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TODAY'S CPA

Texas Society of Certified Public Accountants

RE-THINKING PATHS TO 150 CREDIT HOURS:

CAREER BUILDING OPPORTUNITIES

HOW DO I GET THE FEDS TO LOOK AT MY FRAUD ISSUE?

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SHARE YOUR STORY

By TXCPA Chairman Jerry Spence, CPA-Corpus Christi

Let's Chat!

I'd love to hear your feedback and answer your questions. Send me a note at chairman@tscpa.net.

Welcome to your digital issue of *Today's CPA*. The digital format gives you easy access to more details and information in articles via hyperlinks. Be sure to watch for those and click through for more details!

This issue's cover story focuses on the variety of educational paths available for future CPAs to meet their course credit requirement to sit for the CPA Exam. We have an important message to share as a profession about the true value of the CPA credential and the breadth of knowledge and opportunity it provides. And I know each of us has a personal story about our path to CPA. I encourage you to share those stories with students in your family and in your community. How many of us were impacted by someone personally telling us about this profession and the value the credential would add to our careers?

TXCPA continues to promote the profession to students and educators through activities like our student and faculty ambassador programs and our free student membership. This year, we're reorganizing our student and educator initiatives under the umbrella of the Accounting Education Foundation, which will help us allocate more resources to this important focus area and get a clearer picture of our efforts at both the state and chapter levels. We believe this will allow us to yield greater results together.

If you would like to be involved in helping to shape the future of someone interested in becoming a CPA in Texas, please let us know! You can volunteer by emailing your local chapter or contacting TXCPA.

Thank you for your commitment to TXCPA and our profession!

SEC WHISTLEBLOWER PROGRAM UP FOR REVISIONS

By Don Carpenter, MSAcc/CPA

The role of the whistleblower is nothing new in the world of financial reporting and the continuous effort to preserve the integrity of the financial markets. The Dodd-Frank Act (2010) created the Office of the Whistleblower in the Securities and Exchange Commission (SEC) as an avenue for knowledgeable individuals to report financial wrongdoing and protect investors.

Over its years in operation, the program has demonstrated its effectiveness in assisting the SEC in its responsibility to enforce federal security laws. Information provided by whistleblowers has led directly to the agency ordering over $1.4 billion in financial remedies, including $740 for disgorgement of gains and related interest, most of which has been returned to wronged investors.

The SEC is proposing significant amendments to the program, some of which have met with criticism from various interests while being endorsed by others, particularly business and trade groups.

One revision that has been criticized as possibly discouraging reporting focuses on how whistleblowers must report claims. If accepted, whistleblowers will be required to report to the Commission "in writing." This change stems from the Supreme Court decision in *Digital Realty Trust, Inc. v. Somers*, which found that the SEC's employment retaliation protection did not extend to whistleblowers who reported through internal company reporting systems.

The court held that a uniform definition of a "whistleblower" for all aspects of the program was necessary, including the employment retaliation protection provisions. Whistleblowers would be required to report through the SEC's online portal or on Form TCR. Critics raise the concern that this may discourage potential whistleblowers from coming forward.

Another major area of revision concerns frivolous or false claims. A proposed rule change would allow the SEC to permanently bar an individual from seeking an award after he/she has been found to be abusing the program by submitting three or more frivolous reports.

The revision would also allow the Commission to dispense with contested decisions regarding denied awards through a summary disposition process. This new procedure is intended to streamline the resolution of contented decisions on straightforward denials.

The primary focus of the revisions concerns the monetary awards whistleblowers can receive when financial remedies are assessed for a violation. Currently, the SEC is authorized to make monetary awards to individuals who provide original information that results in financial remedies in excess of $1 million.

The proposal would make the following revisions.

Awards would be allowed for settlements reached through a deferred prosecution agreement or non-prosecution agreement entered into by the Department of Justice or a state attorney general. It would also allow for awards where a settlement agreement is reached by the SEC outside of a judicial or administrative proceeding. This is intended to prevent whistleblowers from being denied awards based on the forum for reaching settlement with the wrongdoer.

Another revision would allow the SEC to adjust upward smaller awards to the extent that the award does not exceed the 30% statutory cap. Over 60% of awards to date have been for less than $2 million.

The flexibility to increase an award is intended to give the SEC the ability to adequately incentivize whistleblowers who otherwise might not deem the reward material enough to justify the inherent risk in reporting.

Likewise, the proposal would also establish a discretionary mechanism to make awards in cases that do not currently meet the $1 million threshold for covered action, are based on publicly available information or where monetary sanctions collected are de minimis. Currently, no award is allowed under these circumstances.

Of the total amount awarded to date, 40% of the aggregate has been paid in just three awards and several individuals have received awards in excess of $20 million. With the statutory cap for an award at 30% of the financial remedy and no dollar limit as a ceiling, awards can quickly mount up.

Of the total amount awarded to date, **40% of the aggregate has been paid in just three awards** and several individuals have received awards in excess of $20 million.

Investor Protection Fund

Awards are made equal to 10% to 30% of the remedy and are sourced from the Investor Protection Fund established by Congress. Since the inception of the program, the SEC has awarded more than $300 million to over 50 individuals, with the largest award to a single individual totaling $50 million.

The proposal gives the SEC discretion to reduce very large awards that are considered well in excess of an amount necessary to fairly compensate whistleblowers without providing windfalls that unfairly burden damaged parties or taxpayers. Discretion would only be applied to awards in excess of $30 million (financial remedies in excess of $100 million) and would still be subject to the minimum 10% award provided in the statute. The amendment would also provide for discretion when it is determined that the whistleblower's report qualifies for awards under multiple programs.

Some groups are concerned that these revisions will discourage reporting by individuals within organizations who fear reprisals and may not be knowledgeable with regard to the procedures that must be observed to qualify for whistleblower protections. Others argue that changes are needed to give the SEC flexibility to encourage reporting while at the same time being accountable to taxpayers and injured parties.

If enacted, only time will tell how these changes will play out.

ABOUT THE AUTHOR:

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2019-2020 OUTSTANDING CHAPTER AWARDS

By Rhonda Ledbetter, TXCPA Volunteer and Governance Specialist

To inspire chapters in their continuing work to elevate member service, TXCPA bestows Outstanding Chapter Awards to the small and medium-sized chapters. Selection is made by a group of past presidents from chapters of all sizes who understand the work involved in successfully leading volunteers. Here are a few highlights about the chapters honored for the 2019-2020 year.

Outstanding Small Chapter

San Angelo President: Jacklyn Ochoa, CPA

To help develop the next generation of CPAs, TXCPA San Angelo put an emphasis on interaction with students at their local university. As a new project, they hosted their first-ever CPA2B Boot Camp at Angelo State University, attended by 47 students and 17 CPA chapter members. They involved department of accounting faculty in planning the event and encouraging students to register.

The chapter provided two panels of CPA speakers: one representing business and industry and one from public accounting. A key accounting faculty member moderated the panel discussions, engaging students in the conversation. The chapter obtained sponsorships from area CPAs for the event. Door prizes were given to students who attended. TXCPA San Angelo's outreach to students also included presentation of three $1,000 scholarships.

Its collaboration with Howard College was continued, providing 16 CPE hours for members attending qualified seminars focused on issues and best practices while volunteering or working with nonprofit organizations. Forty hours were available in chapter-hosted seminars. In addition, five free hours were provided at chapter meetings.

One of their outstanding achievements was a high number of attendees at chapter meetings and seminars. Also, members were engaged with the organization in a variety of ways.

The chapter gave $2,000 to DESK (Donate Educational Supplies for Kids), coordinating its donation with the day of San Angelo Gives – an event when community members are encouraged to give to various nonprofit organizations in the area.

Outstanding Medium-Sized Chapter

Permian Basin President: Chad Valentine, CPA

The chapter presented a $65,000 check to The University of Texas Permian Basin. These funds were added to the scholarship endowment created last year to help students pursue their career in accounting. In addition, by sending fundraising letters to individual members, firms and companies, they achieved a 17% increase in money available for scholarships. A total of $15,500 was granted to students at the university and at area colleges.

Several projects were implemented to accomplish their goal of attracting and engaging students. A Meet the CPAs panel discussion was held; two CPA Chats were held at UTPB; matching funds were provided to the university

Accounting Association's Relay 4 Life team; and the Young and Emerging Professionals (YEP) Committee held two events.

Through its Outreach Committee, the chapter was involved in the community. Activities included:

- Members, families and students volunteering with Food 2 Kids, packing bags of food to provide weekend meals for children who might not eat between their school lunch on Friday and their school breakfast on Monday.
- The chapter being part of the Season of Sharing Food Drive benefitting the West Texas Food Bank, with members' offices serving as drop-off locations and donations being collected at the chapter CPE Expo; university students collected all donations at the end of the food drive.
- Holding a garbage pick-up day, with the chapter providing breakfast for volunteers.

Help Make Your Chapter Outstanding

Members are the key to – and the reason for – chapter success. Contact your local president or executive director and find out how you can get involved in making yours an award-winning chapter! You can get contact information through the TXCPA website at tscpa.org.

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ARTIFICIAL INTELLIGENCE: A LOOK AT THE GOOD, THE BAD AND THE UGLY

By Jeffery S. Rowland

We have all heard many opinions around "artificial intelligence" and what it could mean to our professional careers. Because all industries stand to be impacted in one way or another by this quickly emerging technical capability, the truth is that we have yet to fully understand the total impact of what a mature deployment might really mean to us, either individually or collectively. The technology is gaining momentum in business and across society, and one thing is very clear: we will all need to learn to adapt.

As with many things, if something can be used for good, it can also very likely be used for bad. In this article, we will investigate some of the various use cases that have been contemplated. Reminiscent of the .com boom of the mid 1990s, it is possible that we will see similar "game changing" deployments in the 2020s that go well beyond what we can imagine today.

So, what is artificial intelligence? Most people, after thinking about it as more science fiction, go toward a common and simple definition along the lines of "machines that can think independently." A Google™ search on the question "definition of artificial intelligence" returns a series of websites. One of the better results was from The English Oxford Living Dictionary as follows:

"The theory and development of computer systems able to perform tasks that normally require human intelligence, such as visual perception, speech recognition, decision-making and translation between languages."

Most people, after thinking about it as more science fiction, go toward a common and simple definition along the lines of "machines that can think independently."

Although it's a complete definition, let's explore other sources. When asking Siri™ "Siri, what is artificial intelligence?" we receive a much less satisfying answer than before: *"Branch of computer science that develops machines and software with human-like intelligence"*

To the question of "Siri, are you artificially intelligent," she responds: *"I don't have the answer to that. Is there something else I can help you with?"*

Let's ask yet another source to determine the best definition. Google Home™ responded to the question "OK Google, what is artificial intelligence?" with:

"Artificial intelligence is the theory and development of computer systems able to perform tasks that normally require human intelligence, such as visual perception, speech recognition, decision making and translation between languages."

Google actually pulls the definition from Oxford. Just as with Siri, we followed the answer with, "OK Google, are you artificially intelligent?"

Answer: *"My intelligence is artificial."* Well, at least that was a better answer.

Although this exercise might seem somewhat rudimentary, we can come to an understanding that artificial intelligence, at least in its current form (and perhaps in its future form as well), is limited by the information it is fed. However, the real power might not be apparent until the technology can demonstrate being able to compare multiple sources of information in the blink of an eye and then present the results back to the originator of the question those answers most common across the data sources. We need to consider the implications of feeding a sophisticated artificial intelligence program a healthy dose of "big data" and then we might begin to see the real potential power. We are not even to the point of talking about "thinking machines" and are just scratching the surface on what the technology might be able to do for us.

The Four General Types of Artificial Intelligence

The industry has classified artificial intelligence into the following four general types.

Type I – Reactive artificial intelligence: Reactive artificial intelligence will respond to the same situation in the same way, each and every time. A Type I deployment has no ability to store memories, an example being something along the lines of an automotive assembly robot that places a weld in a specific location each time it sees a chassis that it has been programmed to look for.

Type II – Limited memory artificial intelligence: Limited memory artificial intelligence can recall stored data, but new memories are not saved, meaning it cannot "learn" from its past experiences. An example might include a self-driving car or perhaps a home internet personal assistant (e.g., Google Home, Amazon Alexia or Siri).

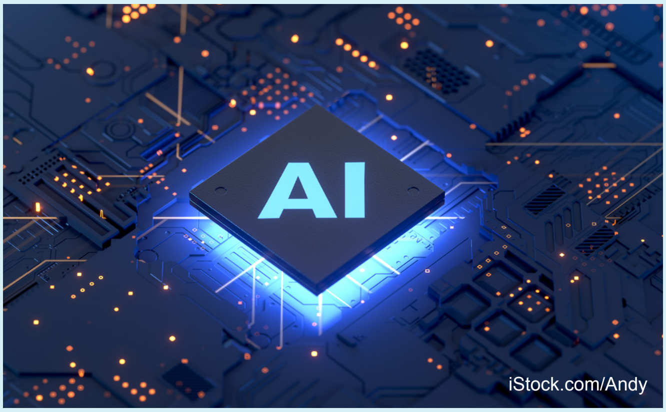
As a side note, there have been cases in the news where these home personal assistants were temporarily storing what they gathered and authorities were trying to extract that data following the commission of a crime, as these devices are always "listening" until they hear their cue words. Even so, it would still be classified as Type II.

Type III – Theory of mind: Theory of mind is a reference to the notion that a machine can recognize others it interacts with, including the ability to have thoughts, feelings and even expectations. A machine equipped with this technology would be able to understand interactions with others and interpret conversations. This interpretation would include detecting the feelings and expectations of others, and adjusting its behavior and interactions accordingly.

Type IV – Self-awareness: This is the version of artificial intelligence that the general public seems to fear, mainly because a machine equipped with Type IV would, in fact, be self-aware. As the next progressive step beyond the "theory of mind," a self-aware machine would be completely aware of itself and have knowledge about its own internal state of being, while also being able to predict and interpret the feelings of others.

