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features

24 Robert E. Bell, Jr.: Hickory Brands CEO Leads IMA  BY ROBERT F. RANDALL
The career of the owner and chief executive officer of Hickory Brands, Inc.—and now IMA president—illustrates how IMA membership can contribute to a financial manager’s growth opportunities and success.

29 Reviewing Internal Controls: A Fresh Approach, Part 2
BY MICHAEL A. SIDES, CMA, CPA, CIA, AND CHARLES B. GROSSO
As a contractor for the federal government, Sandia National Laboratories operates in a highly regulated environment, so its financial control system comes under tight scrutiny. That’s why the team reviewing the internal controls used an original model to evaluate the system.

36 A New Role for Finance: Architect of the Enterprise in the Information Age  BY MARK J. MORGAN
ERP systems have reduced the time spent on control and transaction processing activities, thereby freeing financial managers to function as champions of change. Now they can bring their expertise to bear on corporate activities that add value to the bottom line.

44 To Tax or Not to Tax: Tax Freedom or Free Ride?
BY JAMES G.S. YANG, CMA, CPA, AND WING W. POON, CPA
Congress has allowed Internet commerce to be tax-free up to now, but states want their cut of the projected $300 billion volume expected to flow through the Net in the next five years. Stand by for a political donnybrook when the current law runs out in October.
50  Is It Time for a New Accounting of R&D Costs?
By Anne M. Clem, CPA, and Cynthia G. Jeffrey, CPA
Acquired in-process research and development charges of S&P 500 technology companies skyrocketed to $11.1 billion in 1998, raising concerns by the SEC and others that charges were being abused, distorting earnings and making financial statements misleading. It's time to go back to the drawing board because the models for measuring the value of such intangible assets as IPR&D are inadequate.

56  Employer Adoption Assistance Programs: A Great Opportunity
By Sheldon R. Smith, CMA, CPA, and Glade K. Tew, CPA
Thanks to tax law changes, corporations can offer employees a new benefit program that allows an employee to exclude from income up to $10,000 of adoption expenses that have been reimbursed by the employer. Similar to maternity benefits, this program will help to promote morale and retain good employees.

61  Accountants on Call and IMA Recognize the Financial Executives of the Year
Twenty-three financial executives from around the nation are honored as financial leaders.
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IMA's Plans | by Bob Bell, CMA, CPA

Many of you want to know more about IMA's plans. We started in 1919 as an educational organization. During the 1970s, we created a new organization to administer a certification program, CMA (Certified Management Accountant). In the early '90s, all certified persons became IMA members.

Name changes from NACA to NAA to IMA were attempts to clarify our identity. We decided to include finance professionals in our market and created a Certified in Financial Management program as a benefit to them. Our monthly magazine's name was changed to Strategic Finance to align it with our market. We began Management Accounting Quarterly as a platform for our members' practical research.

These changes, along with corporate restructurings of our own jobs, have left most of us with an unclear picture of the future. We work with management in many areas: finance, accounting, tax, IT, regulatory issues, manufacturing process evaluation, cost controls, etc. We act as advocates of management in trying to define the optimum decision within our population of numerous decisions. We look for the best right decision.

As we get a clearer idea of who we are, the future will become easier to navigate. Maybe now is the time to throw off the shackles of the word accounting and step forward in the grandeur of what we do and the value we add each day.

Our future market must include international as well as domestic members. We operate in the broad area others have said needs an international certification. Maybe we have the certification, but we are calling it Certified Management Accountant when we are really Certified Management Advocates.

Does this mean our educational members must become certified? Absolutely not! Their purpose for joining was education, and we must provide interesting and useful education to them on local, regional, and national levels.

It's easy to see that the IMA has changed, and is changing, to meet the needs of our members. Our 82-year-old organization is big enough for educational members and certified members. Our record is one of cooperation and good fellowship.

What better foundation could we ask for as we soar into the future? ■

Bob Bell can be contacted by e-mail at bbell@imanet.org.
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Building Employee Knowledge: A Look at Training Programs

Despite common perception, training today is definitely not just for beginners. Even the most accomplished accounting professional can benefit by continually updating his or her knowledge base—whether it’s mastering the latest version of a financial software application or developing management skills to work toward a promotion.

By giving your employees access to an effective training program, you can help them grow professionally and, at the same time, improve your group’s overall performance. But how can you be sure the classes or subject matter you select will be the most valuable? As companies demand more and more from their accounting departments, you can’t afford to waste your team’s time on training that’s not targeted to their most pressing needs. With a little research and assessment, however, you can help your staff find ideal professional development options.

What are your needs?
As a first step, clearly define which skills your employees need most to help the department achieve its goals. Consider soliciting input from your staff through written surveys and questionnaires. Ask employees to comment on the relevance of specific areas of expertise to their jobs and long-term company objectives. You should also assess the various skills levels of your staff members and identify opportunities for skills enhancement.

Monitoring daily job performance can also help you determine training needs. But be careful not to jump to conclusions as soon as you notice a problem. Someone who is having trouble meeting deadlines may not necessarily benefit from a time management class. He or she may simply need additional support during workload peaks. Always speak directly with an employee who may be falling short of expectations. Together, you can then determine whether training will provide a solution.

Evaluate the options
The traditional model of corporate training was an instructor-led program delivered in a classroom. Today, that’s just one choice to consider. Here are some others:

- **Topic-specific workshops** can be a useful way to help your team members build their skills. These seminars are typically presented by training companies and
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<td>SONY PICTURES</td>
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<td>iomega</td>
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<td>ABBOTT LABORATORIES</td>
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frequently are held at a public site, such as a hotel or conference center. The main drawback is that they can be too generic, not offering the industry- or company-specific training you may require.

- **Off-the-shelf nonclassroom training programs**—such as CD-ROMs or videos—are very inexpensive when compared to other options. They provide an opportunity for individualized strategies for learning but may not be effective for those who aren’t self-motivated or who would benefit most from direct instructor involvement.

- **Executive education seminars** are offered by universities and business schools and are targeted, in most instances, to middle and upper-level managers. They offer an excellent opportunity for attendees to network and share ideas. But courses at the more prestigious schools can be expensive—as much as $5,000 for a four- or five-day class.

- **Interactive distance learning** is delivered via the Internet, company intranet, or teleconferencing. These programs can be effective for employees whose schedules or locations don’t permit travel to training sites. Unlike CD-ROMs or videos, this format can be interactive. Such programs are very cost effective and offer a great deal of individual flexibility, but they share the same drawbacks as off-the-shelf training.

**Make it easy to participate**

It’s one thing to schedule a training session and quite another to actually have employees attend. Deadlines and demands can make it challenging for staff members to devote time to professional development. Make sure you emphasize the importance of any program—how it will help staff achieve individual goals and benefit the team as a whole. Then demonstrate your support by providing flexible formats and any additional assistance that will allow more employees to participate. You should also consider reimbursing your staff for participation in formal continuing professional education programs that lead to credentials such as a CMA designation or that allow them to keep their CMA or CPA status current.

**Gauge the results**

Regardless of which training option you select, you’ll want to set up a system for monitoring its success. Keep in mind, however, that learning can be difficult to assess, given the number of variables at play. Some people may prefer one training format over another; some may need to work on skill sets that aren’t easy to learn.

Giving tests both before and after a training program can help you gauge the results. This is particularly effective with well-defined skills such as knowledge of a software application or an accounting specialty. For broader topics, such as leadership or communication skills, you’ll want to evaluate their impact on job performance. Make sure you provide an opportunity for employees to demonstrate their new abilities after they’ve completed training. For example, you might let someone who’s taken a course on delivering effective presentations lead a discussion at your next departmental meeting.

Also, solicit feedback on the program from staff members. What did they think of the instructor? Were the topics covered in the course relevant to their jobs? How soon can they put the information to use? Would they recommend other employees receive the same training? This information will help you better evaluate particular training formats and topics.

Continuing education isn’t just a good idea—it’s a necessity in accounting and finance. By making professional development a high priority in your department, you’re not only investing in your employees’ individual growth, but you’re also contributing to the ongoing success of your company.

Max Messmer is chairman and CEO of Robert Half International Inc. (RHI), parent company of Robert Half®, Accountemps®, and RHI Management Resources®, RHI is the world’s first and largest specialized staffing firm placing accounting and finance professionals on a full-time, temporary, and project basis. Messmer’s most recent books are Managing Your Career For Dummies® (Hungry Minds, Inc.), Job Hunting For Dummies®, 2nd Edition (Hungry Minds, Inc.), Human Resources Kit For Dummies® (Hungry Minds, Inc.), and The Fast Forward MBA in Hiring (John Wiley & Sons, Inc.).
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Visit www.thecolloquium.com to find out full information about the program schedule, presentation summaries, information about lodging, travel discounts, sightseeing activities, and more.

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IF ALL THE WORLD'S A STAGE, THEN CERTAINLY
the art of acting is at the heart of business. We play roles,
we orchestrate meetings, we speak extemporaneously, we
direct action, and we script presentations. Isn't that what
you do almost every day? In fact, isn't that how most ac-
complishments happen? We work mostly with words, ex-
pressions, and gestures—
those unconscious "beats" of
communication that some-
times convey much deeper
meanings.

While we talk about our
acting in terms of "good
communication," refer to it as
"leadership in action," or
speculate about meaning as
"reading the tea leaves," in ac-
tual fact we may not think
very much about the applica-
bility of the actor's craft to our business life. But just as
every actor is telling his or her part of a larger story, so
we write our company's book by playing our parts, no
matter how small or large they may be.

In fact, the common denominator between acting on
the stage and performing a role in a company is the need
to create a sense of life that is truthful so that the audi-
ence can find their own insights about what it means and
what it's telling them to do. At the heart of selling, deci-
sion making, leading, resolving conflict, or working in
teams is the "action, reaction" or "stimulus, response" that
every actor strives to achieve with the other characters
and the audience.

The question, of course, is what lies behind the actor's
skill at conveying meaning, purpose, or action and how
you can apply it in a business setting.

Great actors don't have some special inborn skill that
isn't available to the rest of us. In Anne Bancroft's words,
"Acting is a matter of becoming aware that you are think-
ing, of knowing what it is you are feeling—
then of controlling it
any way you want." She is pointing to the
natural process that
lives in all humans—
we think, our thoughts
are expressed as feel-
ings, and the feelings
give rise to our behav-
iors—as well as to the
uniquely human pow-
er we have been given
to choose. We are not
slaves to our thinking any more than we are obedient to
another person against our wishes.

Knowing this essence is what enables an actor to be
present, in the moment, and access his or her full creative
faculties and talents. Experiencing this is like being in the
midst of the same PowerPoint presentation for the 32nd
time and suddenly seeing yourself doing it almost as if
you were someone else. In that moment, you might be
bowled over by fresh insights about the material or your
audience that cause you to change your delivery, tone, or
expression in ways that are refreshing to the listeners and
surprising even to you! The material may be exactly the
same, the script is unchanged, but you have changed, and
your presentation will have a spontaneity and grace that
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This kind of spontaneity begins with our becoming aware of our feelings, for they are the windows to inspired thought. Actors need to have this awareness. They're trying to create an artificial environment by using their consciousness to tap the unconscious.

Business people face a similar challenge because so often they are trying to create something out of nothing! By this I mean we are trying to serve the needs of customers even though they may not be able to articulate their needs, we are attempting to create a client experience that goes beyond a product's physical attributes, or we are trying to direct a staff's action in ways that are inspiring and not controlling.

This is much easier to do when you have warm feelings toward others and know that you are calm and your thinking is tranquil—without the busyness or sense of urgency that so often overtakes us. In this frame of mind, you can access your creative unconscious and gain insights, flashes of inspiration, or just a sense of knowing what to do.

Some would term this a state of profound concentration—of being completely aware of yourself and others and being able to perform something completely familiar and routine with ingenuity, verve, and spontaneity.

By contrast, trying to rely on your logical brain, using the experience and knowledge you’ve accumulated, blocks you from accessing your creative unconscious. You may experience this as, perhaps, anxiety about remembering all the material on the slides, fear of the audience's reaction to what you are saying, or boredom from going over the same old stuff.

It's not that analytic and logical thought doesn't have a purpose, but, rather, it is ill-suited to the kind of human interaction where you are seeking to inspire, teach, or provoke others.

As business people, we face the challenge of trying to make the intangible, tangible. Begin by concentrating on the sensations and details that feel most real, then gradually widen your perspective to include just one other person, then the audience in the room, and finally the entire company no matter where they are situated.

This can be most helpful when you are asked to speak to others. Find a detail to focus on, and start there. You might find it natural to expand from that small facet and draw a vivid picture of how that might happen in a bigger context.

Telling a story one sensory detail
at a time will be memorable because people will sense your understanding and relate it to their own experience. Because communication that makes a lasting impression stems from feelings, the sensory aspect is more important than the content. Portraying one small detail at a time, with feeling, is exactly the opposite of what most people do when they try to make their case. Usually people tell everything in a rush of words, spinning out fact upon fact in a way that simply overwhelms the audience. After a few minutes it becomes mind numbing. PowerPoint presentations are not friends here!

The final point concerns choice. This is the human element that allows us to experience something freshly no matter how often we have said or done it before. Choice is the uniquely human capacity to act on a thought, stemming from listening deeply with all your senses.

This is not the same as logical or analytic choice that requires deliberation and investigation. What I am pointing to is more organic, often going on below the level of conscious awareness. The experience is akin to a flash of realization that is immediately acted upon or the surprise of finding yourself saying or doing something because it just feels right. For an actor, operating in the artificial world of theater, behavior must be true to the script. But for an ordinary person, truthful behavior is the normal, default setting we call life. It is operating whenever we are living moment to moment, allowing our thoughts to come and go.

In business, choice is almost always bounded by intention. In other words, you know the direction you are trying to go without necessarily knowing how you will get there. What is required is to put yourself in the role by remembering, for example, that your goal is to serve the larger purpose—a question of “loving the art in yourself and not yourself in the art.”

For all of us, it’s as if our brains become our own stagehands, getting on with the work while we’re performing the scenes. It is knowing that you are working even when it feels as though you aren’t (I’m just having an interesting conversation with my friends) by trusting the deeper intelligence inside.

Bob Gunn leads Gunn Partners, a 50-person consulting firm that helps Fortune 500 companies improve the relevance, value, and productivity of staff functions. You can call him at (617) 747-5010 or e-mail him at robert.gunn@exult.net.
Mexico's Border and Management's Decision Making

THE NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA) is intended to open U.S. borders with Canada and Mexico to enhance trade and the movement of labor. While the overall purpose of this agreement has probably been achieved, there are areas where this is not the case. One such situation is the exportation of goods by land into Mexico. U.S. companies are faced with restrictions that could impact delivery time and have a negative effect on the overall costs paid to facilitate the exporting activity on the border.

This column is divided into two parts. Part 1 presents the environment that has the potential to delay the delivery of goods to customers. Part 2 examines the potential tax liabilities of this situation—from the conditions that create them to their overall cost to the U.S. companies.

PART 1

Mexican customs' practices require that the duty on goods going into Mexico be paid before the goods enter Mexico and that a licensed Mexican broker handle the transfer of goods. This requires an artificial activity—the unloading of goods in the U.S., transferring them through a system of freight forwarders and drayage, and then transferring the goods to another transporter for delivery to the interior of Mexico.

This incurs additional costs without any added value to the transporting process. Added costs from this process were estimated at $600 million in 1999 for the port of Laredo, Texas, alone. This would increase the value of the goods, $29.8 billion in 1999, by approximately 2%.

Why should this be a concern for management in the U.S.? First, there is the impact on the feasibility of projects. This additional cost could affect the decision to undertake a given project. Second is the impact on cash flow. This is an up-front cost that must be paid before the goods are allowed into Mexico. Third is the impact of the logistical considerations caused by the additional handling of the goods. The time added to the delivery process could have an undesirable impact on a company's contractual obligations. The additional handling also exposes the
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company to the possibility of higher costs due to the potential loss of product from theft and/or damage.

Management may want to circumvent this problem by handling the process themselves, but they can't. While there's no legal barrier for a U.S. citizen to forward goods into Mexico, it can only be done in collusion with a Mexican customs broker, who must handle the transfer of goods across the border. This also isn't very feasible, as we shall see.

The Role of the Mexican Broker

The process of clearing goods into Mexico on the southern border involves a series of functions that occur on the U.S. side of the border, such as appraisement, classification, inspection, and inventory. And before entry is made into Mexico, there is one document, among the multitude required, that is absolutely essential: the pedimento de importación, or consumption document.

Without a pedimento, no entry may be made. This is what makes the Mexican customs brokers' control irrefutable. The right to complete and execute a pedimento is given only to the Mexican customs broker or, in some cases, to an agent authorized by Aduana, the Mexican customs authorities, but never to U.S. citizens. The pedimento contains the identification number of the Mexican customs broker and demonstrates that he or she is legally responsible for the entry process. Consequently, there are only two ways that U.S. companies may forward freight into Mexico.

