



Leaders' Edge

The newsletter of The Michigan Association of Certified Public Accountants

November/December 2005



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Accountancy Reform Initiative Moves Through Legislative Process

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Volunteers: What REALLY Makes the World Go 'Round

From my perspective, it's not love, or money, or food or music. It's volunteers – people – that really make this world go 'round. As a member of MACPA for 30 years, and now as Chair of the Board, I've been witness to countless examples of our members generously giving of their time and talents.

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Cover Story

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One of the most significant provisions within the reform is the MSBA's recommendation to require licensed CPA firms and sole practitioners performing attestation engagements (audits, reviews and compilations provided to third-parties) to participate in a peer review program as a qualification for license renewal.

In order to protect the integrity of the CPA profession, as well as those seeking services provided by CPAs, the MSBA has proposed and the MACPA has endorsed moving to mandatory peer review for qualifying firms. Should this reform be approved by state lawmakers and signed by the Governor, the peer review requirement will go into effect beginning in March 2007.

While the details of this new requirement won't be available until the legislation is signed and the administrative rule-making process is complete (read a *Leaders' Edge* article on the [rule-making process](#)), the MACPA intends to continue to administer the AICPA's Peer Review program to meet statutory requirements.

Standards, copycat CPAs, MSBA board make-up, record retention, and firm registration are among other areas addressed by State Board recommendations. The recommendations, the legislation and numerous analyses, FAQs and other resources are available on the advocacy portion of the [MACPA's web site](#).

Message from the Chair of the Board

Volunteers: What REALLY Makes the World Go 'Round



*Peggy Haw Jury
2005-2006 MACPA
Chair of the Board*

From my perspective, it's not love, or money, or food or music. It's volunteers – people – that really make this world go 'round.

As a member of MACPA for 30 years, and now as Chair of the Board, I've been witness to countless examples of our members generously giving of their time and talents. On a national scale, our members have stepped up to provide aid to victims of recent natural disasters. The enormity of those disasters called us to respond out of our basic sense to sustain human dignity.

Closer to home, though, and with less dramatic motivation, our members volunteer in their communities and within our profession day after day. Just a few examples that highlight how you are making a big difference include:

Serving as AICPA Chair for the next year, Michigan's own Leslie Murphy brings vast expertise in "people" issues to the AICPA leadership team. As our profession seeks to reverse increasing turnover trends stemming from the workload pressures of *Sarbanes-Oxley* compliance, attract more minorities to the profession, increase the number of accounting PhD's to counter the trend of an aging/retiring professor population and seek new, creative work/life balance strategies, Leslie is the incredibly talented volunteer leader who is capable of moving us forward. I urge you to read her inspiring [inaugural address](#) and learn more about the issues she will focus on this year.

Leslie's husband, Terry, is a CPA and volunteer on another front. For years, Terry has been reading to Detroit school children and collecting books for them. Terry's work sparked new ideas of how others can serve. Terry is looking at opportunities for retired CPAs to get involved in the school districts as he has. In addition, the MACPA's New Professionals Task Force was inspired to conduct a book drive this summer. This group, along with the MACPA staff, collected nearly 8,000 books! Just think of all the children who will be affected by the work of these generous volunteers. And they haven't stopped. This month, the New Professionals are collecting [Toys for Tots](#).

The MACPA has a big agenda, with our priorities outlined by our volunteer leaders in our strategic plan. And without many additional volunteers, we would never achieve our lofty goals. Our task force chairs and vice chairs and members champion our causes and spend countless hours strengthening our profession. Hundreds of you – whether you work in public accounting our business and industry – take time from your personal and business lives to talk to students through our [Accounting Blitzes](#) or our [Speakers Bureau](#). During tax season, you man the phones to answer consumer tax questions or spend your day at Focus:Hope to help with the Accounting Aid Society [Tax Assistance Program](#). You support our legislative agenda with your [PAC](#) dollars and by working with government officials to strengthen our profession and to solve complex financial issues facing every level of government.

The chronicle of your volunteerism could go on and on. It's no surprise that public surveys show a high level of trust in CPAs. You are out there every day making a difference in our world.

While you're not doing any of this for recognition or financial gain, you certainly can look back on each day

knowing that you have contributed. As more is needed, you give more and find new ways to serve. Because of committed volunteers, this profession will continue to make great strides and enhance the communities in which we live. I thank you for that.

Corporate Finance

COSO Releases Small Business Guidance Exposure Draft

Shows Small Companies How to Achieve Effective Internal Control

In late October, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) released for public comment an exposure draft of its much-anticipated *Guidance for Smaller Public Companies Reporting on Internal Control over Financial Reporting*. This guidance, which serves as a supplement to COSO's *Internal Control — Integrated Framework*, originally published in 1992, focuses on the unique needs of smaller public companies in regard to compliance with *Sarbanes-Oxley (SOX)* Section 404.

COSO's new guidance outlines 26 fundamental principles associated with the five key components of internal control: control environment, risk assessment, control activities, information and communication; and monitoring. The report defines each principle and describes its attributes, lists a variety of approaches smaller companies can use to incorporate the principles, and includes real-world examples of how smaller companies have effectively applied the principles.

A project task force, overseen by Task Force Chair Debbie Lambert, COSO Chairman Larry Rittenberg and led by PricewaterhouseCoopers partner Miles Everson, consisted of approximately 20 members with experience in small business. They, along with a PricewaterhouseCoopers research team, brought experience with both small public companies and SOX 404 from within their respective organizations.

The task force focused on providing examples that demonstrate how the principle-based *Framework* can be applied to small public businesses. According to Everson, "The guidance does not change the requirements for effective internal control over financial reporting, but it does more clearly articulate how smaller businesses can achieve effective internal control in a more cost-efficient and practical manner."

"While the control principles addressed in the new document may be applicable to both large and small companies," said Rittenberg, "it was important for us to demonstrate how smaller public companies can implement effective internal control in a different manner than do their larger counterparts. For example, management's hands-on approach in smaller businesses may create opportunities for controls to be less formal without decreasing their quality. Further, the scale of those controls may differ and the opportunity to shift many of the controls from a fixed cost to a variable cost structure may be available to smaller companies."

The guidance asserts that internal control over financial reporting may be accomplished by choosing approaches to applying the COSO principles that best fit each company's circumstances in the most effective and efficient manner. According to the guidance, smaller public companies may strengthen internal controls by broadening the pool of audit committee members, using controls built into accounting software, leveraging management monitoring and outsourcing some activities.

This new guidance provides a tool for management to use in determining the appropriate level of internal controls over financial reporting for smaller businesses. The document is intended for use by board members, senior management, other personnel and external auditors.

Because of similar initiatives at the SEC and PCAOB, those organizations each provided an observer to the project. The [AICPA](#), a COSO member organization, fully supports and endorses the draft guidance.

"I believe this guidance is an important step forward in helping smaller businesses understand and apply COSO's internal control framework in connection with implementing Section 404 of the Sarbanes-Oxley Act," commented SEC Chief Accountant [Donald Nicolaisen](#).

The report can be accessed at [online](#). COSO encourages interested parties to read and comment on the exposure draft and to direct comments through the [web site](#). The comment period ends on Dec. 31, 2005. Final guidance is expected in the first quarter of 2006.

Corporate Finance

Enhanced Business Reporting: Providing Relevant Information for Decision Makers in Public and Private Companies

By Caroline Boudreaux

How are most successful businesses managed today? Are historical financial statements or the budget the sole sources of data and information upon which critical decisions are formulated?

If organizations were managed solely on historical information, the result would be a tremendous loss of opportunity. Adept organizations utilize historical information, along with real-time indicators that are predictive in nature to manage day-to-day operations and make strategic decisions. Technology has provided access to more timely, accurate and relevant information in a cost-efficient manner for virtually all entities.

Enhanced Business Reporting (EBR) responds to the need for better, more structured guidance on how to report such information. With EBR, the focus of communicating data shifts from a snapshot based primarily on financial, historical or lagging information to a model that incorporates both financial and nonfinancial data, including leading indicators.

EBR provides for a richer disclosure of financial and nonfinancial business performance measures, so companies can provide all stakeholders with the information they need to make better decisions.

[The Enhanced Business Reporting Consortium \(EBRC\)](#) is leading an effort to improve the quality, integrity and transparency of information in a cost-effective and time-efficient manner. Members collaborate to develop a voluntary, global disclosure framework designed to be the "gold standard" in business reporting.

In addition to developing the strategy for implementing EBR through the creation of the EBRC, the AICPA Special Committee on Enhanced Business Reporting established a public company task force and the private company task force to conduct research and develop examples of how EBR reports may appear.

Public Company Sample Reports

The Public Company Task Force spent most of 2004 preparing several sample reports appropriate for public companies (available for review [online](#)). In addition to showing potential approaches to EBR, the reports demonstrate the potential benefits and commercial opportunities for stakeholders. The reports demonstrate sample disclosures for a number of diverse industries, as well as how to apply [XBRL](#) and other business reporting technologies.

The AICPA Public Company Task Force is now studying ways to simplify existing reporting requirements for public companies within the context of EBR.

Private Company Efforts

The AICPA Private Company EBR Task Force, chaired by Harold Monk, CPA, CFE, managing partner of Davis Monk and Co., in Gainesville, Fla., is working on a similar effort, but with a view to ensuring the guidelines of EBR are scaleable for privately held businesses.

