

Leaders' Edge

The newsletter of The Michigan Association of
Certified Public Accountants

January/February 2008



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[Navigator of the Profession – Gregory A. Nowak, CPA, JD](#)

Greg Nowak definitely leads a busy professional and personal life that many would consider hectic. He is one of Michigan's leading experts on state and local tax issues. As a partner in the PricewaterhouseCoopers LLP Detroit office, he leads the firm's state and local tax consulting practice. In fact, he was one of the major contributors in the development and subsequent approval of the Michigan Business Tax.

[From the Chair of the Board](#) [Doors of Opportunity](#)

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Top Stories

CPA License Mobility Implemented in 11 States; Michigan Moves Forward

Mobility remains the accounting profession's top state legislative priority in 2008, as efforts proceed to remove unnecessary barriers that prevent CPAs from providing timely service to clients in different states.

Thanks to thoughtful, collaborative hard work by the MACPA and other state societies, the National Association of State Boards of Accountancy (NASBA), the Accountants Coalition (TAC) and the AICPA, CPA mobility efforts achieved important traction in 2007.

Seven states, beginning with Tennessee and followed by Texas, Illinois, Indiana, Rhode Island, Maine and Louisiana, adopted a revision to Section 23 of the Uniform Accountancy Act (UAA) that allows a CPA licensed in another state to serve a client in its state without the need to provide prior notification.

Additionally, licensees and firms using this practice

privilege would fall under the automatic jurisdiction of the state board. These states joined Ohio (1961), Virginia (1999), Missouri (2002) and Wisconsin (2006) in recognizing that a CPA who is licensed in one state can serve a client in theirs while fully protecting the public interest – without the need of time-consuming and repetitive registration requirements that often do nothing to protect the public interest.

This year – 2008 – (exactly a decade after “substantial equivalency” was introduced into the UAA in 1998) is a critical year for efforts in state capitols from Boston to Lansing to Honolulu to provide CPA licensees the mobility they need in today's electronic age.

Mobility legislation is pending in Pennsylvania, Massachusetts, Delaware, Hawaii and Oklahoma, and efforts to introduce bills are underway across the country in at least 15 states. Enacting mobility legislation in these states would mean the profession is nearly half way toward true mobility between all 55 U.S. jurisdictions.

In Michigan, a Mobility Committee comprised of representatives from the MACPA, the State Board of Accountancy, the Michigan Department of Labor & Economic Growth and NASBA was developed in 2007 and met several times to begin the pursuit of mobility legislation.

Following a State Board vote to support the concept, actual legislation is being drafted to implement Section 23 of the UAA into Michigan law and is expected to be introduced in the first quarter of 2008.

“We're really talking about that temporary practice privilege, meaning the opportunity to come into a state that is not your normal home state or place where you have an office, and take care of client needs,” said Scott Voynich, CPA, who chairs the AICPA's Special

What's the Big Deal About CPA License Mobility?

To help you better understand why CPA license mobility is critical to the profession, read this [FAQ](#).

Committee on Mobility.

Putting substantial equivalency into the UAA ten years ago meant that any state requiring the “three E’s” (the Uniform CPA Examination, at least one year of experience and completing the 150-hour education requirement) makes the state a substantially equivalent state and gives its licensees the ability to gain a practice privilege in another substantially equivalent state without a need for another license.

One critical area where substantial equivalency broke down is the notification requirement. According to Voynich, “The original language of substantial equivalency was to provide mobility for CPAs to move from state to state with what became known as ‘simple notification.’ Each state has added on different forms, fees and processes which have turned it into something that has just been totally unworkable.”

The irony of the added notification requirements is that rather than protecting the public, they actually are contrary to public interest.

“Public protection really has two sides to it,” says Ken Bishop, with the NASBA Mobility Task Force. “Number one is a state board’s requirement to regulate the industry and to investigate when something bad happens. The other part of public protection is ensuring that the citizens – the consumers of the profession – have the ability to use the CPA that they want.”

Top Stories

Stabenow Mortgage Tax Legislation Becomes Law

In late December, U.S. Senator Debbie Stabenow (D-MI) joined President George W. Bush at the White House, as the President signed Stabenow's mortgage tax relief legislation into law. The legislation changes current law requiring individuals to pay an income tax when they have had a part of their mortgage loan forgiven or have been forced to foreclose.

"This law is critical to ensuring that families across our state who face foreclosure will not be hit with an additional tax bill this year. It adds insult to injury when someone loses their home and gets a new tax bill on top of it," said Stabenow. "I appreciate the support of the President and my Senate and House colleagues in turning my legislation into law. I look forward to continuing the critical effort to help the thousands of Michigan families faced with the prospect of losing their home."

Declining home prices and rising foreclosure rates have left too many middle-class families having to sell their homes for less than they paid for them, and sometimes for less than the outstanding debt. The IRS currently taxes any loan forgiveness as "income." The Mortgage Forgiveness Debt Relief Act will relieve families of a tax burden when their lender forgives part of the mortgage on a principal residence.

Michigan has recorded over 135,000 foreclosure filings on the year. The Detroit metropolitan area ranked second highest in the third quarter for the rate of households in foreclosure in the 100 largest metropolitan areas, with one out of every 33 households.