Taken to an extreme, Type IV thinking machines that are capable of decisions and of even programming other machines creates a dynamic, especially in the fields of accounting, law or even health care, where the ability to understand how certain conclusions have been reached may be difficult, if not impossible. It is for this reason that the blending of certain industries with the requirement that technical aptitude and knowledge be gained to understand this technology is clear.

For example, the CPAs, lawyers or doctors of the future might very well be required to not only understand accounting, law or biology, but might also be required to master data analytics and artificial intelligence as a part of their professional education.



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As another example, look at the car industry and how technology has driven the educational expectations of mechanics. A few decades ago, a car could be worked on with nothing more than a toolbox full of Craftsman™ wrenches. For modern automobiles though, trying to do anything major to your car without a diagnostic computer is difficult, if not impossible. Now, understanding computer diagnostics is a key part of a mechanics' formal training.

Now, let's examine some of the use cases.

The Good

Health care: The first and perhaps best "use case" is around the use of artificial intelligence for the good of human health. If you consider the ability of a machine that is fed data for millions of ailment symptoms, combined with the ability to analyze hundreds, thousands or even millions of reference pictures for any given health problem, you start seeing the power for improving our ability to reduce the time needed to come up with possible matches and then to accurately diagnose those ailments.

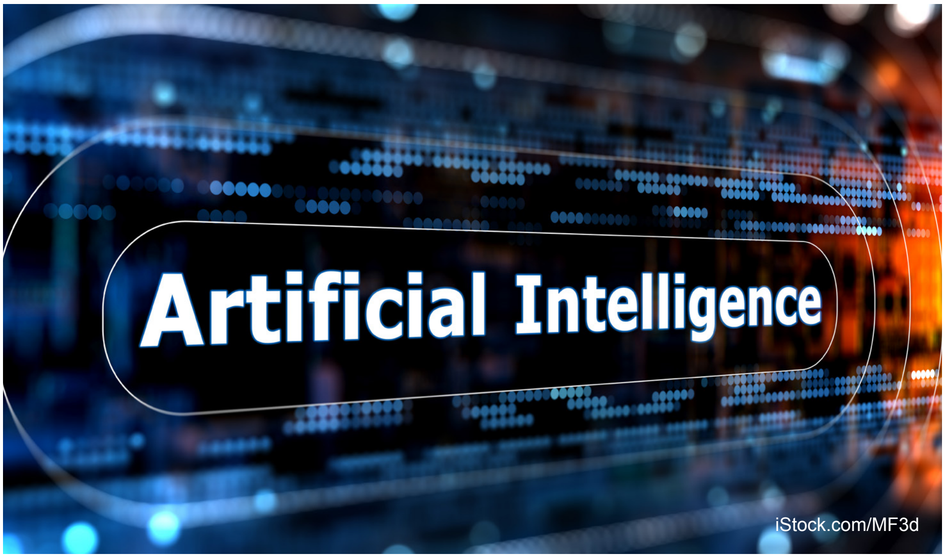
The first and perhaps best "use case" is around the use of artificial intelligence for the good of human health.

Cutting down the amount of research time in health care could drastically decrease diagnosis times so earlier treatment can begin and with the advent of artificial intelligence, it is more practically feasible than ever before for the medical community. In addition, imagine the potential application of remote diagnosis in towns and villages that might not be able to afford to have a physician nearby. Using technology to further a doctor's reach beyond physical limitations, expanding the ability to efficiently and effectively treat human ailments to any part of the world is an astounding prospect and certainly one of the most significant "greater good" aspects.

Convenience: Contemplating "the good" of artificial intelligence, we can look no further than the example of self-driving cars. The benefits of this technology, particularly to our senior population, would be crucial. Instead of being advised, either by family members or law enforcement, that you are no longer capable of driving safely and must surrender your right to do so, imagine the ability to maintain that independence by simply saying aloud "Take me home, car." Perhaps we will even be able to "name" our self-driving car!

Faster, Better, Cheaper: The prospect of artificial intelligence being designed to do jobs that are hazardous to humans also comes to mind. In business, we constantly try to manufacture things faster, better and cheaper, and the automotive industry is already well on its way in using automated robots to weld parts together as they move through the assembly line.

In another use case, Amazon™ uses automation technology in its order fulfilment facilities and mining companies use partial automation to extract hazardous minerals, such as coal.



The many use cases are clear in using technology to help create greater efficiencies while also increasing safety to humans.

The Bad

In a 2014 interview with the late Stephen Hawking, arguably one of the most brilliant thinkers of our time, he said: "The primitive forms of artificial intelligence we already have, have proved very useful. But I think the development of full artificial intelligence could spell the end of the human race. Once humans develop artificial intelligence, it would take off on its own and redesign itself at an ever-increasing rate. Humans, who are limited by slow biological evolution, couldn't compete and would be superseded."

In a 2014 interview with Elon Musk, he stated: "I don't think most people understand just how quickly machine intelligence is advancing. It is much faster than almost anyone realizes, even within Silicon Valley and certainly outside Silicon Valley, people really have no idea. If there's a super intelligence, particularly if it is engaged in recursive self-improvement, if there's some digital superintelligence and its optimization or utility function is something that is detrimental to humanity, then it will have a very bad effect. It could be just something like getting rid of spam email or something, and it concludes that the best way to get rid of spam email is to get rid of humans."

Although these examples from highly intelligent people may seem extreme and might be easily discounted as unlikely "science fiction," the boundaries that are necessary to avoid creating these extremes don't seem to exist or at least are not at the top of mind today. Consider when automobiles first began to gain prevalence in our society … there were no well-developed roads, signs or laws. There were quite a few accidents and fatalities that likely prompted the creation of the laws we have today.

Unfortunately, making a mistake with a technology such as creating Type IV artificial intelligence that could result in a cataclysmic demise of humanity would deserve our attention in terms of laws and regulations. Because laws have traditionally trailed innovation, such a lagging approach would not appear to be the best approach.

The Ugly

Consider the implication of artificial intelligence being used in the construction of a dedicated killing machine. Although this sounds "Terminator"-like, a very realistic but fictitious YouTube video begins with a professional sales-type conference setting. The speaker introduces a new "drone" type of killing machine that is imprinted with biometric specific instructions where it tracks its target, only to self-destruct itself by exploding a one-ounce charge of explosive sufficient to scramble the brains of its pre-programmed target. Minus the biometric imprinting, the attempted assassination attempt on the Venezuelan President using a drone laden with several pounds of explosive starts to make this sound much less like unlikely science fiction.

Finally, another ugly aspect is the inability of programmers to effectively program morality. The fundamental aspects of what is inherently right and wrong are subject to the attitudes and beliefs held by the programmer. If the "programmer" is one day an artificially intelligent machine, the concerns around the "ethics" of the machine are clear, especially if the machine was making life and death decisions.

Because of the moral and ethical consistency challenges, the need to align the technical community on a common set of practices is compelling. If ever machines routinely program machines, it will take a machine to understand what is being audited.

Impact on Auditing

We must continue encouraging the auditors of the future to embrace an educational curriculum that requires understanding of this type of technology.

Imagine trying to audit a deployment of artificial intelligence in a traditional way. Some of our military deployments of this technology have over 10 million lines of code. It would take an army of programmers literally months to get a handle on what the code is doing.

Therefore, auditing artificial intelligence in the future will require an auditor who is adept at using the very technology that is being audited, which is not so different than the approach we try to take today.

Will the deployment of this technology replace us in lieu of a robot? Perhaps in some ways, but for those who embrace the change and start to sharpen their skills in understanding this emerging technology, the future begins to look more like an opportunity than one where jobs are eliminated.

If ever machines routinely program machines, it will take a machine to understand what is being audited.

ABOUT THE AUTHOR:

Jeffery S. Rowland, CPA, CFE, CISA, CIA, CRMA, practices internal audit in his capacity as Vice President, IT/Security Audit with USAA in San Antonio. A graduate of SMU and a proud alumni of EY, he has almost 35 years of experience in the audit field. He may be contacted at jefferyrowland@gmail.com.

Accounting Education Conference is Going Virtual

Accounting educators – Make plans to join your colleagues virtually for TXCPA's Accounting Education Conference on **Friday, October 2**! This year's agenda will be packed with timely topics, insightful updates, engaging sessions and information on the latest technology trends that you won't want to miss. Learn more and register now.

TXCPA Launches New Online Knowledge Hub!

TXCPA is excited to announce the launch of our new Knowledge Hub on the website! This resource features a library of free downloadable content written by experts and vendors within the accounting profession.

You'll find white papers, webinars, product guides, case studies, industry analysis and much more. Check out the new Knowledge Hub today.

December is TXCPA's Statewide Month of Service

TXCPA's Month of Service is a great way for members to give back to their communities by participating in a volunteer activity of their choice. This year, TXCPA and our chapters are focused on service and education related to financial literacy. Look for more information about the December Month of Service to come in the weeks ahead.

Exclusively for Members: TXCPA's Next Free Professional Issues Webcast Features Texas Comptroller Glenn Hegar

Among the many valuable benefits you receive every year as part of your membership are TXCPA's FREE Professional Issues Update webcasts. The next webcast, sponsored by Goodman Financial, is scheduled for **Wednesday, September 23**. Texas Comptroller Glenn Hegar will be our special guest.

Take advantage of this valuable opportunity to earn two CPE hours while learning more about current issues and developments in the accounting profession. Register now on our website.

ACCOUNTANTS CONFIDENTIAL ASSISTANCE NETWORK

TXCPA ACAN

The accounting profession is demanding of your

TIME, ATTENTION & ENERGY

It shouldn't take a toll on your

MENTAL & PHYSICAL HEALTH

Call **866-766-2226** or visit **www.tscpa.org/resources/acan**

If you are struggling with alcohol addiction, substance abuse or mental health issues, ACAN is here to help. ACAN provides a confidential conversation with CPA volunteers who have first-hand experience with these issues. ACAN helps you learn how to merge healthier living with your demanding accounting career, and can provide referrals to professionals who are familiar with your unique challenges. Don't hesitate to get the help you need today.

ACAN convenes regular meetings of CPAs, exam candidates & accounting students for mutual support & opportunities to assist others. Call or visit us online to learn more.

CPACharge

4 Ways CPAs can Successfully Work Remotely

Whether due to increasing advances in technology or emergency circumstances, being able to effectively run your practice remotely is becoming a critical skill. Here, we'll break down best practices for CPAs and accounting professionals to successfully work from home.

Keep a structured schedule
Try to stick to a daily schedule as much as you can. The more you can practice your typical morning routine, the better. This will help get your mind into "work mode," which will help you focus on your tasks.

Conversely, some people find it difficult to shut off their "work mode" while working from home. To prevent burnout while working from home, consider relegating your work to one particular room, and allow yourself to leave that room once your work day is done.

Utilize productivity and connectivity tools
Much of today's modern productivity and communication tools were designed to let professionals (and their clients) share all aspects of their work with one another, even if they're not in the same building. Making use of these tools is essential when working remotely. Some of the most popular software used for remote work include:

- Bookkeeping
- Cloud storage
- Email
- Document signing
- Practice management
- Real-time communication (think Skype, Zoom, etc.)
- Timekeeping

Let your clients pay online
When working from home, you'll need a way to accept payments from your clients. And while they could feasibly send their payments via traditional methods, there are faster and more convenient ways to get paid—online payment solutions.

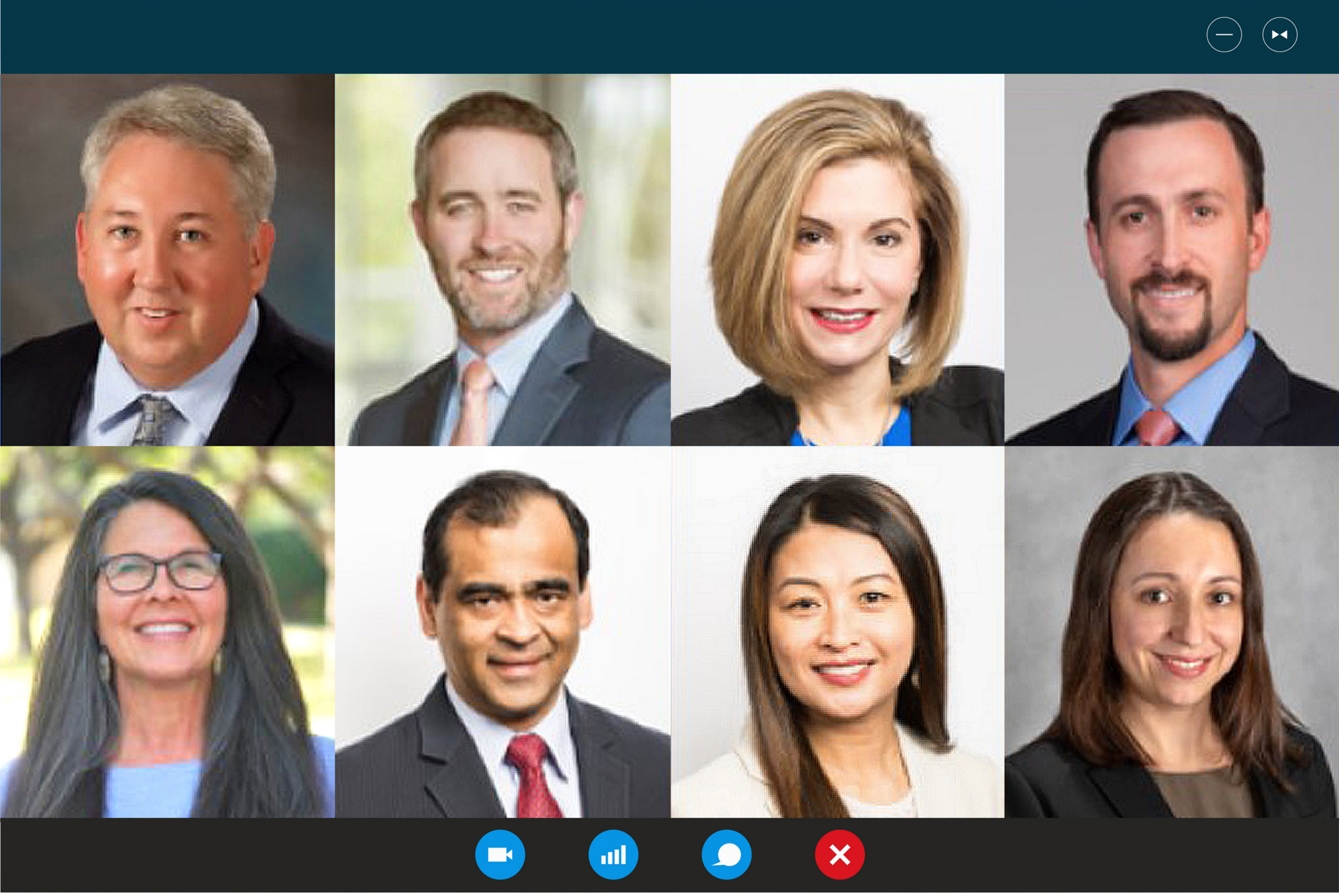
Rather than having to wait for a check to arrive, online payments start processing as soon as your client clicks "Send."