"We want to make financial reporting more transparent at all levels and make sure users get the type of information they find important in their decision making," Monk says.

Thomas Foard, CPA, CFM, CMA, vice president and CFO of Publishers Circulation Fulfillment, Inc. based in Towson, Md., also serves on the AICPA Private Company EBR Task Force. Foard sees the primary difference in public versus private company shareholders being that public shareholders tend to naturally focus more on reported earnings, whereas privately held shareholders tend to focus more on cash flow.

Aside from this primary difference in business ownership and financial interest, private companies have basically the same portfolio of stakeholders as the public companies, including bankers, credit agencies, vendors, employees, etc. These stakeholders deserve the same level of transparency for the privately held entity as the public company, and thus Foard feels the need to develop an EBR framework that is scalable and relevant for privately held entities.

"We need to provide the framework and tools for the privately held companies to communicate the company's business model, strategic direction, underlying business drivers and key performance indicators, and management's assessment of risks and opportunities. There are clearly common themes in the EBR model that are appropriate for both public and private companies," Foard said. "The challenge will be scalability, as privately-held companies can sometimes be much larger than some of their public company counterparts, but are usually much smaller with limited financial management resources, which may be challenged in the ability to prepare EBR reports. Recognizing this, our goal is to develop an EBR framework that is effective for privately-held companies while also providing tools that provide efficiency," he explained.

Private Company Sample Reports and Survey

The AICPA Private Company EBR Task Force prepared sample reports that demonstrated what enhanced business reporting might look like for privately held companies. As part of this effort, the Task Force designed an online survey to collect the opinions of the preparers, creditors, business owners and other key stakeholders about the relevance, usefulness and effectiveness on the components of the sample reports.

The feedback will be used as input in the development of a comprehensive, voluntary EBR framework, appropriate for privately held companies. The sample reports and the survey can be accessed [online](#).

The accounting profession has a key role to play in protecting public interest and bolstering trust in the financial reporting process. As EBR makes business reporting more transparent, it will strengthen the economy and protect investors and other stakeholders.

About the Author

[Caroline C. Boudreaux](#), CPA, CSPM, is a partner of Boudreaux, Henderson & Co. New Iberia, La. She is a member of the AICPA Private Company Enhanced Business Reporting Task Force.

Practice Management

Survey Says Most CPA Firms Lack Formal Staffing Programs

New AICPA White Paper Offers Guidance For Smaller Firms

While attracting and retaining staff remains the biggest challenge they face, few CPA firms have formal, documented programs that would help them achieve this goal, according to a recent survey by the AICPA Private Companies Practice Section (PCPS).

The survey results appear in a new white paper published by PCPS, [*Best Practices in Recruiting and Retaining Talented Staff*](#), which addresses the issue by including recommended guidance for specific aspects of recruiting and retention.

The survey, conducted among 500 CPA firms, asked firms whether they have put in place documented programs to address such issues as leadership development, generational differences and compensation alternatives for those not on the partner track. The survey also asked about business development programs for partners and managers and whether the firm had aligned its compensation policies with its strategic initiatives. Large majorities, ranging from 75 percent to 99 percent depending on the program, had not put such programs in place.

According to James Metzler, AICPA vice president – small firm interests, the white paper offers tips on how a recruitment or retention program can be adapted for a smaller practice or implemented in an informal manner. “Unfortunately, many firms believe that they lack the resources to implement a formal program. However, there are some basic principles that we feel can be effectively adapted by firms with fewer resources,” said Metzler.

The white paper urges smaller firms to use their size as an advantage. “Smaller practices are in an excellent position to offer a congenial atmosphere and a high level of personal attention to career issues,” Metzler said. “Staff accountants at smaller firms get a lot of exposure to clients and often have the option of flexible work hours. Small firms should use these factors as a selling point in attracting and retaining talented staff.”

Tax Tidbits

President's Panel Issues Tax Reform Recommendations; AICPA Guide Clarifies the Options

Federal income tax reform is at the forefront once again. With baby boomers approaching retirement, the 2001 and 2003 tax cuts set to expire, and the alternative minimum tax continuing to affect millions more middle-income taxpayers, the tax reform debate is heating up. In light of the current climate, it is no surprise that President Bush has made tax reform a priority of his Administration's second term.

In January 2005, the President created the President's Advisory Panel on Federal Tax Reform and charged it with recommending options to make the Internal Revenue Code simpler, fairer, and more pro-growth. The Panel's recommendations, released November 1, 2005, include voiding most tax deductions and lowering tax rates to make the U.S. tax system simpler and more efficient.

The first of the two outlined proposals pushes for major simplification of the current income tax system, while the second recommends changes for businesses that lead to an indirect tax on consumption. Access the Panel's [final report](#).

Two weeks prior, the AICPA released a report *Understanding Tax Reform: A Guide to 21st Century Alternatives*, in an effort to serve as a resource in the tax reform debate. The report offers an unbiased review of tax reform proposals and discusses the issues and alternatives for reform. It is intended to foster informed discussion among policymakers by providing balanced information and analysis.

The 2005 report builds on the success of *Flat Taxes and Consumption Taxes: A Guide to the Debate*, released by the AICPA in 1995. Highly regarded by tax experts, the 1995 report offered a comprehensive and evenhanded analysis of tax alternatives. The current research further develops key issues uncovered in 1995 and provides expanded coverage of new alternatives being considered in the 2005 debate. The report provides a timely, unbiased resource to those engaged or interested in tax reform. Both the 1995 and 2005 reports are available [online](#).

The 2005 report outlines three approaches to tax reform that are central to the current debate: bottom-up, fundamental and a hybrid methodology.

"Bottom-up" is an incremental approach that would modify the current income tax system without changing the system's fundamental character as an income tax.

"Bottom-up" proposals address economic growth by creating incentives for capital formation, accelerating depreciation, eliminating double taxation of corporate profits, and increasing tax-preferred savings options.

Fundamental tax reform, on the other hand, would replace the entire current tax system (or major parts of it) with a new system – with a consumption tax being the most frequently proposed substitute. The most dramatic manifestations of this approach would significantly reduce tax filing by most individuals. The report examines the five major consumption tax alternatives: a retail sales tax; a credit-invoice value-added tax (VAT); a subtraction method VAT; "the flat tax" (a single-rate consumption tax); and a personal consumption tax.

A consumption tax system is considered simpler and more conducive to economic growth, while income taxes are viewed as more progressive. These general observations may not hold true for specific proposals. Both

types of tax systems have valuable characteristics, and that may be why the **hybrid approach to reform** – one that encompasses both an income and consumption tax – is receiving greater consideration. The report outlines current hybrid proposals.

In fact, our current income tax is better characterized as a hybrid income-consumption tax than as a “pure” income tax. This is because many forms of investment are subject to reduced tax rates (capital gains, dividends), a zero tax rate (state and municipal bond interest), or deferred tax rates (retirement plans, certain important features of life insurance contracts).

If delivered appropriately, each of the tax reform approaches discussed in the report has the ability to yield positive results. Simplification and reducing impediments to economic growth and international competitiveness are key components to the consideration of any proposal. Reforms should also address increasing domestic savings and reducing the tax compliance gap. In addition, the difficulty of measuring income and determining whether tax provisions should have a more neutral affect on individual and business decision-making must also be considered.

With this report, the AICPA does not take a position on the “best possible solution” to reform, but supports an in-depth debate of the issues, taking into account the goals of enacting “good tax policy.” Policymakers are encouraged to use the AICPA’s [*Tax Policy Concept Statement #1: Guiding Principles for Good Tax Policy*](#) to evaluate competing reform proposals for simplicity, fairness, consistency, transparency and economic efficiency, and other important measures. Education and discussion between policymakers and the public are essential to make this tax reform effort rational, thoughtful and lasting.

Tax Tidbits

Take The Next Step: Send Your Computer-Prepared Returns Electronically

You've invested time, training and money in software to prepare your clients' federal tax returns on the computer. Now it's time to take the next step and send those returns electronically to the IRS.

The benefit to tax professionals who use e-services is the tremendous increase in customer satisfaction with IRS problem resolution. The tax professional has access to information in seconds, rather than days or weeks, thus resolving client issues much more quickly.

IRS e-file is the most accurate, secure way to file returns today. In fact, the majority of returns (52 percent) in 2005 were received electronically. Why?

Because more and more tax professionals (and taxpayers) are seeing the significant benefits of using IRS electronic services. By becoming an authorized e-file provider and using either software or a third party transmitter, tax professionals gain considerable client satisfaction and reduce IRS problems in the long run. In addition, taxpayers receive their refund faster (especially if they choose Direct Deposit) and fewer errors are encountered in processing their returns.

Beyond Filing

Through enhancements to its products and web site, the IRS is making it easier than ever for tax professionals to e-file and take care of clients' taxes electronically. Almost all IRS forms can now be filed and paid electronically for both individuals and businesses. But there's more to the electronic IRS than just filing.

For Tax Professionals

For tax professionals, the IRS provides a full suite of web-based products called e-services available at [online](#). The development and implementation of e-services has been in progress for several years, and improvements will continue to expand the services over the next year.

