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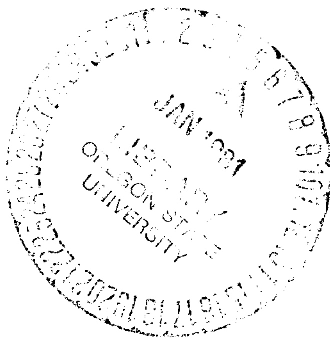

School of Business

Studies in Management and Accounting for the

FOREST PRODUCTS INDUSTRIES

Accounting Controls for a Forest Products Firm

by

Thomas T. Martin

and

Robert H. Wilson

Georgia-Pacific Corporation

There have been developments recently which have brought the subject of internal control into sharper focus. Computer frauds and sensitive payments are two of these developments which have prompted several companies to review their internal control systems. A significant piece of legislation, the Foreign Corrupt Practices Act of 1977, was enacted to address this internal control issue (for a discussion of this Act, see Appendix A). At the time that the Act was passed, Georgia-Pacific Corporation had already been formulating plans to reformat its existing internal controls. The company believed it operated in a good internal control environment, as evidenced by:

- Internal audit function,
- Corporate policy and procedures manuals,
- Standardized methods of performing key functions throughout the company.
- Budgetary systems,
- Close supervision at all levels.

The present systems had been developed over time and while considered adequate, needed the documentation to be updated and organized. The Foreign Corrupt Practices Act of 1977 heightened this internal control update desire and led to the company's program for reviewing internal controls.

Internal Control Review Program

The Internal Control Review Program used by Georgia-Pacific Corporation was separated into five phases:

Phase 1—Organization

Phase 2—Assessment of existing controls and control environment

Phase 3—Formulation of corporate internal control guidelines

Phase 4—Division implementation of corporate internal control guidelines

Phase 5—Establishment of a monitoring system

The entire program was designed for a two-year period.

Phase 1—Organization

A task force was formed in January of 1979 to manage the project. The task force comprises individuals from the following areas:

- Controllers Department
- Legal Department
- Data Processing Department
- Internal Audit Department
- Independent Public Accountants

The task force's first job was to establish a timetable for completion of the various phases:

Phase	Completion Date
1, 2	December, 1979
3	March, 1980
4	September, 1980
5	December, 1980

This timetable was established based upon the task force members' knowledge of the company and existing controls. The second job of the task force was the selection of a methodology and approach to be used.

The methodology was one commonly referred to as the cycle approach or Transaction Flow Analysis. This concept recognizes the natural business activity of an organization and utilizes this natural transaction flow as a base framework from which to assess controls. At Georgia-Pacific Corporation all business activity was categorized by the task force into the following segments:

- Treasury Cycle
- Expenditure Wood Procurement Cycle
- Expenditure Purchasing Cycle
- Expenditure Payroll (Hourly and Salaried) Cycle
- Conversion Cycle (by Product Line)
- Financial Reporting Cycle (Division and Corporate)
- Financial Planning and Control Function

In its simplest form the cycle or transaction flow concept states the following: Since all business activity can be separated into the cycles mentioned above, once internal controls over the cycles are documented, controls over all activity

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will in effect be documented. This concept is different from traditional control methodology—listing all controls over all activity and attempting to view the entire internal control system as a whole. Separating an internal control system into logically and sequentially reviewable cycles affords manageable pieces. It recognizes the fact that various economic events which impact an entity result in a web of transactions, systems, processing procedures, interfaces and data bases that become naturally organized by type of activity. The relationship of the cycles at Georgia-Pacific Corporation follows the activity of cash, as shown in Exhibit 1.

Cycles themselves are often too large to be manageable in one piece. Cycles were further segregated into functions. A function is a major processing task or a segment of a system that processes logically related transactions. For example, the following functions were identified at Georgia-Pacific Corporation for the Expenditure Wood Procurement Cycle:

- Wood Requirements (determine needs, select logger, select hauler)
- Logging/Hauling (harvesting)
- Scaling
- Transfers (from wood yard to mill)
- Timber Accounting (including disbursements)

Again, once controls are documented over activity within a function, controls over all transactions will in effect be documented since all activity can be allocated to a function.

