

# streetwise



BY STEPHEN BARLAS, GARY COKINS, JAMES COOKE, PAUL LARSON, MIKE OSHEROFF, KATHY WILLIAMS

[NEWS]

## Interviewing for Integrity

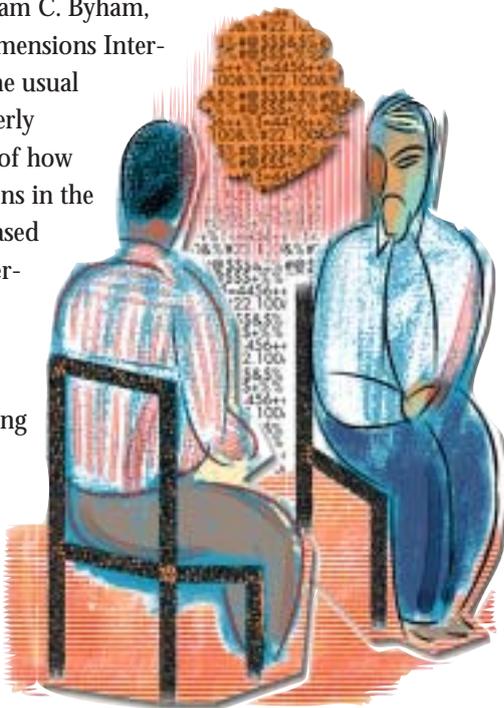
Kathy Williams, Editor

**GIVEN THE RECENT CORPORATE SCANDALS AND NEW REGULATIONS DESIGNED** to prevent further misdeeds, companies want to make sure they hire honest, trustworthy employees they can rely on to adhere to the highest ethical standards. Is there a way you can tell if the job candidate you are interviewing meets these criteria, particularly when some interviewees shine during the interview but turn out to be nightmarish employees who routinely lie and cheat?

The answer is, yes, according to a new report from The Conference Board called "Can You Interview for Integrity?" In it, William C. Byham, president and CEO of Development Dimensions International Inc., says that, in addition to the usual background and reference checks, properly trained interviewers can seek examples of how candidates have handled ethical situations in the past and make proper judgment calls based on the answers. Also, everyone who interviews a candidate should share, cross-check, and evaluate the information the candidate gives.

"The real key to effectively interviewing for integrity," Byham says in the report, "is seeking multiple examples of behaviors and asking probing follow-up questions that reveal the thinking behind the behaviors described." To help employers with this, he includes 11 sample questions along with some good and questionable answers. He also offers advice on how to read between the lines and deal with the interviewee and his/her answers.

To read the report, visit The Conference Board's website at [www.conference-board.org](http://www.conference-board.org), and click on the title under Free Reports below New Publications. The article also appears in the March/April 2004 issue of the group's magazine, *Across The Board*, [www.acrosstheboardmagazine.com](http://www.acrosstheboardmagazine.com). ■



## FASB WANTS YOUR OPINION

Don't forget that the deadline for commenting on "Share-Based Payment" is June 30, 2004.

In late March, the Financial Accounting Standards Board (FASB) issued this Exposure Draft that covers a wide range of equity-based compensation arrangements and addresses the accounting for these transactions, particularly that stock options would be expensed. The proposed change in accounting would replace existing requirements under SFAS No. 123, "Accounting for Stock-Based Compensation," and APB Opinion No. 25, "Accounting for Stock Issued to Employees."

The proposed Statement would apply to financial statements of public entities for fiscal years beginning after December 14, 2004, and of nonpublic entities for fiscal years beginning after December 15, 2005.

To download the Exposure Draft, visit [www.fasb.org](http://www.fasb.org). For a hard copy, call the FASB Order Department at (800) 748-0659. ■

ILLUSTRATION: SUSAN LEVAN/ARTVILLE

READERS' INPUT

ONE OF THE BEST

The March issue was one of the best in years. I was not only happy to see the Norton/Kaplan article plus the one by my SAS colleague Phil Strand on SOX, but I really liked Michael Kennedy's CRM article on page 36.