These basic services are designed to help tax professionals handle the major components of tax preparation and filing and improve the speed with which the IRS responds:

Registration: Anyone who wishes to use the e-services products must first register. Once the tax professional has registered, they will receive a confirmation code via mail within 10-14 days to their home address. Next, they will login to e-services, confirm the registration and begin using the services.

e-file Application: The on-line e-file Application replaces the paper process for submitting Form 8633, Application to Participate in the IRS e-file Program. Applications can be maintained and updated electronically and a new delegation of authority feature allows principals or responsible officials of the firm/organization to

delegate e-services products to their employees.

Preparer Tax Identification Number (PTIN): A tax professional may choose to use a PTIN instead of his or her own SSN on returns prepared for clients. The PTIN Application allows a preparer to apply for and receive a PTIN online, or they also have the option of looking up a forgotten PTIN. The preparer can request a PTIN card be sent to them. This process used to take weeks to complete, but can now be completed in seconds.

Taxpayer Identification Number Matching

(TIN Matching): TIN Matching is limited to payers who file any of the following six information returns: 1099-B, INT (interest), DIV (dividend), PATR (patronage), OID (original issue discount), MISC (miscellaneous). In order to participate in TIN Matching, payers must be listed in the IRS Payer Account File (PAF) database.

Beyond these basic e-services, tax professionals who are active participants in the IRS e-file program and e-file more than five individual income tax returns in a season are eligible to use the following incentive programs:

Disclosure Authorization (DA): Allows third parties to submit Forms 2848, Power of Attorney, and Form 8821, Tax Information Authorization, online. Tax professionals will receive immediate verification that the POA has posted to the IRS Centralized Authorization File (CAF File) and can begin using other incentive products. However, tax professionals must have a signed POA in their business files prior to submitting the form electronically. Tax professionals can view all previous authorizations on file, and update the information online.

Transcript Delivery System (TDS): TDS enables the authorized practitioner to request tax transcripts and account information on their clients' accounts.

Electronic Accounts Resolution (EAR): EAR enables the authorized third party to submit an inquiry electronically to the IRS, 24 hours a day, seven days a week. The biggest advantage to using EAR is that the inquiry will remain with the same IRS Customer Service Representative from beginning to end.

And More...

And there's more. Through the electronic IRS, tax professionals can...

- Obtain an EIN via the Internet EIN program
- Submit information returns through the FIRE program
- Review current and past IRS documents in the Electronic Reading Room
- Access phone representatives through e-Help Services
- Subscribe to a variety of electronic alerts and newsletters
- Check on client refunds

The IRS has its priorities set on increasing the number of electronic options for its customers. The goal is to provide easier access to the IRS and give tax professionals the ability to do more transactions online. Through its modernization efforts and new online product development, they are on their way to providing an all-electronic IRS that tax professionals will find very valuable.

Tax professionals can register for e-services [online](#).

Take the next step...register for e-services if you haven't already done so, and send your clients' tax returns electronically this year.

Tax Tidbits

Tools of the Trade when Detecting Abusive Return Preparers

By IRS Special Agent Stephen Moore, JD

On July 20, 2005, Nancy Jardini, chief of criminal investigation for the IRS was invited to testify before a House subcommittee about fraud and tax return preparers.

A current goal is to enhance enforcement of the tax laws by ensuring that attorneys, accountants and other tax practitioners comply with the law and adhere to professional standards.

During her testimony, she highlighted a Michigan investigation of a Jackson Hewitt franchise owner and his manager.

According to court records, William Thomas, co-owner and general manager of three Jackson Hewitt franchises and one of his managers, Preston Harris, along with others, prepared more than 50 tax returns containing false and fictitious information, enlarging income tax refunds due to their clients by more than \$115,000. The false information included claiming charitable contributions and un-reimbursed employment-related expenses. Some false returns claimed fictitious dependants and head of household status, along with creating fictitious Schedule C businesses, in order to generate an Earned Income Tax Credit.

Thomas was sentenced to 30 months imprisonment and Harris received 18 months. During sentencing, the total tax loss was calculated to be much higher and the men were ordered to pay \$229,000 in restitution.

Return preparer fraud has been one of IRS Criminal Investigation's (CI) main priorities for many years and 2005 is no exception, with the current national inventory of investigation reaching a five-year high. Four key fraud detection tools include fraud detection centers, identifying schemes using technology, CI's undercover program and parallel proceedings.

Fraud Detection Centers

Since 1977, CI's Fraud Detection Centers (FDC) has been screening suspected fraudulent tax returns by evaluating data identified by data mining algorithms, conducting critical investigative analysis, and working with our partners in the civil divisions of the IRS. During the 2005 processing year, more than 33,000 questionable returns have been identified claiming almost \$100 million in refunds associated with unscrupulous tax return preparers.

Identification of Schemes Using Technology

CI, in conjunction with the IRS's Information Technology Services (ITS), has developed the Electronic Fraud Detection System (EFDS). The EFDS houses large quantities of taxpayer data and has the capability to combine refund returns with other IRS files into one centralized system. In fact, EFDS is the second largest database maintained by the IRS. All refund returns are scrutinized by EFDS, which results in the identification of a substantial proportion of false returns.

Special Investigative Techniques

Another effective investigative tool used by CI is an undercover program. Criminal Investigation conducts undercover operations in significant financial investigations when it is not possible to obtain evidence through less intrusive means. Over the past four years, CI has conducted about 400 undercover operations relating to unscrupulous return preparers.

Parallel Proceedings

Stopping unscrupulous return preparers as quickly as possible is critically important to the integrity of the tax system and one effective method is through the use of parallel proceedings. Parallel proceedings are simultaneous but separate criminal and civil proceedings. Obtaining a civil injunction effectively stops the illegal activities of the promoter while the criminal investigation proceeds.

Learn more about [IRS CI](#).

About the Author

[Special Agent Stephen Moore](#), JD, is the public information officer at IRS Criminal Investigation, Detroit. He serves on the MACPA Fraud Issues Task Force.

Tax Tidbits

Ohio Offers Tax Amnesty

The Ohio Department of Taxation recently announced a six-week 2006 Tax Amnesty Program extending from Jan. 1 to Feb. 15, 2006. The program enables professionals to explore their clients' potential tax delinquencies to take advantage of this limited-time opportunity to pay back taxes without penalty. Additionally, interest charges are reduced by 50 percent.

The urgency of assisting clients with potential delinquencies is heightened by the increased likelihood of discovery as a result of enhanced communication among states and the IRS. Further, the Ohio Department of Taxation has allocated significant resources to increase its effectiveness at finding and recovering delinquent taxes through its Audit and Operating Divisions and the newly formed Tax Discovery Division.

Three areas within the Ohio are applicable to businesses located outside of Ohio including the Corporate Franchise Tax, Pass-through Entity Tax and Sales & Use Tax.

With respect to the **Corporate Franchise Tax**, tax professionals in states outside of Ohio might want to ask their business clients the following questions:

- Do you own a business (located outside of Ohio) and have employees or representatives who routinely solicit sales to Ohio customers but have not filed a corporate franchise tax return with the State of Ohio?
- Are you a "C-corporation" partner in a partnership that does business in Ohio (meaning the partnership has property, payroll and sales in Ohio) but have not filed a corporate franchise tax return with the State of Ohio?

With respect to the **Pass-through Entity Tax**, the following question might apply:

- Are you a shareholder in a subchapter S Corporation or a partner in a partnership that does business in Ohio and have received a distributive share from that corporation or partnership? If yes, has the subchapter S Corporation or partnership filed a pass-through entity tax return and paid the tax due (related to the S Corporation/partnership's profits) to the State of Ohio?

With respect to the **Ohio Sales & Use Tax**, the following questions might apply:

- Do you own a business that performs taxable services to customers at Ohio locations and have not charged sales tax on those services?
- Do you own a business (headquartered outside of Ohio) that has representatives or employees soliciting sales and/or making repairs in Ohio but have not charged Ohio sales tax?
- Have you purchased tangible personal property (e.g. Internet or catalog purchases) at your Ohio location(s) but have not paid Ohio sales tax or use tax on the purchase of that property?

Other tax delinquencies may have occurred with Personal Property Tax, Personal Income Tax and Withholding Tax. For more information about the 2006 Ohio Tax Amnesty Program, you may visit this [web site](#) or call 800.304.3211.

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Three areas within the Ohio are applicable to businesses located outside of Ohio including the Corporate Franchise Tax, Pass-through Entity Tax and Sales & Use Tax.

With respect to the **Corporate Franchise Tax**, tax professionals in states outside of Ohio might want to ask their business clients the following questions:

- Do you own a business (located outside of Ohio) and have employees or representatives who routinely solicit sales to Ohio customers but have not filed a corporate franchise tax return with the State of Ohio?
- Are you a "C-corporation" partner in a partnership that does business in Ohio (meaning the partnership has property, payroll and sales in Ohio) but have not filed a corporate franchise tax return with the State of Ohio?

With respect to the **Pass-through Entity Tax**, the following question might apply:

- Are you a shareholder in a subchapter S Corporation or a partner in a partnership that does business in Ohio and have received a distributive share from that corporation or partnership? If yes, has the subchapter S Corporation or partnership filed a pass-through entity tax return and paid the tax due (related to the S Corporation/partnership's profits) to the State of Ohio?

