



[NEWS]

Does Technology Aid SOX 404 Compliance? | KATHY WILLIAMS

Yes, but there's still room for improvement, executives told PricewaterhouseCoopers in a Management Barometer quarterly survey. Nearly half the CFOs and managing directors said their company made only satisfactory use of technology to support initial Sarbanes-Oxley Section 404 compliance efforts, while 38% said their company did a "great" or "effective" job with technology, and 10% identified technology as a problem area that needed major changes. In fact, PWC noted, three out of four U.S. multinationals will be making significant technology changes during the coming year, particularly in the control environment and the compliance process.

Also, 40% of the respondents said their IT department helps them find better ways to support the compliance process and improve the control environment, and 21% said their IT department is proactive in identifying ways to use technology more effectively.

"Sarbanes-Oxley compliance efforts are revealing weaknesses in controls and business processes and are accelerating companies' efforts to remediate these problems," Jacqueline Olynyk, partner with PWC, said. "Automation plays a key role in recording and managing identified deficiencies so management may be assured they are remediated effectively, efficiently, and on a timely basis."

Of those companies that said they were going to make significant technology changes to help with the second year of compliance, 47% will give equal emphasis to the control environment and the compliance process, 18% will focus mostly on the compliance process, and 10% will emphasize the control environment. Only 21% of the executives said their companies weren't planning significant technology changes related to SOX.

For more information about the survey, contact Pete Collins at pete.collins@us.pwc.com.

SOX Compliance System RFP Template Is Available

If you are deciding whether to buy an enterprise compliance management system to help you with SOX compliance, there's a tool available to help you streamline the vendor evaluation process. Titled "The 2006 Sarbanes-Oxley RFP Template," the document contains several worksheets that will let you compare the vendors as equally as possible. The company worksheet is the detailed information about the vendor. The functionality worksheet requires each vendor to explain *continued on next page*

FASB LAUNCHES INVESTOR TASK FORCE

► The Financial Accounting Standards Board recently launched an Investor Task Force (ITF), whose members will provide the Board with expertise from the professional investment community on relevant accounting issues. The ITF is composed of the nation's largest institutional asset managers, including The Capital Group Companies, Fidelity Investments, Mellon Financial Corporation, Putnam Investments, T. Rowe Price, and Wellington Management.

This move is part of FASB's efforts to enhance participation of investors and other users of financial information in the standards-setting process. The Board had already established the User Advisory Council in 2003. It includes representatives from individual and institutional investors, equity and debt analysts, lenders, and credit agencies and serves as a resource to FASB in formulating its technical agenda and in advising on specific agenda projects. ■



[GOVERNMENT]

Options Valuation...The Next Chapter

STEPHEN BARLAS, EDITOR

Companies whose fiscal year ended June 30 now face their first quarterly reports in which they have to report stock option grants to employees as an expense. That is causing, as Elvis used to say, “a whole lot of shaking.” The Securities & Exchange Commission and its new top dog, Chairman Chris Cox, didn’t appear to help matters much in late August when Cox outlined the option valuation measures that the SEC might bless. Cox was very, very sketchy. The SEC did publish Staff Accounting Bulletin (SAB) No. 107 in March, which provided very general guidance about how companies should comply with FASB’s Statement of Financial Accounting Standards (SFAS) No. 123R, the options valuation rule. But SAB No. 107 did nothing to clear up the emerging debate in the business community over the acceptability of using a market-based approach as an alternative to a model-based estimate to measure the fair value of options at the time they are granted. Nor did Cox go beyond SAB No. 107.

Many high-tech companies, led by Cisco, have pushed for market-based valuation, where the options would be priced based on their selling price in an open market, like a stock or a derivative. This approach is favored over setting option prices via some model because the price presumably would be lower and lead to a smaller “hit” on corporate profits.

Both Cox and Chief Accountant Donald T. Nicolaisen kept the door open to market-based pricing of options. Cox said, “It will be rare when there is only one acceptable choice in estimating the fair value of employee stock options,” adding, “For now, however, it is not our intention to narrow the field and to limit experimentation, but rather to welcome it.”

Nicolaisen was more specific. He conceded that it should be possible to design instruments whose transaction prices would be a reasonable estimate of the fair value of underlying employee stock options using methodologies that seek to track returns to holders of options or the obligations of the issuer of those options. But he said he had “significant doubts” whether it would be possible to design an instrument that would achieve the measurement objective of SFAS No. 123R by relying on similar contractual terms and conditions, “primarily because of the difficulties inherent in replicating the employer-employee relationship in an issuer-investor arrangement.”

Nicolaisen’s Exit

Since he won’t be around when the first wave of companies report the option grants as costs on their financial statements, Nicolaisen’s throwing of cool, if not cold, water on market-based valuations of stock option grants may or may not, if you’ll excuse the pun, turn out to “hold water.” Nicolaisen left the SEC in October. In fact, it was interesting

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what the system can do in the areas of risk assessment, process documentation, issue tracking, and reporting, for example.

The technology section covers the technical architecture, the database, what other software is needed, which systems it can integrate with, and similar information. In the company vision segment, the vendor tells you the integration with internal audit, operational risk management, and general compliance. And the training and implementation section describes the training options that are available and the kind of support the vendor will give during the implementation.