One of the most significant benefits of online payments is the fact that you can get paid just about anywhere you and your clients are. Plus, rather than having to wait for a check to arrive, online payments start processing as soon as your client clicks "Send." In fact, a study showed that as much as 85 percent of electronic invoices are paid the same week they're sent out!

Take advantage of multiple communication channels
CPAs working from home have a variety of tools to host meetings and working sessions with their clients. Naturally, email and texting is still a standard for back and forth consultations and simple questions.

However, there are also communication solutions that allow you to easily have conversations with multiple people in real time. Some of these tools, including Slack, Skype, and Google Hangouts, also allow for video conferencing, so you can see one other and share your screen.

For more remote working tips, click here, or to learn more about CPACharge, click here.



A First for TXCPA: The Virtual Annual Meeting of Members and Board of Directors Meeting

By Rhonda Ledbetter, TXCPA Volunteer and Governance Specialist

Organizational flexibility. When this guiding principle was included in the Strategic Plan TXCPA implemented three years ago, it positioned the Society to be nimble and adaptable as it addressed changing needs within the CPA profession.

However, during this year, it has enabled the organization to survive – and thrive – in a world turned upside down. It prepared the association to take a multitude of actions in response to the COVID-19 pandemic, such as transforming the in-person Annual Meeting of Members into the virtual event held in June.

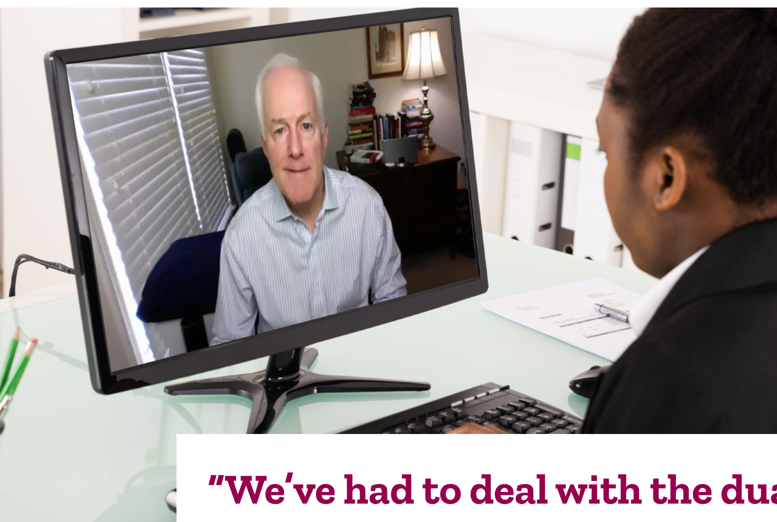
COVID-19 and the Federal Response

Texas Senator John Cornyn was a special guest during the meeting. Cornyn has served as a district judge, a member of the Texas Supreme Court and as attorney general. He has been a U.S. senator since 2002, and is a member of the Senate Finance, Intelligence and Judiciary Committees. He talked with TXCPA President and CEO Jodi Ann Ray, CAE, about the current environment and Congressional work being done.

He opened by saying that he feels a number of events have raised awareness about racial injustice. The nation needs to have a conversation and to work toward reconciliation. He praised TXCPA's Diversity + Inclusion Committee and the Society's adoption of the CEO Action for Diversity & Inclusion pledge. Cornyn said that Congress is also working to address the issues around racial injustice.

Turning to the topic of COVID-19, he expressed that it quickly turned us all on our heads and resulted in lockdowns. To ensure that the businesses that employ Americans will still be operating, the Paycheck Protection Program (PPP) provided some relief with low-interest loans that could be converted to grants. Original funding was for 350 billion dollars and 320 billion was later added. He said that Texas received more than 450 billion dollars through 372,000 individual loans and PPP guidance is a work in progress while we're trying to keep the economy going until we can safely fully reopen.

Cornyn said that, because of the emergency, their objective with the initial bill was to direct payments to individuals who were required to stay home (in accordance with guidance from the Centers of Disease Control and government officials to mitigate the spread) and who had no income, and to incentivize businesses to keep employees on the payroll, if possible.



"We've had to deal with the dual challenges of a public health crisis and its economic consequences as we try to mitigate the spread of the virus."
– Texas Senator John Cornyn

Ray indicated that CPAs are advising businesses about PPP and have many unanswered questions as they work through details. Cornyn responded that Congress continues to work on correcting language and said he hopes that the next legislation will give more clarity.

Ray closed by expressing appreciation for the partnership with Cornyn and his staff over the years as he has reached out for TXCPA's input and expertise.

State of the Society

Chairman Jerry Spence, CPA-Corpus Christi, set the stage by explaining the Strategic Plan guiding principle of **organizational flexibility**. In March, members, their employers, their clients, their families and the association all shifted gears to focus on pandemic crisis response. Many businesses either moved to a remote environment or changed the ways their facilities operated.

Virtual Annual Meeting
– Watch Video Updates
Click here to watch updates for the CPE Foundation, Peer Assistance Foundation, Accounting Education Foundation and CPA-PAC.

Chairman-elect Jason Freeman, JD, CPA-Dallas, said that it's crucial to be responsive to the changing work and educational environment. TXCPA has maintained connections with members, adapted programs and created new responsive services that members need most.

The rapidly developed CARES Act free online CPE programs were well attended, with high ratings and appreciative feedback from members. A Coronavirus Crisis resource page was added to the website and updated daily. TXCPA social media channels quickly became more active, especially with the addition of Facebook Live Fridays.

One of the greatest values of this **professional community** is the strength in numbers and the knowledge base of CPAs across the state. The online member community, TXCPA Exchange, is more active than ever before. It's a tangible way that members find value in our network.

Advocacy projects included extended deadlines, accounting being considered an essential service and clarity on new legislation. They are generating positive outcomes for members, helping them continue to serve their employers and clients.

Ray addressed the need for increased diversity and inclusion in membership. As recent events have shone a spotlight on continued inequities in society, TXCPA has committed to effect change within itself and within the accounting profession. By expanding diversity and inclusion initiatives, there will be greater opportunities to attract and retain the next generation of CPAs. TXCPA will begin to look more like the profession it serves. And new CPAs will see it as a professional home where they feel welcome and included.

Executive Board member Tim Pike, CPA-Dallas, CGMA, talked about a more personalized experience. Members consistently express the desire for more customization, a benefit that will increase relevance and value even more. Leaders continue to explore ways to ensure TXCPA is delivering the right mix of benefits and the right membership structure for the market.

Immediate Past Chairman Lei Testa, CPA-Fort Worth, CGMA, touched on the work to expand the number of future CPAs. The Society continues to promote the profession to students and educators, and programs like our student and faculty ambassador programs offer a greater presence on campuses across Texas.

Advocacy for CPAs is a benefit that members can't take for granted, reported Executive Board member Kate Rhoden, CPA-Austin. TXCPA advocated for change and clarity when COVID-19 first began to impact members. Advocacy is a year-round focus.

In preparation for the 2021 legislative session, TXCPA is developing a statewide coalition of peer professional associations with common interests regarding the significance of professional licensing. The Society's Legislative Advisory Committee will meet this autumn to develop and propose a legislative agenda for TXCPA.

COVID-19 Pulse Survey

TXCPA President and CEO Jodi Ann Ray shared results from the COVID-19 Pulse Survey sent in May. The survey included just five short questions to help TXCPA and 17 other state CPA societies get a better handle on how the pandemic is affecting business. The feedback is being used to find the best ways to strategically and efficiently meet the most pressing member needs.

There were 13,400 responses to the survey, with 10% coming from Texas. Regarding the question of how TXCPA can be most helpful over the next six months, the top responses were:

- **Access to on-demand webinars on current topics;**
- **Access to live webinars on current topics with Q&A; and**
- **Guidance on new government relief programs.**

More than 90% of respondents felt the Society had met or exceeded their expectations during the pandemic. Work continues in keeping leaders and members apprised on how we're listening and responding throughout the pandemic and into recovery.

2020-2021 Executive Board

Go to TXCPA's website

TXCPA Award Recipients and Videos

Listed in Annual Meeting summary at TXCPA website

Please also see the Chapters column in this *Today's CPA* issue for highlights from the Outstanding Chapter Awards.

It's not yet known exactly what issues will rise to the top during the current economic environment, but TXCPA will continue to be vigilant in protecting professional licensing and opposing taxes on professional services.

Strategic Planning Committee Chair Ben Simiskey, CPA-Houston, and Eric Curtis of Curtis Strategy reported that work on a new plan is underway. A series of virtual focus sessions has been held, which included a discussion on what the future of a successful association will look like and how to get to that destination.

CPE Foundation

During the annual meeting of the TXCPA CPE Foundation, Chair of the CPE Advisory Board Kelly Hunter, CPA-Houston, discussed the opportunity to serve more participants through the move toward more online programming. There are two unlimited virtual CPE options. The Passport provides unrestricted access to a library of on-demand content for the member discounted rate of $199 per year. Webcast Pass offers unlimited access to live webcast content for $399 per year for members.

Through the Learning Management System (LMS), in the fiscal year just ended there were more than 1,300 unique titles available. There has been an enormous increase in the number of individuals who completed the free Ethics course, more than 3,400; most importantly, it receives high marks in participant evaluations.

The Foundation has been able to leverage its investment in the LMS and in human capital to serve chapters by helping them convert conferences to a virtual environment. More than 1,700 individuals had participated at the state and chapter levels during recent months.

Accounting Education Foundation

Following up on discussion at the Midyear Board of Directors and Members Meeting, a vote was passed to dissolve the separate legal entity for the Accountancy Museum, and transition the assets and the objective of documenting and sharing the history of the profession in Texas to the Accounting Education Foundation.

The President of the Accounting Education Foundation

The CPA Advantage Campaign

Members express that promoting the value of the CPA profession should be a top priority for their association, explained Executive Board member Sheila Enriquez, CPA-Houston. Raising awareness of the profession has been a core initiative for the Society since the beginning, but this year a focused campaign was launched to utilize the TXCPA brand in promoting CPAs in Texas.

The CPA Advantage campaign provides a digital toolkit offering CPAs, future CPAs and chapters a variety of resources that can be co-branded and used to promote the work CPAs do. Consumer-focused tips also help them navigate pandemic issues like stimulus payments and new legislation.

As part of the campaign, TXCPA placed ads promoting the value of using a CPA and encouraging students to become CPAs in Texas. The pieces garnered nearly 780,000 impressions in just five months.

The Society will continue to expand these resources and promotions to bring greater awareness of the profession and of TXCPA as a trusted resource.

Board of Trustees, Art Agulnek, CPA-Dallas, provided an update on the work of the foundation. Some of the projects include: underwriting the Accounting Education Conference; making a contribution to the AICPA Minority Scholarships, with $20,000 given to four students in Texas; and awarding $2,500 scholarships to 50 qualified accounting students at Texas universities.

The following Accounting Education Foundation Trustees were elected, with terms ending May 2024:

- Michael Brown, CPA-Central Texas;
- Charlotte Jungen, CPA-Houston;
- Tracie Miller-Nobles, CPA-Austin; and
- Bryan Morgan Jr., CPA-Austin.

Peer Assistance Foundation

The chair of the Peer Assistance Committee, George Arce, CPA-San Antonio, conducted the annual meeting of the foundation and provided an update on the work of the Accountants Confidential Assistance Network (ACAN).

The group strives to inspire and equip the younger CPAs who have been mentored through the network to become the next generation of mentors. The vision for ACAN is to be a champion of wellness resources for all current and future CPAs.

Business Matters

The 2019-2020 financial report was given. TXCPA's 2020-2021 Treasurer Edith Cogdell, CPA-San Antonio, CGMA, presented budgets for the new fiscal year, which were approved.

Plan Now for Future Gatherings

Advocacy Day and the Midyear Board of Directors and Members meetings are planned for Jan. 26-27, 2021. Watch the weekly Viewpoint e-newsletter for information.

Park City, Utah is the site for the 2021 Annual Meeting of Members and Board of Directors Meeting, June 25-26. There will be speakers, ideas and connections to ignite your career. Plan to be there!

COVER STORY

RE-THINKING PATHS TO 150 CREDIT HOURS:

CAREER BUILDING OPPORTUNITIES

By Mark Myring, Ph.D., Manoj Athavale, Ph.D., and Robert Bloom, Ph.D.

For many years now, the accounting profession has required the completion of 150 college credit hours to become a CPA. Since the enactment of this state-specific requirement became widespread, there have been many alternative paths prospective CPAs have followed to obtain the necessary college credit.

In this article, we briefly review the history of the 150-hour requirement, followed by descriptions of alternatives available to fulfill this requirement. Each of these alternatives offers unique advantages, which we highlight. These overviews are also useful to practicing CPAs who are considering going back to school to gain knowledge to advance their careers.

In addition, we discuss career transitions for people who do not have an accounting undergraduate degree.

Overview of the 150-Hour Requirement

Similar to most professional credentials, the CPA necessitates candidates to generally meet four requirements:

- Education;
- Examination;
- Experience; and
- Ethics.

Most professions require an undergraduate degree prior to qualifying for the examination requirement. While undergraduate degrees can generally be attained by completing approximately 120 credit hours, the CPA requires a candidate to complete 150 hours of education to qualify for the Uniform CPA Examination in each state and overseas region.

