



# Leaders' Edge

The newsletter of The Michigan Association of  
Certified Public Accountants

July/August 2009



Accounting & Auditing  
Association Briefs  
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Legislative & Regulatory  
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### [Using the FASB Accounting Standards Codification™](#)

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## Top Stories

### Using the FASB *Accounting Standards Codification*<sup>™</sup>

July 1 was a landmark day for the accounting profession as the Financial Accounting Standards Board (FASB) [Accounting Standards Codification](#)<sup>™</sup> (ASC) became the authoritative source of nongovernmental accounting literature (in addition to Securities and Exchange Commission pronouncements). The FASB ASC completely changed the presentation of GAAP, profoundly affecting how standards are researched and referenced now.

The codification is effective for interim and annual periods ending after September 15, 2009, which means preparers had to begin using it for periods that began on or about July 1, 2009. For private companies without interim filings and that have calendar year-ends, their December 31, 2009, financial statements would be the first set of financial statements that are required to refer to FASB ASC.

"It should make research easier for financial statement preparers, auditors and academicians, but there will be a learning curve as they become familiar with the FASB ASC and how it is organized," said MACPA President and CEO Peggy Dzierzawski. "A wide range of resources are available to help CPAs understand and use the FASB ASC."

Here are some ways to get acquainted with the FASB ASC:

- **Access the codification.** With the July 1 launch, the online [FASB ASC](#) became a fee-based service (a no-frills version without the research tools and other functionalities remains free). Additional information on it, such as press releases, frequently asked questions, links to resources and an archived June 22 Webcast, is available from the [FASB's home page](#).
- **AICPA dedicated website for background, information and resources.** An [AICPA web page devoted to the codification](#) also contains a wealth of resources, including free archived Webcasts from both the AICPA and the FASB and access to articles and publications. From there, link to the AICPA's [FASB ASC Overview and Recent Developments Web page](#), which also is available for download in [PDF format](#). It explains the scope and structure of the FASB ASC and the FASB ASC Research System. The PDF document will enable you to read offline, easily share the information and use it as a handout for staff, clients and colleagues.

#### MACPA Educational Opportunities on FASB Codification:

[Navigating the New](#)

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[Research Real-Life](#)

[Accounting Issues \(4-hour pm session\)](#)

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[Walter Haig](#)

- **Glean insight through a video and articles.** An informational one-minute [video](#) featuring Arleen Thomas, AICPA senior vice president - Member Competency and Development, highlights how the codification is different from GAAP as members have always known it. In addition, a [Journal of Accountancy article](#) offers some background on the project and briefly explains how the new computer-based system differs from the prior, paper-based GAAP hierarchy. Additional articles and resources are available on the magazine's [GAAP Codification resources page](#).
- **Share your knowledge with coworkers using an AICPA-developed PowerPoint presentation.** This [PowerPoint presentation](#) with notes is designed to help CPAs educate others in their organizations on the FASB ASC. It will help them understand the purpose, meaning and structure of the FASB ASC; how to use it; and available resources.

Gone are the FASB Statement Nos., Financial Interpretation Nos., Emerging Issues Task Force pronouncements, AICPA Accounting Statements of Position, Accounting Principles Bulletins, and all the other familiar names of pronouncements. GAAP now looks more like the Internal Revenue Code in terms of how it will be referenced as authoritative literature.

In addition, for nongovernmental entities, whatever is not in the FASB Accounting Standards Codification is not authoritative. There are now only two levels of GAAP – authoritative (in the codification) and non-authoritative (not in the codification).

The FASB ASC is here. The time to use it is now.

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## Top Stories

### Tax Preparer Registration May Not Be the Answer

Internal Revenue Commissioner Doug Shulman announced on June 4, 2009, in congressional testimony before the House Ways and Means Oversight Committee that the [IRS](#) plans to make recommendations by the end of the year to ensure that tax preparers adhere to high ethical standards. At the hearing on the tax filing season and 2010 IRS budget, Shulman said the IRS has to ensure "all preparers are ethical, provide good service and are qualified."

The announcement follows IRS National Taxpayer Advocate Nina E. Olson's recommendations to Congress over the past several years that a registration program needs to be created for unlicensed tax return preparers.

The AICPA strongly supports the implementation of high professional standards for tax practitioners, including the *AICPA Code of Professional Conduct* and the Institute's enforceable Statements on Standards for Tax Services. However, the profession's leadership is not convinced that congressional or regulatory agency proposals calling for the regulation of unlicensed tax practitioners will accomplish the stated objectives of reducing errors.

"Tax preparer registration is not the answer to ensuring tax returns are submitted correctly," stated Barry Melancon, AICPA President and CEO. "The IRS should first examine the common errors and work to correct those before imposing redundant registration regulations. Congress and the IRS should review the current [electronic return originator application process](#) which significantly overlaps and may even duplicate any registration process."

The IRS announcement did not offer any specifics on what the proposals may entail. AICPA and congressional staff and IRS officials have met to discuss tax preparer registration in the past and will continue to do so. The IRS indicated it will use an open and inclusive discussion process – one that Commissioner Shulman described as "transparent." He emphasized that the IRS wants to "hear from the broadest possible range of stakeholders."

"We have been monitoring this issue for several years and the AICPA will work closely with IRS Commissioner Shulman and his staff as they move forward," said Melancon. "Clearly, we support the two goals of increasing compliance and maintaining high ethical standards. We have publicly expressed concerns about previous attempts to regulate tax preparers and we hope the IRS will avoid the pitfalls of those past efforts."

Additionally at the hearing, Representative Xavier Becerra (D-Calif.) said he plans to reintroduce his bill regulating unlicensed preparers. Past legislation to regulate preparers has generally been proposed by members of Congress as a partial response to high error rates associated with the Earned Income Tax Credit (EITC) and consumer protection concerns related to refund anticipation loans (RALs).

The IRS, however, has authority to regulate tax return preparers through the penalty authority under current law. The Internal Revenue Code permits the Service to assess (among others) penalties for the understatement of a taxpayer's liability (section 6694); the failure to furnish a copy or to sign the return (section 6695); the promotion of abusive tax shelters and gross valuation overstatements (section 6700); the aiding and abetting of the understatement of tax liability (section 6701); and actions to enjoin certain conduct by preparers or promoters (sections 7407 and 7408).

The AICPA believes the IRS already has the tools necessary to ensure reduced-error tax returns and proper registration methods and should resist overburdening tax preparers with redundant and potentially costly regulation requirements.

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### Navigators of the Profession

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*Sean H. Cook, CPA,  
JD, MST  
2009-2010, MACPA  
Board of Directors*

#### **Sean H. Cook, CPA, JD, MST**

Sean Cook is a shareholder and practicing attorney in Butzel Long's Bloomfield Hills office. As a CPA and attorney with more than 20 years of combined experience, he has a diverse range of practice areas, primarily specializing in federal and state tax law. In fact, Sean is a past chair and current member of MACPA's Federal Tax Task Force. Since joining the MACPA in 1988, Sean has served on several other task forces and planning committees, and he has led many educational sessions. Read [more](#).



*Patrick J. Killeen, CPA  
2009-2010, MACPA  
Board of Directors*

#### **Patrick J. Killeen, CPA**

Senior manager and partner at *Baker Tilly Virchow Krause, LLP* in Southfield, Patrick Killeen specializes in auditing both publicly and privately held manufacturing clients with international activity. With more than 10 years of experience, Patrick has gained the right skills and knowledge to be successful as a CPA. Patrick has been involved with the MACPA since joining in 1995 by serving on the Manufacturing Task Force and speaking at educational programs. Read [more](#).

#### **Michael E. Slomski, CPA, MSF**

Mike Slomski is a shareholder in the firm of Slomski & Raedel, CPA, P.C. based in Harper Woods. He is also an adjunct professor of accounting



*Michael E. Slomski,  
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and taxation at Macomb Community College. Since joining the MACPA in 1974, Mike has been one of the Association's most active and involved members, often serving as a resource and "go-to" for a variety of ethics, tax and accounting matters. He is the current chair of the Professional Ethics Task Force and vice chair of the Financial Literacy Task Force. Read [more](#).



