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By Amanda Balbi, Stephen Barlas, Susanne Schwager

GOVERNMENT

New SEC Task Force on Financial Reporting

By Stephen Barlas

Last month, the Securities & Exchange Commission (SEC) announced a new task force that will be on the lookout for companies using aggressive accounting that might suggest financial reporting or accounting fraud. The Financial Reporting and Audit Task Force will be headed by David Woodcock, director of the SEC's Fort Worth Regional Office. He says the task force will use data mining and other techniques to find these companies. In an interview with *Strategic Finance*, Woodcock explains that instead of relying on whistleblower tips or looking at public restatements, the task force will use internal and external data mining technologies and databases such as the SEC's Accounting Quality Model (AQM) to locate companies that appear to be skating on thin accounting ice. "We will incubate the cases, basically kicking the tires of the company's accounting," Woodcock says. If the task force finds some potential financial reporting or accounting fraud, it will refer the company to either a regional office or the national enforcement division for additional investigation.

Woodcock appears to be well suited for this job, which he will be doing part-time. Prior to obtaining a law degree, Woodcock worked for several years at Ernst & Young and then PricewaterhouseCoopers as an auditor and earned the CMA® (Certified Management Accountant) certification. The full-time responsibilities of the task force will be handled by a staff of four accountants and four lawyers, who will remain in their current locations and not relocate to Fort Worth.

Some have argued that the SEC has ignored financial reporting fraud over the past decade, possibly because the Sarbanes-Oxley (SOX) reforms may have curbed those problems. Others say the agency has been preoccupied by Wall Street and the excesses of financial companies, especially since 2008. But Francine McKenna, who writes about the accounting industry in *Forbes* magazine, published a story last October that stated, "The SEC's 2012 whistleblower program statistics show that the most common complaints are for corporate disclosures and financial fraud, 18.2%, even though we know now that it's the 11th straight year of fewer enforcement cases filed for accounting fraud and disclosure violations."

Woodcock doesn't think the SEC has turned a blind eye to corporate reporting fraud, but he admits he doesn't know the dimensions of the problems in that area. He aims to find out by "concentrating" the agency's resources, which have been somewhat spread around, and by going outside the agency to academic experts and others who may have some useful technologies for analyzing and finding corporate financial indiscretions. The task force will be looking at both small and large companies, paying particular attention to areas such as revenue recognition, underreporting of costs and expenses, long-term contract accounting, reserves and allowances, and non-GAAP (Generally Accepted Accounting Principles) measures.

GAO Attests to Value of Auditor Attestation

Speaking of financial reporting fraud, the U.S. Government Accountability Office (GAO) released a report last month that recommends small companies voluntarily disclose in their annual reports whether they received an independent auditor "attestation" of their internal controls. In the Dodd-Frank Act, companies with public floats (a measure of outstanding stock) of less than $75 million were exempted from the auditor attestation requirement in SOX Section 404. That exemption was granted based on the perceived costs of the attestation.

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Those so-called "accelerated filers" must still perform a management review of internal controls and publish the results in the annual report. Dodd-Frank required the GAO to do a report on the auditor attestation requirement in SOX, which the GAO published in July. It found that exempt companies have more financial reporting restatements than nonexempt companies, and the number of those restatements has been increasing. That may have something to do with the fact that most small companies aren't getting auditors to attest to their internal controls. That, in turn, may have something to do with the cost: The GAO says it runs into the hundreds of thousands of dollars and is more of a burden for small companies. Of course, obtaining an auditor attestation has direct and indirect benefits for the company, not to mention investors. The GAO concludes that to enhance transparency and investor protection, the SEC should consider requiring public companies, where applicable, to explicitly disclose whether they obtained an auditor attestation of their internal controls.

IMA NEWS

Ettore Barbatelli, 1924–2013

Ettore "Barb" Barbatelli, former president of the National Association of Accountants (NAA), now IMA®, passed away July 15, 2013, at the age of 89. Barbatelli served as NAA president from 1970 to 1971. He joined the New York Chapter in 1948, was elected Chapter president for fiscal 1959, and remained active on the Chapter board until he became NAA vice president in 1964. After that, he became a national director for two terms. He chaired the Committee on Chapters in 1965 and 1966 and the Committee on Membership in 1967.

Barbatelli grew up in New Haven, Conn., and attended Yale University to study engineering. During World War II, he was deployed in the Asia-Pacific region for 40 months with the U.S. Army Corps of Engineers. When he returned, he graduated Yale with a bachelor of science degree in mechanical engineering and married his wife, Lovedy.

He became involved in accounting and business in college when he joined the American Society of Appraisers. After graduation, he joined American Appraisal, a valuation company based in Wisconsin. In 1964, American Appraisal relocated him and his family from New Jersey to its Wisconsin headquarters, where he eventually became president and CEO.