Related articles:

[Foreclosure Crisis - Stabenow: No Tax on Forgiven Debt, Nov/Dec 07 *Leaders' Edge*](#)

[The Story Behind the Mortgage Crisis in Michigan, Sept/Oct 07 *Leaders' Edge*](#)

Top Stories

Navigator of the Profession – Gregory A. Nowak, CPA, JD



*Greg Nowak,
Partner,
PricewaterhouseCoopers
LLP, State Tax
Consulting*

Greg Nowak definitely leads a busy professional and personal life that many would consider hectic. He is one of Michigan's leading experts on state and local tax issues. As a partner in the PricewaterhouseCoopers LLP Detroit office, he leads the firm's state and local tax consulting practice. In fact, he was one of the major contributors in the development and subsequent approval of the Michigan Business Tax. His dedication to the CPA profession is evidenced by his service as secretary of the MACPA Board of Directors and past chairman of MACPA's State and Local Tax Committee. Although Greg is often found either dealing with complex client tax matters, traveling around the state to inform others on state and local tax issues, working with government leaders on tax law reform, volunteering with Habitat for Humanity, or spending rare quality time with his family, he considers his life as *anything but taxing*.

What made you decide to go into the accounting profession?

I went directly to law school at Wayne State after receiving my undergraduate accounting degree at MSU. I honestly wasn't sure if public accounting was the direction I wanted to take at that time. With the combination of degrees, a career in tax in the public accounting profession was very attractive, and I went to work for a "big eight" firm, Ernst and Whinney. I left after a few years and worked as a state and local tax associate at the law firm Miller Canfield. However, I found accounting firms held several advantages over law firms in their tax practices, especially for multistate tax. So, I returned to public accounting with PwC and I'm still here today.

What makes going to work every day fun and exciting?

The number one thing is the people. Working with bright, energetic professionals in a team environment makes the job fun. It's one area where public accounting has advantages over a law firm because in that setting, you might have, at most, one partner and one or maybe two associates on a matter. In contrast, our CPA firm may have a team of four, six or 10 working on projects.

The other aspect that makes it exciting is the variety. I rarely have a day where I don't address several client issues. The variety keeps things interesting.

Explain any obstacles you had to overcome to get to where you are today.

It was tough deciding to leave an excellent law firm like Miller Canfield and return to public accounting. I'm still very close with my former colleagues, but I think I made the right decision. Another challenge was becoming a partner at PwC. I was very fortunate that things worked out for me in that respect. The other challenges I've faced are to balance the various responsibilities I have, including husband, father, PwC partner, MACPA officer, Detroit Chamber tax committee chair, Habitat for Humanity volunteer, etc. The challenge is to manage all of these competing priorities and ensure that I'm delivering on all these responsibilities. I just do the best I can from day to day to keep everybody happy!

You were very influential in the creation and approval of the Michigan Business Tax (MBT). Briefly explain your view on what will be the overall impact of the MBT on Michigan business since it took effect on January 1.

I'm convinced it will make Michigan more competitive. There are still a number of technical issues and legislative "tweaks" to work through and we are starting to get busy with that. I'm convinced the overall effect of the shift away from the SBT, the elimination of roughly half of the personal property tax, and the creation of the wage, investment and R&D credits under the MBT, will improve Michigan's business climate and encourage companies to locate and expand here.

You have also conducted several educational and informational sessions on the MBT, as well as other topics, at various MACPA programs and events. How do you feel your practical (firm) experience enhances your ability to effectively convey your message to other accounting professionals?

I'm in the same position every day as many of the professionals that I've addressed in these presentations. I'm taking a set of very unique and complex tax laws and communicating how it works to clients who are just now starting to focus on it. I've been doing state and local tax for most of my career and a lot of that work has involved translating the complex into the understandable. The Michigan law changes are dramatic, but at the end of the day I am helping my clients deal with those laws in the same way that I help them deal with the complex laws in every other state. There are no shortcuts, you just need to study it and analyze it to the best of your abilities.

Why is it so important to educate and inform your accounting colleagues, as well as the general public, about state and local tax matters?

State taxes represent over half of the total business tax burden. This percentage may grow larger as the federal government continues to reduce its funding of state level programs and shifts more of these burdens to the states. Also, there are 50 state jurisdictions and thousands of local jurisdictions each with their own sets of laws, in contrast to a single set of federal laws. This makes the challenges of complying at the state level in many ways much more substantial than complying at the federal level.

What has been your most meaningful volunteer experience?

That's a tough one. The efforts I've made helping to develop Michigan's tax structure are very

important, and hopefully will contribute to the future prosperity of the state. I am passionate about Michigan and helping to restore its economic vitality. However, I am also very involved with Habitat for Humanity, and lead a significant and growing relationship that PwC has established with Habitat for Humanity-Detroit. I am passionate about this cause on a different level because it directly and tangibly benefits the lives of individuals in the City of Detroit. Unlike helping with tax policy, the benefits of helping improve housing conditions in the city are much more tangible and measurable. Habitat is a fantastic organization and I am proud that PwC has been able to sponsor houses in the past two years. We will continue to grow our involvement with this wonderful organization.

What interests or activities are you involved in outside of work?

I am a boater and my family really enjoys spending time on the water. I am also a hunter, fisherman and golfer who struggles to find time to enjoy these other pursuits. My family is very important to me and spending time with them is my first priority.

How do you balance your personal and professional life?

PwC is a great place to work to maintain work/life balance. It's not about working less hours, but about flexibility, and that includes taking full advantage of the technology tools we have available to stay connected and minimize the amount of time spent in airports, on the road and at the office.

What advice would you have for those considering entering the CPA profession?

First, get the CPA exam out of the way as soon as you can. The new structure is great, but it can also cause procrastination. The CPA credential is incredibly valuable and the sooner you complete the exam after you get out of school (or even before) the better off you will be.

What do CPAs need now to be successful in the future?