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### Navigator of the Profession - Sean H. Cook, CPA, JD, MST



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According to Sean, the fact that he is a practicing attorney and a CPA allows him to be a valuable resource to his clients.

"I utilize the skills and knowledge I developed and learned as a CPA on a daily basis in my law practice," said Sean. "When I tell my clients that I am also a CPA, I always receive a positive reaction and questions related to finances and accounting that I gladly answer to the best of my ability."

Along with his work at Butzel Long, Sean is a former adjunct professor at Walsh College and served on the board of the Walsh College Alumni Association. Sean adds, "I have also served on some nonprofit organizations' boards and have consulted with many others. By simply having the CPA credential, the organization looks to you as a source for financial advice whether or not you're the treasurer."

Sean has a unique perspective in regard to advice for those considering the profession because he is also a practicing attorney. "As a CPA who is also a practicing attorney, I believe that I exemplify that becoming a CPA can take a professional in many different directions. Although my initial career path led me to being a CPA and practicing in a public accounting firm, it provided me with the solid base I needed when I decided to diversify and move in another direction."

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*Ramona Henderson  
Pearson, CPA  
2009-2010, MACPA  
Board of Directors*

Senior manager and partner at *Baker Tilly Virchow Krause, LLP* in Southfield, Patrick Killeen specializes in auditing both publicly and privately held manufacturing clients with international activity. With more than 10 years of experience, Patrick has gained the right skills and knowledge to be successful as a CPA.

"I believe it's the little things we do every day that make a difference for our clients," says Patrick. "As I have progressed in my career, I've learned that if you truly care about your clients, your profession and your colleagues, and realize the importance of listening, you can make a tremendous impact on those you are fortunate enough to be able to serve and influence."

Patrick has been involved with the MACPA since joining in 1995 by serving on the Manufacturing Task Force and speaking at educational programs. Although he's been in the profession for years, he still remembers those who had an impact on him early in his career.

He shares this memorable story, "When I was first starting out in the profession, I recall that my team partner and I were the only people in the office on a Saturday after April 15th. I was there to complete a project and he came in to complete his personal tax return. He noticed that I was frustrated and invited me to his office. He let me 'vent' and listened intently and then offered his advice. He saw in me someone who had passion, however, who was also raw and, admittedly, immature. We talked for hours and I remember like it was yesterday. Although there have been many individuals who have influenced me throughout my career (I am thankful for them), if not for the unselfish act of that one person, I most likely would never have made public accounting a career."

According to Patrick, the moral to his story is to never underestimate the impact you can have on someone's career just by being a good listener and giving a helping hand.

As for advice for future CPAs, Patrick stresses that it's so important to take the time to understand what a CPA does and the opportunities the profession affords because there are many.

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Mike Slomski is a shareholder in the firm of Slomski & Raedel, CPA, P.C. based in Harper Woods. He is also an adjunct professor of accounting and taxation at Macomb Community College.

"During my long career, I have met so many clients that feel intimidated by attorneys and CPAs because of their professional approach. I have spent my life trying to relate to clients and their financial problems on their level. The result has been extremely gratifying in that the clients are put at ease and they are willing to discuss their problems with me and are more conversational. In the end, we normally retain the client and the client saves professional billing time. It's definitely a "win/win" situation for everyone."

Since joining the MACPA in 1974, Mike has been one of the Association's most active and involved members, often serving as a resource and "go-to" for a variety of ethics, tax and accounting matters. He is the current chair of the Professional Ethics Task Force and vice chair of the Financial Literacy Task Force. "Being a member of the MACPA has allowed me to benefit from numerous solutions to practice problems that otherwise would not be made available to me. Hopefully, over the years, my input has proven beneficial in also helping to resolve these issues."

Mike also co-authored the booklet entitled *Financial Affairs at the End of Life*, which was an initiative of the MACPA Financial Literacy Task Force in partnership with Hospice of Michigan. The booklet/resource guide includes checklists and directives for families to utilize for end-of-life planning for loved ones. The booklet has been adopted for use as a national model by the AICPA.

"I am definitely pleased with my participation in this project because I was able to help the MACPA to stay at the forefront of national prominence with the AICPA," said Mike.

Outside of his tireless work at his practice and MACPA, Mike is an avid baseball fan. He spent 14 seasons managing a high school baseball team, an experience he found "truly rewarding." One thing led to another and, eventually, Mike was commentating games at the high school, college and even professional level.

Mike's advice to future CPAs is to always stay focused.

“You must understand exactly what it takes to make the grade and be a CPA. Although you must be adept with computer and number skills, you can never replace your personality – we are a ‘people’ business so you must be able to converse fluently and be able to write/express yourself with clarity and good grammar. The young people entering college will definitely face a new accounting profession caught up in IFRS and globalization of ethics standards and will have to apply each in a shrinking, troubled global economy. There will be terrific challenges to meet and, subsequently, these challenges will bring success both financially and in personal accomplishments.”

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Doug Wright is a partner at Gordon Advisors, P.C. based in Troy and is in charge of the firm's accounting and auditing department. He joined the firm in 1998 and has more than 20 years of experience serving privately held companies and nonprofit organizations. Prior to joining Gordon Advisors, Doug began his public accounting career at a multi-national accounting firm and left to form his own practice.

According to Doug, "Each different firm environment has wonderful advantages and a few disadvantages. But, looking back, what surprises me the most is whether I was working in an office of two, 65 or 600 professionals, the similarities in the core focus of what I've been doing have remained constant. I love how, as CPAs, we get the opportunity to, on a daily basis, test our minds and problem solve with a very wide variety of people and situations."

Doug has been an active member of the MACPA since he joined in 1991. He is a member and former chair of the Small Practitioners Task Force. Along with several other MACPA volunteer positions, including speaking at several events, Doug also serves as a member of the Finance Committee of Common Ground Sanctuary and volunteers in various capacities with the Foundation Fighting Blindness, the Royal Oak Sandlot League and several parent-teacher organizations.

"I believe being a CPA has made it easier to make a difference in the business community and general public because it's a combination of the education and training we need to enter the profession," explained Doug. "I feel that I've been able to make a significant difference by helping the businesses and nonprofits that I work with fully understand their financial operations."

As for his advice to those considering or just entering the CPA profession, Doug says to "just do it!"

"It is amazing the variety of career options available to CPAs. Although I have spent my career in public practice, I have met and worked with countless CPAs in business/industry and education in a variety of capacities. There are also many opportunities to work in our profession on a less-than-full-time basis in careers that are rewarding and flexible."

Doug also advises current and future CPAs to stay in Michigan. "Our state has so many great resources, diversity and innovation. We will survive these tumultuous times and I believe those talented individuals who stay and help turn the tide will be rewarded!"

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Alan's public accounting career began in 1979 with Deloitte & Touche where he served for six years as an audit supervisor and tax specialist. He has served numerous charitable, civic and community organizations, including:

- Appointed by Governor Jennifer Granholm to the Michigan State Board of Accountancy
- Booker T. Washington Business Association, served as chair and president
- First Independence Bank of Detroit Board of Directors
- Detroit Regional Chamber of Commerce Board of Directors and Executive Committee
- National Association of Black Accountants Past President
- Kappa Alpha Psi Fraternity
- Washtenaw Community College Accounting Advisory Board
- Henry Ford Health System – Detroit Campus Advisory Board of Trustees
- Federal Reserve Board of Chicago Advisory Board
- Detroit Institute of Arts Audit Committee
- Accounting Coalition Member
- Cass Technical High School Alumni, Treasurer

In addition, former Detroit Mayor Dennis W. Archer appointed Alan to the Detroit Master Plan Land Use Task Force and the Detroit Education Conference. Although his participation in all of these organizations has been rewarding, he says, "My tenure with the Michigan State Board of Accountancy, presidency of the National Association of Black Accountants, and now my involvement with the MACPA (member since 1980) has allowed me to feel that I am giving back to the profession. I am actively involved in the issues impacting the profession to which I've chosen to commit my life."

