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Members in Business and Industry, May 2003

American Institute of Certified Public Accountants (AICPA)

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AICPA

American Institute of Certified Public Accountants

Highlights

Fifth Annual Business and Industry Hall of Fame Awards

The Hall of Fame consists of a very select group of people who have made superior achievements and contributions over the course of their careers. The Business and Industry Executive Committee invites you to participate in the nomination of candidates for the 2003 Business and Industry Hall of Fame Awards.

Each year, we take a close look at each nominee and will induct up to five individuals who best represent the winning spirit of today's strategic CPA. To be considered for induction into the Hall of Fame, one must:

- Create value by managing technology and resources.
- Lead by example and commitment.
- Provide vision using knowledge of broad business issues.
- Understand the profession beyond the numbers.
- Effectively manage shareholder and customer expectations.
- Champion new methods and solutions.
- Inspire and motivate others to excellence.

The induction ceremony will take place at the **AICPA Fall Business and Industry Conference** in **Lake Buena Vista, Fla.**, from **Oct. 13–14, 2003**. Ajilon Finance is once again proud to sponsor the Hall of Fame.

The deadline to submit nominations is July 31, 2003. To submit a nomination online or for more information about the Hall of Fame, visit www.aicpa.org/halloffame or call 212/596–6157.

Beyond Compliance: Using Sarbanes-Oxley Internal Controls Certifications to Become the Finance Organization of the Future

By Lawrence S. Maisel, CPA, and Anne Swaller

The Sarbanes-Oxley Act of 2002 (the "Act") seeks to restore the public's confidence in our markets and to reinforce the importance of ethical standards and transparency in the reporting of financial information to investors. Many view the Act's internal controls provisions for financial reporting (Section 404) and executive certifications (Section 302) as painful and costly to implement with little derived benefit. Others see the mandated changes as an opportunity to revitalize business practices, drive greater performance, and boost investor confidence.

The Act is prompting organizations to review their finance infrastructure as well as compliance initiatives. Many business leaders see Sarbanes-Oxley as a catalyst (the so-called "Y2K Effect") to make improvements to business processes previously delayed and to strengthen the enterprise's system of internal controls, and thereby reap important economic and strategic benefits well beyond compliance. Benefits include the ability to:

- Make better business decisions with more accurate and timely information.
- Strengthen corporate governance and renew investor confidence.

continued on page D3

AICPA Spring Industry Conference

The AICPA is excited to bring back the **Spring Business and Industry Conference**. For the first time, the conference will be held in **Las Vegas** from **June 19–20, 2003**. This is your opportunity to broaden your expertise, strengthen your management skills and take a break.

The Spring Business Conference was created to help you focus on building skills in such areas of responsibility as:

- Reporting
- Human resources
- Risk management
- Information technology
- Financial strategies
- Cost management
- Personal development

You can come a day early and stay an extra day and earn additional CPE. At our Pre- and Post-Conference workshops, you have the opportunity for more in-depth learning, networking and CPE credits. Topics include:

- Meeting Today's Supply Chain and Manufacturing Challenges
- Strategies for Managing Corporate Cash and Working Capital
- Advanced Excel Techniques
- Strategic Planning
- Techniques for Effective Leadership

You can network with colleagues at the JW Marriott in Las Vegas, America's favorite resort city. It is located off the Strip and is the hotel of choice by those who would rather be close to the action rather than right in the middle of it. The hotel boasts some of the top French, Italian and Japanese restaurants in Las Vegas, as well as a 40,000-square-foot spa. JW Marriott is one of the top resorts in the country and is a great place for a conference.

If you can't make the Spring Business and Industry Conference, keep in mind that the AICPA also will be offering a Fall Business and Industry Conference in Orlando, Oct. 13–14, 2003.

For more information or a conference brochure, visit www.cpa2biz.com or call 888/777–7077.

AICPA National Conference on Executive Compensation

Executive retention issues, the impact of the Sarbanes-Oxley Act and pending legislation are just some of the reasons why executive compensation is one of the most critical areas in employee benefits today. The **AICPA National Conference on Executive Compensation** is being held from **June 5–6, 2003** at Caesars Palace in **Las Vegas**. This conference provides CPAs, industry executives, attorneys and HR professionals with the latest techniques and strategies. The focus of the conference is on executive compensation design, tax strategies and the practical application and implementation of the latest trends. A case-study approach provides insight into "real life" situations.

As a result of the Sarbanes-Oxley Act, board compensation committees will need to be more active in the design and review of executive compensation arrangements. In addition, you will also learn ways in which this Act, with its emphasis on greater disclosure and accountability for senior corporate officers, has affected executive compensation.

