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American Institute of Certified Public Accountants (AICPA)
REMOTE COMPUTING: SECURITY OPTIONS

By Randolph P. Johnston and William C. Fleenor, CPA

This is the second in a series of four articles on remote computing.

Anytime a computer is connected to the Internet, the risk of attack exists. According to the Computer Emergency Response Team (CERT), there were more than 21,000 incidents in 2000. This represents more than a 100% increase over the number of incidents reported in 1999 and an over 600% increase over the number of incidents reported in 1998. Note that the CERT Coordination Center (www.cert.org), located at Software Engineering Institute operated by Carnegie Mellon University, is the leading worldwide source of Internet security information.

As the CERT numbers show, Internet security is a growing concern. Both business networks and individuals are at risk. Even on dial-up links, precaution should be exercised. Three security options will be discussed in this article: firewalls, encryption, and virtual private networks.

Firewalls

Firewalls are designed to protect computers from security breaches. A firewall can protect a single computer, or it can be configured to protect all the computers on a network. Firewalls can be hardware based or software based. A hardware-based firewall is a separate device between the computer and the Internet connection. A software-based firewall is software loaded on the computer that is connected to the Internet.

For most business applications, including those for telecommuters, hardware-based firewalls are the best solutions. Hardware-based firewalls generally provide a higher level of protection than software solutions. Another advantage is that they do not draw down the resources of the user's computer. Many of these products are so simple to install and use that a computer-literate user can install the device in less than 30 minutes. However, under a few conditions,
most notably with DSL (Digital Subscriber Line), outsourced technical help may be required. We recommend products from such vendors as SonicWall, LinkSys, 3Com, Intel, and others that have appliance firewalls in their product mix. An example product for a home user might be a SonicWall SOHO 10. These products typically cost $200 to $700, but very sophisticated versions might cost $2,000 to $9,000. The firewalls used in a main office should be faster and more capable. An example of this type of firewall today would be the SonicWall Pro. This product can support up to 1,000 users and offers other features, such as content filtering, virus scanning, and the ability to implement a Virtual Private Network (VPN).

On the home or mobile user side of this formula, there are several small units available that are about the size of a VHS videocassette. SonicWall has a Telecommuter, SOHO 10, and SOHO 50 version of their firewall. The Telecommuter or SOHO 10 units are quite affordable for a single home user or a small, remote office LAN (local area network). Occasionally we recommend that mobile workers carry this type of product if they frequently have access to high speed Internet, and want to protect their system with their own firewall.

Firewalls can also be implemented in software with three popular choices: Norton Internet Security Suite, Blackice Defender, and ZoneAlarm. These software products protect an individual machine but can cause some operational difficulty for the end user. Further, because the attack is stopped at the machine level, the attacker already has reached the machine at the hardware, operating system, or application software level. These products provide a safe enough barrier but must be monitored for upgrades or changes because new hacker tools can put these software products at risk. Appliance firewalls also need their software upgraded routinely to close newly found vulnerabilities. You should choose either a hardware- or software-based solution to protect your internal and external resources.

Encryption

In addition to protecting the office network and the remote user’s computer from network attacks, remote users need to be concerned about the security of information transmitted over the Internet. Failing to use some type of encryption technology when transmitting information over the Internet results in an unacceptable level of risk that potentially compromises the confidentiality of client information.

E-mail communications that are not encrypted are particularly easy for numerous other individuals to read. The risk is so great that it is simply not appropriate to send confidential client information using unencrypted e-mail. Fortunately, an inexpensive, easy-to-implement solution exists. In conjunction with digital IDs that cost only about $15 per user per year, e-mail can easily be protected. The catch is that both parties must obtain and implement digital IDs. For more information on obtaining and implementing secure encrypted e-mail, visit the VeriSign products and services page at www.verisign.com/products/class1/index.html. VeriSign is a leading source for class 1 digital IDs.

Virtual private network

For communications other than e-mail between remote users and the office network, a VPN is often a good solution. VPNs allow remote users to use the Internet in a secure, encrypted fashion to connect the office network to workers outside the office. This outside connection could be another network or an individual on the road. VPNs are faster when implemented in hardware, such as a firewall or router. VPNs can also be implemented in software on individual computers.

When a VPN is implemented, your remote worker or remote office can use the network in the main office transparently; that is, as if they are all on the same network. The VPN extends the reach of your LAN securely. With client-server applications, this technology is very effective. A caveat, however, is that with traditional PC applications it is slower than we prefer.

