JULY/AUGUST 2016

Today's CPA

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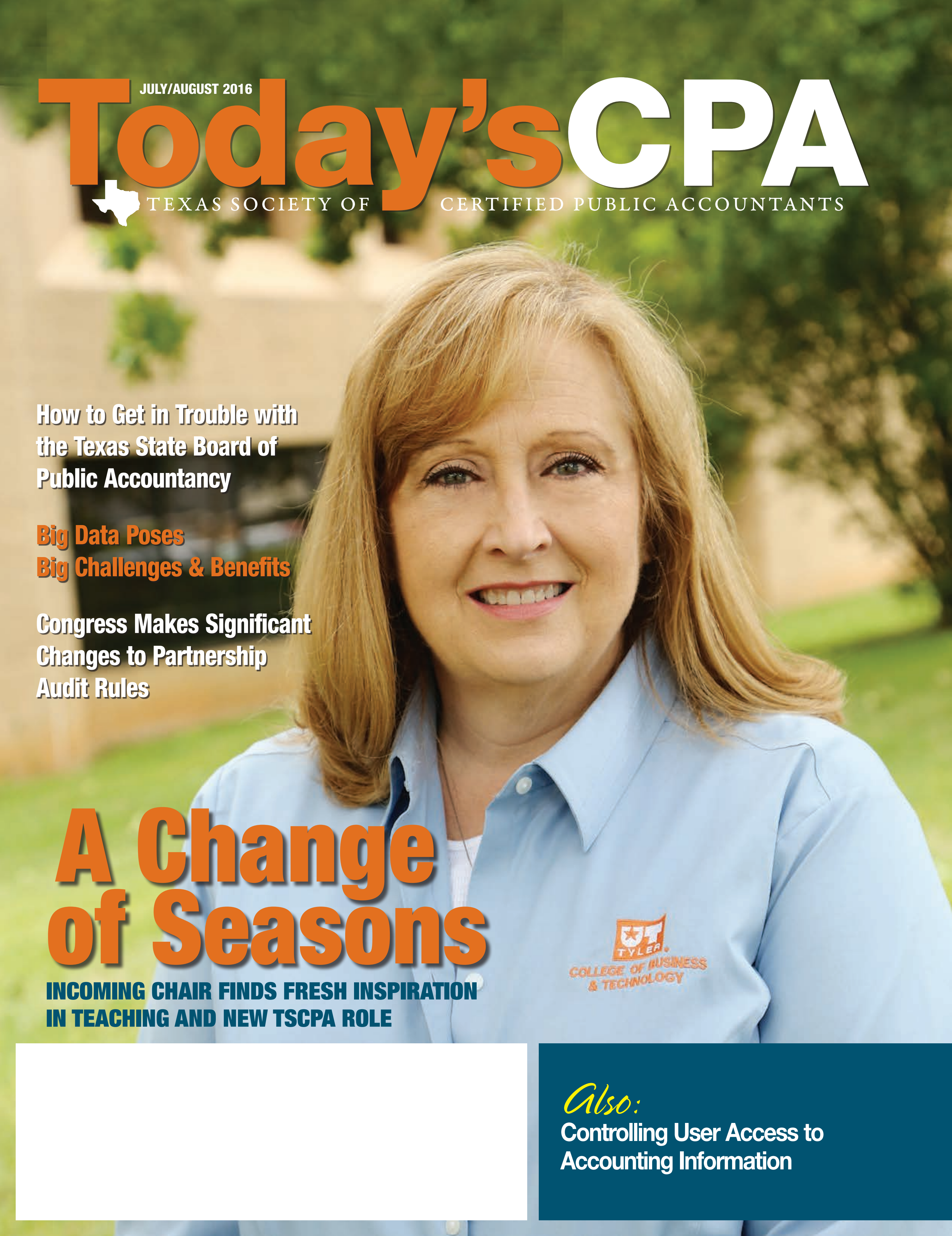

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Staff

MANAGING EDITOR
DeLynn Deakins
ddeakins@tscpa.net
972-687-8550
800-428-0272, ext. 250

TECHNICAL EDITOR
Brinn Serbanic, CPA, CFP®
Brinn_Serbanic@baylor.edu

COLUMN EDITORS
Jason B. Freeman, CPA, JD
Mano Mahadeva, CPA, MBA
C. William (Bill) Thomas, CPA, Ph.D.

WEB EDITOR
Wayne Hardin
whardin@tscpa.net

CONTRIBUTORS
Ali Allie; Melinda Bentley; Rosa Castillo; Anne Davis, ABC; Chrissy Jones, AICPA; Rhonda Ledbetter; Craig Nauta; Judy Neathery; Catherine Raffetto

DIRECTOR, MARKETING & COMMUNICATIONS
Janet Overton

CLASSIFIED
DeLynn Deakins
Texas Society of CPAs
14651 Dallas Parkway, Suite 700
Dallas, Texas 75254-7408
972-687-8550
ddeakins@tscpa.net.

Design/Production/Advertising
The Warren Group
thewarrengroup.com
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The Next 100

Editor's Note: In this first *Today's CPA* issue of the Society's new fiscal year, incoming TSCPA Chairman **Kathryn Kapka**, CPA-East Texas, will discuss plans for the upcoming year. Next issue, Kapka and TSCPA Executive Director/CEO **John Sharbaugh**, CAE, will continue to provide a joint Chairman's and Executive Director's Message.

By Kathryn W. Kapka, CPA | 2016-2017 TSCPA Chairman

Last year was great celebrating TSCPA's 100th anniversary, wasn't it? There's another 100 years ahead and much to accomplish, so let's get going!

As I begin my service year as chairman, I have established two task force committees: one to review the TSCPA *Bylaws* for possible revisions. Another committee will review our CPE Foundation to make strategic decisions about the program's future. Both are key to fine tuning our Society's vital functions for the challenges ahead.

We are also looking for new and better ways to get more accounting graduates to become CPAs. We've done a good job the last few years getting more students to major in accounting, but for too many, it's not translating into completing the CPA exam. There are many reasons.

Since there isn't any one thing you can point to, it's not an easy problem to fix. But as a profession and with Texas being one of the larger societies, I think we've got to tackle this. We've always been a leader in initiatives, so let's see what we can do to convince students that not becoming a CPA is a "career limiter" and that even if they don't know what they want to do for a living, the first decision they need to make as they graduate is to sit for that exam. Then they will have the invaluable option of deciding how they want to use the credential.

I know that my CPA credential has gotten me every job I've ever had. One of the first positions I applied for outside of public accounting came down to two candidates – me and someone who wasn't a CPA. The guy who hired me told me the deciding factor was that I was a CPA. What that designation said to him was that I had worked hard enough and persevered enough to get that credential. The letters "CPA" told him that I was capable of mastering the job.

Ours is not a credential that says you'll just be good in public accounting. It's a credential that says you'll be a good businessperson and a problem solver.

One challenge is that almost half our members now are in industry and government, and I don't think there's the same encouragement for those who go to work in those organizations to sit for the exam right out of college. If they go straight into public accounting, yes, they get that. But if they start out in industry, probably not as much.

That's unfortunate. We're going to need every CPA we can get – both inside and outside public accounting. A big impact of the current regulatory environment is a much larger demand for accounting expertise. More and more employers will be looking for the CPA designation.

And it's so easy to put the exam off. Life gets in the way. When students have been studying for five years, they are tired. They want to go to work. They're ready to have a decent income. Then some time passes and they come up for a promotion or apply for a new job ... and they realize: "I wish I had that CPA. I guess I'll get it now."

