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Members in Large Public Accounting Firms

May 2006

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American Institute of Certified Public Accountants

Championship Coaches: At Work or Play

By John Wysocki, CPA

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Last summer I attended a unique management course. It was not held in a classroom and it was not taught by professors. Rather, it took place on a baseball diamond and the instructors were Little League coaches.

Both the Dodgers and the Tigers started out well, winning their first several games. But by the end of the season, the Dodgers swept through the playoffs to win the championship while the Tigers had a mediocre record and lost their only two playoff games.

I don't believe it was skill that differentiated the two teams. In fact, based on the talent on the teams, I would have expected the results to be just the opposite. The difference was in the coaching.

Coaching a Winner

Steve, the coach of the Dodgers, had an incredible passion for baseball and knowledge of the game to match. He taught the boys all aspects of the game. He observed each play both in practice and during the game and gave continuous feedback, both positive and negative. He seemed to know where to position each fielder depending on who was up to bat for the other team. When the Dodgers were up to bat, each player looked to the coach for direction before each pitch. A number of games were clearly won because of Steve's coaching strategies. After each game, Steve would meet with the team and go over what they did well and what needed improvement.

It was very evident who was in charge. While Steve wanted the boys to have fun, he did not allow goofing around. He was the one who conferred with the umpires and talked to players about their mistakes. The players' role was to listen to the coaches and support their teammates.

While there were a few very good players on the team, they were not the only players to contribute. Everyone on the team contributed in some way to its success.

While Steve was not perfect, all players knew that Steve cared about them and wanted them to be the best they could be. I believe their success was due in large part to his coaching.

Jim, the coach of the Tigers, was easy going and always in control of his emotions. He generally did not say too much during the games. There were some very good players on the Tigers, and they got off to a good start. However, when things did go wrong, the difference between the Dodgers and the Tigers was apparent. Tiger players would sometimes lose their tempers and make comments to the umpires when they disagreed with a call or criticize a fellow player for an error. On occasion, they would even throw a bat or a helmet. While Jim did try to calm the boys, Steve would have exercised sterner control. The Tigers lacked the discipline and focus that the Dodgers had and, in the end, did not live up to their potential.

Lessons Learned

Watching the two teams and their coaches provided a better education in leadership and team building than any MBA program.

Feedback. People who make errors usually know it. That's why it is more important to "catch someone doing something right," as author Ken Blanchard says.

Passion. In business as well as in sports, people are drawn to leaders who have a passion for their mission. Jim Collins, in his best-selling book *Good to Great,* describes how great companies have level-five leaders who are "fanatically driven, infected with an incurable need to produce sustained results. They are resolved to do whatever it takes to make the company great, no matter how big or how hard the decisions."

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Focus and discipline. When people are passionate, they are focused on achieving their desired outcome. This focus requires discipline. Those who look for excuses or people to blame when things go wrong lose their focus on results. Only by having the discipline to avoid looking for excuses can you accept responsibility for doing your part to achieve success even in the face of difficulties.

Training and development. Team members can be passionate, focused and disciplined and receive continuous feedback, but they will still be unsuccessful if they lack skill or knowledge. The coach has to provide training to help team members to develop their skills.

Author Jim Collins uses the metaphor of seats on a bus for staffing a team. He says that great leaders get the right people in the right seats on their bus. However, he also says that "whether someone is the 'right person' has more to do with character traits and innate capabilities than with specific knowledge, background or skills." Waiting for only the best players to show up will give you a partially full bus that gets passed by. While this may be easier on the leader in the short run, in the long run many good people with a lot of potential will come and go and both the team and the individual will lose out. A good leader will recognize that not everyone will arrive with exceptional skill. A good leader identifies the strengths and weaknesses of each player and works with them to develop their skills.

He also realizes that each team member may not be equally talented in all areas that are necessary for the team's success. Stephen R. Covey, author of *The Seven Habits of Highly Effective People,* speaks of the importance of complementary teams, where the strengths of some members cancel out the weaknesses of others.

The Traits of a Great Leader

A great leader is one who readily admits his mistakes and apologizes for them, thus gaining the team's respect. Respect is critical if the leader wants his team to follow him, not out of fear, but because they want to go where he is leading. Covey calls this moral authority as opposed to authority based on position. He believes that moral authority is stronger and enduring. I believe that it is essential in building a great team.

