streetwise

BY STEPHEN BARLAS, ROLAND MADISON, MIKE OSHEROFF, CURT VERSCHOOR, KATHY WILLIAMS

[NEWS]

Bailey Named Deputy Chief Accountant | Kathy Williams, Editor

ANDREW D. BAILEY, JR., 61, WAS NAMED DEPUTY CHIEF ACCOUNTANT FOR the Securities & Exchange Commission last month. He will share responsibilities for the day-to-day operations of the Office of the Chief Accountant with Scott A. Traub, current deputy chief accountant. These duties include resolution of accounting and auditing issues, rulemaking projects, and oversight of private sector standard-setting efforts and regulation of auditors. He will also work closely with the Public Company Accounting Oversight Board (PCAOB) on all auditing-related matters.

Most recently, Bailey was a chaired professor of accounting at the University of Illinois at Urbana-Champaign. He had joined the faculty there in January 1994, was head of the department of accountancy from 1995 to 1997, and was director of the Center for International Education and Research in Accounting in 1997-1999. He also had served as chair of the departments of accounting at the University of Minnesota and the University of Arizona.

No stranger to the SEC, Bailey served as the Academic Accounting Fellow in the Office of the Chief Accountant from August 2000 to July 2001. In that position, he participated in a wide variety of accounting, auditing, and rulemaking activities, including drafting portions of the Commission's releases on auditor independence.

He is a past president of the American Accounting Association (AAA) and the Auditing Section of the AAA. A CPA, CIA, and CFE, he holds a Ph.D. degree from the Ohio State University.

Mutual Fund Scandal Concerns Employers

Employers who sponsor defined contribution plans such as 401(k)s are very knowledgeable about the mutual fund scandal, are concerned about its ramifications, and are monitoring the situation closely. These are a few findings from a national survey of plan sponsors by the Blue Prairie Group and 401khelpcenter.com to assess their reaction to the scandal.

Other findings: Most of the respondents (52.8%) don't have in their plans a mutual fund touched by the scandal; of the 18.7% who do, 47.8% have only one fund, 46% have two funds, and 6.2% have four or more. Almost half (49.9%) monitor fund performance quarterly, 11.6% semiannually, and 29.4% annually. Also, 85.5% of the respondents haven't removed any funds from the plan yet, but they have taken some action: 25.3% have put one or more funds on a "watch" list, 25.3% have convened their investment committees to review all the funds in their portfolio, 22.8% have requested a review

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FASB REVISES SFAS NO. 132

The Financial Accounting Standards Board has revised and reissued Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." This was done to improve financial statement disclosures for defined benefit plans and was initiated in response to concerns raised by investors and other users of financial statements about the need for greater transparency of pension information. The Statement replaces existing FASB disclosure requirements for pensions.

Companies now have to provide more details about their plan assets, benefit obligations, cash flows, benefit costs, and other relevant information. For example, now they have to give financial statement users a

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SFAS NO. 132 cont'd

breakdown of plan assets by category, such as equity, debt, and real estate. And the FASB is also improving the information available to investors in interim financial statements.

To access the new Statement, visit the FASB website at www.fasb.org.

GASB ISSUES NEW STATEMENT

The Governmental Accounting Standards Board has issued Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries." It requires governments to report the effects of capital asset impairment in their financial statements when it occurs, and it enhances comparability of financial statements by requiring all governments to account for insurance recoveries the same way.

The GASB says that the guidance includes several disclosure requirements that will help financial statement users understand the nature and impact of impairment of capital assets. To order a copy, call the GASB Order Department at (800) 748-0659. ■

[ETHICS]

Should IMA Ethical Principles Apply to Nonfinance Duties?

Curtis C. Verschoor, CMA, Editor

THREE YEARS AGO, AMY KIMBELL ASSUMED THE POSITION OF ASSISTANT controller of XYZ Corp. after spending eight years performing assurance services for an international CPA firm. XYZ is now in an expansion mode after recently winning a government procurement subcontract and going public on the Nasdaq exchange. One of Kimbell's primary tasks is to screen candidates for financial positions. Over the last few years, she has noticed that her recommendations were not always followed, and for very unusual reasons.

According to her records, she has forwarded to the controller a number of résumés of qualified individuals who are minorities, but very few of these candidates are offered positions. Instead, it seems that he mainly selects applicants who are relatives of Caucasian firm employees. It concerns her that some of the minority candidates have had much stronger education and experience credentials than of those selected. She is also afraid that XYZ many be in violation of EEOC employment guidelines for a federal contractor.

> *"I want a culture of integrity in the finance organization. That will happen only if I myself am viewed as having personal integrity."—Todd Thompson, CFO, Citigroup*

As she tries to decide what steps to take, she has learned that the Sarbanes-Oxley Act of 2002 (SOX) has instituted broad new requirements for public companies to comply with a code of conduct. She has also heard that SOX has provisions protecting "whistle-blowers."