It's a lot harder after they've been out of school three or four years. Study habits have gotten rusty and they're working lots of hours. Accounting rules change and so does the exam itself. Plus, I don't know if some of you have looked at the application process lately, but it almost takes a college degree just to figure out how to sit for the exam. It's a lot of steps and not for the faint of heart. First, there's an application of intent to sit, then the full application, then the actual testing for the various sections. Once you finish all that, you still have to apply for the license, and there's even more paperwork. It's a drawn-out process.

Back when I sat for the exam, you could only take it twice a year: first week in May, first week in November. AICPA thought that by holding the exam more often, more people would take it. Unfortunately, I think in some ways, it only made it easier for students to procrastinate. They rationalize, "Oh, I'll take it during the next window."

So we need to really push our students and I'm planning a yearlong dialogue about how best to do this. One idea: if you are a CPA, especially in industry or government, and you know an accounting intern or recent hire who hasn't sat for the exam, how about being a mentor? If more CPAs would shepherd an accounting graduate one-on-one through the designation process, I think we'd start seeing more CPAs. Our drumbeat needs to be: 'The sooner, the better. Do it right after you finish.' Have you ever heard anyone say, "Man, I wish I hadn't become a CPA; I wish I hadn't gotten that certificate."? I've never heard that, have you?

Kathryn W. Kapka, CPA is a full-time faculty member in the University of Texas at Tyler's College of Business. She can be contacted at kkapka@uttyler.edu.

Brave New World – Panama Papers and US Role as a Tax Haven

By Jason B. Freeman, JD, CPA | Column Editor

In April of this year, a consortium of journalists released a bombshell data leak – a collection of some 11.5 million records, known as the "Panama Papers," allegedly linking thousands of people across the globe to a web of secretive shell companies and offshore bank accounts formed through a Panamanian law firm, Mossack Fonseca. This whistleblower leak, the biggest of its kind in history, dwarfs a number of recent high-profile leaks, containing more documents than the 2010 Wikileaks Cablegate, 2013 Offshore Leaks, 2014 Luxembourg Leaks and 2015 Swiss Leaks combined. Among those alleged to be implicated are a dozen heads of state, along with a number of high-profile business executives and celebrities.

The leak was orchestrated by an anonymous whistleblower, identified only as "John Doe," who leaked the records and database to *Suddeutsche Zeitung*, a German newspaper. The treasure trove of records consumes a massive 2.6 terabytes. By comparison, the Offshore Leaks (by far the biggest of those mentioned above) contained 260 gigabytes of data. The scale is enormous.

The leak has huge implications for taxing authorities across the globe. Congressional reports have estimated that the United States alone loses as much as $100 billion each year due to offshore tax abuses, and the OECD estimates that countries across the globe lose as much as $240 billion annually due to the improper use of low/no tax jurisdictions. Other estimates are even higher, and many acknowledge that these may be conservative figures given the elusive nature of measuring international tax fraud.

Not surprisingly, then, a number of countries have begun investigations into the Panama Papers, including the United States, France, Germany, Austria, Sweden and the Netherlands. Indeed, soon after the leak, the United States Attorneys Office for the Southern District of New York opened a criminal investigation, potentially implicating a number of U.S. citizens currently linked to the papers. The extent of the fallout remains to be seen.

Perhaps most interestingly, the Panama Papers also shine a light on a somewhat surprising reality. The database reveals that many of Mossack Fonseca's clients used shell entities formed in states like Nevada and Wyoming. It hints at a broader trend toward the use of shell entities in U.S. jurisdictions (rather than traditional tax haven countries) that have lax policies with respect to information sharing and the identification of beneficial owners of entities. This revelation (or confirmation for some) will surely prompt a closer look at U.S. policies.

The Panama Papers scandal comes amidst an OECD-led effort to implement an international standard for the exchange of tax information, the so-called Common Reporting Standard (CRS). In the wake of the leak, Panama, which had previously declined to commit to the automatic sharing of financial account information,

announced that it was joining the more than 100 jurisdictions adopting the CRS. But what is more interesting – and what perhaps makes for a more intriguing storyline – is the fact that the United States, thus far, has chosen not to adopt the CRS.

This refusal has prompted some (who cite numerous permissive state rules for shell companies and tax reporting, as well as the 1,000-plus Nevada and Wyoming companies linked to the Panama Papers) to argue that the United States – the country that, during the last decade, launched the revolution towards global transparency and information exchange – has now become the world's preeminent tax haven. Surprised?

Perhaps you shouldn't be. Believe it or not, the Tax Justice Network already ranks the United States as one of the world's top three "secrecy jurisdictions," followed only by Switzerland and Hong Kong. It has, in fact, gone so far as to dub the United States as the "jurisdiction of greatest concern." Even mainstream media outlets like *The Economist* magazine have lamented that while the United States may have "launched and led the battle against offshore tax evasion, America is now part of the problem."

This is an interesting – and largely unintended – transformation. For more than the past eight years, the United States (more than any other country) has aggressively pursued and prosecuted offshore tax evasion. It successfully ferreted out more than 54,000 taxpayers with undisclosed offshore assets through its Offshore Voluntary Disclosure Program, and drew out thousands more through other programs, audits and criminal investigations. The United States also led a global movement towards transparency through the Foreign Account Tax Compliance Act (FATCA), game-changing legislation that requires other countries' financial institutions to report accounts held by U.S. taxpayers or face a severe withholding regime. Indeed, FATCA was the basis for the OECD's CRS, which is now poised to become the global standard for the exchange of tax information.

But again, the United States is conspicuously absent from the long list of countries committed to adopting the CRS and some take the position that FATCA makes the CRS unnecessary. However, there are some big differences between how FATCA currently works and how the CRS would work. Under FATCA, and without further legislation, the United States currently does not reciprocate the automatic exchange of certain important information with FATCA partners, such as information about the underlying beneficial ownership of entities. Indeed, in a May 5, 2016, letter to Congress, the U.S. Treasury underscored this problem, citing the need to "ensure that the United States can live up to its end of the bargain on foreign tax reporting," and emphasizing how "the United States does not provide its FATCA partners with the same information about U.S. financial institutions that foreign financial institutions must provide to the IRS." There is, in other words, a one-way exchange of some important information under FATCA that creates a lack of transparency about foreigners' U.S. holdings, making the United States a tax haven of sorts.

This lack of transparency has, indeed, encouraged a flight of capital to the United States. Of course, the United States has long encouraged foreigners to invest their capital stateside through favorable tax policies. It now appears, however, that U.S. policies are encouraging capital investment in the United States by providing less transparency to other countries than it demands from them. The influx of capital is a boon for the banking sector and has even prompted some to proclaim that the United States is the "new Switzerland." Overstated or not, it is a remarkable transformation that has largely been brought into focus through revelations contained in the Panama Papers.

The final fallout from the Panama Papers remains to be seen, but one of the casualties (or at least the wounded) may very well be the secrecy offered onshore by United States' jurisdictions. While the biggest tax data leak in history has provided a never-before-seen glimpse into an opaque global financial system and web of offshore entities, its revelations may also prompt a fresh look at U.S. policies. It is a brave new world indeed. ■

Jason B. Freeman, JD, CPA is the managing member of Freeman Law PLLC, based in the DFW Metroplex, and an adjunct professor of law at Southern Methodist University's Dedman School of Law. He can be reached at Jason@freemanlaw-pllc.com.

Adjust Your "Style!"

By Mano Mahadeva, CPA, MBA | Column Editor

Communication is a critical skill that employers desire across all positions. It is no longer a ***soft*** skill, but ***THE*** skill that helps us connect with others and can set apart a great employee from one who is average.

Want to become a better communicator? One crucial but often overlooked facet of being an excellent communicator is to understand the way in which the listener receives information or their communication "style" – and adjusting our style to fit.