After identifying the cycles and functions within the company, the next step was to review the control procedures and techniques in place. This process is discussed in Phase 2 in this paper and is only mentioned here to connect the way in which the control techniques were reviewed to the transaction flow or cycle approach. The traditional approach taken to evaluate the adequacy of internal controls was to identify all the internal control techniques which related to a particular account category. These techniques would be compared to a comprehensive checklist of desired techniques and a list of strengths and weaknesses would be prepared. Based upon this list, corrective action would be taken where necessary. The cycle approach reverses this traditional approach. Rather than looking first at the control techniques and asking the question, "Are these techniques adequate to provide administrative and/or accounting control?", the following questions are asked:

1. What should the internal controls accomplish?, and

2. What methods or techniques exist to accomplish these objectives?

The internal controls should accomplish the broad control objectives commonly connected with most discussions of internal control (see Appendix A, p. 10). These broad internal control objectives must be "boiled down" to manageable targets so that in practice the internal control reviews can be directed towards specific accomplishments. Specific internal control objectives were derived for the recognized cycles from the broad objectives using Arthur Andersen & Co's. *Guide for Studying and Evaluating Internal Accounting Controls*. For example, a specific classification objective for the Expenditure Wood Procurement Cycle at Georgia-Pacific is: Journal entries for amounts due to loggers, cash disbursements, and related adjustments should be prepared each accounting period.

By focusing on the objectives and the techniques used to achieve them, the controls can be evaluated as to whether or not they are minimizing the risk associated with non-achievement of the objective. Additional controls can then be input where needed, where risk is minimized, utilizing cost/benefit analysis. Traditional internal control methodology would have arbitrarily added a control technique because comparison to a traditional type checklist indicated a weakness; a control was not there. Risks would not have been considered.

Several approaches were available to implement this methodology. The approach selected was to document transaction flow reviews, control objectives, control techniques and risk evaluations at representative locations. This approach was taken for reasons discussed in Phase 2. The next steps by the task force were to present to top management their plan for internal control review, methodology, approach, and timetable, and to seek their approval. Top management approved the plan and it was then communicated to key company executives in the first part of 1979. Phase 1 was now complete and Phase 2 was underway.

Phase 2 and 3—Assess Existing Controls and Control Environment, Formulate Corporate Control Guidelines

One of the reasons for which the approach in Phase 1 was selected was that it recognizes the existing control environment: The task force initially considered existing controls at Georgia-Pacific Corporation strong. This feeling has been reinforced with the project status to date and emphasizes the project focus of one of reformating existing control documentation. Current procedures within the company stress uniform and standardized methods of processing as outlined in such documents as the Corporate Purchasing Manual and the Financial Handbook. These are examples of existing documentation within the organization which simply needed to be intertwined with the Cycle or Transaction Flow Review approach. Existing company procedures in other areas also reinforced the task force's desire to develop a standardized package of internal controls.

The second reason the task force selected the approach mentioned in Phase 1 is that it is cost effective. It results in documentation not too extensive for effective analysis and use. The amount of detail generated using this approach allows the retention of two desirable elements—consistency and quality—and allows timely review.

The approach then was to review, document and evaluate controls at representative locations of the company. The task force selected the locations based on their knowledge of the company and where the significant risks were. For example, at Georgia-Pacific Corporation, risks associated with Log Procurement Activity are greater than risks associated with production of containers. Therefore, controls over log procurement activity were documented whereas controls over production of containers were not. This is not to say that controls over container production need not be documented; they will be, as discussed in Phase 4. The representative cycles documented in Phase 2 are shown in Exhibit 2.

Also involved in Phase 2 was the overall control environment assessment of the company. The following questions were asked:

- How is policy set at Georgia-Pacific?
- How is policy communicated at Georgia-Pacific?
- What is it within the company that creates an environment of control?
- Is corrective action necessary in our control environment?

This process resulted in the recognition that there are certain pervasive type elements within the organization that govern and direct activity. These elements are broad and span all cycles and product lines of the company to create an environment of control. Exhibit 1 outlines these elements and relates them to:

- The Board of Directors and Executive Management of Georgia-Pacific and,
- the cycles of Georgia-Pacific operations.

For each of these elements, the general and specific responsibilities of each was documented and reviewed. In assessment of the overall environment an improvement was needed and is underway; the policies and procedures promulgated by each pervasive type department or element are documented in that department's manuals or handbooks for distribution and use throughout the corporation. For example, the main vehicle of the Corporate Purchasing Department shown on Exhibit 1 which disseminates to all corporate locations the corporate purchasing policies and procedures is the Corporate Purchasing Manual. This manual and others like it for other pervasive type departments as represented on Exhibit 1 are only effective when they are maintained with current policies and are used in daily operations. Review is currently underway to update documents of this purpose.