Gary Cokins, CPIM  
Strategist, Performance  
Management Solutions  
SAS / Worldwide Strategy

MOVE BEYOND PICKS AND SHOVELS

I read the January 2004 article "There's Gold in Your Data" in disbelief. Indeed, the core business processes of many organizations are becoming more dynamic, but it is not because the evolving technology allows us to store data in digital form.

As I read through the article I was reminded that the people who made money on the gold rush were the people who supplied the miners, not the miners themselves. Unfortunately, this "gold rush" fever is being carried over into the data warehousing market. My research on data warehousing suggests the majority of data warehouse projects have not gone well and are not showing an adequate business return on the investment. Depending on which analyst/source you read, you will find some interesting information.

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[RESEARCH]

## IMA Funds Four New Research Projects |

By James Cooke

IMA'S FOUNDATION FOR APPLIED RESEARCH/MANAGEMENT ACCOUNTING Committee (FAR/MAC) approved funding for four research proposals at its biannual meeting in March. The projects have an international flavor:

1. *German Cost Accounting Methods: When Do They Make Sense?* by Professor Kip R. Krumwiede, Boise State University.
2. *Implementation of Activity-Based Costing and Grenzplankostenrechnung (GPK) in German-Speaking Europe: A Comparative Analysis* by Professors Gunther Friedl, Hans-Ulrich Küpper, and Burkhard Pedell, University of Munich.
3. *A Field Study of China Haier Group's Innovative Methods for Planning, Control, Product Costing, Performance Measurement, and Incentive Compensation* by Professor Thomas W. Lin, University of Southern California.
4. *Beyond Budgeting or Budgeting Reconsidered?* by Professor R. Murray Lindsay, University of Western Ontario, and Professor Theresa Libby, Wilfred Laurier University.

The first two projects will investigate German cost accounting (a.k.a. GPK) from an American perspective and a German perspective, respectively. The third project will investigate the success factors behind the rapid growth of the Haier Group, China's largest home appliance maker, which exports goods to more than 160 countries and regions. The fourth project, from two Canadian professors, will focus on the state of budgeting practices in North American companies and the debate over the continued usefulness of budgets for control purposes.

FAR/MAC says it is delighted with the initial response to its new research program and is looking forward to receiving more quality research proposals that focus on the best tools and methods for planning, control, support, and decision making.

A research program brochure provides complete information about the program's objectives, research topics, and proposal guidelines and can be downloaded in PDF format from the Research Program page in the Professional Development section on IMA's website at [www.imanet.org](http://www.imanet.org). If you want a printed copy of the document or have any questions about the program, please contact James Cooke, assistant vice president-research at (800) 638-4427, ext. 1526, or [jcooke@imanet.org](mailto:jcooke@imanet.org).

### IMA and APQC Partner

IMA and the American Productivity & Quality Center (APQC) have joined forces to help drive business improvement in the finance and accounting functions and provide a new resource for IMA members. APQC is a member-based nonprofit that specializes in researching and sharing best practices for business improvement.

Through this partnership arrangement, IMA members can participate in APQC's PowerMARQ™ measurement database, which allows com-

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## [GOVERNMENT]

## Small Business Groups Complain About FASB

Stephen Barlas, Editor

**THERE IS SOME SUBSTANTIAL** political support behind legislation to trim the Financial Accounting Standards Board's sails on the issue of accounting for stock options. Small business groups frantically besieged members of the House Financial Services capital markets subcommittee in early March before FASB released a proposed rule on the subject at the end of March. Karen Kerrigan, chairman of the Small Business Survival Committee, complained that the FASB proposal would badly hurt small companies, and she criticized the substance of the rule even though it hadn't yet been issued. She told members of the subcommittee that FASB "is going to rely on either the Black-Scholes method or the binomial method—both of which many experts agree produce bad numbers." (Visit [www.fasb.org](http://www.fasb.org) to download the proposed Statement.) And she called "unfortunate" a recent decision by FASB to reject "field testing" of various valuation models.