To gain further understanding of communication style, we can extract learnings from the posits of Carl Jung and Sigmund Freud on behavioral dynamics. Humans are complex beings, each with a unique way to send, receive and process information. It behooves us to understand how our audience processes information so we can effectively relay our own message. However, we live in a very fast-paced society; we have limited resources within our reach and we have too much to do. Chances are most of us do not take the time to understand the people we work with and elements that make them tick.

Do any of these statements sound familiar?

1. "Bob, your presentation is TOO LONG! Please keep it within three minutes the next time."
2. "Sue, where are all the DETAILS behind your presentation? I need to understand details of each and every variance in revenue and expense on a monthly basis."
3. "Have ALL team members reviewed this proposal and agreed to move forward?"
4. "Oh, absolutely! We can reach these targets easily! Go, team!"

Questions like the ones above come up when we fail to consider the audience before we create our message. We need to be strategic in our messaging.

As an example, in comment one, the person wanted a short, concise update, but the message was most likely provided by a hard-charging, big picture, bottom-line focused individual.

In comment two above, the question probably came from someone extremely detailed-oriented, with a focus on quality and caution. Presenting a high-level, three-minute update would not have been an effective communication strategy for this questioner.

Learning to connect with our workplace colleagues will require a genuine interest on our part to watch people and see how they work. How do they get things done? How are others successful getting these people to buy-in?

Try stepping into another person's shoes. Watch what they say, how they say it and equally as important – what do they not say? Pay attention to word choice. How do they make a pitch? How do they hold their ground and when do they back off?

You can learn a lot by watching, but you can take understanding to the next level by ASKING your audience how they would like to receive information from you. Chances are you will gain many behavioral insights for dealing with different types of people and situations and will be better equipped to adapt your style appropriately. As we continue to observe and study the various characteristics of our colleagues, keep a mental account of their traits and styles. Try to separate them into groups, such as those who like to get to the point in a hurry and those who don't like to rush into a decision. Which individuals want details and structure before declaring a position and which individuals are bundles of enthusiasm right from the start? Divulging all of this information requires work and practice, but is hugely useful.

As we begin to understand the makeup and priorities of our colleagues, this will make us a more effective communicator. This will also help us reduce our frustrations, save time and prepare to become capable leaders!

Mano Mahadeva, CPA is CFO with Solis Health in Addison, Texas. He serves on the editorial board for TSCPA. Mahadeva can be reached at mmahadeva@solishealth.com.

New Proposed AICPA Initiative Designed to Enhance Audit Quality

By C. William (Bill) Thomas, CPA, Ph.D.

Business, and the ways it is conducted, is changing at a rapid pace, largely because of advances in technology and expanding globalism. Innovation and expansion has, in some cases, increased complexity in the way business transactions are measured and reported. That complexity and the new risks it poses has resulted in ever-increasing challenges for the auditing profession. To continue to provide high-quality audits of financial statements that professional accounting firms strive for, they must meet and overcome these new challenges.

Audit quality has been an initiative of the accounting profession for almost 40 years, but has never been more important than now. In May 2014, the American Institute of CPAs (AICPA) launched its Enhancing Audit Quality initiative. The initiative is "a holistic effort to consider auditing of private entities through multiple touch points, especially where audit issues have emerged." The goal is to align all audit-related objectives of AICPA to improve audit quality. In pursuit of this goal, AICPA has developed a new peer review concept, the Practice Monitoring Program.

The Practice Monitoring Program

As envisioned now, the program "would be built on a practice monitoring technology platform and expand on the benefits of the current program while more fully embracing the ever greater roles that technology innovation, optimal risk management and timely transparent results are playing in the delivery of CPA services."

The new Practice Monitoring Program is expected to increase the public's protection through greater audit effectiveness by highlighting potential quality risk indicators and detecting engagement issues earlier, reviewing all firms that perform auditing, accounting and attestation engagements and monitoring all engagements subject to review.

The current program identifies and assists in correcting deficiencies and inefficiencies, helping firms prevent reoccurrence, terminates or drops from the program when reoccurrences are not corrected; educates practitioners in the reviewed firm of recent and expected professional standards; and provides opportunities to share best practices.

The new Practice Monitoring Program would improve the current program by continuously reviewing firms' accounting, auditing, and attestation engagement and systems, with quality issues being detected and corrected in real-time, not after the fact. The program would also have near real-time inspections based on performance level. It would provide for greater consistency and transparency for stakeholders.

As currently envisioned by AICPA, the new Practice Monitoring Program would be powered by five activities – continuous analytical evaluation of engagement performance, human review when system-identified concerns are raised, involvement of external monitors when necessary, periodic inspection of system integrity and oversight of the system's operating effectiveness. This new program would cover both internal and external monitoring of firm activities to encompass all accounting, auditing and attestation engagements the firm performs.

Implementation of the Program

The new program is scheduled to be developed and implemented in multiple stages. During the initial phase, a self-monitoring tool would be developed and pilot tested by small, medium and large firms. The tool would be used internally by a firm to highlight potential risk areas within its system of quality control, which, if corrected promptly, could lead to enhanced quality. AICPA would work with the pilot firms and their peer reviewers to consider how to transition the program's new tool into a more real-time review process.

In future phases, once AICPA integrates the new tool into the current program and uses the feedback from the pilot program to fix issues, AICPA would transition the new program from voluntary to mandatory for all firms and replace the current program.

The Six-Point Plan

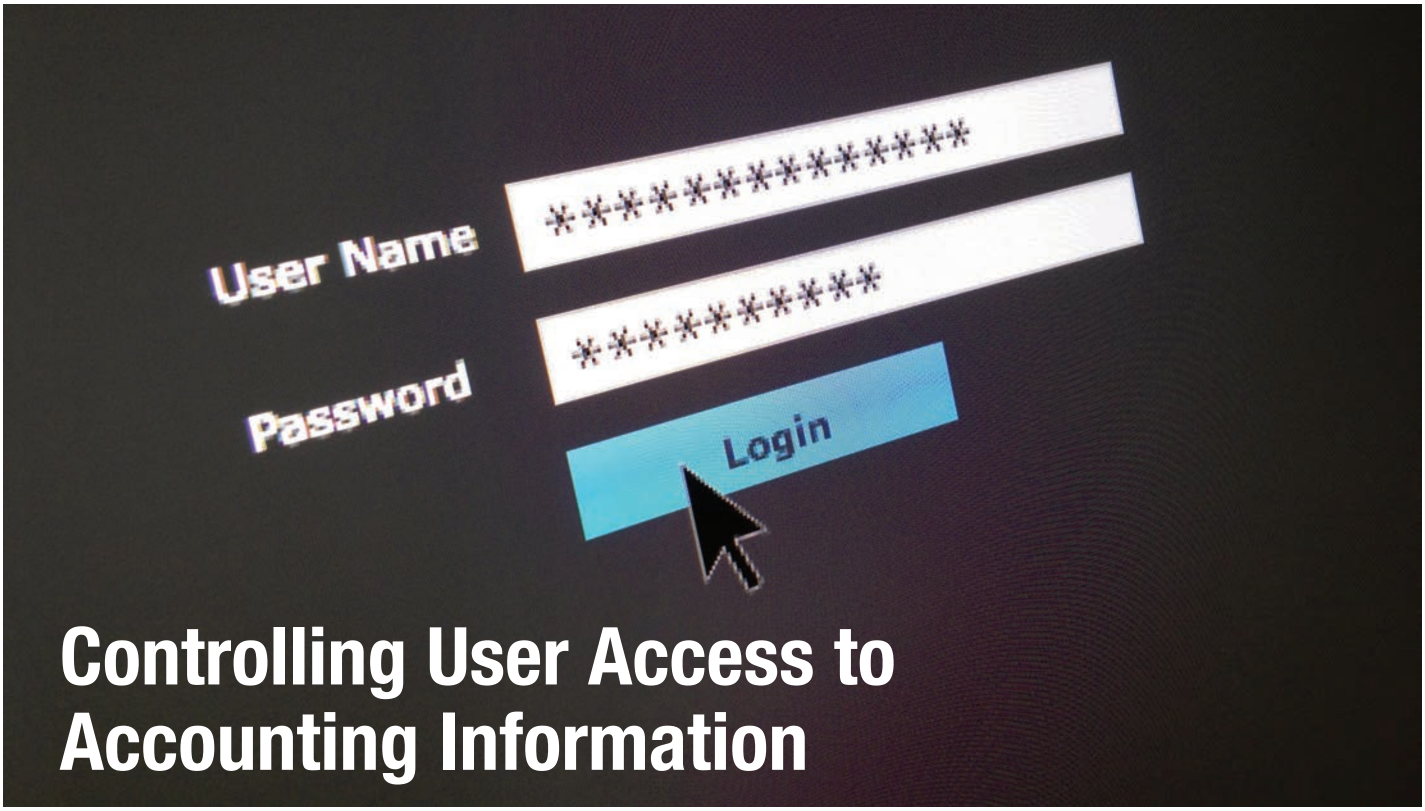
In June 2015, AICPA released its new six-point plan to improve audit quality. This plan was written in response to improving audit quality through all aspects of the audit. The six-point plan includes improving the pre-licensure process by improving the CPA exam, increasing standards and ethics, increasing CPA learning and support, focusing on greater risks for peer reviews, implementing the new Practice Monitoring Program and reinforcing the Code of Professional Conduct.