As for future CPAs who want to follow his lead, he provides the following encouragement, "The CPA experience evolves constantly and is not for the 'faint of heart' or anyone just looking for a fast dollar. It is an integral part of the financial community and will always be in

demand. Further, the CPA license is yours personally. If you nurture, respect and work at it, then you will always have a significant and relevant asset which you can enjoy for a lifetime.”

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## Message from the Chair of the Board

### Maintaining Relevance in a Tough Economy



*Thomas H. Beard  
2008-2009 MACPA  
Chair of the Board*

With the economy foremost on everyone's mind, it's more important than ever to be aware of how the MACPA is helping and supporting our members and our profession.

Whether you are in public practice or private industry, government or education, your CPA license, and your membership in the MACPA, are more valuable than ever. Representing your core values and high level of expertise, your CPA designation distinguishes you from others.

Maintaining that credential with Continuing Professional Education is essential – but we know it comes at a price. CPE is not only required, it takes time and money. On the other hand, it is a key reason your CPA designation is so highly valued. The MACPA has always provided top quality CPE programs, with significant discounts for members. For example, the recent Management Information and Business Shows in Grand Rapids and Novi were packed with great educational sessions, allowing members to earn CPE credits in a compressed period of time. Plus, more than a hundred exhibitors showcased the latest products and services to help keep you ahead of the curve.

Additionally, over the past several months, we've worked hard to make CPE programs more accessible and affordable by offering more Internet-based learning opportunities to save travel time and money. Plus, as members worked hard to meet the June 30th CPE reporting deadline, special discounts were available for multiple registrations for many of our programs.

Sadly, some of our members or their spouses have lost their jobs due to the tremendous economic pressures on Michigan businesses. Recognizing the important role we play in supporting the profession, the MACPA has been able to make special consideration for dues payments for these members facing severe economic hardship. On our [Economic Crisis Resource Center](#) website, we've highlighted career resources along with many cost-saving member benefits. As a member, it's free to post your resume or browse job postings in our classified ads, as well as utilize other career resources as you conduct a job search.

Maintaining our commitment to advocacy efforts during these challenging times is more important than ever. As our state and its citizens struggle to survive, we know that CPAs can continue to serve as a valuable resource to lawmakers and government officials. While term

limits create a challenge to building and maintaining working relationships with legislators, we know it's vital to persist with our grassroots initiatives. You are critical to that effort.

Most recently, we've been working closely with the State Board of Accountancy in their effort to offer online CPE reporting for CPAs. This not only saves the state a lot of money and staff time in processing, it is also a convenience for our members. Read more in the [State Board article](#) in this issue of *Leaders' Edge*.

As my year as Chair of the Board comes to a close and I reflect on the challenges we have faced, and continue to deal with, I am confident that the MACPA is helping to keep our profession strong and focused. An updated Strategic Plan, adopted in January, provides direction for your very capable incoming chair, Jon Anibal, and the rest of the MACPA leadership team.

Serving as Chair this past year truly has been an honor and a pleasure. I have very much enjoyed working with our Board and task forces, and with our exceptional staff. I appreciate all the support you've given me, and I look forward to continuing to work with you.

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## Of Interest

### **Dealing with Liability: The Arbitration Alternative**

*By Gerald W. Hepp, CPA*

It's a fact of life: in our practice of public accounting we are exposed to liability. The exposure primarily is to our clients and, under prescribed conditions, to third parties who use our clients' financial statements. Plus, it can come from other sources, including partners and business associates. It is worthwhile to consider providing for arbitration of disputes in order to avoid being caught up in the public court system.

#### **The Public Court System**

Virtually everyone has a perception of what happens in a lawsuit filed in the public court system. Television and popular novels provide pictures of the process, but with varying degrees of accuracy. One myth fostered by television is that court cases are resolved in an hour.

While there are variations between the federal and state courts, the basic process is the same. A complaint gets filed, there is a long "discovery" period, a lot of procedural maneuvering goes on before the judge, and then you finally get to trial after a couple of years of grief. But winning at trial doesn't mean it's over. The loser can get a second bite of the apple by appealing the decision to the next level in the court system. Then you're off to the races again.

A couple of key concerns with the trial system are the length and extent of the discovery period and the public nature of the process. In the discovery phase the other side has the opportunity to ask all kinds of questions, many of which may challenge your ability to intelligently answer; force you to produce a multitude of records, regardless of how deep they are in your storage unit; and put you and your people through hours of deposition designed not to learn truth but rather to trick you into saying something you don't want to say.

In addition, all the court filings and the trial process are open to the public. On a slow news day you could find your case on the front page of the local newspaper.

#### **The Nature of Arbitration**

It has long been recognized that the arbitration process is more efficient and less expensive than a trial. The process from beginning to end normally takes less time and is less disruptive of your most important asset, your time.

Procedurally, arbitration can have exactly the same elements as a court trial, though less extensive and always less formal. To a significant degree, the process can be controlled by agreement of the parties, including the complete elimination of some court trial procedures. In fact, in arbitration some court trial procedures can take place only if one of the parties can

convince the arbitrator that not having the procedure would result in unfair prejudice against the party's case. For example, it is rare that depositions are a part of the process.

Two key benefits of arbitration are confidentiality and finality. No information about the claims enters into the public arena. Confidentiality is maintained over all documents that become part of the process. When the arbitrator's ruling is issued, in the absence of a few unique circumstances, the process is done. There can be no appeal of the ruling. If a losing party does not comply with the ruling, it can be taken to the appropriate court where it will be enforced without any review of the decision.

### **Arbitration Rules**

The American Arbitration Association (AAA) has developed arbitration rules for differing situations. While a set of rules has been developed specifically for Professional Accounting and Related Services Dispute Resolution, they contain little substantive difference from the general Commercial rules.

Assurance that any dispute will be resolved by arbitration rather than going to court can be achieved by putting a provision in engagement letters and other contracts. The recommended AAA language is:

*Any controversy or claim arising out of or related to this (engagement letter) (contract), or the breach thereof, shall be settled by arbitration administered by the American Arbitration Association under its Arbitration Rules for Professional Accounting and Related Services Disputes and judgment of the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof.*

If you have a dispute but did not include the above provision in the contract, you are not precluded from going to arbitration. As long as both parties agree, application can be made to AAA for arbitration of the dispute. This can be accomplished by filing a jointly signed document as follows:

*We, the undersigned parties, hereby agree to submit to arbitration administered by the American Arbitration Association under its Arbitration Rules for Professional Accounting and Related Services Disputes the following controversy: (describe briefly). We further agree that the above controversy be submitted to (one) (three) arbitrator(s). We further agree that we will faithfully observe this agreement and the rules, that we will abide by and perform any award rendered by the arbitrator(s), and that a judgment of any court having jurisdiction may be entered on the award.*

While AAA rules are comprehensive, the parties may agree on any modifications to suit their preferences. For example, the rules contain an arbitrator selection process; however, the parties can obviate that process and specify a particular arbitrator.

### **Application of the Process**

When we think of potential liability, we usually think about clients and third party users of the financial statements we issue. In addition, there are a number of other places where

arbitration could be an effective approach to dispute resolution including, for example, client fee agreements, partnership agreements, and contract arrangements with other practitioners.

Of course, if a dispute arises that places you in a position of material adverse interests with a client you probably have lost your independence. That's when you need to look at Ethics Interpretation 101-6 and Rulings 95 and 96.

Always do high quality work and insist on clearly written contracts to avoid disputes altogether. However, differences of opinion may still arise. Before that happens, arrange for the benefits of arbitration. If you don't arrange for arbitration beforehand and problems arise, consider recommending arbitration to settle the dispute.