Mark Heesen, president of the National Venture Capital Association, enthusiastically backed the anti-FASB Stock Option Accounting Reform Act (H.R. 3574) sponsored by Rep. Richard Baker (R.-La.), chairman of the subcommittee. That bill includes an exemption from any FASB rule for companies with less than \$25 million in revenues and who are less than three years from their initial public offering. The bill

would require companies to report employee stock options granted to chief executives and the next four highest-paid officers. There is a very similar Senate bill (S. 1890). But Baker's bill faces some obstacles, not least among them the presumed opposition of the chairman of the committee, Rep. Michael Oxley (R.-Ohio). Oxley has expressed a view along the lines of "Let FASB Be FASB."

Incidentally, FASB has established a Small Business Advisory Committee "in an effort to increase involvement by the small business community in developing U.S. accounting standards," the Board said. "Committee members will be a resource to

the FASB in providing additional and ongoing input on accounting issues before the Board," it added.

The Committee is composed of 24 lenders, investors, analysts, preparers of financial statements (including controllers and CFOs), and auditors from the small business community.

### Senate Likely to Pass Tax Bill

The Senate is still likely to pass the Jumpstart Our Business Strength (JOBS) Act (S. 1637), which will be good news for U.S. manufacturers, who would see their corporate income tax rate drop 3%. That cut is

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## The New Internal Auditing Rules

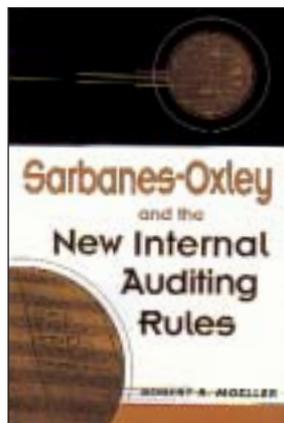
\* **THE PUBLIC OUTCRY ARISING FROM THE** collapse of Enron, WorldCom, HealthSouth, and other firms resulted in the enactment of the Sarbanes-Oxley Act of 2002 (SOX). In *Sarbanes-Oxley and the New Internal Auditing Rules*, Robert R. Moeller outlines the Act as passed by Congress and emphasizes the new responsibilities of managers and internal and external auditors. IMA members reading this review may think that SOX is aimed more toward redefining the role of external auditors and assigning primary obligation for guaranteeing the accuracy of financial statements by CEOs, but Moeller's book emphasizes the role of the internal auditor. SOX has shifted duties of CPAs and management, but the teeth of the Act come from the increased responsibility placed on the internal audit function.

IMA members should relax since they won't have to go back to school to learn a new approach to accounting. The basic tenets of accounting, external auditing, and internal control haven't been changed. The three basic changes caused by SOX are: (1) Top management is now legally responsible for certification of financial results; (2) the internal audit staff is now not only responsible for installing and guaranteeing the efficiency of a network of internal controls but also for reviewing those controls in view of changing operations; and (3) external audit is now responsible for reasonable fraud detection. Most of the book examines the increased role of the internal auditor, which is largely based on the framework created by the Committee of Sponsoring Organizations (COSO), originally called the Treadway Commission, that was released in 1992.

SOX also created the Public Company Accounting Oversight Board (PCAOB) to replace the AICPA for setting public accounting and auditing standards, at least for all SEC-registered firms. Actual internal audit responsibilities have been placed squarely with an independent audit committee backed by a required audit charter. This charter specifies the committee's

responsibilities regarding identification of risk, integrity of financial statements and disclosure, the makeup of internal audit staffs, and assurance of full and open communication with management, external auditors, board members, and other employees and stakeholders. Companies must publish this audit charter as part of their annual proxy statements, so it becomes part of the company's stated policy.

