streetwise

BY GERALD ARANOFF, STEPHEN BARLAS, CHRISTOPHER DOWSETT, KATHY WILLIAMS, TOM WELSH

[NEWS]

Dennis R. Beresford Named to Accounting Hall of Fame | Kathy Williams, Editor

IMA MEMBER AND FORMER FASB CHAIRMAN DENNIS R. BERESFORD HAS BEEN elected to the Accounting Hall of Fame along with Gerald A. Feltham, internationally known accounting theoretician, and the late William J. Vatter, professor and writer on cost accounting and related subjects.

Considered one of the leading experts in accounting standards, Denny Beresford, CMA, CFM, CPA, was chairman of the Financial Accounting Standards Board from 1987 through June 1997. Before joining the FASB, he was a partner with Ernst & Young, where he originated the firm's financial reporting developments publications and did extensive work in the accounting standards area. Currently, he is the E&Y Executive Professor at the University of Georgia's J.M. Tull School of Accounting. He is active in IMA, Financial Executives International, and other professional and business organizations.

Gerald Feltham is professor of accounting at the University of British Columbia and is one of accounting's distinguished researchers. Some say he is best known for the books *Cost Determination: A Conceptual Approach* (with Joel Demski) and *Economics of Accounting* (with P.O. Christensen). Before joining the University of British Columbia in 1971, he was on the accounting faculty at Stanford University.

William Vatter was an influential author and respected teacher and mentor. He is well known for his book *The Fund Theory of Accounting and Its Implications for Financial Reports* and a textbook that offered a new approach to teaching managerial accounting. His commissioned report to the U.S. comptroller general on cost allocation became the principal conceptual basis of the Cost Accounting Standards Board's initial pronouncements. He served on the accounting faculty of the University of Chicago and the University of California at Berkeley. He died in 1990.

Compensation Rises for Board Directors, Audit Chairs

Board compensation grew 13% to almost $176,000 in 2003 after being flat for two years, compensation consultants Pearl Meyer & Partners found in a new study. Committee service saw the biggest jump, they said, growing by 35%. Audit chair fees grew by 47%, and compensation committee heads received a 24% pay increase.

The group also noted that, "In a significant shift, the use of full value shares surpassed stock options for the first time since equity became an integral part of director compensation programs a decade ago." More on this will be released in Pearl Meyer's proxy-based report, which will be released this fall. ■

ATTMORE NAMED GASB CHAIRMAN

Robert H. Attmore, a former deputy state comptroller in the New York State Comptroller's Office, began his term as chairman of the Governmental Accounting Standards Board (GASB) on July 1, 2004.

He formerly was president of Attmore & Associates in Albany, N.Y., where he was a consultant to government agencies and other entities. Before establishing his firm in 2003, he served the state of New York for 23 years. He was deputy state comptroller from 1986 to 2003.

Attmore succeeded Tom L. Allen, who had served as GASB chairman since 1995 and wasn't eligible for reappointment. ■

"WE ALERTED THE [BIG 4] FIRMS TO QUALITY CONTROL CONCERNS THAT WE HAVE FORMED,

READERS' INPUT

AT THE FOREFRONT

I enjoyed reading Larry White's column in the July 2004 issue of *Strategic Finance*. Of course, I strongly agree. Management accounting should be at the forefront.

The goal of management accounting comprises adding value to a business enterprise, making it more profitable and efficient and serving society better. Management accounting's aim is to aid managerial decision making. Financial accounting's aim is also to aid decision making but by the external investors who cannot do as much as internal managers. Managerial finance has as its focus the adequacy of funding of a company. They are all important, but managerial accounting is the most important.

The embarrassing scandals in financial accounting such as WorldCom and Enron are causing an upheaval in accounting rules and in accounting teaching curriculums. The U.S. Congress passed the Sarbanes-Oxley Act. The FASB is contemplating major changes.

