



## Scott Taub Named SEC Acting Chief Accountant | KATHY WILLIAMS

Scott Taub, a deputy chief accountant at the Securities & Exchange Commission since September 2002, has been named acting chief accountant. SEC Chairman Christopher Cox made the announcement last month.

Before joining the SEC staff, Taub was a partner in the Professional Standards Group of the former public accounting firm Arthur Andersen in Chicago. He also served as a professional accounting fellow in the SEC's Office of Chief Accountant from June 1999 through June 2001.

Donald Nicolaisen, former chief accountant, stepped down recently.

### Is Corporate Fraud Still Prevalent?

Definitely, according to the results of a recent Oversight Systems survey of certified fraud examiners. Of the 208 respondents, 67% said institutional fraud was more prevalent today than five years ago (just look at the business press headlines), 26% said they see no change, and 7% said they thought it was less prevalent.

What types of fraud present the greatest risk to companies? The respondents said conflicts of interest such as purchase/sales schemes (63%), fraudulent financial statements (57%), billing schemes (31%), expense and reimbursements schemes (29%), bribery/economic extortion (25%), and inventory and noncash asset misuse (20%).

They also rated the tactics they felt would be most effective in preventing or deterring fraud: a clearly established tone at the top of the organization (41%), visible prosecution and conviction (22%), stringent and highly restrictive internal controls (17%), and a technology-enabled continuous monitoring of all financial transactions (17%). A few other respondents said a thorough, manual quarterly or yearly audit would work as would government regulation.

You may download the complete survey results for free at [www.oversightsystems.com/survey](http://www.oversightsystems.com/survey). And IMA members might want to review the new ethics guidance that was discussed in "Do the Right Thing" in the November issue of *Strategic Finance* and read the new Statement on Management Accounting (SMA) 1C, "Statement of Ethical Professional Practice," on the IMA website ([www.imanet.org](http://www.imanet.org)) in the Publications section. ■

## MAKE CMA THE GOLD STANDARD

► Help us validate the value of the CMA!

The ICMA has launched a new job analysis to confirm the knowledge, skills, and abilities needed by professionals practicing management accounting and financial management inside organizations. The study will validate exam content, elevate the prestige of our certification program, provide insight into the ongoing development needs of IMA members, and help us create a strong value message about the CMA.

A survey in conjunction with this project will be deployed January 4, 2006. IMA members, if you receive this survey, please participate when asked because your input is critical. Be a part of the process!

### Price Change for Certification Program

On December 1, 2005, the entrance fee for certification became \$125. This is an all-inclusive fee that covers:

- Credential review for educational qualification
- Credential review for experience qualification

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## Letters to the Editor

### IMA: Back to the Future

NAA had approximately 100,000 members the year I served as president of the Nashville Chapter (1978-79). IMA now has approximately 70,000 members (*Strategic Finance*, June 2005). After participating in IMA/NAA activities for more than 40 years, it is obvious to me that steps need to be taken to move IMA out of the decline trend of the past two decades.

The results of a research project regarding "Strategic Planning" that a colleague and I did a decade ago were published in *Management Accounting* (July 1995). The insights gained about strategic planning during that research project provide the basis for the following relevant suggestions:

- An increased focus on chapter and council activities by IMA could increase the number of members recruited and retained.
- The equitable consideration by IMA of all members for service on committees and the board of directors could increase the number of members recruited and retained.
- (You fill in the blank) by IMA could increase the number of members recruited and retained.

I would appreciate you communicating your views to me regarding my suggestions and what you think IMA needs to do to regain the quantity of quality members with the esprit de corps that NAA members had during the golden years of our management accounting organization.

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## [GOVERNMENT]

# SEC Extends 404 Reporting for Accelerated Filers

STEPHEN BARLAS, EDITOR

It didn't come as a big surprise when the Securities & Exchange Commission (SEC) extended the deadline for the first Section 404 reports for smaller companies ("accelerated filers") to the first fiscal year ending on or after July 15, 2007, a move an SEC advisory committee had been agitating for. These are companies with a public float threshold below \$75 million. The SEC noted that its Advisory Committee on Smaller Public Companies is in the midst of a study of internal controls and financial reporting requirements for smaller public companies and is scheduled to complete its work by April 2006. The SEC also said, in a by-the-way kind of fashion, that it wants to think about whether the \$75 million threshold demarcation between small and large companies ought to be lowered or raised.

### Section 404 Reports "Not Moving the Markets"

Large companies, of course, have had to file their first 404 reports already and are in the process of completing their second reports. While complaints about the excessive costs of completing those reports remain rife, one other potential negative SOX ramification hasn't materialized. At a "Harvey Pitt Power Breakfast" in Washington in October, Lynn Bruneau, co-leader of the Governance and Sarbanes-Oxley Compliance Practice at Protiviti, a consulting firm, noted that companies whose first 404 reports contained disclosures about "material weaknesses" didn't see their stock prices negatively affected. "In fact, the market moved way to the negative when other things happened to a company besides material weaknesses," she explained. "Institutional investors are much wiser. They look at a broader picture." Pitt, a former SEC chairman, is a member of the board of directors at Approva, an internal controls consulting firm. Pitt called SOX "hastily, poorly-designed legislation." But he also emphasized that the "parade" of corporate scandals that propelled SOX's passage were "breathtaking." He added, "A lot of the credibility the business community had has been squandered. It becomes unseemly to complain about solutions when you sit back and allow problems to happen."