Section 404 requires an annual internal controls report as part of a company's SEC financial reporting. The report must affirm management's responsibility for establishing and maintaining an adequate internal control structure and an assessment of the



effectiveness of that system for the most recent reporting period. Responsibility for actually reviewing the system of internal controls falls on the internal audit staff, whose function in the past has been limited or who has acted as a rubber stamp for external auditors. A typical Section 404 compliance audit will consist of selecting accounts to be examined, recording the documentary process of transaction, evaluating the risk of misstatement, and documenting

and asserting the effectiveness of controls. Documentation produced by a firm for the Section 404 compliance audit is to be updated when procedures or operations change and will be relied upon by external auditors in attesting to the strength of internal control. Instead of CPAs vouching as to the workings of internal control by doing a test audit of various transactions, they will do an audit of the Section 404 compliance report instead.

It is helpful that a large section of the book is devoted to the COSO model because you can examine parts of the original model to see what the final Section 404 may look like. Since COSO is a document that was agreed to by the seven most prominent accounting associations, including the IMA, it is likely that the final Section will adopt many, if not most, of its pronouncements.

Moeller describes the COSO model of internal control as a pyramid with Risk *continued on page 69*

**[GOV'T]** *cont'd from p. 23*

to compensate them for the loss of the FSC/ETI tax credit, which the World Trade Organization (WTO) ruled illegal. In addition, when the JOBS Act was debated on the Senate floor in early March, two important amendments were attached. The first extends the research and development tax credit, which expires June 30, 2004. Not only will the tax credit be extended, but it will be enhanced as well. The bad news is that the Senate voted to close down some tax shelters to pay for the expansion of the tax credit. "We weren't nuts about those revenue raisers," says Kimberly Pinter, director of corporate finance and tax policy for the National Association of Manufacturers. But NAM supports the JOBS Act. The second amendment was sponsored by Sen. Chris Dodd (D.-Conn.) and prohibits taxpayer dollars from being used to outsource or take offshore work formerly done in the United States.

The House has a similar antioutsourcing bill before a few committees, which has attracted the ire of several groups. The American Manufacturing Jobs Retention Act (H.R. 3134) says any company that generates at least 10% of its gross receipts from federal government contracts must be "responsible" in order to continue doing business with the government. The "responsible" criteria are met if at least 50% of a company's workforce is U.S. based. Large multinational corporations have expressed concern with this legislation, noting that, if enacted, it would require them to sharply reduce their overseas operations in order to continue doing business with the U.S. government. ■

**[LETTERS]** *cont'd from p. 22*

Below you will find five statistics companies should consider if they are going down the data-warehousing path.

- There is a 40% to 70% failure rate in data warehousing. With the market estimated at \$8 to \$12 billion, that's a lot of risk.
- 99% of companies do not need data warehouses to support their basic unsophisticated analytical needs.
- Over 80% of the data within most data warehouses is never used because it has little to no value to support strategic, tactical, and operational decisions.
- Only 20% of prepackaged data warehouses (from ERP vendors) are not modified.
- Around 60% of the total data warehouse project cost involves the data modeling and data storage. Forgotten in the estimate, however, is the remaining 40% of cost companies experience trying to deploy the data warehouse.

Today, many companies are saying that they have all the data "gold" that they need within their data warehouses—they just have to find a way to get it out of the system. As a result, companies have invested in technical-driven database query languages (tools) to find and refine the data "gold." Unfortunately, the quantity and quality of the information uncovered by these tools provides questionable business value because of the narrow analytical depth and breadth and the limited number of subject areas and departments these tools attempt to serve. As a result, many organizations still feel constrained by the "data refineries" within their organization where the data lacks meaning and fails to inform management of the critical business issues facing the company.

Core business processes are becoming more dynamic because of changing/adapting business models. The average business model is constantly changing and now only lasts three to eight years. Meanwhile, data architects, who design and build data warehouses using a data

architecture approach, require a static business model throughout the length of the project, usually a couple of years. You can well imagine how relevant the subject areas in a data warehouse will be when the data warehouse is finally ready for deployment.