#### **About the Author**

*Gerald W. Hepp is a retired partner of Plante & Moran, PLLC. He has over 40 years of experience performing expert witness work and arbitrating disputes. He is currently a registered arbitrator with the American Arbitration Association and the Financial Industry Regulatory Authority. He can be reached at [gerald.hepp@plantemoran.com](mailto:gerald.hepp@plantemoran.com).*

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## Of Interest

### 8 High-Risk Clients CPAs Should Avoid

*By Hunter Colby, JD, CAMICO Mutual Insurance Company*

Time after time, CAMICO claims specialists hear the same words when they first contact policyholders to discuss a new lawsuit: "I can't believe this client is suing me. They were always slow to pay, and I had so much trouble getting the information I needed from them. It was never worth the aggravation. I should have gotten rid of them years ago."

CAMICO has long recommended client screening as the first step in an effective loss control program. CPAs should communicate with predecessor accountants, client management, and third parties to obtain as much information as possible about the client.

Some warning signs include:

1. **Clients who are not a good fit for the firm's expertise and resources.** Is the engagement within the firm's areas of expertise? Is the engagement risky? Are the rewards of the engagement worth the risk? If the firm accepts an engagement for which it is not professionally staffed or qualified, it runs the risk of disappointing the client, or a third-party, and exposing itself to litigation and ethics violations. Some CPAs make an annual habit of redefining and understanding the scope of their own practice, going as far as to write out a clear statement of what they can do and what they cannot do.
2. **Clients who won't pay.** Does the client appropriately value CPA services and advice? Does the client pay bills on time? Is the client financially viable? What is the client's financial track record (e.g., bankruptcies, business failures)? The answers to these questions are critical, especially in avoiding fee collection problems and disputes. Much of the information can be obtained by:
  - o interviewing the client and the client's key personnel, banker, attorney, predecessor accountants and auditors
  - o running a credit check
  - o examining the past three years of financial statements and tax returns, and the prior CPA's management letters.
3. **Uncooperative clients.** Is the client reasonable and knowledgeable? Or is the client difficult and time-consuming? Clients who don't provide information on a timely basis, or who don't provide documents or information despite repeated requests, are problems.
4. **Client with poor internal controls.** Obtain a good understanding of the client's commitment to appropriate accounting practices and to internal controls. If the client makes it easy for dishonest people to embezzle from them, the dishonest will embezzle

from them. And the client will then blame CPA for not catching the embezzler.

5. **Clients who are poor financial managers/bookkeepers.** Does the client meet deadlines? Keep good records? Are the business and accounting records adequate and in order, or disorganized? Are the financial statements and tax returns for the past three years consistent? Clients who don't manage their own financial affairs well often experience problems for which they hold the CPA responsible. Poor bookkeeping can cause delays in obtaining information, causing the CPA's work product to be out of date and useless to the client. Tax returns may also be filed late, causing the client to incur interest or penalties. Poor bookkeeping causes the CPA to work harder to get a handle on financial information, and increased workloads lead to higher fees, which can lead to conflict.
6. **Clients with a history of disputes/litigation.** Are the client's expectations of CPAs reasonable? Is the client of a litigious nature, judging from conversations with prior accountants and/or attorneys? Are they often unhappy with the results of an engagement, even though there was nothing wrong with the services performed? Unreasonable clients will sometimes believe that the CPA rendered substandard services, especially when they are unhappy with the results.
7. **Clients with questionable integrity/reputation.** The client's reputation and integrity are paramount. When interviewing the client, the predecessor accountant, and third parties, look for indications of the client's integrity and reputation. What people do not say may be just as important as what they do say.
8. **High debt/cash poor clients.** If they are not financially responsible, clients may blame the CPA when their finances take a downturn. Some clients will end up owing so much money to creditors and to the CPA that they believe asserting malpractice will help them avoid or reduce the amount they owe.

Much of the pertinent information can be obtained at the client interview and verified later through other interviews. Background investigations are recommended for all significant engagements.

In a CPA partnership or professional corporation, it is common practice for another partner or a client committee to review the client-screening information and to pass judgment on the acceptability of a new client.

CPA firms should evaluate all potential new clients and re-evaluate all current clients at least annually. This enables the firm to better monitor clients, consider any changes that might affect the professional relationship, and avoid situations that could escalate into crises.

#### **About the Author**

*Hunter Colby, JD, is a claims specialist with CAMICO Mutual Insurance Company ([www.camico.com](http://www.camico.com)) and has over 20 years of experience in claims, with expertise in claims avoidance and mitigation procedures.*

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## Of Interest

### **MACPA Hits a Homerun with the Detroit Tigers - Special Offer for Members**

The MACPA is proud to announce an exciting new alliance designed to support our home team while providing our members with access to exclusive pricing for Detroit Tigers tickets! The MACPA membership advantage includes \$5 savings off selected tickets, plus a donation will be made to the Michigan Accountancy Foundation for every ticket sold.

Available home game dates Comerica Park include the following:

- Wednesday, July 22 - Detroit Tigers vs Seattle Mariners - 7:05pm
- Monday, Aug 3rd - Detroit Tigers vs. Baltimore Orioles - 7:05pm
- Wednesday, Aug 19 - Detroit Tigers vs. Seattle Mariners - 7:05pm
- Tuesday, Sept 1 - Detroit Tigers vs. Cleveland Indians - 7:05pm
- Wednesday, Sept 16 - Detroit Tigers vs. Kansas City Royals - 7:05pm

The special ticket pricing for these game dates offers outfield box seats for \$27, regular price is \$32 (sections 112 to 114 or 141 to 143); and upper box seats for \$17, regular price is \$22 (sections 321 to 337).

"We're very excited about bringing this new opportunity to members," said MACPA President and CEO Peggy Dzierzawski, "MACPA will be mentioned on the scoreboard during the games, and a lucky winner at each game will receive an autographed picture from the Tigers. The best part is that the scholarship fund of the Michigan Accountancy Foundation will benefit as well."

#### **How to Purchase Tickets**

For more details and the link to order tickets, members should log on to the MACPA website and visit the ["Detroit Tigers" page](#).

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## Of Interest

### Preparing Heirs for the Challenges of Wealth

*By Ron Yolles, JD, CFA, Yolles-Samrah Wealth Management, LLC*

*Some parents spend more time preparing estate documents than preparing their children for the wealth and pressures that result from those documents*

There is a Yiddish proverb that “with money in your pocket you are wise, you are handsome and you sing well too.” Similarly, data and research studies illustrate that children who inherit significant wealth often fail to develop the necessary skills, drive and tenacity to succeed in their own right but rather develop a false sense of entitlement based on the wealth that they inherit. They only have the illusion that their pockets are full; the wealth actually hinders their ability to be successful.

CPAs and financial advisors can work cooperatively as part of a team (often with a client’s estate attorney) to help clients better prepare their children for inherited wealth. The principles summarized in this article apply just as well to ordinary parents and grandparents who want to help their children become responsible citizens with prudent money skills as they do for parents of true “heirs” who stand to inherit several hundred thousand or more.

### Why Do Estate Transitions Often Fail?

Research evidence outlined below suggests that inherited wealth is often more a curse than a blessing. In this context, “preparing heirs” involves teaching them skills which will help them to lead an independent and fulfilled life immune from the dependence and resulting ills and loss-of-initiative which inherited wealth often creates.

Based on conservative estimates, \$40.4 trillion will pass to heirs by the year 2052, or about \$800 billion per year plus an additional \$11.6 trillion will be donated to charities. So preparation to help heirs and families improve their effectiveness is essential.

Research data indicates that approximately 70 percent of estate transitions “fail” where failure is defined as the second generation involuntarily losing control of the family business or a significant part of the family’s wealth. More importantly, several of these research studies illustrated that the primary cause of failure in wealth transitions is a high degree of splintering, divisiveness and lack of communication within the family.