### Waiting for the Other Shoe to Drop

There was also considerable frustration voiced at the Pitt breakfast with the failure of the Public Company Accounting Oversight Board (PCAOB) to issue its analysis of the auditor reports "attesting" to the accuracy of those first Section 404 reports. The auditors are supposed to "attest" using Auditing Standard 2 (AS2), which has been criticized as too inflexible and leading to unnecessary auditor charges. Corporations want the PCAOB to signal that AS2 allows internal auditors to do more

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## [BOOKS]

## Outsourcing Successfully

Business process outsourcing (BPO) is similar to the purchase of physical goods from domestic or foreign sources, but instead of goods being obtained from other sources, part of the administrative function of the firm is done by a company outside the parent. The most familiar example of domestic BPO is outsourcing the payroll function to companies such as ADP, Ceridian, PayChex, etc. A good example of offshore outsourcing is having the staff of a Help Desk function located in foreign countries. Firms have turned to BPO to reap the advantages of low labor costs and the specialized operations of outsourcing vendors, and their customers have benefited.

It sounds as simple as looking up a vendor of human resource operations in the yellow pages and turning over that part of the business to the vendor, but the history of this approach to BPO is replete with disappointments and outright failures. In *Business Process Outsourcing*, Rick L. Click and Thomas N. Duening outline the steps a firm must take to achieve cost savings and business continuity when outsourcing administrative processes to other firms.

Successful development of BPO is the same as that of any other large-scale business project: planning, implementation, and control. What makes BPO different is that, instead of obtaining goods of a certain specification and price, the outsource buyer must contend with fulfillment of the administrative tasks and integration of the vendor with the buyer's infrastructure, both hardware and software, and existing employees.

The most important step in BPO implementation actually starts before the outsourcing buyer even decides which process to outsource or enters into discussions with an outsourcing vendor. Click and Duening call it the identification of *core processes*. This involves identifying the operations, both manufacturing and administrative, without which the firm would cease to be viewed as a source of goods and services. All other processes are secondary and, therefore,

may be considered candidates for outsourcing to others.

Obviously not all secondary processes can be outsourced, but the decision boils down to information use. Critical information that the vendor gathers must be available to the buyer for decision making and control of its core processes—just as if the buyer had assembled the information. If the outside vendor can't guarantee the availability of this data, the operation isn't a good candidate for outsourcing.

The authors outline the steps a firm must take to guarantee successful implantation of process outsourcing. They present a linear process: decision about which business



processes to outsource, vendor selection, contract implementation, and continual review of the results of the relationship. But other than identifying core processes, most firms considering BPO must jump around in the list and consider key elements of success or failure to decide what will work in their organization. Disaster is just around the corner if secondary processes are outsourced and key employees are unable to use the information. Likewise, it makes no sense in having an ironclad contract with a

firm in a politically unstable country. Even core processes might change over time, and business outsourcing must be flexible enough to accommodate that change. Once key elements of a BPO relationship are settled, other elements of the process can be implemented more smoothly.

Just as there was a widespread employee displacement due to foreign manufacturing and imports after World War II, there will be displacement of administrative workers as more and more business processes are outsourced. The competitive advantage in the future for the economy will be in creative development and distribution of goods and services no matter where the goods are actually manufactured or the services performed. From this aspect, the future bodes well for accountants in their role as managers and analysts of current financial information.—Mike Osheroff

[GOV'T] *cont'd from p. 22*

and outside auditors to do less. PCAOB Chief Auditor Douglas R. Carmichael made reference to those upcoming reports on Big 4 compliance with AS2 during an October meeting of the PCAOB's Standing Advisory Group. Carmichael said the PCAOB is committed to "communicate both directly to the firms and more generally to the public whether implementation to date has been as effective as it can be and, if not, how it can be made more effective."

### **Senate Committee Raises PBGC Premiums**

With General Motors apparently considering jettisoning some of its pension obligations, the potential shortfall between the Pension Benefit Guaranty Corporation's assets and obligations looms even larger than it has in the aftermath of the airline bankruptcies. Defined-benefit pension plans in companies nationwide are underfunded to the tune of \$450 billion. That isn't good given the agency currently has \$62.3 billion in obligations and \$39 billion in assets. That explains the vote of a Senate committee to increase the annual premium companies pay to the PBGC from \$19 per participant to \$46.75. Senator Mike Enzi (R.-Wyo.), chairman of the Health, Education, Labor, and Pensions (HELP) Committee, pushed the bill through his committee because business groups are opposing a broader pension reform bill (S. 1783) that's on the Senate floor. That bill includes a smaller increase in the annual premium. The full Senate and House would have to approve the Enzi premium-increase-only bill for it to go into effect. ■