As a long-time member of IMA, Kimbell is familiar with the Standards of Ethical Conduct for Practitioners of Management Accounting and Financial Management. She is disturbed that the controller, also an IMA member and a CMA, may not be acting in accordance with these standards. She wonders whether she should bring this situation to the attention of someone above her in the management structure or even outside the company, perhaps the CPA firm that does the annual audit of XYZ's financial statements.

To assess the situation, Kimbell has jotted down a number of potential courses of action:

- Leak her suspicions to a financial columnist

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[GOVERNMENT]

Internal Controls Auditing Standard Elicits Heated Comment | Stephen Barlas, Editor

JUDGING BY THE HEAT OF THE verbal volleys, the next big corporate accounting battleground is the Public Company Accounting Oversight Board's (PCAOB) proposed rule on auditing standards for assessing the sufficiency of a company's internal controls. The PCAOB standard, when it is made final sometime in early 2004, will affect not just outside auditors but corporate management, too, because it will enumerate some of the hoops management will have to jump through so that sufficient information is presented to the auditor. Nearly 200 comments have flooded the PCAOB, and almost all of them have bones to pick with the proposed auditing standard. The AICPA, for example, doesn't think an auditor ought to be limited to giving only a thumbs-up or thumbs-down on internal controls. Material weaknesses can be of different degrees, argue S. Scott Voynich, chairman of the board, and Barry C. Melancon, president, who co-signed the AICPA's comments. Allowing auditors to shade their verdict somewhere between pass and fail provides "better, more flexible disclosure that is more informative for users of the report," they write. "In such circumstances, the auditor may determine that an adverse opinion is not appropriate, and perhaps potentially misleading, because the significance of the material weakness is not pervasive enough to warrant a conclusion that internal control, taken as a whole, is ineffective."

The new PCAOB standard will require auditors to evaluate the effectiveness of audit committees, too. In that context, the PCAOB could go beyond Sarbanes-Oxley (SOX) by requiring management to assess the effectiveness of their own audit committees. SOX only requires boards to determine whether audit committee members are financial experts. But Deloitte & Touche LLP says, "...we believe that

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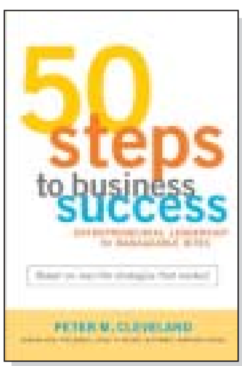
BOOKS

Following a Vision to Success

✷ **BOOKSHELVES ARE CROWDED WITH HOW-TO** books full of hints and tricks for performing whatever activity is covered, though they often fail to guide the reader through the complexities of the subject, leaving out many helpful techniques. Peter Cleveland's *50 Steps for Business Success* is different. It starts with the basis for all businesses—the vision of what the owner wants to accomplish—and continues step-by-step through encouragement of employee action based on that vision to continual re-evaluation of the vision with changing market conditions, and it backs up its information with real-life case histories. Cleveland is a managing partner and senior vice president at Ernst & Young and has more than 30 years of experience coaching companies ranging from small businesses to international conglomerates.



Cleveland breaks the book down into individual steps, which he calls "Bites." Each bite is dependent on the bites before it. Bites are broken down into smaller sections such as Leadership, Communication, Team Core Competencies, Revenue Growth, Product Innovation, Expense Reduction, Barriers to Growth, and Process Improvement. The five to seven steps in each section all support that section heading. Often the concepts are illustrated with actual strategies drawn from Cleveland's consulting work.

The starting point for business success, according to Cleveland, is leadership. At various points throughout, Cleveland

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at the local newspaper
- Discuss the situation with her immediate superior, and confront him with her evidence that he is acting in a discriminatory manner.
- Discuss the situation with a friend who is an officer in the local chapter of a minority-advocate group.
- Speak with someone in XYZ's human resources department.
- Send an e-mail message to the chairman of XYZ's audit committee.
- Bring up the subject with the audit partner in charge of XYZ's audit informally over lunch.
- Advise a personal friend on the XYZ board (but not the audit committee) of the hiring practices being followed by XYZ.
- Just forget about it.

Requirements:
1. Are there other approaches that Kimbell should consider? What?
2. Evaluate the pros and cons of each of the listed proposed courses of action Kimbell could take plus any others from requirement #1.
3. Which alternative do you favor? Why?
4. Are the IMA Standards of Ethical Conduct for management accountants and financial managers helpful in deciding the proper course of action? Why or why not?—*Roland Madison*

Roland L. Madison is professor of accountancy in the Boler School of Business at John Carroll University, Cleveland, Ohio.

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management (in conjunction with the Board or the audit committee itself) also should be required to evaluate the performance and effectiveness of the audit committee's oversight considering the requirements set forth for auditors in the Proposed Standard."