One of the most comprehensive studies on wealth transitions and preparing heirs was completed in 1994 by family coach and author Roy Williams and professor Michael Morris, PhD, of Syracuse University’s Whitman School of Business. The study was summarized in William’s book *For Love & Money: A Comprehensive Guide to the Generational Transfer of Wealth*. They studied 3,250 affluent families between 1973 and 1994 and

confirmed the 65-75 percent estate transition failure rate and isolated the following causes:

- **60 percent of the failures were due to breakdowns in trust and communication within the family unit**
- **25 percent of the failures were caused by inadequately prepared heirs**
- **Less than 3 percent of the estate transition failures were caused by incompetent advisors, lawyers and accountants**
- **Approximately 12 percent of the failures were due to lack of a family mission or purpose that clearly defines the use of the family's wealth**

### **Heirs Are Ill-Prepared**

Not surprisingly, affluent families are concerned with the effectiveness of both their estate plans and the steps that they've taken to prepare their heirs for the challenges of wealth. A recent nationwide survey by U.S. Trust Company indicated that the greatest concern of 83 percent of affluent Americans is that their children will have a tougher time financially. Additionally, 55 percent of those surveyed felt that their children were naïve about the value of money and placed too much emphasis on material things and 34 percent were concerned that their children would find a spouse who was only interested in their affluence.

Affluent parents' concern about the preparation of their children is justified because the evidence is strong that wealth is often built by an entrepreneurial first generation and then dissipated by the second and third generations. In their best-selling classic *The Millionaire Next Door*, Thomas Stanley, PhD and William Danko, PhD offer the following insights on building and preserving affluence based on numerous studies of affluent families between 1973 and 1996, while both were serving as professors at The State University of New York (SUNY, Albany):

1. 67 percent of U.S. millionaires were self employed entrepreneurs who saved over 20 percent of their annual income
2. 80 percent of millionaires were first generation [i.e. not inheritors]
3. While millionaires lived well below their means, inheritors exhibited the exact opposite behavior by not saving any money and spending more than they earned
4. 80 percent of millionaires have college degrees and 40 percent have graduate degrees

Stanley and Danko found that there was **an inverse relationship between cash gifts to children and both the net worth and wealth that those children were able to accumulate**. They termed these cash gifts "Economic Outpatient Care" (EOC) because the gifts created a dependency on handouts from Mom and Dad. For example, CPAs and attorneys who received cash gifts from their affluent parents had 57 percent and 62 percent of the net worth and 78 percent and 77 percent of the income respectively of their peers who do not receive cash gifts. This inverse relationship between cash gifts and financial success

applies over all occupational groups except for professors and teachers who save and invest the cash gifts given to them.

Predictably, the ultra successful kids of the affluent who become corporate executives and physicians became even more financially successful **because they were not given cash gifts**; whereas, their less successful siblings became increasingly dependent on their parents and never developed sound financial habits.

### **How Some Families Succeed**

The following process will help families prepare children and grandchildren for the challenge of managing significant wealth and/or a family business. In part, the discussion focuses on how children, and ultimately grandchildren, can learn to work effectively with professional financial, tax and legal advisors and/or the professional executive team managing a family business when those heirs themselves are not directly involved in the family business.

Research shows how families can cooperate and collaborate to make wise planning decisions for all family members and develop self-sufficiency as opposed to dependency among the younger generation.

In the 30 percent of affluent wealth transitions that were successful, Williams and Morris found three broad common elements:

1. ***Candid Communication***. There was a tremendous degree of trust, openness, cooperation and mutual respect among family members. This was in sharp contrast to the pattern in the families where estate transitions failed where parents communicated more with professional advisors than with their children.
2. ***Independent Achievement / Meritocracy***. Only after achieving independent academic and career success, were heirs allowed to choose to become involved in either managing the family's business or assets. At the time of "transition," these heirs indicated to researchers that they felt "well-prepared" to take over.
3. ***A Written Plan***. Families whose transitions were successful prepared a formal succession plan and family mission statement, which included concrete steps to train (and test) heirs. These families also laid the groundwork for their children to have successful working relationships with competent professional advisors.

### **Five Basic Steps to Prepare Heirs**

In addition to the three steps above, there are several steps that parents should take to help their children avoid the pitfalls of inherited wealth:

1. ***Conduct regular family meetings*** where open dialogue is encouraged and professional advisors are often present to help facilitate discussion and ensure that every adult family member's point of view is heard and a consensus achieved.
2. ***Encourage teamwork*** and a sense of objectivity and fairness within the family so that even when a decision does not go a family member's way, he or she realizes that the

decision making process was fair and is able to wholeheartedly embrace the direction that the family decided to take.

3. ***Do not make cash gifts*** to children before they are ready (often age 35+), but rather invest in their and their children's college education. As mentioned, in ***The Millionaire Next Door***; Stanley and Danko found that there was **an inverse relationship between** cash gifts to children and both the net worth and income that those children were able to earn. They suggested teaching children to save 20 percent of their income each month and to live within their means.
4. ***Allow children to learn from failure*** and encourage an environment where all family members, including parents, can candidly assess their own strengths and weaknesses. Don't act as a safety net unless health and well-being is involved.
5. ***Encourage*** your kids to pursue their passion not yours.

### **Real Communication Examples**

On this last point, many experienced professionals are aware of cases where children achieved independent success and then "came back" to run a family business. Two recent examples at my firm:

1. After experiencing success in a "fast paced" career environment, a daughter and her husband came to appreciate the value in returning home to run a family business which was founded in the 1960s;
2. Two successful attorneys returned home to take over a 50-year old business from their ailing father and took the business to a new level as they embraced the information age.

Families should strive to create a culture of openness whereby all family members over the age of 14 are welcomed and encouraged to understand at least some aspects of the family's wealth and to participate in the decision-making process. Additionally, some steps should be taken from a young age to make sure that children learn to appreciate the value of a dollar and develop sound educational, work, saving and money management skills. These skills need to be honed and developed from the time that kids are toddlers through middle age.

This open communication process can be picked up at any point during a child's life cycle and it is perfectly appropriate for elderly parents to work on collaborative decision making and money management and business skills with both their middle-aged adult children and young adult grandchildren. Additionally, all children from a young age should be made to feel that their opinion is valued and respected in important family matters.

The evidence is strong that even a sound estate plan will fail if steps are not taken to prepare heirs. Even if communication within a family is less than ideal, the family's investment manager, attorney and CPA working as a team can help lead a family meeting that encourages mutually productive dialogue. If necessary, experienced family coaches with training in psychology can be brought in to break down barriers and facilitate discussion.

**About the Author**

*Ron Yolles is a principal at Yolles-Samrah Wealth Management, LLC a Bloomfield Hills, Michigan based firm, which manages over \$190 million for individuals, families, retirement plans and corporations. He is a nationally recognized authority in the areas of tax efficient investing and retirement planning and focuses his research and writing on these areas. Ron is frequently quoted in both the national and local media and regularly speaks at national and local forums. He was a speaker at MACPA's recent Management and Information Business Show 3 on June 25, 2009. He can be reached at [ron@yswm.biz](mailto:ron@yswm.biz).*

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## Of Interest

### Technology Required: Making 7216 Easily Manageable

By Barry J. Friedman, CPA

Future-thinking firms are taking advantage of the latest and greatest technologies to elevate efficiency at all levels of operation. From automating tax document preparation to delivery of financial statements via portals, technology is at the heart of a well-run and profitable practice.

But what is beyond core tax and accounting workflow? Technology certainly has a place in relation to compliance for example with *Internal Revenue Code* Section 7216. Disclosure and Use mandates set forth in 7216 are complex and demand significant time investment. Tech-savvy firms utilize technology to streamline the compliance process and are starting to transition from traditional, manual processes to a technology-driven approach.

Effective since January 1, 2009, 7216 has largely gone ignored. And though some firms have put forward notable effort to comply with Consent to Disclose regulations, many have yet to implement a system to manage 7216 to the full letter of the law. Disclosure regarding third-party entities is just one small slice of the 7216 pie. It's the far bigger and more complex Consent to Use piece that demands the most attention.

