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## Members in Government, October 1998

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# Members in Government

October 1998

AICPA

## 11 Potential Pitfalls For Your Y2K Projects

by Sandra Smith

### Highlights

#### G2

Taxpayer Focus in  
Government Audits  
.....

#### G3

MIG Chair's Chat Room  
.....

#### G3

Intergovernmental  
Cooperation  
.....

#### G4

Recently Issued Auditing  
Standards and  
Interpretations  
.....

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

A lot of organizations are falling into a number of pitfalls on their y2k projects. How is your entity doing? Rate yourself on the following 11 pitfalls that I have seen lately and frequently.

1. Thinking that your software is in compliance, when it's not. Some software companies have changed their minds about the compliance of their products. This means that if you did your y2k project too early, software you thought compliant last year might not be this year. The best solution for this pitfall is to revisit the vendors of critical systems periodically to make sure their positions haven't changed. For example, did you know Windows 95 requires a patch?

2. Misunderstanding the real deadline or procrastinating. The real deadline is not 12/31/99. It's 12/31/98. How many of you have fiscal years ending before December? What do you think the computer is going to do as soon as the 1999 fiscal year ends? It's going to look forward to the year 2000. That could be a problem. Don't delay.

3. Thinking you can do your y2k project in your head. Write it down! If you do not have a written hardware and software inventory and a written y2k plan with project steps, resource assignments and due dates for your entity, you haven't completed your y2k project.

4. Not taking the time to test packages that are mission-critical. If you don't, you are betting your operation on the vendor's word that the package will work.

5. Not managing or setting priorities. If you have limited time, and we all do, doesn't it make sense to fix the defibrillators before we fix the accounting system? Shouldn't we work on the nuclear power plant before we get to the air conditioning systems?

6. Relying on tools. I haven't used a y2k tool yet that is 100% accurate. Moreover, the

tools I have tried have messed up my PC and given poor results.

7. Thinking y2k compliance means the same thing to everybody. Unfortunately, there is no universally accepted definition of year 2000 compliance. When you use the term, define it for yourself and others, and do not make assumptions about what it means.

8. Not managing your y2k project's critical path. Make sure that key aspects and phases of the project meet deadlines.

9. Thinking you can hire someone next year to handle the problem. It may be difficult. All the good ones will be booked, and what may surface next year are fly-by-night, out-to-make-a-big-buck vendors.

10. Relying on the y2k stories in the general news to become an expert on the subject. I have studied this problem in depth for over two years now and still have great difficulty separating fact from fiction. In addition, most news articles focus on problems, not solutions.

11. Not preparing a contingency plan. Y2k is a risk management exercise. A majority of organizations have had to execute at least a portion of their y2k contingency plans already. Don't be caught without one.

If you think you have these 11 items handled, pat yourself on the back. You're way ahead of most of the companies I'm seeing. If you don't have these items handled, even one of them, your entity could be at risk. Moreover, there are probably many more y2k pitfalls besides the ones on the list that you don't know about. It's probably time for you to get serious about managing your y2k risks

*Sandi Smith, a Dallas CPA and consultant, writes frequently about y2k and other technology topics.*



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## Taxpayer Focus in Government Audits

by Michael Val Hietter, CPA

In recent years, corporate America has formalized the business adage "the customer is always right" with customer service programs. Employees are now trained to go the extra mile to serve consumers who, in a competitive market, are free to go to the seller down the street for their goods and services. Although U.S. taxpayers can't shop around for a better tax collector, short of moving, even the Internal Revenue Service is becoming more user friendly. Legislation has been enacted to help the IRS to serve taxpayers as well as the best private companies serve their customers.

Among the ways that the IRS is becoming fairer and more responsive are expanding office and phone hours, making it easier to file returns over the phone and by computer, and creating problem-solving days when taxpayers can work face-to-face with IRS customer service representatives. In short, the IRS is increasing its focus on taxpayers and their needs.