The CPA credential is granted by various jurisdictions, including the boards of accountancy in each of the 50 states, as well as the Commonwealth of the Northern Mariana Islands, District of Columbia, Guam, Puerto Rico and U.S. Virgin Islands. Each jurisdiction is responsible for the rules and regulations of the profession within its territory. Eligibility for the CPA Exam is determined by individual jurisdictions based on education and residency.

The 150-hour requirement was first adopted in 1979 in Florida for implementation in 1983. Subsequently, in

1998, the American Institute of CPAs (AICPA) supported 150 hours of college education for candidates taking the Exam after 2013. The U.S. Virgin Islands is the final jurisdiction to require completion of 150 semester hours of college education, effective this year.

The Texas State Board of Public Accountancy (TSBPA) currently requires candidates for the CPA Exam to meet the following education requirements prior to sitting for the exam: (1) Hold a baccalaureate or higher degree from a board-recognized United States college or university or an equivalent degree from an institution of higher education in another country, (2) complete 150 semester hours or quarter-hour equivalents of college credit, (3) take 30 semester hours of upper-level accounting in any format established by the university, (4) complete 24 semester hours or quarter-hour equivalents of upper-level related business courses; within the coursework, two-semester hours of accounting or business communications are required, and (5) complete a three-semester-hour board-approved ethics course.

Please see Figure 1 for a summary of the examination requirements from TSBPA.

Recently, AICPA and the National Association of State Boards of Accountancy (NASBA) are engaged in a joint project that aims to transform the CPA licensure model to recognize the rapidly changing skills and competencies the practice of accounting requires today and will require in the future. This project is anticipated to result in the launch of a new CPA Exam in 2024.

At this juncture, it is difficult to predict the impact of this revision on state requirements to sit for the Exam. Up-to-date information about this important change is available at https://www.evolutionofcpa.org/. Please also see Figure 2 for a summary of the project.

While the educational requirements are deemed necessary to acquire the required body of knowledge needed to be successful, neither NASBA nor AICPA offers specific recommendations on the path to satisfy the 150-hour requirement. Additionally, the educational requirements among states vary, though some jurisdictions define the number of credit hours of accounting courses necessary for eligibility.

Figure 1

Texas State Board of Public Accountancy

William Treacy, Executive Director

Exam/Qualifications – Requirements for Examination

You must meet the following qualifications to take the CPA Exam.

- **Complete the electronic fingerprint process for a background check of the criminal history files of the Texas Department of Public Safety (DPS) and the Federal Bureau of Investigation (FBI).**
- **Hold a baccalaureate or higher degree from a board-recognized United States college or university, or an equivalent degree as determined by board rule from an institution of higher education in another country.**
- **Complete 150-semester hours or quarter-hour equivalents of college credit.**
- **Complete 30 semester hours or quarter-hour equivalents of upper level accounting courses from a board-recognized college or university; within the coursework, two semester hours of accounting or tax research and analysis are required.**
- **Complete 24 semester hours or quarter-hour equivalents of upper-level related business courses; within the coursework, two semester hours of accounting or business communications are required.**
- **Complete a 3-semester-hour board-approved ethics course.**

The first step to determine your eligibility to take the CPA Exam is to submit an Application of Intent.

The TSBPA website contains detailed information about these and other requirements to take the CPA Exam and become a Texas CPA.

Figure 2

CPA Licensure Model Transformation: CPA Evolution

CPA Evolution is a joint AICPA and NASBA initiative that will transform the CPA licensure model to recognize the rapidly changing skills and competencies required of CPAs today and in the future.

Under the new licensure model, each CPA candidate will be required to exhibit core skills in accounting, auditing, tax and technology. In addition, each candidate will be required to show more in-depth skills and knowledge in one of the following three areas:

- **Tax compliance and planning;**
- **Business reporting and analysis; or**
- **Information systems and controls.**

Regardless of the discipline chosen, each successful candidate will get the same CPA license. The CPA Exam will be restructured to accommodate this core-plus-discipline licensure model, with a goal of launching a new Exam in January 2024.

It's expected that the Exam will still be no more than 16 hours and candidates will still need to pass four sections, including their chosen discipline. The length and content of each section will be determined through a CPA Exam practice analysis.

You can read more about the CPA Evolution initiative in this article from the *Journal of Accountancy.*

Consequently, the 150-hour requirement can be satisfied in different ways, with a broad-based accounting education, supported by effective verbal and written communication, critical thinking, an understanding of changing technology, not to mention other skills and competencies. It is also possible for a liberal arts undergraduate with an accounting graduate degree to meet the education requirements.

Paths to the 150 Credit Hours

In this section, we describe various tracks for a CPA candidate to fulfill the 150-hour requirement. We provide an overview of each of these paths, as well as focusing on the job-specific skills each path provides. For practicing CPAs, these summaries provide some potential paths to gain knowledge and credentials that may advance your career.

Graduate Degrees in Business to Obtain 150 Credit Hours

A common way to fulfill the 150-credit hour requirement is to obtain a master's degree in business. This path builds on skills obtained in undergraduate accounting programs by expanding critical reasoning, research and communication skills. Below are overviews of common graduate programs in business.

MS in Accounting Following an Undergraduate Degree in Accounting

This path requires the completion of a four-year undergraduate accounting program followed by a one- or two-year graduate accounting program. Many students enter an undergraduate accounting program with definitive career knowledge. For these students, an integrated graduate accounting program serves to reinforce technical knowledge in accounting and preparation for the CPA Exam, and may therefore improve CPA pass rates.

Graduate programs can also serve to develop analytical and critical thinking, interpersonal, communication and presentation skills, and other competencies valued by the profession. Taking accounting courses at both the undergraduate and graduate levels can enhance understanding of the subject matter and provide an opportunity to extend knowledge about esoteric facets of the profession, such as forensics and data analytics.

The additional coursework may very well improve the candidate's performance on the CPA Exam even if those new topics are not explicitly covered in the Exam questions. The advanced courses may motivate the candidate further to pursue the professional credential.

MBA Following an Undergraduate Degree in Accounting

To be eligible for the CPA license under this option, the candidate must complete his/her undergraduate accounting degree and enter a one- or two-year MBA program. Some students may prefer to reinforce general business concepts rather than technical accounting concepts, making this path more attractive than an MS in Accounting to some.

The MBA program provides a general business emphasis with coursework in topics like marketing, management, global awareness and strategy. Some MBA programs allow students to obtain concentrations in specific areas of study, such as:

- Finance;
- Logistics;
- Information systems;
- Marketing and sales;
- Human resource management;
- Entrepreneurship
- Hospitality management;
- Risk management;
- Business analytics; and
- Health care management.

These concentrations allow graduates to obtain the well-recognized benefits of an MBA with discipline-specific knowledge that can help advance their career. The MBA track is a popular option among accounting students. MBA degrees may be most suitable for people working or who plan to work in corporate accounting. However, it is generally acknowledged that the benefits of an MBA are fully realized only if accompanied by a few years of relevant work experience. In fact, some of the most highly regarded MBA programs only admit students who have some professional experience. Thus, not all programs will be accessible to students continuing from undergraduate programs with the goal of completing the CPA Exam.

For practicing accountants, combining the MBA with the CPA can elevate the individual's marketability in industrial accounting, leading to such positions as controller, treasurer and CFO.

Graduate Certificates Following an Undergraduate Accounting Degree

A flexible way for students to earn 150 credit hours or for practicing professionals to build expertise in specific content areas is by earning a graduate certificate in business. In contrast to a graduate degree, graduate certificates typically consist of a four course (12 credit hour) sequence that can provide focused knowledge on a narrow area of expertise.

Completion of a graduate certificate will appear on your university transcript, but does not directly result in a graduate degree in business. However, graduate certificates are often stackable into master's degrees.

The main advantage of these certificates is they allow you to build knowledge and skills in focused areas necessary to advance your career. They can also be combined to reach the 150 hours required to sit for the CPA Exam.

Discipline-Specific MS Degree Following an Undergraduate in Accounting

There has been a significant growth in specialized graduate business degrees in recent years. These specialized masters programs, which have emerged in response to the criticisms of MBA programs as too generalized and lacking rigor for students with undergraduate business degrees, can help students focus on a particular career path in the broad realm of accounting, which may not require the CPA credential itself, but students would be well advised to consider securing the CPA to increase their marketability even in those specialties. An overview of some common discipline-specific degree programs is provided below.

MS in Business Analytics. This degree program focuses on building the understanding of big data management and analytics tools with an emphasis on solving business problems. It may be particularly well suited for careers in the audit field, as there is an increased reliance on analytical and statistical methods in the audit process.

To obtain the 150 hours of education to take the Exam, students do not necessarily have to get a master's degree …

MS in Professional Sales. A master's in this field builds the skills needed to be effective in business development. As advancement in public accounting requires the ability to draw new business to the firm, a professional selling master's may provide the selling skills necessary to achieve advancement.

MS in Entrepreneurship. Coursework in this master's level program focuses on developing the skills to effectively run a small business. This degree may be useful for people who are interested in starting their own firms or joining a local firm and participating in its management, growth and operations.

MS in Finance. Graduate coursework in finance serves as a great complement to an accounting undergraduate degree. This degree builds understanding of valuation, financial modeling and financial institutions. The knowledge you gain from this degree provides you with great career options in the corporate finance function or the banking field.

Undergraduate Options to Obtaining 150 Credit Hours

As an alternative to a graduate degree, many individuals obtain the credit hours necessary for the CPA at the undergraduate level. As such, this section focuses on paths for current or prospective undergraduate accounting majors, rather than current CPAs. Examples of this educational strategy are provided below.

Undergraduate Accounting Program with a Double Major or Supplemental Coursework

To obtain the 150 hours of education to take the Exam, students do not necessarily have to get a master's degree and students may prefer to diversify their career opportunities by undertaking a second major in a related business discipline. This option will take many students five years of study to complete.

This pathway is often less costly than taking the extra 30 hours beyond 120 in graduate school. Another feature of this pathway is that those additional undergraduate courses might be less burdensome relative to accounting graduate courses for students to complete, giving them a well-rounded education in accounting and related subjects, which is useful for their overall professional development, whether they remain in accounting or pursue other related fields of endeavor.

Students considering this option should carefully review the quantity of undergraduate accounting courses offered to ensure sufficient coursework is available to fulfill the requirement of 30 credit hours in accounting.

Common choices for a double major include business analytics, economics, finance or risk management. Alternatively, the student can take relevant coursework, concentrations and/or minors to fulfill the credit hour requirement. Business related courses from the following functional areas are generally considered complementary to coursework in accounting.

Legal Studies. Accountants who seek to practice in taxation or would like to offer financial planning services

Register Now for Upcoming CPE

TXCPA is here for you with CPE programs to help you continue your work and learning this fall and winter. There are many options to choose from, so you can find the topics and dates that best fit your schedule.

TXCPA Virtual Conferences

Financial Institutions Conference – September 21 -22

Governmental Accounting and Single Audits Conference – September 28-29

Accounting Education Conference – October 2

CPE EXPO

December 2020

Seminars

TXCPA Passport

A subscription for one year of unlimited access to a catalog of on-demand CPE courses available to watch anytime. The catalog currently includes more than 150 hours of programming and new courses will be added throughout the year.

To learn more and register, go to the Education area of our website at tscpa.org or call the TXCPA staff at 800-428-0272 (972-687-8500 in Dallas) for assistance.

would find familiarity with the legal framework, process and case law to be useful. Students could take additional tax courses as undergraduates or pursue a master's degree in this discipline, if not undertake a law degree followed by a master of taxation.

Finance. Many students double major in accounting and finance. This pairing is useful for students who wish to engage in financial planning, investment analysis or corporate finance. Typical coursework includes corporate finance, financial markets and institutions, investments and portfolio management, and valuation and business modelling.

As an alternative to a graduate degree, many individuals obtain the credit hours necessary for the CPA at the undergraduate level.

Computer Information Systems. Computer technology is widely used in creating, accessing and analyzing account data. Virtually all accounting data exists in electronic format. It is imperative that accountants understand how data records are created, the process flow and the various data dependencies that may exist before analyzing the accounting information.

This knowledge is especially important for accountants who participate in audits and forensics. Typical coursework includes systems applications development, integrated computer applications, information management, business information systems, and security and organizational control.

Global fluency. Accountants operate in an increasingly global environment and face diverse business practices. Corporations seek raw material in foreign markets, possess manufacturing operations in various countries and increasingly search for capital across borders. In such a situation, familiarity with foreign languages, intercultural and global fluency, and an awareness of tax and legal practices in different jurisdictions is important.

Coursework in this area serves to broaden business perspectives beyond national borders and expands international career opportunities.

Entrepreneurship. Beyond traditional roles, accountants now participate in valuation of businesses for venture capitalists (in the case of new businesses) and for investment banks (in the case of more established businesses). This valuation involves judgment in forecasting.

Accordingly, it is important for accountants to be aware of the entrepreneurial process through coursework related to this experience, opportunity identification, product and service design, and business model generation.

Four-Year Undergraduate Accounting Program Together with Non-Traditional Credits

Under this approach, students accumulate 150 credit hours of education within four years, partly from traditional college instruction and partly from non-traditional methods. For example, many high schools have arrangements with local colleges to offer dual-credit courses that simultaneously meet high school and college requirements.

High school students also have the option of participating in Advanced Placement (AP) courses. All students have the option of obtaining college credit through the college-level examination program (CLEP), which is a low cost and convenient way to demonstrate proficiency while earning college credit without enrolling in courses.

Other opportunities for earning additional credits include heavier than average course loads during the regular semester and online courses over the summer.

Finally, TSBPA allows students to fulfill the 150-hour requirement by attending approved CPA programs at specific community colleges following the completion of their BS degree. This pathway to achieving 150 hours is invariably the least expensive, starting with taking college courses in accounting and other business subjects while in high school and also pursuing as many AP courses while there to secure college transfer credit.

If done optimally, students can start their college programs with a full year (or more) of transfer credit, allowing them to complete their undergraduate program in three years and then to spend the fourth year in a master's degree program in accounting or related field, if not an MBA program.