Under Consent to Use of Tax Return Information, firms are obligated to obtain the client's permission to use their tax information for any purpose outside of preparing and filing the return. This not only includes providing data to outside institutions such as banks or mortgage companies, but also relates to sending clients information, such as educational articles or marketing literature for services that are not tax-related. To understand the complexity of complying with Consent to Use, consider the following example:

A firm sends out a monthly newsletter (print or digital) to all tax-only clients. Articles provide clients with information on estate planning, IRA and 401(k) investment tips, and other small business accounting guidance. Because the mailing list is comprised of the firm's tax-only clients, consent forms are required from each client to send non-tax related articles. Additionally, consent forms need to be obtained to send information about the firm or marketing notices about firm services. Without a system to track and monitor Consent to Use activity, firms face an administrative nightmare.

Progressive firms are applying powerful applications to handle 7216 efficiently. Leading compliance systems provide a sophisticated, paperless solution to manage Consent to Disclosure and Consent to Use data. Best-of-breed systems offer Form Builder technology to create custom consent forms. This technology allows firms to embed forms within a personalized email and send to clients in minutes. Clients electronically sign forms, complete with a time stamp, and press a submit button. These top-of-the-line systems provide pre-

written IRS-required text that can easily be inserted into forms – as well as handle non-7216 compliance tasks, such as when approval is required to send any type of information at a client's behest (e.g., financial statements to banks or tax return copies to other CPAs, banks or mortgage brokers).

Leading firms are using the most advanced technologies to operate at peak efficiency. Beyond automating tax and accounting workflows, these firms are also adopting technology to streamline compliance tasks – saving hours of manual work and mitigating the potential for criminal sanctions and civil fines due to non-compliance. If you have not yet, it may be time look at automated solutions to easily manage 7216.

### **7216 Resources for CPAs**

The following list represents the leading resource centers, websites, and applications that help CPAs comply with IRS Code 7216. This list is not meant to be all-inclusive, but rather provides a starter guide for readers.

*Compiled by Kristy Short, Ed.D., SAS Communications 360, LLC*

#### **Compliance/Resource Centers:**

- **BizActions Compliance Center:** Provides a solution for managing IRS 7216 and other client disclosure and use issues. [More information](#)
- **CCH 7216 Compliance Resource Center:** Offers a comprehensive center of free tools and resources to support CPA firms with 7216 compliance. [More information](#)

#### **Websites:**

- **AICPA:** Provides announcements and helpful links related to 7216 within their Tax Center. [More information](#)
- **Internal Revenue Service:** Offers a Frequently Asked Questions section for 7216. [More information](#)

#### **Applications:**

- **Thomson Reuters UltraTax CS:** Offers enhanced 7216 functionality including user-defined Sec. 7216 Consent To Disclosure and Use of Tax Return Information to accompany defined Disclosure letters in 1040 Data Mining (available for 2009 UltraTax CS). [More information](#)
- **Drake Software:** Provides sample 7216 Disclosure and Use letters for CPAs. [More information](#)
- **CCH ProSystem fx Solutions:** Provides a variety of solutions to help firms comply with Section 7216 regulations. [More information](#)

### **About the Author**

*Barry J. Friedman, CPA, is chief Executive Officer of BizActions. Previously he was the founder and CEO of GovCon, where he developed an online electronic commerce community that brought together thousands of IT contractors and hundreds of government entities. Prior to that he was the CEO of Friedman and Fuller, an accounting and consulting firm that was sold to American Express. He earned a MBA in business administration from Loyola College. Barry can be reached at [bfriedman@bizactions.com](mailto:bfriedman@bizactions.com).*

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## Accounting & Auditing

### Biggest Changes in SSARs Since 1978 Proposed

To address the needs and expectations of the business community and to respond to concerns of small business owners, users of small business financial statements and CPAs who serve smaller entities, the Accounting and Review Services Committee (ARSC) has proposed a revision of Statements on Standards for Accounting and Review Services (SSARs) that would permit an accountant to issue a review report on financial statements when the accountant's independence is impaired due to the accountant performing nonattest services that were designed to improve the quality (reliability) of the client's financial information.

In its work, the ARSC was supported by the AICPA [Private Companies Practice Section](#), which helped form a task force to consider the issues and commissioned research into commercial bankers' perceptions of a CPA's integrity, expertise, independence, objectivity and reliability and how that affects judgments about risks.

In addition, the proposed standard would also harmonize review standards with the International Auditing and Assurance Standards Board's (IAASB) review standard ISRE No. 2400; recodify AR section 100, *Compilation and Review of Financial Statements*, into separate chapters for compilation and review engagements; and permit an accountant to include a general description of the reasons for an independence impairment in a compilation report. CPAs are encouraged to comment on the proposed SSARs. Click here to download the [exposure draft](#). Comments are due July 31.

AICPA President and CEO Barry Melancon discusses these proposals and the importance of this project to small firms, the small businesses they serve, and users of compiled and reviewed financial statements in a three-minute [video](#). Read this *Journal of Accountancy* [article](#) for more information.

The **MACPA A&A Standards Task Force** reviews and comments on projects developed by FASB and AICPA's Auditing Standards Board and ARSC, providing input on behalf of MACPA and is finalizing comment on this project for later this week.

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## Legislative & Regulatory

### 2009 License Renewal: Peer Review and Online CPE Reporting

*By Carol Flores, Licensing Administrator, Board of Accountancy, Bureau of Commercial Services, Department of Energy, Labor & Economic Growth*

Compliance with the new peer review requirements is raising many questions as practitioners and firms approach license renewal. The Department is sending a notification letter to all licensees regarding a new online CPE reporting program and the reporting of a designated individual with Administrative Responsibility for Firm renewal. The letter will clarify details, but general guidelines appear below.

The Department's notification is expected in early July 2009; the ability to report online, rather than with a paper form, is expected to be available at the same time.

The Department encourages all licensees to utilize the new online reporting option!

**Individual CPAs** will be able to enter the number of CPE hours earned for the reporting period and indicate whether or not the licensee (working as a sole proprietor) is subject to the Peer Review requirements of MCL 339.729(3)(a) or MCL 339.729(3)(b).

**Firms** will be required to designate an individual with Administrative Responsibility and indicate whether or not the firm is subject to the Peer Review requirements of MCL 339.729(3)(a) or MCL 339.729(3)(b).

Peer review is required for certain practitioners and firms as a condition of license renewal. MCL 339.729(2) states, in part, that an applicant for renewal shall submit to the Department at the time of renewal, proof of peer review obtained within the 3 years immediately preceding the application. The following quick and easy "Question and Answer" may help clarify the statutory mandates and communicating with the licensing office regarding peer review.

#### When do the new peer review rules take effect?

The peer review requirements become effective as follows:

1. For licensed firms and sole practitioners whose attest services include audits; beginning March 1, 2008.
2. For licensed firms and sole practitioners whose attest services include compilation with disclosures relied upon by third parties, or review, or both compilation with disclosures and review, but not audits as listed in item one above; beginning March 1, 2009.
3. For licensed firms and sole practitioners whose attest services include compilation without disclosures relied upon by third parties (but not audits as listed in item number one above; or any compilation with disclosures relied upon by third parties, or review,

or both compilation with disclosures and review as listed in item two above) beginning March 1, 2010.

**Where can I obtain a copy of the peer review statute and rules?**

The statute and administrative rules are available on the Michigan Board of Accountancy's [website](#), look for "Quick Links" on the right hand side of the screen and click on "Article 7" or "Administrative Rules." Specifically, you may wish to review Section 729 of Article 7 (MCL 339.729) and the Board's administrative rules 501 and 503.

**How can I determine if I am required to participate in the peer review program?**

A CPA firm or sole practitioner is required to participate in the peer review program if the CPA firm or sole practitioner provides any of the following attest services: audits, any compilation with disclosures relied upon by third parties, or review, or both compilation with disclosures and review; and, any compilation without disclosures relied upon by third parties.