With respect to the **Ohio Sales & Use Tax**, the following questions might apply:

- Do you own a business that performs taxable services to customers at Ohio locations and have not charged sales tax on those services?
- Do you own a business (headquartered outside of Ohio) that has representatives or employees soliciting sales and/or making repairs in Ohio but have not charged Ohio sales tax?
- Have you purchased tangible personal property (e.g. Internet or catalog purchases) at your Ohio location(s) but have not paid Ohio sales tax or use tax on the purchase of that property?

Other tax delinquencies may have occurred with Personal Property Tax, Personal Income Tax and Withholding Tax. For more information about the 2006 Ohio Tax Amnesty Program, you may visit this [web site](#) or call 800.304.3211.

Tax Tidbits

Master Tax Guide Now Available for Pre-Order!

The *2006 U.S. Master Tax Guide* (MTG) provides helpful and practical guidance on today's federal tax law. This *89th Edition* reflects pertinent federal taxation changes that affect 2005 returns – plus provides fast and reliable answers to tax questions affecting individual and business income tax.

[Order](#) your *Master Tax Guide* today – as an MACPA member, you save nearly 40 percent off the retail price. The **deadline for pre-orders is December 12, 2005**; only limited supplies will be available after the pre-order deadline.

The *Guide* is cross-referenced to the Internal Revenue Code, Income Tax Regulations, certain other important tax law sources and CCH's Standard Federal Tax Reports. This reliable reference is a must for anyone involved with taxes and tax preparation.

The *Guide* covers the following topics:

- Highlights of New Tax Developments
- Tax Rates and Tax Tables
- Individuals
- Corporations
- S Corporations
- Partnerships
- Trusts and Estates
- Exempt Organizations
- Income
- Exclusions from Income
- Business Expenses
- Non-Business Expenses
- Losses and Bad Debt
- Depreciation, Amortization and Depletion
- Tax Credits
- Minimum Tax
- Tax Accounting
- Basis for Gain or Loss
- Sales, Exchanges and Capital Gains
- Installment Sales/Deferred Payment Sales
- Securities Transactions
- Tax Shelters/At-Risk Rules/Passive Losses
- Retirement Plans
- Corporate Acquisitions/Reorganizations
- Taxation of Foreign Activities/Taxpayers
- Returns and Payment of Tax
- Withholding and Estimated Taxes
- Examination of Returns – Collection of Tax
- Penalties and Interest
- Estate, Gift and Generation-Skipping Tax

The *Guide* also includes a Tax Calendar, Taxpayer-Specific Return Flowcharts, Lists of Average Itemized Deductions, Selected Depreciation Tables, Checklists of Income, Deduction and Medical Expense Items and more tools to make quick and easy determinations on how particular items and situations should be treated and to answer client questions.

Visit the MACPA web site for more details on the *Master Tax Guide* or to place an [order](#), or contact the [Member Services Department](#) at 248.267.3700.

Of Interest

Profession Has Moved Forward with SOX; Other Major Issues Loom on Horizon

During his foray to Michigan to address educators and students at the [Michigan Accountancy Foundation Educators Symposium](#), former AICPA Chair Bill Ezzell took time to talk with *Leaders' Edge* Editor Marla Janness about the biggest challenges and opportunities in the profession. The following Q&A is excerpted from this discussion.

Q: You were chair of the AICPA during an especially difficult time – just after *Sarbanes-Oxley* was enacted. How far have we come in these past three years, and what has been its biggest impact on the profession?

Bill Ezzell: I think it's important to recognize that the accounting profession really did support *SOX* and most of its provisions. If you really think back, the major goal of *SOX* at the moment was to restore confidence of investors in the public markets. That has been accomplished. Looking back, I think it's done a great deal to improve corporate governance. The audit committee's role has greatly improved to the benefit of investors. The quality of work that's being done by audit firms is better than it was before *SOX*. We are seeing more and more things uncovered earlier in the process. But, that doesn't mean we're finished, that doesn't mean there can't be more improvements – there will be.

Q: There's been a lot of discussion about the cost of implementing *SOX*. What are your thoughts about the cost, and where is it headed?

Bill Ezzell: *SOX* in general increased costs. No matter what you were doing before, now you're doing more of it and doing it in greater depth in terms of an audit of any public company. So, there's an incremental layer of more work, and more work equates to more cost.

The big costs getting so much publicity are for the internal control review – the Section 404 review of internal controls by management, management's assertions about those controls and the external auditor's review and attestation. We've looked at these numbers through the first year of experience, 2004 (the first full year of real implementation.) About 75 percent of the expense was the internal cost for a company to document and assess its own controls. The reason it was so high was there was a lot of "deferred maintenance." A lot of documentation had never been done. The company thought it had controls and knew how things worked, but never documented it. No one had tested to the degree now required to test those things.

The other 25 percent of the cost was the outside audit firm attestation of internal controls. Additionally, in the first year, the guidance came out very late, so there wasn't an opportunity to bake it into the process of the audit. It was more like two projects, the audit and the 404 internal control work, being done almost separately.

Now, in the second year, the audits are more efficient because we've combined steps – both audit-related and 404 control-related. There are a lot more efficiencies coming out of the process.

But it has been a significant cost. There is a cost to being steward of the public's money as a public company. And there should be a cost.

Q: Another concern within the profession is the shortage of accounting professionals. What are

the major factors causing the shortage, and why should CPAs be concerned?

Bill Ezzell: We're a profession. And whether you have or use your CPA credential, or you're a member in industry preparing financial information to be relied upon or if you're auditing that information, or maybe you are a member in government or an educator – you want to have a robust profession. I've been all around the country in the last four years and I've talked to CPAs in every size firm from the small practitioner to the very largest of firms. If there's one thing I've heard over and over again is an abiding concern for our profession. Not from the standpoint of the scandals we've talked about or heard about, but the future of the profession from the standpoint of our ability to bring in new talent to refresh the pipeline.

Q: Why is it of such concern right now?

Bill Ezzell: Right now, we have a bubble of practitioners – the baby boom generation – of an age where within the next 10 years they will begin their retirements. Couple that with what happened with SOX: one of its consequences was a significant increase in the amount of time required both by the company and its accountants and the outside auditors. These two factors together create a huge shortage.

It doesn't just relate to big firms who work with public companies, although it starts there. A lot of clients were not able to find a big firm to do their work because they didn't have enough people; so the clients go to a smaller firm. The smaller firms didn't have any extra people either. So they might have gotten rid of their smallest clients to take on the next level of clients. It trickles down. There's been a tremendous demand for people throughout all size levels of practitioners.

Q. What issues on the horizon concern you?

Bill Ezzell: There are some major issues today that are unresolved and will become the issues of great discussions and controversy in the profession in the next three to five years. For instance, we've become increasingly aware that investors don't rely upon the financial information in the annual report and the audit opinion in the same way they used to. They want different information. And clearly, whatever that information is they want it on a more-timely basis and they want it to be more management driven, more operations driven. So we have a challenge in that we have a product – the audited financial statement – that users are not as well satisfied with. The question is, what do we need to do as a profession, to change the model so that it better meets the needs of the marketplace. We can have best buggy wheel, but if nobody has buggies, that's not going to be very productive down the road.

Another issue is private company financial reporting. When you look at the U.S. economic activity, about half is from thousands of private companies – both small and large. Their financial information needs are quite a bit different than investors in the stock market. Private company financial information users are banks and bonding companies – perhaps venture capitalists. They sometimes don't need the complexity of the system that's been built, especially the smaller companies. The AICPA and FASB are looking at whether there should be a model for private companies that's different. Not different for difference's sake, but to meet the different needs. It's a cutting edge issue.

We need to think it through. Here again, if the product – the financial statement as it's put together today – is not appropriate for users of a private company, you have the same issue as I mentioned before: the marketplace will go in other directions.

Plus, this will have a profound impact on the accounting education curriculum. What would we teach in the universities? Would we teach both sets of accounting principles, if two emerged? What about the convergence with international standards? Should we be teaching U.S. and international standards in today's global marketplace? That's a whole other issue – should we be training accountants in the U.S. to be able to step onto a global platform.

Q: What do you tell young people about the opportunities in the accounting profession?

Bill Ezzell: I think the opportunities are boundless in this profession. They've always been to a degree, but they are more so today because business is becoming more complex, it's moving at a faster pace. It's more and more national, if not global. There's just more opportunity because of the complexity, because of the needs and how dependent our society is on the information that flows out of the business world, whether it's to produce the information or to test it. I think accounting is the most broadbased platform to whatever you want to do in business. Hopefully new students will stay in accounting and become CPAs, achieve the credential.

Q. You often spend time with accounting students in the classroom. In fact, you're visiting two classes of Michigan accountancy students this week. What is your key message to these students?

Bill Ezzell: The students are particularly interested in fraud and they frequently ask why fraudulent financial reporting doesn't get caught, or doesn't get caught soon enough. Through a roleplaying activity, I challenge the students to make decisions on behalf of a mythical company with a mythical product that is struggling at the end of each quarter to make the numbers. While they start out with normal business decisions, they eventually cross the line. I explain that when we look back at the (fraudulent) things we've read about, most never started out with people going in to work one morning planning to commit fraud. They are people under tremendous pressure, trying to do some good things for their company. And as they cross the line of what's appropriate, it's difficult to bring it back. Many frauds happen incrementally over time, and often by well-intentioned people. But, they just go astray.