Today, being a CPA is about a lot more than accounting and auditing. These fundamentals are still at the core, but CPAs play diverse roles in consulting, business and government. In my mind, being a CPA today is not about numbers, but about understanding financial concepts and principles, and then applying them to help an organization succeed. So, a successful CPA needs to understand how business works in a more holistic way than other business professionals. I think seeing the big picture is a real key to success.

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Message from the Chair of the Board

Doors of Opportunity



*Gail Sparks Pitts
2007-2008 MACPA
Chair of the Board*

As our members face a busy season of year-end accounting and 2007 tax year filings, we can celebrate a “tax victory” in Lansing – closing the door on the ill-fated service tax. After several all-night legislative sessions and the active participation of MACPA’s grassroots team, board members, Legislative Advisory Group and government relations staff together with other organizations, the Michigan Service Tax was eliminated on December 1.

With the service tax out of the picture, all of us are now focusing on understanding and implementing the new Michigan Business Tax. The MACPA is committed to providing resources and continuing professional education to help you in the process. Visit our homepage – www.michcpa.org – and you’ll see a quick link under CPA Resources for new MBT sessions. In addition, you can count on the MACPA for the latest information and resources via a special [web page](#) devoted to the MBT.

But, the MBT isn’t the only issue on our radar: practice mobility for CPAs has returned to the top of our legislative agenda for 2008. Because the electronic age makes conducting business across state borders an everyday occurrence, there is a critical need for all states to adopt a uniform mobility system that will allow licensed CPAs to provide services across state lines without unnecessary burdens that do not protect the public interest.

Currently, compliance and enforcement of the existing system is almost impossible, with multiple, cumbersome processes and disparities in requirements. A uniform mobility provision would allow CPAs to provide timely services to our clients, regardless of location, without the hindrances of unnecessary filings.

So far, mobility provisions are in place in 11 states, and legislation is pending in another seven states. The MACPA is an active participant on a Michigan Mobility Committee along with representatives from the State Board of Accountancy, the Michigan Department of Labor & Economic Growth and NASBA. The Committee anticipates the introduction of mobility legislation in the first quarter of 2008. For more on CPA license mobility, read the [article](#) in this issue of *Leaders’ Edge*.

Another critical issue – brought forth especially at this time of year – is our concern about fraudulent or otherwise improper tax return preparation in communities throughout Michigan. The MACPA has partnered with State Representative Steve Tobocman (D-Detroit), who has committed a significant amount of his time, and that of his staff, to ensuring reliable tax return preparation among the largely Hispanic community he represents.

MACPA's new Task Force on Taxpayer Awareness will lay the foundation for a public awareness campaign to arm taxpayers, particularly from low-income and immigrant populations, with the knowledge to avoid unscrupulous tax preparers. Working together with members of the State Legislature, and in partnership with the Association of Latino Professionals in Finance and Accounting and the Accounting Aid Society, our Task Force will launch a pilot public awareness campaign later this month in Rep. Tobocman's district. A cornerstone of the campaign will be a bilingual brochure containing tips and questions to ask prior to hiring a tax preparer.

Since the greatest tool for consumer protection is education, the MACPA and its members are uniquely qualified to fill this crucial need – providing taxpayers with the knowledge to help them avoid unscrupulous tax preparers. Opening doors to reach out into our communities does make a difference!

I extend my best wishes for a happy, healthy and prosperous New Year!

Accounting & Auditing

FASB Proposes Delay of Interpretation 48 for Nonpublic Enterprises

On January 8, 2008, the Financial Accounting Standards Board (FASB) issued for exposure proposed FASB Staff Position (FSP) FIN 48-b, *Effective Date of FASB Interpretation No. 48 for Nonpublic Enterprises*. The FSP proposes to defer the effective date of Interpretation 48 for nonpublic entities to fiscal years beginning after December 15, 2007. Constituents have until January 18, 2008, to submit written comments on the proposed FSP.

The Board proposed a deferral in response to a recommendation of the Private Company Financial Reporting Committee (PCFRC), which said many nonpublic entities, in particular nonpublic pass-through entities, required more time to study and apply the provisions of Interpretation 48. Nonpublic entities that have already adopted the provisions of Interpretation 48 would not be eligible for the deferral. The amendments contained in the proposed FSP clarify that the provisions of Interpretation 48 have been adopted if the nonpublic entity has issued financial information prepared in accordance with U.S. GAAP to third parties.

Interpretation 48 is an interpretation of FASB Statement No. 109, *Accounting for Income Taxes*, which increases the relevancy and comparability of financial reporting by clarifying the way companies account for uncertainty in income taxes. It makes recognition and measurement more consistent, as well as offers clear criteria for subsequently recognizing, derecognizing, and measuring such tax positions for financial statement purposes.

Constituents with comments on FSP FIN 48-b are encouraged to submit them in writing no later than January 18, 2008, to director@fasb.org, File Reference: Proposed FSP FIN 48-b. Those without email should send their comments to: Russell G. Golden, Director of Technical Application and Implementation Activities, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5166, File Reference: Proposed FSP FIN 48-b.

Accounting & Auditing

SEC Drops Reconciliation Requirement for Foreign Private Issues

Having considered extensive and informative public comment on its June 2007 proposal, the Securities and Exchange Commission in mid-November 2007 approved rule amendments under which financial statements from foreign private issuers in the U.S. will be accepted without reconciliation to U.S. Generally Accepted Accounting Principles only if they are prepared using International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The purpose of the requirement to use the IASB-approved version is to encourage the development of IFRS as a uniform global standard, not a divergent set of standards applied differently in every nation.

The SEC expects the move will help investors better analyze and get more readily comparable financial information from the U.S.-registered foreign companies in which they invest.