I think that there is a good chance that the FASB will accept the ideas Mano and Mouristen discussed in their article, "The Sensibility of Principles-Based Accounting Standards" [*Strategic Finance*,

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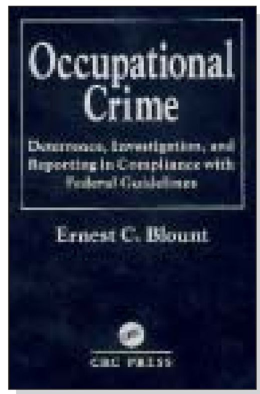
BOOKS

Preventing Crime in Your Company

DESPITE ALL THAT WE READ IN THE BUSINESS SECTIONS TODAY, we need to remember that occupational crime isn't just limited to the Enrons of the world. From the fraud that dominates the headlines to environmental waste discharge, tax violations, antitrust, food and drug offenses, and more, occupational crime can be found in companies of all sizes and types and at all levels—from the highest ranking executives to the lowest subordinate position. In his book, *Occupational Crime*, published by CRC Press, Ernest Blount delves into the federal guidelines that address occupational crime and discusses how companies can help prevent it from happening.

Blount explains that once Chapter 8 of the *United States Sentencing Guidelines* went into effect, it was possible for organizations to be convicted of criminal conduct. One very important detail to remember is that an organization can be held criminally liable even if the individual employee involved acted directly against company policy and instructions. And though it may not be possible to stop every individual who might commit a crime in your organization, an effective compliance program is the best method to prevent most occurrences, as well as possibly mitigating any penalties or sanctions if the worst does happen.



According to Blount, the root of the occupational crime problem draws into question many of the current attitudes and practices set forth by the leadership of companies today. As with any other company-wide program or concept, management must be fully committed to the cause for it to be effective. Management, Blount says, has a powerful impact on whether the company's culture discourages or enables criminal behaviors. Besides using their actions to show employees their ethical and moral values, managers need to make their employees aware of the signs and possible indications of criminal behavior occurring around them.

Blount explains the seven criteria outlined by Chapter 8 of the *U.S. Sentencing Guidelines* that are necessary for establishing a compliance program. The seven basic criteria a company needs to have in place for an effective compliance program are: the establishment of compliance standards and procedures capable of reducing the potential of criminal behavior; the involvement of high-level management in the oversight of the compliance program; due care in choosing the individual(s) who will have the discretionary authority to address any problems or offenses that occur; effective communication to all employees; taking reasonable

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[GOVERNMENT]

Big Four Auditing Still Questionable?

Stephen Barlas, Editor

THE FRONT PAGE PHOTOS IN JULY of Ken Lay as he was led to the Houston federal courthouse in handcuffs brought back memories not only the sad fate of Enron but also of its auditor, Arthur Andersen, whose demise turned the Big Five into the Big Four. But anyone who thinks those kinds of auditing problems are a thing of the past didn't hear what William McDonough told a House subcommittee in late June. McDonough is chairman of the Public Company Accounting Oversight Board (PCAOB), which was created on Andersen's ashes. In somewhat vague terms, McDonough reviewed the results of the PCAOB's "limited procedures inspections" of Big Four audits done in 2003. The PCAOB had just sent the draft results around to the Big Four—PricewaterhouseCoopers LLP, Deloitte & Touche LLP, Ernst & Young LLP, and KMPG LLP—and was getting their comments. So nothing was final. "In numerous interviews, we heard audit partners and staff express their perceptions of a renewed focus on audit quality," McDonough explained. "We have seen some evidence of this renewed focus in firm policies generally and in internal firm communications about those policies. Even so, we alerted the firms to quality control concerns that we have formed, on the basis of our limited inspections, and we will continue to look hard at whether the firms' conduct mirrors their words."

