BY STEPHEN BARLAS, CHRISTOPHER DOWSETT, KATHY WILLIAMS

[NEWS]

Top HR Compliance Issues for Small Businesses | KATHY WILLIAMS, EDITOR

So many small businesses get caught up in day-to-day operations, the competition, and trying to increase revenue that they often don't have the resources or time to focus on other issues. One that could be costly if they don't concentrate on it is human resource compliance.

The TriNet Group, a provider of HR consulting and administrative services, has just published an executive white paper that outlines the "Top Five HR Compliance Issues for Small Businesses." They are the challenge of the generalist, exposure to workplace litigation not being addressed, current benefit regulations not being followed, paperwork duplication causing data entry errors, and HR functions not being coordinated.

Challenge of the Generalist. In most small businesses, the HR department consists of just one person who is responsible for compensation and benefits, HR management (policies and procedures, budgeting, strategic planning), legal issues, staffing, technology, and training. Even though they may be proficient in some of the areas, they probably aren't masters of them all, and this could cost the company if mistakes are made in dealing with employees.

Not Addressing Exposure to Workplace Litigation. A 2004 survey by the National Federation of Independent Business (NFIB) found that about half the respondents were concerned about the possibility of being sued, particularly for discrimination. Despite this concern, TriNet found, small business owners aren't addressing the problem. They aren't providing employment discrimination/sexual harassment training, and they aren't carrying employment practices liability insurance.

Not Following Current Benefit Regulations and Laws. For the small business owner who offers retirement and health and welfare benefits, keeping up with the laws can be daunting. They must conduct required tests, apply plan provisions properly, provide required notices and documents to employees, and complete required government filings. Also, the owner must keep up-to-date on all new federal and state regulations.

Duplication in Paperwork Causing Data Entry Errors. For those companies that have to deal with hard copies of forms, the process can seem

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OFFSHORING BENEFITS TAKE WORK

The formula for reaping benefits by improving business process sourcing is more complex than just moving work to an offshore outsourcer to cut costs, executives at a Hackett Group conference told their colleagues recently.

One key element to success, according to presenters, is to analyze end-to-end business processes carefully and consider a range of possible sourcing options before deciding on one or two. Another is to make sure you understand your core competencies. Companies should make sure they keep activities related to their core business value in-house. In addition, it is critical to build a comprehensive business case and strategic implementation plan that takes into account issues such as senior executive buy-in, governance, and how to build a truly cooperative relationship with a business partner. ■

ILLUSTRATION: RICHARD COOK/ARTVILLE

Letters to the Editor

Errata

In the Certification column in the January 2005 issue, there was an error in the name of one of the schools that had the most Certified Financial Managers (CFMs) for 2002. Thunderbird, The American Graduate School of International Management, has changed to Thunderbird, The Garvin School of International Management. Traditionally the school is well known as just Thunderbird.

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unbearable. Instead of one data entry point that will populate forms, data on employees must be entered and tracked from several places, such as a Form 1-9, Form W-4, medical enrollment form, dental enrollment form, 401(k) enrollment form, and flexible spending account form. This can lead to simple errors but ones that take time and money to correct.

HR Functions not Being Coordinated. Payroll data and benefits record keeping must be in sync. If both are in-house, this doesn't present too much of a problem, but if different vendors are employed for each, the HR person is taxed with coordinating the process and making sure it is working correctly.

The white paper covers these issues and also offers some suggestions for help. For a free copy of the paper or more information, contact Greg Howard at greg.howard@trinet.com. ■

[GOVERNMENT]

SEC Schedules Review of Internal Controls Requirements

It doesn't come as much of a surprise that the Securities & Exchange Commission will be holding public meetings this spring on its rule requiring companies to have Sarbanes-Oxley internal controls in place and to attest to the sufficiency of those controls. The attestation requirement itself, which demands an outside auditor to bless or condemn management's own evaluation of its internal controls, has been pretty controversial of late, forcing the SEC to delay its implementation. In December, Don Nicolaisen, the SEC's chief accountant, told an AICPA conference in Washington that the Commission had decided to hold the public meetings, but he didn't provide much else in the way of details. Companies filing annual reports for fiscal years ending after November 15, 2004, had to include both an auditor's report and management's report on adequacy of internal controls. Because of complaints from industry on the complexity of completing those reports within the mandated 75 days after the end of the fiscal year, the SEC granted companies with a public float of less than $700 million an additional 45 days to put their reports together. That extra time is only for companies whose fiscal years end between November 15, 2004, and February 28, 2005. All told then, such companies will have 120 days after the end of their fiscal years to file their internal controls reports. Nicolaisen told the AICPA meeting that the SEC will probably also give foreign companies an extension as well.