With the control environment documented, the next step was to review, document, and evaluate the controls for those business cycles into which the company could be divided, as shown on Exhibit 2. This step was accomplished as follows:

- Task force visited the locations listed on Exhibit 2.
- Through techniques of observation and interview with "doers" of the functions, documentation of a particular function was developed, listing the internal control objectives desired (related to the objectives of the Act mentioned earlier), the control techniques in place to achieve the objective, and an evaluation of whether or not the objective was achieved.
- This documentation was then reviewed with local personnel to ensure it represented actual transaction flows in process at that location.

The documentation resulting from this step and from the control environment process have been formated into what is called the Georgia-Pacific

Corporation Internal Control Manual. The table of contents for this manual is shown as Exhibit 3. This manual represents the corporate guidelines for internal control and is used in Phase 4.

Phase 4—Division Implementation

Once the corporate guideline package was completed, the divisions of the company were asked to document their internal controls on an exception basis—to document only where they differ from the controls documented in the corporate guideline package. Division personnel were first given instruction in the cycle or transaction flow concept, including identification of control techniques and risk evaluation. The instruction was performed by representatives of Arthur Andersen & Company and Georgia-Pacific, who had experience in Transaction Flow Analysis training. The training was an intensive three day session comprised of lecture and case studies, dealing with hypothetical situations. At the conclusion of the training, participants were capable of performing transaction flow reviews. Armed with this knowledge and the corporate Internal Control Manual, a division was to document exceptions to the controls listed in the Internal Control Manual. To effectively do this a division should follow these steps:

1. Review one function of one cycle in the Internal Control Manual, noting the documentation for that function and cycle.
2. Interview the "doers" of each cycle and observe activity of that cycle.
3. Document differences between the division's control systems and those in the Internal Control Manual.
4. Evaluate risk from non-achievement or partial achievement of objectives at the division level.
5. Submit revised documentation to Group Controllers for review and approval.

One area of this process was at first more difficult to grasp than others. Risk evaluation requires the most judgment of any of the parts of the process. However, by having the local controllers identify the risks of their operations and then measure the effectiveness of their internal control system in reducing that problem, the risk evaluation is performed by the person closest to the operating environment. As mentioned in Phase 5—Monitoring, the Internal Audit Department reviews the risk evaluation that has been performed by the local controller to ensure that all conditions were properly addressed. Additionally, risk evaluations encompass a decision—what internal control improvements are justified from a cost benefit analysis point of view when risk is not completely reduced with the existing internal control system and internal control improvements are necessary. Several factors go into this decision:

- What has been our history in similar operating environments.
- What is the worst that can happen,
- What are the chances for the worst to happen,
- What is the cost of controls necessary to eliminate the possibility of the worst happening.

These factors and others are reviewed by local management, the local controller, Internal Audit, and top management (when significant companywide issues are involved) to determine the best answer.

Divisions have readily accepted this cycle concept and endorse its use at their operations for several reasons:

- It organizes activities at a location by natural business activity,
- It focuses internal controls on risk, rather than the traditional checklist approach without regard to risk,
- It involves non-financial and financial personnel by focusing on operations "doers," thus facilitating communication with key management personnel regarding what in the first was at best a difficult subject,
- It provides a quick learning tool for new people to use in grasping overall business activities and relationships,
- It enables everyone in the organization to see how their job is a part of the "big picture" and how their job relates to control technique importance,
- It provides a common ground for all members of the corporation to relate and discuss their operations,
- It fulfills the requirements of the Foreign Corrupt Practices Act of 1977 in a cost efficient way by utilizing existing control features.

Once the divisions have implemented the cycle concept, their exceptions and resulting documen-

tation are transmitted to the Task Force for their review and approval. Phase 4 is now complete, and Phase 5 begins.

Phase 5—Monitoring

The documentation resulting from the first four phases of the compliance project will only be effective and useful if it is continually maintained on a current basis. The Task Force has recommended the following monitoring techniques:

- Annually require operations to sign a questionnaire indicating they have reviewed and tested their existing control system to ensure that the documentation resulting from that review represents current transaction flows and that the listed control techniques are operating effectively.
- Train Internal Audit Department in the Transaction Flow Concept to perform audits of operations using this concept and publish audit reports which address:
  - Has the operation properly evaluated risk?
  - Are the exceptions noted by the operation to the Corporate Guideline Manual in fact the only exceptions?
  - Are the techniques listed operating effectively?
  - Are there control techniques which could further reduce risk and be cost effective?