The Future of Audit Quality

Through the advanced technology and enhanced internal monitoring capability, the new Practice Monitoring Program and six-point plan are expected to increase audit quality and effectiveness. These enhancements would provide greater value to the firm and its stakeholders through increased transparency, with additional external monitoring to enhance the reliability of shared results.

As the new program evolves, stakeholders will have opportunities to provide input, with formal exposure drafts issued before any significant changes are made to the existing peer review program. For more information on this topic, please visit AICPA.org. ■

C. William Thomas, CPA, Ph.D. is the J.E. Bush professor of accounting in the Hankamer School of Business at Baylor University in Waco. Thomas can be reached at Bill_Thomas@baylor.edu.



Controlling User Access to Accounting Information

By Jessie George, Ph.D., CPA, CISA

Security breaches to a company's computer system seem to be occurring on a more frequent basis. Defense in depth is a concept used by information technology professionals to describe the multiple layers of security that protect an organization's information. If one security layer is breached, there will be several other layers in place to protect the data.

However, controlling user access to accounting data should not be left solely in the hands of IT professionals. Accountants are the owners of their company's financial data and need to play an active role in securing the data. Therefore, it is vital that accounting professionals manage who has access to the accounting data. This article will provide insight on the various layers of information security and provide control practices that accountants can use to protect their data.

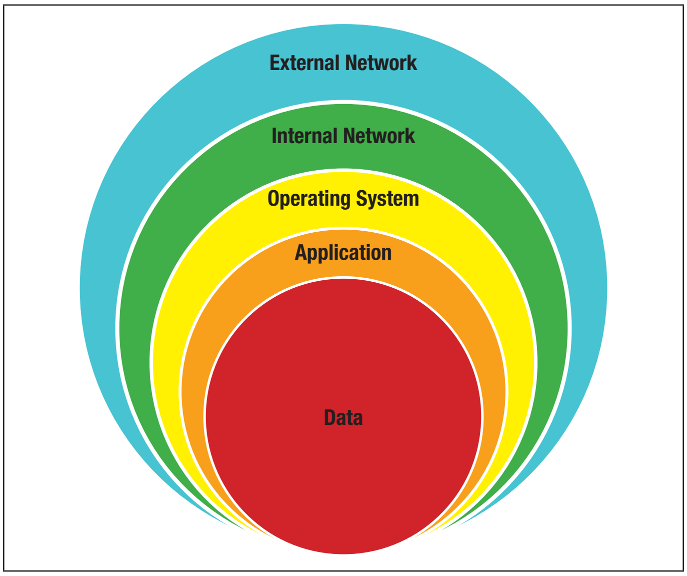
Layers of Information Security

With the defense in depth approach, most organizations have internal controls implemented at various levels within the computing environment. As shown in Figure 1, there are five layers where internal controls could be applied. The external network or network perimeter is where a company's computer systems interact with those outside of the enterprise via the Internet. Perimeter security includes firewalls, anti-virus software and intrusion detection systems to protect the company's information. The internal network is where computers within an organization communicate with each other. A virtual private network or VPN is a control mechanism used by an organization to allow legitimate users access to the company's internal network remotely.

The next layer is the operating system. Most people log on to the operating system when they start their work day. Operating systems, such as Windows, allow users to communicate with the computer without being able to code. The operating systems are used to access the printer and various applications, and to save information. The application and data layers are the two levels of security that directly impact accountants. Some common accounting applications include SAP, Oracle, Peachtree and Quickbooks.

Many application security controls involve user access to the system and the appropriateness of their access. The data layer consists of the database used to store the data. If the database is unprotected, the multiple layers of security are rendered virtually ineffective. Weak security controls within the application and data layers could allow individuals to directly access the data and change the company's financial information. These changes, whether intentional or unintentional, could go unnoticed. It is critical for accounting leadership to understand how inappropriate individuals could gain access to the data so they can implement controls to mitigate that risk. Some of these controls include minimizing and monitoring privileged ID usage, defining roles and responsibility, implementing segregation of duties, managing user provisioning, and limiting access to important accounting documents.

Figure 1. Layers of Security in a Computing Environment



Privileged IDs and Super User Access

Super users and other administrative roles are very powerful. These privileged IDs are designed to support the system and have the ability to navigate throughout different areas within the computing environment. These IDs hold an excessive amount of access, which inherently includes conflicting duties. In addition to the segregation of duties issues, individuals with this access may be able to bypass the multiple layers of internal controls.

Despite the risks, these IDs are necessary for maintaining and managing the accounting system. To manage the risk associated with these IDs, its usage should be limited to a small number of IT professionals. Individuals in the accounting department should not have this level of system access. The activity of those with access to privileged user IDs should be regularly monitored to ensure their activity is appropriate.

Define Lines of Responsibility

Someone must ensure system access is appropriate. Organizations should create a process to confirm that each user ID and each user role is owned or managed by a person with the proper knowledge and experience. Of course, organizations come in all different shapes and sizes. In smaller organizations, there may only be one owner of the user IDs and roles. In larger organizations, every manager may be responsible for specific user IDs and user roles.

Many organizations have an access control matrix or security matrix to manage the users, their roles and the owners. The matrix can be used to document how roles align with each position. Figure 2 provides a sample matrix that shows the roles that should be assigned to an individual with a specific job responsibility. The user and role owners must ensure that only appropriate people have access to the system and their access corresponds to their job requirements. The process of defining access should also include an evaluation of segregation of duties to ensure no job requires conflicting activities.

Figure 2. Sample Access Control Matrix in Which Roles Are Assigned Based on Job Responsibility

Job Title	Purchase Orders	Invoices	Vendors
P2P Manager	View	View	View
Procurement Specialist	Create	No Access	View
A/P Analyst	View	Create	View
Vendor Maintenance	View	No Access	Create

Department: Procurement & Payable

continued on next page

Internal auditors, external auditors, consultants and contract workers are individuals who might have access to the accounting system, but might not report to someone in the accounting department. These people can easily slip through the cracks if owners are not clearly defined. Let's say a role owner notices an internal auditor has access to his role. He knows the individual and remembers that she works in the internal audit department. Therefore, he assumes access is appropriate. However, the role owner may not know that this employee is no longer working on that audit and that the access is no longer needed. The owner of the auditor's ID would ensure the auditors only have system access that related to their current audit work.