So, the main message is that you'll face situations where people will challenge your value system and ask you to do things you don't think you should do. Might be accounting, might be something else. You may not even understand why you shouldn't, but you know you feel uncomfortable. That's when you've got to be able to say, wait a minute. And, seek out help, consult, talk with other people. Don't give in.

More about Bill Ezzell

From 1998 through 2004, Bill Ezzell was a member of the board of directors of the AICPA and served as its chairman from 2002-2003. As chair, Bill focused on restoring credibility to the accounting profession and emphasizing the profession's core values of objectivity, integrity and independence. He was directly involved in the enactment of the *Sarbanes-Oxley Act of 2002* and implementing regulations that have brought about significant change to the profession. He is a frequent speaker and panelist at corporate governance forums discussing the implications of the Act on audit committees, management, auditors and the renewed focus on business ethics.

Bill began his professional career with Deloitte & Touche in Greensboro, N.C., after receiving his B.S. degree in Business Administration/Accounting from the University of North Carolina at Chapel Hill. He has been with Deloitte & Touche for 31 years and currently manages the firm's government relations program in Washington, D.C.

Of Interest

A Survival Plan for Important Papers

In the wake of the Hurricane Katrina disaster, many Americans are re-examining their own readiness to react, and quickly, should catastrophe strike their home, whether hurricane, flood, fire, tornado or other calamity.

Most of us know what to grab should we need to evacuate on short notice and many of us have these items in an easily accessible location, ready to be loaded into the car in five minutes' time.

Gallon jugs of water, a case of PowerBars, every pair of socks you own, even a 50-lb. bag of dog chow – these items you can probably lay your hands on instantly. Can you say the same for your children's birth certificates, copies of your income tax returns, or your will?

Locating important paperwork as you race out the door may be hard to do. Many financial planners have advised their clients to create a "Beneficiary Book" to help heirs or executors handle their final affairs; the same idea can be implemented in the event you are forced to flee your home.

Here is a [quick check-list of important papers](#) you should be able to quickly grab and take with you, as recommended by experts from the banking and financial fields. Please take a moment to print and clip it

and use for reference as you gather your important papers:

- Birth certificates and adoption papers
- Social Security cards and earnings reports
- Health and school records
- Recent bank statement and pertinent account records
- Marriage certificates and/or divorce decrees
- Titles, deeds and registrations for property, including vehicles
- Mortgage and other loan information
- Insurance policies
- Investments records
- Credit card statements
- Photo IDs, such as drivers' licenses and passports

Two ways to protect your records and other irreplaceable items from disaster are to store them in a safe deposit box at a bank or place them in a home safe.

If you gather original copies of your important documents, experts advise you take steps to guarantee their

Related Resources

Online Disaster Preparedness Guide

[Disasters and Financial Planning: A Guide for Preparedness](#)

from the AICPA, the American Red Cross and the National Endowment for Financial Education

Technical Practice Aids

Download the following AICPA Technical Practice Aids offering guidance for CPAs helping clients affected by disaster:

[Evidential Matter – Destruction of Documents](#)

[Accounting and Disclosures Guidance for Losses from Natural Disasters - Nongovernmental Entities](#)

[Impact of Natural Disasters on Audit Work](#)

safety. Slip plastic covers over the papers, and store them in a fire- and water-proof strong box. Make copies of your documents and store those in a safe location away from your home.

And when it comes to hard copies and strong boxes, experts also proffer this caveat: strong boxes can float away. They suggest you backup copies of your documents on your computer and then e-mail the documents to yourself so you can download and print them once you and your family are out of harm's way. To make sure you can access your

e-mail account no matter where you find refuge, you may want to create an e-mail account with Yahoo!, AOL or Google, which can be accessed on any computer. Or, offload your backup copies onto a CD or DVD.

You may also want to consider keeping original documents in a safe deposit box at a bank. These boxes can be rented for about \$30 a year. However, if the bank is affected by the same disaster, you may have difficulty gaining access to your documents.

And one more thing experts advise: Don't forget cash. Cash works when loss of electricity renders useless your ATM and credit cards. They say you should withdraw as much as you can as soon as you receive a warning that a natural disaster is pending, BEFORE the disaster actually strikes.

You will need all of the cash you can withdraw in case you need to buy supplies at post-disaster prices, which can be inflated. Once the danger has passed and you can return home, put the money you haven't spent back in the bank.

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Of Interest

Select AICPA Operations Will Relocate to Durham, N.C.

The AICPA Governing Council voted October 25, 2005 to relocate select operations currently located in Jersey City, N.J., and New York City to Durham, N.C.

The decision to relocate was the result of an extensive financial and location analysis conducted by AICPA management, with the assistance of objective consultants. "The relocation will position us for the next century of service to CPAs of this country," said Barry Melancon, AICPA president and CEO.

This initiative was driven largely by the continuing escalation of labor costs in the New York metropolitan area, as well as the existence of excess space in AICPA's Jersey City location. The association plans to sublet its excess office space for the remaining term of its lease. The relocation is expected to provide the AICPA with an annuity savings of approximately \$10-11 million per year over a 15-year period.

Approximately 400 job functions will be moved to North Carolina beginning August 2006. With few exceptions, the association's New York and Washington, D.C. offices will not be impacted by this move.

Melancon states that a critical objective for the move is to mitigate any disruption to service to AICPA members during the transition period. "No other factor is as critical as maintaining effective ongoing membership service. For this reason we are planning a significant period of duplicate operations for impacted functions. In addition we have brought an experienced project management firm on board to drive the highest quality of planning and execution of the move."

"We recognize that change is not easy, and we will do everything possible for our members and for our staff to ensure a smooth transition," said Melancon. The association will provide relocation assistance and a comprehensive separation package for those who do not remain with AICPA but who help the organization through the transition.

"We believe this is the right long-term decision for AICPA," concluded Melancon. "The Raleigh-Durham area offers a premier labor market and significantly lower operating costs, as well as an exceptional quality of life for our staff."

Legislative & Regulatory

The March Toward Public Disclosure of Peer Review

In 1988, AICPA members voted to make peer review mandatory, but to keep the results confidential. Since then, there has been a steady march toward lifting the veil of confidentiality and making peer review results public.

Today, for example, all member firms of the Institute's audit quality centers and the Private Companies Practice Section (PCPS) post their peer review reports on the AICPA web site, accessible to anyone who wants to view them. In fact, of the approximately 16,000 firms that perform audits, about 11,000 currently make some aspects of their peer review results available outside their firm, whether its through membership in one of the above centers or as a requirement by a state board or the Government Accountability Office (GAO).

Many other firms voluntarily make their reports public, either in response to client requests, or as part of an effort to demonstrate their commitment to quality. Some firms even trumpet the results in their advertising.

Regulators Moving Toward Public Disclosure

Regulators are moving in this direction as well. Both banking regulators and the Department of Labor are on record supporting greater transparency of peer review reports for those accounting firms that audit financial institutions and pension plans. In addition, the National Association of State Boards of Accountancy (NASBA) and many state boards of accountancy have become strong advocates for requiring the disclosure of peer review information.

Currently, there are about 33,000 firms in the United States subject to the AICPA peer review program because they employ AICPA members and engage in audits, reviews or compilations. The majority of these firms are headquartered in states that require peer review as a condition of licensure. Of the 39 states and territories mandating peer review, about 20 also require peer review information to be submitted to the state board at some point in the process. As more states implement mandatory peer review requirements the number of states requiring submission will likely increase.

NASBA has underscored its position in recent proposed amendments to the Uniform Accountancy Act (UAA) statute. These proposed revisions would give state accountancy boards the authority to require administrators and licensees to remit peer review documents to them. In order to allow the AICPA to keep its 1988 commitment that peer review materials be kept confidential, the proposed provision in the current UAA exposure draft – a joint document of NASBA and the AICPA – is marked with an asterisk stating, "Due to its 1988 commitment to its members, the AICPA cannot support this provision at this time."

Bear in mind the AICPA's Board of Directors and Governing Council have gone on record in support of greater transparency of the peer review process. The need to provide the disclaimer in the body of the UAA is dictated exclusively by the 1988 confidentiality commitment. Any change to this confidentiality commitment allowing the profession to pursue transparency would require a member referendum.

Why Now?

Why have so many state boards and other regulatory authorities begun to insist on public disclosure of peer review results? The move toward greater transparency of the peer review process is being driven by several factors. In addition to regulatory pressures, the general public is clearly demanding more transparency in all

businesses and business transactions. People expect openness and full disclosure when making investment decisions; they expect nothing less when choosing a CPA firm. Transparency rewards those firms that perform at the highest professional level, and penalizes those that do not.

Why is the AICPA leadership so supportive of greater transparency? The AICPA Board of Directors and Council do not support greater transparency just because it is inevitable; they support it because they believe it is the right thing to do. By taking the lead and making a change to this aspect of self-regulation, the profession would be making a strong statement about its ability and willingness to regulate itself. More importantly, it would be helping to preserve the uniformity of the peer review process among the states.

Is Peer Review Ready for Transparency?

Some members have expressed concerns that certain aspects of the peer review program may be problematic in a transparent environment. Some of those views are based on a lack of information about recent enhancements to the peer review program that just became effective a few months ago. For example, some members have expressed a concern that the prospect of greater transparency may cause peer reviewers to mitigate their findings in an attempt to protect a firm from an adverse impact on its practice, or may discourage CPAs from volunteering as reviewers. However, enhanced oversight is helping to prevent substandard reviews, and a number of steps have been taken to increase the supply of peer reviewers.

