantifying and analyzing savings

## Complex calculations

Having accurate calculations is critical for every organization. Having one error will have a residual impact on other calculations because many are interrelated and recursive in nature. Therefore, it is extremely important to verify calculation points for each pro rata charge item

and track the incremental impact each of the individual errors has to the overall calculation of the pro rata share amount.

For example, an error may exist in both the administrative fee exclusions and the denominator definition, such as the pro rata share percentage. If this occurs, the auditor must be careful to count both the impact the administrative fee error has on the pro rata share percentage according to the landlord, as well as the impact the reduced pro rata share percentage has on the entire expense amount.

### **Data compilation**

When audit data, such as cap calculations, audit notes and savings, reside in more than one spreadsheet or system, it is almost impossible to accurately track, analyze and compare data from one year to the next. With a central repository in place, however, audit data is captured into a single database, giving auditors the ability to develop an effective audit process that results in cost savings for the organization.

### **Disputes**

Organizations are more likely to experience greater cost savings when their expense reconciliation disputes are fact-based, as opposed to being subjective in nature. For example, arguing over a

janitorial charge that increased 50 percent last year will result in the landlord simply saying that costs have increased beyond his control. On the other hand, if, based on calculations and contractual lease language that are easily accessible in one system, the landlord was supposed to exclude a specific expense and did not, the dispute can be substantiated and a stronger case exists for not paying that portion of the reconciliation.

### **Landlord information management**

Verifying an expense reconciliation statement goes beyond recalculating data provided by the landlord. To truly do a desktop audit, lease administrators require more than just the numerator, denominator, and pro rata charge amount. They need detailed expense items to verify expense exclusions; a tenant roster to confirm occupancy; major tenant contributions and more to accurately validate the statement. Once a lease administrator submits a request for more information into the landlord, the audit is on hold until the data arrives. Simply requesting the multitude of information required from landlords becomes a time consuming and daunting undertaking. Multiply this process across several hundred properties, and the act of managing the documentation, information requests and related correspondence quickly becomes overwhelming.

## Fragmented Process

As already mentioned, audits are frequently put on hold while additional information is requested, research is conducted or a third person is consulted for assistance. When working with multiple locations, each with multiple pro rata charge items, it quickly becomes difficult to track where each audit is in the process. As a result, this broken stop-start process becomes inefficient, wasting the time of everyone involved, ultimately making a financial impact. If an audit falls through the cracks and money is owed by the tenant, it can easily result in a default situation. On the other hand, if money is owed a tenant, he may leave money on the table without being aware of it.

## Managing multiple leased locations

A single application – rather than custom spreadsheets, databases and methodologies – that houses all real estate information is the key to managing portfolios involving dozens of landlords, hundreds of locations and many auditors. With consistency across the desktop audit process, lease administrators have greater visibility into the database, enabling them to run comprehensive reports detailing realized savings. It also means that personnel can easily be trained

on other audit process job functions and serve as a resource to other colleagues.

## ROI

It's no surprise these days that every organization is attempting to do more with less, maximizing productivity while minimizing costs. With the right desktop audit solution in place, organizations can:

- ◆ Quickly and easily identify cost savings
- ◆ Improve workflow and business processes
- ◆ Track audit data year-over-year
- ◆ Reconcile statements, manage notifications, validate figures, and send correspondence

## The path to easier, profitable desktop audits

With the promise of substantial cost savings and a more efficient desktop audit process, it's time to start surveying the market to see what kind of desktop audit software tools are available.

Based on Virtual Premise's experience, six best practices are consistently ranked a priority feature to include in a desktop audit tool.

1. Ease of use
2. Database-driven software
3. Automatic calculations
4. Information request management
5. Process-centric
6. Quantifiable savings log

## Ease of Use

Desktop auditing is difficult enough, so look for a tool that offers an intuitive user interface, coupled with help text, to enable a short learning curve.

Keeping in mind that skill levels differ by user, the software should be designed for a non-expert to use with minimal training.

## Database-driven software

Evaluate software that has been designed from a database-driven approach to easily enable portfolio-wide reporting. This will also provide flexibility as you grow.

## Automatic calculations

Because calculations are complex and recursive in nature, make sure they are built-in to improve accuracy, usability and efficiency.

## Information request management

Ensure that the audit solution has the capability to automatically generate and track information-request letters to each landlord.

## Process-centric

The right tool should take users through a step-wise process that enforces consistency and best practices across the entire audit group. With checks and balances in place, users are able to more easily manage multiple locations, tracking specific lease information, correspondence and disputes.

## Quantifiable savings log

Make sure the chosen solution maintains a savings log. That way, reports detailing how much money your organization is saving as a result of the desktop audit process are easily accessible. The log should be based on the contractual language of the lease and the specific calculations used for calculating pro rata charge items.

Table 1 illustrates how the features of a desktop audit solution address desktop audit process challenges, ultimately delivering benefits to the end user.