The first way is if the U.S. forwarder is actually owned or controlled by the Mexican customs broker. The broker must maintain its offices in Mexico, but it gives the principals in its U.S. business all the authority to act as freight forwarder.

If the Mexican broker doesn’t own or control the U.S. freight forwarder, it can lease the use of its patente, or licence, to the U.S. forwarder. The price of leasing or using a Mexican broker’s license begins at about $5,000 per month, with the condition that if the forwarder exceeds a certain revenue, the cost of the patente increases. Payments may be made monthly or on other schedules, usually to accounts in U.S. banks.

Freight Forwarding and Fundamental Fairness

The proponents of NAFTA seem to close an eye to this practice. In fact, NAFTA demonstrates the inequity. In Mexican reservations contained in Annex I of the agreement, Mexico has made it clear that it will not tolerate U.S. customs brokers operating as freight forwarders or forwarding agents within its territory: "A shipper's export declaration must be processed by a Mexican national licensed as a customs broker (agente aduanal) or by the representative (apoderado aduanal) employed by the exporter and authorized by the Secretaria de Hacienda y Credito Publico for this purpose."1

This concludes Part 1. Next month we will discuss “drayage" and the potential tax liabilities of exporting across the border into Mexico by land.

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Intangible Assets

Kathy Williams, Editor

RECENT ESTIMATES SHOW THAT CORPORATE MANAGEMENT SPEND BETWEEN 50% and 90% of their time on managing and measuring intangible assets. U.K.-based Lafferty Publishers has just released a study that describes how some of the world's largest financial institutions are managing their intangibles and leveraging the knowledge of the organization to increase shareholder value.

The study, Knowledge Management in International Financial Services, features 15 case studies of financial services companies in the U.S., Canada, and Europe. It presents leading-edge examples of knowledge management strategy, issues in developing a knowledge management infrastructure and architecture, the latest knowledge discovery techniques applied to data mining and profitability analyses, total cost of ownership issues, and other issues related to maximizing and leveraging the intellectual capital within a firm.

Ramona Dzikowski, a regular contributor to Strategic Finance and other financial journals around the world, prepared the study. If you're interested in finding out how to obtain a copy, contact her directly at rndresearch@interhop.net.

More XBRL Vendors

Since we previewed XBRL (eXtensible Business Markup Language) vendors in the June issue, two more vendors have offered new developments. e-Numerate's Prototype XBRL Tool provides users with a complete package of software tools to integrate XBRL into a company's financial reporting. And a new company, IBMATRIX, has introduced an accounting system with tools for creating and editing XBRL taxonomies and instance documents.

e-Numerate's Prototype XBRL Tool is the first in the marketplace to automate all of the processes required to integrate XBRL into financial reporting. Its "Taxonomy Builder/Editor" allows a company to automatically create a customized internal taxonomy that operates as an extension to the standard XBRL taxonomy to meet its own financial reporting practices.

Its "Map a Taxonomy to a Database" makes it possible for a company to pull financial data (revenues, assets, expenditures, etc.) from disparate internal databases into one XBRL document without having to merge the databases. Its "Build an Instance Document" allows companies to drag and drop the specific pieces of financial information they want to report in each instance document. The result is an encoded XBRL file. "Build a Report" translates the encoded XBRL file into a readable report by applying various software templates called style sheets.

continued on page 22

INTERNATIONAL PRIVACY GUIDE IS AVAILABLE

The IT Governance Institute has just released a publication to help organizations address international privacy operations, systems, and regulatory issues. Called A Guide to Cross-Border Privacy Impact Assessments, it's available free as a downloadable file from www.ITgovernance.org/cbprivacyguide.doc.

Written by Thomas J. Karol of Deloitte & Touche LLP, the guide summarizes international privacy
principles and introduces a cross-border privacy impact assessment model to help you determine if your company's technologies, information systems, and proposed programs or policies meet privacy requirements. It's particularly helpful to those in the early stages of development.

What's happened to bring this about is that as consumer awareness and concern about privacy have grown, several nations have adopted regulations that impact how an organization may use personal data. Some of the world's leading markets restrict how and when groups can use personal data yet allow individuals the right to access and correct their own data. But there needs to be documented assurance that privacy issues have been identified, reviewed, and addressed or sent to senior management.

[ETHICS]
Sunbeam and the FBI: Two Ways to Use Values

ETHICS IS HUGELY IMPORTANT TO ANY ORGANIZATION. LASTING SUCCESS CAN'T coexist with an absence of moral concern. But many other factors are also important. Competent and loyal personnel, products with market share, and financial acumen can't be ignored.

Ethics, then, is a necessary but not sufficient condition for organizational success—a point illustrated by two recent examples. One is the further unraveling of the sad tale of former Sunbeam CEO Albert J. ("Chainsaw Al") Dunlap. The very different second example is the departure of FBI Director Louis Freeh.

Dunlap had earlier earned his name by "clear-cutting" his way through entire departments with massive layoffs at Scott Paper. He tried using the same techniques to revive Sunbeam's fortunes. Taking over in 1996 when the firm's stock was trading at $12.50 a share, he pushed it up to $52. Following allegations of shady financial reporting, Dunlap was fired from Sunbeam in the summer of 1998. The company has now filed for bankruptcy, its stock probably worthless. Although Sunbeam's auditing firm, Andersen, paid $110 million to settle shareholder lawsuits, others are still pending.

There's more. After settling with Sunbeam, the Securities & Exchange Commission filed a civil fraud lawsuit against Dunlap and five former Sunbeam officials, as well as the in-charge Andersen partner. The SEC complaint charges that Dunlap, aided and abetted by Andersen, "orchestrated a fraudulent scheme to create the illusion of a successful restructuring of Sunbeam" that cost shareholders billions of dollars.

What happened? Dubbed "The Shredder" and "Rambo in Pinstripes," Dunlap was also described by Barron's as "America's premier turnaround artist." By his own and others' accounts, he wasn't a man who put compassion or respect for others high on his list of virtues. Now the SEC says he felt the same way about honesty. Yet these values, along with fairness and responsibility, are the five most often cited when people are asked to identify their core values. Taken together, they define ethics.

In effect, Dunlap's formula for success left no room for ethics. What's clear is that the turnaround formula was phony. Lots of things failed at the top of Sunbeam, but it seems increasingly clear that the most egregious failure was in ethics.

What's the real moral of the Sunbeam story? When you see gross violations of one of the core values, be on guard for violations of the

ERRATA
The e-mail address for Jim Ganung was incorrect on page 50 in the July issue. It should be jrgcntrlr@aol.com. We apologize.

continued on page 23
ON GUARD FOR VIOLATIONS OF THE REST.

[GOVERNMENT]

An Electric Political Issue
Stephen Barlas, Editor

THERE IS NO HOTTER TOPIC IN Washington than the nationwide electric grid and the price spikes that are zapping it, especially in California. Because electricity is such a high-visibility political issue, the Electric Power Industry Tax Modernization Act (H.R. 1459) has been elevated above the status of "just another corporate tax relief bill." Instead, it is a "keep the power on this summer" bill. The objective of the bill is to make it easier for electric utilities to form regional transmission organizations (RTOs) along the lines of those now being encouraged by the Federal Energy Regulatory Commission (FERC).

Under current tax laws, utilities that sell or spin off their transmission assets to form RTOs would incur a substantial federal income tax liability because the value of transmission assets far exceeds their tax basis (due to depreciation). The bill helps ensure additional transmission capacity and further diminishes tax barriers to wholesale and retail competition by providing tax relief for the sale or spin-off of transmission facilities to participants in independent FERC-approved RTOs. It facilitates the development of new generation, transmission, and distribution facilities by clarifying the tax-free status of payments for connecting new generation to the...continued on next page

BOOKS

How to Lead Your Management Buyout

- RICK RICKERTSEN LOVES HIS JOB. AN EXPERIENCED venture capitalist, Rickertsen has led over 50 management buyouts (MBOs). With his book, Buyout: An Insider's Guide to Buying Your Own Company, Rickertsen shares his knowledge, experience, insight, and especially his enthusiasm for the MBO process. And it's contagious.

Combining part personal anecdotes, part technical know-how, and part carpe diem pep talk, Rickertsen, with the help of Robert E. Gunther, leads us step-by-step through the MBO. With his focus primarily on managers and top executives who dream of taking their division out from under the unwieldy shadow of its parent corporation—a group Rickertsen credits with helping make him and his partners successful—the author wants every manager to realize his or her incredible potential and seize the opportunity. The MBO has been very rewarding for Rickertsen and the managers he's worked with, and he wants to see others gain from it, too.

Each section of the book represents a major step in the buyout process. Rickertsen begins with how to find the right opportunity for your management background and skill set and ends with putting your exit strategy into action. But one of the most important sections of the book—and the most refreshing, considering the source—is how to work out the agreement with the equity partner. This is where the decision of who gets what is made. From management's point of view, "this is the Holy Grail of the buyout." Though it is only a general agreement, it's the foundation of everything to come—including how much money or what share of ownership you will...continued on page 23
[GOVT] cont'd from p. 21
grid and by removing the tax on payments by developers (contributions in aid of construction, CIAC) for upgrades and additions to transmission and distribution facilities.

If this bill moves forward, it could become—as they say in Washington—a vehicle for attaching other corporate tax provisions to.

Inventory Write-Downs
One of the main messages coming out of the Sunbeam financial fraud case is that the SEC is going to get very tough on illegal inventory write-downs. Sunbeam recorded an excessive restructuring reserve in one year that decreased the value of perfectly good inventory, and, when that inventory was sold in the next year at regular prices, Sunbeam recognized inflated profit margins and thus overstated income. The SEC also alleged that Sunbeam sold its spare parts inventory to a supplier at the end of the year but improperly recognized income on the sale. The sale price had no practical relationship to any payment Sunbeam might obtain; by its terms, the contract would terminate in January 1998, absent agreement between the parties on the value of the inventory. When he addressed the 20th Annual SEC and Financial Reporting Institute Conference on May 31, SEC Chief Accountant Lynn Turner said, “I believe write-offs of inventory for the purpose of later recognizing a profit margin on the sale of that item is contrary to GAAP, and anyone involved risks dealing directly with the Division of Enforcement as opposed to the Division of Corporation Finance or the Office of the Chief Accountant.” Turner added, “Some statements in some press reports seem to imply that some companies might be taking write-downs or write-offs of inventory now, with the belief they may be able to sell the same parts later on at a profit margin. This is not what ARB 43 intended when it stated: ‘In applying the rule, however, judgment must always be exercised and no loss shall be recognized unless the evidence indicates clearly that a loss has been sustained.’”

Here is what Turner said the SEC staff will be using a microscope on: (1) What has been the status of the items reported on slow-moving items reports for the past three or four quarters? (2) Have parts with no sales in the past few quarters been identified and properly accounted for on a timely basis? (3) Do inventory write-downs take into consideration internal reports from marketing and sales with respect to forecasted sales? (4) What information has been obtained or is available regarding inventory levels at customers or in the distribution channel? (5) Have these sales reports been consistent with what has been reported to analysts and investors? (6) When and how does the company plan on disposing of parts that have been completely written-off or are considered to be obsolete? (7) When and what communications have there been with suppliers regarding reductions in orders?

Bill Cutting Corporate Fees to SEC Passes House
A bill that reduces the fees corporations pay to the SEC for securities registration and other services passed the House by an overwhelming vote of 404-22 on June 14. Now the House and Senate will reconcile slightly different bills and send a compromise version to President George W. Bush for his signature.

Supporters of the Capital Markets and Investor Fee Relief Act positioned it as a $14 billion tax cut over 10 years. Assessed on stock transactions, registration of securities, and other actions, the individual fees are small but take a major bite out of corporate and investor profits over time.

[NEWS] cont'd from p. 19
The contact person for e-Numerate Solutions, Inc. in McLean, Va., is Carol Steinbach at (703) 610-1257. Website is www.e-numerate.com.

International Business Matrix, LLC (IBMATRIX) provides a range of XBRL-enabled software products, including a full-featured accounting system (3D Business Tools, a full object-oriented Tier 3 accounting system with network) and software for creating and editing XBRL taxonomies and instance documents.

Other products and services include 3-DBT Whole Business Financial System, which is a real-time continuous accounting system designed to provide financial and operating managers with a comprehensive integrated systems approach to management. The software integrates accounting, economics, financial planning, reporting, and communications in a turnkey system capable of plugging into balanced scorecard systems and business transaction environments.

The company also has XBRL software tools, including a taxonomy developer with Web distribution capabilities and an XBRL instance document creation and editing tool for transforming financial documents into XBRL format. You can find the company at www.ibmatrix.com.
Ethics may be necessary for success, but is it sufficient? FBI Director Louis Freeh no doubt wishes it were. His agency, hammered for a series of problems over the years, has been on the anvil again over failure to provide all the documents in the Oklahoma City bombing trial of Timothy McVeigh.

Freeh, testifying before a House committee, acknowledged problems in the agency, which some have characterized as a "cowboy culture" of independent agents operating as though above the law. Freeh's response was typically forthright. "My main emphasis," he told the House hearing, "has been on our core values, which are, to me, the most important part of what we do: core values of telling the truth, being honest, respecting people's rights, being fair, having compassion, making sure that we are reminded constantly of our humanity, but also of the power that we wield."

There they are again, the "Big Five": honesty, respect, fairness, compassion, and (in the need to control "the power that we wield") responsibility. At least in principle, Freeh is setting forth a clear standard of ethics. It may not have permeated through the ranks. There may have been management problems, but at least the values were in place.

Evidently, that wasn't sufficient for success. But it's a necessary beginning. So here's the question. Of these two leaders, who had the better formula for long-term success? Put that way, Freeh wins hands down. But be careful. The real answer lies somewhere in between. Freeh may not have had the support from the top to create such wholesale change in a management culture. Dunlap apparently didn't have the strength from within to create change honestly. Both qualities are important, but if you want to pick a long-term winner, go with ethics.

How many of the "Big Five" ethical characteristics permeate your organizational culture?

Rushworth M. Kidder is the president of The Institute for Global Ethics.

Curtis C. Verschoor is the Ledger & Quill Research Professor, School of Accountancy, DePaul University, Chicago, Ill. His email address is cverscho@condor.depaul.edu.

Books cont'd from p. 21
get in the end. Management being on board is a key component to the buyout, so use that leverage to ensure a good deal. (Part of the reason it is so hard for managers to leap into a buyout is that they don't fully appreciate their considerable leverage," Rickertsen says.) Managers who don't know the process can end up at the beck and call of the buyout investor. As an equity investor, Rickertsen knows all the "tricks of the trade" that the buyout shop will try to use. It's like having a spy behind enemy lines. He reveals secrets, outlines the deals in explicit detail, and guarantees you won't go into this deal blind.

Rickertsen tries to keep the material from getting too technical—and warns when it can't be avoided. He keeps the tone light by mixing in stories from deals he's been involved in, from Dan Gillis's buyout of the American division of Software AG and Roger Ballou's acquisitions that led to Global Vacation Group to the buyout of a ceramics company, one of Rickertsen's earlier deals, which ended in bankruptcy court. This not only changes the pace of the book, but the examples provide a management perspective and the reactions of managers to the buyout process. The author also includes partial samples of some of the actual documents involved in these buyouts and describes the purpose and benefit of each clause.

The second method Rickertsen uses to keep the book from getting mired down in technical aspects is also one of its secret treasures. Rather than include all the details in the text itself, Rickertsen has compiled a comprehensive appendix that has every bit of information you may need. From entire letters of intent and bank agreement letters to a directory of private investment equity firms, the appendix is a tremendous asset for any manager ready to begin the process.

Aside from the specifics of the deal—along with what to look for and what to avoid—there's also a lot of commonsense know-how that often makes or breaks a deal. And it's the small things that make the difference. From "If you learn nothing else from this book, credibility is everything," and "this is an idea-driven business," to "deal with the hard issues up front," Rickertsen tells where each of these has worked against the buyout team and where they have worked for them.—Christopher Dowsett
Robert E. Bell, Jr., CMA, CPA, has played many roles in his life—Airborne Army Ranger, Vietnam vet, pilot, buyout partner, IMA volunteer, and corporate controller and CEO—and accumulated what he calls many “merit badges” along the way. Last June at the IMA Annual Conference he was installed as president of the Institute of Management Accountants, a post that, based on past experience, he will carry out with skill and dedication.
Bob Bell is chief executive officer of Hickory Brands, Inc., Hickory, N.C. Its Ten Seconds athletic shoe cleaner has over 70% market share in the sporting goods market. Along with Griffin and Esquire Shoe Polish, Hickory Brands features a number of other shoe accessory products including a national and international market of shoelaces designed and manufactured in Hickory.

Ironically, considering his later career, he became acquainted with the shoe polish world while he attended the Citadel, from which he graduated in 1964. “I went to the Citadel, which was a military college, graduated, and 10 days later reported for active duty at the U.S. Army post in Ft. Polk, La. I went to Airborne school and then to Ranger school, and upon graduation from Ranger school I had orders to go to Vietnam. I got married and three days later went to Vietnam.”

