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Members in Large Public Accounting Firms

April 1999

AICPA

Internet Security: An Opportunity for CPAs

By Chris Leach, CPA

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The 1998 holiday shopping season will go down in history as the first time the Internet had a major impact on the American public's shopping habits. A landmark study from InfoBeads discovered that more than 30 million U.S. adults shopped online during the holidays, with 8.2 million making \$2 billion of actual purchases.

While these numbers show significant increases from last year, key improvements must be made to get the same results in the 1999 holiday shopping season. When Internet users were asked in the same study why they didn't buy online, two reasons surfaced:

Security. Credit card concerns specifically came out near the top of the list. Even though MasterCard and VISA have tried to reassure the public by creating the SET (secure electronic transaction) standards, the message has not gotten through. Another interesting finding was that many people

worry that some sites might be shams. Branding and credibility really do matter.

Privacy. Many Net users refused to buy online because they do not want to share personal information that can conceivably be

technology

read by parties not involved with the specific transaction—the "Big Brother" syndrome. This issue is being debated constantly within the Internet community. The European

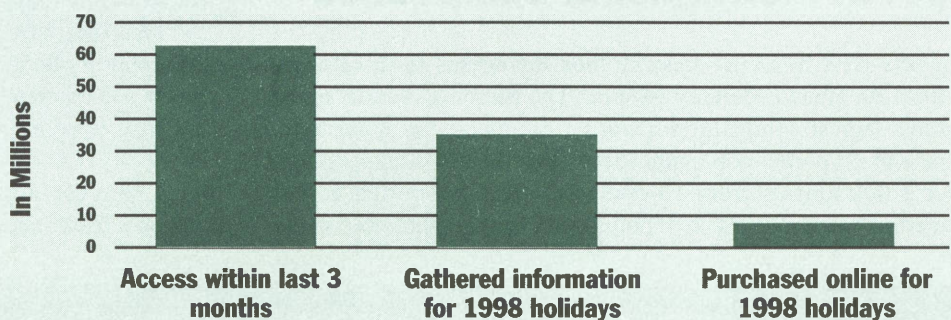
Community has made privacy a pivotal point in its electronic commerce initiative, which went into effect in Oct. 1998.

Clearly, there is a real need to address these concerns. Security issues are being examined, but as technology continues to evolve so will the challenges. It is important to balance consumer concern for privacy and the marketing organization's need for consumer demographics. Exhibit 1 illustrates current on-line consumer purchasing habits.

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Exhibit 1

U.S. Adult Web Access — 4th Quarter 1998



Source: InfoBeads Holiday e-Commerce Survey December 1998

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As the graph illustrates, less than 10% of online users are actually making a purchase. The challenge for business owners is to convert online browsers to online buyers. The same study done by InfoBeads revealed why consumers are hesitant to enter into an online transaction (see Exhibit 2 at right).

CPA WebTrust

Fortunately, CPAs are well positioned to help prospective electronic retailers to alleviate consumers' fears. One tool in their arsenal is *CPA WebTrust*SM (for more on this service, see the article "Putting *CPA WebTrust* in the Picture" in this issue).

As accounting professionals we are in an excellent position to provide an independent and objective evaluation of a Web site. We have the skills and experience required to evaluate the disclosures and test the controls employed. By providing this new assurance service to a client, the client's message to the Internet community is one of stability, integrity and confidence. Sites that have undergone a *CPA WebTrust* examination have reported increased traffic and subsequently higher sales because consumers are beginning to recognize the value of the seal.

Find the Opportunity

E-commerce security risks will continue to challenge information technology professionals. The pace at which new technology emerges to meet the demands of a hungry market continues to climb. The challenge is in balancing risk, benefit and reward for the client and accounting professional.

Exhibit 2

Top Reasons Why Web Users Don't Buy Online

Prefer to shop in stores:	55%
Don't trust payment method:	54%
Don't want data about me collected:	52%
More comfortable giving credit card number over the phone:	32%
Couldn't deliver in time:	21%
More expensive on the Web:	19%
Didn't know where to find item on Web:	16%
Item not in stock:	12%
Find purchasing on the Web difficult:	10%

Source: InfoBeads Holiday e-Commerce Survey December 1998

According to some, privacy online is a luxury that must be given up. While I do not agree, I would point out that we have already relinquished privacy in other areas of our lives with much less controversy. For example, many grocery stores have "clubs" that offer discounts to members. Each time you check out, you present a membership card that is scanned into the grocer's database along with the information from your purchase. Perhaps there are fewer fears about this loss of privacy because it involves a face-to-face transaction that a consumer can evaluate first hand, but it is the same type of information gathering that occurs online.

CPAs are in excellent position to take the lead as their clients look for ways to tap into the global economy and the Internet. Using the business skills and professional integrity that CPAs have main-

tained for over a century, we have the talent needed to help tame the Internet. All CPAs should become involved in technology. Those who lack the skills should acquire and update them.

