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## Members in Large Public Accounting Firms, April 1998

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# Members in Large Public Accounting Firms

April 1998

AICPA

## A Millennium-Sized Hangover

by Sandi Smith

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Dateline 1/4/00, Anytown, USA: It's back to work at D&J Accounting after the long holiday weekend. The partners at D&J, David and John, never really took the Year 2000 Issue seriously, rationalizing that it was just a way for vendors to get more money out of them. But trouble began almost immediately in the new millennium. As employees arrived at the building Tuesday morning, they had to dodge the ice on the sidewalk. The sprinkler systems had gone off several times, and the sheet of ice was solid, slick and treacherous. David was the first to arrive and his door entry card did not work. He waited in the cold until Jim and Michelle arrived. They called security from their cell phones and, after 45 minutes, a security officer with a key let them in.

### An Important Proposal

David was anxious to get to work. He was close to getting a large new account and had just one more memo to type and fax to the potential client before he clinched it. The account was worth about \$50,000, which was a lot to this small, two-partner firm. But when David got to his computer, he logged in to the network and was rejected because his password had expired. When he logged in as administrator, that password had expired, too. No one could get in. He would have to call the network company to find out what to do. Meanwhile, he could not get to his files to get his work done. So he called and called, but many others must have been calling, too, because the message at the network company said to try again later. But wait, what about restoring a backup to his local drive?

David was desperate to try anything to get out the memo he promised, so he went into the closet to pull the backup that ran Sunday. When he got there, he realized it hadn't run

Sunday. Instead, an error message appeared on the log claiming there were date problems.

### Silent Phones

David was an unhappy camper by now. It was nearly noon. Michelle came in and said, "I have finished all of the filing and other busy work. I need LAN access to do anything else. By the way, have you noticed how quiet it's been?"

The phones hadn't rung all morning. Michelle checked the phone system. In fact, there had been many incoming calls, but they had all been routed to a message stating that the firm was closed today. Michelle ran through the messages. Partner John had called. He had gone to Jamaica for Christmas and couldn't get back because all the flights were canceled. He had an important meeting tomorrow. Could David cover for him? Meanwhile, the hotel bill was eating him alive, John said.

Dozens of clients called, many leaving the same message. "My accounting system just went berserk. I thought you said the y2k problem was a bunch of baloney! Now I can't bill! I can't get payroll out. I have a vendor standing over me and I can't get this check cut. I just hand-wrote it. Now how do I get it into the system? Call me and tell me what to do!!! Why are you closed? Where are you?" Frantic bookkeepers and irate business owners, all of David's and John's regular customers, were demanding attention this morning. David wanted to start returning calls, but he couldn't get into the phone directory on the LAN. Plus, he needed more time to think of something to say. He considered whether he should call the firm's lawyer first? That phone number was on the network, too.

David's prospective new client, Mary, had called, wondering why she hadn't received the memo and proposal this morning as promised. David sheepishly called her back

*continued on page A2*

*continued from page A1—Y2K Hangover*

and said he had a network problem. Mary joked, saying, "It must be the year 2000." David admitted it could be related to year 2000. Mary, suddenly serious, said, "Really, you didn't prepare?" The conversation went downhill from there as Mary became concerned about giving her business to a firm that had plenty of time to prevent the crisis. David had lost the \$50,000 account by the end of the phone call.

Meanwhile, Jim, a staff accountant, was quietly working. He had suspected that the Year 2000 Issue might be something to take seriously, but he never spoke up out of fear of being ostracized by the others. He took precautions before the holiday by copying a few files of his own work to his hard drive so he could be productive in case anything really did happen to the network. He had a fairly new PC and was able to complete an audit report that morning. Jim didn't even try to get into the billing system, though, since he knew it wouldn't work past 1999. He left the audit report on John's desk to review and sign. Then, a little nervously, he started polishing his resume, just in case the workload at D&J suddenly decreased and a staff accountant was no longer needed.

**In Denial?**

Do you have partners in denial like David and John? Do you have employees like Jim, who know better but are too fearful to speak up? What will it be like in your firm on 1/4/00?

*Editor's Note:* This story is the author's interpretation of what might happen to firms that don't prepare for the Year 2000 Issue. It is not a prediction of what effect the issue will have on any particular firm or business. It is impossible to know what impact this issue will have in different situations.

