



**Written Testimony**

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**KPMG LLP**

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**Introduction**

Good afternoon Chairwoman Kelly and Ranking Member Gutierrez. Thank you very much for the opportunity to testify today on this critical topic. I would also like to thank Ranking Member Barney Frank for his leadership on this issue.

My name is Manny Fernandez, and I am KPMG’s National Managing Partner – Campus Recruiting. I am responsible for the firm’s recruiting strategy and execution, including faculty relations.

KPMG LLP is one of the “Big Four” Accounting firms. KPMG is a global network of professional firms providing Audit, Tax and Advisory services. The Network operates in 144 countries and has over 6,700 partners, 76,000 client service professionals, and 21,000 administration and support staff working in member firms around the world. Our purpose is to turn knowledge into value for the benefit of our clients, our people, and the capital markets.

Everything we do at KPMG is guided by a set of core values, defined by our strong code of conduct, which is central to our commitment to the highest standards of professional practice. Our values determine how we behave, with our clients and each other. They define what we stand for and how we do things, helping us to work together in the most effective and fulfilling way. This enables us to create a strong organizational culture—consistently—throughout the network.

I was born in Havana, Cuba and in 1970, I immigrated to the United States to join my grandparents and family in New Jersey. I graduated from Fairleigh Dickinson University in New Jersey with a B.A. in Accounting. I was recruited by the then “Big 8” right out of college, and have been with KPMG for 22 years, the last 10 as Partner.

I served as partner-in-charge of KPMG’s Audit & Risk Advisory practice for Colorado. I have extensive experience with large national and international companies, such as PepsiCo and Frito-Lay. I am a member of the Chairman’s 25 leadership program. Also, I am a member of the Association of Latino Professionals in Finance and Accounting (ALPFA).

I became an accountant because my dad was an accountant in Cuba and I believed that having an accounting background was important for a career in business.

My bilingual background has been an asset to my career and an asset to KPMG. For example, I served many of the firm’s multi-national clients with extensive Latin American operations while on a three-year rotational assignment in Mexico City. As I have witnessed first-hand in my 22 years at the firm, KPMG’s commitment to recruiting, retaining, and promoting minorities is second to none.

### The GAO Report: Comments and Recommendations

The GAO report highlights the clear need to increase diversity in the accounting profession. KPMG is deeply committed to this important goal. Currently, 26.7 percent of KPMG employees in the U.S. are minorities. Six percent of all U.S. KPMG partners are minorities.

In FY05 there was a five percentage point increase in minority and female job applicants, a 10% increase in headcount among people of color, and a 10% and 4% increase in female and minority retention, respectively.

While we are proud of our commitment to diversity, and of the progress we have made, the *status quo*, particularly at the partner level, is simply not acceptable to us, and everyone in the profession has a responsibility to improve this situation. At KPMG, we are dedicated to furthering the diversity of our ranks, in particular at the most senior levels.

Your letter of invitation asked for my comments on the GAO report and recommendations for addressing the challenges it sets forth. I can best respond by describing what KPMG is doing to promote diversity. Of course, this is a challenge not just for KPMG but across the accounting profession, not just for the accounting profession but for all the professions, and not just for the professions but, as the GAO report details, across the financial services sector as well. I believe the initiatives and programs KPMG has undertaken can serve as a model for everyone seeking systemic responses to the challenge of diversity.

KPMG is aggressive in recruiting minority students from colleges and universities, including [Historically Black Colleges and Universities \(HBCUs\)](#), that have



an accredited undergraduate business degree program. For example, we recruit students from Howard University, Hampton University, North Carolina A&T, Florida A&M, and Clark Atlanta University.

However, one of the challenges I have seen over a 22 year period is that there are simply not enough qualified minority students in accounting programs. Therefore, through the KPMG Foundation, we have initiated programs aimed at the systemic causes of the lack of diversity in the accounting profession. These programs seek to expand the supply of qualified minorities available to the profession.

The mission of the KPMG Foundation is to enhance business higher education and community involvement. Its sources of funding are KPMG LLP and contributions from partners and employees to our Matching Gift Program, which is restricted to colleges and universities.

Across the accounting profession, recruiting functions have faced great frustration that so few students of color were graduating with degrees in business, especially in accounting, finance and information systems. In response, the KPMG Foundation redirected its mission, bringing several programs to an end in order to free up financial resources to intensify the focus on diversity. Specifically, the Foundation focuses on the largest underrepresented groups, namely, African-Americans, Hispanics, and Native Americans.

In 1994, the Foundation initiated three programs to address root causes: The PhD Project, the Historically Black College and University Accreditation Grant Program, and the Minority Doctoral Scholarship Program

## The PhD Project

One barrier we identified to attracting minorities to business graduate programs was the lack of minority faculty to serve as role models and mentors. When students of color do not see professors of their own ethnic background on the accounting faculty, they are less apt to consider the option of a career in accountancy. In response, we created the PhD Project to increase the number of minority faculty in business schools. A stronger minority faculty will help create a stronger student talent pool

When we started the PhD project in 1994, out of 26,000 business school professors, we could identify only 294 who were African-American, Hispanic or Native American. Today, with the contributions of The PhD Project and initiatives by others, there are 812 minority faculty, and 346 current minority doctoral students, with another 52 scheduled to start this September. We have nearly a 90% retention rate, and 99% of those who completed their doctoral programs are teaching in colleges and universities. According to the Association to Advance Collegiate Schools of Business International (AACSB International), the national comparable statistics are approximately 65% for both measures.