Pension Reform a Top Agenda Item in 2004

Congress came back to Washington in January determined—unless, of course, politics intercede—to finish work on a pension reform bill, which the Senate failed to pass in early December. The House had already passed a bill that established a new "rate" corporations would use in determining the level at which they have to fund the 30,000 defined-benefit pension plans in the U.S., which have suffered lately from flagging stock prices and, by some estimates, are underfunded by $350 billion. For decades that rate had been tied to 30-year Treasury bonds, which are no longer sold. As a consequence, the rate on 30-year bonds still kicking around is extremely low, meaning companies have to kick extra capital into pension plans. The House bill replaced the 30-year Treasury rate with a rate based on a mix of corporate bonds. Business groups were quite satisfied with that, but the House also added a second, essentially unconnected provision that lowers so-called "deficit reduction" contributions companies have to make to underfunded pension plans. These contributions particularly affect industries such as steel, airlines, and others hit hard by the economy in the past few years. It was that latter provision that sank Senate consideration of the pension reform bill in early December. The Senate seems to be on board with the bond rate provision, however, even though the Bush administration supports a bond index rate for a temporary period of two years, after which it wants to see a "yield curve" rate that would consider the age of a company's work force when figuring pension liabilities. Business groups oppose that.

So now Senate Majority Leader Bill Frist (R.-Tenn.) will bring the pension bill back to the Senate floor at the start of the 2004 session as senators try to reach an agreement on the "deficit reduction" provision. "If the defunct rate is not replaced soon, companies will be forced to use an interest rate to fund their liabilities that virtually everyone has agreed will require them to put more money—many tens of millions of dollars for many companies—into their plans than is reasonably necessary," says Mark Agoras, president of the EISA Industry Committee. "That money would otherwise be used to increase spending on employment and on plant and equipment that would further fuel and support economic recovery in 2004." ■

[BOOKS] *cont'd from p. 21*
differentiates between leadership and management. A manager is a person who ensures that business structures and processes are working correctly, but a leader is someone who builds those structures and envisions desired outcomes. Sometimes the role of leader and manager are combined because of firm size, but without leadership, management is ineffective.

The leader's job is three-fold. A leader needs to: 1) decide what needs to be done and how it is to be accomplished; 2) continually react to market conditions, so that the vision is congruent with an ever-changing economy; and, most importantly, 3) make sure his and his employees' efforts support that continually changing vision. The leader isn't a dictator, ramrodding a detailed marketing plan down workers' throats. Nor is the leader a missionary of business, fostering harmony among the various departments at all costs. Instead, a leader is more of a coach of the firm, the one with the initial expertise of accomplishing the vision; the one who identifies the unmet needs of customers and clients; the one who decides the best way of fulfilling the guiding vision; and the one who continually rewrites that vision based on market considerations. The leader's role in the organization can't be overstated. Without a strong leader at the helm, the vision of the firm will be quickly outdated and the firm will be overrun by increased costs and declining sales.

Cleveland also addresses the role of employees in business success at length. Mere management of employees, often in a department such as sales or human resources, is static. The goal of management is to see that rules are followed, budgets are met, and metrics are achieved. Employee action with this kind of encouragement will be limited to the goals of that management. For a successful business, however, employees should actually be striving to fulfill the leader's vision and mission.

To do this, employees must share the mission. Periodic staff meetings keep everyone abreast of vision fulfillment and change. Without broad company knowledge, employees in a rigid departmental structure may inadvertently sabotage this vision to achieve their own individual departmental goals. Instead of rewarding employees for achievement of benchmarks, reviews and bonuses should be based on overall achievement of the leader's vision and employee contribution. When employees share in the vision, their actions aren't guided merely be their job descriptions. Instead, they are guided by and focused on total company success. Employees then become part of that leadership, which typically is the most effective way to achieve a vision.

To maintain performance, a company needs to continually serve its customer and client needs. If the leader doesn't realize this, the company will become stale and will soon go broke for lack of sales. Customers' needs and desires change, sometimes quickly. The guiding vision must change with them, be it with a new product, service, or a reduced price of existing offerings. When customers are satisfied in changing market conditions, the business will succeed. As always, employees must be kept abreast of these changes so that they, too, can continue to stay focused on the vision.

50 Steps for Business Success is not a how-to book for the budding entrepreneur but a collection of pearls of wisdom, backed up by real case studies that every business should follow. Every step in the book builds on the one preceding it, starting with the development of a clear leadership vision to imbuing the firm's employees with that vision, and all of it based on ethical service to clients and customers.—*Mike Osheroff*

[NEWS] *cont'd from p. 19*
of funds by their investment providers, and 2.1% have frozen assets in any suspected funds and have offered plan participants alternative investments.

Plan sponsors said they also were more likely to take stronger actions if the fund company of one of their current funds was actually indicted. In fact, 51.6% would remove the fund from their plan.

Surprisingly, 45% of the sponsors said they hadn't received any questions from their employees about the scandal, and 40.1% said that fewer than 10 employees had asked questions. As a result, 53% of the respondents haven't communicated with their employees about it.

For a look at the entire Executive Summary, visit www.401khelpcenter.com/401k/mutual_fund_scandal_survey.html. ■