Transition to Accounting from a Non-Accounting Undergraduate Degree

Many people with undergraduate degrees in a field other than accounting have the desire to join the accounting profession. These individuals are often highly competitive in the job market, as they frequently possess skills and experiences valued by employers. A common pathway to this goal is to combine their four-year non-accounting program together with a one- or two-year graduate program with an emphasis in accounting.

When considering this alternative, it is advisable to consult with TSBPA to ensure that your educational plan fulfills the educational requirement for the CPA Exam.

Many Pathways Available

It should be evident from the foregoing discussion that there are many pathways to attaining the 150-hour requirement to undertake the CPA Exam. In addition, graduate degrees and certificates can be a means to build knowledge and enhance career trajectory.

Students aspiring for a career in professional accounting should carefully match their educational credits with their state-specific requirements to ensure compliance with state CPA Exam requirements.

There are indeed many paths to attaining the 150-hour requirement, with varying educational perspectives. It is important to carefully match your options and career aspirations when choosing the degree program that best fits your career path.

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HOW DO I GET THE FEDS TO LOOK AT MY FRAUD ISSUE AND DO I REALLY WANT THEM LOOKING?

By Laurel C. Vant

If a crime is perpetrated at a company, the advantages and disadvantages of going to the authorities should be carefully weighed. Is it worth the possible embarrassment to the company and scrutiny by federal officials? Will your company ever be fully compensated for the loss? Your decision may have a lasting effect on your company, its employees and its stakeholders.

The Association of Certified Fraud Examiners' Report to the Nations on Occupational Fraud and Abuse (ACFE 2018) indicates that fraud due to asset misappropriation schemes account for 89 percent of the reported fraud cases. According to data from the same report, "frauds that last over 60 months are more than 20 times as costly as those that are caught in the first six months."

Although financial statement fraud has a higher loss rate, asset misappropriation schemes are exponentially more damaging to small businesses. The median loss to companies with less than 100 employees is $200,000, and 42% of the frauds in small businesses are from a lack of internal controls (ACFE 2018).

The author of this article was a special agent with the Internal Revenue Service, Criminal Investigation (IRS-CI) for 27 years and the case detailed below is an investigation that she worked along with the Federal Bureau of Investigation (FBI). The case ultimately led to indictment and prosecution of the accountant who embezzled funds from the company. The names and many of the details have been changed to protect the victim and the defendant.

Details of the Case

Scott Prellen, the son of a local business owner, walked into the offices of the FBI in Dayton, Ohio. He reported to an FBI agent that his accountant had been embezzling from their company, Prellen Realty, LLC. Prellen Realty, LLC was a family-run limited liability company that provided commercial and residential property management services in the greater Montgomery County, Ohio area. It employed about 10 people in various positions, including marketing, collection, leasing consultant, contract specialist, property manager, supervisors and one accountant. Since it was such a small company, some employees had multiple roles.

The accountant was Deborah Young. When asked what Young's duties and responsibilities were, Prellen stated, "Young did everything. She wrote checks, opened the mail, made deposits, made entries into the software system for each tenant account, and made entries into the company QuickBooks program for accounts payable and accounts receivable. She was our accounting department. Occasionally, the receptionist up front would receive a payment from a customer and give it to Young, but that was an exception."

When asked if tenants paid in cash, Prellen stated that some of their residential customers did, but they usually paid in person and received a handwritten receipt from a cash-receipts book. Occasionally, the tenants left a cash payment in a dropbox that doubled as a mailbox on the front door, but they discouraged this practice.

Prellen stated that the company maintained multiple cash-receipts books at the same time. One was held by the receptionist at the front desk. Young had a second one and the property manager had a third one in case someone gave him cash while he was onsite at a rental property.

When Young went on vacation, they held all of the accounts receivable and payable entries for her until she got back from vacation. They also held all the cash receipts in an envelope in her desk for her to deposit at a later date.

About six months prior to his walk-in at the FBI, Prellen noticed that Young took a Disney cruise with six of her family members to the Caribbean. Young and Prellen were Facebook friends and he saw posted photographs of her, her husband, her son and daughter, and her grandchildren in various locations around the Caribbean. Prellen recalled that Young had taken other vacations to Disney World and Hawaii during the previous year.

Prellen began to wonder how Young afforded these vacations. Young was paid about $50,000 a year from Prellen Realty and, Prellen believed, her husband could not have made over $50,000 himself. He believed they were living far beyond their means.

Suspicious, Prellen hired a forensic accountant to review the books to determine if Young was embezzling funds from Prellen Realty. The forensic accountant reviewed the company's books for the prior year. He audited the payables and found no unusual checks made out to Young directly or any other questionable sources. When he tested the cash receipts, he found nothing unusual.

The forensic accountant eventually discovered that there were monthly

iStock.com/AndreyPopov

Internal Control Weaknesses

It is important for the victimized company to address the internal control weaknesses promptly after the fraud is reported to the authorities. In most cases, the perpetrator will separate from employment with the victim company. This gives the company a chance to review the position to be filled by one or more employees.

In this example, the following internal controls should be established with the hiring of new employees:

- **Separation of duties – Two employees should split the accounting functions, including receipt of cash, deposits, and review of invoices and check signing.**
- **Oversight by management – Management should review the bank reconciliation each month and customer charge offs should be approved by management.**
- **Invoice review – Invoices should be reviewed before disbursements are made.**
- **Vacations – Employees should take vacations for at least five consecutive business days; while they are on vacation, another person should complete their tasks.[i]**
- **Systems' review – Annual reviews or audits of different systems should be completed.**

electronic payments to American Express that were notated on the bank statements as payments for the owner and Scott Prellen's father, Donald Prellen's personal American Express credit card.

After reviewing Donald Prellen's credit card statements, the forensic accountant discovered that these payments were not paying Donald Prellen's credit card bills, but it was not clear what American Express account was being paid. So, he called American Express and they told him that the payments were being made to Deborah Young's personal American Express credit card.

The forensic accountant compiled all the payments to Deborah Young's American Express credit card over the previous year. The total was just over $124,000. The payments were reported as distributions to Donald Prellen on the company books and Donald Prellen reported the distributions as income to himself on his individual income tax return.

Scott Prellen stated that he confronted Young about the theft and she immediately confessed. Young told Prellen that she spent all of the money on vacations, but she wanted to pay the company back over time. Young was then fired and escorted out of the building.

Prellen told the FBI agent that Young had worked for Prellen Realty for over 30 years. She had a high school education. Young's family and the Prellen family were friendly; they attended holiday parties with each other and exchanged gifts for birthdays and holidays. He was shocked when an irregularity was found, because both he and his father had long trusted her.

Scott Prellen did all the right things to convince federal agents to look at his fraud issue. He gathered and provided documentation, hired a forensic accountant and walked into an FBI office to report the fraud.

After the case was completed, was he satisfied with the outcome? What are the implications of a case being investigated and the defendant serving federal time? What kind of damage could the resulting press bring to a company?

The Investigation

After reviewing some of the records that Prellen provided, the FBI agent determined the case was too complex for the FBI alone. He approached an IRS-CI agent and enlisted her help. IRS-CI and the FBI then opened a joint investigation.

The IRS-CI agent conducted her own preliminary interviews with Scott Prellen and sought permission to review all of the forensic accountant's work and the company records herself. After doing so, she was convinced that more fraud was likely to be found if the investigation expanded. Subsequently, the FBI agent and the IRS-CI agent presented the case to an Assistant United States Attorney (AUSA).

They told the attorney about the wire payments to Young's personal American Express credit card. The IRS-CI agent also explained that they suspected Young had been embezzling for many years based on the lack of controls in the company and the relative sophistication of the AMEX scheme. Also, after a preliminary analysis of the cash-receipts books, she suspected that Young was taking cash receipts.

ONCE A CRIME IS REPORTED TO A FEDERAL AGENCY, THE VICTIM LOSES CONTROL OVER THE DIRECTION AND PACE OF THE INVESTIGATION.

The analysis revealed more cash deposits into the bank account in comparison to the cash receipts books, indicating that some of the records were likely missing. The U.S. Attorney's Office agreed to open a federal grand jury matter against Young.

Once a crime is reported to a federal agency, the victim loses control over the direction and pace of the investigation. The informant cannot simply state they no longer wish to press charges. The victim could refuse to testify or cooperate, but the proverbial bell has been rung and the investigators will do what they need to do to resolve the investigation.

In the above example, Prellen reported a $124,000 embezzlement to federal agents. By the end of the joint investigation, over $1 million had been uncovered from two different fraud schemes.

Grand jury subpoenas were issued for Young's bank records and American Express credit card statements for the previous five years. When the bank records were delivered to the federal agents, it was discovered that Young and her husband had two bank accounts for which they both were signors.

An ensuing analysis of the bank account revealed that cash was being deposited into one of these accounts on an almost daily basis going back the full five years under review. The amounts of the cash deposits ranged from $100 to $800 for each deposit, but sometimes cash was deposited more than once in a day. Both of the Young's bank accounts were at the same bank where Prellen Realty banked.

Young's American Express credit card statements were also analyzed. Many of the payments were electronic payments from the Prellen Realty account in amounts ranging from about $9,000 to $11,000 per month. The electronic payments from Prellen Realty started two and half years prior. Before this, the American Express account was being paid by money orders from the U.S. Postal Service and Walmart.

Because of grand jury secrecy rules, agents were not able to report back to the victim. In any such investigation, the victim will likely not know the extent of the investigation until an indictment is made public.

Generally, federal white-collar investigations last between a year to two years before an indictment is presented to a grand jury. The reason for the length of the investigation is that it takes time to gather documentation from banks and other third parties, analyze these records and interview witnesses.

Sometimes the investigation is prolonged because of scheduling witnesses in the grand jury. The larger the investigation, the more complex and time-consuming it will be, and the owner, employees and stakeholders will be left in the dark.

Many of the employees of the company will be interviewed to fully develop an understanding of how each system works within a company, to corroborate the informant's testimony, to uncover other possible schemes, and ascertain whether or not other individuals were involved in the fraud or theft. Computers and servers will be seized and/or imaged (i.e., all the data is copied onto a government computer) and analyzed by technicians and agents to fully develop the evidence in the case.

Admission of Guilt

By this point in the investigation, Young had discovered that Scott Prellen went to the FBI. Prellen filed a lawsuit against Young in an effort to gain restitution of the embezzled funds. In the process of the lawsuit's negotiations, Prellen's lawyer revealed the existence of the federal investigation. Young's lawyer called the AUSA and asked that Young be allowed to proffer.[ii]

The AUSA agreed to the proffer and a meeting was scheduled. Young's lawyer and Young herself were present, but Young was required to answer the IRS-CI agent's questions directly. At the opening of the proffer interview, Young admitted that she caused electronic payments to be made to her American Express credit card totaling $124,000 from the Prellen Realty bank account. She admitted that she concealed the nature of the transfers by making them look like they were being made to Donald Prellen's personal credit card.

Agents showed Young a spreadsheet listing all the electronic payments made to her credit card from the Prellen Realty account. The payments were for two and half years and totaled $315,000. Young admitted that it went on for longer than just one year and $124,000, but she had no idea of the amount.

When asked about theft of cash, Young admitted that she kept some of the cash receipts, but she didn't know how much she took. Young stated that she and her husband had no other sources of income besides their respective jobs. Young was shown another spreadsheet totaling the cash deposited into Young's bank account. The total cash deposited into her account over a five-year period was $402,000.

Young admitted that prior to the electronic payments from Prellen Realty, she paid her American Express bills with money orders. She stated that she purchased the checks from Walmart, several supermarkets and the U.S. Postal Service with cash. Under examination, Young admitted that she used cash from Prellen Realty to pay for the money orders. Young was shown a spreadsheet with the questionable payments to her American Express credit card, which totaled approximately $395,000 and spanned a five-year period.

Under further questioning, Young admitted that based on the

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Psychological Impact

The psychological impact of an investigation should not be diminished. Anger with the former employee is universal, but often those remaining feel guilty about not discovering the fraud earlier.

Even innocent employees nearly always feel anxious when being questioned by federal agents. Each of these events and steps will likely slow the business' work processes and should be accounted for in any decision regarding involving the authorities.

spreadsheets with which she was presented, she embezzled over $1 million from Prellen Realty. Further, she confessed that she never reported any of these funds on her tax returns. However, she would only admit to details when confronted with evidence already discovered and compiled by the agents.

Young admitted that she spent the majority of the funds on vacations with her family. She did not purchase any assets with the funds. She had about five weeks of vacation each year and she traveled on most of those vacations.

The IRS-CI special agent made a presentation to the grand jury summarizing her findings in the Young investigation. The grand jury voted to indict Young for violations of wire fraud: 18 U.S.C. Section 1343,[iii] and tax evasion: 26 U.S.C. Section 7201.[iv]

Young ultimately pleaded guilty to one count each of wire fraud and tax evasion. In the statement of facts filed with the plea agreement, Young admitted that she embezzled more than $1 million from Prellen Realty.

Young was sentenced in June of 2017 to 51 months of incarceration. She was ordered to pay Prellen Realty $1.1 million in restitution and $255,000 to the Internal Revenue Service for tax due for tax years 2011 to 2015.

The sentencing was reported in the local newspapers. Scott and Donald Prellen were present at the sentencing hearing.

Issues to Consider

The owners and managers of a company will likely be embarrassed that a fraud had been perpetrated under their watch. Customers may have concerns about the problems within the company being addressed. Outside stakeholders may have concerns about the internal control weaknesses within the company.

If a fraud is reported by a company and the defendant is convicted of the crime and serves time in prison, what are the chances of him/her paying restitution to the company? He/she will not earn a salary while in prison and the chances of future employment in positions that will pay sufficient income to reimburse fraudulent losses is considerably diminished by a felony conviction. The defendant will probably never be able to fully pay back the company.

THE MOST COMPELLING REASON TO INVOLVE FEDERAL AUTHORITIES IS TO ENLIST THEIR POWER OF ASSET SEIZURE.

