



# CFO ADVOCATE

Quarterly Newsletter of the Atlanta CFO Roundtable

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## Benefits of Sarbanes-Oxley

The Sarbanes-Oxley (SOX) legislation may provide companies with unintended benefits to improve themselves. CFO's should use SOX to accomplish the following secondary benefits:

- Create a stronger tie between the Finance and IT Departments
- Use the documentation process to improve business systems and eliminate errors

SOX may be the most significant financial legislation that has been passed since the launching of the Securities and Exchange Committee (SEC) in the early 1930's. Recent events (Enron, Worldcom, Adelphia etc.) have prompted congress to step

*"CFO's should use SOX to accomplish... secondary benefits."*

in and enact legislation that puts teeth into the sanctions for violating the public trust. SOX exacts a harsh penalty for non-compliance. CEO's and CFO's can spend as many as 5 years behind bars and pay fines up to \$20 million if they knowingly file misleading documents with the SEC. Those possibilities will get most people's attention.

There are three sections in SOX that require public certification by the CEO and CFO. These sections are 302, 404 and 906. Sections 302 and 906 are currently in effect and relate to a certification on the accuracy of the reported financial information. These sections merely emphasize SEC requirements that have previously existed and compliance has not been a significant issue. Certifying to the accuracy of financial information has long been required of the CFO and CEO, although SOX has specifically defined penalties for non-compliance. The section that is causing the most confusion is 404. This section requires management to assess the system of internal controls and disclose all deficiencies. It also requires the documentation of a company's systems of internal controls. The vagueness of the language in this section has caused its implementation to be delayed twice. It is now effective for year-ends starting after 11/15/2004.

When CIO's installed ERP systems in the 80's and 90's, they took something away from the CFO's - financial controls. Manual audit trails and detailed accounting schedules necessarily were replaced by bits and bytes inside CPU's. Now that SOX requires the CFO to sign off on these financial controls there is a frantic

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## Avoid Losing a Solid Candidate!

Hiring managers are facing a more difficult challenge in identifying viable candidates. In the recent past, a candidate who had several years of experience would often attempt to hide their age by eliminating dates of employment and education from their resume. Now, they are often being coached to eliminate dates of employment for jobs held greater than a mere 10 years ago. Many of these candidates are also removing early career jobs (in their entirety) from their resumes. And if their career spans more than 10 years they are also frequently removing dates of graduation related to educational milestones they have achieved.

Why does this trend make it more difficult to find a good candidate? Consider the following scenario. Picture yourself as the CFO of a public company who each day is dealing with the reality of Sarbanes-Oxley regulation. You need to hire a new Controller.

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## Opportunistic Market for Tenants

During the last year, we have seen the Atlanta office market bottom out, then begin a slight recovery in recent months. The positive absorption in the market is driving the vacancy rates lower, decreasing the number of subleases available, and turning the tide on the lease rates. After long periods of decline, the lowest rate was reached, and we are finally seeing a slight increase in the rental rates.

Vacancy rates are still at unusually high levels (20% for class A space, and 15.5% for class B space). In this environment, significant concessions are necessary to attract new tenants. Here are some of the concessions we are seeing:

**Free Rent:** 1 month free for every 1 year term of a lease. (5 months free on a 5 year lease). Large tenants with excellent credit are receiving discounted rates and up to one year of free rent on longer term leases.

**Build Out Allowances:** Landlords are building out space to meet customer needs, rather than quoting specific allowances. Credit worthy tenants can expect a turn key build out of office space.

**Flexible Occupancy Dates:** Landlords are more willing to be flexible on occupancy dates, therefore allowing tenants to negotiate further in advance.

### Opportunities

With rental rates beginning to rise, there are significant opportunities to lock in the low rates currently in the market. Many companies have taken advantage of these low rates by renegotiating their leases (even though they have one or two years remaining on their current leases). In some cases, companies were able to give back a percentage of their space after renegotiating.

By taking a company into the market early, Benchmark Resources strengthens

its bargaining position with the existing landlord, as well as other potential landlords. We negotiate free rent components, build out allowances, moving allowance, etc. If the company chooses to remain in the current space, we can use this information to negotiate the best business terms with the existing landlord.