At a minimum, the owners should perform an access review on an annual basis. Figure 3 provides an example of the employees within John Doe's group. However, he is also the role owner of the invoice role. The analysis shows that there are individuals with access to the invoices role that are not a part of his user group. He would need to evaluate the appropriateness of each person's access. If the controls are working properly, John Doe would have had to approve the role access to the individuals with invoice access regardless of who owns the ID.

Figure 3. Sample Access Review Sheet for Owner with Users and Roles

User Department: Procurement & Payable
User Owner: John Doe

User	Job Title	Purchase Orders	Invoices
Angie	P2P Manager	View	View
Lindsay	Procurement Specialist	View	Create
Michael	A/P Analyst	Create	No Access
Reggie	Procurement Specialist	View	Create
Sarah	A/P Analyst	Create	No Access

Role: Invoices
Role Owner: John Doe

User	Job Title	Invoices
Angie	P2P Manager	View
Lindsay	Procurement Specialist	Create
Nancy	Temporary Contractor	Delete
Reggie	Procurement Specialist	Create
Stephanie	Auditor	Create

Segregation of Duties

Segregation of duties is a process in which an organization separates various activities to prevent an individual from performing conflicting activities. For example, an employee responsible for creating vendors should not be allowed to process invoices. The segregation would prevent employees from sending payments to themselves. A segregation of duties matrix should be used to document conflicting activities that should not be allowed.

Occasionally, a business might need an employee to have conflicting responsibilities. In that case, management should implement compensating controls to mitigate the risk associated with the conflict. Using the previous example, a company could implement a control to prevent the employee from processing invoices to any vendor he created or updated. Alternatively, any vendors created by this user could be independently verified to ensure authenticity.

User Provisioning

Companies need a defined process for managing the user access of new hires, terminated employees and departmental transfers. This process ensures that individuals have access that aligns with their job duties. The individual's new supervisor should request the access needed. Both the user ID owner and the role owner(s) should approve the access request. Only then should the individual be granted access to the accounting system.

Terminated users should be removed as soon as possible. Typically, the employee's supervisor or human resources requests the removal of system access. When an employee is fired, human resources can request the employee's access be removed prior to termination. The early removal of access can prevent the former employee's retaliation using the system. Employees who take on new roles within the company are more complicated to manage. Controls should be in place to ensure not only the new rights are granted, but the old rights are removed. The process should also prevent segregation of duties conflicts.

Securing Spreadsheets and Other Accounting Documents

Often, CPAs export information and manually manipulate the data in documents or spreadsheets. The problem is that data can be altered if an inappropriate individual has access to these files. Therefore, sensitive and confidential information should also be secured. First, the files should be held in areas with a limited number of users. For example, employees who work in the financial reporting department should be the only ones who can access the files in the financial reporting drive or folder.

For additional levels of security, files can also be password protected to limit the amount of individuals who can access the file. The large amount of data and complex formulas that might be used in a spreadsheet makes it especially vulnerable. Specific cells can be locked down to ensure no one accidently or purposely alters the data and calculations.

Managing security of accounting information is a complex task. By understanding the fundamental security processes and controls, CPAs can play a vital role by ensuring the integrity of their company's financial information. ■

Jessie George, Ph.D., CPA, CISA is a visiting assistant professor of accounting at the University of Houston-Downtown. She may be contacted at georgeje@uhd.edu.

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TSCPA has partnered with Pearl Insurance to offer the TSCPA Member Insurance Program. The program offers a variety of personal and professional insurance plans, including the TSCPA Private Health Care Exchange.
Go to http://tscpainsure.org/.

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InterCall
Exclusive rates on audio and web conferencing services. 1-800-636-2377

YourMembership Career Center
Online career center for accounting and finance professionals. tscpa.careerbank.com

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Discounts on professional framing of all certificates.
800-677-3726

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TSCPA Members' Retirement Program – Members are waived $25 enrollment fee.
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Receive all the enrollment benefits associated with TSCPA membership and have the cost of the course billed to your firm. Visit the Member Benefits Marketplace at tscpa.org.

Texas Society of Certified Public Accountants

Please visit the Member Benefits Marketplace at tscpa.org for complete information and links to each of our Member Discount Programs.

Questions? Contact the Member Benefits Administrator at 1-800-428-0272 ext. 216 or craffetto@tscpa.net.

No Bones About It

Houston CPA Dishes the Dirt

By Anne McDonald Davis

Last summer, **Marcel Frey**, CPA-Houston, dug up a 12-foot mammoth tusk that's about 17,000 years old. But he didn't get to keep it and he can't tell you where he found it.

Frey, a passionate volunteer for the Houston Archeological Society, expounds: "A couple years ago, my recently retired father started emailing me photos of various digs he'd been on. I wanted to know how he got invited to do that! Turns out that they (HAS) are always looking for volunteers to assist and I decided he couldn't have all that fun by himself."

Texan, Native American, prehistoric – whatever – Frey says he's long been a voracious student of history. So TAS membership for the princely sum of $25 per year was right up his alley. Monthly lectures, show-and-tell from digs and actual hands-on excavation are some of the main attractions.

Last summer's San Felipe dig.

"The state does not have the financial resources or the human resources to tackle all the projects that are out there," he explains. "For example, the site of Stephen F. Austin's land office at San Felipe on the Colorado River has never been properly excavated." The same building served as William B. Travis' (commander of the Alamo) last law office before he met his doom.

Frey says it's "fascinating and a privilege" to be involved with projects that can actually affect what's written in the history books. Even though any significant artifacts go straight to the State museum and even though he is forbidden to disclose where relics were located, whenever he gets a break from work these days, he's raring to go.

About Work

Before he was a history buff or an archeology aficionado, Frey was a Strake Jesuit graduate from inner city Houston with plans to become a doctor.

"Then I ran into a little something called 'organic chemistry,'" he laughs. "That was that, although I can still read a medicine bottle."

So there he was at 20, a sophomore in college who'd decided to forgo science and pursue a business degree. But which one? His girlfriend's father, a successful oilman, advised, "Go for accounting and you'll figure it out."

After duly receiving his accounting degree from Texas A&M, Frey pursued public accounting and says he "cut his teeth under the legendary Benny Hruzek." But soon the big oil downturn of the early '80s found him being bumped from job to job as staffs were cut.

"I decided, hey, if I'm going to starve, I can do it just as well on my own," Frey jokes about his decision to start a practice.

In the years to come, his clients began bringing him as many limited partnerships and various sorts of investment deals for analysis and advice as tax and accounting work, and Frey discovered he had a knack for the former. What's more, he preferred it. So he "boned up on the stuff" and pursued becoming a CFP (Certified Financial Planner), predating AICPA's PFS certification. He came to enjoy his new incarnation tremendously.

Frey observes: "Many CPAs will understand this – I'm off the IRS deadline treadmill. I can actually enjoy springtime. When I send pictures of me in the Florida Keys or an exotic golf course, I get hate mail from old colleagues (laughs). That said, it's been an asset to come from a tax background. I know to think about tax implications when giving advice. The financial planning industry really needed people with that knowledge base. I still lean on the guy who bought my practice to stay on top of changes."

Frey sold his practice in 1996 and teamed up with New York Life where more than two decades later, he remains. He also spent his early years heavily involved with the Houston Chapter, their financial planning committee and running what they call "Study Group A" for smaller firms.

Retirement

Naturally, Frey hopes to someday spend his golden years asking himself questions like, "When was the last time this artifact was touched by human hands?" But he says you don't have to be retired to participate.