Returning to the U.S., he enrolled in the University of South Carolina, earning a master of accountancy degree. His interest in accounting first surfaced at the Citadel, where he found the accounting courses interesting. As he relates, “I majored in business administration, which had four core categories: accounting, production management, economics, and sales and marketing. So we had sort of an MBA at the undergraduate level.”

The incentive to undertake the buyout he attributes in part to the contacts he made as a result of his IMA membership.

A Merit Badge Family

Bob and his wife, Andrea, live in Hickory, N.C. In addition to his long service with IMA, Bob has served as president of the Catawba Valley Executives Club, the Catawba Valley Chapter of the North Carolina Association of CPAs, and the Rotary Club of Lake Hickory.

“We’re a merit badge family,” he says, noting that his son Rob, who’s a police officer in Chapel Hill, was named a team leader of a SWAT team, and his daughter Ginger, a family nurse practitioner, has organized a local nurse practitioner chapter in the Grand Strand area of South Carolina. Andrea, a graduate of Limestone College with a teacher’s certificate and a minor in chemistry, owns a chain of car washes. His daughter-in-law earned a master’s in accountancy degree and the CMA and CPA certifications. “I bet her $100 I’d pass the CFA [Chartered Financial Accountant certification] before she did. She passed it first. I paid the $100.”

One of his “merit badges” is a pilot’s license, useful in flying his own plane to meetings. Last June, he flew into a small airport in Morristown, N.J., to meet with the staff in Montvale about plans for the Annual Conference and his term as president. Alluding to a recent conference of the World Future Society that he attended, he tells Strategic Finance, “All sorts of things are happening in education. We’ve got some of the most exciting times in history just around the corner.”
Executive Committee — 2001-2002

The Executive Committee of the Institute includes the current president, president-elect, chair, immediate former chair, and the executive director of the IMA.

President Robert E. Bell, Jr., CMA, CPA, is chief executive officer of Hickory Brands, Hickory, N.C. He will act as liaison to the Committee on Professional Development, Institute of Certified Management Accountants and the Budget Team.

President-elect Margaret D. Butler, CMA, CPA, is former controller of Bostick Brothers, Inc., Douglasville, Ga. She will act as chair of the Strategic Planning Committee and as liaison to the Committee on Finance, Committee on Information Technology, and the Budget Team.

Chair Frank C. Minter, CPA, is executive in residence, School of Business, Samford University, Birmingham, Ala. He will act as liaison to the Committee on Academic Relations, Committee on Management Accounting and Foundation for Accounting Research, and Committee on Financial Reporting.

Immediate Former Chair C.S. “Bud” Kulesza, CMA, CFM, is executive consultant to ITT Industries, White Plains, N.Y. He will act as liaison to the Committee on Member Services and Committee on Students.

Executive Director David T. Schweitz will act as liaison to the Committee on Member Interest Groups, the Budget Team, and Committee on Ethics.

After discharge from the Army, Bob joined Arthur Andersen & Co. (now Andersen) in 1967. This firm helped to broaden his understanding of the concept of outstanding client service within the accounting profession. When the opportunity to join Hickory Industries as controller came, he moved to industry. Then the opportunity to buy the company arose in 1987. Bob Bell accepted that challenge, too, even though he had to make a commitment of two years’ salary, nonrefundable, to get the right to make an offer.

President Bell explains, “So I made the offer, and I had to get it extended several times, and we closed it 10 days after the crash of ’87. If I hadn’t come up with the money, I would have lost my two years’ salary—no question about that. And I would have lost my job.” The incentive to undertake the buyout he attributes in part to the contacts he made as a result of his IMA membership. He refers specifically to former IMA President Robert Liptak and former council presidents Robert Horkey and Curtis Easter, who also participated in buyouts.

Hickory Brands is a privately owned company with Bob Bell as the majority owner. It started as the Hickory
Shoelace Company in 1923 and went through a name change to Hickory Industries and then to Hickory Brands to reflect the fact that it represents several different brands. “We’re a market follower behind Kiwi in the food and drug and mass market side of our business,” he says, “and we’re the leader in sporting goods market.”

**MORE THAN JUST ACCOUNTANTS**

As IMA president, he says he will represent the members, particularly the volunteers. Illustrating the impact of the Institute on members’ lives, he cites a recent incident. “The IMA will change your life. I saw a guy stand up before an IMA council, and it was obvious that year in the IMA had great meaning to him. He felt very warm toward the people in the audience. He felt like he had received a lot in service; he was a different person than he was before that service. I feel that same way.”

He joined IMA in 1973, affiliating with the Catawba Valley Chapter. He served as national director twice and as a member of the Marketing, Membership, Member Interest Groups committees, chair of the Academic Relations Committee, and area vice president. “We’ve met some very interesting people, and I couldn’t always afford to go to national conferences,” he reminisces. “Coming from a small company, you’re always acutely aware of how much we were spending on conferences. I was very careful as guardian of my company’s assets that the company had a positive return on educational investments.”

The Carolinas Council started holding conferences in Myrtle Beach. “So it forced me to take a vacation in Myrtle Beach, which led to my becoming interested in beach condos. Ernie Huband, a former IMA president, taught me how to purchase and rent condos. So the IMA led me into some ideas of real estate, some ideas of role modeling.”

IMA “forced me to look at things from a different vantage point.” For example, he alludes to a diversity session sponsored by the Institute. “My company would not be able to afford that level of training, but, here again, IMA forces people to look outside of their zones of comfort for new ideas.

“IMA is something members should plan on enjoying,” he says. “And if they enjoy it, it’s just like a great meal. It’s to be enjoyed. Through IMA you learn how to organize, you learn how to run meetings, you learn how to bring them in on time, you learn how to introduce speakers, you learn how to run hospitality meetings. You learn about all of these things.”

IMA certification is a major benefit of membership, he believes. “I felt like the CPA certificate was the right thing at that time.” So when he joined Hickory, “I felt like I’d gotten out of public accounting and was in management accounting; therefore a management accounting certification would be of benefit to me. I think certification has great appeal all over the world.”

President Bell sees his task in his term of office as helping the Institute redefine itself. Current and potential members today are more than just accountants, he insists. Part of the problem is the traditional perception of the accountant as a scribe. Pacioli, the father of accounting, he reminds, was a Renaissance person competent in several other disciplines. Management accountants today operate proactively as financial managers and business partners and even CEOs—as his own career illustrates.

IMA’s niche, he believes, may be with companies that recognize the value of knowledge. IMA must then provide education that is relevant to today’s knowledge worker.

There continue to be educational opportunities for IMA in the business world, he insists. Paperless accounting is one, but “no one knows how to do paperless accounting that meet all regulatory laws.”

“Another area we need to work on is security.” He predicts, “We’re going to have some big frauds in the future because of these electronic systems.”

During 2001-02 you can be sure that, as president, Bob Bell will be flying to meetings and talking about the value of education and certification to IMA members. When all is said and done, he knows they are a sound measure of success.
This four-phase project revamped internal controls at Sandia National Laboratories.

Recapping Part 1:
When the Department of Energy (DOE) wanted assurances that Sandia National Laboratories’ (SNL’s) control environment was healthy, we wanted to provide information that would be useful to the DOE as well as our process managers and staff. A typical audit wasn’t the answer. Our interdependent control environment is broader, deeper, and more complex than traditional audit treatment conveys, so we were left to adapt existing models and resources to meet our needs for our Internal Control Review (ICR) project. So how would we assess the adequacy of the controls we have in place? We would create our own model.

Along with the manager of internal audit, we started brainstorming and came up with a fresh approach to reviewing controls. We adapted a Committee of Sponsoring Organizations (COSO) framework model to our needs—Sandia already used this in its Financial Stewardship Plan (FSP)—and used the Control Self-Assessment (CSA) methodology as well. The Institute of Internal Auditors defines the COSO framework model as “a systematic step-by-step method of analyzing and addressing the adequacy of controls in...
multiple dimensions of the business.” Ultimately our approach was shaped from existing thinking and current professional practices. Combined with recent influential models within our company, such as DOE’s FSP and Lockheed-Martin Company’s CAMP (Corporate Assessment and Monitoring Process), we developed a structured view of Sandia’s management model, “line of sight,” from high-level objectives to the lowest level of sub-process. (Sandia National Laboratories uses a management concept called “line of sight” to express the relationship between an employee’s job assignment and the mission of the Lab.)

Our ICR project featured four phases: distributing a questionnaire and holding meetings to garner input on an objectives statement; writing an objectives statement; reviewing the controls; then reporting the results and discussing them with management. It’s now time to examine our two-tiered ICR model, our report to management, and lessons we learned along the way.

TWO TIERS

Controls exist to help a company meet its objectives. That’s why we first focused on objectives, which came from three sources: the SNL/DOE objective from the facilitated workshops (see “Objectives Lay the Foundation,” p. 33), the Financial Stewardship Plan objective, and management’s objective for each process. For example, the objective for Cost Accounting would be to ensure that all costs are properly classified as direct or indirect costs, appropriately charged to direct projects or indirect cost pools, and then allocated to direct projects using an appropriate overhead cost allocation methodology, including the appropriate allocation base. For every department, we supported the objectives by identifying the key statutory and business risks associated with each process. Then we identified organizational control, i.e., management and related categories, number of staff in each area, and their primary responsibilities. Next came identification of the critical operating systems supporting the department.

Our model featured two tiers. The first tier reviewed controls at the department level, and the second then identified controls at the process level and related them to a process objective and transaction control objectives. This approach gave us the flexibility to develop an overview of a department and then look more deeply at processes. The model included financial process controls and excluded nonfinancial processes.

Here’s how the first tier worked. To provide a view of the controls over the financial process, we needed to establish a list of general controls that are pervasive throughout each finance department. For example, we found that budgetary, processing, reconciliation, documentation, segregation of duties, safeguarding of assets, reporting, and metrics controls are common among the departments. As we went through this exercise, we noted segregation of duties between departments as well as within a department. In payroll, for example, timekeeping is electronic; human resources handles employment matters; payroll performs the record keeping and processing; and treasury manages disbursements. We then outlined the major processes within the department and included sources of inputs and the destination of outputs.

The second tier focused on the major processes, such as payroll processing. We included the purpose of each process and the types of documentation that detailed each process. We listed key preventive and detective controls and associated them with seven transaction control objectives: accuracy, completeness, timeliness, classification, posting and summarization, segregation of duties, and safeguarding of assets. If specific metrics were a part of the process, we included them as well. Finally, we listed key subprocesses along with more specific inputs and outputs from the processes. We did this for every process identified in the first tier.

Of course we needed support, so we established a staff liaison at the department level who provided us documentation for all functions in the department. We couldn’t have done it without these individuals. Where we didn’t have sufficient documentation, we conducted interviews to get the appropriate information, and the department liaison then reviewed and approved the content gleaned from the interviews.

We were able to validate what we were finding, improve our understanding of the completeness of our view, work with the liaisons and other staff to verify our data, and get feedback as to whether or not what we were producing was of value. The responses indicated our work was on the right track.

An example of the format we used is shown in Figure 1. This one is for budgeting. An additional example, accounts payable, is in the Web version at www.strategicfinancemag.com.

This two-tiered approach wasn't always a straightforward process because Sandia National Laboratories' business operating environment is in a continuous state of development: Changes come from the DOE, Congress, and internal improvement initiatives. The company con-
Figure 1: **Budget Formulation Example**

**CONTROL REVIEW: BUDGET FORMULATION**

**SNL/DOE Aligned Financial Objective Statement:** Enable customer mission success through efficient and effective financial services and (1) by a risk-based approach to achieve compliance with applicable laws, regulations, contractual requirements, and guidance; (2) by the mitigation of the Laboratories' business and regulatory risk; (3) by maintaining operational integrity, accuracy, and timeliness of data and reporting; (4) by providing additional value-added financial services such as executing financial transactions and by providing strategic business expertise.

**Financial Stewardship Plan**
To provide reasonable assurance that programmatic and budgetary needs are properly computed, submitted in a timely and cost effective manner, and independently validated with adequate safeguarding of records.

**Management’s Objectives**
To develop the external budget submission, based on the DOE Program guidance, and to submit 100% of budget documents on or before the due date in the prescribed format while complying with formal written guidelines.

**Process Objective**

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<th>Manager &amp; Project Manager</th>
<th>Augmentation of Funds</th>
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<td>Anti-deficiencies</td>
<td>Business Units (BUs)&amp; Program Managers Administrative Support</td>
<td>Staff matrixed to BUs</td>
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<td><strong>Organizational &amp; Project Control</strong></td>
<td><strong>Delegated Responsibility: Organizational Assignments</strong></td>
<td><strong>Critical Systems</strong></td>
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<td><strong>Process Objective</strong></td>
<td><strong>General Controls</strong></td>
<td><strong>Outputs</strong></td>
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<td><strong>Inputs</strong></td>
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<td>Process timelines, flowcharts, and lessons learned from prior submissions</td>
<td>Supplementary Budget Materials</td>
<td>Various cost schedules</td>
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<td>Sponsor Guidance</td>
<td>Crosscuts</td>
<td>Project Life-Cycle Plans</td>
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<td>Activity Data Sheets (ADS)</td>
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<td>Indirect Sizing</td>
<td>Field Work Proposals (FWP)</td>
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<td>Service Center rates</td>
<td>Overhead Cost Recovery Rates Calculation</td>
<td>Miscellaneous schedules</td>
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<td>Inflation index (tables)</td>
<td>Center Support</td>
<td>Electronic Databases</td>
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<td>Project projections</td>
<td>Capital Projects (Equipment &amp; Construction)</td>
<td>WFO Proposals</td>
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<td>Infrastructure Council guidance</td>
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continually faces new challenges. When we embarked on the ICR project, we knew we'd encounter processes undergoing change, especially as a result of implementing an Oracle-integrated financial system, so we decided to accept the process definition with control identification based on existing controls. This was done with the understanding that what we documented today might be different tomorrow. In some circumstances, documentation was under development but not yet mature enough to withstand scrutiny, so we didn't perform a review. Instead, we summarized the existing scenario because the current state of the controls was what we needed to capture.

**PERFORMANCE METRICS AND GAP ANALYSIS**

As the review progressed, we identified metrics and aligned them with the processes. We conducted a gap
analysis to illuminate where there were metrics and to enable an examination into opportunities for improvement. We compared metrics identified during the review with the metrics currently included in the annual DOE appraisal based on the requirements in the FSP. When set in this light, metrics can be tempered to validate the existence and effectiveness of controls. As a result of the gap analysis, we decided we needed a separate team effort to design new or strengthen current metrics. For example, a current metric describes the number of general ledger account reconciliations completed on time each month, but a more stringent test is whether reconciling items identified in the reconciliation are being cleared in a timely manner.

Since we completed the review, SNL has implemented a proactive metric: continuous monitoring where monthly tests for each process are performed by randomly sampling 10 transactions. With this approach, deviations or errors can be investigated and solutions developed and applied.

REPORTING ON FINANCIAL CONTROLS

Our report for management consisted of two parts. The first part contained a summary of our results in each of the financial areas and also featured an overall graphic summary reporting each core financial process in an adapted COSO framework model (see Figure 2). With a short list of three symbols—a blue triangle for controls identified, a half-filled red circle for opportunities for improvement, and a red circle for the absence of controls—the design summarized the results of control identification in the framework categories. For example, a blue triangle, indicating the presence of performance metrics, was marked in the Accounts Payable function within the Monitoring category, and a half-filled red circle, indicating an opportunity for improvement in Policies and Procedures, was marked in the Budget Execution function within the Control Activity category.

The second part presented actual results from the different areas, which showed that Sandia's financial organization maintains a strong system of internal controls, consistent with the thinking of the Treadway Commission and the Committee of Sponsoring Organizations on internal controls. Based on the completed effort, we were able to draw some conclusions on the state of these financial controls:

♦ Adequate and even strong controls exist in most of the functional areas.
♦ Opportunities to improve internal controls exist for some processes within several functional areas.
**Figure 2: INTERNAL CONTROL REVIEW SUMMARY OF CONTROL IDENTIFICATION**

<table>
<thead>
<tr>
<th>CORE FINANCIAL PROCESS</th>
<th>AP</th>
<th>AR</th>
<th>BF</th>
<th>BE</th>
<th>CA</th>
<th>CM</th>
<th>ALR</th>
<th>PR</th>
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<td>Reporting processes</td>
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**FINANCIAL PROCESSES**
- AP Accounts Payable
- AR Accounts Receivable
- BF Budget Formulation
- BE Budget Execution
- CA Cost Accounting
- CM Cash Management
- ALR Assets, Other Liabilities, External Reporting
- PR Payroll

**LEGEND:**
- ▲ Controls identified—Using the COSO framework for hard and soft controls, controls were identified in the individual financial processes. The ICR has focused on control identification rather than evaluation of control risk. This will be performed during the individual audits.
- ◇ Opportunity for improvement—The ICR identified some control deficiencies and opportunities for improvement in the individual financial processes.
- ◆ No controls identified—No controls were identified during the ICR.
We’ve emphasized documentation as part of our lessons learned for an important reason: As a prudent business practice, quality documentation is a critical success factor to a company’s processes. It ensures the quality of work and the integrity of financial data because, once documented, a process becomes an intelligent management tool for the control of assignments, process tasks, and the procedural steps. Generally speaking, in areas where documentation could be strengthened, some inefficiency and ineffectiveness could be present. While neither inefficiency nor ineffectiveness can be eliminated by the presence of desk instructions, you can better understand the control environment and more easily implement process improvements when business processes are documented and related to objectives. Documentation tangibly communicates control by:

- Aligning the task being performed with mission and policy.
- Defining the boundaries of the business process.
- Stating the expectations that a manager has of the individual performing the task.
- Enabling individual performance measurement.
- Providing a training tool for new or rotating employees.
- Allowing for work results to be better understood.
- Enabling process improvements.
- Facilitating systems upgrades or changes.
- Assigning appropriate controls to achieve management’s objectives.