A good approach to implementing a VPN is to have a major firewall in the main office location with VPN software installed, and to have smaller appliance firewalls in remote locations and home offices. If mobile workers are willing to carry some support hardware, appliance fire-
walls can also be used on the road. However, most users don’t want the extra bulk, and it is all right to allow this style of user to implement a VPN in software. A key technology to watch for is IPSec. This technology began to stabilize a few years ago and is quite good, quick, and secure. You should make sure that you implement IPSec V6.

Conclusion

Failing to take adequate measures to protect against network attacks and to protect the confidentiality of data transferred over the Internet represents an unacceptable level of risk. The confidentiality of client information and the reputation of the firm are at stake. Internet crime is real and is growing at an alarming rate. Those who fail to adopt adequate control procedures are likely to regret their negligence.

—By Randolph P. Johnston, executive vice president, and William C. Fleenor, CPA, chief financial officer, K2 Enterprises, Hammond, Louisiana. K2 Enterprises provides technology CPE for CPAs. Phone: (504) 542-9390; e-mail: randolpb@K2e.com and will@K2e.com.

THE NEW GLOBAL BUSINESS CREDENTIAL: TOP 10 REASONS IN ITS FAVOR

By Richard Kretz, CPA

In late October, the AICPA will begin distributing ballots to its members soliciting a vote on the proposed global business credential, or “XYZ,” concept. The balloting will continue through December 2001.

I’m convinced that the XYZ concept is especially important to regional and local CPA firms, despite some suggestions to the contrary. I believe a searching look at the concept reveals many benefits and no disadvantages for our type of firm. I will vote for the proposed credential, and in the following I want to share with you the top 10 reasons to do so.

10. The credential better reflects the changing nature of what more and more 21st century CPAs actually do.

In my own practice, I’m called upon to do virtually everything but the traditional work of a CPA. My work encompasses financial planning, business advice, cash management, long-term projections—and a whole deeper dimension of counsel. Business people will share secrets with their financial adviser that they wouldn’t divulge to their priest or their spouse. I wear so many hats, I don’t even know what to call myself: I usually leave it at “business adviser” and let my audience sort it out, because I don’t want to pigeonhole myself. The XYZ credential was fashioned to better suit the changing role of the CPA.

9. The CPA designation is tied to confining stereotypes.

“Bean counters.” “Eye-shade-wearing milquetoasts”—it’s sad but true that “CPA” often calls forth images of a narrowly limited professional that can choke off the potential for a broader practice—so much so that my firm actually conducts training sessions for its younger staff members on how to describe themselves.

Please understand that I’m not denigrating any professionals who do the work traditionally associated with the CPA. I am only stating what everyone knows: that to identify yourself as a CPA pigeonholes you with the general public.

8. A new designation that more closely reflected what today’s CPAs do, would avoid stereotyping.

My kind of practice isn’t universal, but it isn’t exceptional either. For CPAs who have broadened into being business coaches, the global credential is a godsend. To be able to call yourself an XYZ will mean that you’re certified in a clearly understood skill set oriented toward general business practice. It will enhance your credibility and, by the same token, your business potential.

7. It will help the general public understand what CPAs do and thereby improve business.

Today, CPAs are ideally positioned to be strategic business enablers. We are good at providing knowledge-based counseling across a wide variety of fields. A new designation that stands for this expanding role without sacrificing the valued attributes of the CPA will make our general capacities better known and expand our market reach. That’s all the more important today, when competition is exploding both geographically (thanks to globalization) and functionally (as professions other than the CPA compete in the same business counseling space).

6. It will help recruiting among the young.

I counsel college students, and I can report that they are regrettably susceptible to the stereotype of the CPA.
They often reflexively think of accounting as a stodgy, unchallenging profession, not a viable career choice. They’re considerably more interested when I tell them what I do.

My experience is borne out by a survey of college students sponsored by AICPA (see www.globalcredential.aicpa.org/content/info/taylor.htm for an executive summary). More than two-thirds of the students polled said they found the XYZ credential to be somewhat or very appealing, and the figure rose to 90% among students planning on obtaining a CPA designation. With professional recruiting growing more and more competitive, the appeal of XYZ to the young can’t be dismissed.

5. It will help in dealings with non-CPAs.
Professionals other than CPAs, such as attorneys and MBAs, are relevant to discussion of XYZ in two respects. First, they are more and more important in growing, diversifying CPA firms. My own firm employs some 120 people, 50 of whom are not CPAs—attorneys, software engineers, insurance professionals, registered investment advisers, and the like. Such professionals are likely to seek the XYZ designation themselves, and will naturally gravitate to firms where the credential is welcomed as adding value. Second, and this is just the flip side, CPAs face heavy competitive pressure from non-CPAs ready to provide the same business advisory services we do. The credential will be a substantial advantage in competing against non-CPAs who don’t have it, and a competitive necessity in dealing with those who do.