"Volunteers range in age from grad students to people in their 80s," he enthuses. "There's so much to do and see. You'll never be bored." ■

Marcel Frey and his son Jeffrey at the San Felipe dig.

Is the November 2016 Election Already Over?

By Bob Owen, CPA | TSCPA Managing Director, Governmental Affairs

Tuesday, Nov. 8, 2016, is the national election date for the United States presidential election. Texas legislators and a few statewide offices will also be decided on that date. Most statewide offices are not on the ballot, as their four-year terms are set to expire in a non-presidential election year. (Texans wouldn't want anything going on outside of Texas to have an influence – at least the candidates prefer only Texas influence.) Some Texas Supreme Court justices and Appeals Court judges will be decided, as well as a spot on the Texas Railroad Commission.

All statewide offices have been won by Republicans for many years in Texas and this election should be no different. Unless there is a mighty anti-Trump landslide that has down ballot power (maybe somewhere else, but not in Texas), the Republicans will still win all the statewide races.

Out of 36 races for Congress in Texas, only one is a competitive election. The lone competitive race is for CD-23 with U.S. Rep. Will Hurd (R-San Antonio) facing a rematch with former U.S. Rep. Pete Gallego, (D-Alpine). This is a huge district as you can tell from the home towns of the candidates. It's the only real toss-up seat that has been held by Democrats and Republicans from time to time. According to the *Texas Tribune*, the Democrats do better in presidential years in this district; Republicans in off-year elections. If that holds true, we could see a party switch in this one.

Likewise, most of the state legislative races have already been decided. Both federal and state legislative districts have been so gerrymandered that we can predict which party, and therefore which candidate, will win in November. Based on the voting demographics, we can more or less safely predict that there will be 20 Republicans and 11 Democrats in the Texas Senate for a total of 31; the same numbers as the last session.

Despite the Republican and Democratic count being the same, the Senate will have a more conservative leaning than last session. Two relatively moderate Republican senators chose not to run for re-election and they were replaced with more conservative candidates.

In the House, look for 91 Republicans and 48 Democrats. That's 139 members out of 150. That leaves only 11 seats that we can't comfortably predict the outcome. Of course, the election is still a few months away and individual candidates can do things to affect election outcomes, but generally speaking only in a negative way. For example, one Democratic legislative candidate is currently being investigated for ethics violation and if that investigation results in sanctions, it might give the Republican opponent an opening. (Although if you will excuse my skepticism, I suspect a Democrat even with a blemished record will win in that district. It's been done before.)

The potentially contested races include:

- HD 23 pits freshman state Rep. Wayne Faircloth (R-Dickinson) vs. former state Rep. Lloyd Criss (D-La Marque). Based on recent statewide voting percentages, this is a 55 percent Republican leaning district, but Democrats could benefit from the presidential election.
- HD 43 state Rep. Lozano (R-Kingsville) vs. Marisa Yvette Garcia (D-Utley), which is also a 55 percent Republican leaning district.
- HD 54 where the incumbent state Rep. Jimmie Don Aycock (R-Killeen) did not run for re-election. Republican Scott Casper (Killeen mayor) will face Democrat Sandra Blankenship. While past voting would normally put this race clearly in the Republican column, without an incumbent and with the influence of the presidential election, this may be one to watch.
- HD 78 in El Paso pits Democrat incumbent state Rep. Joe Moody against Republican newcomer Jeffrey Lane. This district is one of the few 50/50 districts and the race could go either way, although close races frequently go to the incumbent.
- HD 105 where incumbent state Rep. Rodney Anderson (R-Grand Prairie) is being challenged by Democrat Terry Meza. This is another 55 percent Republican leaning district and should be won by Anderson, but Meza has an opening.

- HD 107 incumbent state Rep. Ken Sheets faces Democrat Victoria Neave. This district leans 53 percent Republican and is always on the contested race list, but Sheets has won all his races so far and will likely win this time.
- HD 113 with incumbent state Rep. Cindy Burkett (R-Sunnyvale) facing Democratic challenger Rhetta Andrews Bowers. Like HD 107, this 55 percent Republican leaning district is always on the contested list and in fact was in the hands of the Democrats until Burkett won the seat.
- HD 117 where state Rep. Rick Galindo (R-San Antonio) is facing a rematch against his last election opponent, former state Rep. Philip Cortez. This is another toss-up district where the presidential election might mean a party change.
- HD 118 is another rematch with state Rep. John Lujan, who won a special election to gain the seat, facing his special election opponent Democrat Joe Farias. The demographics of this district show it to be 52 percent leaning Democrat; another true toss-up election.
- HD 144 may be the most interesting contested election. Incumbent state Rep. Gilbert Pena (R-Pasadena) is in a rematch with Democrat and former state Rep. Mary Ann Perez, who lost the last election by 152 votes out of almost 12,000 cast. The only prediction I'll make about this one is that the winner's last name will start with a "P."

In several of the races above, I mention the potential impact of the presidential election. Texas is one of only nine states that allow voting for all a party's candidates with one pull of the lever (or one punch of the touch screen).

But, as Ross Ramsey points out writing for the *Texas Tribune*, what if the party candidate at the top of the ticket is unpopular? He says, "Both Donald Trump and Hillary Clinton have higher "unfavorable" numbers than the Zika virus." In this situation, how the top candidates may affect the down ballot races is more of an unknown than usual. My guess is that incumbents will benefit.

When it's all over, the Republicans will still have substantial majorities in the House and Senate. The Senate will be more conservative than ever, but the moderate Republicans still control the House. Despite strong efforts by conservative Republicans to elect House members that would oppose Speaker Joe Straus, it's clear he has the votes to be elected Speaker of the House in 2017.

Don't use my predictions and skepticism as an excuse to skip the election. All of my predictions are based on reasonable voter turnout. If you stay home on Election Day, who knows what will happen? ■

Bob Owen, CPA is TSCPA's managing director of governmental affairs. Contact him at bowen@tscpa.net.

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AICPA, CIMA Members Overwhelmingly Approve Proposal to Advance Profession

AICPA®

CIMA
Chartered Institute of Management Accountants

Members of the American Institute of CPAs (AICPA) and the Chartered Institute of Management Accountants (CIMA) overwhelmingly approved a proposal to create a new, international accounting association that will integrate operations of both organizations, while preserving the existing membership bodies. Voting concluded in separate AICPA and CIMA membership ballots on June 16 and a supermajority of members who voted from both organizations endorsed the proposal. The AICPA ballot passed 86.5 percent to 13.5 percent, according to independent tabulator Survey and Ballot Systems. CIMA members endorsed the proposal 89.7 percent to 10.3 percent, according to their independent tabulator Electoral Reform Services.

"In developing this proposal, we were careful to structure commitments to CPA and CGMA, CIMA and AICPA and public practice and management accounting," said AICPA President and CEO Barry Melancon, CPA, CGMA. "We are excited about crafting a path forward that reflects how the world is changing. At the same time, we will be extraordinarily mindful of protecting our collective history and the strong reputation both organizations have built over the past century. This is about building on what is great – and addressing an exciting evolving world."

The new association will represent more than 600,000 current and future accounting professionals and will raise the profile of public and management accounting in the U.S. and abroad. It will enhance resources, provide more market insights and have a stronger advocacy voice. AICPA members will get these benefits and automatic dual membership in AICPA and the new association as part of their regular AICPA dues, which will continue to be set and adjusted in line with historic norms.