Ready for Change

The CPA profession has a long history of changing its rules in order to voluntarily raise the bar on itself and adapt to the demands and expectations of evolving economic and market environments. Most recently, for example, AICPA members voted overwhelmingly to approve bylaw changes that have strengthened the Institute's ethics enforcement process, ensuring the AICPA has greater flexibility to act in the public interest, in the event a member violates the profession's code of ethics.

Now the AICPA leadership, NASBA and many state boards of accountancy believe it is time for another important change – full disclosure of peer review results. It stands to reason a trusted profession must be willing to let people know what independent assessments have to say about them. Indeed, transparency of financial information has always been a core principle of the CPA profession.

On a more practical level, the regulatory community, clients and the public are more inclined to trust a profession that takes the initiative to impose upon itself a transparent system that will provide them with the information they need to make informed decisions. The fact is that public disclosure of peer review information is occurring with or without the consent of the profession. Great professions do not wait for others to impose action upon them, but instead, step up to the plate to design a system that reflects its core values, while at the same time fulfilling its commitment to the public interest.

Legislative & Regulatory

Ethics Q&A

Following is a question and answer transcript highlighting some of the frequent inquiries sent to the MACPA Professional Ethics Task Force. Responses to the inquiries have been tailored to specific questions presented and may not consider all of the unique circumstances that are part of an ethical inquiry. Attempt your own answers before reading the "unofficial" opinion of the Task Force.

Non-profit organizations that provide services and/or products as mandated by state and federal initiatives may also be required to perform regular assessments of their ongoing programmatic and fiscal responsibilities as they relate to that particular initiative. In some cases, the organization (Entity A) may also be required to contract with another, separate entity (Entity B) to provide a finalized service or product.

If an auditor is engaged to perform attestation services for Entity A, but must also include in that attestation service an audit of Entity B (audited by the same auditor), can this be considered a conflict of interest?

According to Article IV .01 of the *Code of Professional Conduct*, "independence precludes relationships that may appear to impair a member's objectivity in rendering attestation services." Article IV .03 states that "such a member who provides auditing and other attestation services should be independent in fact and appearance."

Simply put, the auditor who audits both entities may be put into a conflicted situation and therefore would be precluded from performing the audit on **Entity A**. If an auditor is engaged by **Entity A** to perform an attestation that includes an audit of **Entity B's** attestation and errors are uncovered, the auditor may be conflicted in reporting those errors to **Entity A**.

FASB/GASB

FASB to Reconsider Accounting for Pensions and Other Postretirement Benefits

Board Seeks to Improve Transparency and Usefulness for Investors, Creditors, Employees, Retirees and Other Users of Financial Information

The FASB voted November 10, 2005 to add a project to its agenda to reconsider guidance in Statement No. 87, *Employers' Accounting for Pensions*, and Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*.

The Board's objective in undertaking the project is to improve the reporting of pensions and other postretirement benefit plans in the financial statements by making information more useful and transparent for investors, creditors, employees, retirees, and other users. The agenda addition reflects the Board's commitment to ensure that its standards address current accounting issues and changing business practices.

In making its decision, the Board considered requests by various constituents, including members of the Financial Accounting Standards Advisory Council (FASAC), the FASB's User Advisory Council (UAC), and the United States Securities and Exchange Commission (SEC).

Complex and Comprehensive

"We have heard many different views from our constituents about how the current accounting model should be reconsidered to improve transparency and usefulness. The breadth and complexity of the issues involved and the views on how to address them are deeply held. While the accounting and reporting issues do not appear to lend themselves to a simple fix, the Board believes that immediate improvements are necessary and will look for areas that can be improved quickly," said Robert Herz, chairman of the FASB.

The accounting and reporting issues involved touch on many fundamental areas of accounting, including measurement of assets and liabilities, consolidation, and reporting of financial performance. They are also impacted by complex funding and tax rules that, while not directly associated with accounting standards, affect the economics the accounting seeks to depict.

Comprehensive Approach with Initial Improvements in 2006

Given these complexities, the Board believes that a comprehensive project conducted in two phases is the most effective way to address these issues. The first phase is expected to be finalized by the end of 2006.

The first phase seeks to address the fact that under current accounting standards, important information about the financial status of a company's plan is reported in the footnotes, but not in the basic financial statements. Accordingly, this phase will seek to improve transparency by requiring that the funded or unfunded status of defined benefit and other postretirement benefit plans, measured as the difference between the fair value of plan assets and the current measure of the benefit obligation incurred for past employee service, be recognized in the balance sheet.

The second broader phase would comprehensively address remaining issues, including:

- How to best recognize and display in earnings and other comprehensive income the various elements that affect the cost of providing postretirement benefits
- How to best measure the obligation, in particular the obligations under plans with lump-sum settlement

options

- Whether more or different guidance should be provided regarding measurement assumptions
- Whether postretirement benefit trusts should be consolidated by the plan sponsor

In conducting the project, the FASB will seek the views of parties currently involved in other, independent reviews of the pension system including the Department of Labor and the Pension Benefit Guaranty Corporation. Furthermore, consistent with its effort toward international convergence of accounting standards, the FASB expects to work with the International Accounting Standards Board and other standards setters.

Continuing Education

Seasoned Speaker Steve Dilley to Present Tax Season Update

Can you anticipate your clients' questions? Do you know the compliance requirements that have resulted from recent tax legislation? You'll get the answers to all your questions at the Tax Season Update with Steve Dilley.

Dilley will present this seminar in four locations on four dates – [November 29 in Troy](#), [December 15 in Lansing](#), [January 18 in Grand Rapids](#) and [January 20 in Livonia](#). Each session offers eight general CPE credits.

This course was designed specifically for practitioners that provide tax services to clients, as well as for staff members who will have compliance assignments during tax season.

The Tax Season Update focuses on:

- Business and individual provisions, including domestic production activities deduction, Hurricane Katrina tax breaks, sales tax itemized deduction and Adjusted Gross Income,
- Recent tax legislation,
- Tax form revisions,
- Significant developments affecting tax return preparation,
- Strategies to assist in the tax preparation process and
- Tax planning with practical solutions emphasized.

[Register](#) online and save \$10. For more information, e-mail the [MACPA CPE Department](#) or call 1.888.877.4CPE.

Continuing Education

Comprehensive Seminar Uses "Key Issue" Approach to Cover Several Topics

The AICPA's Federal Tax Update covers legislative, judicial and IRS developments of the past year with a focus on implementation and compliance.

This course is designed for CPAs who need to stay on top of the latest changes in the federal law; those in attendance will identify planning strategies and compliance actions resulting from the latest changes to federal tax statutes, regulations, cases and rulings.

Attendees will discover how to effectively and confidently complete tax planning and compliance engagements. Also covered are current developments affecting individuals, including those regarding income, deductions and losses, tax calculations, individual credits, filing matters, business entities and more.

The seminar runs from 8 a.m. to 4 p.m. on [December 2 in Traverse City](#) as well as on [December 16 in Troy](#). Register online and save \$10. For more information, e-mail the [MACPA CPE Department](#) or call 1.888.877.4CPE.

Continuing Education

Accounting and Auditing Experts to Provide Updates on Latest Issues

Attend the [Fall Accounting Forum](#) on December 6 in Ann Arbor and earn eight accounting and auditing credits, or seven accounting and auditing credits and one ethics credit. These CPE credits will put you well on your way to meeting the [Michigan Board of Accountancy's annual CPE requirement](#) of eight accounting and auditing credits and two ethics credits.

This learning event also provides you with breakout sessions addressing current issues of the FASB, the new reporting model and a compilation and review update among others.

The Conference runs from 8:30 a.m. to 4:30 p.m. at the Kensington Court Hotel in Ann Arbor. [Register online](#) and save \$10. For more information, e-mail the [MACPA CPE Department](#) or call 1.888.877.4CPE.

Continuing Education

Federal Tax Lectures Focus on Individual and Business Tax

Attend the [Federal Tax Lectures](#) on December 8 in Livonia and hear from Steve Dilley, winner of the MACPA's *2005 Distinguished Achievement in Accounting Education Award*, and J. William Harden, associate professor of accounting at the University of North Carolina.

Dilley will provide an individual tax update with specific attention to provisions impacting individual income taxpayers, including uniform child provisions for dependents and credits, retirement changes and the new legislation related to Hurricane Katrina tax breaks.

Harden will present a business tax update with specific focus on the latest legislation and developments affecting corporate income tax. He will discuss 2005 tax legislation, S Corporation and partnership developments and miscellaneous business developments.

The Conference runs from 8:30 a.m. to 4:30 p.m. at the Laurel Manor in Livonia. Register [online](#) to save \$10. For more information, e-mail the [MACPA CPE Department](#) or call 1.888.877.4CPE.

Continuing Education

Professionals Working in Industry: Attend Conference Designed for You

The [CPE Mega Conference for Industry](#) is designed specially for accounting professionals working in industry.

Covering topics including accounting and auditing; ethics; management strategies; tax and technology, you'll stay up-to-date on the latest issues affecting the accounting profession.

The Conference provides eight CPE hours, including accounting and auditing and ethics to help you meet your licensure requirements mandated by the [Michigan Board of Accountancy](#).