Features	Challenges Addressed	Benefits
Ease of use	- Complex calculations	- Short learning curve - Larger user-base; not usable by just experts
Database driven software	- Tracking audit data year-over-year	- Query and reporting capabilities - Analyze data year-over-year and across portfolio
Automatic calculations	- Disputes with landlords - Complex calculations - Quantify savings/ROI	- Improved accuracy and usability
Information request management	- Landlord information management	- Quickly and efficiently request information - Keep track of requests throughout audit process
Process-centric	- Disputes with landlords - Fragmented process - Maintaining consistent process	- Step-wise approach to enforce consistency - Status tracking to better manage multiple audits
Quantifiable savings log	- Quantify savings/ROI	- Ability to substantiate benefits of audit and ROI

## A profitable desktop audit solution

Virtual Premise's Advanced Desktop Audit Manager™ (ADAM) eliminates desktop audit challenges, simplifying the operating expense reconciliation process while helping both retail and non-retail tenants identify opportunities to recover excess payments that have resulted from errors.

ADAM, which is truly unique in the market today, was designed and developed in cooperation with Asset Strategies Group (ASG), a leading retail expense management consulting firm with experience conducting thousands of retail operating expense audits. To generate a quantifiable return on investment for tenants, ADAM leverages Virtual Premise's dynamic form and document-generation capabilities to request documentation, issue credit letters and conduct year-over-year audit and savings analysis.

Designed with the end user in mind, ADAM leads users, regardless of their experience, through an easy-to-understand step-by-step process to set up filters and generate audit invoices, landlord letters and documentation tied to abstracted leases. Because ADAM is based on a user-friendly electronic process that mimics the current

paper process, it requires minimal training and encourages a high user adoption rate. Whether a comprehensive operating expense review is needed, or a full audit, ADAM's process-centric approach ensures data accuracy and control while speeding annual reconciliations.

ADAM is the first and only operating expense reconciliation solution that can be used on a stand-alone basis in-house with an existing real estate system or integrated with Virtual Premise's comprehensive real estate management solution.

Additional product features include:

- ◆ Easy-to-follow questionnaire-style interface
- ◆ Online help screens
- ◆ Lease-centric audit review
- ◆ Real-time status and error checking
- ◆ User-definable filters for easy review and workflow
- ◆ Automatic error calculation flags potential savings or errors
- ◆ Integrated document generation for rapid correspondence and follow-up
- ◆ Savings and recovery log to analyze ongoing ROI
- ◆ Integrated landlord correspondence and credit letters
- ◆ Comprehensive audit reporting and ad-hoc report writer

Table 2 illustrates the desktop audit process with and without Virtual Premise's ADAM.

	Without ADAM	With ADAM
Processes	Difficult to standardize and review	Standardized based on business rules
Year-end adjustments	Go into a "black hole" between receipt and payment	Audited on ADAM, hence easy to track progress
Proof of work completion	Users can circumvent controls and pay adjustments without doing work	Voucher system proves work has been done
Tracking of adjustments	Manual tracking of adjustments received/not received	Adjustments received/not received are in a reportable database
Abstracts	Non-accounts payable specific abstracts require yearly reference to lease document to verify and interpret lease language	ADAM abstract takes users through specific accounts payable questions, and the abstract is stored for use year-over-year
Efficiency	Inefficiencies due to "pick it up, put it down" nature of desktop auditing	ADAM tracks statuses and creates and stores request letters, thereby making it easier for auditors to determine where they are on a particular desktop audit
Landlord adjustments	Landlord adjustments are recalculated using a calculator	Elements of year-end adjustments are entered and stored in database, thus recalculated and available for reporting
Filtering	Arbitrary filters like "don't look at anything that goes up less than 5%" get created	Filters determine work to be performed at several levels, adding to efficiency and effectiveness of audits
Savings log	Separate from process - may not get updated	Part of process and updated when audit is completed
Calculations	Difficult to standardize and review	Standardized, automatically built into the software

## Summary

From comprehensive audit software solutions to simple spreadsheets and databases, tenants struggle with a lack of solutions available for management of desktop audit processes. Before selecting a product, lease administrators should conduct a needs assessment that will help them select the best application for their organization. For instance, it's important to consider:

- ◆ Overall business priorities (cost savings, cost avoidance, data integrity)
- ◆ The number of properties, landlords and auditors the tenant manages
- ◆ Resource availability, capability and experience
- ◆ Reporting capabilities

No matter the business priority, lease administrators will find that Virtual Premise's Advanced Desktop Audit Manager software solution addresses all business priorities – from cost savings and cost avoidance to data integrity.

ADAM can guide clients with unique operating expense reconciliation challenges – from complex calculations to landlord disputes to multiple leased locations – through the process of implementing a desktop audit tool that will lead your organization to easier and more profitable desktop audits.

## About Virtual Premise

Virtual Premise, Inc. is a leading SaaS provider of web-based real estate information management solutions for corporations, landlords, commercial real estate service providers, retailers and restaurants. With the Virtual Premise Global Real Estate Management System™, companies have a smart, easy way to collect, manage and report on complex real estate information from anywhere, at anytime. Based on .NET technologies and SAS 70 Type II compliant, Virtual Premise technology solutions include portfolio management, lease management, lease administration, project management, transaction management, and document management. Virtual Premise also offers a wide range of supporting services to include lease abstracting, data entry, file review and organization, document scanning and indexing, data integrity sampling, due diligence, and data audits.



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