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New Kids on the Block

More companies are hiring chief accounting officers.

BY JOANNE SAMMER
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EXECUTIVE SUMMARY

■ **In the face of new regulatory demands**, more companies are hiring chief accounting officers (CAOs) to handle everything from corporate accounting, financial reporting and internal controls to corporate tax and Sarbanes-Oxley compliance.

■ **In addition to day-to-day compliance activities**, CAOs also sometimes take on the duties of a controller or CFO and get involved in mergers and acquisitions. The scope of responsibilities is often greater for CAOs at smaller companies.

■ **A critical task for many CAOs** is translating the myriad accounting rules and regulations that affect business today. With SEC regulations that limit the type of work public accounting firms can do for their audit clients, many companies have begun to build and maintain the necessary expertise internally.

■ **The CAO role is giving CPAs** exposure to senior management and information about the entire business. This enables them to add value to the entire organization as well as to help make sure section 404 compliance becomes part of the organization's culture.

■ **Many CPAs find their public** accounting experience and ability to deal with clients make them ideal CAO candidates. As the demand increases, CPAs with the right qualifications will find being a CAO one of the hottest opportunities in accounting and finance today.

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Every regulatory cloud has a silver lining. For CPAs working in both industry and public accounting, it is the wealth of new and expanding career opportunities following the recent flood of new securities regulations and accounting rules. The latest evidence of this trend is the creation and expansion of the role of chief accounting officer (CAO) in many public companies.

CPA Peggy Smyth, who became the first CAO of St. Paul, Minn.-based 3M Co. in 2005, believes the passage of the Sarbanes-Oxley Act is responsible for CAOs taking a more prominent role. "The law made global reporting and compliance more important and, as a result, elevated the stature of the CAO," she says. "I have been pleasantly surprised at how receptive my peers are to my new CAO role."

Many companies that do not currently have a CAO are likely to be adding one to their management

roster in the future. "The CAO position represents one of the hottest opportunities in accounting and finance, in line with the huge demand for chief audit executives," says Chuck Eldridge, managing director of the financial officers practice at recruiter Korn/Ferry International in Atlanta. "I expect CAO to remain the in-demand position in finance and accounting for the next couple of years as companies look to bolster their internal technical accounting expertise."

In an informal survey Eldridge found that 122 *Fortune* 500 companies employ someone with the CAO title. In 60 of them, the CAO also holds the controller title, and in the remaining 62, CAO is their only title. CAOs often also hold a vice-president, senior vice-president or even executive vice-president title based on their experience and place in the organization.

THE CAO ROLE

What exactly does a CAO do? While the role and responsibilities vary from company to company, in general, a CAO is responsible for tax, financial planning, corporate accounting and reporting, compliance, accounting policies and procedures, audit preparation, Sarbanes-Oxley compliance and monitoring and maintaining internal controls over the financial reporting function. "The role really depends on what a company decides it needs," says Gina Wilson, CPA, executive vice-president and CAO of Cendant Corp. in Parsippany, N.J.

In many companies, the CAO acts almost like a consultant on accounting matters to the rest of the organization, says Eldridge. As such, he or she might provide guidance on the accounting treatment of mergers or acquisitions or financial reporting and disclosure changes following new FASB pronouncements.

Like many public companies, 3M created the CAO position early in 2005 to reflect the growing importance of finance and accounting and as part of an effort to focus the entire organization on the importance of global financial reporting, says Smyth, who also is a vice-president. As CAO of the \$20 billion company, she is responsible for working with senior management to ensure the integrity of financial reporting.

To that end, she spent the first few months of her tenure visiting overseas operations, meeting with accounting and finance professionals and discussing compliance issues. Smyth also serves as the company's liaison with external agencies and regulators, such as the SEC, the PCAOB and FASB, and the rules and regulations they promulgate.

CAOs with somewhat longer tenure say Sarbanes-Oxley and other new regulations have changed their jobs significantly. CPA Peter Bible, CAO of General Motors Corp. in Detroit, ranks the CAO role in the age of Sarbanes-Oxley as "difficult, flirting with the impossible" as he works to stay abreast of regulatory developments and to help others in the company understand how those developments affect each area of the company. "I spend a lot more time with lawyers discussing regulatory issues," he says. This focus is in addition to the laundry list of responsibilities he has had for the nine years he has been GM's CAO. These include ensuring that the company applies accounting principles appropriately, preparing financial statements and SEC filings, providing company forecasts and offering accounting advice on significant business transactions.