Focusing on the taxpayer, and not just the documents and evidence, is also appropriate during tax audits at the state and local levels. I am a property tax auditor for a county tax assessor's office in northeast Georgia. I have worked in public accounting and know how the private sector views being audited by a government department. Unfortunately, not all government auditors have experienced sitting on the other side of the desk during an audit.

Over the years, I've developed some thoughts on how to work effectively with those I audit. By observing the following points which help the auditor to focus on the taxpayer, a government audit can be successfully completed with a minimum of hassle to both parties, while building goodwill.

- *Be professional.* There are different definitions of professionalism. I use it to mean doing your job to the best of your ability. However, professionalism does not require a single-minded attitude of completing a government audit without any regard for the feelings of the auditees. Rather, the suggestions listed below are an essential part of being professional.
- *Be cordial.* The best way to build respect with any taxpayer is simply to be friendly. Showing interest in the taxpayer's operations, such as making a complimentary remark about the taxpayer's facility, will be appreciated and well received. If the opportunity presents itself, let the taxpayer know some more about yourself as a person, not just as a professional. On the other hand, if the taxpayer speaks and behaves very formally, then do likewise, but if the taxpayer takes a more informal approach, match your response to his or hers, within the limits of professionalism. Let the taxpayer take the lead and follow appropriately.
- *Be prepared.* Time and profit pressures are not always the same in government as they are in the private sector. The time you

spend in the field is not just yours; it's the taxpayer's time, too. Therefore, review all available documents before going out to the location. Also, an audit program is helpful, but if you do use a formal audit program, keep in mind the next suggestion.

- *Be flexible.* A government tax audit program cannot address all the possible differences among accounting systems. For example, a taxpayer may not use a particular financial report that you would like to see. An auditor must be flexible enough to work around that step on the audit program, no matter how formal the program is. Nothing will make taxpayers more angry, and rightly so, than when an auditor insists that they provide something that does not exist.
- *Be sensitive.* Think of a government audit as someone (and that someone is you) looking through the taxpayer's dresser of financial information. If the taxpayer starts to feel uneasy about providing certain documents, he or she may simply be worried about the confidentiality of the information. If that is the case, assure the taxpayer of the confidentiality of information provided and explain the need for the documentation. Usually, the taxpayer is willing to give you what you need. If appropriate, reassure the taxpayer that the audit is a normal compliance procedure. It boils down to being sensitive to the taxpayers' feelings and treating them as a human being, with respect, not merely as a reference source.
- *Do not be accusatory or confrontational.* When a government audit is scheduled, the taxpayer often feels accused of something, even though the audit may be part of a normal, random-selection review program. If an auditor does not pick up on this feeling quickly, hostility, mistrust and lack of cooperation can rapidly get out of control. Absent indications of fraud, assure the audited taxpayer up front that you are performing a simple compliance check, or mention the reason that highlighted the account. View the audits as research projects, rather than investigations.
- *Use humor appropriately.* Generally, the professional business atmosphere has become more casual in recent years. You can still maintain your professionalism while building goodwill through the use of humor, especially self-deprecating humor. Again, let the audited taxpayer take the lead. Government employees, especially those who must interact with the public, need to step back and reflect on the impression that is left with the taxpayers. The job of government auditors is not to maximize taxpayer happiness and to make friends with all auditees. However, if the government auditor maintains the right attitude and focuses on the taxpayer during an audit, citizens will feel that their government is serving them competently, efficiently and effectively.

Michael Val Hietter, CPA, is Senior Personal Property Auditor for the Board of Tax Assessors of Hall County, Georgia.





## MIG Chair's Chat Room

by Beryl H. Davis, Chair  
AICPA Members in Government  
Committee

First, I again want to express publicly my sincere thanks and appreciation to speakers, members of the planning task force and standing committees, and AICPA staff who worked so hard to make the 1998 AICPA National Governmental Accounting and Auditing Update Conference another great and successful event. Besides earning 16 hours of CPE, participants were able to meet and socialize with government officials and their peers and to exchange ideas and information. I hope you're planning to attend next year's conference. The dates and locations have not been finalized. Additional information about it will appear

in future issues of this supplement.