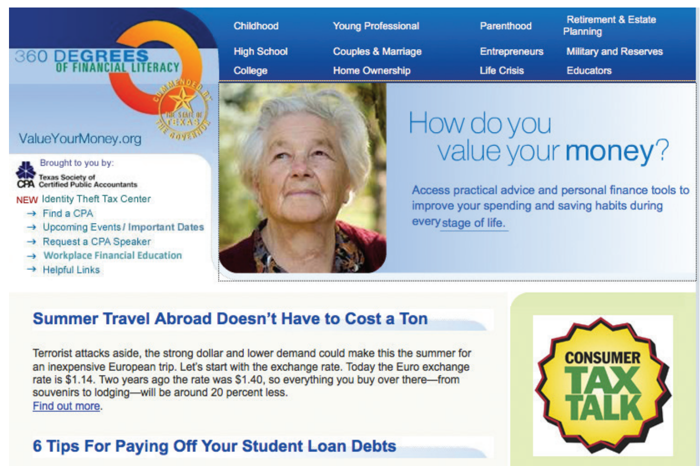
AICPA will continue its strong partnership with state societies to promote, protect and grow the CPA profession. Fifty-two state CPA societies passed resolutions in support of the member ballot proposal, including TSCPA.

The new association is expected to launch in 2017. Additional details will be provided as they become available in the coming months. ■

Renewing Your Membership

If you haven't already renewed your TSCPA membership, now is the time! TSCPA dues notices were sent out and paper statements were sent to members who had not yet renewed their dues by the end of May. You can access and update your records and pay your dues online at tscpa.org; don't forget to consider our affiliate contributions, if applicable.

If you have a question regarding your member dues, please contact Member Services at 800-428-0272, option 1. TSCPA looks forward to continuing to serve you in the 2016-2017 year. ■



Free Financial Literacy Resources Available on ValueYourMoney.org

TSCPA offers free personal finance resources for the workplace. The information is available for download on the Society's financial literacy website, ValueYourMoney.org, and can be shared with your employer, employees and colleagues. Topics include buying a home, setting and keeping a budget, establishing good credit, protecting your identity, teaching kids about money and more.

You can access the material in a variety of sources, including articles for newsletters/intranets, table tents for the break room, flyers for bulletin boards and paycheck inserts. Go to the Workplace Financial Education area of the site at ValueYourMoney.org to read and download the information. ■

Submit an Article to *Today's CPA* Magazine

Would you like to see your name in print? The editors of *Today's CPA* are seeking article submissions for the magazine. *Today's CPA* is a peer-reviewed publication with an Editorial Board consisting of highly respected CPA practitioners.

The publication features articles and columns that focus on issues, trends and developments affecting CPAs in all facets of business. If you would like to submit an article for consideration or to learn more, please contact managing editor DeLynn Deakins at ddeakins@tscpa.net or technical editor Brinn Serbanic at Brinn_Serbanic@baylor.edu. ■

Accountants Confidential Assistance Network Seeks Volunteers

The Accountants Confidential Assistance Network (ACAN) supports Texas CPAs, CPA candidates and/or accounting students who are addressing alcohol, chemical dependency and/or mental health issues. ACAN provides a confidential phone line at **1-866-766-ACAN** to help people who need assistance or you can also contact TSCPA's Craig Nauta at cnauta@tscpa.net.

ACAN groups and Friends of Bill Wilson meet regularly at the following times and locations.

Austin	Dallas	Houston	San Antonio
Covenant Presbyterian Church 3003 Northland Drive Noon on the third Friday of the month	Saint Michaels and All Angels Church 8011 Douglas Ave. 6:15 p.m. every Monday	LCL/ACAN Meeting Wortham Tower Cafeteria 2727 Allen Parkway Monday mornings at 7:30 a.m.	Eileen Lanagan, P.C. 11950 Starcrest, Ste. 201 210-828-1467 I410 and Broadway Second Monday evening at 6 p.m.

Succession Planning Resource for TSCPA Members

TSCPA offers the Practice Management Institute to assist members with their firm management and practice management issues and needs. Developed in partnership with the Succession Institute LLC, the Practice Management Institute provides TSCPA members with free material and content on succession planning. There are also CPE self-study course offerings available at a discounted rate for those who would like to receive CPE credit. To learn more and utilize this members-only resource, please go to the CPE section of the TSCPA website at tscpa.org, scroll down and select Practice Management under Tools and Information.

TSCPA Recognizes 2016 Rising Stars

TSCPA congratulates the 2016 Rising Stars honorees. The 14 honorees were selected by a TSCPA task force based on their contributions to the accounting profession and their communities. The 2016 Rising Stars include:

- Ryan Bartholomee, CPA-Permian Basin
- Aaron Borden, CPA-Dallas
- Bryce Bowley, CPA-South Plains
- Jason Cables, CPA-Dallas
- Toni Ciggs, CPA-Fort Worth
- Tatiana Markov, CPA-Fort Worth
- Ashlee Martin, CPA-Austin
- Imelda Moreno, CPA-El Paso
- Kate Rhoden, CPA-Austin
- Norman Robbins III, CPA-Fort Worth
- Ruben Rodriguez, CPA-Houston
- Ryan Scharar, CPA-Fort Worth
- Mark Selking, CPA-Fort Worth
- Sean Skellenger, CPA-Austin

These members will be featured in the September/October 2016 issue of *Today's CPA*.

What's New On the TSCPA Website

Go to tscpa.org to learn more about …

TSCPA's Redesigned Career Center/Job Board. TSCPA's career center/job board has been redesigned. It is now mobile responsive and optimized for search engines. It also gives employers improved products and packages to attract talent to their organizations. Go to http://tscpa.careerbank.com to learn more.

New Posts on the Sharblog. TSCPA's Executive Director/CEO, J**ohn Sharbaugh**, CAE, shares his thoughts and ideas on TSCPA and professional matters, along with an occasional post about life in general. You'll find a link to the Sharblog on TSCPA's website on the left side of the homepage.

Need an Answer? Ask a Member!

TSCPA's Ask a Member program is an important benefit of your TSCPA membership. This easy-to-use resource allows you to access the knowledge of your fellow 28,000-member Texas CPA network. Whether you are assisting a client outside your area of expertise, are considering a new venture, or have a management accounting issue or concern, Ask a Member volunteers provide quick, informal assistance on an as-needed basis, via phone or email. Go to the Resource Center on the website at tscpa.org and click on Ask a Member.

Disciplinary Actions

Kenneth C. Boothe, Big Spring, entered into a settlement agreement under the Joint Ethics Enforcement Program in lieu of further investigation and proceedings of alleged violations of the Code of Professional Conduct of the AICPA Institute of CPAs and the Texas Society of CPAs. Without admitting or denying any wrongdoing, Boothe was **suspended** from membership in AICPA and TSCPA for a period of two years, effective May 19, 2016.

The following people have had their membership in TSCPA **suspended** by the Executive Board for a period of three years for non-compliance with TSCPA ***Bylaws*** Article III, Section (4A) for non-compliance with the Texas State Board of Public Accountancy's continuing professional education requirements:

- John T. Caldarola, CPA, San Antonio
- Frank R. Pierce, CPA, Houston

As a result of a decision by a hearing panel of the Joint Trial Board, the following member had his TSCPA membership **expelled**:

- Joel D. Reed of Houston was found guilty of violating TSCPA ***Bylaws*** Article III, Section (8)(d) for failure to cooperate with an ethics investigation. He was expelled from TSCPA effective June 18, 2016.

The following people have had their membership in TSCPA **expelled** by the Executive Board under TSCPA ***Bylaws*** Article III, Section (4B). This action was a result of the revocation of their CPA certificate by the Texas State Board of Public Accountancy.