We learned that effective controls are in place to adequately manage risk and support the accomplishment of business objectives at Sandia National Laboratories. Many other lessons we already knew, but we were reminded of their value during our project and provide them here as guideposts.

- Ensure management supports the project.
- Don’t underestimate the planning phase.
- Ensure a common understanding of the COSO definition and nature of internal controls at all participation levels, especially during early phases of the review.
- Use skilled and knowledgeable resources to complete a labor-intensive review of controls.
- Avoid subordinating work product to project time constraints.

- Where possible, adapt existing business models and resources to meet your needs.
- Consider the range of professional influences, organizational knowledge, and individual skills already present in your organization as invaluable resources.
- Maintain flexibility because some processes are task and time driven and have clear controls, while others are more consultative or specialized and can be challenging to describe.

Beyond the lessons, remember an ICR can be managed like any other project, requiring a commitment of time and resources. Also, numerous factors impact an endeavor such as this. Companies are complex. Business environments are local and global. Objectives differ. Cultures range from bureaucratic to self-directed work teams. Employees and management rotate endlessly. Mergers and acquisitions are common events. The factors go on.

WHAT’S NEXT?

Overall, indications are that our Internal Control Review continues to advance the understanding of financial controls at Sandia National Laboratories and will be useful as both a reference and planning tool by financial and audit functions in the future. The ICR essentially is a living document. One of the major accomplishments to come out of the review was a significant improvement in performance metrics. Right now, some processes are already employing newly designed metrics tied to controls, and Sandia will soon go through another reporting cycle with the DOE with a fresh and improved understanding of controls. With the ICR as a foundation and with good management and monitoring techniques added to it, our controls will only become more effective. ■

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Continuous advancement in technology has led to quantum gains in the accessibility and communication of information, defining the beginning of a new age—the Information Age. Information technology and system advancements have enabled businesses to achieve globalization goals, forge new alliances, and accelerate new-product development, resulting in the most robust economic climate in history. The Information Age calls for finance to play a new role—architect of the enterprise.
The architect role will require the finance function to be the champion for change, the conscience of the enterprise, and the counterbalance to cynicism within the management ranks. For finance to be able to function as the architect, three broad activities within an organization—development, manufacturing, and selling—need to be built as separate business units rather than being bundled into one, as has been the case in the past 30 years. Enterprise resource planning (ERP) systems, the foundation of the Information Age, are the tools that make it all possible. Here's how you can help your company compete in this new climate.

MERGER MANIA ISN'T ENOUGH
The previous age, the Industrial Age, effectively came to an end when increasing market share via merger or gaining economies of scale through vertical integration was no longer an effective strategy to improve a company's economic value. Merger mania continues at an unprecedented rate because companies must sustain growth potential in order to attract or maintain the support of the investment community. The expiration of pooling-of-interests accounting has created an immediate need for companies to formulate acquisition strategies. But Wall Street doesn't always agree that bigger is better. Mergers driven to increase market share within an industry segment or to build service scale without identifiable synergies and savings have mostly resulted in lower share values.

Competing in the Information Age will require companies to reexamine what drives their business. Corporations must focus their processes and priorities to deliver the most economic value as they strive to sustain the growth in share prices of the past five years. As this new era begins, there's a critical need for leadership within management to align the strategy, organization, business processes, and investment priorities in order to grow the enterprise in scale and market domination while delivering increased economic value to the shareholders.

FINANCE'S EVOLVING ROLE
The new millennium hasn't been a time of celebration for many companies and their investors. Procter and Gamble (P&G) shareholders lost nearly 50% of their share price and market capitalization in January 2000 when management confessed that earnings projections had been significantly overstated. Suddenly, being the most prestigious consumer products company in command of the most retail shelf space no longer guaranteed investors confidence that P&G could sustain economic growth and create new value. Senior management had relied on pacifying Wall Street with inflated promise for growth until they could find a solution. The result? Wall Street was outraged. Investors and employees felt betrayed. The CEO resigned in shame.

Procter and Gamble provides an excellent example of what results when a corporate vessel operates without a sound rudder to steer a straight course. It's clear that the finance function must take an unprecedented leadership role in managing the enterprise toward economic targets during the Information Age where investors are well informed and react quickly and openly when they sense trouble. To do so, the traditional focus on control and compliance activities must be replaced by strategic, economic, tactical, and performance measurement leadership. The finance function has an unprecedented opportunity to raise its contribution to a company's success by claiming the role of architect of the enterprise in the Information Age.

Why finance? Finance has the highest level of access to information, strategy, economic targets, and internal process activities. Finance speaks the language of business and should be the voice of economic leadership and influence to the enterprise. To be the architect of the enterprise, passive conservatism must be replaced by an assertive attitude that presents finance as the champion for change, the conscience of the enterprise, and the counterbalance to cynicism. For a quick look at what it takes for finance to become the architect, see Table 1.

CHAMPION FOR CHANGE
The finance function should be the strongest ally of the organization's tactical execution plans and its biggest critic when necessary to keep the ship on course. As the champion for change, finance challenges the status quo to find new approaches and innovative ways of working. Finance colleagues should assert themselves as leaders to propose process change that will deliver economic growth, support entrepreneurial ventures, and prioritize
funding for value-added out-of-plan activities.

Finance supplements the champion-for-change attitude with activities that promote and enable new ways of working. So what can you do as the champion for change? Propose product portfolio changes. Realign the organization into autonomous business units in order to increase ownership for delivering corporate-driven economic goals. Lead strategic business planning activities. Manage cash effectively. Improve tax strategy. Finance is the function that should seize the role of organization field marshal who drives the focus toward economic growth.

CONSCIENCE OF THE ENTERPRISE
Finance also is the fiduciary officer and conscience of the investor within an enterprise. Being the conscience of the investors is critical, especially since Wall Street will punish a corporation for missing an earnings projection by as little as one cent per share.

While fulfilling the fiduciary responsibility of safeguarding the assets of the corporation and interests of the shareholder, finance should provide funding and garner support for the projects and activities prescribed to execute management’s tactical plans. But finance also has the responsibility to be vocal and unyielding, even if it’s unpopular, when a proposal or action endangers the integrity, reputation, or assets of the enterprise.

Performance metrics and performance enhancement programs play a key role in gauging progress and identifying opportunities for improvement to deliver economic targets. These metrics, such as balanced scorecard programs, should be mandatory for each business process and for each major activity within the process. Each major driver for a business activity should have an owner, a strategic improvement goal, and a measurement program that can quantify the incremental value of change from the current position to the strategic target.

Investments can then be prioritized and resources deployed according to the economic value that can be realized through achieving the strategic improvement goal in total or incrementally. Companies most often talk about the lost opportunity that will result from a delay in product launches or technology implementation. Have you ever focused your energy on the potential incremental opportunity from launching a product or implementing technology ahead of schedule? For example, a product line extension is forecast to add $250 million in revenue. Think about the incremental possibilities associated with improving the launch date: Each day you reach the market ahead of schedule is worth $685,000; each week, $4,795,000; each month, $20,548,000! Finance should be the catalyst that promotes possibility thinking around the major initiatives within the business plan.

COUNTERBALANCE TO CYNICISM
Sound strategic planning and tactical execution are required for a company to perform successfully. Complement this with superior talent structured in an educated and empowered environment. But to reach new levels of performance, you need an additional catalyst. That catalyst is possibility thinking. The Information Age will require an environment that thrives on possibility thinking supported by a senior management team capable of effective strategic planning and business processes capable of commercializing products and servicing the mar-
kets. Unfortunately, there's always a cynical element somewhere in the management ranks.

This element stifles open dialogue and suppresses creativity through restrictive behavior such as withholding funding and blocking deployment of resources. It also limits support by delaying project approval or dwelling on what might go wrong instead of offering suggestions, support, and empowerment to make things go right.

To counterbalance cynicism, finance should be a source of courage and a voice of support. That's possibility thinking supported by judicious actions. This means designating entrepreneurial funding within high levels of the organization to enable risk taking and the pursuit of breakthrough concepts. Finance should also find ways to enable an idea or project to progress—not erect non-value-added hurdles and bureaucracy that must be overcome in order to gain approval.

**THREE FUNDAMENTAL ACTIVITIES**

Businesses usually engage in three broad activities: development, manufacturing, and selling. During the past 30 years, large corporations bundled and managed these activities as one business unit in an effort to standardize practices, reduce hand-offs, and manage the business as one organization. Conventional wisdom was that managing the enterprise as a single business unit was efficient and provided the greatest control over the underlying processes. This thinking has now been challenged.

During the popular reengineering craze of the last decade, management began to see how the economics of these activities conflicted. Bundling and managing the three fundamental business activities as one process inevitably forces management to make decisions that compromise the ability of each activity to maximize performance. The result: Trade-offs and compromises for investment and resource allocations have to be made. Technology investments made in the absence of a long-term business and economic vision can leave a segment of the company over-capitalized and committed to an inflexible or less competitive capacity structure. This creates a need to funnel additional funds into the same business unit in order to regain a competitive position, resulting in a higher overhead base to absorb while denying other segments of needed investment.

A temporary period of high business performance and prosperity takes place because the company outperforms its competition by leveraging the scale and strength of one fundamental activity. But what follows is a period of excessive investment, redesign, and lagging performance as the company can no longer sustain or fuel economic growth because it has compromised the other two activities.

The diverse roles and scope of each activity can't be optimized simultaneously. They're just too different. And the focus, success factors, and techniques to grow the business are different for each activity. So are the necessary skills and missions. (Table 2 highlights some of the

<table>
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<tr>
<th>ATTRIBUTES</th>
<th>DEVELOP</th>
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<td>Innovation and Superiority</td>
<td>Cost and Delivery</td>
<td>Attraction and Retention</td>
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The solution: Manage the enterprise as three distinct activities or business units to optimize the particular activity each performs. This creates specialist operations within a larger framework that can lead to enormous advantages over integrated companies.

To gain this advantage, large companies must rethink their traditional roles and identities, challenge their organizational assumptions, and, in many ways, fundamentally change the way they operate and manage the business. General Electric has become the benchmark company for carving the largest business enterprise into autonomous operating units driven by corporate objectives. Quality standards, supply chain excellence, and value added to the customer drive smaller business units within the giant parent to deliver economic growth targets. Another example is 3M, who manages the complexity associated with SKUs that number in the tens of thousands to deliver consistent revenue and profit growth. It would be far easier to sell fewer and higher-priced units, but 3M thrives on bringing innovative solutions to a broad base of the population in a cost- and delivery-efficient manner.

Finance should lead the effort to align the strategic plan with the new operating model, change the organization structure, build the information systems and infrastructure, and develop the reporting and measures required to enable the enterprise to operate as smaller, independent business units.

**Figure 1: The Three Fundamental Activities of Business with Examples of Overlapping and Interconnecting Enabling Processes**

Technology and Process Development
Product Development and Commercialization

Go-to-Market
Product R & D Market Research

Manufacture
Supply Chain Customer Service

Develop

Sell

Thanks to ERP systems, operational data is no longer a tangled mass that requires a team of accountants several days to interpret and transform into operationally useful information. Now data comes out of the integrated information system on a real-time basis in a meaningful format that’s transparent across the organization to employees in development, manufacturing, selling, or any other business unit or area.

ERP systems integrate the impact of a transaction in a real-time processing environment across all systems in the business process and allow access to the information at any time during the operating cycle. Shopfloor employees can access real-time information, pull the data into Excel spreadsheets, make decisions, and take action. Since data is instantly available across the organization, the result is a new way of doing business, one that provides an opportunity to focus
resources and leverage information in more powerful ways. Shop-floor work teams can be empowered and influence the performance of their area via “what-if” programs that accurately predict the outcome of resource utilization. Given the input of machine speeds, headcount assignment, scrap factors, quality measures and machine up-time, work teams can identify bottlenecks, deploy specialists and solve problems in a real-time environment.

**A TRANSITION IN THE BALANCE OF ACTIVITIES**

Because of the ERP processing engine, finance can refocus its activities from compliance and control issues to directing the enterprise to deliver economic growth. (See Figure 2.) Before ERP systems, the traditional breakdown of activities was centered on transaction processing and internal control. Finance traditionally spent 90% of its time on control, reporting, and transaction processing, but fully utilizing information technology means these activities take up only 55% of the function’s time. The other 45% can be used to pursue activities that help grow the company, such as developing performance measurement reporting, leading tactical business teams, and training colleagues at all levels about how their activity is linked to the economic drivers of the enterprise. Let’s take a closer look at where ERP systems save time for finance professionals.

The traditional operating environment called for the finance function to spend 30% of its time controlling the integrity of data by auditing the paper trail of transactions and ensuring proper segregation of duties. Not so with ERP systems. They ensure control through processing disciplines inherent in the system, through the way the data integration tables are configured, and from security profiles established for each user. The amount of human intervention necessary to ensure traditional controls can be cut in half—from 30% to 15%.

In addition, transaction processing once consumed 40% of finance’s time, but ERP cuts that down to 20%. The traditional operating environment was built on a platform of legacy systems that could deliver information only on an historical basis. Data was the result of processing transactions in a daily batch environment to be analyzed offline after the end of the operating cycle. ERP has dramatically improved information processing, as well as data availability and communication, now that data is processed and integrated in real time. ERP systems also enable transaction processing to be accomplished with a fraction of the headcount compared to batch systems.

Reporting still receives the same percentage of finance’s time, but it has a completely different focus. Instead of reconciling stale information, finance can use the system to generate new types of reports, educate colleagues at all levels of the organization, and design reports that provide insight to help the operations create results.
A REALITY CHECK

The last century ended with a decade of unprecedented growth in market share for companies and personal wealth for investors. Companies born through the dawning of the Information Age and companies that successfully leveraged information technology to fuel growth rocketed the stock markets to previously incomprehensible highs.

Most Internet and dot-com stocks were first thought to be a phenomenon. That’s because their existence and performance are counter to the paradigms and operating methodologies that were ingrained in business during the Industrial Age. Share values for these companies were established on potential revenue and profit growth, not demonstrated performance.

Now there’s been a thunderous reality check. The list of successful companies started by entrepreneurs during the past five years is in steady decline. Talent from the top-tier business schools no longer forego traditional companies to head for the Internet frontier, as the incredible 85% growth in the value of the NASDAQ during 1999 was entirely erased in 2000 with continued decline in 2001. Many of the companies that fueled this e-based gold rush are history. Headlines frequently ask, “How low can the NASDAQ go?”

Wall Street has spoken. Growth in share price will be determined by a company’s ability to articulate a business strategy that adds economic value via revenue and profit growth from an existing product portfolio and a new product pipeline while executing an investment and acquisition platform that creates opportunities superior to the competition. The finance function has an unprecedented opportunity to raise its contribution by claiming the role of architect of the enterprise and providing organization, investment, and tactical leadership that will guide a company to maximize its economic growth potential.

Mark Morgan is the vice president of finance for global research at Pfizer, the largest pharmaceutical company in the world. Prior to the merger of Pfizer and Warner-Lambert in 2000, Mark was heavily involved with strategic planning, performance metrics, and ERP implementations for the Global Manufacturing Sector of Warner-Lambert. You can reach him at mark_morgan@croton.pfizer.com or (860) 735-0008. Mark has dedicated this article to “Ernie Larini, the dynamic CFO who led Warner-Lambert during the 1990s to become one of the top-performing companies of the decade.”

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TO TAX OR NOT TO TAX: Tax Freedom or Free Ride?

BY JAMES G.S. YANG, CMA, CPA, AND WING W. POON, CPA

By some accounts, the volume of Internet commerce is expected to reach $327 billion in the next five years. Due to the sudden explosion of e-commerce, debates are raging as to whether and how Internet commerce should be taxed.

The stakes could be enormous. A report to Congress by the Advisory Commission on Electronic Commerce says that if Internet commerce is exempt from sales tax, state and local governments could lose $3.5 billion dollars by 2003. Other estimates predict $8 billion a year in lost revenue by 2004. Though this accounts for only 2% of total sales tax proceeds, The National Tax Journal reports it could reach 10% by 2007. As a result, some experts warn that state and local governments might be forced to reduce spending on social services and education and then raise property taxes to make up the loss.
The hard questions include not just whether e-commerce vendors should pay sales tax—but who should collect it? In principle, the old rule of “nexus” applies. If the seller has a store in the state where the buyer lives, the seller must collect sales tax. But if the seller has no store in the buyer’s state, the buyer is responsible for paying sales tax—called a “use tax” in this situation—to their state and local governments.