The Conference runs from 8:30 a.m. to 5 p.m. on December 13 at the Rock Financial Showplace in Novi. [Register](#) online and save \$10. For more information, e-mail the [MACPA CPE Department](#) or call 1.888.877.4CPE.

Marketing

CPA Marketing Tool Kit Offers Many Free Resources

The CPA Marketing Toolkit provides lots of free resources – including several new downloadable brochures – to help members promote their practices and services.

The brochures in the [CPA Marketing Tool Kit](#) provide room for imprinting your firm's name to help you increase your visibility in the community. You may want to mail the brochures to potential and existing clients, use them as handouts when you give speeches, or display a few copies in your office reception area.

Brochures geared toward individuals cover such topics as college planning, retirement planning, financial planning, setting your financial records straight and tax savings. Brochures aimed at businesses include business finance, business structures and ways to protect your business. Invited to speak to a local organization? Speeches and PowerPoint presentations are offered on these topics as well.

Marketing

Knowing When to Say NO in the Sales Cycle

By Eric Hunt, Boomer Consulting, Inc.

Have you ever taken on a client that is more work than you bargained for?

Most firms have worked with or are currently working with a client who makes the job harder than it needs to be. There are times when a client has work that is more difficult because the work evolves. That happens and you just have to bear down and get it done.

On the other hand, there are clients who make the work harder because of how they function as clients. These are the clients that you pour effort into and get very little in return. It is vital to identify this type of client while they are still in the prospect stage of the sales cycle, and then decide if it's a client with whom you want to do business.

If not, let them go.

Identifying certain "clues" during the sales process may be an indicator to cut the prospect loose.

The Prospect Has a Negative Tone Throughout the Sales Process

During the initial talks with a prospect, determine the type of client they will be by asking questions and listening closely. You would expect prospects to be frustrated with some piece of their business; otherwise they would not need you. However, it's a red flag indicator if the conversation has a very negative tone. Examples of negative responses are... *"I have tried that and it would never work in our firm,"* or *"My partners are jerks and you won't get through to them."*

A prospective client who believes they know how to do it themselves, or openly resists the direction of the firm, are warning signs of what may become a tough client. Pay close attention to how the prospect speaks – and trust your instincts. Is this someone you would want to work with?

The Prospect Repeatedly Haggles Over Price

Prospects who have problems with price will become clients who have problems with price. Don't undercut the value of your service by giving in to every objection. Use cost reduction sparingly for a few prospects that you feel will turn into larger clients once they are able to experience your services.

Be careful with the prospects that focus only on the issue of cost, as they may already view your service as a commodity. If you are getting repeated prospects objecting to the price, you may need to reevaluate the value of your services. Turn the focus away from price and see if your services match their needs. Then determine if they have a valid reason to question price or if they are simply trying to reduce your fees.

The Prospect Expects More Than You Can Deliver

One of the most frustrating issues for a firm is working with a client that wants much more than the firm is able to deliver. This hurts both sides because the client doesn't get the service they truly need and the firm is working outside of their ability.

In the sales cycle, it is absolutely imperative to sell *only what you can deliver*. Make sure your prospect knows your capabilities, and you should clearly understand the client's expectations.

Above all, you have to be honest with both the prospect and yourself if you will have trouble meeting their needs. If you cannot meet their requirements, refer them to someone who can. This will build trust and respect which may bring them back to you at a time when you can help them. Referrals like this go a long way for everyone involved.

Remember, do not be afraid to tell a prospect that you do not have the ability to meet their expectations – but tell them who can.

The Prospect Wants to Change Your Processes

The most successful firms have strong processes and procedures in place. There usually can be a little bending room in the process to match the desires of different clients, but the process should not be broken to meet the desires of particular client. This opens firms up to the possibility of a larger breakdown of the process because the exception was made.

Clearly define your process of doing business with a prospect. Never compromise your process in order to sign a new client. A better alternative is to create processes that are adaptable and accepted within the framework of your firm.

The Prospect's Ego Overpowers the Conversation

It is very difficult to work for a client who believes he or she has all the answers. Making progress can be very slow and painful with high-ego individuals. This is one of the most difficult judgment calls to make because it is based on perception.

People deal with many individuals with huge egos, but be wary of the person who clearly feels superior to everyone around them. Take heed of the outright rude person who diminishes people when talking. Subjecting your team to this type of person can be very dangerous.

Protect your team by weeding out the no-win type of situation during the sales cycle. Determine and define your firm's ideal client, and the type of client that is not so ideal. Don't settle for every prospect that says yes when you know the work will be more involved than it's worth. Use the time in the sales process to ask the right questions, clarify your services and make sure both sides understand the work to be performed.

If there is an issue with any of the above examples or you don't feel right, consider telling the prospect you will be unable to work with them. This will save time, money and effort and will allow your team to focus on those ideal clients you covet.

About the Author

Eric Hunt is the director of client relations for Boomer Consulting, Inc. located in Manhattan, Kansas. He works extensively in the area of sales support and development. His timely articles on sales, marketing and developing strong client relationships have been published by state accounting societies across the U.S.

Technovision

Data Integration and XBRL - Top Technology #3

By Eric E. Cohen, CPA

Businesses are doing it. Governments are doing it. The entire business reporting supply chain is doing it.

Companies, regulators and other information exchange partners are embracing collaborative information standards, like the Extensible Business Reporting Language (XBRL). These groups are also implementing related technology solutions that let managers, government ministers and markets more efficiently and quickly discover, analyze, consolidate and extract value business information from disparate systems.

Why is everyone doing it? "On-demand" access to business intelligence, increased efficiencies and better controls are the goals. Data integration means that a piece of business information, once entered into the corporate or organizational computer system anywhere, *never* has to be retyped – within the reporting organization; moved up to corporate levels; or moved out to regulators, investors, lenders or analysts.

AICPA's Top Technologies 2005 is a project of the AICPA's Information Technology (IT) Membership Section and led by the Top Technologies Task Force. For more information on the AICPA's technology initiatives, including the Top Technologies, the CITP credential and the IT Membership Section, visit their [web site](#).

Information entered or updated in one system can "ripple across" other systems with a minimum of human intervention. As a result of this increased activity, companies like IBM and Microsoft are seeing triple-digit gains in their data integration units and making strategic acquisitions to better compete in the market.

Many forces collaborate to move data integration forward as a necessity for cost effectiveness and operational efficiencies, as well as a competitive weapon in improved access to relevant, timely and accurate information for management and control purposes. Reactions to corporate corruption like *Sarbanes-Oxley*, privacy initiatives like *HIPAA (Health Insurance Portability And Accountability Act of 1996)* and the *Gramm-Leach-Bliley Act of 1999*, along with increasingly required e-filing initiatives, call for streamlined, controlled information flows and standards-based solutions.

Today's *SOX* Section 404 issues, followed by tomorrow's Section 409 threats (*SOX* 409 calls for "real-time disclosures"), increase the need for data integration to reach the eventual goal of real-time, "on demand" reporting.

Technology and collaborative developments also make data integration more feasible. Consider pervasive Internet connections, the integration of XML (Extensible Markup Language) capabilities into desktop and server applications, and the delivery of standards like XBRL that lower the barriers to obtaining the benefits of data integration.

With this new focus on controls and systems, businesses recognize the need to inspect their business information systems much like a home inspector looking for signs of problems in the foundation of a building. Most of the time, businesses find more than they first expected, and for every major, integrated system, a legion of supporting systems is not far behind, e.g., spreadsheets with "cut and paste" data transfers dominate business planning, reporting and analysis activities.

News stories like the spreadsheet failure at Fannie Mae, which had to restate its earnings by \$1.2 billion dollars due to "honest mistakes made in a spreadsheet used in the implementation of a new accounting standard," highlight the fact that better solutions are necessary. Spreadsheet solutions and many so called

'integrated systems' currently fail at providing drill-down capabilities, solid audit trails and efficient reuse.

There are a wide variety of options for spreadsheet remediation. Database and middleware vendors provide managed spreadsheet environments to maximize the benefits of the spreadsheet interface and development environment, while reducing the consequences of using spreadsheets as a data mart. Other applications provide library functionality, access control, version control, audit trails, macros/menu control and hot key control, among other features, to better control spreadsheets.

Technology solutions like data warehouses and BI (business information) tools are normally expensive, and difficult to establish and maintain. Organizations that attempt to standardize their technology often find that they have managed to transform old legacy systems into new legacy systems. For this reason, many organizations and information supply chains are considering an information standards-based approach – standardizing on information standards. A technology approach may provide one view to one organization; an information standards-based approach provides one view for all.

This information standards-based approach is the goal of XBRL. Where Electronic Data Interchange and other emerging XML standards concentrate on transactions, XBRL represents the family of data/information integration standards for the accounting, financial and business reporting supply chain.

In 2004, XBRL reached a new level of acceptance in the United States, as evidenced by the Securities and Exchange Commission (SEC) Voluntary Financial Reporting Filing Program for the EDGAR System. Starting in Spring 2005, the SEC began its evaluation of XBRL by promoting the voluntary filing of XBRL-based representations of selected corporate filings.

The SEC's commitment is only the latest in a wide variety of global adoption stories, which also include stock exchanges, tax regulators, securities regulators, banking regulators like the FDIC and entire governments. The Dutch government, for example, expects to save hundreds of millions of Euros per year due to XBRL.