According to the SEC, the number of Americans who own foreign securities has risen significantly in recent years. Today, two-thirds of American investors own securities of foreign companies. That is a 30 percent increase in the past five years. The vast majority of U.S. investors own securities of companies that report their financial information using IFRS. IFRS is mandatory in Europe and in several other countries, and its use is mandated or permitted in over 100 nations around the world.

"Consistent application of international accounting standards will help the two-thirds of U.S. investors who own foreign securities to understand and draw better comparisons among investment options than they could with a multiplicity of national accounting standards," said SEC Chairman Christopher Cox.

The rule amendments will take effect 60 days after they are published in the Federal Register and apply to financial statements covering years ended after Nov. 15, 2007.

The SEC also convened two roundtables, on December 13 and December 17, to collect feedback from the public on the issue of giving U.S. domestic issuers the same option that foreign issuers have in our markets to use either IFRS or U.S. GAAP. Comments from these sessions are to be posted to the SEC's [IFRS Roadmap](#) page.

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Legislative & Regulatory

Peer Review Q&A: Monitoring Deficiencies

By Robert C. Thompson, CPA, Dennis, Gartland & Niergarth, and member of the MACPA Peer Review Task Force

Quality control standards continue to generate questions and confusion regarding monitoring and the peer review process, despite the fact that Statement of Quality Control Standard No. 3, Monitoring a CPA Firm's Accounting and Auditing Practice, went into effect ten years ago. This is the fifth and final Q&A article in a series highlighting frequent inquiries addressed by the MACPA Peer Review Task Force. Links to all previous articles are found below.

Q – What are the most common deficiencies related to monitoring found in peer reviews?

A – The most common deficiencies found in peer reviews are failure to implement the firm's monitoring policies and procedures, ranging from a complete absence of monitoring activity to a failure to extend monitoring to non-audit services (e.g., compilations and reviews). Other problem areas include failure to perform annual inspections, including the functional elements of quality control as required by the firm's policies and procedures, and failure to properly document compliance with the firm's policies and procedures.

Q – What will our peer review report say if we have weaknesses in our monitoring function?

A – If there are no comments in the Letter of Comments (LOC) and you have marginal performance or marginal documentation related to monitoring, then the peer reviewer will discuss the monitoring issue at the exit conference. If there was no monitoring performed and/or documented, then you will receive an LOC reporting the lack of documentation or performance of monitoring unless you also have deficiencies resulting in a modified or adverse report. If such deficiencies are reported, then an additional deficiency will be noted in the modified/adverse report for the lack of documentation or performance of monitoring.

Links to previous Peer Review Q&A articles:

Nov/Dec 2007

http://leadersedge.michcpa.org/novdec07/pm_prqa.asp

Sep/Oct 2007

http://leadersedge.michcpa.org/sepoct07/lr_prqa.asp

Jul/Aug 2007

http://leadersedge.michcpa.org/julaug07/lr_prqa.asp

May/Jun 2007

http://leadersedge.michcpa.org/mayjun07/lr_Peerreview.asp

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Legislative & Regulatory

Ethics Q&A: Transferring Client Records as a Firm Changes

This column highlights issues and questions submitted to the MACPA Professional Ethics Task Force. Responses may not consider all of the unique circumstances that are part of an ethical inquiry.

Q. What are the ethical considerations when transferring client records when there is a change in the CPA firm structure?

A. The MACPA Professional Ethics Task Force has found itself responding to issues dealing with the transfer of client records to or from unrelated CPA firms. While practitioners have been diligent in providing necessary client information to complete such an exchange, the ethical considerations that need to be adhered to are often times not considered.

The AICPA Code of Professional Conduct provides us with the needed direction in [ET-Section 301, "Confidential Client Information"](#) and [ET-Section 501, "Acts Discreditable – Response to requests by clients and former clients for records"](#).

The circumstances encompassed in this transfer situation, more often than not, can be described in the following situations:

- A. Sale of an accounting practice.
- B. Purchase of an accounting practice.
- C. Merger of two or more accounting practices.
- D. Retirement of a CPA practitioner.
- E. Death of a practitioner.

[ET-Section 301-3](#) reminds the practitioner that *any* confidential client information shall not be disclosed without the client *first* providing their unequivocal consent. The consent should be in writing and made part of the client's permanent records. A suggested format could be as follows:

Consent is hereby given to _____ to release to _____, who is doing business as _____, with all requested documentation and information contained in our client files. This Consent is effective for all information dated after _____. I/We understand that this transfer will be completed on or after receipt of this consent form.

Taxpayer/Entity: _____ (signature)
Entity Federal ID #: _____

Spouse (if applicable): _____ (signature)

Date: _____

ET-Section 501-1 defines the various categories of client records and the conditions a member must adhere to when responding to a client's request for this information, or in this case, transfer of records.

Applying these code sections to our topic, a practitioner should notify all current clients of retirement or the sale of his or her accounting practice to another practice entity *prior* to the actual transfer date. Too often practitioners will seek to complete the sale or acquisition of a practice and notify the clients *after* it is completed. Such a situation could be an ethics violation of ET-Section 301.3 ... a breach of client confidentiality. However, in certain situations, making notification prior to the actual transfer date may not be realistic; but notification should be made as timely as possible.

Should a practitioner or existing practice entity proceed to merge with another practitioner (s), the client base of both practice structures need to be notified of the impending "marriage" of the practice units. While this may be considered a "non-issue" by some members, the confidentiality concerns still must be addressed in order to avoid any possible violations as to disclosure and exchange of any private business or personal information amongst the members of the new firm.

Finally, if a practitioner should pass away, the family (assuming there are no remaining shareholders or partners) should contact legal counsel for the practitioner to effect notification of clients to return personal information and maintain the confidential nature of their accounting and tax records.