When he moved to Wisconsin in 1964, he joined NAA's Milwaukee Chapter, where he was a very involved and well-respected member.

During his year as NAA president, Barbatelli vowed to improve communications to members and make "progress in the areas of accreditation, research and education, and regionalization of Association activities," he said in an interview with *Management Accounting* (now *Strategic Finance*).

Aside from NAA, Barbatelli also was active in several Milwaukee organizations, including the Wisconsin Correctional Society and the Milwaukee Children's Hospital. He served on various boards, including Johnson Controls Corporation, Colart Corporation, and St. Mary's Hospital, among many others. He and his wife became involved in the Milwaukee Art Museum, Repertory Theatre, and the Florentine Opera.

He retired from American Appraisal in 1974 after 26 years of service. He and his wife then founded Valuation Research Corporation in Milwaukee, and he served as its president or chairman for another 21 years. After that, he and Lovedy moved to Palm Beach, Fla., and spent summers in Wisconsin with their four daughters, son, and seven grandchildren.

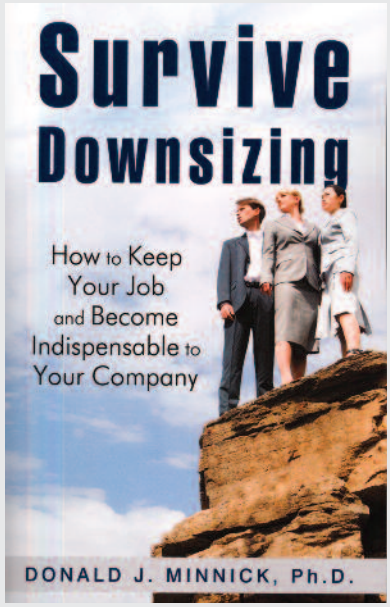
He continued volunteer board work throughout retirement by leading expansions and building drives for the Florida Science Museum and the Norton Gallery of Fine Arts in Palm Beach.

—Amanda Balbi

BOOKS

Be an Organizational Survivor

As the financial crisis began to impact the global economy in 2009, Donald J. Minnick conducted a survey that focused on identifying characteristics of an organizational survivor—someone who has the skills and competencies to remain valuable or necessary to a company that's facing a difficult financial situation. The results of that survey helped Minnick identify several key characteristics needed to help workers keep their jobs and avoid layoffs. In his book, *Survive Downsizing*, Minnick outlines those characteristics.



According to Minnick, the organizational survivor has a balanced skill set of personal initiative skills and a capacity for collaboration. "The most sought-after individual of all was the one who had *both* these competencies in balance," Minnick says. He identifies 30 pairs of descriptions to describe these skills. Readers can evaluate their own performances in both competencies, add up their scores, and build a personalized organizational survival kit.

The "active skill set" includes proactivity as well as an achievement orientation, hope, and confidence. The "receptive skill set" includes orientation toward others, responsiveness to the needs of others, active listening, and polished people skills.

So what makes proactivity? According to Minnick, it involves a combination of two main components. The first is mental agility, which includes intuitive skills, taking calculated risks, a creative mindset, and a thirst for innovation. The second is visibility, which is demonstrated by being known in the organization, being a clear communicator of roles, and being a knowledge center.

Capacity for collaboration includes "boundary spanning," which he defines as being an "organization ambassador" and knowing other people, and "action learning," either by observing participation, learning by doing, or by facilitating collaborative meaning.

Interspersed throughout the book are quotes taken directly from the surveys that describe the various organizational drivers specific to each chapter. Also included are checklists to help readers identify which characteristics they have and find their own personal gaps, and each chapter includes methods and tools on how to close these gaps. Minnick begins by suggesting how you can increase your ability to be an organizational survivor and how to stock your survival kit. He closes the book with suggestions on what to do if you're a victim of downsizing.

The characteristics can also be useful for a company faced with difficult personnel decisions. For example, my employer also was affected by the global financial crisis in 2009, and we had to come up with a plan B in case sales didn't bounce back within a year. Plan B included laying off a number of people, which, of course, got us thinking about who was really valuable for the company. We ended up putting those employees on our "to stay" list—those who are achievement oriented, have hope and confidence, are willing to go the extra mile, have an orientation toward others, and are responsive to the needs of others. Instinctively, we looked for organizational survivors.

This book also helps if you've already lost your job. By using the checklists Minnick provides, you can identify your strengths, which Minnick suggests you emphasize when applying for a new job. Let your future employer know which skills you can provide to the company, and give examples of how creative, intuitive, innovative, and competent you are and that lifelong learning is essential for you.

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