4. It will help in international dealings.
There’s no escaping globalization. More and more, even local CPA firms have to work with international partners who may have very different backgrounds and competency requirements. This is where the uniform worldwide character of the credential promises to be an exceptionally powerful tool. You can look at an XYZ from anywhere in the world and know the minimum qualifications that person possesses.

3. It is no threat to traditional CPAs.
The XYZ is in no way a new requirement for CPAs. The framers of the concept expressly recognize that not everyone will need or want the XYZ designation. CPAs with traditional, local practices, such as traditional attest work and individual income tax advice, can do as they have always done. If you don’t want the XYZ, you’re not required to seek it. Those who do seek it, though they retain the skills and values of CPAs, are unlikely to compete against those in traditional practice.

2. It won’t dilute, compete with, or replace the CPA designation.
The XYZ is intended to complement and add value to the CPA. It is just another option CPAs can pursue if it helps them market their skills to new, wider, and receptive audiences. It is in no way a replacement for, or a rebranding of, the CPA. Specifically, it is not a license to practice, which means that it cannot dilute the value of the CPA.

And the number one reason in favor of the XYZ credential is—

1. The only reason to oppose it is not knowing the facts.
The facts about the XYZ are still not well enough known among the grassroots. Once the nature and purpose of the designation are understood, in my opinion, the objections seem based on lack of information or on misconceptions. But I don’t want to be the one to argue the point—all of us need to come to our own conclusion. To find out more and inform yourself fully in preparation for the ballot, go to www.globalcredential.aicpa.org.

—By Richard V. Kretz, CPA, Kostin, Ruffkess & Company, LLC, West Hartford, Connecticut; e-mail: rvk@kostin.com. Kretz is a member of the AICPA’s PCPS Management of an Accounting Practice Committee.

THE IMPACT OF CONSULTING SERVICES ON SMALL FIRMS

By Nicholas J. Mastracchio, CPA, and Jeffrey Lippitt

During the Securities and Exchange Commission’s (SEC’s) public hearings on its proposed rules for accountants’ independence, concern was expressed that the restrictions on consulting services could be a blow to the smaller accounting firms and their clients. The concern was that the SEC rules would “trickle down” through the various state boards of accountancy and result in new restrictions on small firms and their clients. It was pointed out that smaller firms are in a unique position to know more about the operations of their clients than anyone else. Their clients look to them for assistance, and often they are the only resource for the client.

During the comment period, SEC Chairman Arthur Levitt made numerous comments about his respect for
the small accounting firms, calling them “the soul of America’s accounting profession” and “the very glue of the local financial community.” He pointed out that the SEC rules did not apply to these firms and their clients and rejected the trickle-down theory as a consequence of the SEC rules.

In the January 2001 issue of the State Board Report, Chairman of the National Association of State Boards of Accountancy (NASBA) John B. Peace, CPA, Esq., urged state boards to proceed cautiously. He argues that what may be good regulations for auditors of publicly traded companies may or may not be relevant for auditors of nonpublic companies. The NASBA Ethics Committee has been asked to assist in appointing a special task force within NASBA to study the new SEC rules and provide guidance to the state boards. The task force will focus on the rules dealing with consulting services for audit clients.

How important is consulting to the smaller CPA firms? Would there be a significant impact on CPA practices if some of their consulting revenue were to disappear? An analysis of these and related questions was undertaken from the 1999 AOMAR/AICPA survey, gathered informally at a Practitioners Symposium. This was not a statistically valid survey, but it does lead to some interesting insights.

The 109 firms in the survey had a significant amount of consulting work (one firm was deleted because the distribution of services did not add up to 100%). Only 11 firms reported no consulting and the amount at one practice was as high as 59% of gross fees per owner. Both the mean and the median of the practice revenues per owner coming from consulting services were 15%.

One of the issues examined was whether consulting services were significantly more profitable than more traditional services. Under regression analysis, the answer is yes, but not by very much. The predicted profit for each dollar of traditional services was 26.8 cents and for consulting services it was 28.7 cents. The profitability of consulting services varied significantly from firm to firm. This is understandable since it encompasses more of a variety of services. At a confidence level of 95%, the range of predicted profitability was 21.7% to 32.0% for traditional services, and 17.0% to 40.4% for consulting.