You will benefit from the expertise of industry leaders as they discuss pertinent issues including:

- Effects of Sarbanes-Oxley on executive compensation
- Role of the compensation committee
- Stock option plans
- Deferred compensation
- Equity-based compensation

There is a session especially for you whether you have a sophisticated level of executive compensation experience or are just starting to work in the field. This conference provides junior-level professionals with comprehensive training to solidify their knowledge, and more complex and in-depth information for senior-level professionals.

For more information or a conference brochure, visit www.cpa2biz.com or call 888/777–7077.

Organizing Your Projects Into Project Portfolios

By Rich Lanza, CPA, PMP

When was the last time your organization looked at its inventory of projects? How about just the projects in your accounting/finance department? In today's resource constrained times, management needs to best maximize its investments in projects. However, unless a company understands the projects it is working on, it can never expect to enhance its return on investment. As the old saying goes, "what gets measured gets done," and if a project is not measured, it could become a black hole of expense rather than a productive investment.

Further, on a more holistic scale, a managed portfolio of projects helps to detect duplication of work and enables a coordinated effort. It is also an excellent tool for communication by providing a snapshot of where resources are being used and could detect cause of stress levels.

continued on page D4

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Pamela Green
supplement editor, project manager
212/596–6034; fax 212/596–6025
e-mail: pgreen@aicpa.org

John Morrow
Vice President, New Finance
212/596–6085
e-mail: jmorrow@aicpa.org

Ellen J. Goldstein
CPA Letter editor
212/596–6112
e-mail: egoldstein@aicpa.org

continued from page D1— **Sarbanes-Oxley**

- Strengthen the internal control environment to ensure:
  - Reliability of financial reporting
  - Efficiency and effectiveness of business operations
  - Compliance with laws and regulations
- Gain competitive advantages through more efficient, cost effective operations.

Strategies for Moving Beyond Compliance

Section 302 requires management certification of quarterly and annual financial statements and the assessment of disclosure controls and internal controls for financial reporting. Section 404, as proposed, requires all annual reports (fiscal year ending on or after Sept. 15, 2003) to include the results of management's evaluation of internal controls for financial reporting and a verification of the accuracy of the assessment from the company's auditor. The SEC expects companies to determine for themselves the structure, approach, and level of documentation and formalization required for the Section 302 and 404 certifications. Although the requirements of the Act are still evolving, some companies have adopted a strategy that addresses the provisions of Section 302 and Section 404 through a more comprehensive internal controls improvement program.

This presents an opportunity for management to take a global approach to compliance by strengthening internal controls and establishing a process for monitoring and continuous improvement of operating practices, rather than concentrating on policies, procedures, systems, and controls solely related to the financial reporting process.

Build a Compelling Business Case

With the accelerated reporting deadlines mandated in the Act and the risk of increased regulation, a more comprehensive approach to Sarbanes-Oxley can achieve a return on investment well beyond mere compliance. Most public companies already have some form of internal controls in place. Therefore, organizations may be able to leverage existing systems, processes and resources when developing a more formalized process. To build a business case for streamlining operations, which utilizes the platform of internal controls, consider the following:

- Improved processes and systems may result in more accurate and timely information, which will enable better business decisions. Additional benefits may also include cost reductions based on more efficient operations and a reduction in financial statement preparation time.
- Good governance enhances the shareholder value of any organization. One study indicates that a company with good governance can command as much as an 18% premium on its market value[1].
- Good governance extends beyond the finance and accounting departments. Operating managers and staff must understand the importance of internal controls, particularly the consequences of improper recording and reporting of financial and operational events. A training and reinforcement program will promote enterprise-wide awareness, but will only be effective if it is built upon solid policies, procedures and systems.
- Strengthening current processes and systems can assure management of the quality of certifications for years to come, as activities around certifications are recurrent and far-reaching.

Establish a Compliance Program

Before kicking off a Sarbanes-Oxley compliance program, each organization must understand the Act, any subsequent rules issued by the SEC, and the resultant implications to the company. One misconception is that the Act impacts only the finance organization. In actuality, the Act has far-reaching effects including not only the CEO and CFO, but also the board of directors and audit committee, human resources, legal counsel, and operations. Establishing a steering committee with executive support and representation is important to facilitate total enterprise commitment and accountability to the compliance program. If cultural changes are required, executive members must lead the effort. A program manager should be named. The enhanced independence rules require increased scrutiny to ensure that team members, internal or external, are not functioning in a role that causes a conflict of interest.

Conclusion

Some have described Sarbanes-Oxley as the most significant piece of business legislation since the Securities Acts of the 1930s. The Act has unmistakably changed the business and regulatory environment, and companies cannot afford to underestimate its impact.