*Sandi Smith has completed several year 2000 projects for businesses, including CPA firms. She wrote Solving the Year 2000 Dilemma (No. 093008CLC4), and 1998 Top 10 Technology Opportunities: Tips and Tools (No. 042300CLC4) both available through the AICPA (call 888/777-7077). She is available via e-mail at sandi@cyberramp.net or by telephone at 972/248-8378.*

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technology



## The Electronic Commerce Environment

by Jay Ehrenreich and James Gonet, Price Waterhouse LLP

The emergence of electronic commerce has altered the way business is transacted—and practitioners, especially auditors, should be aware of the effect it will have on them and their clients.

Electronic commerce uses many different technologies, such as public and private networks; funds transfers, messaging/encryption, e-mail and electronic data interchange (EDI), but it is much more than a technology issue. Some of these technologies have been in existence for years.

Mature technologies, such as EDI, represented a major step in the evolution of business communications. EDI permits one organization to transfer business information from its computer to another organization's computer, effectively transacting business without using paper. Electronic commerce through EDI is generally limited to subscribers of a value-added network (VAN), or to members of a private network. The most common users of EDI have been corporations transacting business with trading partners, typically using mainframe computers. EDI has been very successful in reducing costs and in accelerating the time needed to complete a transaction.

An alternative to a private network or VAN is a public network such as the Internet. The Internet and associated technologies are increasing the number of electronic connections between customers and suppliers. These technologies are making new relationships possible and allowing businesses and customers new ways to access information and conduct transactions. This fits well with the direction in which corporations are moving. Societal, business, marketing and technology drivers are moving corporations to a more consumer-oriented enterprise model. Significant investments in business process redesign, information technology infrastructure enhancement and marketing re-orientation are being made to deliver customized, personalized, information-based products and services.

### Security

A key issue to be addressed to promote safe and reliable electronic commerce is security. Use of the Internet, which is a public network, raises many security concerns. Electronic commerce transactions could be subject to unauthorized alteration or deletion. There are several components that address the security issue. These components include the effective use of firewalls, encryption and authentication of messages.

*Firewalls* are systems that are placed between the Internet and the user's own internal systems. All transactions through the Internet are filtered first through the firewall to check the transaction before it is processed any further.

*Encryption* allows transactions to pass through a network without being intercepted or deciphered by unauthorized persons. A message or transaction is encrypted before it is sent out over a public network. When it is received at the other end, it is decrypted and read. *Authentication* verifies that the transaction is actually from the party sending the information.

### Auditing Electronic Commerce Transactions

How should an electronic commerce transaction be audited? Most

transactions over the Internet are retail purchases and don't pose much more of an audit risk than that of a retail sale made over the phone. However, as electronic payment systems are more widely accepted and different types of business opportunities are identified the auditing/assurance profession will need to rely more and more on electronic evidence. The importance of information technology controls will increase. Strong security controls will be needed to ensure that a transaction record is not added to, changed or deleted without authorization. Auditors will need to address the risk that outsiders may gain unauthorized access to client systems and that erroneous communications with merchants may result in incomplete or inaccurate transactions.

Information technology controls cover data center/processing control issues. They become more important for electronic commerce transactions when there is less human/manual intervention in the transaction cycle. Information technology controls would include control objectives such as security, program changes, disaster recovery and segregation of duties within the MIS department. Program change controls ensure that programs are operating as management intended. Disaster recovery plans allow for quick resumption of processing if a disaster brings down the data center/processing platform. These are traditional technology controls found in business organizations and serve as basic audit risks that need to be addressed in any computer processed transactions. However, as electronic commerce evolves into mass market consumer oriented PC-based/Internet business processes, security will become ever more important to the business organization and to the auditor.

### Implications for Auditors

Electronic commerce shows much promise for future growth. Companies are struggling to decide how they should participate in the electronic marketplace, how profits can be achieved and what new technologies and business process will be needed. New relationships must be developed between consumers and businesses. These new relationships will affect the CPA profession as well. Auditors, in particular, can turn to a new auditing procedures study, *The Information Technology Age: Evidential Matter in the Electronic Environment*, for more insights into this subject.