  This will serve to make the Internal Audit Department more effective and facilitate better communication between the Internal Audit Department and the operations.
- In addition to exceptions documentation to the Internal Control Manual, the company's foreign operations periodically should be audited by Public Accountants to ensure all payments made by our foreign operations are in compliance with the Foreign Corrupt Practices Act of 1977.

Internal control systems are vital to ongoing business situations, yet they are often only considered when a crisis arises—an inventory shortage or a defalcation. The program outlined above causes company personnel—not just accountants—to focus on internal control systems before the crisis occurs and correct potential internal control problem areas. The program asks the question: "What could happen," rather than "How did that happen." At Georgia-Pacific, it has gotten everyone—controller, management, Internal Audit, Public Accountants—on a common ground, fostering meaningful communication and bettering internal control systems and control environments.

AUTHORITY & REPORTING FLOW

Board of Directors
and
Executive Management
(Financial Planning Function)

Delegated Authority ↓ Reporting ↑

Corporate Management Functions
(Financial Control Function)

Treasurers
Controllers
Tax
Internal Audit
Legal

Corporate Secretary
Credit
Data Processing
Purchasing
Safety

Personnel Relations
Transportation
Government Affairs
Environment
Advertising & Public Relations

↑

Financial Reporting Cycle

↑

Transaction Processing Cycles

Treasury
Cash Management
Debt Management
Equity Management
Investments

Expenditure
Payrolls
Wood Procurement
Purchasing

Conversion
Production
Inventories
Property Accounting

Revenue
Sales
Shipping
Billing
Credit

Cash → Services / Goods / Employees → Products → Generate Cash Flow → Cash

Exhibit 1

			Cycles					
			Expenditure					
				Purchasing				
Division	Financial Planning & Control Function	Treasury	Payrolls	Logs	Other	Conversion	Revenue	Financial Reporting
Pulp Mill			X		X			
Tissue Mill				X			X	
Plywood Plant			X	X	X	X		
Retail Warehouse					X		X	X
Timber Operation - S				X				
Paper Mill				X		X		
Marketing							X	
Chemical Mill						X	X	
Timber Operations - W			X		X			
Wallboard Mill								X
Corporate	X	X	X (Salaried)		X (SCIMP)		X	X

Exhibit 2

INTERNAL CONTROL MANUAL

Section No.	*Section*
100	I. *Introduction*
110	A. Internal Control Definition
120	B. Code of Conduct and Business Ethics
130	C. Discussion of Cycle Concept—TFA
200	II. *Documentation*
	A. *Control Environment*
210	1. Authority and Reporting Flow
220	2. Corporate Management Functions
230	3. Financial Planning and Control
	B. *Cycle Documentation*
240	1. *Financial Reporting*—Division and Corporate
250	2. *Treasury*
260	3. *Payroll*—Hourly and Salaried
270	4. *Purchasing*—Other Than Log Procurement
280	5. *Log Procurement*—N.E., S.W., S.E., W.
290	6. *Conversion*—Chemical, Building Products, Pulp and Paper
	a. Includes Property Accounting
300	7. *Revenue*—Chemical, Building Products, Pulp and Paper
500	III. *Instructions for Division Implementation*
510	A. Exception Reporting
600	IV. *Instructions for Monitoring*
610	A. Timing of Review and Updates
620	B. Example of Year End Questionnaire

Exhibit 3

APPENDIX A

A Summary of the Foreign Corrupt Practices Act of 1977

Introduction

The Foreign Corrupt Practices Act of 1977 is one of the most significant pieces of business legislation to be passed in recent times. Most of the recognition of the Act has come through the Anti-Bribery Provision. However, the Accounting Standards Provision may have a more far-reaching effect on business in the United States .The following discussion of the Foreign Corrupt Practices Act of 1977 will highlight:

1. Brief history of the Act,
2. Provisions, requirements, and penalties of the Act.

Act History

During the 1970's three events led to the creation of the Foreign Corrupt Practices Act of 1977:

1. Watergate Investigations,
2. 1976 Report of the Senate Committee on Banking, Housing, and Urban Affairs.
3. 1976 SEC Report on Questionable and Illegal Corporate Payments and Practices.