Whether on an athletic field or in the office, a skilled coach can turn a group of talented individuals into a winning team.

John Wysocki, CPA, is a senior manager in the public service sector group of Crowe Chizek and Company LLC in Oak Brook, Ill., providing audit and consulting services to state and local governments. In addition to 10 years in public accounting, he has over 11 years of management experience with financial institutions and not-for-profit agencies. He can be reached at jwysocki@crowechizek.com or 630/574–1040.

FASB ED on Postretirement Plans, Including Pensions

A new Financial Accounting Standards Board exposure draft, if adopted, would require employers to recognize the overfunded or underfunded positions of defined benefit postretirement plans, including pension plans, in their balance sheets. The proposal, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132 (R),* would also require that employers measure plan assets and obligations as of the date of their financial statements. According to the FASB, "The proposed changes would increase the transparency and completeness of financial statements for shareholders, creditors, employees, retirees, donors, and other users."

The ED would apply to plan sponsors that are public and private companies and nongovernmental not-for-profit organizations. It results from the first phase of a comprehensive project to reconsider guidance in Statement No. 87, *Employers' Accounting for Pensions,* and Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions.* The FASB said that a second, broader phase will comprehensively address remaining issues. The board added that it expects to collaborate with the International Accounting Standards Board on that phase.

"Many constituents, including our advisory councils, investors, creditors, and the SEC staff believe that the current incomplete accounting makes it difficult to assess an employer's financial position and its ability to carry out the obligations of its plans," said George Batavick, FASB member. This proposal, "by requiring sponsoring employers to reflect the current overfunded or underfunded positions of postretirement benefit plans in the balance sheet, makes the basic financial statements more complete, useful, and transparent."

The proposed changes, other than the requirement to measure plan assets and obligations as of the balance sheet date, would be effective for fiscal years ending after Dec. 15, 2006. Public companies would be required to apply the proposed changes to the measurement date for fiscal years beginning after Dec. 15, 2006, and nonpublic entities, including not-for-profit organizations, would become subject to that requirement in fiscal years beginning after Dec. 15, 2007. Comments are due by May 31. The board also plans to hold one or more public roundtable meetings on the proposal. More information can be found at:

www.fasb.org/draft/index.shtml

Comments, referencing File Reference No. 1025-300, may be mailed to the "Technical Director—File Reference No. 1025-300," Financial Accounting Standards Board, 401 Merritt 7, P.O. Box 5116, Norwalk, Conn. 06856–5116, or e-mailed to:

director@fasb.org

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Anita Dennis, supplement editor
973/763–2608; fax 973/763–7036; e-mail: adennis@aicpa.org
Ellen J. Goldstein, *CPA Letter* editor
212/596–6112; egoldstein@aicpa.org

Politics and Charities: An IRS Reminder

In light of the approaching elections, a recent Web cast of *Tax Talk Today* examined Internal Revenue Service regulations on political campaign involvement by churches and charities. A panel of IRS officials and tax professionals reviewed the specific limitations placed on Internal Revenue Code Section 501(c)(3) organizations—churches and charitable organizations—regarding political campaign intervention. With the 2006 elections just months away, the IRS says it wants to educate these organizations about what is allowed under tax law in a bid to minimize the violations that peaked in the 2004 election year.

"Charities are going to know ahead of time what the rules are," said Celia Roady, partner, Morgan, Lewis & Bockius LLP. "They're also going to be put on fair notice that the IRS is going to be prepared to deal with any violations of those rules."

The organizations covered by the prohibition are all organizations exempt under Section 501(c)(3), both organizations that have applied and been recognized exempt by the IRS and organizations, notably churches, that are not required to apply for formal recognition to qualify under Section 501(c)(3). Under current tax law, these organizations are prohibited from directly or indirectly participating in, or intervening in any federal, state or local campaign on behalf of or in opposition to any candidate for an elected public office.

"The prohibition applies to all Section 501(c)(3) organizations as a condition for exemption under Section 501(c)(3)," said Thomas J. Miller, technical adviser to the director, Exempt Organizations Rulings and Agreements, Tax Exempt and Government Entities Operating Division of the IRS. "It's not a freedom of speech or free exercise of religion issue, but a provision on exemption."