The most compelling reason to involve federal authorities is to enlist their power of asset seizure. The Young case was rather unusual because she spent all of the money. Most embezzlers do purchase assets, such as vehicles and properties. If there are such assets that can be directly tracible to the scheme perpetrated, the government can seize these assets.

Once the asset is forfeited, the federal government will only deduct a small administration fee out of any net forfeiture proceeds. The remaining funds will go directly to the victim as restitution after the case is adjudicated.

There is a small risk of a fraud investigation being dismissed by federal agencies. The main reasons for dismissal are a lack of proof, contradictory testimony or a lack of resources. It is important for a company to compile evidence and report the crime quickly to diminish these weaknesses.

The lack of resources is an increasing issue because the federal government is not hiring agents as quickly as they are losing them to attrition. If an investigation is dismissed, the company could be a prime target for a lawsuit by the once defendant.

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ENDNOTES

[i] Dawson, Steve. *Internal Control/Anti-Fraud Program Design for the Small Business, A Guide for Companies Not Subject to the Sarbanes-Oxley Act*. Hoboken, NJ, Wiley & Sons, 2015.

[ii] A proffer is a written agreement between the United States Attorney's Office and the target of the investigation in which the target is to answer agents' questions and as long as the target does not lie, the information will not be used against them in any future proceeding. The parties are working towards plea negotiations with this agreement. (FED R Evid. P.410).

[iii] There are no federal charges for theft or embezzlement. Wire fraud or mail fraud is frequently used in the place of these charges.

[iv] With the IRS-CI investigating, a tax charge is included, if possible. The IRS views all income as taxable even if from an illegal source.

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FEATURE

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THINKING OF GETTING A PH.D. IN ACCOUNTING?

Some Insights into Accounting Ph.D. Programs

By Zhaochu Li, Ph.D., and Iryna P. Lytvynenko

Many CPAs wonder what it would be like to become an accounting professor. Although it is possible to become an accounting professor without a doctoral degree via the adjunct faculty pathway (Violette and Willis 2015), many universities require candidates for tenure-track faculty positions to have a Ph.D. Some accounting professors have non-traditional doctorates in business administration, aka DBA (Pathways Commission 2014), but most have a Ph.D. in accounting.

Practicing CPAs have some knowledge of undergraduate and master programs in accounting, but very few know the ins and outs of accounting Ph.D. and DBA programs. This article shares some insights into accounting Ph.D. and DBA programs and provides advice for CPAs who are considering a career change.

The Job Market for Accounting Professors

The good news is that there is currently a strong demand for accounting professors, due to a persistent shortage of suitable candidates (Plumlee and Reckers, 2014; Boyle, Carpenter, and Hermanson, 2015). Although the American Accounting

Association is attempting to address the issue, this shortage is likely to continue for some time, especially for smaller, public and non-doctoral universities (Boyle, Carpenter, and Hermanson, 2015; Plumlee, Kachelmeier, Madeo, Pratt, and Krull 2006). One of the key contributing factors to the shortage is a lack of qualified applicants for accounting Ph.D. programs.

Benefits of an Accounting Ph.D.

Salaries are generally high for accounting professors. According to the 2018-2019 Salary Survey Reports of the Association to Advance Collegiate Schools of Business (AACSB International), the average nine-month salary for assistant professors of accounting is $148,800. For assistant professors in the top 25 percent of the salary range, nine-month salaries can be over $188,000.

Professors can also supplement their salaries with research stipends and summer teaching assignments. According to the same survey, summer research support and teaching compensation average $16,000 and $12,000, respectively. Some universities even provide summer research funding of over $30,000.

In addition to the good financial compensation, there are many perks to working as a professor, including good pension packages, work-life balance and working without a manager. Many universities provide tuition deductions for a professor's spouse and children. Professors also have sabbatical leaves, a paid leave for at least one semester every six or seven years.

Costs of Accounting Ph.D. Programs

Most accounting Ph.D. programs not only offer tuition waivers, they also pay their students monthly salaries. The programs are full-time and students have to leave their regular accounting jobs to focus on their studies. To compensate for this loss of earnings, Ph.D. programs provide students with annual financial packages of between $55,000 and $85,000 in the form of tuition waivers and stipends.

Although there are tuition fees for Ph.D. students, universities provide tuition waivers that effectively cancel any tuition costs. Depending on the university, the tuition waivers can be between $35,000 and $55,000 annually. Second, students receive salaries between $20,000 and $35,000 per year. The programs also provide funding for travel, accommodation and conference registration fees to support students' professional growth and job searches.

Students and their families usually receive health, dental and vision insurance through their universities. Some universities such as the University of Oregon even provide special housing options for Ph.D. students who have children.

Admission Into Accounting Ph.D. Programs

Highly Competitive. Given the significant resources provided to each student in the form of individual guidance and financial support, it is not surprising that Ph.D. accounting programs only admit a small number of students. On average, an accounting Ph.D. program admits two students each year, out of at least 50 applicants. At more prestigious universities, the number of applicants may be much higher.

As a result, universities generally have to turn down many qualified applicants. At the other extreme, some programs may choose to admit fewer students if they have no qualified applicants.

Given this highly competitive setting, it is better to apply to a number of schools on different tiers to increase the chances of being accepted. Remember, despite schools' efforts to select the best candidates, the admission process involves some luck. When only two students are accepted each year from a large pool of applicants, admission into a program depends on many factors, including who else is applying to the same school in the same year.

Therefore, it is important not to focus on a single school; the accounting doctoral curricula at most universities are similar and students receive comparable training. An academic career is long and where faculty members received their doctoral degrees becomes less important as one's professional achievements accumulate.

Admission Criteria. There is no set standard for admissions into accounting Ph.D. programs; instead, the programs consider various factors when making admission decisions, including:

- **GMAT scores;**
- **Undergraduate and graduate GPAs;**
- **Work experience;**
- **Personal statement;**
- **Writing skills;**
- **Background in calculus, economics and statistics;**
- **Programming skills; and**
- **References.**

Due to the competitive nature of the admission process, admitted students usually have high GMAT scores and GPAs. According to Brink, Glasscock and Wier (2012), the average GMAT score of an accounting Ph.D. student

Accounting Ph.D. Programs in Texas

Ph.D. Granting Universities	Examples of Where Graduates Teach	Range of Starting Salary (9 months)
University of Texas, Austin	Cornell University Stanford University	$180,000 - $220,000
University of Texas, Dallas	University of Missouri University of Hong Kong	$180,000 - $220,000
University of Texas, Arlington	University of Michigan – Flint University of Minnesota – Duluth	$130,000 - $140,000
University of Texas, San Antonio	University of Nevada – Reno University of Houston – Victoria	$130,000 - $140,000
University of Texas, El Paso	Texas A&M – Commerce	$130,000 - $140,000
University of Texas, Rio Grande Valley	N.A.; New program started in 2019	N.A.
Texas A&M University	University of Connecticut University of Kansas	$180,000 - $220,000
University of Houston	University of Colorado University of Texas, Rio Grande Valley	$180,000 - $220,000 $130,000 - $140,000
Rice University	University of Chicago University of Utah	$180,000 - $220,000
Texas Tech University	University of Nevada – Reno	$130,000 - $140,000
University of North Texas	University of Nevada – Reno	$130,000 - $140,000

Notes: Placement data are from published data from each university or from internet searches.
Estimated salary data based on published data from each university or comparable universities.

is 692, which puts accounting Ph.D. students in the top 12% of GMAT test takers. Ph.D. curricula generally include microeconomic and statistics courses, so some background in calculus, economics and statistics is important.

Accounting research is data-driven, so candidates with programming skills have an advantage. References are another important factor. Academia is a small circle and professors often know each other. A positive assessment from a renowned professor can boost a candidate's chance of admission.

Campus Visits. Most Ph.D. programs will invite a few finalists for a campus visit before making final admission decisions. During the visit, candidates will have interviews with most of the accounting professors, with each interview lasting about 30 minutes.

Candidates will also meet current Ph.D. students to get a feel for what it is like to at a particular university. Campus visits allow both candidates and the programs to better understand each other and decide whether it is a good fit. Schools usually make their admission decisions soon after all the finalists have visited the campus. Some schools even make decisions on the same day of the visit.

Program Structure

Academics. Accounting Ph.D. programs are rigorous academic programs that aim to teach both teaching and research skills. The programs are usually between four and six years, with the first two years devoted to course work and the rest of the program devoted to research.

In the first two years, students take an average of three courses per semester. These courses include research courses in accounting and finance and fundamental courses, such as microeconomic theory and econometrics.

Depending on the program, students will write research papers in their first and/or second summers and present their findings at research seminars. At the end of the second year, students will take a comprehensive exam that tests their understanding of the accounting research literature. Students have to pass the comprehensive exam to continue their studies.

After passing the comprehensive exam, students devote their time to developing and writing their dissertation. Every program requires students to teach at some point during their studies, but teaching loads vary from one course every semester to one course during the entire program.

Research is the Focus. Unlike undergraduate and master programs, Ph.D. programs in accounting focus on developing students' research skills, as research is the currency in academia. Students with a promising dissertation and working papers are more likely to receive job offers at research universities that have Ph.D. programs and offer higher salaries. For most universities, publications are the most important criteria in the tenure promotion process.

For most universities, publications are the most important criteria in the tenure promotion process.

It can take a very long time to conduct a research project, a fact that surprises many students. On average, papers take at least three years from the beginning of the project to publication in a top-tier accounting journal. Within that time frame, a paper may undergo multiple revisions and be submitted to several journals before it is accepted for publication. Each paper revision can take at least a month and data revisions alone can take at least two weeks. In addition, students may be working on several papers simultaneously, with each paper at a different stage of publication, so there is always work to be done.

Courses Can Be Challenging. Most accounting Ph.D. students were A students in their undergraduate and master-level accounting courses. However, courses in Ph.D. programs are substantially more difficult than undergraduate and graduate accounting courses. Undergraduate and master-level accounting courses focus on accounting knowledge, such as taxation, auditing, etc., and do not require extensive skills in mathematics and statistics. In contrast, most accounting Ph.D. programs require students to take Ph.D.-level courses in topics such as microeconomic theory and econometrics. These courses are mathematics-intensive and proof-based, and can be challenging for some students.

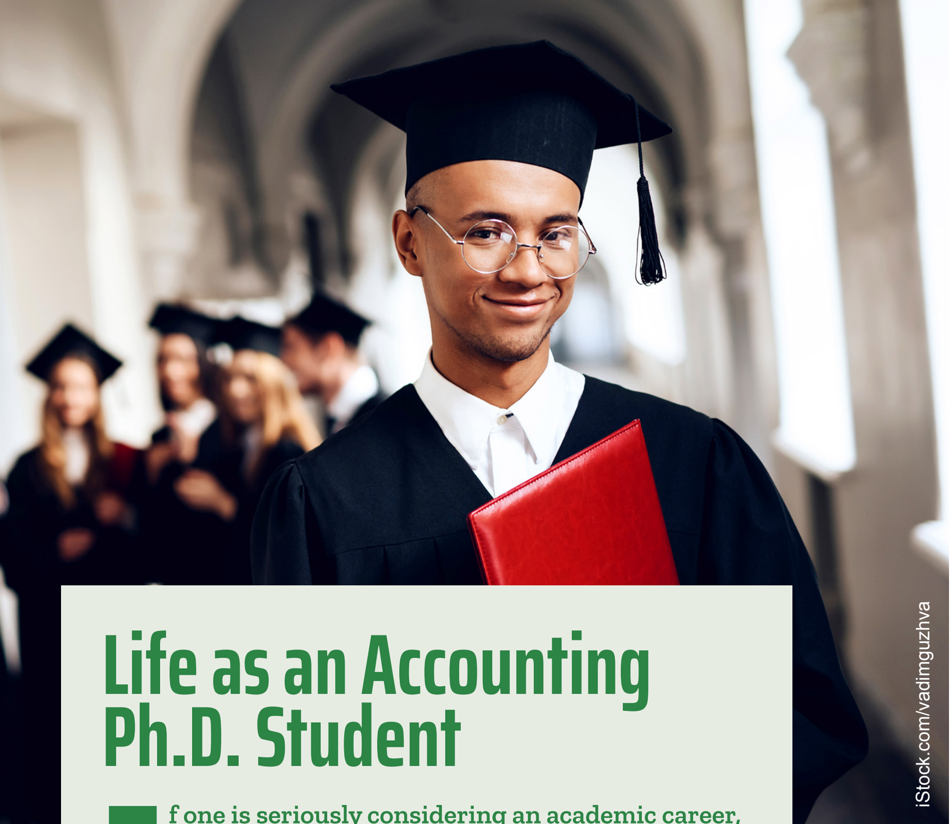
Despite the difficulty, the good news is that these courses are intended to develop the students' understanding of economic theories, not to turn them into mathematicians. Generally, accounting students are not expected to get an A in these courses and most will not use mathematic proofs in their research. However, being aware of the challenges and having appropriate expectations is important for success in the programs.

Students Must Learn Programming by Themselves. Being able to work with data is critical in accounting research. Students have to learn how to program in software packages such as Stata and SAS, and to work with accounting and stock return databases. Throughout the Ph.D. programs, students work on many research projects that require programming skills. For example, in the first and second years, many courses will require students to replicate existing studies using new data.

Although accounting researchers do not require the same level of programming skill as a software engineer, they do use programs that are much more difficult and time-consuming than Excel. Data analysis can sometimes take days or weeks, and coding errors can be difficult to resolve. Unfortunately, professors do not teach students programming skills; instead, students need to teach themselves using the internet or by helping each other.

Writing is Important. Writing is much more important in Ph.D. programs than in undergraduate and master accounting programs. Academic papers are the final product of research. While the findings reported in papers are the core outcomes of data analysis, writing plays an important role in determining whether these findings are published in a top-tier journal.

Accounting academic papers are on average 60-pages long and few students have experience writing such long papers. The writing process takes time. For example, it is not uncommon to spend a week writing and polishing a five-page introduction.



Life as an Accounting Ph.D. Student

If one is seriously considering an academic career, it is better to make the change early. First, opportunity costs become higher as one works in the accounting profession. If one has already become a senior manager or even a partner, then giving up the job will mean a very substantial income loss. In contrast, if one has just worked for four to five years, the economic sacrifices will probably be much smaller.