Wilson took on an existing CAO position at Cendant, the parent of Avis Rent A Car and Holiday Inn, about two years ago. The CAO role there is similar to that of the controller, but Wilson says the two roles are clearly delineated and complementary. The controller keeps the books and monitors the company's current businesses while Wilson is heavily involved in business dispositions and due diligence activities for Cendant's many mergers and acquisitions.

"I look for consistency between our accounting policies and those of the target company," she says, "and what we need to do to understand the nuts and bolts of the target's accounting."

Generally in smaller companies the CAO has a much broader role. When the CFO of Salt Lake City-based IOMED Inc. moved up to CEO three years ago, CPA Brian Mower became the company's first CAO, a combination of three positions—CFO, controller and manager of financial reporting. As CAO of a small company that develops drug delivery systems, he is involved in mergers and acquisitions, investor relations, financial reporting, SEC reports, budgeting and managing investments. And once the company begins complying with Sarbanes-Oxley section 404, which requires the documentation and testing of internal financial controls, he will be in charge of that effort as well. "Working in a smaller company allows me to be more hands-on," he says. "The things I am required to do as CAO here would be limited to oversight at a larger company. But this allows me to get to know the company that much better."

CHIEF TRANSACTION OFFICER?

In many companies the CAO's main reason for being is to understand and apply the myriad accounting rules and regulations affecting today's businesses. CPA John Quille, CAO of Littelfuse Inc., a Des Plaines, Ill.-based electronics supplier, says a key part of his job is to support the CEO and CFO with financial reporting and to help operations managers understand how new rules and regulations affect their part of the business. "People don't relate to quotes from FASB or the SEC; they need information on what they need to do and how to do it," he says.

Because SEC regulations limit the type of work public accounting firms can do for their audit clients, CAOs are under more pressure to stay current. "Since we aren't able to consult with our auditors as freely as we used to, we have to build and maintain that expertise internally," Quille says. He also notes that CPAs who have worked in public accounting can excel at this part of the job because of their experience communicating the implications of new pronouncements and changes to existing rules and regulations to clients.

Interpersonal skills and the ability to explain complex accounting rules and regulations to senior management, the audit committee of the board of directors and operations management in a clear and understandable way are critical for today's CAO. "I spend a lot of time anticipating and responding to the concerns of the board's audit committee about financial reporting and regulatory filings," says Wilson.

It's not just Sarbanes-Oxley that is creating challenges for CAOs. CPA Maureen Donnelly, vice-president of finance and CAO of Stratus Technologies in Maynard, Mass., is educating the company sales force about revenue-recognition issues. "The rules around revenue recognition are not intuitively obvious," she says. "Salespeople are trying to do right for the company and their customers, only to find they can't recognize that revenue for two more quarters. It's frustrating for them."

Donnelly and the company's controller have worked closely with the sales team to structure deals so the transaction works as they expect it to. Stratus also is developing training programs and providing information and guidance on revenue recognition on its internal Web site.

EXPANDING THE CAO ROLE

Some CAOs are looking for ways to move beyond their traditional responsibilities. Quille is working with Littelfuse's controller staff and internal experts on manufacturing and controls to increase the efficiency and accuracy of the internal controls documented under section 404. "We hope to use that documentation to gain some process improvements," he says.

For example, Quille says the company's finance department is using value-stream mapping, a strategy traditionally used by lean manufacturing enterprises to improve an entire process for producing finished goods rather than just individual components of the process. In this instance, the company considers basic control objectives like producing financial statements and management information and protecting the company's assets to be the "finished goods" and transactions such as paying bills and billing customers to be the "raw material" for producing those goods.

“By stepping back and looking at the entire process, we can improve controls and the quality of financial information and reduce costs,” says Quille. “And we’ve already generated most of the information required to take this approach in meeting the requirements of Sarbanes-Oxley.”

In the 11 years CPA Arnie Hanish has been executive director of finance and CAO for Eli Lilly and Co., Indianapolis, his job has evolved to include managing a staff of about 65 involved in activities that go beyond traditional accounting and financial reporting. For example, Hanish has built a business consulting group staffed by a unique group of people with many years of public accounting experience and deep technical expertise. It works with the company’s corporate strategy and business development team on every deal the company does, providing input on how to structure deals from an accounting and corporate finance perspective, as well as from a general business viewpoint.