McDonough didn't elaborate on what "quality control concerns" he was talking about, but Rep. Richard Baker (R.-La.), chairman of the House Financial Services Subcommittee on Capital Markets, called McDonough's reference "disconcerting." The open question now is whether the PCAOB will come up with the same kind of "concerns" based on the full-scale inspections of the Big Four, which commenced in May and should finish in November. "We plan to review approximately 5% of the Big Four firms' public company audits—that is, more than 500 audits—and 15% of the next four largest firms' public company audits—or about 150 audits," McDonough stated.

SEC Blesses PCAOB Internal Auditing Standard

A few weeks after McDonough appeared before the House Financial Services Committee, the Securities & Exchange Commission (SEC) approved the PCAOB standard on how accounting companies must attest to the accuracy of management's evaluation of the company's internal controls. The auditor has to evaluate management's assessment process to be satisfied that management has an appropriate basis for its conclusion. Additionally, the auditor must test and evaluate both the design and the operating effectiveness of internal control to be satisfied that management's conclusion is correct and, therefore, fairly stated. A majority of the corporations subject to SEC reporting opposed the PCAOB standard in good part because of how it is expected to increase auditing costs. But the SEC said that the PCAOB had taken those concerns into account when writing the standard and that it had no intention of making changes in the auditing standard. SEC Chief Accountant Donald T. Nicolaisen said, "The standard strikes an appropriate balance by providing sufficiently detailed guidance while at the same time allowing the auditor to exercise reasonable judgment. This standard is an important part of a much broader effort by all parties—issuers, auditors, and regulators—to strengthen our system of financial reporting."

Stock Options Bill Closer to Passage

Legislation that would limit the FASB's reach on stock options accounting is set for a vote on the House floor. The Stock Option Accounting Reform Act (H.R. 3574) passed the House Financial Services Committee by a vote of 45-13 on June 15 and is being pushed hard by the high-technology community. The FASB issued a proposal in March to require companies to record the cost of stock options on their balance sheets. Current policy allows companies to choose whether to include

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steps to be in compliance with the law, including providing a safe system for whistleblowers who report suspected offenses; consistent enforcement of the standards and disciplinary measures within the compliance program; and taking reasonable steps to respond to violations and to prevent similar offenses in the future.

While these federal guidelines give only a general framework, Blount goes into very specific details designed to help companies develop a program that would not only help prevent crime from occurring, but also minimize any penalties or sanctions if the company is found liable for an offense committed by one of its employees.

This is merely the tip of the iceberg. Aside from going into far greater detail about these issues, Blount takes a close look at the costs of occupational crime—from how it affects all of us in general, to the kind of data a company would need to calculate the cost of occupational crime. Also included is an entire section devoted to support materials that managers might find useful in effectively planning, developing, and implementing a compliance program.

Blout's ideas and concepts are presented in a straightforward format that makes it easy to skim quickly and find the topics you need. This book would be of interest to everyone concerned about the affect occupational crime might have on their company. And after all, how could we afford not to be?—*Christopher Dowsett*

[LETTERS] cont'd from p. 22

May 2004]. Financial Accounting would be more accurate if there were fewer rules—including fewer rules for evaluating stock options.

I hope that the FASB accepts my suggestions in "Improving Disclosure and Transparency in Nonprofit Accounting" [*Management Accounting Quarterly*, Spring 2003]. Disaggregated funds-based reporting is an essential supplement to nonprofits' financial statements. A hypothetical case analysis illustrates improvements to nonprofits' financial disclosure.

On the teaching level, my guess is that financial accounting will suffer a decline in prestige and interest for students. All the more as Larry White writes: "Let's move Management Accounting to the Forefront."

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"PERSPECTIVES" HITS THE MARK

Larry White's "Perspectives" column (August 2004) on accounting profession balance in the Sarbox age was quite timely and hits the mark with financial managers of operating businesses. Informal discussions with other CFOs and controllers present some typical views:

1) The financial reporting scandals that spawned Sarbanes-Oxley were conceived by the upper management of the affected firms and executed using legal structuring or simple journal entries. Few were related to internal controls on transaction processing.