Companies can learn from the plight of corporate accounting and the resultant Sarbanes-Oxley Act. Lessons include the following:

- Accept that we operate in a new environment that demands greater accountability.
- Drive control responsibility and accountability through the organization to operating units.
- Obtaining sound internal controls is not a one-time effort, but a cost of doing business. Factor internal control costs into budgets and business plans.
- Do not focus on form over substance in the approach to complying with the Act. Promote an understanding of internal control within the organization and establish an environment of ownership and continuous improvement.
- Use this as a catalyst for needed process improvements to strengthen and streamline the finance department.
- Regardless of the current operational infrastructure, the ability to demonstrate a strong system of internal control can lead to competitive advantages that produce tangible results.

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[1] ***"Three surveys on corporate governance," Paul Coombes and Mark Watson, McKinsey Quarterly, 2000, Number 4***

Larry Maisel *is the Managing Director, New York Metro Region, Parson Consulting.*

Anne M. Swaller *is a Practice Director at Parson Consulting.*

continued from page D2 — **Project Portfolios**

What Are Projects?

Projects are defined by the Project Management Institute as "A temporary endeavor undertaken to produce a unique product, service or result." Examples of projects could include:

- Automate invoicing by creating feeds between pricing catalogs and orders.
- Automate monthly reports by linking data from various sources.
- Build a department Web site.
- Develop departmental policies and procedures.
- Make a physical move of the accounting operations to another building.

It could be argued that practically all company work could be reduced to unique and temporary projects. Therefore, many organizations set limits from a dollar or time perspective to help scope which activities make it to the project inventory.

How Do I Develop an Inventory of Projects?

Developing a project inventory isn't rocket science — anyone can do it. A good starting point is to follow a process similar to that undertaken for capital projects. Departmental managers would complete a periodic survey that collects information regarding their projects. Such a survey could be completed using the company's intranet, a simple Web form that could be designed by the MIS department or through free services such as www.opinionpower.com.

Questions to be answered could include:

- What are the department's current projects?
- Who is the project manager?
- What additional projects are expected to start in the next 12 months?
- What are the top benefits and risks of each project?
- How does each project align with the organization's strategic plan?
- What are the expected financial returns on investment and payback period?
- What are the expected completion dates?
- What are the projects' budgets and expected costs to complete?
- What are the costs to date?
- What type of skill sets are needed to accomplish the project?

Although the above questions may be helpful in general to arrive at the project inventory at some point, it will be necessary to track more specifics on the project. The table in the right column lists various data fields to maintain in the inventory.

Organizations usually start tracking such information in a spreadsheet application to manage the inventory which is saved for each period under review. This may be appropriate for even the long-term given the organization's size and the timing of updates. Some organizations may move up to a database application, while others may prefer a specific project portfolio management software.

- Name
- Description
- Project Type (e.g., Operations, Technology, R&D, Product Development)
- Project Manager
- Top Three Project Deliverables
- Top Three Success Metrics (e.g., Net Present Value)
- Project Phase (e.g., Initiating, Planning, Execution)
- Project Sponsor (e.g., Vice President)
- Top Three Project Risks and Responses
- Lessons Learned on Project To Date
- Project Start Date
- Project End Date
- Expected Completion Date – Initial
- Expected Completion Date – Current
- Cost Estimate to Completion – Initial
- Cost Estimate to Completion – Current
- Actual Costs to Date

For more information on these types of software, enter "project portfolio software" in any search engine.

How Do I Review the Portfolio?

Normally, the view towards a project is "How do we get this project done on time and within budget?" For project portfolios the question is "How can we make this business more valuable and profitable through the various company initiatives?"

Given the more holistic nature of a portfolio, it is wise to establish a cross-functional group to periodically review the project inventory. Many organizations call these groups Change Control Boards, Configuration Control Boards, or sometimes Murder Boards. This review would focus on the following objectives:

- How are these projects helping to achieve the organization's strategic vision?
- Which projects overlap and can we better combine projects to minimize cost/maximize benefit?
- Can we maximize purchasing power across projects for certain items that various projects need?
- What pervasive risks affecting our projects could be prevented/mitigated at a more organizational level?
- Which projects provide the most "bang for the buck" short-term and long-term?
- Does everyone who should know have an awareness of the associated existing projects?
- What lessons learned from the various projects can be applied to future initiatives?

In summary, a project portfolio provides an excellent return on a limited investment of time. In addition to the benefits associated with reducing duplicative projects, maximizing purchasing power and human resources and capitalizing on lessons learned, a project portfolio helps to ensure that risk is managed appropriately for organizational initiatives.