Besides sponsoring the conference, your committee is working on other projects. As you are aware, one of the most important issues affecting government CPAs is the topic of government accountability. Federal, state and local governments are being subjected to increasing demands for efficient and effective services. At the same time, government resources are shrinking and citizens are showing a decreasing tolerance for taxes. To exacerbate this situation, government agencies have not been given the benefits of modern information infrastructures. Nevertheless, it is universally understood how important information systems are in enhancing operational efficiency and promoting the integrity of information.

Providing reliable and meaningful data in a timely manner is a prerequisite for governments that want to be held accountable to their constituencies. The bottom line is that governments must work smarter and CPAs in government are well positioned to assist in that process. Thus, the Members in Government Committee is making government accountability a major project in its work program this year. A planning meeting to brainstorm how the Institute can best address government accountability has been scheduled, and we expect the results of this workshop will have a significant impact on the committee's strategic initiatives.

The Institute recently identified the following five core services for all CPAs through the CPA Vision Project: assurance; technology; management consulting; financial planning; and international services.

Hill/Holliday, a consulting firm working with Institute staff, is currently crafting a "position" for the CPA profession and a "brand" that communicates that position. Members of our committee were recently interviewed by Hill/Holliday to support this branding and positioning project. As the vision for the CPA profession is further refined through the personal perspectives of the Institute's membership, it is anticipated that new strategic initiatives will be developed. The Members in Government Committee will be poised to incorporate those initiatives in its own strategic plan and will design activities to further them.

The committee is excited about the challenges ahead, and most important, about our opportunity to help Institute members add value to the governments they serve. To this end, we look forward to taking a fresh look at our committee's responsibilities and expanding our agenda to focus on government accountability. Our goal is to demonstrate to government employers and the public that CPAs in government are leaders and change agents. Although this plan is aggressive, its significance cannot be overstated, and it should be one of our many priorities to effectively serve our membership. Your input is important and can only enhance the results of our activities. If you have any ideas you would like to share with the committee, please send them to me at the e-mail address or fax number listed below.



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## Intergovernmental Cooperation

by Mary Kaye Moore, CPA

In recent years, governments at all levels are being asked to do more with less; reinventing themselves to be more efficient while providing quality services and streamlining their operations while being more customer responsive. Creative solutions to these challenges are needed. One approach, especially appropriate for local governments, is intergovernmental cooperation. Cities, towns, counties, school districts and other jurisdictions are working together to use or provide services jointly and thereby eliminating costly duplications.

The city of Odessa, Texas, and other local taxing authorities are using such cooperative efforts. Odessa is located in the Permian

Basin of west Texas and its fortunes have risen and fallen in the past with the economic tides of the oil industry, or as west Texans call it the "awl bidness." Facing the downturn in local and state economies after the precipitous drop in oil prices in the late '80s, Odessa, the Ector County Hospital District, the Ector County Independent School District and Odessa College formed a council of governments. Elected officials and administrative staff met periodically to consider opportunities for cooperative efforts. Some of their successes include:

1. Purchasing agents from each entity formed a cooperative purchasing group.
2. A geographic information system is being developed that will be used as the base map for all taxing entities.

*continued on page G4*



## Recently Issued Auditing Standards and Interpretations

Keeping current on the latest auditing pronouncements may be difficult at times; following is a listing of recently issued auditing standards and interpretations that may be helpful.