ET-Section 501 describes the type of accounting and tax information that should be returned to the client or transferred to the new practice unit. While this data is vital to all practitioners, any successor entity needs to follow the record retention and destruction policies of the former practitioner(s) for the appropriate period of time described in the former firm's record retention policy.

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Legislative & Regulatory

MACPA Legislative Priorities Plentiful for 2008

By John D. Lindley, senior director, Government Relations & Regulatory Affairs, MACPA

The MACPA Board of Directors, Legislative Advisory Group and Government Relations Department continue to see the full benefit of the investment in a Lansing satellite office location as monitoring the on-goings of state government and advancing the integrity of the CPA designation remain top priorities.

MACPA's top legislative priority is the pursuit of CPA license mobility legislation in partnership with the State Board of Accountancy and the Department of Labor & Economic Growth (see [related article](#) and [MACPA Board Chair's message](#)). In addition, the MACPA remains committed to working with the Department of Treasury and the State Legislature on the implementation of the newly enacted Michigan Business Tax. Outside of these highly visible initiatives, the MACPA continues to ensure your voice is heard clearly regarding other matters affecting the profession.

Tax Relief for Costs Associated with Service Tax Preparation

Most businesses in Michigan remain perplexed with the timing of the passage and the ultimate elimination of the expanded Use Tax to include services. Many businesses incurred significant costs in preparing for this tax – costs that cannot be recovered.

The MACPA has endorsed Senate Bill 967, legislation to allow businesses to claim a credit against 2008 Michigan Business Tax (MBT) liability equal to an amount that business can verify as actual expenses incurred in complying with the short-lived service tax.

Public Accounting Firm Organization/Incorporation

In *Miller v Allstate*, decided May 31, 2007, the Michigan Court of Appeals held that if a corporation can be formed under the Professional Service Corporation Act, it may not form under the Business Corporation Act. The court interpreted "professional service" in section 2 (c) of the Professional Service Corporation Act, MCL 450.222(c), as a nonexclusive list and concluded that a corporation must form as a professional service corporation if it is providing a personal service to the public that requires a license.

This court decision has a significant effect on the choices available to CPA firms and their clients when forming a business unit and, most importantly, may have an effect on the applicability of professional insurance for those entities deemed improperly organized.

A bi-partisan package of legislation (House Bills 5356-5358) was drafted to reverse the effect of *Miller v Allstate* and was unanimously passed out of the House of Representatives in December. Senate action is pending and the MACPA is working to communicate the

imperative nature of immediately addressing this issue.

Regulation/Licensure of Commercial Tax Preparers

There is currently an effort to develop a regulatory or licensing structure for commercial tax preparers in Michigan as a means to deter criminals from improperly or fraudulently preparing tax returns. MACPA met with representatives from the Independent Accountants Association of Michigan (IAAM) in 2007 to communicate the MACPA's position that any further certification and/or licensure of tax preparers would not solve the inherent problem, and would likely cause greater public confusion regarding the different professional designations, licenses and associated standards.

No legislation proposing a new licensed occupation has been introduced; however, the MACPA is monitoring this daily and has communicated the profession's opposition.

The MACPA is committed to addressing the issue through taxpayer education including working with members of the State Legislature and in partnership with the Association of Latino Professionals in Finance and Accounting and the Accounting Aid Society on a pilot public awareness campaign based upon information needed by a taxpayer when hiring a tax preparer.

Public School Audit Reform

As the Michigan Legislature continues to examine means to reform government and provide more transparency in taxpayer resource allocation, two initiatives have been floated to reform school district requirements related to expenditures, ultimately affecting audit and other services.

Senate Bill 500, introduced by State Senator Buzz Thomas (D-Detroit) would require school districts to enter "contracts for services" into the competitive bidding process. The current version of the legislation includes all services and would therefore affect audit services. The MACPA is opposed to requiring audit services to be bid, based on the argument that audit fees would increase over time (not decrease as the legislation is intended) and audit quality would be in jeopardy. MACPA representatives met with Sen. Thomas to discuss the issue and it is expected that a new version of the bill, which will exempt audit services, will be introduced this year.

Additionally, House Bill 5083, introduced by State Representative Kim Meltzer (R-Clinton Twp.) would require disclosure of virtually all school district expenses on a web site, similar to what is already required of Intermediate School Districts.

The MACPA has assembled the right group of experts, continues to monitor action, and stands ready to advocate the profession's position on school district audit reform.

If you have any questions on these or other legislative matters, contact the MACPA Government Relations & Regulatory Affairs staff at legislation@michcpa.org or 248.267.3710.

Technovision

Information Technology Support for Your Firm

By Ken McCall, MBA, MCP, CDIA+, Senior Consultant, Boomer Consulting, Inc.



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One of the most common technology questions asked by smaller firms is: "When should I consider hiring a full time IT person?" It's an important question and one that a group of small firms addressed at a recent gathering of the Boomer Technology Circles. The correct answer for your firm can be found when you understand the environment, requirements and options for this important initiative.

The Environment

Many owners, particularly in smaller firms, don't fully grasp the complexity of today's IT environment. Compared to similarly sized businesses in many other industries, CPA firms have several unique distinctions that add to the complexity.

The typical accounting firm uses a broad array of software, and the scope is ever-increasing. Tax preparation applications (including new scanning and document organization tools), audit automation programs, online research applications, document management structures, practice management tools and many more are all common.

"One of the most commonly asked technology questions asked by smaller firms is: 'When should I consider hiring a full time IT person?' The correct answer for your firm can be found when you understand the environment, requirements and options for this important initiative."