This group did not earn its place at the dealmaker’s table overnight. “It was an evolutionary process,” says Hanish. “We had to achieve acceptance by showing we could add value.” In this case that meant being responsive to business partners by using skills learned in public accounting to find solutions, as opposed to telling internal customers and partners why they couldn’t do something. “While the alternatives we provide can’t always be exactly what our colleagues want, we’re always responsive and try to provide answers that matter,” he says. One of the keys to the group’s success is its ability to understand the goals of a business transaction and then work within the accounting and reporting rules to create an innovative solution that meets those goals.

Once Hanish’s staff began to add value, the corporate strategy and business development group began inviting them to be part of deal teams early in the process. “We showed them the consulting group could help structure a deal to achieve the desired result, rather than simply handling the accounting after the deal is done.”

Hanish believes the current environment is ripe for CAOs who want to have a similar impact on their organizations. “Sarbanes-Oxley has changed accounting and finance and given them more prominence,” he says. CAOs and other CPAs working with cross-functional disclosure and compliance committees now have exposure to senior managers and information about the entire business.

Section 404 compliance needs to become part of the organization’s culture, so CAOs can work with business partners in sales and marketing, manufacturing and other areas to help them understand the importance of managing internal controls more effectively. Hanish says, “We have a direct responsibility to ensure that our financial reporting is reliable and trustworthy. We clearly can have a direct link to shareholder value.”

Resume Review Tips

CPAs Qualifications most in demand from new CAOs:

- ▶ CPA certification.
- ▶ Big 4 accounting experience.
- ▶ Technical expertise in accounting, management reporting, corporate tax, financial analysis, internal controls and compliance with GAAP, FASB and SEC rules.
- ▶ 10 years of work experience.
- ▶ Ability to implement accounting-related technology.
- ▶ Familiarity with regulatory filing requirements, including Sarbanes-Oxley.

- ▶ Solid written and oral communication skills.

A BRIGHT FUTURE

If the growing number and prominence of CAOs proves to be a long-term trend, that's good news for CPAs looking for new career opportunities. "The demand for CAO candidates is increasing as the pool of talent is decreasing, so this is a time of great opportunity for qualified candidates," says Joyce Bastoli, regional director for Ajilon Solutions in Newport Beach, Calif. "Even if someone is not yet ready for the CAO position, there are more high-level finance and accounting opportunities available that can lead to the CAO role." ♦

A Mix of Experience

If the CAO's role and responsibilities vary considerably from company to company, the qualifications generally do not. CAOs tend to be CPAs with at least 10 to 15 years of technical accounting experience. Many companies prefer those with a mix of public accounting and industry experience, but some CAOs have only one or the other.

The role is well-suited for a former partner of a Big Four accounting firm, says Chuck Eldridge, managing director of the financial officers practice at Korn/Ferry International, Los Angeles. "While many companies prefer candidates with industry experience, they will give preference to those with only public accounting experience whose technical accounting skills are exceptional."

Peggy Smyth's role as CAO of 3M is her first job in industry after a career spent with Arthur Andersen and Deloitte & Touche. She believes her public accounting experience was the best preparation for the CAO role and not only because it helped her build technical skills. "My career as a partner at Arthur Andersen ended abruptly when the firm dissolved, so I have an even greater regard for ethics and compliance," she says.

Many CAOs see the years spent working in public accounting as a valuable learning experience. "You get exposed to a wide range of experiences with a broad client base in public accounting and auditing," says Brian Mower, CAO of IOMED. "You can learn from the positive elements of each client to broaden your knowledge. In industry, you are really focused on one way of doing things."

Others emphasize that a mix of industry and public accounting experience is essential to those aspiring to be CAOs. "I spend a lot of time interacting with company leaders about issues such as how they should structure internal controls as required by section 404 of Sarbanes-Oxley. That requires an understanding of how activities happen in the business units," says Gina Wilson, CAO of Cendant Corp. "You wouldn't necessarily get that kind of experience in public accounting."

Wilson recommends that CPAs who aspire to be CAOs look for opportunities to change roles and jobs periodically. "It's very healthy to see what things are like from different points of view, perhaps by working in one of the operating businesses," she says. "I really encourage people to try on different hats."

CAOs with the right mix of experience can expect a base salary of \$100,000 to \$200,000 or more depending on company size and geographic location. Factoring in incentives and bonuses, total compensation can be significantly higher. For example, according to SEC filings, Patricia Zuccotti, the new CAO of online travel company Expedia, Inc. in Bellevue, Wash., will receive a \$260,000 salary, an annual bonus targeted at 40% plus a \$68,000 signing bonus.

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