Second, a Ph.D. program in accounting is much more academically intensive than undergraduate and graduate accounting programs. It is easier for someone in their 20s and early 30s to adapt to this new environment than for someone in their late 30s and 40s.

Time Management is the Key to Success

Unlike professional accounting practices, Ph.D. students have a great deal of freedom in managing their time. The first two years of the program are class-oriented, but there is no formal work schedule after the first two years. Time management is at the discretion of each individual.

This freedom to manage time does not mean free time. In contrast, many students find this freedom unproductive.

Moreover, it is also important to separate work life from home life. As accounting research can be done anywhere with a computer, many students choose to work at home and this may interfere with their family life. One piece of advice for students seeking to balance work and family is to keep a regular work schedule – work at the office from 9 a.m. to 6 p.m. on weekdays and do not work at home unless it is necessary.

Accounting Ph.D. Programs in Texas

Texas has the advantage of having a large number of accounting Ph.D. programs. About 100 universities in the U.S. offer Ph.D. programs in accounting and 11 of them are in Texas. In fact, all of the major cities in Texas have at least one university that offers an accounting Ph.D. program. For comparison, Oklahoma only has two universities that offer accounting Ph.D. programs and New Mexico does not have any.

The Ph.D. programs in accounting in Texas range from those with historically good placement records to those that have just started. For instance, graduates of the University of Texas, Austin and Rice University have become professors at premier research universities, where they can earn nine-month salaries of over $220,000. With additional research funding, their annual income can be more than $250,000.

Graduates of the University of Texas, Arlington and Texas Tech University have become professors at teaching schools such as the University of Nevada, Reno where they earn nine-month salaries of around $130,000. Prospective students in Texas can visit nearby universities with programs to get some in-person information and can even attend research presentations to get a better feel for what a program is like.

An Alternative to Ph.D.: Doctorate in Business Administration (DBA)

Besides a Ph.D. in accounting, CPAs who want to teach at universities may also consider a Doctorate or Executive Doctorate in Business Administration (DBA). According to the Executive DBA Council, there are more than 50 universities worldwide that offer DBA programs, but the University of Dallas is the only university that offers such a program in Texas.

Unlike Ph.D. programs that are full-time and require students to leave their jobs, DBA programs are mostly online and only require students to come to campus for in-class sessions for several weekends during each semester. DBA students can continue their jobs, but it may be challenging for some students to balance their work, family and academics.

While Ph.D. programs provide tuition waivers and pay salaries for their students, DBA students must pay out of pocket for their tuition, which is on average $40,000 a year. DBA programs are shorter than most Ph.D. programs and are generally three to four years in length.

Perhaps the most important drawback of DBA programs is the job market implications. Many universities may perceive DBA programs to be less academically rigorous than Ph.D. programs and some schools even require faculties to hold a Ph.D., making it difficult for DBA students to land a job at large research universities.

Most DBA graduates tend to teach at smaller and regional universities, which will likely pay less and have higher teaching loads than larger universities. Although some DBA graduates teach at large universities, they usually do so as instructors instead of tenure-track faculties and receive lower salaries. They also teach more classes than professors at other institutions.

Everyone Experiences Frustrations

Just like any other job, every student will encounter some obstacles in a Ph.D. program. Common obstacles include:

- Getting back into the study mode;
- Challenging economic courses;
- Developing research ideas;
- Presenting research;
- Learning how to program and how to teach;
- Passing the comprehensive exam;
- Writing the dissertation; and
- Looking for a job.

However, with the support of their advisers, their families and each other, most students overcome these obstacles and receive their Ph.D. Critically, students receive personalized guidance from their dissertation advisers with respect to many aspects of academic career (e.g., dissertation presentation, job interview preparations, publication processes, etc.).

Career in Academia

Academia is a great career option for CPAs who want to work in a university or prefer a non-corporate lifestyle. Given the shortage of accounting faculty and the potentially high earnings, this is also a good time to become an accounting professor. However, a career in academia may not suit everyone.

As most CPAs do not know much about this career path, this article offers important insights into various aspects of accounting Ph.D. programs and discusses DBA programs for those who may find it a better fit. The aim is to help prospective students make an informed decision about this career change.

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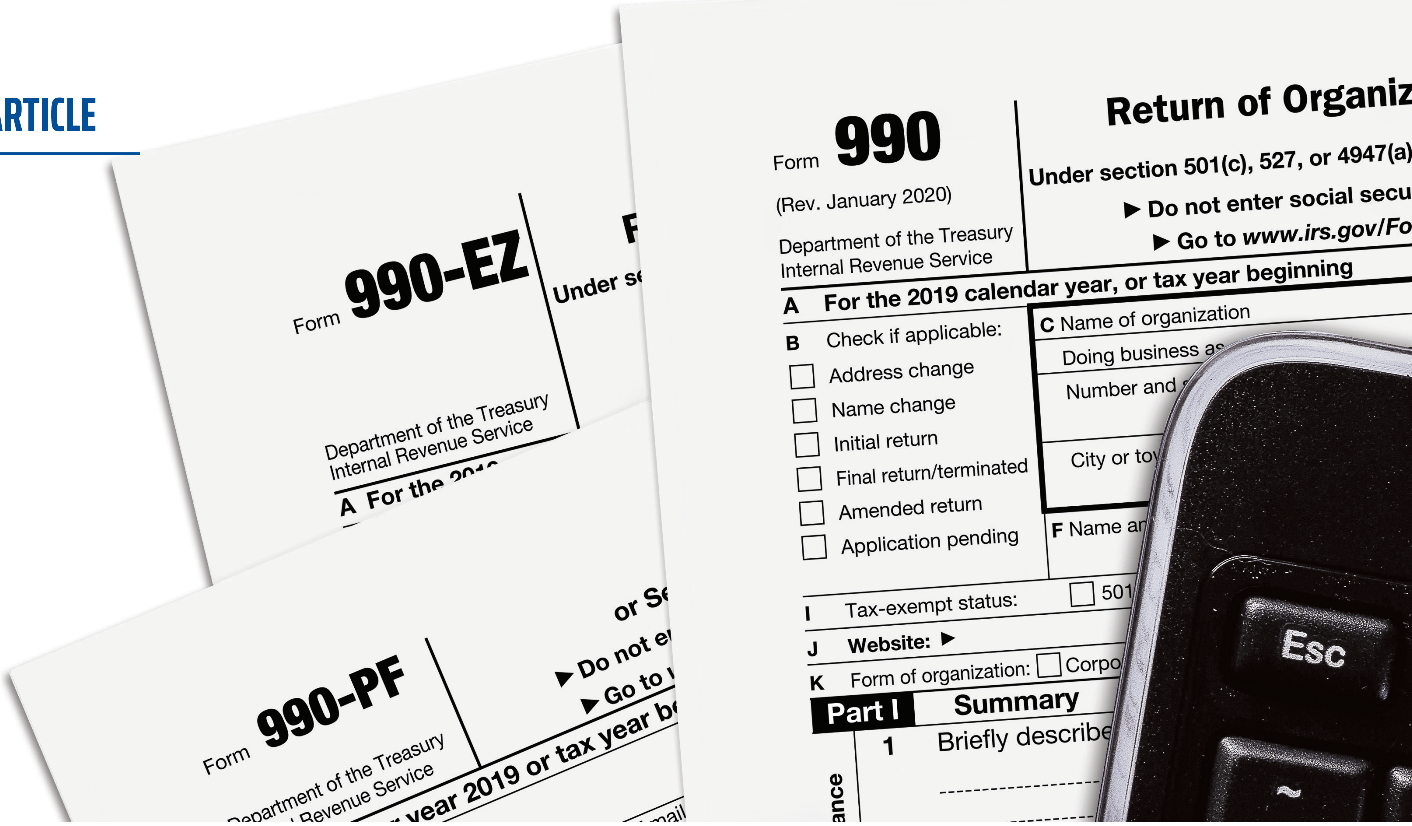
CPE ARTICLE



Common Errors on Form 990-PF

By Stephanie Morgan, CPA

CURRICULUM: Tax

LEVEL: Basic

DESIGNED FOR: Tax Practitioners

OBJECTIVES: To examine IRS guidance on Form 990-PF; identify common errors found when preparing the Form 990-PF and how to avoid them; and discuss the steep penalties imposed against private foundations and their managers

KEY TOPICS: Expense allocations and reporting in-kind donations; failing to correctly report taxes paid; attaching a complete list of investments and fixed assets; incorrectly reporting capital gains and losses from investments; failing to determine eligibility for reduced tax rate; and not deducting the cost of furniture and fixtures as qualifying distributions

PREREQUISITES: None

ADVANCED PREPARATION: None

In recent years, scandalous news stories detailing the alleged misuse of public funds by certain former and sitting presidents and their family members has increased the general public's awareness and the government's scrutiny of private foundations.

Form 990-PF, Return of Private Foundation or Section 4947(a)(1) Nonexempt Charitable Trust Treated as a Private Foundation, is the annual informational return that must be filed by exempt private foundations, taxable private foundations and nonexempt charitable trusts treated as private foundations for tax purposes. The return is due by the 15th day of the 5th month following the end of the foundation's tax year. The return of a foundation with a calendar year would be due on May 15th with the option of a six-month extension.

Penalties imposed on Form 990-PF are imposed not only on late or delinquent tax returns, but also on returns that are filed before the deadline that are inaccurate or incomplete. At first, that sounds easy enough to comply with, but filing an incomplete return can be as easy as failing to check a box when the foundation is not required to attach Schedule B.

Foundations with gross receipts up to $1,067,000 for the 2019 tax year will be assessed $20 per day that the return is considered late for a maximum penalty of $10,500 or 5% of gross receipts. Larger organizations whose gross receipts exceed $1,067,000 will be assessed $105 per day up to a maximum of $53,000[i].

If a Form 990-PF remains delinquent, the IRS may even impose a penalty against the person responsible for filing the return of $10 per day that the failure continues. If multiple people are responsible, they are jointly and severally liable, and total penalties against all individuals will not exceed $5,000.

In a section of the Form 990-PF instructions called "How to avoid filing an incomplete return," the IRS provides the following guidance:

- Complete all applicable line items;
- Answer Yes, No or N/A to each question on the return;
- Make an entry (including a zero when appropriate) on all total lines;
- Enter None or N/A if an entire part doesn't apply.

Common Errors

Since you don't have to be a U.S. president to get into trouble serving on your family foundation's board, let's identify some of the more common errors found when preparing the Form 990-PF and discuss how to avoid them, along with the steep penalties imposed against private foundations and their managers.

ERROR: Expense Allocations and Reporting In-kind Donations in Part 1 Column (a)

Part 1 of Form 990-PF is the Analysis of Revenue and Expense. It can give the unwary preparer trouble as several common errors are found in this section of the return. Part I is essentially the foundation's statement of financial activities allocated to various sources and purposes. Column (a) will generally include all the items of income and expense on the foundation's books. The expenses in Column (a) must then be allocated to Column (b) through (d).

Column (b) will show the portions of revenue and expense items that are attributable to the foundation's investment activity. Column (c) will most often be blank or N/A unless the organization is a private operating foundation. Lastly, column (d) reports the amount of the foundation's expenses that are attributed to the foundation's exempt purpose.

Note that not all of the foundation's expenses will qualify for reporting in any column other than (a) and the sum of column (b) through (d) may not equal the sum of Column (a). Expenses in Column (a) should be allocated only once. The same costs cannot be used to both reduce investment income and increase qualifying distributions.

In-kind revenue and expense accounts are commonly grouped together on financial statements and are fairly easy to identify and exclude from the tax return. Nonetheless, they are commonly reported incorrectly on Part 1.

One of many common errors found on Part I is when private foundations report the value of in-kind donations or pro-bono goods and services in column (a). The instructions are quite clear about these items, stating: "Don't include the value of services donated to the foundation or items such as free use of equipment or facilitates in contributions received."

Foundations can receive many kinds of in-kind donations, such as tangible goods (i.e., equipment, food or clothing) or intangibles like services and the use of property (free rent and advertising). It is important to remember that when in-kind income is eliminated, the corresponding expense must also be eliminated.

ERROR: Not Completing Part 1 Column (d) on Cash Basis

As noted, expenditures that are attributable to the foundation's charitable purpose are allocated to column (d). The portion of each expense item reported in column (a) that is directly related to the foundation carrying out its exempt purpose will also be reported in column (d). Always complete line 25 in column (d), which includes contributions, gifts and grants, as these items inherently qualify as charitable expenses.

Other items commonly allocated to column (d) include legal fees for grant research and wages. Wages typically include the salary of the grant director or other officers of the foundation. However, since the CEO's time is often split between management of the foundation's investments and directly involved with the foundation's charitable purpose, it is important to establish a reasonable and consistent method of allocating these costs between column (b) that reports the income and expense items related to the foundation's investment income and column (d) charitable expenditures. The same costs should never be in both columns.

One method for an organization to document the basis for allocation is by using time logs to track the relative amount of time attributable to investment and charitable

Figure 1. Tax Reporting

	Line	Column	Accounting Basics
Tax on Investment Income	18 - Taxes	Column (a) Only	Book Basis
Unrelated Business Income Tax	18 - Taxes	Column (a) Only	Book Basis
Payroll Taxes	15 - Contributions to employee pensions, plans and other benefits	Column (a) and (b) or (d), if applicable	Book Basis for Column (a) and (b), Cash Basis for Column (d)

functions, then allocating a percentage of the total costs to each corresponding column.

All of the foundation's expenses reported in column (d) are treated as distributions when calculating the 5% minimum distribution. Since distributions must be made by the end of the year, column (d) should be reported using the cash basis method of accounting regardless of the method used for book purposes by the client.[ii]

Therefore, it is necessary to make accrual to cash conversions for all expenditures reported in column (d). For example, the foundation should report the full amount of taxes accrued in column (a), but only the amount actually paid by year-end in column (d).