Gross fees per partner have always been an indicator of profitability for the firm owner. The study indicated that consulting enhanced gross fees per owner. Thus, consulting adds to profitability. The study showed that for each practice revenue percentage from consulting services the gross fees per partner rose $5,311 and net income per partner rose $1,863. The $1,863 appears to be result of both higher profitability in consulting services and increased gross fees per partner.

One interesting fact is the percent of profitability of traditional services in firms with larger consulting practices. The firms in the study were divided into thirds, based on the amount of gross fees per owner derived from consulting services. The percentage of profitability from traditional services was then examined for each group. The conclusion was that the larger the firm's consulting practice, the smaller the profitability of traditional services. Firms with the lowest amount of consulting services per owner had profitability of 29.4% of traditional revenues, those in the middle third had 25.9%, and those in the high group had only 23.8%. One interpretation of this is that firms looking for consulting engagements are more likely to accept smaller fees for traditional services. It could be argued that if this is true, the firm owners providing traditional services might be under pressure to maintain profitability and thereby reduce the effort in the audit process. Of course, this could lead to regulators concluding that consulting should be limited in a way that

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AICPA LIBRARY COLLECTION DONATED TO UNIVERSITY OF MISSISSIPPI, MEMBER SERVICES TO CONTINUE

As the AICPA enters the 21st century, it continues to move toward providing more services in an electronic environment. Part of the evolution from a paper-based environment to an electronic one includes the relocation of the AICPA Library Collection.

The AICPA Board of Directors, acting on a recommendation from the trustees of the AICPA Foundation, agreed to donate the library collection to the University of Mississippi in Oxford, Mississippi. The University of Mississippi library staff will continue to provide AICPA members with the traditional library services, such as lending books and providing reference assistance and document delivery.

The move started July 23, 2001, and any interruptions in service to members should be minimal. Members can contact the University of Mississippi Library for assistance with their information requests by calling toll-free (866) 806-2133 or e-mailing their requests to aicpalib@olemiss.edu. University library staff will also reply to requests that are faxed to them at (662) 915-7477, or members can visit the library in Oxford, Mississippi. Additional information is available at the AICPA Web site, www.aicpa.org.
traditional service profitability is not sacrificed to obtain consulting services.

There may be other interpretations of the data. It could be argued either that traditional profitability goes down with more consulting services or perhaps that larger firms with larger consulting practices spend more time proportionately on their audits and therefore do not make as much as the smaller firms.

Either way, consulting has become a significant part of the local practice, and the loss of a portion of that revenue would have an impact on the owners of the firms. The CPA profession has been changing and such projects as the AICPA committee on assurance services offer an exciting expansion of services to the profession. Practitioners should follow what recommendations NASBA makes to the state boards and make sure that the impact of any restrictive move on consulting is understood at the national and state level. The consequences are real, and all firms have a stake in the regulatory environment.

—By Nicholas J. Mastracchio, CPA, associate professor of accounting, State University at Albany; e-mail: Mast@capital.net; phone: (518) 399-3646; and Jeffrey Lippitt, associate professor of accounting, Siena College; e-mail: lippitt@siena.edu; phone: (518) 783-2464.

A FEW SOLUTIONS TO THE LABOR CRISIS

By Albert S. Williams, CPA

This is the fourth and final article in the series on the accounting profession’s labor crisis.

The declining future supply of accounting majors and graduates has frequently been identified as the most significant concern of members in the accounting profession. In response, the AICPA is stepping forward with a primarily Web-based multimillion dollar campaign to be directed at students in their last two years of high school and those in their initial college years. Academia will also be looking at ways to improve the educational process.

However, the situation will not be solved overnight. If anything, it may take a number of years to reach a satisfactory answer. In the interim, practitioners need to respond. In previous articles, I have suggested several actions that firms can take today, to combat the shortage:

- Size the practice by matching available supply to probable demand. This may take some time and reassessment. You need to determine what services you can efficiently and profitably provide. If your current demand for services exceeds your ability to provide them, adjustments may be required, in light of a diminished future labor supply potential. You can no longer take on more business, as you have in the past, simply because there just may not be an unlimited number of new staff members available, as there once was. Worse yet, your current staff, including managers and owners, may fall prey to more lucrative offers from others. This step may include some client loss.
- Come to grips with the matter of staff compensation and benefits and the issue of hours. Lower salaries as compared to other fields, excessive hours, and the stress and demands of the public sector of the profession have taken a toll on the prospective members, as well as current members of public firms. We do need to “step up to the bar,” and address these issues, as they will not go away with just wishful thinking. More competitive salary and benefit packages will be required if you’re going to land the brighter prospects. Less demand for hours will also be a factor. Both of these will cause pressure on the firm’s bottom line. Where does the money come from? Think about it: (1) from the owners’ current compensation, (2) from increased fees (efficiency, value billing, and having clients do more on their end), or (3) from eliminating some hours and fees of either inefficient or less than profitable clients. This shouldn’t be a difficult decision.
- Consider separate and flexible employment arrangements that recognize the varying interests and motivations of staff members, as well as owners. Some staff may want financial gain, others future equity opportunity, and many of the younger staff want a normal, family/personal lifestyle. Not all will be driven toward future equity ownership, at least in the context that has been a standard of the profession for a number of years past.
- Hire alternative staffing sources, including non-CPAs, and even non-accounting-trained individuals. Many of the larger firms actually have a significant number of non-CPAs in comparison to their total staff count. Granted, in the larger firms, many of the non-CPAs hold other qualifications. With the movement toward professional service firms vs. CPA firms, however, the use of non-accountants—given adequate training and supervision—is becoming accepted as one alternative to the staffing crisis. Other suggestions offered include use of retirees,

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Practitioners Symposium

The 2001 Practitioners Symposium was a huge success. In addition to making the most of a wonderful networking opportunity, members enjoyed the many sessions on staffing issues, pricing, partner compensation, marketing, and technical updates. Members and their spouses had a rollicking good time at the invitation-only “Key West” beachside party. Boat rides, barbecue, and blender drinks—what a combination!

Whether you attended this year’s symposium or couldn’t make it, you won’t want to miss the 2002 Practitioners Symposium in Las Vegas, Nevada, at the Bellagio Hotel and Casino. The dates are Sunday, June 2 through Wednesday, June 5, 2002….Mark your calendar!

The global business credential—what is it exactly?

If you have in-depth business knowledge and professional experience, chances are that you will be eligible to become a holder of the newly proposed global business credential. In summary, holders will:

- Exhibit knowledge of business and business processes
- Understand where knowledge resides
- Integrate, leverage, and create knowledge
- Provide advice that significantly enhances business and individual success

The proposed credential will address the opportunity for professionals to turn cross-disciplinary knowledge into value. Based on a global standard of competency, the credential will require that its holders commit to continuing education and periodic assessment to ensure currency of knowledge and skills. A global code of ethics will govern the credential holder, and the credential itself will be portable from one country to another. Holders are expected to come from a broad range of disciplines, such as accountancy, business law, information technology, engineering, and business administration.

The global business credential—what are its benefits?

Individuals who hold the global business credential will be able to expect:

- Global recognition for their distinctive business advisory capabilities
- Opportunities to do more interesting work and create new solutions that bring higher value to clients and employers
- Increased mobility and marketability across organizations and geographic boundaries
- Enhanced professional satisfaction and greater financial rewards

Clients and professionals who hire professionals with the global business credential will be able to expect:

- Holistic thinking and problem solving
- Consistent competencies and quality anywhere in the world
- Adherence to a strict code of ethics
- Up-to-date knowledge and continuing development of new skills

To learn more about the proposed global business credential, or to submit questions or comments, visit the member information center at www.globalcredential.aicpa.org.

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Interns, home-bound individuals, and second-career individuals.

Be innovative and flexible with enticements for increasing the retention of existing staff and owners and attracting new staff, and even staff from alternative sources. For example, a meaningful intern program may convince a college graduate; a cruise after tax season in lieu of money might entice a retiree; a virtual office setup may interest a former employee who wants to stay at home for various reasons; and making student loan payments, contingent upon performance and future employment, may be appealing to some new grads as well. The workplace environment, including security, mentoring, communication, and challenging work, will also have a significant impact, as will personalities and supervisory skills.

Finally, an option for some, but not all, is an association of firms, merger or acquisition, or disposition. Size clearly has some benefits, but at some loss of personal control. Among the benefits are greater opportunity for staff, sharing of resources, including staff, and maximizing utilization of personnel.

The staffing shortage will require some hard decisions for some practitioners. There is no one-step solution for...
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the problem. It is abundantly clear the shortage exists and
the profession is taking steps to try to cope. ✓

—By Albert S. Williams, CPA, Denver, Colorado. Phone:
(303) 985-1174; e-mail: cpaasw@aol.com. Williams has
spoken at various AICPA/PCPS conferences and has written
a number of CPE courses. He is also the author of
one of the AICPA MAP Committee's first books: On Your
Own: How to Start Your Own CPA Firm.

LETTERS TO THE EDITOR

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and on published articles. Please remember to
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