For a free copy of the template, visit www.soxfcrp.com. ■

Case Competition Changes

Changes have been made to tables in the IMA Student Case Competition article that appeared in the September 2005 issue of *Strategic Finance*. Accounting educators who want their students to participate or who want to apply the case in the classroom should use the new version that is available on the *Strategic Finance* website. To obtain the new version, visit www.imanet.org/ima/docs/3400/3302.pdf.

Those who want the teaching notes that accompany the case should contact Steve Townsend, vice president of member services, at stownsends@imanet.org.



[BOOKS]

From Fads to Evaluating Best Practices

Organizations are driven by the need to improve. Constantly in search of any sort of strategic advantage, companies are quick to jump on board the latest, newest “thing” that shows positive results. But what works well for one company won’t necessarily work well for another. Zero-based budgeting, rightsizing, total quality management, and other tools are fads that were highly popular at one point and then subsequently diminished in popularity when the utility that companies expected wasn’t realized. But fads aren’t entirely bad if they are evaluated in terms of organizational applicability.

Improvement is necessary in order to compete within a given industry or simply to drive down costs and improve quality. The problem is the usual cycle of fads, where one organization benefits from a fad in a specific industry and then other organizations adopt the fad under the assumption that it is a universal solution. As Stephen M. Bragg illustrates in his fourth edition of *Accounting Best Practices*, there are no universal solutions to improvement, and companies need to determine if a new technique or process is appropriate for its needs before moving toward implementation.

Bragg begins with fads and moves to evaluating best practices because it is the evaluation that will determine whether or not adopting a particular best practice will help improve an organization. Adoption of best practices can range from small incremental changes to large-scale reengineering. Regardless of the scale, improvements won’t be realized unless the best practice is first evaluated for organizational applicability.

Bragg has compiled best practices and organized them by accounting areas ranging from billing and budgeting to financial statements and internal auditing. He discusses tools for evaluating best practices (i.e., cost/benefit analysis), reasons for adoptions of best practices have failed (i.e., lack of planning), as well as other useful advice based on his lengthy experience in setting up, operating, and consulting with accounting organizations.

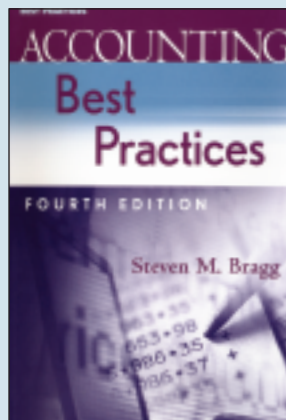
The true success of the book is the breadth of accounting best practices presented. Bragg states that he began this project because there was “no centralized source of information for them to consult that itemizes a wide array of possible improvements.” He more than compensates for this shortfall. The best practices presented aren’t simply theories or trends—they are practical methods. Not only is the information well organized, with an appendix devoted to navigating the best practices contained within, but each chapter also begins with an “implementation issues” section based on prior experience in a specific area (i.e., the expensive aspect of automating period-end cut-offs for

financial statements). In addition, there is a summary table of the best practices presented in the chapter with an indicator for the cost and install time associated with a particular best practice.

One possible obstacle is that there are no concrete examples. There are no real-world examples showing companies that have implemented particular best practices and how. There is a very good appendix that lists all of the suppliers used to implement best practices throughout the book, yet there are

no examples presented of companies that have implemented the practices discussed. Real-world examples are useful in providing a context to be used in evaluating the applicability of the best practice, but, at the same time, an example could bias one’s evaluation if, as with fads that peter out, the company in the example doesn’t relate to the organization evaluating the best practice.

Overall, the book is an incredible tool because it isn’t simply a compilation of fads. Bragg does an excellent job in not only compiling a wide variety of best practices, but insisting that best practices be evaluated for organizational applicability. If the book is utilized as intended, it will be a useful tool for moving from fads to evaluating best practices and realizing improvements!—*Michael A. Bollinger, CMA, CFM, CPA*



to see that Nicolaisen seemed to take a stronger line against market-based valuations than Cox, who, as a member of Congress, opposed legislation requiring companies to treat options as expenses. One Washington lobbyist said any perceived difference was “a matter of emphasis.” There’s no indication that Nicolaisen was pushed out of his job because of differences of opinion with Cox. In fact, scuttlebutt in Washington was that Nicolaisen had always said he planned to leave in the fall of 2005. He had been commuting to Washington weekly from New Jersey, where his family remained. That took its toll.

IRS on Deductibility of ESOP Payments

The Internal Revenue Service proposed a rule limiting corporate deductions for payments made to reacquire stock held by an Employee Stock Option Plan (ESOP). Normally those payments wouldn’t be deductible because they constitute applicable dividends and, therefore, “would constitute, in substance, an avoidance or evasion of taxation” within the meaning of section 404(k)(5), which is the relevant section of the IRS code relating to ESOPs. The proposed regulations also provide that amounts paid or incurred in connection with the reacquisition of stock include amounts paid by a corporation to reacquire its stock from an ESOP that are then distributed by the ESOP to its participants or their beneficiaries. The question of how to treat reacquired stock has been murky ever since the Ninth Circuit Court of Appeals in *Boise Cascade Corporation v. United States* (2003) allowed such deductions. ■

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1. Paid/requested outside-county mail subscriptions stated on Form 3541.	52,932	51,658
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3. Other classes mailed through the USPS.		
e. Free distribution outside the mail		
f. Total free distribution (sum of 15d and 15e)	1,000	1,000
g. Total distribution (sum of 15c and 15f)	65,740	64,233
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I certify that all information furnished on this form is true and complete.

Kathy Williams, Editor-in-Chief