**TAX “FREE”**

In 1992, the U.S. Supreme Court case *Quill v. North Dakota* limited the states’ right to collect sales tax from mail order companies. The court ruled that as long as the seller doesn’t reside in the same state as the buyer, the seller isn’t required to collect sales tax.

The growth of the Internet and e-commerce intensified the debate. The Internet crosses state boundaries, so state and local governments have no jurisdiction. The seller is a computer server and easily moved. It may have no legal address, so its physical presence is elusive.

Meanwhile, the buyer’s state government can’t tax an out-of-state seller. Grover Norquist, president of Americans for Tax Reform and former economist with the U.S. Chamber of Commerce, notes that taxing out-of-state sellers amounts to taxation without representation. “You cannot allow Alabama politicians to impose taxes on businesses in Maine and New Hampshire because there is no limit to the abuses that can follow,” he says. “They can go kick your door in and levy sales taxes on things you bought over the Internet.”

Legally, Internet commerce is *not* tax free because buyers are supposed to pay the use tax. But it may as well be tax free for all practical purposes because few if any buyers actually pay it. David McClure, president and CEO of the U.S. Internet Industry Association, says states tried to resolve this dilemma by imposing taxes of their own, which often conflicted with each other.

In 1998, Congress tried to eliminate the contradictory taxes by enacting the Internet Tax Freedom Act. The law prohibits “taxes on Internet access… and multiple and discriminatory taxes on Internet commerce” until October 2001. The Act also formed an Advisory Commission on Electronic Commerce to make recommendations to Congress.

The 19-member panel voted last year to propose that Congress extend the moratorium on Internet taxation for five more years. Congress hasn’t yet done that. So, while the Commission clarified some issues on e-commerce taxation, it didn’t solve the problem.

The Commission also discussed a full complement of additional concerns:

**Privacy**

In order to comply with tax remittance, consumers may be asked to supply personal information, such as addresses and credit card numbers.

**Double Taxation**

Double taxation can occur in international transactions when a country imposes sales tax on the seller while the United States charges it to the buyer.

**Multiple Jurisdictions**

There are 30,000 jurisdictions in the U.S. It’s almost impossible to comply with so many different tax rates and laws.

**Value-Added Tax**

The value-added tax, prevalent in Europe and China, is a tax on goods for each stage of processing. If an American buyer purchases goods from these countries, the previously paid tax should be deducted from the buyer’s sales tax. This tax credit rests in the hands of a foreign seller and requires a great deal of paperwork. In the form of an Internet transaction, it’s almost an insurmountable task for the U.S. buyer to find it out.
There is also difficulty in collecting tariffs when products such as information and software flow through the Internet instead of through border checkpoints.

**A LEVEL PLAYING FIELD**

Taxation on Internet commerce involves many parties: traditional retailers, e-commerce merchants, state and local governments, the federal government, consumers, manufacturers, foreign sellers, etc. Each group has its own interest and viewpoint.

Many local governments and businesses argue that, under equal protection of the law, all businesses should collect sales tax, regardless of whether the store is located on Main Street or online. Exempting e-commerce from sales tax, they say, is equivalent to subsidizing it at the expense of other merchants.

As Congressman Ernest Istook, a Republican from Oklahoma, noted during the Commission's deliberations, "Tax justice is not achieved by promoting injustice; tax justice must be based on fairness."

There's also the issue of the "digital divide." The National Tax Journal reports that the average Internet user has two more years of education and $22,000 more family income than the average nonuser. If the group that purchases merchandise over the Internet is exempt from sales tax, it amounts to discrimination against those who can't afford a computer or who don't know how to use one. In other words, those who have no Internet access will pay more sales tax than those who have, placing an unfair burden on the disadvantaged.

But some e-commerce experts caution that because the Internet is still in its infancy, taxation could jeopardize its development. E-commerce has experienced healthy growth so far, in part because of the lack of taxes, they add, and since the e-business boom has helped fill state coffers, taxing e-commerce may actually lower tax collections. Still others say that predictions of astronomical e-commerce growth are exaggerated, as are concerns about lost tax revenues.

They also question whether e-commerce really takes business away from traditional retailers since many bricks-and-mortar stores now engage in e-commerce. In fact, many retailers are creating two separate corporations—one on Main Street and the other on the Internet. Customers who visit retailers at their traditional stores are met with signs encouraging them to visit the retailer's website, which often doesn't collect sales tax. (This bricks-and-clicks approach is legal when the online and traditional arms of the same company are set up as separate entities.)

**SOLUTION SETS**

The Internet Tax Freedom Act says any solution to the e-commerce taxation problem must meet the following five goals:

- The tax collecting procedure should be simplified so it will reduce the aggregate administrative cost, and it should pass on cost savings to the consumers.
- Internet commerce taxation should not impose additional tax on the taxpayers.
- If the sales tax is imposed on the seller, it shouldn't be imposed on the buyer again.
- The tax system shouldn't require consumers to disclose personal information, such as addresses, credit card numbers, or social security numbers.
- No one should be disadvantaged just because of the advance in information technology.

As the debate continues, five possible solutions are being discussed, none of which is perfect. See Table 1 for a quick overview.

### Table 1

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<tr>
<th>TAXPAYER</th>
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<td>Seller</td>
<td>Buyer</td>
<td>State</td>
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<td>Seller-based tax</td>
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<td>Federal government as taxing authority</td>
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<td>Buyer-based tax with seller as collector</td>
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1. **Seller-based tax:**

The seller would be forced to remit sales tax to the government of the state where it is based. As The New York Times explained it last year, "Washington State would collect on every book sold by Amazon.com, based in Seattle, not just those bought by Washington State residents."

This avoids the difficulty of identifying the buyer's residing state and could protect consumer privacy. It levels the playing field and simplifies administration. For this to be feasible, Congress must enact a law that grants authority to state and local governments to collect sales tax from sellers who reside in that state. But the seller
could seek a tax haven by relocating to states where there’s no sales tax, such as Oregon, Delaware, New Hampshire, Montana, and Alaska.

2. Federal government as taxing authority:
Another solution might be to require the seller to collect a national sales tax. The federal government would then allocate revenue to each state. This may simplify administrative chores, but opponents say it could seriously erode state and local power, allowing the federal government to interfere with local affairs.

“The issue is whether local government will be allowed to function independently of the national government and Congress,” said Utah Governor Michael Leavitt, an expert on state/federal relations.” Blocking the states from applying sales taxes to e-commerce is the most significant issue of federalism since the Civil War,” the Republican governor added.

To make matters worse, if the sellers escape to a tax-free foreign country, such as the Caribbean nations, no sales tax could be collected at all.

3. Buyer-based tax with seller as the collector:
The seller would collect sales tax and give it to the state where the buyer lives. For this to work, Congress would have to enact a new law that lets state and local governments collect sales tax from the seller no matter where the seller resides.

But it can be difficult to identify where the buyer lives. For example, a buyer in New Jersey downloads a book from Amazon.com’s server in Washington state and pays with a Citibank Mastercard in New York. Amazon.com sends a bill to Citibank in New York. How does Amazon.com know the buyer is a New Jersey resident? Further, Amazon.com as a seller may not be legally allowed to ask for the buyer’s residency because of privacy protection.

4. Buyer-based tax:
This is the current system. Unfortunately, most buyers ignore their tax-paying duties and pay no use tax at all for either mail order or e-commerce purchases. The cost of enforcement may outweigh the benefit.

5. No tax at all:
This approach could create unequal competition between local merchants and Internet commerce since the former must collect sales tax while the latter doesn’t have to. It’s also unfair to those who don’t have access to the Internet, such as the poor, the old, and the uneducated. This amounts to high-tech discrimination on the basis of “digital divide.” Further, state and local governments, losing huge sums of revenue, could reduce services to residents. If cutbacks jeopardize education, it could wither the development of information technology and backfire.

In examining possible solutions, it’s easy to see why the Advisory Commission on Electronic Commerce suggests Congress extend the moratorium on the sales tax of Internet commerce to 2006. Since e-commerce involves many constituents and many conflicts, there’s no easy way to reconcile the issues. But Congress has to eventually settle the conflicts and enact a law.

Jim Butler, an attorney with Morris, Manning & Martin, LLP law firm in Atlanta, holds an optimistic view. Butler helped draft the Internet Tax Freedom Act for its sponsor, Sen. Ron Wyden (D.- Ore.). At its inception, he says, there was a larger divide between traditional bricks-and-mortar merchants and “virtual” online entities. But times have changed. Most successful online merchants are related to traditional bricks-and-mortar retailers with nexus in almost every state in the nation. Wal-Mart, for example, has Walmart.com, and Toys R Us has Amazon.com.

“If you buy the theory that the winner in the business-to-consumer space will be the bricks-and-clicks companies, it becomes much less of a problem,” he states. The key, he suggests, is attacking the “legal fiction” that online retailers and their more traditional parent companies are separate entities. So instead of Walmart.com only collecting tax in Arkansas, where it’s based, it would collect and remit sales tax everywhere there’s a Wal-Mart store.

McClure would take it a step further. “I believe the sales and use tax are obsolete for funding state services,” he says. The sales tax system was developed 100 years ago, he adds, when people shopped almost exclusively in their own neighborhoods. His solution would be to abolish sales tax entirely, but he knows it won’t be easy.

“It’s a very big battle,” he sighs. ■

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For additional information or comments, please contact
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We welcome your comments and suggestions.
For over 500 years, the double-entry accounting system has remained virtually unchanged. It was designed to account primarily for tangible assets. But today the value of many firms is largely composed of intangible assets such as R&D, intellectual assets, brand names, and services. This mismatch between today's "high-tech economy" and a centuries-old accounting model has raised serious questions about the quality of earnings. Former Securities & Exchange Commission (SEC) Chairman Arthur Levitt lamented the "erosion in the quality of earnings, and, therefore, the quality of financial reporting." The SEC has targeted overly aggressive earnings management, focusing on acquired in-process research and development (IPR&D).
Although accounting guidance on IPR&D has remained unchanged since the early 1970s, the number and magnitude of acquired IPR&D charges have skyrocketed recently. In 1998, acquired IPR&D charges of S&P 500 technology companies reached $11.1 billion, nearly as much as the previous eight years combined. This was due to soaring merger activity, technology firms rising to nearly 20% of the total stock market value, and escalating R&D costs.

But the charges were also due to the immediate expensing of IPR&D and the current methods of valuing it. The models used for measuring the value of IPR&D are inadequate and raise concern that charges are being abused, are distorting earnings, and are making financial statements misleading.

Some people are concerned that the SEC crackdown on IPR&D valuations has the potential to slow the pace of mergers and acquisitions significantly, hamper the formation of new companies, and decrease the value of a company's stock. Financial managers on either side of the debate will need a clear understanding of the issues when evaluating potential acquisitions.

**MAGIC ACCOUNTING OF IPR&D**

In-process research and development charges can stem from R&D acquired singly, as part of a group of assets, or in a business combination. These charges are often a significant portion of the value of a deal. For example, when Adobe Systems acquired Ares Software in 1996, 95% of the purchase price was written off as IPR&D.

Here's a scenario illustrating how such a large portion of the purchase price can result from IPR&D:

A start-up biotech company's only tangible assets are five computers with a fair market value of $4,000 each. They develop a computer simulation that a medical device maker wants to use. The computer simulation is not yet a marketable product, nor is it likely the biotech company can bring the simulation to market by themselves. The medical device maker can use the simulation to complete the design of a current product. How much would the medical device maker pay for the start-up firm? Despite the risk that this project may not yield a marketable product, the medical device maker is willing to pay $1 million because time-to-market in this industry is critical. The identifiable assets are only $20,000. The $980,000 difference between the purchase price and the value of identifiable assets is the value of IPR&D, or 98% of the total purchase price.

Determining this IPR&D value is straightforward. In more complex mergers, such a determination is rarely cut. Allocation of a portion of the purchase price to goodwill and a portion to IPR&D is often highly subjective.

The current accounting practice is based on the Financial Accounting Standards Board's (FASB) Interpretation No. 4, "Applicability of FASB Statement No. 2 to Purchase Business Combinations," adopted in 1975. It specifies that part of the acquisition price be allocated to any incomplete R&D projects and expensed on the date the acquisition is consummated if those projects had no alternative future use. Immediate expensing is consistent with the treatment of internal research and development expenditures under the FASB's Statement of Financial Accounting Standards (SFAS) No. 2, "Accounting for Research and Development Costs," issued in 1974. The FASB based this policy on its belief that a direct relationship between R&D costs and specific future revenue generally has not been demonstrated, even with the benefit of hindsight.

Although immediate expensing of IPR&D has been required since 1975, prior to 1990 there were only three cases of such expensing. The use of this technique accelerated when IBM bought Lotus Development Corp. in 1995 and immediately wrote off $1.8 billion, or 57.5% of the total purchase price. Since 1995, both the frequency and size of IPR&D charges have increased (see Figure 1).

**SEC TARGETS IPR&D**

On September 28, 1998, Arthur Levitt fired the opening salvo in an SEC initiative aimed at curtailing perceived corporate accounting abuses through inappropriate earn-
ings management practices. The SEC is challenging the costs allocated to IPR&D, questioning both valuation methodologies and the value assigned to core technologies and IPR&D. The SEC has expressed concern that the increasing size of IPR&D charges may indicate that other intangibles—not just R&D—are being included with IPR&D so they can be expensed immediately.

In January 1999, the SEC's Division of Corporation Finance sent letters to 150 public companies, reminding officials of required disclosures applicable to asset write-downs, restructuring activities, acquired in-process research and development, and similar issues. Further, these companies were informed that their forthcoming annual reports and 10-K filings might be subject to SEC review because of news reports indicating significant charges taken in 1998.

The SEC cited at least three recurring flaws in the way some companies were valuing purchased R&D:
- Failure to rigorously isolate the R&D project from other valuable assets acquired;
- Appraisals lacking analysis of the project's stage of development or the complexity and uniqueness of the seller's achievements relative to the complexity and uniqueness of efforts the purchaser must undertake to complete it; and
- Appraisals that computed an "investment value" for the R&D project rather than its "fair value."

In response to SEC concerns, a number of firms reduced current estimates or revised prior charges. For example, in Dionex Corporation's acquisition of Softron, $10 million of the $20.7 million purchase price was initially allocated to purchased in-process research and development. But after receiving one of the SEC's letters, Dionex reduced the charge to $5 million, noting that the charge was lower than initially anticipated in response to new guidance from the SEC.

In 2000, a total of roughly $10 billion of purchased research and development charges were slashed to $5 bil-
lion by companies the SEC scrutinized. These revisions are consistent with the SEC’s concerns that initial estimates significantly overstated the amount of the deal value attributed to IPR&D.

In May 1999, the FASB initially decided that IPR&D should be recognized as an asset, along with subsequent costs to complete the IPR&D project, and amortized over its economic life. In July 1999, the Board concluded that it wasn’t possible to address purchased IPR&D costs separately from other R&D costs. The Board didn’t want to create two different accounting approaches to R&D that would be predicated on whether the project was initiated internally or obtained in an acquisition. They believed the result would be inconsistent accounting practices and investor confusion. The FASB decided to further deliberate the change, a process that could take up to three years.

Because the FASB recently approved the elimination of the pooling method of accounting for business combinations, all transactions will now be accounted for under the purchase method. Under this method, the acquisition price is allocated to identifiable tangible and intangible assets, including IPR&D, where the basis of allocation is the fair market value of the assets. Any unallocated amount is then assigned to goodwill. This means that IPR&D valuation will be an issue in any acquisition of a company. Thus, IPR&D is likely to be at the forefront of deliberation in the future, resulting in discussion of such issues as the trade-off between relevance and reliability as well as more basic issues related to how well the current accounting model captures the value of R&D-intensive firms.

**WHAT IF IPR&D WERE AMORTIZED?**

If the FASB were to change the current practice of immediate expensing IPR&D to capitalizing and amortizing it, how would that affect the income statement? We offer the following scenario and Figure 2.

The scenario is built on the following assumptions:
- Revenues equal $100 in the year of acquisition.
- Top line revenue growth of 20%.
- Operating expenses are 70% of top line revenue.
- Assumes a tax-free world.
- IPR&D is 20% of revenue of the acquiring company.
- Amortization lives of three, five, and 10 years.

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**Figure 2: The impact of different amortization rates of in-process research and development on earnings growth rates**

![Figure 2 graph](image-url)
Figure 2 illustrates the impact of alternative amortization periods on earnings growth rates. While amortizing over some useful life eliminates a large one-time hit to earnings, it still results in large fluctuations in earnings growth rates. As useful life decreases (or the relative size of the IPR&D amount increases), changes in earnings become more rather than less prevalent. While a one-time charge would result in one earnings growth rate peak, amortization, especially over a shorter period, results in several of these fluctuations.