It became clear during this period that many corporations had made questionable or illegal payments. Over 300 U.S. Corporations admitted to making payments of this nature in response to questionnaires that were part of the 1976 SEC Report mentioned above.[1] In many instances these payments were concealed by falsifying records or maintaining "off-the-books" accounts. Results of the three events above led to the recommendation that Congress take action. Under this pressure Congress weighed two possible approaches. One was to require that the payments be publicly disclosed and that criminal penalties be imposed for failure to make such disclosure. The other approach, and the one ultimately adopted, was to outlaw questionable payments and to impose criminal sanctions if payments were made in violation of the law.[2] The Act was passed in December of 1977 as an amendment to the Securities Exchange Act of 1934. Thus implementation is primarily the responsibility of the Securities and Exchange Commission.[3]

[1] Daniel S. Van Riper, "FCPA's Impact on Directors", *Financial Executive*, February, 1980, p. 50.

[2] Allen Young, "The FCPA's Impact on Business", *Price Waterhouse.*

[3] Jeremy Bacon, "Requirements of the Foreign Corrupt Practices Act of 1977 and 1978 SEC Disclosure Rules", *Information Bulletin Number 55*, The Conference Board, April, 1979, p. 3.

Act Provisions, Requirements, Penalties

The Act has two main thrusts. One makes it unlawful to bribe foreign officials or politicians in order to get (or keep) business. The other part establishes requirements for recordkeeping and for internal controls. Both aspects of the law concern the corporate director. While the Anti-Bribery Provision contains the most obvious requirements, the Accounting Standards Provisions may have more far reaching repercussions and may create more difficulties in compliance.

Antibribery Provisions

The Anti-Bribery portion of the law applies to virtually *all* U. S. domestic companies and to their officers, directors, employees, agents and even shareholders. It provides for specific penalties: a fine of up to $1 million for any company guilty of violations, and a fine of up to $10,000 or imprisonment for up to five years, or both, for guilty individuals. The law forbids companies to reimburse, directly or indirectly, fines imposed on individuals guilty of bribery on their companies' behalf.

This part of the Act is designed to prevent companies from getting or keeping overseas business by bribing foreign officials. In addition to prohibiting actual payments for this purpose, it also bans any offers or promises to pay or authorizations to pay or give *anything of value* for this purpose.

Designated specifically as forbidden targets of such bribery are foreign officials (employees or officials of government) and also foreign political parties (including candidates for office), whether the purpose is to influence them directly or to induce them to try to influence their governments. But payment to any person is likewise unlawful if it is known—*or there is reason to know*—that some or all of the money or other items of value involved will be used for this purpose.

The law does not apply to so-called "grease" or "facilitating" payments, such as those made to expedite the movement of goods through a foreign customs office (and, therefore, the law does not include foreign government employees whose duties are "essentially ministerial or clerical" as "foreign officials").

The law places prohibitions only on domestic U. S. companies and individuals; however, Congress has indicated that forbidding payments or

offers through "any person" means that a U. S. company will be guilty if it uses a foreign subsidiary or one of its officers, directors, employees, or agents for such a purpose.

In summary here are key features of the "corrupt practices" part of the law:

1. All U. S. companies are covered, even non-public companies not otherwise covered by the Securities Exchange Act of 1934.
2. Directors are specifically designated in the law as being forbidden to make, or authorize, the foreign bribery payments that are prescribed.
3. The law provides stiff penalties for individuals guilty of willful violation—and fines cannot be reimbursed by the company.
4. It takes very little to constitute a violation under the law: "Anything of value" can count as a bribe, and any offer of a bribe is unlawful, even if it is refused, or is unsuccessful in obtaining or keeping the business.

These aspects of the law are reinforced by the SEC's evident intention to be aggressive in using its authority under the Act. This intention is also a factor to be considered in responding to the portion of the law pertaining to recordkeeping and internal control.[4]

Recordkeeping and Internal Control Requirements

In outlawing foreign bribery, Congress included in the legislation requirements for effective recordkeeping and internal controls as a means of assuring that bribes could not escape detection. The potential impact of this part of the Foreign Corrupt Practices Act was slow to be realized, but has by now become a matter of concern to corporate managements and to boards of directors, especially their audit committees. As a practical matter, complying with this part of the law presents problems that call for instant solutions, since the SEC has already begun to bring suits against violators.

Whereas the antibribery part of the Act is couched in prohibitive, or "thou shalt not," language, the accounting provisions are prescriptive and establish two kinds of requirements. Companies subject to these provisions must have an accurate and detailed system of recordkeeping; they must also have an effective system of internal controls over the use of corporate assets.

