



## Evaluating Internal Controls and SOX Compliance | KATHY WILLIAMS, EDITOR

Do you want to benchmark your Sarbanes-Oxley compliance efforts against those of your peers and evaluate your internal controls in a comprehensive, standards-based way? If so, you may want to consider taking a free, online survey at [www.apqc.org/OSBCdatabase](http://www.apqc.org/OSBCdatabase). There, as part of an internal controls benchmark initiative of APQC's Open Standards Benchmarking Collaborative<sup>SM</sup>, financial professionals can benchmark their own internal controls against global best practices and see how other companies are approaching ongoing compliance.

Many companies have already documented and enhanced their internal controls to meet the requirements of SOX Section 404, yet they are also evaluating the level of investment required and how they can establish processes to sustain compliance. Some depend on third-party proprietary evaluations that don't let them compare their performance beyond their industry or region. APQC says that the OSBC research initiative was developed from the need for organizations to share one common definition and calculation framework for benchmarking and to access one common source to conduct ongoing performance measurement.

The initiative is being led by APQC, an international nonprofit research organization; IBM Business Consulting Services; and Parson Consulting, a leading financial management consulting group. Previous finance and accounting surveys that are available at the website given above discuss payroll, accounts payable, finance, general accounting and reporting, treasury, and profit and cost management.

### FERF Publishes Report on Internal Controls Deficiency

The Financial Executives Research Foundation (FERF), the research affiliate of Financial Executives International (FEI), has published a comprehensive report regarding SOX internal control requirements. Titled *Control Deficiency Report*, the analysis is based on 968 internal control deficiencies and 1,000 remediation actions disclosed by 329 companies in their Securities & Exchange Commission (SEC) filings between November 1, 2003, and October 31, 2004. The report was researched and prepared by Parveen P. Gupta, the Frank L. Magee Distinguished Professor of Accounting at Lehigh University, and Tim Leech, principal consultant and chief methodology officer with Paisley Consulting.

Some highlights of the report are:

- ◆ On average, the 329 companies disclosed three

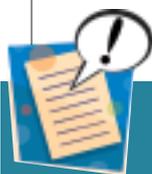
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## PCAOB WANTS NOMINATIONS

► The Public Company Accounting Oversight Board (PCAOB) is soliciting nominations to fill 14 positions on its Standing Advisory Group. The 30-member group was created in 2003 to help the Board carry out its standard-setting responsibilities for auditing. Members have expertise in accounting, auditing, corporate finance, corporate governance, and investing in public companies.

All appointments will be for two-year terms, and members will be selected by the Board based on nominations (including self-nominations) received from any person or organization. Current members may be renominated for another term.

The nomination forms are available on the PCAOB's website at [www.pcaobus.org](http://www.pcaobus.org). Click on Standards and then Standing Advisory Group. Deadline for submissions is June 23, 2005. ■



## Letters to the Editor

### Errata

On page 29 of the May issue, the first line under the subhead Med Solutions Inc.: An Illustration should read “A wholly owned subsidiary of a *Fortune*”....A software glitch turned the word *Fortune* into a number. The correct version is on the website.

### Kudos

Kudos to [Larry White] on [his] most recent Perspectives article in the May 2005 issue of *Strategic Finance*. As one of the “early” believers (CMA certificate #6935) for the need of a differentiating certification from CPAs in the accounting profession, I fully concur with [his] article.

As a degreed financial professional working in private industry for over 20 years, I have labored long and hard to explain the differences between a CMA and CPA.

In fact, in my current position as controller for a small, privately held, family-owned business, I am constantly battling the “iconoclasm” [he refers to]! For almost 40 years, our company has relied solely on their “CPAs” to advise and “do the accounting” for their business. My current battle cry is that “You should NOT be managing your business through the tax lenses of our CPAs!”