2) Compliance with any external reporting requirement siphons resources away from creating financial information needed to improve real business performance.

As he noted, the emphasis is now on inspection rather than prevention of quality problems. Cost of quality concepts were apparently overlooked. Praise audit firm lobbyists for grabbing a bigger piece of the pie! One can imagine an accounting world with more cops than there are citizens to monitor.

Business financial managers generally have to allocate resources among four objectives:

1) Processing the transactions of the business,

2) Fair presentation of the financial results and condition of the business,

3) Budgeting and forecasting,

4) Decision support for tactical and strategic issues.

While external or internal forces drive the first three objectives, only the fourth, decision support, can actually make money. Unfortunately, most of the skills and expenditures of business financial departments are absorbed in communicating what has happened or could happen rather than making things happen. It is by direct influence on pricing, purchasing, and investing decisions that financial information contributes to business value.

Financial talent focused on audits and budgets won't be available to help with day-to-day business activities. Operating managers resort to artwork decision making without knowing which products, capacities, or customers are profitable. Financial staffs driven by external requirements become isolated within their organizations.

Sarbanes-Oxley and intensified auditing tips a scale that was already out of balance. Management accountants will have to sell the importance of providing economic information along with financial statements. Internal controls must be sufficient. However, applying management accounting concepts such as economic value analysis, activity-based costing, and constraint theory is the way to ultimately increase business value. It is hard to sell performance management in an audit-crazy world, but it is worth the try.

Tom Welsh
CEO
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[ETHICS] *cont'd from p. 20*

survey showed that clients also feel strongly that their consultants should have a long-term commitment to consulting and a client-verified track record in their field.

Reflecting the greater concern for questionable ethics of consultants, 40% of client respondents felt that professional service firms would lie to protect themselves, while slightly fewer (39%) felt their own employees would lie for the same reason. Additional ethical concerns brought up by the clients include:

- The professional service firm would overpromise expected results or benefits (46%),
- The firm would allow the scope of the project to expand or "creep" (25%), and
- Consultants wouldn't serve the best interests of the client organization (32%).

Management accountants and financial managers should be aware of these critical aspects of their relationships with any professional service providers their organization may engage. ■

William Donaldson's speech is online at www.sec.gov/news/speech/spch032403whd.htm. The Booz Allen articles can be found at its website, www.boozallen.com. IMC USA's white paper is available at www.cmc-global.org/Docs/IMCEthicsSurvey2003.pdf.

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

a disciplined form of activity-based costing, were published in the April and May 2002 issues of *Strategic Finance*. An introductory article was published in the Fall 1999 issue of *Management Accounting Quarterly*. And IMA's Annual Conference in Chicago featured "The Battle of the Cost Accountants," where three world-class North American cost management specialists debated the merits of GPK, ABC, and RCA.

We have more planned: Two research projects will yield *Strategic Finance* articles supplemented with detailed reports in *Management Accounting Quarterly*; a case study on a trial implementation of RCA will be published in the October issue of *Strategic Finance*; Paul Sharman is preparing a case study on a large German service company with the current editor of the GPK textbook, Kurt Vikas; and IMA Chair-Elect Carl Smith will be publishing a case study of a GPK application by a German subsidiary based in the U.S.

If you're interested in finding out more, IMA will be creating a new E-mail Exchange called "New Costing." We have signed up some people knowledgeable about GPK and RCA to participate in the online community, and you are encouraged to review back articles and start a dialogue on these innovations in cost management.

Please let me know your thoughts. You can reach me at lwhite@imanet.org. ■

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

options in their balance sheets or just as footnotes that don't count against financial bottom lines. H.R. 3574 delays the FASB's proposal until the SEC can determine the true value of options. Then, once an FASB standard is imposed, H.R. 3574 requires companies to expense stock options for only their top five executives. Small companies would be exempt, and newly-public companies would get three years after their establishment to comply. ■