The investment in the PhD Project to date exceeds \$17.5 million, of which the KPMG Foundation has provided nearly \$8.5 million, in addition to its administrative costs on a *pro bono* basis. The breadth of external funding for the PhD Project is testimony to the success of this systemic approach to improving diversity in management. Our external funding includes over \$4 million from academic associations, including nearly \$2 million directly from universities. University contributions to a foundation are very rare, if not unprecedented. Corporate and other foundations' support exceeds \$4

million. Professional accounting organizations support is approximately \$500,000.

Faculty, doctoral students and other individuals approximately have given \$250,000.

Recognizing the breadth of external support for the program, on July 1, 2005, the KPMG Foundation spun off The PhD Project by creating a separate 501c (3) organization with public charity status. The KPMG Foundation will continue to provide significant financial support (\$910,000 for fiscal year 2006), and administer The PhD Project on a pro bono basis.

#### Historically Black Colleges and Universities' Accreditation Grant Program

As we implemented the The PhD Project, we realized that over 35% of African Americans earning business degrees were from Historically Black Colleges and Universities.

To assist those institutions in gaining accreditation from the premier accreditation organization for business schools, AACSB International, the Foundation offers grants to cover the cost of the process.

Currently, 82 of the 105 HBCUs grant undergraduate business degrees. When we started this program, only five HBCUs had AACSB accreditation. Today there are 16, with another 8 in process. The graduates of these accredited schools are now much better prepared for their careers, thanks in part to KPMG's commitment to increasing the number of qualified minority graduates.

Our investment in the HBCU Accreditation Grant Program exceeds \$325,000 to date.



### Minority Doctoral Scholarships

Another barrier to minority participation in doctoral business programs is, of course, financial. The KPMG Foundation has awarded over 230 minority doctoral scholarships of \$10,000 per year, renewable for up to five years. Of this population, 141 are on faculty, 39 are still in their doctoral programs, 24 are teaching but without having completed their dissertations, and 26 dropped out of their programs.

For the 2006-2007 academic years, 47 doctoral students will receive \$10,000 scholarships.

The Foundation's investment in this scholarship program exceeds \$8.2 million.

To apply for this scholarship, a student must be:

- African-American, Hispanic-American, or Native American;
- a U.S. citizen or a permanent resident of the United States (possess a green card); and
- enrolled, on campus, in a full-time, AACSB accredited, Accounting business doctoral program by September 2006.

### Other Activities of the Foundation

The Foundation supports other diversity-related efforts, such as the Consortium for Graduate Studies in Management, the National Association of Black Accountants, the Jackie Robinson Foundation, and A Better Chance. Also, the Foundation has established endowments and annual scholarships to support North Carolina A&T State University and Howard University.

The Foundation has given an endowment of \$600,000 to each of these universities and \$25,000 in annual scholarship money to each of them as well.

Our Foundation's president, Bernard J. Milano, has also provided leadership to diversity efforts. Mr. Milano serves on President George Bush's Board of Advisors on Historically Black Colleges and Universities, chairman of the HBCU Business Dean's Roundtable Corporate Advisory Board, member of the Congressional Forum's HBCU Summit Steering Committee, chair of the North Carolina A&T State University Business Dean's Executive Advisory Council, and founding member of the Diversity Pipeline Alliance.

#### CPA Certification

The GAO report indicates: *"One reason for the lack of diversity in key positions in the industry is that relatively few racially ethnic minorities take the CPA exam and thus relatively few minorities are CPAs."*

To address this problem, KPMG provides CPA exam and course reimbursement for both campus recruits and experienced hires. We believe that this commitment to all our employees encourages them to become CPAs, so that they in turn will be able to reach senior management positions.

The campus program has been in effect since January 1, 2004 (prior we had a bonus program) and the experienced hire program was rolled out this winter, January 1, 2006. Both programs are similar and provide reimbursement for the Becker Review Course and exam fees. The campus program allows reimbursement for select university-sponsored programs.



### Other Initiatives

Earlier this year, we continued to strengthen diversity within KPMG by forming two new National Networks for African Americans and Latinos. These networks will focus on advancing the careers of our African American and Hispanic professionals by offering networking, personal development, and mentoring opportunities.

### Conclusion

KPMG is absolutely committed to increasing the diversity of our partners and employees. We believe a diverse workforce makes KPMG not only a better place to work but also a better client-service organization. We have implemented programs that work toward systemic solutions to the challenge of diversity, specifically increasing the pool of minority professionals qualified for a career in accounting.

Like the accounting profession as a whole, we have a great deal more progress still to make, but we are proud of the contribution to diversity these programs have made. I am living testimony to KPMG's determination to recruit and advance minority professionals, and to the difference it can make to one's life and career.

Thank you for this opportunity to share my views with you today.