A firm must manage and integrate dozens of applications – often from different vendors – each with its own networking quirks. Plus, nearly every firm employee uses network resources, most on a full-time basis. (Just try to find someone in a CPA firm who doesn't use a computer!)

In addition, changing demographics, mobility and social expectations of today's work force require many firms to have IT resources available at any hour – and from anyplace via remote access. On top of everything, all of this must be handled in a way that safeguards client data as well as the network.

The Requirement

The basic IT requirement in any firm (regardless of size) is to provide the necessary resources, keep them updated, make them available when and where they are needed, and keep them secure. These are the tools that serve your staff members who, in turn, serve the

firm's clients. The person assigned to deliver these resources requires special expertise and time to perform the necessary tasks.

The Options

Small firms often assign management of the firm's computers to a staff accountant (or an owner!). While this person may be able to keep up with basic maintenance (such as Microsoft and tax software updates), it's unlikely he or she will have the time or expertise to process every IT requirement for long. As a result, almost all firms will need some form of support.

There are three basic options available to a small firm for professional IT support:

1. Contract with an outsourced IT company.
2. Draw support from an affiliated IT support company.
3. Hire a full time IT support employee.

Each of these has advantages and disadvantages. Let's take a quick look at some of them.

Contract IT Support

This is often the starting point for a firm that needs more than internal staff expertise, but should it be the long-term solution? Maybe.

Advantages:

The firm can draw upon a deep pool of IT talent. Unless a support provider is unusually small, it can offer dedicated specialists for particular problems. (If you need security help, for example, they will likely have someone on staff who specializes in just that.)

An outside IT provider also shoulders the cost of training its staff. This can be a significant expense, and today's IT work force cannot go without it. Firms can also count on IT support companies to manage their own employees, saving a firm the responsibility of evaluating those with skill sets outside of the accounting profession.

Disadvantages:

Some service providers do an exceptional job of partnering with a firm's team while others have less success. Although an intangible, it is essential that a service provider integrate successfully into the organization.

It really helps when a support provider understands the business priorities of a CPA firm. What's so special about March 15th? The IT support provider should know! More than one firm owner has told me this is a critical part of the relationship with a support provider.

Support providers do not always understand a CPA firm's sophisticated technology environment. Those who possess experience with other accounting firms and have expertise in commonly used accounting software should be sought out first.

Because this is a contractual agreement, defining expectations is critical. Most good support relationships I have seen use clearly defined Service Level Agreements (SLAs). These spell out what the support provider will do, how often, and to what standard of timely response. The cost of these services is also defined in an SLA. Tiered levels of service, or of response times, can carry different cost structures.

Support from an Affiliated Company

While this is rarely an option for a small firm, some larger firms own and operate a separate IT support company. Occasionally, though, a small firm has this opportunity. In either case the conditions are similar.

Advantages:

The advantages are similar to working with a contract support company with the added comfort of a trusted business relationship in the background. If you are dealing with your own affiliated company there should certainly be fewer conflicts over business ethics, service delivery and timely payments!

Disadvantages:

The biggest challenge is the structure of billing rates. Should a CPA firm pay full, market rates or get a sweetheart rate? A full discussion of this issue is far beyond the scope of this article, but if this situation exists for your firm – be prepared to deal with the question!

IT Professional on Staff

Sooner or later, most firms that rely on contract support will consider hiring someone full-time.

Advantages:

Daily interactions with staff members and desk-side training are the biggest advantages of hiring an IT employee. This person will have a vested interest in the firm's success and should develop the confidence of the staff. Frequent and in-depth interactions with the firm's IT environment will foster a better understanding of its quirks and special needs. And because this person is there each day, responsiveness is seldom an issue.

Nevertheless, if he or she does not quickly become part of the firm's team and share its goals, celebrate its successes and endure its setbacks – then the hire simply isn't a good fit. Being a part of the team is essential.

Disadvantages:

A solitary IT employee must deal with everything, and today's problem is seldom the same as yesterday's. As a result, almost every firm will occasionally need backup support from a

professional IT company.

The firm must additionally incur the cost of training its IT employee. A solo IT employee is on a professional island and will also benefit from opportunities to network with others.

From an owner's perspective, the most difficult challenge is to supervise, evaluate and compensate a firm employee with unique skills. It's vital to utilize job descriptions, evaluation checklists and other management tools.

Plan of Action

With all of these requirements and options in view, what is the best course of action? All firms need IT support beyond the scope of its own accountants' capabilities. Most small firms begin with an outsourced relationship. Should that be a long-term solution? If not, when should the firm hire an IT professional?

Metrics compiled from the Boomer Technology Circles offer some insight. Across the board in firms of all sizes, the ratio of IT support providers to end users is 1:31. In other words, there is one support person for every 31 staff members. Among the smallest firms, however, those employing a full-time IT specialist have a staff of 15 to 20 employees. Interestingly, there seems to be little correlation between the method of IT support and the financial performance of the firm. Revenue per Full Time Equivalent and Revenue per Charge Hour measurements are about the same regardless of the support used.

Firm owners tell me the greatest differences are found in responsiveness and integrating the team. While we have worked with some firms and their outsourced IT partners that had strong and mutually reinforcing relationships, firm owners who have done it both ways typically support employing an internal IT professional. When a firm grows to 20 or more staff members, the metrics indicate that it is financially feasible to consider hiring such a person.

The Hire Is Only the Beginning

A firm should expect to pay about as much for this person's skills as it would for a comparably experienced accountant. It must also pay for recurring training, similar to the CPE provided for accounting staff. Remember this person will work in a one-of-a-kind environment. Smart firms provide opportunities for their IT pros to network and interact with other IT professionals serving the accounting industry. The Boomer Technology Circles, Leading Edge Alliance Special Interest Groups (SIG) and other associations offer these types of networking opportunities.