Prohibited activities for 501(c)(3) organizations include:

- Endorsements for or against or contributions to a candidate.
- Publication or distribution of statements, including voter guides, that favor or oppose a particular candidate.
- Allowing the use of facilities or other resources to a campaign on a preferential basis.
- Placing signs for or against a particular candidate on the organization's property.
- Posting impermissible information on the organization's Web site or posting links to other Web sites that violate the 501(c)(3) provisions.

What's Allowed

Some election-related activities can be undertaken, however, as long as the organization carries them out in a fair and neutral basis. Encouraging participation in the election process, conducting nonpartisan voter registration or giving all candidates equal access to facilities are some examples of permitted activities. In addition, the prohibition of campaign intervention or participation does not cover all activities that might be considered "political." For example, actions on behalf of a nominee for an appointed office or a ballot proposal are considered attempts to influence legislation ("lobbying") and are not within the prohibition of political campaign intervention.

The prohibition of political campaign intervention applies to Section 501(c)(3) organizations and does not restrict individuals acting in their own capacity. But charitable organizations, especially churches, need to exercise particular care regarding the activities of officials such as ministers who are the public face of the organization, the panel said. These personnel are free to intervene in political campaigns on their own time, but they may not use the resources of the Section 501(c)(3) organization in doing so. The use of an organization's resources by employees also causes the organization to intervene in a political campaign. IRS officials on the panel encouraged churches and charitable organizations to make the rules for political campaign intervention readily available to employees via employee handbooks or organization-wide memos.

New information on political intervention limitations for 501(c)(3) organizations is available in Fact Sheet 2006-17: "Election Year Activities and the Prohibition on Political Campaign Intervention." The Fact Sheet, along with Publication 1828, "Tax Guide for Churches and Religious Organizations," provides real-life examples and also covers lobbying issues.

Penalties for violation of the Section 501(c)(3) political intervention prohibition can include an excise tax based on the organization's political expenditures. The IRS can also revoke the organization's 501(c)(3) status, in an extreme and unusual circumstance.

"The goal of the program is not to go out and revoke everybody; the goal is to try and bring everybody into compliance," said Judith E. Kindell, IRS tax law specialist, Exempt Organizations Rulings and Agreements, Tax Exempt and Government Entities.

If an organization discovers on its own and without an IRS examination that a violation may have occurred, there are specific procedures to follow to rectify the situation. In these instances, the expert panel recommended that the organization consult a tax professional right away.

"You definitely would want to talk with your tax adviser and figure out what's the best way to un-ring the bell," said Deirdre Dessingue, associate general counsel, United States Conference of Catholic Bishops.

A full transcript of this month's Web cast, "Political Intervention: Do's & Don'ts for Charities and Churches," can be accessed at:

www.taxtalktoday.tv/index.cfm?pgname=5.71

Tax Talk Today is sponsored by the IRS. The next Web cast, "International Issues and U.S. Taxpayers," will be May 9, from 2 to 3 p.m. ET.

The IRS on Frivolous Arguments

The Internal Revenue Service has issued updated guidance describing and rebutting frivolous arguments taxpayers should avoid when filing their tax returns.

"Taxpayers need to avoid being taken in by groundless theories suggesting that they don't have to pay taxes or file returns," said IRS Commissioner Mark W. Everson. "The truth about these frivolous arguments is simple: They don't work."

IRS Notice 2006-31 describes 26 frivolous arguments that taxpayers should avoid. Five revenue rulings issued in conjunction with the notice address specific frivolous claims often made to the IRS. These include:

- False arguments that taxpayers can attribute income and expenses to a pur-

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ported trust to avoid federal income tax liability.

- That a general "Native American treaty" exists allegedly providing tax-exempt status.
- Only federal employees and people residing in Washington, D.C. or federal territories and enclaves, are subject to federal tax.

The revenue rulings emphasize the adverse consequences to taxpayers who fail to file returns or pay taxes based on an erroneous belief in any of these frivolous arguments.

In addition, the IRS planned to update "The Truth About Frivolous Arguments," a 65-page document addressing false arguments about the legality of not paying taxes or filing returns. The updated document includes citations from numerous cases decided by the courts in 2005 and 2006 and responds to 40 frivolous contentions. This past year, the courts have not only rebuked these arguments numerous times but also have imposed thousands of dollars in fines on taxpayers or their representatives for pursuing frivolous cases, according to the IRS.

"Our rulings on frivolous arguments emphasize that the IRS and the courts reject these arguments about the validity of the income tax and 'too good to be true' schemes to eliminate tax liability," said IRS Chief Counsel Donald L. Korb.