There also is increasing interest in the use of XBRL for internal integration and reporting. [XBRL GL](#) is a standardized representation of the data found in accounting and business operational systems. It can represent the information found not only in the general ledger, but in receivables, payables, inventory and other sub-systems.

Companies who want to integrate their systems, and improve controls and audit trails, are looking to XBRL GL as an integral part of the solution. The auditor community, including tax agencies, is also interested in standardized solutions for pulling data from client/taxpayer systems.

Data integration is a vitally important topic for the CPAs in audit and tax to understand because it promises to bring new efficiencies to client, CPA, banker, regulator, tax agency and market. CPAs are encouraged to find out more about XBRL, look for spreadsheet sprawl in their clients' organizations and their own companies, and ask software vendors to implement standards-based solutions for the benefit of their organizations and all with whom they work.

About the Author

[Eric E. Cohen](#), CPA, is one of the founders of XBRL and serves as XBRL Global technical leader for PricewaterhouseCoopers. He is chief architect of XBRL GL, a past chair of XBRL US and a past chair of the AICPA Technology Conference. He is especially interested in the audit, assurance, tax, security opportunities and challenges of XBRL.

Association Briefs

Peggy Haw Jury, Leslie Murphy Are Highlighted at Annual Event

Two outstanding female Michigan CPAs – Peggy Haw Jury and Leslie Murphy – took center stage at the Members Advisory Forum on Sept. 29, 2005, in Livonia.

The first Michigander in nearly six decades to lead the prestigious 350,000-member association, Leslie Murphy of Plante & Moran, PLLC, was welcomed with a standing ovation. Just days away from taking the helm as chair of the AICPA, Murphy talked about CPAs' positive ratings in a recent study that looked at how general business decision makers, investors and C-suite executives viewed CPAs.

MACPA Awards

CPAs from around the state were recognized at the annual MACPA Awards Banquet, held on September 28, 2005, in Rochester Hills. See the [list of award winners](#).

Murphy also told members about the impact of recent hurricanes on 2,500 firms in Alabama, Louisiana and Mississippi. She thanked members for their support and talked about additional ways CPAs could be involved in the rebuilding efforts, including providing firm resources to affected CPAs.

She also discussed moving toward greater transparency of peer review results saying, "We need to raise the bar. It is the right thing to do."

A special task force is exploring how to address member concerns about peer review transparency, such as how to make the reporting format understandable for the public and how to ensure consistency in reviews. A report from the task force is anticipated in December. (Read related [peer review](#) article in this issue of *Leaders' Edge*.)

Though student recruitment efforts have shown remarkable success, Murphy expressed concern about the need for more accounting PhDs and bringing more minorities into the profession. Other key issues Murphy addressed included risk assessment in auditing, audit quality centers and enhanced business reporting.

Another highlight of the day's events included induction of the 2005-2006 MACPA Officers. Peggy Haw Jury formally began her term as MACPA Chair of the Board with the ceremonial passing of the gavel from John Higgins. In her remarks, Jury spoke about the value of the MACPA's strategic partnerships with other organizations. She also commended members on their dedication to serving the profession and the public.

In her presentation, *MACPA Making a Difference*, MACPA President Peggy Dzierzawski noted the completion of the resource booklet developed in conjunction with Hospice of Michigan to assist social workers in giving financial guidance to their end-of-life patients. Part of MACPA's financial literacy efforts, task force members spent countless hours and provided remarkable talent developing the booklet.

She also discussed the MACPA's new partnership with *Crain's Detroit Business*. In addition, Dzierzawski talked about the impact the expanded High School Leaders Conference will have on high school juniors and seniors, and particularly on minority students. This year's program will be held at a record five locations.

Other highlights of the Members Advisory Forum meeting were David Sowerby's Michigan business update and lobbyist Tom Hoisington's perspective of the Michigan legislative scene.

For more on the event, including downloadable PowerPoint presentations, visit the [MACPA web site](#).

Association Briefs

MACPA Members Can Volunteer Time, Tax Expertise to Assist Low-Income Individuals

MACPA members can make a difference with one of their most powerful tools – their knowledge and skills in the area of tax.

The MACPA, in conjunction with its [Communications Task Force](#), is once again hosting a site for the [Accounting Aid Society's Tax Assistance Program](#).

At this event, you can share your expertise with people who can't afford the valuable advice of an accountant.

For the past two years, MACPA members, including college accounting students, completed tax returns from start to finish for low-income individuals and families; many of whom were not aware of their eligibility for income tax refunds and special credits. In the past two years, MACPA programs have put nearly \$200,000 in refunds back into the Detroit community.

Accounting Aid Society's Tax Assistance Program is among the nation's largest free tax assistance programs serving people in poverty. More than 6,700 families living in poverty received income tax refunds and tax credits through the Tax Assistance Program this year. More than \$6.4 million was returned directly to low-income residents in Wayne, Oakland and Macomb counties.

We'd like you to be a part of this wonderful community service program – so [e-mail](#) or call the MACPA Communications Department at 248.267.3717 and sign up to volunteer! The MACPA is adopting [Focus:HOPE](#) in Detroit on two Saturdays – February 11 and February 18, 2006. Volunteer for one or both dates.

Volunteers must attend a training session that explains the software used, typical client situations and tax updates. Experienced tax professionals may attend an abbreviated session lasting from two to four hours. CPE credit will be offered for volunteers attending these training sessions.

Reach out to those in need – share your financial expertise by volunteering for this program.

This tax season public service initiative complements [out-state assistance programs](#) held annually through MACPA support. The 2006 dates for these additional efforts have yet to be scheduled.

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Association Briefs

Partnership with Crain's Offers Subscription Deal, New Programming

A new MACPA partnership with *Crain's Detroit Business* brings extra value to you, our members. This award-winning weekly publication is Detroit's business news resource, read by the area's most influential decision makers, and is now available to you at a discounted subscription cost.

MACPA members can enjoy a special subscription price of \$35 for a one-year subscription. To receive the discounted subscription, call 888.909.9111 or order [online](#).

Additionally, the MACPA is sponsoring *Crain's Detroit Business'* **First Annual Women in Business Luncheon**. The event takes place on Tuesday, Dec. 6, at the Max M. Fisher Music Center in Detroit from 11:30 a.m. to 2 p.m. Kimberly Casiano, president of Casiano Communications and member of the Ford Motor Company Board of Directors is the featured speaker. Tickets are \$40 each for early bird registration and \$50 after Nov. 21. Register [online](#) or call 313.578.3230.

Also, look for *Crain's Detroit Business* at upcoming MACPA events, including large conferences and the Management Information Shows.

Association Briefs

CPAs, Educators, Students Come Together at Symposium

The Michigan Accountancy Foundation (MAF) Educators Symposium presented accounting educators and students with an in-depth review of issues facing the next generation of CPAs.

Bill Ezzell, past chair of the AICPA and partner with Deloitte & Touche in Washington D.C. provided insight on the recruitment and retention of accounting professionals, the potential changes to GAAP as it relates to Private Company Financial Reporting and the pursuit of peer review transparency. Ezzell also conducted a student town hall meeting where he emphasized that there is a real sense of community among CPAs and that no CPA should feel that they are working alone. (Review Bill Ezzell's complete [PowerPoint presentation](#).)

Peggy Dzierzawski, secretary of the MAF and president and CEO of the MACPA, spoke about ways in which the Foundation and the Association are working together to provide resources for educators and funding for students to make way for the future of the profession. Educators Margarita Lenk and Lynne Hendrix provided educators with ideas to inspire their students to expand their learning experience by providing real-world opportunities through community involvement. Additionally, Suzanne Jolicouer provided an update on the CPA exam.

A record number of educators and students attended the event, which was held on Nov. 11. The Symposium was co-sponsored by Doeren Mayhew, Deloitte & Touche, Ernst & Young, KMPG, Plante & Moran, PriceWaterhouseCoopers and Schoolcraft College.

Association Briefs

UPS Savings for MACPA Members

As a MACPA member, you're entitled to [savings and discounts](#) from various MACPA partners. The MACPA has recently enhanced their relationship with one such partner, UPS, just in time for the holidays, to offer you the best value on UPS services.

Through the MACPA's partnership with UPS, you can save 30 percent on Express Shipping and 10 percent on business services at The UPS Store®, including copying, binding, laminating, packaging and mailbox services.

With the holidays coming up, and your shipping needs increasing, be sure to [enroll](#) for these UPS savings! Contact the [MACPA Member Services Department](#) with questions.

Once enrolled, using UPS is simple. Packages can be processed from the shipping tab after logging into [ups.com](#) and dropped off at any UPS drop off points, including The UPS Store®. You'll always know where your package is by using [UPS Quantum View Notify](#)SM. With this service, you receive notifications when packages are picked up and delivered.

These services – and more – are available to MACPA members. [Enroll](#) today!

Association Briefs

In Memoriam

We sincerely regret the loss of our fellow members and extend deepest sympathies to their families and friends.

Dale M. Blocher
West Palm Beach, Fla.

Rufino C. Gungab
Troy

Robert A. Line Jr.
Marshall

Michael B. McCrea
Union City

Dennis A. Morgia
Canandaigua, N.Y.

Donald L. Morris
Farmington Hills