So what is the best choice for your firm? If you have more than 20 people on your staff and are willing to recruit, hire, train, coach and support an IT person as an integral part of your team, that may be the best way to go. If any of these conditions challenge you, put the same energies into researching a suitable contract provider.

You can find firm owners who will argue passionately for each option. Both will work. You must decide which one fits your firm's culture and the owners' expectations. Good luck with

your choice!

About the Author

Kenneth M. McCall, MBA, MCP, CDIA+ is a senior consultant at Boomer Consulting, Inc., an organization devoted to the application of computer technology and management consulting. Ken works with firms of all sizes in strategic planning and budgeting for their technology needs and has worked extensively in the area of training management for CPA firms. Ken is a contributing author to the Boomer Bulletin™, a technology newsletter with an international circulation of over 5,300 and is published regularly in many state society newsletters. He has been a featured speaker on several nationally broadcast web events on the topic of "Paperless Office."

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Technovision

Information Security Management Still Number One Concern ***AICPA 2008 Top Technology Initiatives Survey Shows Other Changes***

Information Security Management will be the most important initiative affecting IT strategy, investment and implementation in business organizations over the next 12-18 months, according to the AICPA 19th Annual Top Technology Initiatives survey.

IT Governance moved up the list from sixth to second place this year, reflecting the market's renewed emphasis on corporate governance and responsibility.

"We believe this year's list is reflective of our environment, with the top four technology initiatives relating to strategies that safeguard an organization's assets and ensure its well being," said Barry Melancon, president and CEO of the AICPA.

"This survey enables CPAs to stay up-to-date on the latest technology initiatives to advise their clients, customers and employers on the strategies they should consider undertaking," Melancon said.

The AICPA poll was conducted in late 2007 with ISACA, the Institute of Internal Auditors (IIA) and the Information Technology Alliance (ITA). Respondents identified the Top 10 most important technology initiatives for 2008 as follows:

1. Information Security Management
2. IT Governance
3. Business Continuity Management and Disaster Recovery Planning
4. Privacy Management
5. Business Process Improvement, Workflow, and Process Exceptions Alerts
6. Identity and Access Management
7. Conforming to Assurance and Compliance Standards
8. Business Intelligence
9. Mobile and Remote Computing
10. Document, Forms, Content and Knowledge Management

IT Governance moved up the priority ranking to second place from sixth place last year.

"Recent studies show that investors are willing to pay a premium of up to 20 percent more for shares of enterprises with reputations for good IT governance practices; properly governed IT is critical to an organization's success," said Lynn Lawton, International President of ISACA.

Business process improvement was number five on this year's list, reflecting the significant focus placed on internal controls to reduce error and fraud by both public and private companies.

“Clearly, business process and workflow documentation has increased in importance within organizations today,” said Heriot Prentice, Director of Standards and Guidance for the IIA.

Mobile and remote computing was also cited as a priority. “Organizations are realizing substantial gains in efficiency and worker productivity through the extended office hours and increased flexibility that mobile and remote computing solutions bring,” said Ron Eagle, ITA President.

For a complete list of definitions and more information on the list, visit www.aicpa.org/toptech.

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Continuing Education

CPAs in Industry: This Accounting & Auditing Update Is Designed for You!

Are you feeling the pressure of shortened financial statement preparation time? Do you know how banks analyze financial statements to determine the financial condition of a company? Or, do you need help effectively applying Business Performance Metrics to make the information useful to your company's planning?

The answers to all of these questions and more are available to you when you attend the **2008 Members in Industry Accounting & Auditing Update**.

Daniel Spilman, CPA, ABV, Managing Principal of Spilman, Hills & Heidebrink, Ltd, opens the conference with a look at how banks analyze financial statements to determine a company's financial condition. A

specialist in financial consulting, including cash flow planning, budgeting and cost analysis, Spilman brings more than 20 years of experience working with businesses. You will walk away with a clear understanding of how financial statements are reviewed by banks, so you are both looking at the same numbers.

Daniel Spilman will also be hosting a CFO seminar series. Read more about this series [here](#).

Spend the afternoon in your choice of breakout sessions addressing a litany of current professional topics. Session topics include Short & Long Term Financial Statement Forecasting, SAS 112-114: What You Need to Know, Business Performance Metrics, Cash Management Strategies of Top Performing Companies, Risk Assessment Standards – Be Prepared and more.

Register for the **2008 Members in Industry Accounting & Auditing Update** [online](#) or contact the MACPA CPE department at 248.267.3700.

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Continuing Education

Save the Date for the Spring Members Advisory Forum!

The premier event to learn about major issues affecting the CPA profession is just a few months away.

The MACPA brings together a host of local and national leaders at the Spring Members Advisory Forum, slated for May 13 in Lansing. With updates on accounting issues as well as important Michigan initiatives, this is a not-to-be-missed event! The keynote speaker is AICPA President and CEO Barry Melancon. With more than 25 years in the CPA profession, Barry will share what is happening nationally and the role Michigan is playing in this landscape.

Join us on May 13, 2008 at the Lansing Center in Lansing. The cost to attend this event is \$129 for MACPA members and \$229 for non-members. Please contact the MACPA CPE department at 248.267.3700 to register or for more information.

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Continuing Education

CFO Seminar Series: Effective Tools to Address Day-to-Day Concerns

As a CFO, your company depends on you for managing its financial risks. This means you must understand financial statement analysis, financial forecasting, business valuation and cash flow modeling in order to maximize profit and financial security. In a situation where one misstep could cost the company everything, managing all of these responsibilities can be a difficult task.