Albert Einstein once said, "In the middle of difficulty lies opportunity." The possibilities afforded by the World Wide Web are limitless and therein lie the opportunity, the challenge, the fun and even the future of the accounting profession.

Chris Leach's practice, Leach Consulting & Accounting, San Diego, specializes in providing consulting services in tax, business management and information systems. He is chair of the AICPA Information Technology Practices Subcommittee as well as a member of the Electronic Commerce Assurance Services task force, which developed CPA WebTrust.

CPA WebTrust Press Kit Takes Top Spot at International Competition

The new *CPA WebTrust* press kit took top honors in its category at the 12th annual Mercury Awards. The Mercury Awards is the world's largest competition honoring excellence in public relations and corporate communications. For the 1998 competition, over 1,000 entries from 16 countries were submitted across numerous categories. Each winning entry will be published in the

Clarification

An article in the Feb./Mar. issue of this supplement, "E*TRADE Earns *CPA WebTrust* Seal," mischaracterized information about the firm's Seal. E*TRADE was the first online trading company to receive the Seal, not the first financial services company.

official Mercury Awards Winners Book. Winners were honored in Jan. at a black-tie event at the Plaza Hotel in New York.

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Putting CPA WebTrustSM in the Picture

As the CPA WebTrustSM Seal continues to pop up on hot Web sites, the variety and quality of engagements keep on growing. Not long ago, one Internet entrepreneur saw an ad for CPA WebTrust in *The Wall Street Journal*. According to John Merina, founding partner of Merina, McCoy and Company, a 17-person CPA firm in West Linn, Ore., what caught the company owner's eye was the fact that a camera was featured in the ad as an example of the kind of consumer product being sold on the Web. Since his company, Portland, Ore.-based Camera World (www.cameraworld.com), had an expanding Internet presence, the company owner called in his Internet administrator and told him the site should be CPA WebTrust certified. The administrator went to the CPA WebTrust site (www.cpawebtrust.org) and located Merina, McCoy on the map of licensed CPA WebTrust firms. When John Merina, the firm's founding partner, got the call from a complete stranger requesting an engagement for this relatively new assurance service, he was delighted to find that the advertisements worked.

Rising Revenues

The firm is a veteran in this emerging field, having been among the first licensed to perform CPA WebTrust engagements and having already sealed one client, a company called Web Coach, which helps businesses develop Web presences.

Camera World had compelling reasons to market online. The company, which has one brick-and-mortar store in Portland, did \$4 million of online business in 1997, saw Web revenues jump to \$18 million in 1998 and expects them to soar to \$60 million this year. A marketer of a wide range of audio-visual equipment, which earned its Seal in Dec., Camera World saw the Seal as a revenue enhancer. "They want to increase online sales because transaction costs are so much less," Merina said. "They figured that if they can raise consumer confidence, then revenues will go up because people will be more willing to place orders."

CPA WebTrust also offers advantages for practitioners. Merina, for one, sees a future for his firm in the Internet. "We are anticipating growth in this area as audit revenues decline," he says. When CPA WebTrust engagements were introduced, "we felt really good about it. I'm kind of a computer jock anyway, so this is what I like to do."

The new capabilities also went over with clients. "You can go beyond CPA WebTrust to open up other avenues," Merina says. One client, an Internet financial services start-up, chose the firm because it believed that it would soon need the CPA WebTrust Seal and wanted to develop a relationship with CPAs qualified to provide it.

Among the incentives Merina sees in this service area are:

- It provides an alternative source of revenues.
- It can open the door to other consulting opportunities. For example, if a company is not yet ready for a Seal, a firm can perform a CPA WebTrust readiness engagement involving a preengagement diagnostic. The firm might then help remediate any problems or weaknesses discovered before going on to seal the site.

Other related e-commerce service opportunities include site construction, feasibility studies, policies and procedures, and business plans. Clients will also need help in integrating their e-commerce activities with existing systems. "One of the primary benefits of electronic commerce is the reduction of transaction costs," Merina observes. "If e-commerce is done correctly, the client's staff should never have to be involved. Orders should come from the site through inventory and into accounting, all electronically." He says that on many sites, Web site orders are now printed and then entered into the accounting system.

Get in Focus

Merina sees e-commerce consulting as an opportunity "to reinvent ourselves in changing times." He urges CPAs to get involved with the program to reap the benefits. "Develop a marketing plan and go out and get the business."

GASB Proposes Revisions to Y2K Technical Bulletin; AICPA to Issue Guidance

The Governmental Accounting Standards Board last month issued a proposed revision to its technical bulletin on Year 2000 issues. The final technical bulletin is expected to be available on the GASB Web site (www.gasb.org) some time this month. As soon as the new bulletin is adopted, the AICPA plans to publish guidance for auditors on its Web site (www.aicpa.org).