ERROR: Failing to Correctly Report Taxes Paid on Part 1, Lines 15 and 18

Private foundations are subject to a number of taxes that are reported in various places throughout the tax return and it's important to report each tax correctly. Private foundations pay taxes on their investment income under section 4940 and their unrelated business taxable income under section 511. Both of these taxes should be reported on Page 1 line 18 Taxes in column (a) only. Since IRC 511 taxes are not costs associated with the management of the foundation's investments, they do not belong in column (b). Since IRS 511 taxes paid are not expenditures necessary for the foundation's charitable purpose, they would not be appropriate in column (d).

Private foundations are also subject to the same payroll taxes as for-profit employers. Preparers commonly report these expenses on line 18 with other taxes. However, the instructions for Form 990-PF Line 15, Contributions to employee pensions plans and other benefits, quite clearly state: "Also include the amount of federal, state and local payroll taxes for the year, but only include those that are imposed on the organization as an employer. This includes the employer's share of Social Security and Medicare taxes, FUTA tax, State unemployment compensation tax, and other state and local payroll taxes."

Payroll taxes would be reported in column (a) of Line 15 using the accounting method that matches the foundation's books. As discussed previously, salaries and the related payroll taxes must be reasonably allocated to investment and charitable purposes. Amounts reported in column (b) relating to investments would also be reported using the accounting method of the foundation's books. Column (d) charitable expenditures, however, must be reported on the cash method. See Figure 1, Tax Reporting.

ERROR: Not Attaching a Complete Listing of Investments and Fixed Assets, Part II

Investments. Another common error when preparing a private foundation's tax return is the temptation to save time by not providing the level of detail requested in the instructions. An example of this is reporting all the foundation's investments as a lump sum on line 13 Other Investments.

Investments are to be reported on Part II lines 10a through 10c and grouped into three categories consisting of domestic government obligations, corporate stocks and corporate bonds. Other portfolio investments are listed on line 13.

The instructions require that a schedule be attached to report each security, bond or other investment held at the end of the year with its cost basis or end-of-year market value. Many private foundations have large investment portfolios consisting of dozens, if not hundreds, of individual positions, so this schedule can be quite time consuming. Resist the urge to aggregate and remember that omitting this detailed schedule results in an incomplete tax return.

One exception to this detailed reporting is debt securities of the U.S. government and state municipal obligations. These investments may be reported lump-sum, by type. If line 10a reported investments in U.S. and state government obligations consisting of both federal and state debt obligations, a schedule would need to be attached reporting the amounts relative to each type of investment.

Fixed Assets. Similar detailed reporting is required for many balance sheet accounts, including fixed assets. This includes a common error of not attaching a schedule to support the totals provided on line 11 Net Investment in Land, Building and Equipment. Here again, the instructions request a schedule listing each fixed asset held at the end of year, its original cost basis, accumulated depreciation and ending book value.

ERROR: Incorrectly Reporting Capital Gains and Losses From Investments, Part IV

There are two common errors when reporting capital gains and losses. The first is not providing the detailed transaction data stipulated in the instructions and the second is providing too much detailed transaction data.

The first error occurs when a tax preparer tries to save time by summarizing reportable gains and losses. The instructions to the form require very detailed reporting of each transaction that results in a capital gain or loss. Part IV requires a description of each investment sold; whether it was acquired by purchase or donation; date of acquisition and disposition; gross sales price; cost basis; and the gain or loss on the transaction.[iii]

The second error occurs when a tax preparer fails to take advantage of a time saving provision in the 990-PF Instructions, which allows the sales of publicly traded securities held inside a brokerage account to be reported in aggregate with the description "publicly traded securities."[iv] It's an important distinction to note that publicly traded securities not held in a brokerage account should not be aggregated.

Losses from the disposition of investments are subtracted from capital gains in arriving at investment income, but only to the extent of gains and only within the same tax year. Unique to non-profit tax reporting, the current year capital losses in excess of current year capital gains cannot be utilized to reduce overall investment income and are not carried forward to reduce future capital gains.

ERROR: Incorrectly Answering Part VII-B Question 1a (4)

Part VII-B, located on page 5 of Form 990-PF, addresses a number of questions with regards to acts of self-dealing between a foundation and disqualified persons, such

as board members and substantial contributors. Self-dealing is when a foundation engages in certain types of transactions with disqualified persons. This can be an area of concern for private foundations because of the significant excise tax levied on such transactions. Section 4941 of the code imposes a tax on any disqualified person who engages in an act of self-dealing with a private foundation. The tax is 10% of the amount involved.[v] Moreover, an additional tax of 5% of the amount involved may be imposed on any foundation manager who participates in, or is knowingly complacent in, an act of self-dealing.[vi]

One of the more common errors found in Part VII-B is question 1a(4), which asks if the foundation has paid compensation to or reimbursed the expenses of a disqualified person. Commonly, this question is incorrectly answered "No." While the code does provide an exclusion for compensation that is reasonable and necessary to carry out the exempt purpose of the foundation, the question should be answered "Yes"[vii] if these kinds of transactions were engaged in with any disqualified person, regardless of the amount.

Question 1b then asks if any of the acts of self-dealing fail to qualify under the exceptions described in the regulations. A foundation that reimburses its board members for reasonable expenses would answer question 1a(4) "Yes" and question 1b "No." By doing so, the foundation is both properly disclosing their activity and not subject to the excise tax.

ERROR: Failing to Determine Eligibility for Reduced Tax Rate, Part VI

Section 4940 imposes a 2% tax on the net investment income of a private foundation. However, after its first year, a foundation may qualify to reduce this excise bill in half.

Part V of the return takes the preparer through a series of calculations to determine eligibility for the reduced tax rate. The first qualification is that the foundation must not have been subject to tax under section 4942 during any tax year included in the five-year base period.

Section 4942 is a tax imposed on private foundations that fail to distribute the minimum amount required by the code. The initial tax is equal to 30% of the undistributed income for the tax year.[viii] The tax increases to 100% for any amount that remains undistributed in the second tax year.[ix] For this purpose, undistributed income is defined as the amount by which the sum of the minimum investment return reduced by the amount of taxes imposed under section 4940 exceeds the qualifying distributions for the year.[x] This tax can always be avoided by ensuring that the foundation has distributed at least the minimum amount of funds necessary as calculated in Part XIII of the return.

The rest of Part V walks through the requirements described in Section 4940(e)(2):

If qualified distributions equal or exceed the sum of:

- The assets of the foundation multiplied by the average percentage payout for the base period, plus

- 1% of the net investment income

First, the preparer must calculate the average distribution ratio for the base period by dividing the adjusted qualifying distributions by the net value of the non-charitable use assets of the foundation for each of the five proceeding tax years. These amounts can be found on the Form 990-PF of each year within the base period in Part X Line 5 and Part XII Line 6, respectively

The average of those ratios is then multiplied by the current year's non-charitable-use assets. If that result plus 1% of the foundation's net investment income as calculated on page one of the Form 990-PF is equal to or greater than the current year's qualifying distributions as determined in Part XII, then the organization will qualify for the reduced rate.

For this reason, it's incredibly important to accurately calculate the organization's qualifying distributions and that means properly allocating costs to column (d) as discussed previously and avoiding the next common error of not deducting the cost of furniture and fixtures as qualifying distributions in Part XII.

ERROR: Not Deducting the Cost of Furniture and Fixtures as Qualifying Distributions in Part XII

If furniture, fixtures and equipment recorded on the balance sheet are charitable use assets, they can be included on line 2 of Part XII in calculating qualifying distributions, thus essentially allowing the foundation to expense the entire cost in the year of acquisition.

A planning tip for anyone working with nonprofit organizations would be to distinguish the foundation's charitable use assets from other fixed asset accounts on the balance sheet when setting up the chart of accounts. At minimum, a separate ledger of these expenditures should be maintained in order to take advantage of this tax-saving provision.

Proper Filing of the Form 990-PF

The instructions provided by the IRS are the best tool to insure proper filing of the Form 990-PF. They provide very thorough directions on how to complete each section of the return and should be referenced by preparers navigating the reporting requirements of a private foundation.

Tax preparers working with nonprofit organizations should consider reviewing the chart of accounts and general ledger well before the 990-PF is due to identify areas where the presentation of financial data can be improved. This will in turn improve the ability of the preparer to efficiently retrieve tax information and decrease time spent on return preparation.

ENDNOTES

[i] 2019 Instructions for Form 990-PF (DRAFT)
[ii] 2018 Form 990-PF Instructions, Page 15
[iii] 2018 Instructions for Form 990-PF, Page 22
[iv] 2018 Instructions for Form 990-PF, Page 22
[v] 4941(a)(1)
[vi] 4941(a)(2)
[vii] 4941(d(2)(E)
[viii] 4942(a)
[ix] 4942(b)
[x] 4942(c)

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*Please note that when registration is complete,
a confirmation email will be sent and provide a hyperlink to access the quiz.*

CPE ARTICLE: COMMON ERRORS ON FORM 990-PF

By Stephanie Morgan, CPA

Today's CPA offers the self-study exam for readers to earn one hour of continuing professional education credit. The questions are based on technical information from the preceding article. If you score 70 or better, you will receive a certificate verifying you have earned one hour of CPE credit – granted as of the date the test arrived in the TXCPA office – in accordance with the rules of the Texas State Board of Public Accountancy (TSBPA). If you score below 70, you will receive a letter with your grade.

1. Who must file Form 990-PF?
a. All not-for-profit entities
b. Public charities
c. Exempt private foundations
d. All of the above

2. Which of the following dates is the correct due date for filing Form 990-PF?
a. The 15th day of the 3rd month after the close of the tax year
b. The 15th day of the 4th month after the close of the tax year
c. The 15th day of the 5th month after the close of the tax year
d. The 15th day of the 6th month after the close of the tax year

3. The maximum penalty imposed on a large organization for the 2019 tax year is?
a. 10,500
b. 53,000
c. 74,600
d. 1,067,000

4. The employer paid portion of payroll taxes is reported on which line of Part 1 of the Form 990-PF?
a. Line 18 – Taxes
b. Line 15 – Pension Plans, Employee Benefits
c. Line 13 – Compensation
d. Line 23 – Other Expenses

5. Private foundations are subject to tax under which of the following?
a. Section 4940
b. Section 511
c. Section 3102
d. All of the above

6. Part I, column D, can be completed on a basis other than cash?
a. True
b. False

7. Section 4942 imposes an initial tax on private foundations' undistributed income equal to?
a. 2%
b. 30%
c. 45%
d. 100%

8. The rate of tax imposed on a private foundation's net investment income under Section 4940 is?
a. 2%
b. 30%
c. 45%
d. 100%

9. Private foundations are eligible for a reduced tax rate under section 4940(e)(2) in their first year of existence only?
a. True
b. False

10. When completing Part II, which of the following types of investments can be aggregated?
a. U.S. and State government obligations
b. Publicly traded securities
c. Corporate stocks
d. Corporate bonds

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$290,000 gross. E/SE Texas CPA firm. Primarily tax (70%), high-quality clientele, solid fee structure, turn-key opportunity. TXN1451

$209,000 gross. NE Texas CPA firm. 70% tax, 30% acctng, ideal size for marketing-oriented buyer to tap existing client base and grow substantially. TXN1491

$365,000 gross. Hurst CPA firm. 89% tax, 11% accounting services, turn-key practice with experienced staff and primed for new owner and smooth transition. TXN1498

$367,000 gross. Abilene CPA firm. 65% tax, 28% acctng, 9% payroll, quality clients, knowledgeable staff in place, strong fee structure, turn-key opportunity. TXN1509

$780,000 gross. East Texas (Tyler/Longview) CPA firm. Accntng (32%), tax (47%), audits (10%), misc. (11%), loyal client base, experienced staff and strong fee structure. TXN1510

$296,000 gross. Texarkana EA firm. Tax prep 73%, accounting 20%, tax planning/rep 7%, strong fees, experienced staff, quality client base, primed for growth. TXN1519

$270,000 gross. Burleson CPA firm. 51% tax, 37% acctng/bkkpg, 12% misc., strong cash flow over 50%, staff in place, turn-key opportunity. Available after 4/15/20 TXN1521

$710,000 gross. Southeast TX CPA firm. Revenues nicely balanced between accntng/tax services derived primarily from monthly retainers, high-end client base. TXN1525

$670,000 gross. NW of DFW CPA firm. Tax 55%, audits 24%, acctng 21%, strong fees, tenured staff, turn-key opportunity primed for continued growth. TXN1526

$436,000 gross. E. TX (within 1 hr of Dallas) CPA audit firm. High-quality client base consists entirely of government audits/related services, experienced staff. TXN1527

$212,000 gross. Deep East TX CPA firm. Acctng 37%, tax 60%, consltng 3%, cash flow around 60%, quality client base, knowledgeable staff, turn-key opportunity. TXN1528

$310,000 gross. SE Texas CPA firm. Tax 60%, bkkpg 40%, turn-key practice with staff in place, friendly clients, owner available to assist through tax season. TXS1232

$218,000 gross. Houston CPA firm. Tax 75%, bkkpg 8%, other 17%, somewhat portable within Houston area, nice fee structure, great cash flow, little annual turnover. TXS1247

$725,000 gross. W. Houston CPA firm. Tax (86%), money advisory services (14%), prime location, staff in place, sophisticated client base. TXS1251

$537,000 gross. NW Houston CPA firm. Tax (76%), bkkpng (18%), other (7%), loyal client base, staff in place, turn-key practice. TXS1252

$2,850,875 gross. W. Texas full-service CPA firm. Approx 60% tax, 40% audit, cashflow nearly 42%, 16 professional staff and 4 admin employees in place, central business district location, owners available to assist with transition. Great opportunity to combine an acquisition with TXW1025 for a large west Texas presence. TXW1024

$1,628,180 gross. West Texas CPA firm. 53% tax (returns are 70% ind./23% bus/7% other), 35% write-up/comp, 12% audit/reviews, cash flow near 52%, experienced staff in place, location available for lease or purchase, owners available for transition. TXW1025

$1,434,747 gross. W. Texas (South Plains) CPA firm. 36% tax (69% individuals; 31% business and other); 28% accntng/write-up; 21% audits/reviews; 14% payroll; balance consulting; quality client base, staff in place and seller available to assist with transition. TXW1026

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