For more information, see the Auditing Procedure Study, *The Information Technology Age: Evidential Matter in the Electronic Environment* (No. 021068CLC4). Member price is \$28.50; non-member price is \$31.50.



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*Jay Ehrenreich is a Senior Manager in Price Waterhouse's Information Systems Risk Management Practice. Jim Gonet is a Partner in Price Waterhouse's Information Systems Risk Management Practice. Both have significant experience in security and control procedures in an electronic commerce environment.*

## Benchmarking for Small Companies: A Benefit for Your Clients?

In 1992, the AICPA and The Hackett Group launched their joint finance benchmark study. Ever since then, companies of all sizes have been clamoring for a chance to see how they stack up against the competition and industry leaders. But until now, due to the intricacy of the process, only companies with \$50 million or more in annual revenues were included in benchmarking their finance organizations and sharing best practices, according to Vice President Chris Gattenio, who heads The Hackett Group's benchmark division. "Since finance staff at smaller companies wear so many different hats, it's difficult to break down their time allocations into the 29 processes included in our original benchmark study," she explained.

There's good news for small companies now, however, because The Hackett Group has developed a Small Company Benchmark study to help smaller businesses gain an understanding of the best practices of world-class organizations and see how they measure up. The whole thrust of benchmarking is to measure what a company is doing, compare it with other companies and then steal their learning curves. Most best practices—such as streamlining and simplifying processes and procedures, reducing transaction volumes with tools such as procurement cards and direct deposit and changing materiality policies—work for companies of all sizes. "This new benchmark study makes best practices from the more than 1,050 companies that have participated in our benchmark studies available to smaller companies for the first time," Gattenio said.

The Small Company Benchmark tool can be used by any company with revenues up to \$100 million; no minimum revenue is required. It is an easy-to-use, automated survey that is completed using information from budget reports, organization charts, transaction records and management interviews. After the information has been collected, the data is analyzed and a customized report is prepared comparing the company to average and top performers in the study.

introducing..

The new study was developed by considering how small companies are organized and how their staffs and work flows are structured. For example, in smaller organizations, customer interface is probably handled by one person, so the new benchmark is designed to address processes at a higher level, rather than being broken down into small component parts. The 29 processes benchmarked by larger entities in the finance study were consolidated into eight: Supplier, Customer, People, Accounting, Risk Management, Regulatory, Planning & Reporting and Planning & Decision Support.

The cost for a company to enroll is \$750. Companies taking part in the study participate in a kick-off conference call where benchmarking and the use of the data collection tool are explained. Benchmark results are distributed to participants in advance of group results discussion meetings. The implications of the data are discussed and the best practices of leading-edge companies are shared, as well as how they successfully imple-

mented a change program. The data collection generally takes just a few days for small companies and the entire benchmarking process takes about eight weeks to complete.

Facilitating future growth is one important reason for benchmarking. Many small companies are growing very quickly. If they learn and implement best practices today, they'll be able to absorb greater growth without adding people as they expand. Also, it's easier to implement these practices before growth occurs.

Practitioners are encouraged to sponsor clients who might benefit from this study. Upcoming kick-off conference calls will be on May 12 and August 11, 1998. For more information or to register for this exciting new AICPA member benefit, contact Hadassah Baum at:

 212/596-6019

 hbaum@aicpa.org

### ASB Implements Strategic Plan

In Dec. 1997, the Auditing Standards Board unanimously approved *Horizons for the Auditing Standards Board: Strategic Initiatives Toward the 21st Century*, a planning tool that will chart the course of ASB activity over the next 3 to 5 years.

*Horizons* organizes prospective ASB actions under four major initiatives:

- Improve the core audit service to serve the public, the preparers and the profession, focusing on the use of information technology in providing services and on improvement in meeting public expectations about audit assurance.
- Broaden the utility of the attestation standards to facilitate new assurance services that respond to emerging user needs.
- Significantly strengthen the ASB's leadership role in developing international auditing standards and quality control processes that meet the needs of a global marketplace.
- Enhance the utility of audit and attest guidance by implementing process improvements in ASB operations.

*Horizons* can be viewed on the AICPA Web site at:



[www.aicpa.org/members/div/auditstd/horizon/index.htm](http://www.aicpa.org/members/div/auditstd/horizon/index.htm)