**Mark A. Borezo, CMA, MBA**

*Controller  
Pioneer Consolidated Corporation*

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## [GOVERNMENT]

# PCAOB Considers New Management Report

STEPHEN BARLAS, EDITOR

Even voluntary aspects of Sarbanes-Oxley compliance are getting more byzantine and complicated all the time. The latest evidence is the standard proposed by the Public Company Accounting Oversight Board (PCAOB) on March 31 that would tell auditors how to analyze corrections companies make to material weaknesses after the company previously declares those weaknesses, and the auditor attests to them, in an original Sarbanes-Oxley disclosure. SOX doesn't say anything about how a company has to go about rectifying a material weakness. The PCAOB is jumping in on its own authority, apparently to help auditors who get called in by companies who want to make sure their corrections pass muster. If management requests an auditor to “kosher” its elimination of its material weakness—again, this is optional and not required by SOX—then the auditor would have to do so according to the new standard the PCAOB proposed. The proposed standard not only contains requirements applicable to auditors, but it also contains specific requirements for a management report that must accompany the auditor's report. Among a number of other elements, the management report would have to identify the control objective(s) addressed by the implementation or modification of specified controls and include a statement that the specified controls achieve the stated control objective(s) as of a particular date as well as a statement that the identified material weakness has been eliminated by the implementation of the specified controls as of the same date.

## SEC SAB on Stock Options Accounting

The SEC issued a new staff accounting bulletin (SAB 107) at the end of March in an effort to clear up confusion over what accounting methods can be used by companies when valuing stock option grants, which must be reported as expenses beginning in the first fiscal year starting after June 15, 2005. (In April, the SEC gave companies more breathing room by changing the start date for compliance from the first *quarter* after June 15.) The companies who fought the FASB's adoption of stock option expensing were generally positive about Staff Accounting Bulletin 107, saying the SEC made an honest attempt to give companies some flexibility. Rick White, president of the International Employee Stock Options Coalition, said, “While we continue to believe that FASB's mandatory expensing standard is fundamentally flawed, it appears at first blush that the SEC is trying to address some of the problems with the standard. We are hopeful that the SEC has made progress toward developing a workable valuation approach and providing protections from merit-less litigation for well-intentioned preparers of financial statements.” ■



## [BOOKS]

## Organizational Improvement

Many organizations today face a serious crisis in the execution and sustainability of improvement programs. In *Integrating Lean Six Sigma and High-Performance Organizations*, author Tom Devane puts forth a pragmatic guide for leaders that explains how to implement a successful transformation to a higher, sustainable level of performance. Devane provides practical tips for integrating “hard” and “soft” disciplines of performance improvement into an overall strategy: Lean Manufacturing, which focuses on cycle-time reduction and eliminating waste; Six Sigma, which deploys statistical methods to reduce variation and eliminate defects; and the High-Performance Organization, which focuses on developing an execution-based culture through organizational restructuring and increasing levels of intrinsic motivation, ownership, and commitment.

Experience has shown that Lean Six Sigma/High-Performance Organization (LSS/HPO) is best implemented at the level of a plant, site, or other relatively self-contained organizational unit. This strategy, as contrasted with a “big bang” approach spread across multiple global locations simultaneously, provides for an easier-to-manage transition and results in motivation to continuously improve.

Devane suggests three general guidelines for sequencing activities in an LSS/HPO transformation: Use LSS principles and tools in principally HPO activities and HPO principles and tools in principally LSS activities; do ownership-generating activities before improvement activities; and when considering process improvement, first question whether the process should be done at all, then use Lean methods before statistical Six Sigma methods.

The five stages of an LSS/HPO improvement project are: (1) initiation, (2) direction setting, (3) design, (4) implementation, and (5) operations and continuous improvement. Each stage is described by using an activity map showing the major activities and their relative placement within each phase, tools for application, and practical tips to improve implementation success and to avoid common

pitfalls. A performance framework provides a summary methodology to ensure that all key performance elements have been addressed and communicated to the workforce.

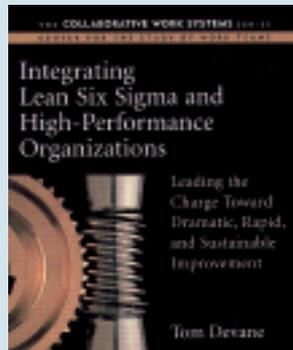
Devane draws six major conclusions:

1. LSS/HPO provides a powerful combination for improvement.
2. Teams are fast becoming the basic unit of organizational improvement.
3. Leaders have a dramatic impact on the success of any improvement effort.
4. Leaders may have to change some of their own behaviors.
5. Principles and tools make a leader’s job easier.
6. Leadership must be distributed throughout the organization.