We recommend that our clients get into the market at least a year prior to the expiration of their current leases. This provides plenty of time to see all the opportunities in the market, compare various proposals, build out the space, and to ensure that each company gets the best-negotiated deal possible. Some recent examples of how it works:

### Example 1:

Company A had 18 months left on their lease, and wanted to take advantage of the low rates. The company had been paying \$27.00 per square foot, and was able to negotiate a \$21.00 per square foot rate on a 10 year deal. Company A decreased its space by 35% to match its reduced needs, and received a check from the landlord for \$20.00 per square foot in build out allowance to enhance its space.

### Example 2:

Company B had 30 months left on their lease and had grown so quickly that their offices were spread throughout the entire building. They had 24,000 square feet and a need to grow. We were able to find a landlord who was willing to buy out the liability on their existing lease (close to \$1 million), offer them a \$22.00 rental rate (which was a \$1.50 reduction per square foot), and provide a free rent component. The new space will accommodate their future growth.

- David A. Payne, Benchmark Resources

# Indirect Expense Management – So What?

We all know what indirect expenses are – basically any expense that does not fall into direct costs of a product or service. The challenge is that many of these costs are considered “fixed cost” or “local administrative cost” and no one has the responsibility to routinely review invoices or aggressively pursue cost reduction efforts. Every function has pockets of this expenditure and assumes someone else is controlling the total cost.

Aberdeen Group reports as much as 50% of a company’s total expenditures are in the indirect category. Consider:

- How much is 50% of your payables?
- Are you over-paying?
- Are processes documented and controlled?
- Are you in compliance with SOX?

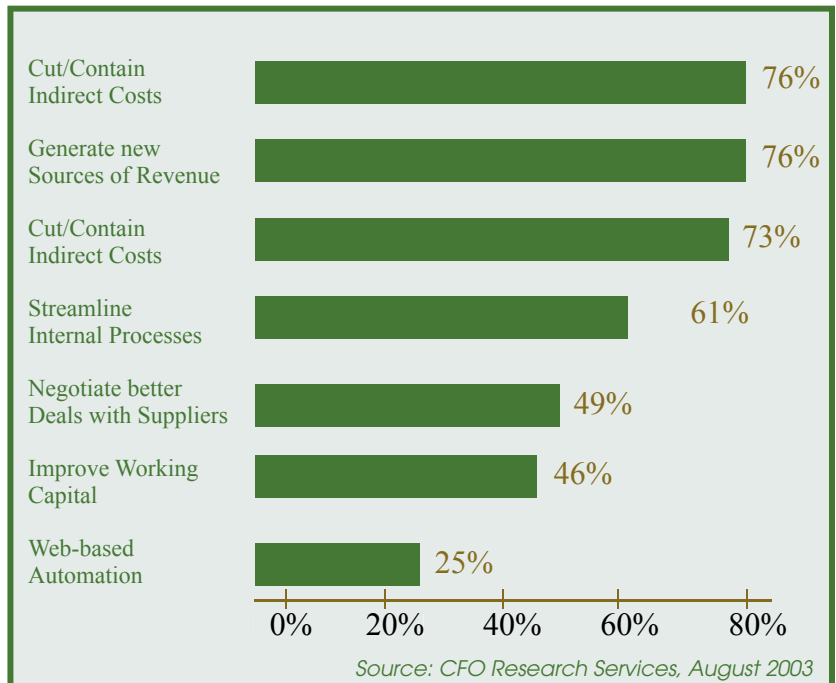
According to CFO Research Services, reducing indirect expenses is tied with revenue generation for improving the financial health of your business.

The challenge is how to manage these expenses and the ongoing process. We believe the process of Indirect Expense Management™ is a discipline within itself. This requires special business knowledge and expertise. Areas to start?

- Are healthcare cost increases creating serious issues? We have identified how it is possible for 30-50% cost reductions while improving employee participation.
- Are your telephone and data bills correct? In eleven years of experience, 86% of corporate telecom invoices were erroneous. Aberdeen Group cites that “7-12% of telecom services charges are in error.”
- Are you over-paying for IT Services, Software, Utilities, Telecom...? We have uncovered annual savings from 10-30% in these categories.
- Do you qualify for the Georgia Job Tax Credit Program? If so, 50 new employees could exceed \$650,000 in tax credits.