RESOLVING IPR&D ACCOUNTING

In trying to resolve the issues surrounding IPR&D, a key question in the conceptual framework as we see it is whether R&D meets the definition of an asset, and, if so, whether information about that asset has relevance for financial statement users. R&D is undertaken with the expectation that it will provide future benefit to the firm. While not every R&D project initiated generates benefits, the expectation is that on average some will, resulting in assets for the firm.

Yet meeting the definition of an asset and demonstrated relevance aren’t adequate for recognition in the financial statements. To be recognized, an item must have a relevant attribute that is reliably measurable. Widely accepted valuation models for R&D haven’t been developed, and questions about valuation approaches are critical to current deliberation.

Even if a value can be established, a useful life must also be determined for amortization. As shown in Figure 2, alternative choices of amortization period result in dramatically different income figures and earnings growth rates. Thus, determination of a range for the useful life of IPR&D is an important component of any discussion of capitalization.

Assuming the issues of valuation and measurability can be answered satisfactorily for purchased R&D assets, consistency is also an issue. SFAS No. 2 requires all internal R&D to be expensed as incurred. This raises the question of how to account for costs required to complete a purchased R&D program after it is acquired. To be consistent with SFAS No. 2, additional costs to complete the project should be expensed as incurred. At the same time, it makes little sense to capitalize and amortize the acquisition costs of R&D while expensing the subsequent costs of completion. The lack of consistency is likely to cause confusion among investors.

This conceptual framework also identifies comparability between enterprises as a desirable quality of accounting information. If companies that purchase R&D programs capitalize and amortize these projects while other companies immediately expense internal R&D activities, earnings for the two companies aren’t comparable. Thus, differential treatment of R&D based on internal programs versus external purchases potentially confuses interpretation of operating results. The FASB has determined that these issues are substantive and that any changes to the current practice of expensing IPR&D must be considered as part of a broader examination of accounting for intangibles, including current requirements of SFAS No. 2. The FASB must also consider the current requirements for both internally generated and purchased R&D, ensuring that consistency and comparability of the information provided is maintained.

Along with considering the conceptual issues involved, the FASB is likely to examine the economic and political implications of any change. As with the employee stock option debate, the FASB has already encountered criticism from corporate America, particularly the technology industry. In addition, there have been concerns that inconsistency in the treatment of internally produced and purchased R&D could result in incentives to outsource R&D rather than develop it internally. Accounting requirements could potentially drive how these decisions are made. Finally, there have been predictions that removing the ability to immediately write off IPR&D could lead to a flood of merger activity prior to the change.

The debate is likely to be extensive. Critical to this process is the tremendous need for development of better models to value intangibles such as in-process research and development.

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EMPLOYER
Adoption Assistance Programs
A Great Opportunity

BY SHELDON R. SMITH, CMA, CPA, AND GLADE K. TEW, CPA

Have you known anyone who has adopted a child? If so, you probably know how expensive adoptions can be. Although there may not be a typical adoption, the cost can easily exceed $10,000. A tax law enacted in 1996 and expanded and made permanent in 2001 encourages employers to support employees who adopt children by allowing companies to establish adoption assistance programs that permit employees to exclude employer-reimbursed adoption expenses from their income. Here's a look at why you should consider an adoption assistance program and a little background on the law.
Offering adoption benefits demonstrates social consciousness because children become part of a nurturing and loving family where they can grow and develop with support.

Your company may provide an assortment of employee benefits including health and other kinds of insurance. Although the human resources department typically administers benefits programs, your entire management team may be involved in choosing an appropriate set of benefits to offer. As an accounting or finance professional, you can gather the facts related to adoption benefits and use your financial knowledge to assist top management in making decisions appropriate for your company.

Why provide adoption benefits? There are several good reasons, but here are four key ones to consider:

♦ You may be interested in promoting family-oriented programs that can ultimately strengthen employee morale and retain good employees.
♦ Offering adoption benefits demonstrates social consciousness because children become part of a nurturing and loving family where they can grow and develop with support. Adoption also helps to decrease government foster care costs by reducing the number of children in foster care.
♦ Reimbursing adoption expenses is a way for you to give adopting employees a benefit similar to the maternity benefits you may already be providing because, unlike maternity costs, adoption expenses haven’t traditionally been covered by insurance programs.
♦ An employee adoption assistance program provides incredible benefits to the families who adopt, yet, because the proportion of all employees who adopt is usually low, the overall cost is manageable.

ABOUT THE EXCLUSION
Because the exclusion impacts both the employer and the employee, it would be worthwhile for you to have an understanding of how these tax benefits work and how they affect specific employees who receive employer-sponsored adoption benefits.

The exclusion involves complicated issues, so you’ll want to refer directly to two IRS publications when considering an adoption assistance program: Notice 97-9, 1997-2 Internal Revenue Bulletin 35 and Publication 968, “Tax Benefits for Adoption,” January 1998. Publication 968 will need to be updated for the recent changes enacted this year. Issues related to the additional benefits potentially available for adoptions of children with special needs would require an involved explanation, so we didn’t discuss them here.

Let’s now consider some of the provisions.

Beginning in 2002, the law allows an employee to exclude from income up to $10,000 of adoption expenses that have been reimbursed by the employer. The amount excludable prior to 2002 is up to $5,000. In addition, the 2001 legislation provides for increases in the $10,000 amount over time because of inflation. But in order for an employee to take this exclusion, your adoption assistance program must follow certain requirements. For instance, the plan must be written, and you must give reasonable notice to eligible employees about the plan’s terms. The plan must be general in nature—not merely benefiting owners or highly paid employees—and no more than 5% of the reimbursement can be paid to shareholders or owners. Also, employees must provide reasonable proof that the reimbursements are for qualified adoption expenses. To qualify for the exclusion, adoption expenses must be reasonable and necessary: for example, adoption agency fees, attorney fees, court costs, and travel costs.

In addition, the law outlines parameters regarding which children are eligible. According to the law, the child can’t already be a stepchild of the individual wanting to adopt and must be either under 18 years old or be incapable of self-care because of physical or mental limitations.

LIMITATIONS AND TIMING OF THE EXCLUSION
But what about those families who are adopting siblings or have attempted adoption several times? What about limitations on the taxpayer’s income?
There are many sibling groups waiting to be adopted, and a family that adopts two siblings has two adoptions and may qualify for two exclusions. For example, one family in Hawaii adopted a brother and sister from Michigan simultaneously in an interstate adoption in 1998. The cost: nearly $20,000. If the air travel costs to pick up the children, the legal fees, and other costs were reimbursed by the employer, this family could qualify to exclude up to $10,000 of the reimbursement—$5,000 for each child—from income. The new 2001 legislation will increase the maximum amount excludable per adoption to $10,000.

Other families try several times to adopt, paying large sums with each attempt. The law requires that these unsuccessful attempts be grouped into one effort, so only one exclusion would apply.

Like other tax provisions, the benefits of the exclusion phase out as the taxpayer's income increases. Taxpayers with modified adjusted gross income (modified AGI, defined in the IRS publications) under $150,000 ($75,000 prior to 2002) may qualify for the entire exclusion, but, as income grows, the exclusion phases out until no exclusion is available for taxpayers with modified AGI more than $190,000 ($115,000 prior to 2002). The income phase-out range is also indexed for inflation in the 2001 legislation.

So when can an employee obtain the exclusion? The timing for taking the exclusion is quite straightforward for domestic (U.S.) adoptions: Taxpayers can claim the exclusion the same year the employer reimburses the adoption costs. But taxpayers pursuing foreign adoptions can't claim any exclusion until after the adoption has been finalized.

**ISSUES FOR YOU TO CONSIDER**

As you establish your adoption assistance program, you'll probably want to structure it so that the reimbursements qualify for the exclusion in order to provide maximum benefit to your employees. Once it has been established, you're not required to withhold federal income tax on amounts paid under an adoption assistance program. This is true even if the employee's income ends up being too high to qualify for the full exclusion. But the reimbursements aren't exempt from employee social security and Medicare taxes or employer social security, Medicare, and unemployment taxes.

Depending on whether your state has passed its own version of the exclusion, state income tax may also need to be withheld from the reimbursement.

You also need to decide whether to reimburse employees for expenses of attempted adoptions or only to reimburse expenses of adoptions that have been successfully finalized. The exclusion is available in either case, except for foreign adoptions that must be finalized before the exclusion is available.

**COMBINING THE EXCLUSION WITH A TAX CREDIT**

In addition to the exclusion, your employees who adopt may also qualify for an adoption tax credit of up to $10,000 ($5,000 prior to 2002). The law allows the credit and the exclusion to be claimed for the same adoption.

Together, the credit and employer reimbursement with the exclusion can mean up to $20,000 ($10,000 prior to 2002) of help with adoption costs per child.
You may want to provide some general information about both the credit and the exclusion so that your employees can make wise decisions.

but they can't be claimed for the same expenses. The employee can only claim the exclusion for adoption expenses that have been reimbursed by the employer—and the credit can only be claimed for adoption expenses that haven't been reimbursed. Together, the credit and employer reimbursement with the exclusion can mean up to $20,000 ($10,000 prior to 2002) of help with adoption costs per child. Because some adoptions cost more than $10,000, the reimbursement of any amount can be very beneficial for your employees. Yet because of limitations associated with the credit, adoption assistance programs can be very helpful to employees even when the total adoption cost is less than $10,000.

Just like the exclusion, the benefits of the tax credit also begin to phase out for those with modified AGI above $150,000 ($75,000 prior to 2002). No credit is available for adoptive parents with modified AGI above $190,000 ($115,000 prior to 2002). Since highly paid employees may lose part or all of the adoption tax credit and the exclusionability of employer reimbursements, they'll be grateful for any reimbursement. For example, a family with a modified AGI of $190,000 who adopts one child won't be able to claim the adoption tax credit or exclude any employer adoption reimbursement from income. But any employer reimbursement, net of income and Medicare taxes, will still help offset the cost of the adoption.

Together, the exclusion and tax credit can really help a family who's adopting. Let's consider an example. One couple adopted their first child in the early 1990s before the adoption tax laws were enacted, so they didn't receive any tax benefits for the thousands of dollars of adoption expenses they paid. After the exclusion for employer-paid adoption costs was enacted in 1996, the family adopted another child, finalizing the adoption in 2000, and spent about $8,000 in qualified adoption expenses. Not only were the tax credit and exclusion available, but the husband's employer had a generous adoption reimbursement program. As a result, the couple covered all of their adoption costs, either through the employer reimbursement with the exclusion or through the tax credit. The available tax benefits for adoptions will be even greater when the 2001 amendments become effective in 2002.

**SOUND FINANCIAL DECISIONS**

Although you aren't responsible for giving tax advice to your employees, you may want to provide some general information about both the credit and the exclusion so that your employees can make wise decisions on whether to claim employer reimbursement for adoption expenses and how much to claim. For example, a couple in Utah finalized an adoption in 1999 and incurred about $1,400 in adoption expenses. The husband's employer had an adoption assistance program that would reimburse up to $3,500 of adoption costs. At that time the couple had to make a choice: request employer reimbursement that would qualify for the exclusion or claim a tax credit for the amount of the adoption costs. The employee could have received the employer reimbursement earlier than the credit, but the employer reimbursement would have been subject to social security and Medicare taxes for the employee. On the other hand, the credit would provide a 100% benefit. This couple chose to wait and take the credit when they filed their tax return for 1999.

Beyond providing information to employees so they can make sound financial decisions, you'll also want to keep current on the law. Now that the potential amount of the exclusion has been raised to $10,000, if your company already has an adoption assistance program you may want to consider whether to increase the amount of expenses you're willing to reimburse. If your company doesn't now reimburse adoption expenses, this would be a good time to decide whether to take advantage of the law. Through an adoption assistance program, substantial tax benefits can be made available to your employees who adopt. ■

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AOC, financial staffing and recruiting specialists, and the Institute of Management Accountants (IMA) have awarded the “Financial Executive of the Year” distinction to 23 financial leaders throughout the nation. This marks the fifth consecutive year that AOC and the IMA have joined forces to formally recognize financial executives whose outstanding performances have resulted in significant contributions to their companies. Winners were selected in each participating IMA council based on nominations from throughout the country. Here are the 2001 AOC-IMA Financial Executives of the Year.
Jacalyn A. Askln is the assistant vice chancellor of financial operations for Pima Community College District. Her job responsibilities directly impact the direction, administration, and management of the college's fiscal and related functions, including the recommendation, development, and implementation of program services. She has also been nationally recognized with the "Distinguished Budget Presentation Award" and the "Certificate of Achievement for Excellence in Financial Reporting." Askln was chosen by the Wild West Council.

Ken Baker, CPA, is the chief financial officer of VMS, Inc. He is a 21-year financial veteran who has worked in many diverse industries including computer leasing, commercial real estate, frozen food distribution, the retail food franchise, and new infrastructure asset management. A graduate of Virginia Tech with a B.S. degree in accounting, Baker began his career as a CPA with Deloitte & Touche in 1980. He then became controller and subsequently the CFO for a computer-leasing firm. He left in 1996 to become an independent consultant and in 1998 joined VMS, which was named the 10th fastest-growing private firm in the nation in 2000 by Inc. Magazine. Baker was chosen by the Virginia Council.

Ray Baynard, CMA, CFM, is the treasurer, controller, and secretary for Flynt Amtex, Inc. He is responsible for preparing all month-end financial statements for his company and for all external reporting and relationships. He is also responsible for supervising all accounting personnel in accounts receivable, accounts payable, and general ledger. Holding a BSBA from Appalachian State University and an MBA from Wake Forest University, Baynard is also an adjunct professor at Guilford Technical Community College. He was honored by the Carolinas Council.

Michael Francis Brosig, Sr., is the vice president and CFO of Laurel Holdings, Inc., where he is responsible for the overall financial management of Laurel Holdings, including cost reporting, budget development, administration, and cash management. He is also responsible for coordinating and monitoring capital and operation budget activities, maintaining adequate internal control procedures, and projecting and monitoring cash flow levels. Listed in PA Central's top 100 influential business leaders for the past three years, Brosig was nominated Entrepreneur of the Year in 1997 by the PA Business Times Central, was listed in Marquis Who's Who in Finance and Industry, and served as president of the Johnstown Chapter of the IMA. He was chosen by the Keystone Mountain Council.

Robert Butterfield is the business manager of Bolton & Menk, Inc., responsible for planning, organizing, and directing the accounting functions of the firm and reporting operational results. He also directs and administers the financial and human resource activities of the firm. As business manager, some of his major responsibilities include coordinating the preparation of divisional budgets, maintaining the firm's financial records, evaluating and monitoring the insurance needs of the firm, and arranging and coordinating the annual audits of the company, its employee stock ownership plan, and its 401(k) plan. Butterfield was selected by the Northern Lights Council.

Frank A. Carchedi, CPA, is CFO of CoStar Group, Inc., where he is responsible for the overall financial management for this publicly traded company, including accounting, tax, and SEC reporting. He is also in charge of developing business strategies and conducting external communications with financial analysts and investors. Carchedi has been instrumental in expanding the company to more than 27 offices in 50 cities across the nation, and he has broadened the product line from one product to a suite of eight products. In July 1998, Carchedi spearheaded his company's initial public offering, which resulted in net proceeds of $22.7 million. Then in May 1999, he led a secondary offering with net proceeds of $97.4 million. He was selected by the Potomac-Chesapeake Council.

Beth Connelly is the corporate vice president of Operations & Systems for Prudential Insurance Company of America. She is responsible for all operations and systems activities for Prudential's Financial Management, Human Resources, and Corporate Governance functions including, but not exclusive to, law, audit, and ethics. She also oversees all systems and accounting support for accounts payable, general ledger, treasury, and tax activities. Connelly has implemented Diversity Action Teams, designed a mentoring program, developed a recognition program, built an intranet website, and encouraged an environment that hires, promotes, and retains a diverse workforce. She is also the on-site sponsor for various multicultural events for Prudential. Connelly was selected by the New Jersey Council.

Sandra Coston, CPA, is president of United Government Services. She began her career at Blue Cross & Blue Shield in 1992 as a senior financial auditor and in five months was promoted to manager of financial audit. Since that time, the company's combined claim volume increased from five to 25 million, with a projected increase to 43.2 million in December 2001. In 1997 Coston was promoted to assistant vice president of UGS, where she facilitated employee growth from 380 to 762. She became president of UGS in 1999, responsible for all aspects of the company's business. Coston was chosen by the Mid-America Council.