*Integrating Lean Six Sigma and High-Performance Organizations* is a handy reference guide describing many tools and checklists for leading change initiatives usable in all stages of implementation. These include templates, lessons learned analyses, and other tools to help leaders execute plans focused on high-leverage activities.

This is a useful, straightforward book explaining the practical foundations and practices for day-to-day leadership tasks that enable successful change transformations applicable to corporations, government agencies, and not-for-profit organizations. It focuses on and integrates the implementation of the three disciplines of LSS/HPO in order to develop and maintain performance improvements for your organization. Its audience includes organizational change agents, Six Sigma Black Belts, consultants, organization development and human resources professionals, and managers seeking to lead their organization to the next level of performance. ■

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[NEWS] cont'd from p. 25

internal control deficiencies. Small cap companies disclosed an average of 2.51 deficiencies and 2.5 remediation actions; mid caps, 2.71 deficiencies and 3.02 actions; and large caps, 3.71 deficiencies and 4.76 actions.

◆ More than half of the disclosed control deficiencies were material weaknesses.

◆ Sales revenue, accounts receivable, inventory, and accounts payable experienced the most control deficiencies. Less than 4% were in the IT area.

The report is available at [www.fei.org/rfbookstore](http://www.fei.org/rfbookstore). ■

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[LETTERS] cont'd from p. 26

### Promote the Benefits of CMA, CFM

It appears that many in the business/management field have limited awareness of the benefits of being a CMA (and CFM), based on our (my professional colleagues and myself) personal observations in this field over two decades. I was wondering whether the IMA had beefed up steps to promote these two programs/certificates [recently].

Surprisingly, whether on the college campuses or in the classified sections of the job [listings], there are always ads for MBAs (or MPAs) and CPAs, but very rarely are CMAs or CFMs mentioned. The CMA (and CFM) and CPA are "super" programs/licenses/certificates, while even a good MBA is relatively easier to achieve and is rather general, unlike an M.S. [degree], which would lead to more concentration on your specialized areas. Therefore, I feel that the benefits pertaining to the CMA (and CFM) program for its "great" value should also be ranked at the top among the others.

**Nanda Senathi, M.S., CPA, CMA**  
Tax Consultant

### IMA's Board of Directors has approved a dues increase for 2005-06 as follows:

	2006	Current
Regular	\$185	\$175
International	\$185	\$175
Associate—Yr. 1	\$ 61	\$ 58
Associate—Yr. 2	\$122	\$116
Academic	\$ 93	\$ 88
Retired	\$ 93	\$ 88
Student	\$ 37	\$ 35
ELM	\$ 46	\$ 44

This increase will be effective starting with the July 1, 2005, renewals.

### Way to Go!

I just wanted to say "way to go" on the "Iconoclasm" Perspectives [Larry White] presented in the May 2005 issue of *Strategic Finance*. I agree with it completely, and I used it in class to get my students to think about the value of the degrees and certifications they are seeking. This may not seem like a big deal, coming from me, since I am a professor of management accounting....

But here's the part that makes this compelling: I am a CPA with an MBA! I am in the process of becoming a CMA and CFM, but I have not completed these certifications yet. It would be easy for me (at this point) to step back from this process and say that these certifications won't benefit me. I won't get paid more, and I'm not planning to move to industry, consulting, or anything else. But I believe that [Larry is] right about their value, and I don't know of a better way to display that to my students than to do it myself.

Once again, I have greatly appreciated [Larry's] efforts in promoting management accounting. Keep up the good work!

**B. Douglas Clinton, CPA, Ph.D.**  
Northern Illinois University  
DeKalb, Ill.

### Well Put

[Larry White's] Perspectives in the May 2005 *Strategic Finance* was so well put. When telling people that I am an accountant, I am always asked if I am a CPA. While I have not yet made my attempt at the CMA, I continually have to explain it to people...the CPA is the only designation they are familiar with.

I intend to sit for the CMA soon and appreciate [Mr. White's] articulate education of the folks that share our profession.

**Leigh-Anne Flores**

### Ethics Column Is Spot On

[The Ethics column] in the May issue of *Strategic Finance* is spot on. Although IMA needs to stay out of politics per se, this fraud is so obvious to any accountant that it is well past time that it be called what it is. It does actually seem that a significant part of the population is smart enough to see this also, as support drops.

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