To make life a little simpler, the MACPA has put together a CFO seminar series designed to address the challenges you may encounter in your position. As the seminar leader, Daniel Spilman, CPA/ABV, managing principal, Spilman, Hills & Heidebrink, Ltd., will share relevant insight and valuable tools based upon his twenty-plus years of experience in accounting, tax and financial consulting, including cash flow planning, budgeting and cost analysis.

The first course in the series focuses on [financial statement analysis and bank financing](#). You will learn how to evaluate financial statements the same way the banks do, understand when to choose variable vs. fixed rate loans and identify the sources and the cost of additional capital to finance growth. All participants will receive a copy of a spreadsheet model, which can be used to analyze your company's financial stability.

Daniel Spilman will be a keynote speaker at the [Members in Industry Accounting & Auditing Update](#). The title of his presentation is Your Financial Statements: Through the Banker's Eyes.

The second course is centered on [financial forecasting and cash flow modeling](#). This seminar is divided between long-term and short-term financial forecasting in order to understand the components and structure of both models. You will learn how to utilize spreadsheet and statistical tools, which aid in the analysis of financial data and in the development of financial models. Plus, you will receive copies of several financial models, which can be used to plan the financial condition and cash flow of your company.

The final course in the series delves into [business valuation and capital project analysis](#). The course will cover the theory behind business valuation and the application of those concepts to increase the value of a business. You will receive copies of valuation models, which can be used to value your company.

This series of seminars will enable you to feel confident in the decisions you make as a CFO, and shed light on important issues and new techniques you can use. You can register for one or more of these courses [online](#) or by contacting the MACPA CPE department at 248.267.3700.

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Association Briefs

Let the MAF Help Relieve the Financial Strain of Completing Your Accounting Education

Does it seem like the closer you get to graduation the more stressed you feel? Money, course work, work experience, and passing the CPA exam are just a few things that may trigger anxiety. The Michigan Accountancy Foundation (MAF) recognizes the difficulties students face towards the end of their education and offers help. This year, the MAF will award more than 20 scholarships to deserving fifth/graduate year accounting students.

The Foundation vigorously works to increase the number of students graduating from accounting programs each year. Offering these scholarships is one way to lessen the monetary stress associated with completing school, and increase the number of students positioned to become leaders in the CPA profession in the future.

Are you a full-time accounting student or do you work and go to school part-time? Do you attend a Michigan university? Will you start your final year of school after March 31, 2008? And most importantly, do you intend to practice public accounting in Michigan once you graduate?

If you answered "yes" to the above questions, then completing an application for the MAF Fifth/Graduate Year Scholarship should be at the top of your to-do list. Do not delay; the application deadline is January 31, 2008. Simply fill out this [application](#), complete the necessary requirements, and send the application to the Michigan Accountancy Foundation. Review this list of the [criteria](#) to qualify for the scholarship. If you have any questions, please contact [David Johnson](#) at 248.267.3700.

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Association Briefs

In Memoriam

Richard A. MacKenzie

Passed Away: January 28, 2007

Columbiaville, MI

Joined MACPA: November 30, 1974

Certified: September 19, 1974

E. James Gamble

Passed Away: October 20, 2007

Bloomfield Hills, MI

Joined MACPA: September 30, 1959

Certified: August 5, 1959

Lyle D. Russell

Passed Away: April 15, 2007

Kentwood, MI

Joined MACPA: January 29, 1952

Certified: July 25, 1951

Association Briefs

MACPA Continues to Inspire High School Students

Helping students to learn what the accounting profession is really about, the MACPA is ramping up for its popular series of conferences for promising high school students. The **6th Annual High School Leaders Conferences** are designed to inspire and motivate high school students to consider accounting as a career choice. High school educators from across the state are invited to bring seven of their brightest college-bound students to participate in this exciting educational event. Attendance for educators and students is complimentary.

The dates and locations for this year's [High School Leaders Conferences](#) are as follows:

- **Wednesday, January 30, 2008 – Eastern Michigan University, Ypsilanti**
- **Thursday, February 7, 2008 – Oakland University, Rochester**
- **Tuesday, February 12, 2008 – Michigan State University, East Lansing**
- **Friday, February 22, 2008 – Western Michigan University, Kalamazoo**
- **Thursday, February 28, 2008 – Wayne State University, Detroit**

Students get a glimpse into all facets of the profession from seasoned CPAs, new professionals and current college students. Here are some program highlights:

- *Accounting, Imagine the Possibilities* – Participants get an overview of the endless opportunities in the world of accounting.
- *Step Up to Success* – College students give advice on how to transition from high school to college and *then* college to internships.
- *Show Me the Money* – CPAs working with the Internal Revenue Service share how they catch fraudsters.
- *That's Entertainment* – Students learn about the important roles CPAs play in the world of sports and entertainment.
- *A Day in the Life of a New Professional* – New professionals share their experiences in the field and take questions from students.
- *Accounting Programs at the Host University and Apply for Scholarships* – Students learn what requirements must be met to earn a degree in accounting, as well as how to apply for scholarships.
- Also, **back by popular demand...Feed the Pig and Benjamin Bankes** – Students learn how taking small, easy steps can help them to save more money.

Last year, the conferences garnered an excellent turnout of nearly 540 students and 90 educators. An educator commented, "This is an outstanding conference that gives students an overview of the many exciting careers in the field of accounting." A student added, "The speakers were very informative and prepared. They are passionate about what they do and it makes for a great atmosphere...this conference helped me to decide my future."

For more information about the High School Leaders Conferences, please contact the MACPA Members Services Department at 248.267.3700.