The proposed GASB Technical Bulletin, *Disclosures about Year 2000 Issues—an amendment of Technical Bulletin 98-1*, would clarify that the intent of Technical Bulletin No. 98-1 is to identify a government entity's efforts to address the y2k issue, rather than provide assurance of compliance. The new bulletin would also allow reporting of y2k disclosures outside the basic financial statements in required supplementary information. Disclosures now must be made in notes to the financial statements.

The AICPA guidance would cover appropriate reporting options, given the particular circumstances of the govern-

mental entity. If an entity's y2k disclosures are reported as required supplementary information, they would not be considered part of the basic financial statements. Consequently, any report on required supplementary information would not affect the auditor's opinion on the financial statements.

"The information provided by the revised technical bulletin will assist users of governmental financial statements in understanding the entity's efforts to address y2k issues," said Deborah Lambert, chair of the AICPA Auditing Standards Board. "The GASB's clarification of these disclosure requirements will benefit users, preparers and the auditors."

Expand your Practice with Alternative Dispute Resolution: American Arbitration Association Seeks CPA Panelists

Each year the American Arbitration Association (AAA) provides administrative services to thousands of businesspeople to resolve disputes involving construction, commercial finance and banking, real estate, technology, energy and utilities, employment issues, telecommunications and international trade. In every one of these areas, the parties would benefit if the panel included an arbitrator with accounting experience.

The AAA and the AICPA have engaged in a cooperative effort to expand the AAA's roster of neutrals with CPAs in the above subject areas. In addition to being an acknowledged expert in a particular field, a good arbitrator must have integrity, sound judgment and judicial temperament. The arbitrator must be a good listener and be able to understand the issues discussed and decide the matter in accordance with the evidence and testimony presented and contractual agreement of the parties. Arbitrators must be impartial in fact and appearance.

Becoming a member of the AAA's roster of neutrals requires commitment. The process works as follows:

- The individual is nominated to the roster by the AICPA.
- The nominee is interviewed by an AAA representative.
- A detailed application form is completed and filed with the AAA along with a \$300 filing fee.
- Within six months of being accepted to the roster, the arbitrator must successfully complete a 24-hour course consisting of eight hours of home study and 16 hours of classroom participation in a workshop setting.
- In the second year of panel membership, the panelist must successfully complete a 16-hour practicum on advanced case management techniques.

- After the first two years, the person must attend an annual four-hour update covering any changes in the AAA's rules, case law and relevant revisions to state and federal laws.

Once a person is on the AAA's roster of neutrals, his or her name is included on panel lists sent to parties. The parties select the arbitrators from the lists. CPA arbitrators are paid their standard consulting rates for their services. In rare instances, the AAA may appoint an arbitrator when the parties cannot agree. Additionally, the AAA will begin a communications effort to promote the selection of CPAs as neutrals in arbitration cases.

For further information and instructions for applying to be a CPA arbitration panelist, contact Monte Kaplan, AICPA Consulting Services Team.

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Employer Health Care Costs to Jump in 1999

Employers can expect to pay as much as 13% more for health care benefits this year, and nearly 15% more for prescription drug benefits, based on a survey of HMOs, third-party administrators and health insurers conducted by Buck Consultants, Inc., a human resources consulting firm. The survey shows health insurers are projecting average medical care cost increases ranging from 5.6% for HMOs to 12.6% for comprehensive major medical plans. The cost trends continue to be relatively high due to increased use of health care services, inflation, increases in the intensity of services and continued government mandates, says Harvey Sobel, principal and consulting actuary at Buck.

GASB Issues Statement No. 33 on "Nonexchange" Transactions

Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, specifies the accounting and reporting for financial or capital resources. Nonexchange transactions include most taxes, grants and donations. The statement is effective for periods beginning after June 15, 2000.

GASB Senior Research Manager Penny Wardlow explained that "in a nonexchange transaction, the government gives or receives value without directly receiving or giving equal value in



exchange. When there isn't an exchange, it can be difficult to decide when a transaction should be recognized in the financial statements. Statement No. 33 addresses that issue."

Copies of the statement are available from the GASB Order Department, 401 Merritt 7, P.O. Box 5116, Norwalk, CT 06856-5116, or:

 800/748-0659

 gasbpubs@gasb.org

Richard Tracy Named to the GASB

Richard C. Tracy, director of audits for the city of Portland, Ore., has been named to the GASB to replace Barbara Henderson, who is retiring from the board. Tracy has been director of audits in Portland since 1983. He is chair of the Government Auditing Standards Advisory Council of the U.S. General Accounting Office. Additionally, he has served as chair of the Pacific Northwest Intergovernmental Audit Forum, president of the National Association of Local Government Auditors and as a member of the GASB's Task Force on Service Efforts and Accomplishments.