**How will I show compliance with the new peer review requirements during the renewal of my license(s) for this renewal period?**

You will receive a notice from the Department at the beginning of July 2009 informing the licensee of our on-line reporting program. Each licensee will be required to certify whether or not the licensee is subject to the requirements of MCL 339.729(3)(a) or MCL 339.729(3)(b). If the answer is yes, the licensee will be required to certify on their renewal that the peer review was conducted and completed.

**What happens if my CPA firm receives a pass with deficiencies or fail (adverse or second modified) peer review report?**

It is the Licensee's responsibility to notify the Department within 30 days after receipt of a pass with deficiencies or fail (adverse or second modified) peer review report.

The AICPA has implemented a Peer Review Facilitated State Board Access (FSBA) program. The MACPA will facilitate the voluntary disclosure of peer review results to the Department via a secure Board of Accountancy access-only website. You may choose to "opt-in" to this process and your documents will be made available to the Department. By utilizing the FSBA program and making your documents available to the Department, you will automatically be compliant with the 30-day notification requirement.

If you choose not to "opt-in" to the FSBA program, you may submit your notification directly to the Department. Your notification should be addressed to: The Department of Energy, Labor & Economic Growth, Bureau of Commercial Services, Licensing Division, Attention: Board of Accountancy, Post Office Box 30018, Lansing, MI 48909. Verbal testimony and documents are subject to disclosure to the Department in the case of an adverse or second modified opinion.

For more information and FAQs on Peer Review, visit the State Board of Accountancy website at [www.michigan.gov/accountancy](http://www.michigan.gov/accountancy).

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## Legislative & Regulatory

### Legislative Update: MACPA Legislative Team – Busy Through the Summer

*By John Lindley, MACPA Senior Director of Government Relations & Regulatory Affairs*

The MACPA's Legislative Team, comprised of the Legislative Advisory Group, Political Action Committee, President, Government Relations staff and external lobbyist, is extremely busy protecting the integrity of the CPA designation and advancing the agenda of the profession; however, so much of this activity goes unseen and unheard. To ensure knowledge among MACPA members statewide, a legislative update in *Leaders' Edge* offers a glimpse into these efforts in each edition.

Following the passage of **CPA license mobility** legislation in June 2008, work began on a comprehensive review and rewrite of the Administrative Rules promulgated under the Occupational Code, governing the profession in Michigan. Some of these updates are necessary given the new mobility provisions, such as altering the rule regarding temporary practice permits; however, the MACPA is working closely with the State Board of Accountancy and staff from the State of Michigan Licensing Bureau to examine references to practice standards and other items. [Click here](#) to see the current Rules. Revisions should be completed by the end of the year.

MACPA is also hard at work on the **tax front**. The Association, mainly the experts on the MACPA State & Local Tax Task Force, continues to review all proposals, debates and conversations relative to changes to the Michigan Business Tax (MBT). These changes could be significant in 2009 and the MACPA remains committed to engage in the debate where appropriate. Members of this Task Force and a subcommittee on Business Tax Restructuring are working with us to target ambiguities and necessary technical corrections in the MBT and communicating with the appropriate individuals inside the State Legislature and at the Department of Treasury.

These efforts include the review and comment on draft **Revenue Administrative Bulletins** (RABs) issued by Treasury to provide more detail under the MBT. The Department recently issued Draft [RAB 2009 – Unitary Business Group Control Test](#) for review. Comments on the draft RAB are due by the close of business on Friday, July 31. In order to ensure time for the Task Force to compile and edit comments, please provide any input to [legislation@michcpa.org](mailto:legislation@michcpa.org) by Friday, July 24. The Department has asked that all comments include specific statutory references, etc. as a basis for arguments and/or suggestions.

Legislative leadership in Lansing has indicated a desire to rework the entire **state tax system**, and is communicating with business groups and others. Under examination are real and personal property, sales and use and individual income taxes, as well as the MBT. The rumor-mill is turning and discussions have surfaced regarding again expanding the sales/use tax base to include services. MACPA is monitoring this situation and communicating with

policymakers daily.

Finally, the MACPA is always tracking **policy proposals** that may impact CPAs, working diligently to protect the profession's interests. Although no legislation has been introduced, efforts undoubtedly remain afoot here in Michigan to create a licensing or regulatory structure for paid tax preparers, a proposal that flies in the face of MACPA's mission to protect both the public and the CPA profession. Initiatives have also surfaced in recent years to require audit partner and/or firm rotations for specific sectors (i.e. school districts, area agencies on aging, etc.) The MACPA is committed to defeating any such proposals.

On the **national front**, mobility continues to make tremendous progress. Forty-two states have enacted mobility legislation with two more having passed it only applicable to other mobility states. That's 44 total licensing jurisdictions onboard. A mobility bill has passed the legislature in another state and is currently awaiting gubernatorial approval. Legislation is also pending in two other states. The total is likely to be as high as 49 by the end of 2009 – a far reach from the four states with mobility provisions prior to 2007, when the initiative began.

Stay tuned to *Leaders' Edge* for further legislative updates, as well as an early yet comprehensive examination of the 2010 election and its potential impact.

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## Legislative & Regulatory

### Ethics Section 101-3 Performance of Non-attest Services and Small Firms

By Michael E. Slomski, CPA, MSF, Chair, MACPA Professional Ethics Task Force

The *AICPA Code of Professional Conduct* has been revised over the past few years to encompass *all* practitioners – practicing CPAs as well as members in industry and education. The “one for all and all for one approach” addresses all members and applies the conceptual framework of independence unilaterally.

In particular, independence was specifically framed as follows:

1. Independence in *mental attitude* that permits the performance of attest services without compromising professional judgment.
2. Independence in *appearance* which cautions members to avoid circumstances that would cause an informed third party, understanding all the relevant facts, to exercise skepticism concerning the attest engagement.

Without a doubt, practitioners should have no problem with independence in mental attitude. It is the second of the two criteria – appearance – that many times creates an issue for small firms whose client base consists of small non-public entities.

Serving as a trusted advisor in an uncertain economic environment many times presents situations where, inadvertently, the guidelines of independence in appearance raises engagement concerns.

The following questions and answers provide guidance to members who may find themselves in situations where threats to independence in appearance are identified.

**Q. A member is engaged to perform an audit for a client who records all transactions on a cash basis in its general ledger. During the audit process, the member identifies all appropriate journal entries required to convert the client's general ledger to an accrual basis and prepares the financial statements, including footnotes, on the accrual basis in order to conform with generally accepted accounting principles. The client reviews the entries and financial statements, including all footnote disclosures, and understands the impact these entries have on the financial statements. As part of the management representation letter, the client acknowledges responsibility for the financial statements and footnotes. Would these services be considered non-attest bookkeeping services subject to Interpretation 101-3?**

**A.** No. Providing these services as part of the member's audit of the client's financial statements would not be considered bookkeeping services subject to the requirements of

Interpretation 101-3. In addition, a member should use judgment as to what would be considered part of the normal audit process and what would be a separate non-attest service. A client's book and records have to be substantially complete and current in order to conduct an audit of those books and records. The client's books and records would include all subsidiary ledgers or information required by the auditor (such as accounts receivable or payable) for the necessary conversion. If a member performs a service to bring those books and records current or complete (such as compiling the subsidiary information), the service should be considered outside the scope of the normal audit process and therefore, a non-attest service subject to Interpretation 101-3. However, Interpretation 101-3 would be applicable where the member was engaged to perform a stand alone engagement to perform bookkeeping services for the client. An example would be where a member is engaged to perform monthly bookkeeping services, including the preparation of monthly compiled financial statements.

**Q. The member performs year-end tax planning and prepares the tax returns for an attest client. Would these services be considered non-attest services and therefore subject to the requirements of Interpretation 101-3?**

**A.** Yes, tax services are considered non-attest services and are therefore subject to the general requirements of Interpretation 101-3, including the member's understanding with the client with respect to the tax services must be documented in writing.