### Statements on Auditing Standards (SAS)

- SAS No. 82, *Consideration of Fraud in a Financial Statement Audit* (No. 060675CLC10). Effective for periods ending on or after Dec. 15, 1997.
- SAS No. 83, *Establishing an Understanding with the Client* (No. 060678CLC10). Effective for engagements for periods ending on or after June 15, 1998.
- SSAE No. 7, *Establishing an Understanding with the Client* (No. 023025CLC10). Effective for engagements for periods ending on or after June 15, 1998.
- SAS No. 84, *Communications Between Predecessor and Successor Auditors* (No. 060683CLC10). Effective for engagements accepted after Mar. 31, 1998.
- SAS No. 85, *Management Representations* (No. 060687CLC10). Effective for audits of financial statements for periods ending on or after June 30, 1998.
- SAS No. 86, *Amendment to SAS No. 72, Letters for Underwriters and Certain Other Requesting Parties* (No. 060688CLC10). Effective for comfort letters issued on or after June 30, 1998.
- SSAE No. 8, *Management's Discussion and Analysis* (No. 023026CLC10). Effective upon issuance, Mar. 1998.

### Interpretations

Interpretations are effective on publication in the *Journal of Accountancy* and are available on the AICPA Web site ([www.aicpa.org](http://www.aicpa.org)).

- Interpretation of SAS No. 75, *Engagements to Apply Agreed-Upon Procedures to Specified Elements, Accounts, or Items of a Financial Statement*, titled, "Applying Agreed-Upon Procedures to All, or Substantially All, of the Elements, Accounts, or Items of a Financial Statement." This interpretation was published in Nov. 1997.

- Interpretation of SAS No. 62, *Special Reports*, titled, "Evaluating the Adequacy of Disclosure in Financial Statements Prepared on the Cash, Modified Cash, or Income Tax Basis of Accounting." This interpretation was published in Jan. 1998.
- Interpretation of AU Section 311, *Planning and Supervision*, titled, "Audit Considerations for the Year 2000 Issue." This interpretation was published in Jan. 1998.
- Interpretation of SAS No. 73, *Using the Work of a Specialist*, titled, "The Use of Legal Interpretations As Evidential Matter to Support Management's Assertion That a Transfer of Financial Assets Has Met the Isolation Criterion in Paragraph 9(a) of Statement of Financial Accounting Standards No. 125." Effective for auditing procedures related to transactions required to be accounted for under SFAS 125 that are entered into on or after Jan. 1, 1998. This interpretation was published in Feb. 1998.
- Interpretation of SAS No. 70, *Reports on the Processing of Transactions by Service Organizations*, titled, "Responsibilities of Service Organizations and Service Auditors With Respect to Information About the Year 2000 Issue in a Service Organization's Description of Controls." This interpretation was published in Mar. 1998.
- Interpretation of SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, titled, "Effect of the Year 2000 Issue on the Auditor's Consideration of an Entity's Ability to Continue as a Going Concern." This interpretation was published in Mar. 1998.
- Interpretation of SAS No. 31, *Evidential Matter*, titled, "Applying Auditing Procedures to Segment Disclosures in Financial Statements." This interpretation was published in Aug. 1998.
- Interpretation of SAS No. 72, *Letters for Underwriters and Certain Other Requesting Parties*, titled, "Commenting in a Comfort Letter on Quantitative Disclosures About Market Risk Made in Accordance with Item 305 of Regulation S-K." This interpretation was published in Aug. 1998.

To order an SAS or an SSAE, contact the Member Satisfaction Center:

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### continued from page G3—Intergovernmental Cooperation

3. The city and hospital district have cooperative agreements for ambulance services and the emergency medical director.


4. The city has a contract with the hospital for certain health and welfare services for its employees.

5. The city houses its prisoners in the county jail and leases its facilities to a private contractor.

6. The city installed an 800 MHz radio system and other local agencies contract to

piggyback on it.

Other services that are candidates for consolidation include law enforcement, personnel administration, finance, computer services, equipment and facilities maintenance, print shop, records management, library, training, recreational facilities, joint warehousing, tax collector and drug testing. Cooperation and imagination are the key ingredients needed to meet today's challenges of doing more with less.

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