The IRS said it continues to investigate promoters of frivolous arguments and to refer cases to the Department of Justice for criminal prosecution. In addition to tax and interest, taxpayers who file frivolous income tax returns face a $500 penalty and may be subject to civil penalties of 20% or 75% of the underpaid tax. Those who pursue frivolous tax cases in court may face an additional penalty of up to $25,000, the Service noted.

Notice 2006-31 can be found at:

www.irs.gov/pub/irs-drop/n-06-31.pdf

FY 2005 IRS Data Book

The Internal Revenue Service 2005 Data Book contains tables detailing, among other subjects, the amount of revenue collected, the number of audits (examinations) conducted and the number of refunds issued between Oct. 1, 2004, and Sept. 30, 2005—fiscal year 2005.

The IRS said that its own increase in enforcement is documented in this year's Data Book. During FY 2005, the IRS completed more than 1.215 million audits of individuals, up almost 21% from last year's figure of 1.008 million.

The Data Book provides state-by-state statistics on areas such as electronic filing, which accounted for more than half of all individual income tax returns last year.

Tables in the Data Book include information about returns filed, tax collections and refunds, examination coverage, appeals, criminal investigations, employee plans and exempt organizations, taxpayer assistance, information reporting, and administrative costs and personnel summaries.

The Data Book is available at:

www.irs.gov

Published copies of the Fiscal Year 2005 IRS Data Book, Publication 55B, are available from the U.S. Government Printing Office. To obtain a copy, write to the Superintendent of Documents, P.O. Box 371954, Pittsburgh, Pa. 15250–7954, or phone or fax to:

202/512–1800 for voice mail 202/512–2250

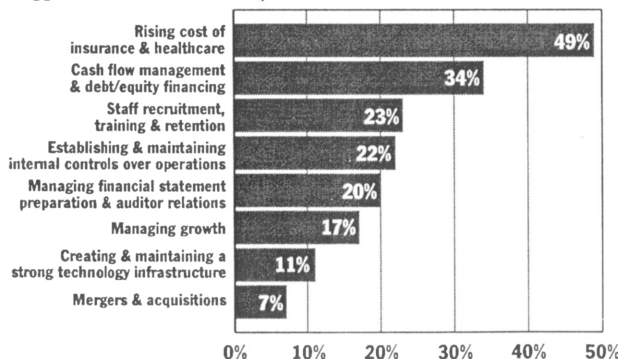
Mounting Insurance, Healthcare Costs Among Top Business Concerns for CFOs, Survey Shows

What issues are the chief concerns for CFOs at client companies? Employee healthcare expenses top the list of worries for financial executives, a new survey shows. Nearly half (49%) of CFOs polled cited the rising cost of insurance and healthcare as one of their three most pressing concerns. When asked how they are addressing these challenges, more than half (53%) said they are cutting spending in other areas of the company.

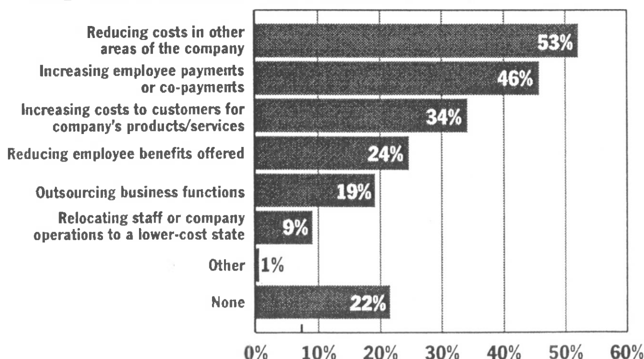
"The list of business concerns among CFOs continues to grow as their roles become more complex," said Paul McDonald, executive director of Robert Half Management Resources, which developed the survey. "Financial executives must manage the bottom line amid rising expenses, regularly monitor the business's cash flow and ensure they have adequate staff to support multiple accounting projects."

McDonald noted that insurance and healthcare costs are chief among executives' concerns but that recruitment and retention also are priorities. "Finding and retaining a skilled workforce is key in any business environment, but today's job market for accounting professionals is particularly competitive," he said.

When asked, "Which of the following are your three biggest concerns as CFO?," executives said:*



CFOs also were asked how they were responding to the rising costs of insurance and healthcare:*



*Multiple answers were allowed.