Today companies are trying to make information work for them by using sophisticated analytics, using a business architecture approach to get insight into how their business really runs. Without a clear understanding of how profit happens and how the business model must be designed to capture it, there will be little gold. Companies are learning that superior business performance to produce profit is an outcome of a smart business design through business and management processes, not through system processes. Technology should be a business enabler, not the business blueprint. It is time to

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**[BOOKS]** *cont'd from p. 24*

Assessment, Control Activities, and Communication and Information layers in the center. The top of the pyramid is labeled Monitoring: a system of internal controls that measures effectiveness of other parts of the model and assures action when appropriate. This includes the reevaluation of the system in light of changing business needs. SOX emphasizes changing materiality of activity to the achievement of internal control objectives as being most important for the CEO and audit committee to review.

The layer at the bottom of the COSO model is central to the internal control system of every firm, no matter what size. Moeller labels it Control Environment. COSO emphasizes that, in any organization, the control environment has a pervasive influence on how business activities are structured and risks are assessed. There are many elements that go into this layer, among them competence of personnel, an active and independent board of directors and audit committee, assignment of authority and responsibility, and human resources practices and policies. The foundation of this layer is integrity of management and ethical values. Ethical values are always espoused by a written code of conduct of any organization, but integrity usually is a "tone from the top" message communicated to all workers by top management. The latter is true for the smallest firm to the largest multinational corporation listed on the New York Stock Exchange. Without integrity, all the other tools of internal control will only

be partially effective.

The Sarbanes-Oxley Act of 2002 doesn't break any new ground. Every technique, rule, and tool of accounting and internal auditing existed right up until the time of Enron's collapse. What changed is that the AICPA was relieved of its rule-making and self-policing powers, and Congress created a new body, the PCAOB, with broad powers to require and enforce compliance with these rules. Enforcement tools, instead of a qualified or adverse external auditors' statement, are fines and imprisonment for CEOs or stock market delisting, thus depriving a firm of a source of capital. Moeller would agree with the statement that SOX has turned the phrase Generally Accepted Auditing Standards into just plain Accepted Auditing Standards. Generally is no longer an option.—Mike Osheroff

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**[RESEARCH]** *cont'd from p. 22*

parisons of their companies' performance to those of best-in-class organizations and industry peers to drive bottom-line improvement. Finance and accounting (F&A) professionals are encouraged to complete F&A online surveys focused on accounts receivable, accounts payable, general ledger, payroll, and more. Identify the process where you are the most involved, complete that survey, and you will receive a summary report with quantitative and qualitative information to guide business decisions that positively impact your organization.

The more than 240 measures in the F&A function of PowerMARQ show improvement opportunities

and how to act on them. As an objective third party, APQC serves as the sole custodian of the repository, which ensures confidentiality. Plus, all metrics within PowerMARQ have been validated, normalized, and aggregated. For more information about PowerMARQ, visit [www.apqc.org/PowerMARQ](http://www.apqc.org/PowerMARQ) or contact APQC at [apqcinfo@apqc.org](mailto:apqcinfo@apqc.org) or (800) 776-9676.

IMA members can also help direct APQC's future research agenda. At present, APQC is conducting an online benchmarking survey to better understand the current status of performance measurement in today's leading organizations. Just complete the 10-minute survey, and APQC will send you a white paper outlining the results. Visit <http://www.apqc.org/survey/measwp> to take the survey. ■

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**[LETTERS]** *cont'd from p. 25*

move beyond picks and shovels as the primary way to unearth treasures within organizations. We now live in the 2000s.

Paul Larson  
EdKnowledge, LLC

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**[PERSPECTIVES]** *cont'd from p. 6*

pating, and you'll see for yourself. IMA is a gold mine of opportunity for enhancing your value and the value of your profession. But even a gold mine is worthless if you aren't willing to do a little digging! The more you "dig in" and participate and partake, the more you will get from your membership.

And don't forget to sign up for and participate in IMA's Annual Conference in Chicago June 26-30. As always, keep in touch. I can be reached at [kwallin@imanet.org](mailto:kwallin@imanet.org). ■