Other ways in which the accounting requirements differ from the antibribery portion of the Act are:

1. The accounting requirements apply only to public companies that are subject to the Securities Exchange Act of 1934 (the antibribery features apply to virtually all U. S. companies).
2. The accounting requirements apply to domestic as well as foreign transactions and locations. Therefore, a company with no foreign operations or sales is still subject to the law—a difference of great importance compared with the Anti-Bribery provisions which apply only to foreign bribes.
3. No specific penalties are cited in the law for failing to meet the accounting requirements, nor are particular groups or individuals, such as officers or directors, singled out in this part of the law as being subject to it (and to penalties).
4. As will be emphasized below, the law itself offers little guidance as to what will constitute acceptable compliance with the accounting requirements. (By comparison, the prohibitions against bribery are spelled out in considerable detail.)[5]

Standards for Records

The Foreign Corrupt Practices Act includes the following provision:

"Every (company covered by this part of the Act) . . . shall . . . make and keep books, records and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets (of the company) . . ."[6]

On the one hand, legislative records explaining how the representatives of the Senate and the House arrived at the eventual working of the law say that the phrase "in reasonable detail" was used specifically to avoid imposing an unrealistic recordkeeping requirement. But those same records also say that a company's records should "effectively prevent off-the-books slush funds and payment of bribes." In other words, records of transactions do not have to be unrealistically detailed, but they do have to be good enough to prevent what the law was designed to stop.[7]

How comforting this "reasonable" phrase will turn out to be will depend on how the SEC decides to apply the law. Cases to date suggest that the agency will definitely use this part of the law, with or without the presence of bribery. The Page Air-

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[4] Ibid.
[5] Ibid., p. 4.
[6] Ibid.
[7] Ibid.

ways case is one example. The SEC accused the company and some of its executives of making illegal payments overseas. The agency did not charge that these payments were bribes under the Foreign Corrupt Practices Act, yet it did invoke the recordkeeping portion of the Act in charging that the payments " . . . were effected without adequate documentation and controls. . . ." In another case (against Aminex Resources Corporation), no payments of any kind were involved (the main charge was misappropriation of corporate assets), but the SEC maintained that the Foreign Corrupt Practices Act had been violated on the grounds that inadequate recordkeeping helped make the misappropriation possible.[8]

A requirement that reasonable detailed records of transactions be kept would not, by itself, be a cause of great concern to most corporations; however, this requirement is tied to a more substantial one that effective internal accounting controls be established and maintained.

The Foreign Corrupt Practices Act states that controls must accomplish the following objectives:

1. They must assure that transactions are authorized according to management criteria: *authorization.*
2. They must provide that transactions are recorded according to generally accepted accounting principles: *classification.*
3. They must provide that physical assets are safeguarded: *physical safeguards.*
4. They must provide that recorded assets are compared with actual assets at reasonable intervals: *substantiation* and *evaluation.*

This internal control aspect of the Foreign Corrupt Practices Act has evoked a number of concerns in the business and accounting communities.

The internal control requirement, like that for recordkeeping, applies to domestic as well as foreign operations, despite the law's title. Thus, no bribe, foreign or domestic, need be involved in order for the SEC to invoke this part of the law.

Companies and accountants are concerned that the law could lead to expectations of a level of control that cannot really be achieved. It is feared that the SEC (or the courts) might fail to take into account the cost-benefit realities of establishing and maintaining an internal control system. The SEC (or the courts) may also fail to appreciate that an internal control system involves subjective or judgmental factors and that not every control problem has one universally accepted solution.

The law does not outline specific compliance steps necessary to satisfy the Accounting Standards Provision requirements. Perhaps only litigation will codify procedures to be used. In the interim this portion of the Act is not precise enough to make it possible for a company to know with certainty whether it is in compliance with the law. It is not clear how a company should deal with a discovery (by its own staff) that there is a material weakness in its internal control system. The law does not provide for a "grace period" for correcting inadequate controls; to reveal such problems may be declaring the firm in violation of the law.

It has been suggested that the SEC might see certain patterns of organization or performance as evidence that the requirements of the law are not being met, and might use its power under the law to intervene. (Two examples mentioned: a consistent pattern of significant fourth-quarter adjustments where interim statements are issued; the chief internal auditor reporting to the chief financial or accounting officer—an arrangement the SEC chairman has publicly criticized as being a threat to the auditor's independence.) The strongest concern expressed is that the law would thereby give the SEC authority to force changes in internal corporate organization.

The Foreign Corrupt Practices Act of 1977 is a significant piece of business legislation. It has and will continue to affect business behavior. How business reacts to the requirements of the Foreign Corrupt Practices Act of 1977 can influence future government intervention in this area.

[8] Ibid., p. 5.

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