**Q. A member provides only non-attest services to a client for the year ending December 31, 2008. In 2009, the member is asked to perform an audit of the client's year-end 2008 financial statements. Would the member be in violation of General Requirement No. 3 under Interpretation 101-3 because the firm did not comply with the documentation requirement with respect to the non-attest services performed in 2008?**

**A.** No. The documentation requirement does not apply to non-attest services performed *prior* to the client becoming an attest client. However, upon the acceptance of an attest engagement, the member should prepare written documentation demonstrating his or her compliance with the other general requirements of Interpretation 101-3 during the period covered by the financial statements, including the requirement to establish an understanding with the client.

**Q. A member's firm does not require its clients to sign engagement letters for tax return preparation services. How does the documentation requirement under Interpretation 101-3 apply with respect to these clients?**

**A.** Tax services are *non-attest* services subject to the requirements of Interpretation 101-3. Therefore, the documentation requirement applies where the member provides tax services to a client for which the member also provides attest services. However, the method of documentation is left to the member's discretion and, provided it contains all of the required elements, it could be documented in a tax organizer or disclosure statement provided to the client, in a memo in the tax or attest service working papers, or through other means.

If questions still present as to engagement independence, feel free to contact Andrew Kokoczka at the MACPA office 248.267.3700. He will put you in contact with a Professional Ethics Task Force member to resolve the issues.

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## Continuing Education

### Growing to Meet Your Needs at the Small Firm Practitioners Conference

The MACPA is growing to meet your needs this year at the [Small Firm Practitioners Conference](#) on Wednesday-Friday, August 19-21, 2009 at the Soaring Eagle Conference Center in Mount Pleasant.

This year's conference was specifically designed for small firm practitioners during these challenging economic times. Like years before, there is the quality education that our members are looking for, including keynote presentations by Edward Kisscorni, Peggy Dzierzawski and Leon LeBrecque, the opportunity to earn two hours of ethics, in addition to accounting and auditing hours, and an unbeatable **new low price!**

Specially-designed educational sessions include:

- *Collections in Michigan – 2009 Style* providing valuable information on making bold moves in stressful times and collecting receivables from your clients.
- First hand survey results on top issues facing Small Practitioners from our *Michigan Survey of Small Firms*.
- A comprehensive look at *Income from Discharge of LLC or Partnership Indebtedness* with **Gary Schwarcz** examining the basic rules regarding cancellation of debt income and related issues under the IRC.

**Register today** because this is an event you shouldn't miss. For more information on the [Small Firm Practitioners Conference](#) you can visit our [conference catalog](#), or call our CPE department at 248.267.3700.

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## Association Briefs

### Mark Your Calendar – MACPA's Fall Members Advisory Symposium

Leaders in the profession come together to talk about current issues at [MACPA's Fall Members Advisory Symposium](#) on **Tuesday, September 22, 2009** at the Rock Financial Showplace in Novi.

Be sure to *save the date* to hear from the **AICPA's Incoming Chair of the Board Robert Harris** as he discusses issues impacting the profession and what is on the forefront in the current economy. MACPA President and CEO Peggy Dzierzawski will provide a look into the Association's initiatives and how we're growing to meet your needs.

Mark your calendar for this excellent event to hear from leaders, meet your peers and share ideas. Stay tuned for more program details and presenters as they are confirmed!

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## Association Briefs

### Now More Than Ever Citizens of Michigan are Counting on CPAs

Times have been anything but easy involving the economy, and the MACPA wants to let you know how much we value every member and their commitment to the profession. Clients and firms are counting on CPAs in these changing economic times and now, it is even more critical to maintain your license and your relationship with the MACPA.

The staff at the MACPA is working hard and using every resource available to support our members and the integrity of the profession. We strive to give you the opportunity to [network with your peers](#), receive special member prices on a variety of [personal and professional products and services](#), the opportunity to save money and time with our [CPE courses](#), and, through the MACPA's alliance with the [Detroit Tigers](#) you have the chance to attend select games at a special member price, with a portion of the proceeds being donated to the Michigan Accountancy Foundation. Plus, we highlight many MACPA resources available to you during these economically challenging times on our [Economic Crisis](#) web page. This website serves as a "central depository" of sorts, a place where you can quickly and easily find ways to save money, tips and resources for career planning, links to the latest economic news, and how-to articles for managing various business challenges.

We look forward to serving your professional needs over the next year, and truly thank you for maintaining your relationship with the MACPA and making a difference in the profession and your communities. If you have any question, or to pay your dues, please call our membership department at 248-267-3700.

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## Association Briefs

### In Memoriam

Robert G. Adams, CPA

January 27, 2009

Buford, GA

**Joined MACPA:** April 30, 1959

**Certified:** February 6, 1959

Kenneth H. Bertschy, CPA

October 7, 2008

Beverly Hills, MI

**Joined MACPA:** August 31, 1967

**Certified:** March 16, 1945

R. Thomas Cummings, CPA

January 9, 2009

Port Huron, MI

**Joined MACPA:** October 31, 1966

**Certified:** August 9, 1966

James R. Dutoit, CPA

January 4, 2009

Tecumseh, MI

**Joined MACPA:** November 27, 1952

**Certified:** July 31, 1952

Emil C. Grob, CPA

October 8, 2008

Gross Pointe Farms, MI

**Joined MACPA:** October 20, 1950

**Certified:** July 27, 1950

Gregory A. Hendel, CPA

February 9, 2009

Perrysburg, OH

**Joined MACPA:** December 31, 1989

**Certified:** October 6, 1989

Frederick C. Janz

May 29, 2009

Bloomfield Hills, MI

**Joined MACPA:** May 20, 1949

**Certified:** February 20, 1949

Edward J. Klasny

February 2009

Pepper Pike, OH

**Joined MACPA:** April 30, 1956

**Certified:** February 2, 1956

William T. Kuhl

May 28, 2009

Jackson, MI

**Joined MACPA:** April 30, 1964

**Certified:** January 24, 1964

Patricia E. Lukasik

December 27, 2008

Sterling Heights, MI

**Joined MACPA:** August 31, 1983

**Certified:** March 31, 1982

David M. Marcil

2009

Shelby Township, MI

**Joined MACPA:** November 30, 1986

**Certified:** November 1, 1985

Edward Menczer

March 4, 2009

Farmington Hills, MI

**Joined MACPA:** October 13, 1970

**Certified:** December 17, 2003

Norman D. Perrin

December 30, 2008

Milton, FL

**Joined MACPA:** May 31, 1955

**Certified:** January 27, 1955

Warren Roddis

December 11, 2008

Oak Park, MI

**Joined MACPA:** October 31, 1957

**Certified:** August 8, 1957

Charles K. Sampsell

September 17, 2008

Kalamazoo, MI

**Joined MACPA:** November 30, 1961

**Certified:** July 23, 1956

Shirley A. Schleef

January 8, 2009

Saint Clair Shores, MI

**Joined MACPA:** April 30, 1966

**Certified:** February 2, 1966

Henry F. Skrok

May 15, 2009

Warren, MI

**Joined MACPA:** April 30, 1958

**Certified:** August 8, 1957

Theodore J. Smolinski

December 26, 2008

Belleville, MI

**Joined MACPA:** May 31, 1977

**Certified:** April 5, 1977

Charles A. Wiedman

2008

Brunswick, GA

**Joined MACPA:** November 27, 1952

**Certified:** July 31, 1952

Warren W. Young

August 2008

Alpena, MI

**Joined MACPA:** September 30, 1953

**Certified:** January 22, 1953

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## **Association Briefs**

### **Annual Meeting Notification**

In accordance with the MACPA Bylaws, Article 8, Section 1, an Annual Meeting of the Association shall be held each year within six months after the last day of the fiscal year. The time and place of the Annual Meeting shall be designated by the Board of Directors and the members shall be notified by mail communication or by publication in an official publication of the Association. This year's Annual Meeting is scheduled during the Fall Members Advisory Symposium on September 22, 2009 at the Rock Financial Showplace in Novi.