Robert Fay is the vice president and CFO of Cirrus Logic, Inc. Since he joined Cirrus more than a year ago, the company has been named one of the most financially sound companies in the high-tech industry. Holding a B.A. in math from Duke University, a B.S. from Villanova University, and an MBA from Drexel University, Fay oversees all the...
Steven Grove is the owner of Steven Grove & Associates, LLC. He began a small firm in 1991 with a select group of clients, and since then the business has expanded to three locations and a subsidiary dedicated to payroll. Grove has implemented many innovative approaches in his business and his client relations. He is dedicated to educating his staff, clients, and the community on various aspects of business. Throughout the years, he has served on committees for the Boy Scouts of America, the Probus Club of Hamden-New Haven, the Jewish Community Center of New Haven, and the Chamber of Commerce in Hamden, New Haven, Quinnipiac, and Wilton, Conn. His firm is an active member of Junior Achievement, and he encourages his staff to go to area elementary schools to educate the children on taxes and the role of business in the community. Grove was selected by the Northeast Council.

Bruce J. Hanni, CPA, is the controller of Flour Hankford Inc., responsible for managing the financial affairs of the Harford Project, a major government cleanup project for the Department of Energy. Hanni has supported the financial improvements of his company in every aspect, such as implementing a new approach to managing the assets and costs associated with Hanford's pension and 401(k) pension plans. He has also been instrumental in creating a positive working environment for his staff and initiated an effort to change the form and function of information provided to senior management, giving them the proper information to make educated decisions. Hanni was chosen by the Pacific Northwest Council.

Arthur J. Hass, CPA, is the chief financial officer for Bucks County Water and Sewer Authority, where he is responsible for all the financial activities for the Authority. He oversees the preparation of a $40 million annual budget for three division municipal authorities. He is also in charge of projecting cash flows, preparing and presenting monthly and annual financial statements, and coordinating the annual certified audit. He is a member of the IMA, AICPA, PICPA, and GFOA, from which he won a Certificate of Achievement for Excellence in Financial Reporting—considered the highest recognition in the area of governmental accounting and financial reporting. Hass was chosen by the Mid-Atlantic Council.

LeRoy F. Hieber is the deputy director and CFO of the Port of Stockton. He began his career at the Port of Stockton as a staff accountant and has risen through the ranks to his current position where he oversees all the accounting, human resources, IMS, property management, and record retention functions for the port. Holding a B.S. in business administration from California Polytechnic State University, Hieber has more than 23 years of experience in the marine industry and six years in private industry. As the director of the port, he turned the business from a landlord port to an operating hands-on port and was instrumental in acquiring 1,400 acres from the Navy, tripling the size of the port. Hieber was selected by the Golden West Council.

Maryann Irion is the director of financial services for Broward House, Inc., a not-for-profit community-based AIDS service organization. She oversees all of the financial operations of this growing organization and is responsible for developing goals and strategic plans for Broward House, including developing and monitoring departmental budgets. A compassionate person, Irion knows the importance of keeping her organization financially sound and understands how much Broward's many clients, who are challenged by HIV/AIDS, substance abuse, mental health issues, and more, rely on her skills to continue to benefit from Broward's services. Irion was selected by the Florida Council.

Beverly A. C. Kizer is CFO of the Jewish Community Center of Greater Albuquerque, responsible for all financial management functions including reporting, budgeting, and preparing for audits. She also serves on the executive management team and handles all the human resource functions for her organization. As the financial backbone of forming the first Jewish Community Center in the state of New Mexico, Kizer built every phase of the Center's financial structure from the ground up. Her expertise allowed the organization to safeguard assets, establish financial controls, and develop the budgetary framework necessary to launch the Center. Kizer was selected by the Rocky Mountain Council.

Constance E. Lund, CPA, FLMI, is the senior vice president of Corporate Finance for American United Life Insurance Company. She is responsible for the treasury services, financial reporting, agents' compensation, agents' licensing, investment accounting, cash management, and separate accounts administration. Essentially acting as CFO, she is the first woman in her company to be on the management committee. Lund is a board member of the Indiana CPA Society, a chairperson of the insurance committee for the American Institute of CPAs, and a board member of Big Sisters. She is also a member of the American Society of Women Accountants, the Indiana State University Accounting Advisory Board, and member of the finance committee at St. Barnabus Catholic Church. The Lincoln Trail Council chose Lund for her outstanding performance.

Michael P. Pinto is CFO and executive vice president of M&T Bank Corporation, where he is responsible for the controller’s department, corporate finance and investor relations, financial planning and analysis, and audit. As

Continued on page 70
Put Your Thumbs on the Home Keys and Get Ready to Type
PDA/Cell Phone
The Kyocera QCP 6035 smartphone is a Palm-OS powered combination that has a CDMA digital wireless phone, Web access, and a PDA in a single device. Weighing 7.3 ounces, the QCP measures 5.6 x 2.5 x 0.9 inches. It has a lithium ion battery that will provide up to 180 hours of standby time and 300 minutes of talk time. It can be operated in dominant phone or dominant PDA mode—you flip the cover/keypad up or down to select the mode. The monochrome screen is 1.8 inches square, smaller than the conventional Palm display but larger than the usual phone screen. It has Palm applications (Address Book, Date Book, Memo Pad, and To Do List), and you can send and receive e-mail and access encrypted HTML browsers for secure online transactions. It supports Palm OS Web clipping applications, and you can load any of hundreds of Palm apps that run on the OS. It has tap- or voice-controlled dialing and uses Eudora or AvantGo browsers. Circle No. 50 www.kyocera-wireless.com

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The Bose® Wave/PC™ Interactive Audio System integrates four kinds of digital input in a single system: compact discs, digital audio, Internet radio, and AM/FM radio. A Bose Wave station player with the acoustic waveguide technology that distinguishes these players is controlled by a credit card-size remote control and is directly connected to your PC’s sound card. If you enter your zip code, the Wave/PC System will download information about AM/FM radio stations in your area. You can make your own list of favorites and drag and drop presets onto your QuickPAD Net-Pro remote control. Internet radio access lets you find stations worldwide with a simple keyword search. The System will automatically find and organize your downloaded MP3 files, and it will play and record CDs onto your hard disk, compressing them into MP3 format to save space. The presets offer one-touch access to six preprogrammed FM radio stations, six AM stations, six Internet stations, and six personal music lists. Circle No. 51 A demo is available online at www.wavpc.bose.com.

Just Take the Keyboard
QuickPAD Net-Pro from QuickPAD Technology Corp. has many of the advantages of a notebook computer with few of the disadvantages. It weighs only 1.5 pounds and measures 8 x 11 x 1 inches thick. The batteries are four AAs with a life of 200 hours. You connect the Net-Pro to your PC with a choice of a number of interfaces: serial port, USB, IRDA, or your own proprietary infrared receiver. It connects to any desktop—no drivers or software is needed; simply plug and play. The screen is a B/W LCD that displays 80 x 12 lines in character mode. We tested the IR model for word processing, and the connection for the infrared was as simple as plugging in its infrared reader between the keyboard and the computer. There are no cables hanging off the QuickPAD. You aim it at the receiver when you want to download to the PC. The more advanced Net-Pro model will be released next month, and it will be e-mail-enabled (send and receive), will have a browser, and will add spreadsheet, database, and personal organizer functions. Circle No. 52 www.quickpad.com

Two Pocketable Keyboards
Cirque Corp. and Fellowes Manufacturing Co. offer a keyboard that literally fits in a shirt pocket. Designed for devices running the Palm OS, Pocket Keyboard™ connects to the serial port of the PDA. It works with a very light touch based on the GlidePoint technology that responds to the centermost point of pressure (capacitive touch). It has a collapsible base that sets up on a flat surface for
two-finger typing, or you can hold it in one hand. It has its own source of power, two three-volt lithium coin cell batteries, so it doesn't draw on the PDA's power. It supports Palm OS 1.0 through 3.5.2, and the hardware connector is compatible with Pilot 1000 and 5000, Palm m Series, and Palm III, VII, and V series PDAs as well as Handspring's Visor, Deluxe, Platinum, and Prism. The keyboard is 3.85 x 2.68 inches, and it weighs less than two ounces. Circle No. 53 www.cirque.com

TT Tech offers the SnapOn™ Series that includes SnapNType™ and SnapNPlay™ for the Handspring Visor. The SnapNType is a mini-keyboard that plugs into the Visor's serial connector. Designed for “thumb typing,” the keys include 'a' to 'z,' space, delete/backspace, cap(shift), sym-

boi, and enter. They have a click positive action. The cursor can be moved with arrow movements, and there are hotkeys for Date Book, Address Book, To Do List, Memo Pad, Application, Menu, Calculator, and Find. Compatible with Handspring Visor, Prism, Platinum, and Deluxe, the SnapNType runs on Palm OS 3.1 or higher. No batteries required. The SnapNPlay is a joystick console that snaps onto the Visor for game functions. www.tt-tec.com

Leonardo and the Luddites | Michael Castelluccio, Editor

"IN THE GAME OF LIFE AND EVOLUTION there are three players at the table: human beings, nature, and machines. I am firmly on the side of nature. But nature, I suspect, is on the side of the machines.”
—George Dyson

Last month, we looked at the career, so far, of a modern Renaissance man, Raymond Kurzweil. Turning from his inventions, now we will look at an even more interesting side of this modern Leonardo—his theories and predictions concerning the future of machine intelligence.

The opening quotation by George Dyson implies that, in the future, machines will have an edge with even nature taking their side. Ray Kurzweil’s view is even simpler than that. He says there is only one player at the table—everything, including man and machines, is set on the same evolutionary course. The problem for man is that we continue to develop, plodding along as we have at an excruciatingly slow pace beginning with the first appearance of organisms on earth 3.4 billion years ago. Machines are evolving at an accelerating speed, doubling their capacity every 18 months, according to Gordon Moore.

But will machines ever reach a point where they will be more intelligent than we are? And further, if they do reach that point, will future machines be able to create machines more intelligent than they are?

In his book The Age of Spiritual Machines, Raymond Kurzweil outlines a three-step timetable for the evolution of smart machines. First, we need to develop a capable computer. Second, we have to map the neural networks of the brain in the way we have mapped the human genome. And finally, we need to create a body for this spiritual machine, natural or synthetic, but a body that can replicate itself.

When you step back from the process, there are such strong reminders of Dr. Victor Frankenstein's experiment that it's natural to wonder who in their right mind would embark on such a venture. Well, there are many answers to that question. There are those who have developed the machine that currently does robot surgery. And those patients who know their doctor is not distracted because he's tired, annoyed at his wife, continued on page 68
or a little hung over. These people are not crazy. And there is the Deep Blue team at IBM. They built a machine that defeated the human world chess champion. We all are fascinated by avatars, and people are buying small robots to roam their houses as security/companions. Unless there is a screeching halt and reverse in the near future, the American plan will continue to prevail—whatever serves a purpose and reaps a profit is OK with us.

Besides, as people like futurist and inventor Danny Hillis have pointed out, the change will be gradual, and we’ll have time to get used to the idea in small steps, no doubt viewing many of the increments as beneficial.

When
According to Bill Joy, chief scientist at Sun Microsystems, “by 2030, we are likely to be able to build machines, in quantity, a million times as powerful as the personal computers of today—sufficient to implement the dreams of Kurzweil and Moravec.” The Hans Moravec to whom Joy refers is a robotocist at Carnegie Mellon University who agrees with Kurzweil that we will eventually have machines smarter than we are. Moravec additionally proposes that these “brains” will be inside “bodies” vastly superior to our hydrocarbon and water-based versions.

Ray Kurzweil’s projections for the future derive from the following conditions. First, Moore’s Law about doubling chip speed while decreasing cost will end in 2018. That gives it a 60-year lifespan from 1958. The chips subject to Moore’s formula are today’s flat chips. Next, Kurzweil explains, will be processor cubes “with thousands of layers of circuitry combined with far smaller component geometries” along with the new computing technologies “waiting in the wings—nanotube, optical, crystalline, DNA, and quantum computing.” Add the benefits of distributed computing, harvesting the power of computers and worldwide peer-to-peer networks, and the acceleration will be amazing.

The results? Kurzweil’s timetable projects supercomputers that “will reach the 20 million billion calculations per second capacity of the human brain around 2010.” Next “the capacity of computing will double ten times every decade, which is a factor of 1000 [2^10] every ten years. So your personal computer will be able to simulate the brain power of a small village by the year 2030.”

By then, these computers will be designing and programming themselves. Their very programs will be evolutionary, and we will have to allow them the choice they need to make the best decisions. Isaac Asimov’s famous Rules of Robotics designed to protect humans from their machines won’t be possible with these robots. Asimov suggested that by programming future artificially intelligent beings to:

1) Never harm or allow a human being to come to harm;
2) To obey humans except when that would violate rule 1; and
3) To protect themselves except when that would violate rules 2 or 1, we could have superintelligent robots that would never harm us. But the evolutionary programming for these new brains wouldn’t be possible if they had to wait on human reviews of programming that was actually beyond the understanding of the humans, so Asimov’s Rules could not be applied without destroying the robots’ development.

If it’s strange to imagine machines creating “minds” beyond our comprehension, consider what Kurzweil’s next logical step would be. “Evolution created human intelligence. Now human intelligence is designing intelligent machines at a far faster pace. Yet another example will be when our intelligent technology takes control of the creation of yet more intelligent technology than itself.”

How
Before we can answer the question whether robots will be the next stage of human evolution, we need a clearer definition of human intelligence. In his book, Kurzweil catalogs the struggle we have had defining intelligence from the ancients to the Logical Positivists of our century—from Descartes’ “I am aware, I’m thinking, so I must be here, to the
curious possibility that we’re just not smart enough to fully understand our own intelligence. Kurzweil defines intelligence as “the ability to use optimally limited resources—including time—to achieve such goals.” By goals he means survival, communication, to solve problems, to seek transcendence, and so on.

The alternative to programming intelligent machines is to download the circuit patterns of our brains to a synthetic form. Map the neural net and download it to a computer, and we will have a second intelligence. Bill Joy has a problem with this. “If we are downloaded into our technology, what are the chances that we will thereafter be ourselves or even human? It seems to me more likely that a robotic existence would not be like a human one in any sense that we understand, that the robots would in no sense be our children, that on this path our humanity may well be lost.”

As our machines get smarter, there will come a time when we have to face this problem of whether the new forms are more intelligent than we are. Probably there will be one of three possible conclusions. Our machines will never be as smart. Our machines will be smarter. Or we won’t be astute enough to tell one way or the other.

The mechanization of our bodies has also been following an evolutionary track. Now we have mechanical implants for our brains and hearts, synthetic sockets, titanium implants, and borrowed pieces from the deceased as well as the animal kingdom. Are we on the road to what will finally be the replaceable body?

Will the two parallel tracks converge at one point, and will artificially intelligent “beings” be transplanted into organic, synthetic, or even virtual “bodies?”

Don’t Blink
Computers on our desktops are kind of boring. We assume computers have a place in most mechanical devices and look forward to those that will fix broken parts in our bodies. But now isn’t a good time to blink. It is, in fact, a good time to read Ray Kurzweil’s book and Bill Joy’s warning, to think about our place, what we’re doing, and where we are headed. Are intelligent machines the next step in evolution? If computers ever develop superior “minds,” will they tolerate or maintain us even if we become unnecessary? It’s a good idea to recall that not the amoeba, nor the frog, nor the chimpanzee were the last stage of evolution. To assume that the process ends with us is probably unwise.
executive V.P., Pinto also serves as a member of its management group. He is a member of the Board of Trustees and executive of the finance and strategic planning committees of Shea's Performing Arts Center and is on the Board of Trustees for Daemen College and Canisius High School. A graduate of the University of Delaware in India and the Wharton School of Business of the University of Pennsylvania, Pinto serves on Canisius College's Business Advisory Council and the Council on Accountancy, and he is a member of the St. Bonaventure University Presidential Advisory Council. The Upstate New York Council chose him for his outstanding performance.

<n>Richard H. Ross</n>, CPA, CFP, is the chief financial officer of Branch Properties, LLC. With Ross as its financial leader, Branch Properties has become a highly successful and profitable firm. As the head of the company's e-business initiatives, he is ultimately responsible for all the IT initiatives for Branch Properties. Ross has been an active member of the Georgia Society of Public Accountants since 1990 and is also a member of the National Association of Real Estate Trusts, the International Council of Shopping Centers, the Institute of Certified Financial Planners, the AICPA, and many other community and professional associations. Ross was chosen by the Gulf South Council.

<n>Joel Sander</n>, CMA, CPA, CGFM, is the finance officer for Tulsa County, where he is responsible for the financial reporting for Tulsa County and its employee retirement system. He maintains the general ledger, performs the month-end close, and reviews the appropriation statement to determine actual expenditures. He also maintains the financial records for the Tulsa County Criminal Justice Authority and reports on the financial activity to a Sales Tax Oversight Committee. An adjunct professor at Oklahoma State University-Tulsa for nearly eight years and at Oklahoma State University-Stillwater for three years, Sander is actively involved in the Tulsa community. He is also on the funding committee for the Tulsa Tourism & Convention Task Force and the budget and finance committee for the Fellowship Lutheran Church, and he is the treasurer for the Kiwanis Club of Tulsa, the 4-H Foundation, the Theatre Tulsa, and the Tulsa County Republican Committee. Sander was chosen by the Heartland Council.