> ...such companies will have 120 days... to file...

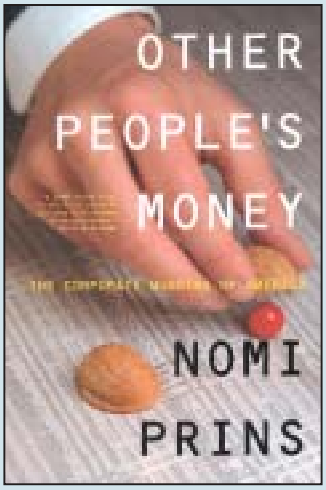
IRS Issues Instructions for M-3

In early December, the Treasury Department released the final instructions for the Schedule M-3, Net Income (Loss) Reconciliation for Corporations with Total Assets of $10 Million or More. Schedule M-3 is to be used by certain corporate taxpayers filing Form 1120, U.S. Corporation Income Tax Return. The original draft version of the Schedule M-3 instructions was released for public comment on March 10, 2004. The final draft version of the Schedule M-3 was issued on October 25, 2004. Schedule M-3 is effective for any taxable year ending on or after December 31, 2004, but a corporation is only required to complete certain sections of Schedule M-3 in the first taxable year the corporation is required to file the schedule. The final instructions for Schedule M-3 provide additional guidance to those corporations required to file the schedule, including detailed instructions for almost every line and many illustrative examples. The final Schedule M-3 instructions and final draft Schedule M-3 may be accessed on www.irs.gov. The final form M-3 will be available there, too, once it becomes available. ■

[BOOKS]

Robbing U.S. Blind | BY CHRISTOPHER DOWSETT

While the media, politicians, and the public decry the Ken Lays and the Riga families of the world for destroying employee pensions, bankrupting their companies, and causing millions of job losses for their personal gain, Nomi Prins, a former managing director at Goldman Sachs, describes how the "few bad apples" rationale isn't entirely accurate. In *Other People's Money: The Corporate Mugging of America* (The New Press), Prins goes into great detail describing factors that created the system in which these corporate scandals were allowed to occur. And more importantly, Prins warns, very little has changed to prevent it from happening again.



This isn't to shift blame away from the guilty parties. Prins spends much time outlining the unmitigated greed of executives. Certainly those who employed "efficient accounting" to manipulate earnings and profit from the rise in stock prices were directly culpable. But there were others who weren't held accountable yet who were just as greedy. Between 1998 and 2001, while the NASDAQ lost 70% of its value, millions of jobs were cut, unemployment rose to 6.4%, and corporate executives made off with $66 billion from cash-outs before bloated stock prices fell precipitously. During the same time period, the average salary for a CEO rose 288% while the average worker's salary rose 10%.

Politicians also helped bring about these events. Prins explained, "The amount of clout the financial sectors wield in Washington can't be underestimated." She describes the major increase in political contributions and rampant cronyism—with many former members of the financial world finding themselves in highly visible government positions. She also delves into the systematic weakening and elimination of regulatory bodies and legislation "by corporations, financial institutions, and their collusive puppet legislators." Prins includes several stories of companies engaging in questionable activities while the government agency/group created specifically to monitor such activity stood by without any response—such as the Federal Energy Regulatory Commission standing by while energy companies (and not just Enron) traded energy derivatives and purposely manipulated energy prices. Even at her job—with Goldman Sachs, among others—she could "count on one hand the number of times that nonfinancial regulatory bodies (i.e., those other than the National Association for Securities Dealers, the SEC, and the FASB) actually affected my work."

Also contributing to the economic climate were the banks themselves. When the Senate repealed the Glass-Steagall act in November 1999, it enabled the mergers of securities firms and commercial banks in an already consolidated industry. This led to the creation of "supermarket-style commercial-investment bank conglomerates" that not only offered services financial investment banks could but also offered cheap credit for loans. Competing for the limited number of clients, they would provide them with very favorable rates on loans. In turn, the clients were "more than happy to hand over some banking business." Deregulation, such as in the telecom and energy industries, also played "a major role in inducing the bear market and economic recession by allowing companies to expand on debt into an area in which they had no historic expertise without an overarching plan for logical and sustainable growth or expansion." As Prins notes, "The energy, telecom, and bank sectors all worked together to create the bubble and are thus collectively responsible for its bust."

Prins presents far too many examples and ideas to cover. She provides a well-thought-out and detailed argument while using a simple, clear style. Anyone interested in how deep the corporate scandals go and how they could happen again would find many of their answers in this book. ■