## Indirect Expense Sources

Finance	Technology	Human Resources	Sales & Marketing
Taxes A/P Recovery Insurance Leasing Treasury Consultants Outsourcing	Telecom Computers Software Network Storage Consultants Outsourcing	Travel Benefits Temps Training Legal Consultants Outsourcing	Advertising Printing Call Center Trade Shows Collateral Consultants Outsourcing
Real Estate	Procurement	Logistics	
Utilities Leasing Development Management Furniture Consultants Outsourcing	MRO Supplies Capital Goods Copiers Fleets Consultants Outsourcing	Audit Pre-Pay Warehouse Distribution Freight Consultants Outsourcing	



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effort to manually document these bits and bytes. CIO's are feeling that CFO's are using SOX as a power play to regain some of their lost authority and freeze them out of the process. A survey by Gartner showed that among 75 public companies surveyed just 63% involved IT in the SOX decision-making process. CIO's are people too and they are feeling that a wedge is being created by the accountants to get control of the business again.

In reality, there has never been a time when CFO's and CIO's need each other more. While it is the CFO that is specifically identified in SOX as the person that must certify as to the adequacy of a company's internal controls, it has become the practice in most companies that major department heads (particularly CIO's) are required to sign sub-certifications as to the adequacy of internal controls in their areas. While these sub-certifications may not have SOX liability, they certainly can lead to consequences within the corporate organization.

Both the CFO and CIO must also band together when dealing with outside consulting forces. In particular, the CFO is being bombarded by outside accountants and other consultants about services the company must have (and pay for) to comply with SOX. Since compliance with Section 404 is not required until later this year, nobody knows where the safe-harbor exists. The CFO must evaluate the true needs of the company. While no one wishes to be among the test cases for SOX, it is also important not to over-document since this might only result in opening doors that are best left shut.

There is no question that systems of internal control will need to be more fully documented to comply with SOX. Many companies are taking a shotgun approach and creating this documentation as if it were a necessary evil without taking a more strategic approach. The results of these compliance efforts can be useful to not only meet the requirements of SOX but can also be used to update and improve the internal control systems.

SOX is here to stay. Companies can either grudgingly make efforts to comply or use this as an opportunity to create bridges between departments and improve their overall systems. It's your choice.

- John Casey, KJV Group, Inc.

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You are ultimately responsible for the integrity of the financial statements, and you need to hire a Controller that you can trust to deliver accurate and timely financial information. Failure to do so can result in significant financial pain to you the Company, and its shareholders. A candidate for that position submits a resume that you believe might not be representing the whole truth about his career. Would you continue the interview process with that candidate?

Based on the historical presumption that a candidate who removed dates was trying to hide their age or significant gaps in employment, most hiring managers would instinctively discount the candidate as not being forthright, and discontinue the interview process. Although I believe that every candidate should take personal responsibility for their work product (including the resume that they submit), there is not a single standard for the writing of a perfect resume. Many people who claim to be experts in the art of resume writing create confusion in the mind of potential employers. One way they do this is by creating resumes that eliminate reference points to the dates and locations of specific accomplishments.

Before you consider eliminating candidates - consider an alternative approach. Post a resume format document on your website. You are more likely to receive resumes formatted the way you like to see them, and you reduce the risk of eliminating qualified candidates. During a time of increasing difficulty in identifying viable candidates don't disqualify a solid candidate because of differences in style of their resume advisor.

- Michael P. Levine, Robert Half Management Resources

*The CFO Advocate Newsletter is designed to provide articles of interest. Please let us know of topics you would like to see in future editions.*

*The next edition lead article will be on new savings trends in Healthcare.*

**Sponsored by:**

David Payne	404.531.6435	dp@benchmarkresources.net
Michael Levine	404.261.3229	michael.levine@rhmr.com
Jim Villwock	404.460.7050	jim.villwock@kjvgroup.com

If you would like to be removed from this distribution list, please e-mail us at [jf@benchmarkresources.net](mailto:jf@benchmarkresources.net)

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