<n>Gary Shamis</n>, CPA, is the managing director of SS&G Financial Services, where for the past 13 years he has helped his company gain national recognition and win many awards for growth, client service, innovative business practices, and the development of an outstanding work environment. He has been instrumental in helping SS&G become the largest independent accounting/business firm in Ohio and one of the Top 100 Firms in America. *Accounting Today* named him one of the most influential people in the accounting industry for two years in a row. He is also the founder of the Advisory Board, a national coalition offering a multidisciplinary consulting approach to professional service firms. The Ohio Council honored Shamis.

<n>Ken Shelton</n>, CPA, is the controller for National Tech Team, responsible for SEC reporting, budgeting, financial analysis, and reporting of all revenues and expenses. He also oversees all the accounting and payroll personnel in the United States as well as in the U.K., Germany, and Belgium locations. Shelton has initiated vast improvements in both the coordination and reporting aspects of his job. Since he has taken on the position of controller, he has improved the accuracy and reporting of the monthly/quarterly financial statements, increased communication, and hired a solid staff. Shelton was honored by the Michigan Council.

<n>Denise Wilder Warren</n> is the senior vice president and CFO for Gaylord Entertainment Company. Prior to working at Gaylord Entertainment, Wilder Warren was a director/senior industry analyst at Merrill Lynch & Company in New York. She has also been employed as a financial analyst for CS First Boston in Dallas and at Ford Capital Ltd. and Ford Bank Group Inc. in Dallas. Holding an MBA degree from Harvard University, she received her B.S. degree from Southern Methodist University. Wilder Warren was honored by the Tennessee Council.

<n>Josef M. Vich</n>, CPA, is president and chief executive officer for Community National Bank, where he is responsible for monitoring the company's financial statements, hiring and recruiting senior management, strategic planning, defining and maintaining budget and forecasts, reviewing new and old products for profitability, reviewing new and closed accounts, and making sure compliance issues are maintained. He is active in many professional organizations in his community and is a leader in his church. Vich was selected by the North Central Council.

Each Financial Executive of the Year receives a crystal trophy, a complimentary two-year IMA membership, and an official proclamation from IMA. The winners also are being featured in a major advertising and promotional campaign conducted by Accountants on Call. To participate in next year's award program, call (800) 327-1117, ext. 274, for more information.

With more than 120 offices throughout the United States, Canada, and the United Kingdom, AOC is a world leader in the placement of temporary and direct-hire accounting and finance personnel. The company is headquartered in Saddle Brook, N.J., and can be found at www.aocnet.com.

IMA is the leading professional organization devoted exclusively to management accounting and finance professionals with more than 65,000 members worldwide.
IASC Names Advisory Council  
By Robert F. Randall

The trustees of the International Accounting Standards Committee Foundation have named 49 chief financial and accounting officers from around the world to the Standards Advisory Council. The SAC's mission is to provide advice to the International Accounting Standards Board (IASB) on priorities in setting standards and on the implications of proposed standards for both users and producers of financial accounts.

Paul A. Volcker, chairman of the IASC trustees and former chairman of the U.S. Federal Reserve Board, said, "The goal of our organization is to produce a single set of universally accepted, high-quality accounting standards. Having a broad range of expertise and experience represented on the Council, which is expected to meet several times each year, will help ensure both the quality and practicality of the world of the Board."


The Foundation also noted that the European Commission, the U.S. Securities & Exchange Commission, and the Financial Services Agency of Japan would participate as observers. A complete listing of the Advisory Council members can be found at www.iasb.org.uk.

IASC Names Technical Experts

The International Accounting Standards Board has named Kevin M. Stevenson as director of technical activities and Wayne S. Upton, Jr., as director of research. Stevenson, a former executive director of the Australian Accounting Research Foundation and national technical partner for PricewaterhouseCoopers, co-founded a firm, Stevenson McGregor. He will assume office in February 2002. Upton, a former senior project manager at the Financial Accounting Standards Board, Norwalk, Conn., will assume office immediately.
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Fees Paid to Audit Firms Exceed Estimates

> **HOW MUCH DO** companies actually use—and pay—their auditing firms for consulting services? For years, estimates by regulators, journalists, professors, and other watchdogs had 25% of public companies buying additional nonaudit services, such as management and technology consulting, from their auditing firm and paying fees equal to about 27% of the audit, on average.

Well, it turns out to be a lot more.

Ninety-six percent of public companies bought nonaudit services from their auditing firm last year and paid an average of $2.2 million, or 1.97 times the audit cost for nonaudit services. That's according to a new study by four accounting professors: Lawrence Abbott of the University of Memphis, Susan Parker of Santa Clara University, Gary Peters of the University of Georgia, and Dasaratha V. Rama of Texas A&M International University.

At the high end, consider these examples: Delphi Automotive Systems Corp. paid Deloitte & Touche $6.6 million last year for audit services but $50.8 million for additional nonaudit services including $41.3 million for information technology services. FleetBoston Financial Corp. paid PricewaterhouseCoopers $8.6 million for auditing work and $33 million for other services. And Wells Fargo & Co. paid KPMG $4.2 million in audit fees but $37.5 million for additional work.

Previously considered proprietary, information about how much money companies pay their accounting firms is now pouring out. That's because of new disclosures the Securities & Exchange Commission (SEC) requires for proxy statements, which passed last year as part of the SEC's effort to tighten the rules governing auditor independence, which much of the accounting industry fought vigorously (see Strategic Finance, Trends in Financial Management, August and December 2000).

The main issue the SEC sought to resolve was auditor objectivity. How objective can an accounting firm be in an audit when it is also making millions of dollars providing the same client with other services? "I'm a firm believer that economics does have a firm impact on people's behavior," SEC Chief Accountant Lynn Turner reportedly said recently. Turner was surprised by the magnitude of the nonaudit fees, saying that it
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raises difficult issues for auditors faced with tough calls on their clients’ accounting practices.

The SEC tried to underscore this point in June 2001 when it settled civil fraud charges against Andersen and three partners for more than $7 million. The suit stemmed from Andersen’s failed audits of Waste Management Inc.’s annual financial results. It followed Andersen’s $75 million settlement of shareholder litigation related to Waste Management’s $3.54 billion in pretax charges and adjustments to clean up its books going back years.

The SEC said that Andersen knew Waste Management was exaggerating its profits throughout the early and mid-1990s, and repeatedly pleaded with the company to make changes, but did not force Waste Management to correct its books entirely. The partner in charge of the Waste Management audit was also the marketing director of Andersen’s Chicago office, whose responsibilities included selling consulting services to Waste Management, according to the SEC’s fraud complaint.

The Commission originally wanted to ban accounting firms from selling information technology and other consulting and auditing services to companies they externally audit. But the SEC compromised in order to reach an agreement last year with the Big 5 accounting firms. As part of the agreement, the burden of proof of auditor independence shifted in part to the audit committee of the board of directors. The new rules, which went into effect in early February 2001, require companies to disclose in their annual proxy statements total fees paid to their auditing firm for: 1) audit fees, 2) information technology services, and 3) all other services. In addition, the SEC more clearly defined the responsibilities of audit committees, who must certify in the proxy that buying multiple services from the same firm did not compromise the independence of their external audit.

In a separate but related study, professors Lawrence Abbott et al. quantitatively analyzed the relationship between the composition of the audit committee and the amount of additional fees paid to the auditing firm. Based on disclosures in 310 proxy statements filed with the SEC between February 5, 2001, and March 23, 2001, the study concludes that companies with audit committees that consist of no insiders, only of independent directors who meet at least four times a year, are more likely to avoid buying additional services from their auditing firms.
How Do You Value the CMA?

DO YOU RECALL THE PROFESSOR POSING THIS question to you when you were a student: Is accounting art or science? For one who changed careers from music to business, the notion of classifying accounting in the grand schema of art seemed farfetched—accounting just never came up at the conservatory. At least in part, the professor meant that creativity is the lifeblood of the accounting profession, and the student's role would eventually be that of a resource in seeking out creative solutions to management issues.

Last year when my colleague, Charles Grosso, and I were tasked with performing a review of financial controls at Sandia National Laboratories, I was initially awestruck at the scope and scale of what I believed the assignment to be. As we proceeded, we focused on context, customers, and content. Context—to draw from corporate experience and resources. Customers—to triangulate the needs of Sandia’s CFO organization, Sandia’s internal audit function, and the Department of Energy (DOE) Albuquerque Field Office. Content—to identify a level of detail sufficient to provide meaningful usefulness to all of our customers. (For the whole story, see pp. 28-34 in the July issue and pp. 29-35 in this issue.)

With our internal audit manager, Wayne Potter, we designed a project that enjoined Sandia and the Department of Energy in a process of creative partnership. Yet when it came to the content of the review, Chuck and I were on our own. This project was about the financial control structure. Our challenge was to usefully portray internal control from corporate objectives to the tasks assigned the individual.

I believe I was able to carry through on this project in large part because of the work I did in preparing to take the Certified Management Accountant (CMA) exam. Preparing for the unexpected is expected when you prepare for the CMA exam or any other professional exam. The intelligence of the certification is not the exam itself. Rather, it is the preparation for creatively managing the unexpected—the overall multi-discipline approach emphasizing the development of the individual’s contextual understanding of business. I was well served by the comprehensive and detailed emphasis on internal controls found in CMA exam study materials. That training and preparation strongly influenced the path we followed to accomplish our goal.

Preparing for the unexpected has paid off long after the exam. It enables our ability to participate in opportunities to seek out creative solutions that extend our skills, raise the bar, and help sharpen the competitive edge of the companies we serve. That is how I value the CMA.

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Accounting Supervisor

Large national publisher is seeking a hands-on general ledger Accounting Supervisor. This position has significant supervisory duties as well as responsibilities for overseeing financial closes, tax filings and annual budget reviews. Candidates must have broad knowledge of all phases of finance and accounting, knowledge of spreadsheet applications and be capable of training staff. Ideal candidate will possess the ability to resolve ambiguous or difficult problems and possess excellent analytical and customer service skills. CPA required, with 5+ years’ reporting experience and 3+ years of supervising. Salary to $65K.

Financial Analyst

National machinery manufacturer is seeking a highly qualified candidate to fill a Financial Analyst position. Ideal candidate will have knowledge of JD Edwards, and have excellent commercial collection and account reconciliation skills. Responsibilities also include performing financial analysis, general ledger maintenance and some project cost work. The position requires analytical modeling skills, experience in multiple task management, excellent interpersonal skills, and a high degree of organization. Salary to $50K.

Senior Accountant

Real estate developer is looking for a Senior Accountant. Position will oversee financial statement preparation and cash flow reporting. Responsibilities also include a heavy role in business planning and budget/forecasting. Four-year degree in accounting, plus 5+ years of general accounting experience and 2+ years’ experience in the construction industry required. Knowledge of job costing, Timberline experience and a CPA are highly desirable. Salary to $50K.

Accounting Manager

Specialty medical practice is seeking a full-time Accounting/ Business Office Manager. Position reports directly to the president and will be responsible for the day-to-day operations of the business office including the accurate, reliable and timely delivery of financial reports and for insuring the proper internal controls and management of all aspects of the general accounting function. Responsibilities include all aspects of the clinic’s information systems, including wide area and local area network, and management and supervision of the patient accounting department. Ideal candidate will possess the following skills: 3+ years of accounting and supervisory experience (clinical/health care setting preferred); 2- or 4-year degree in accounting/business; strong PC skills, including Lotus/Excel (plus MedRec practice management system preferred) and network administration (Novell or NT); and thorough knowledge of the Third Party payer system preferred. Salary $40-45K DOQ.

Staff Accountant

World’s largest REIT, owning and operating 2,000+ apartment complexes and employing 12,000+ employees, is seeking a Staff Accountant. Ideal candidate will have knowledge of standard accounting terminology and procedures, and needs to be detail oriented. Bachelor’s Accounting degree required with a minimum of 3 years’ experience in Real Estate. Must possess excellent communication and problem solving skills and have working knowledge of MS Excel and Word. CPA candidate preferred; experience in a large corporate general ledger environment is a plus. Salary to $45K.

Accountant

A growing public accounting company is searching for an Accountant with 3+ years of public accounting experience. Prior experience in auditing is required, and experience in tax is desired. Must have four-year accounting degree; CPA is strongly preferred. Ideal candidate will have strong multi-task management skills. Salary to $48K.

Finance Manager

A $25-million division of a $150-million manufacturing company is seeking a Finance Manager who has 5+ years of manufacturing experience and has supervised at least 4 employees. This position will concentrate on reviewing the financials and operational procedures. All financials will be reported to the corporate offices. Requirements include a degree, manufacturing background, systems knowledge (to accommodate systems conversion in the near future) and solid communication skills. A CPA is a plus. Salary to $95K.

Senior Accountant

A large nationally based bank is currently seeking a Senior Accountant. Position will be responsible for reviewing financial statements and various special projects. Requirements include a Bachelor’s degree in Accounting with 3+ years of practical accounting experience performing accounting analysis and/or financial reporting. Banking and/or financial reporting experience are pluses. Salary to $55K.

Tax Specialist

A top-notch energy company seeks a Tax Specialist. Position will gather information for sales and use tax returns and determine if proper sales tax has been paid or if there are refund opportunities. Along with these responsibilities, individual will gather information for and prepare personal property tax returns and review assessment notices for proper valuation of property. Ideal candidate will have a 4-year degree in accounting with 1+ years of sales and use tax experience. Salary $40-46K DOQ + 10% bonus potential.
Senior Accountant

Food processing company is looking for a Senior Accountant. Duties include report writing, ad hoc reporting, managing the month-end close process and the general ledger, financial reporting, providing direction on financial systems and procedures, performing projects, and identifying and proposing profit improvement to management. 4-year degree and great IT skills to perform various accounting tasks are required. Salary to $58K.

Controller

A commercial developer and property management company is seeking a qualified Controller with a willingness to learn and be a part of this entrepreneurial, professional business. Position will supervise a staff of five individuals and will report directly to the CFO. Responsibilities include maintaining internal controls and procedures and overseeing day-to-day accounting operations such as cash flow management, development and maintenance of budget processes, overseeing budget preparation, and all financial reporting activities (including SEC). Position will oversee month-end close, monthly journal entry verification, monthly reconciliations and consolidations. Degree in business (accounting preferred), CPA, 5 to 7+ years' experience (some Big 5, preferably with exposure to SEC reporting) required. Ideal candidate will be independent, self-starter, detail-oriented team player with good problem solving skills. Compensation to $75K plus bonus.

Director of Financial Reporting & Corporate Accounting

A medium-to-large publicly traded company is seeking a Director of Financial Reporting and Corporate Accounting. This is a great opportunity for an individual with outstanding technical accounting and communication skills to lead a team in the creation of SEC-related external reports and internal management reports. Position will also lead the corporate accounting department as it handles a wide variety of routine and ad hoc duties. Requirements include 8+ years of experience in a large company, extensive experience in handling complex finance issues that may have division or company-wide scope, project management experience and at least a BS degree in Accounting. CPA required; Big 5 experience a strong plus. Salary $70-90K DOQ.

Financial Business Analyst

Manufacturing company with a challenging and professional environment has an immediate need for a Financial Business Analyst. Position will assist with financial analysis and modeling to evaluate domestic and international business opportunities. Minimum requirements include a Bachelor's degree in Accounting or Finance plus at least 2 years' financial analysis experience. Strong interpersonal and spreadsheet skills are a must; Big 5 experience highly desirable. Company offers an excellent benefits package and compensation to $48K.

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78 STRATEGIC FINANCE | August 2001
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ACROSS
1. Point of departure
8. City of Lights
13. Mountain trail follower
14. Out in the open
15. What you drag along from home
16. Cut ties
17. In the manner of (Alsace)
18. Older male
20. _ Lilly and Company
21. Unload for cash
23. Associate for short
24. Kurosawa's King Lear
25. A summer tea
27. Inspired by the Shrew
29. The bass man
32. Sit apart from the strings and brass
33. Arrives
35. Star Wars plan
36. Short for when you will get there
37. The solar round
39. National HS aptitude tests
43. Abbr for see-through mirror
44. University of Helsinki shortened
45. The last sound you want to hear on a cruise ship
46. Leaping nocturnal from Madagascar
48. Dances with bulls
51. Before that (old form)
52. An olive-oil soap
53. What the wind scrapes off waves
54. One sent on a mission

DOWN
1. Collection of maps
2. James Cameron's sentiment at the Academy Awards
3. Kingly
4. Primary care group (abbr)
5. Russian River that joins the Volga
6. Bob Marley's medium
7. The largest plants
8. Vacation mail
9. Greeting from Julius
10. Dream
11. The Old Country for many Celts
12. What you don't want attached to a deal
19. A 404 is a "_ Found"
22. _ Meitner, pioneer in the field of nuclear fission
26. Threads of the king
28. The result of a spill
29. Bugs that have two sets of wings
30. Belgium's second city
31. Stutter
34. Transgression
35. Sports commentator and author Dick
38. French automobile
40. A formal examination
41. Ibsen's Peer Gynt
42. Shopping orgy
47. Urban Transportation Administration of HUD
49. General _'s chicken
50. Symbols that appear in every e-mail address
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