- Jack B. Clendenin, New Braunfels
- Ben R. Smart, Amarillo
- Welford K. Wheaton, Houston
- Percy P. Woodard Jr., Denton

2017-2018 LEADERSHIP NOMINATIONS

The nominations process is one of the most important activities affecting the success and future of the Texas Society of CPAs. Your input is vital! I urge you to complete this form and return it by **Aug. 1, 2016.**

The Nominations Committee members are: Vice Chair Ben Peña, Vice Chair, Chuck Clark, Patrick Durio, Olivia Riley, Julia Hayes, Kirby Jackson, Amanda Johnson, Shelly Spinks, Mike Thomas, Amy Twardowski and Donna Wesling. **They are not eligible for consideration for any positions for which they are nominating.**

Please send your completed form to:
Nominations Committee, TSCPA; 14651 Dallas Parkway, Suite 700, Dallas, TX 75254-7408; Attention: Ali Allie, Staff Liaison; or by email at aallie@tscpa.net; or by fax: 972-687-8602.
Allyson Baumeister, Nominations Committee Chair

TSCPA Position Statement on Campaigning: Organized letterwriting campaigns and/or other methods of electioneering are NOT encouraged. Communiques from the general membership should not be sent to individual members of the Nominations Committee, but rather to the chairman of the Nominations Committee, in care of the TSCPA office in Dallas.

Nominated by: ....

Chapter: ....

City/State: ....

Email: ....

Chairman-Elect

2014-2015	2015-2016	2016-2017
Allyson B. Baumeister	Kathryn W. Kapka	James R. Oliver Jr.
Fort Worth	*East Texas*	*San Antonio*
2015-16 Chairman	*2016-2017 Chairman*	*2017-2018 Chairman*

Treasurer-Elect

2014-2015	2015-2016	2016-2017
Roxie Samaniego	Jesse Dominguez	Jerry Spence
El Paso	*Austin*	*Corpus Christi*
2015-2016 Treasurer	*2016-2017 Treasurer*	*2017-2018 Treasurer*

Secretary

2014-2015	2015-2016	2016-2017
Melanie C. Geist	Mitchell G. Perry	Janelle Jones
San Antonio	*Dallas*	*Houston*

Fill in nominations below:
2017-2018

....
(2018-2019 Chairman)

....
(2018-2019 Treasurer)

....
(2017-2018 Secretary)

Executive Board Members

Includes six Executive Board members for staggered terms. Four current members have unexpired terms. Two members for three-year terms will be selected by the Nominations Committee. Three members will be appointed by Chairman-elect Jim Oliver for a one-year term, 2017-2018. The TSCPA Executive Director/ CEO also serves as an Executive Board member.

2014-2015 Elected	2015-2016 Elected	2016-2017 Elected
Christi Mondrik *Austin* *(Three-year term ending 2015-16)*	Randy L. Crews *Rio Grande Valley* *(Three-year term ending 2016-17)*	Ryan Bartholomee *Permian Basin* *(Three-year term ending 2017-18)*
Jerry D. Spence *Corpus Christi* *(Three-year term ending 2015-16)*	Toni McBee Joyner *Brazos Valley* *(Three-year term ending 2016-17)*	Edith T. Cogdell *San Antonio* *(Three-year term ending 2017-18)*
Randy L. Crews *Rio Grande Valley* *(Three-year term ending 2016-17)*	Edith T. Cogdell *San Antonio* *(Three-year term ending 2017-18)*	Jason B. Freeman *Dallas* *(Three-year term ending 2018-19)*
Toni McBee Joyner *Brazos Valley* *(Three-year term ending 2016-17)*	Ryan Bartholomee *Permian Basin* *(Three-year term ending 2017-18)*	Thomas J. DeGeorgio *Houston* *(Three-year term ending 2018-19)*

2014-2015 Appointed	2015-2016 Appointed	2016-2017 Appointed
David E. Colmenero *Dallas*	John E. Baines *Dallas*	Terri Hornberger *Dallas*
Susan J. Spillios *Houston*	Stephen G. Parker *Houston*	Lyle C. (Cory) Joiner *Panhandle*
William J. Kelley *Permian Basin*	Benjamin C. Simiskey *Houston*	Royce E. Read *East Texas*

Fill in nominations below:

....
Three-year term (ending 2019-2020)

....
(Three-year term ending 2019-2020)

2017-2018 LEADERSHIP NOMINATIONS

Directors-At-Large

Terms Expiring 2017

Jennifer M. Fox
Brazos Valley

Michelle R. Downs
Central Texas

Jason B. Freeman
Dallas

Royce E. Read
East Texas

Jennifer Hennessey
El Paso

Kelly R. Hein
Fort Worth

Benjamin C. Simiskey
Houston

Carol B. Collinsworth
Rio Grande Valley

Blaise C. Bender
San Antonio

Wendi C. Taber
Southeast Texas

Bradley D. Brown
Southeast Texas

Sheri K. DelMage
Southeast Texas

Terms Expiring 2018

Belen Briones
El Paso

Michael L. Brown
Central Texas

Rusty Chimeno
Southeast Texas

Amanda Johnson
Fort Worth

Jan Keeling
Austin

Lyn Kuciemba
Brazos Valley

James Lucas
Houston

Lisa Ong
Dallas

Rodney Overman
East Texas

Keith Reeger
South Plains

Jeannette Smith
Rio Grande Valley

Donna Tadlock
Central Texas

Terms Expiring 2019

Katy Avenson
Austin

Leroy Bolt
Abilene

David Colmenero
Dallas

Travis Garmon
Fort Worth

Tram Le
Fort Worth

Stephen Parker
Houston

Ben Peña
Rio Grande Valley

Priscilla Soto
San Antonio

Shelly Spinks
Central Texas

Jesse Vick
Permian Basin

Laura Williams
Southeast Texas

Veronda Willis
East Texas

Fill in nominations below:
(Terms expiring 2020)

Nominations Committee Member

Members of the Committee on Nominations shall have been members of the Society for at least five years and may not serve two succeeding years.

Terms Expiring 2016

Mark D. Lee, Chair
Houston
Keith Reeger, Vice Chair
South Plains
Connie Clark
Austin
Ryan Bartholomee
Permian Basin
Mark Goldman
San Antonio
Kelly Hein
Fort Worth
Gail Neely
Houston
Royce Read
East Texas
Teri Reinert
El Paso
Ken Sibley
Dallas
Carol Collinsworth
Rio Grande Valley
Lei Testa
Fort Worth

Terms Expiring 2017

Allyson Baumeister, Chair
Fort Worth
Ben Peña, Vice Chair
Rio Grande Valley
Charles Clark
San Antonio
Patrick Durio
Houston
Olivia Riley
Austin
Julia Hayes
Southeast Texas
Kirby Jackson
Dallas
Amanda Johnson
Fort Worth
Shelly Spinks
Central Texas
Michael Thomas
East Texas
Amy Twardowski
Corpus Christi
Donna Wesling
Austin

Fill in nominations below:
(One-year term expiring 2018)

AICPA Council

Ten members represent Texas. Three-year terms plus one one-year designee. The current TSCPA chairman-elect automatically fills the one-year designee vacancy, and the current TSCPA chairman automatically fills one of the three-year vacancies for AICPA Council.

Terms Expiring 2016

E. Leroy Bolt
Abilene

Dora J. Dyson
Central Texas

Stephen G. Parker
Houston

Fred J. Timmons
San Antonio

Allyson B. Baumeister
Fort Worth
(One-year designee)

Permanent Member:

B.Z. Lee
Houston

Terms Expiring 2017

William H. Hornberger
Dallas

Kenneth D. Sibley
Dallas

Lei D. Testa
Fort Worth

Kathryn W. Kapka
East Texas
(One-year designee)

Terms Expiring 2018

Mark D. Lee
Houston

Jim Oliver
San Antonio

William L. Reeb
Austin

Paul Stephens
Dallas
(At-Large)

Terms Expiring 2019

Allyson B. Baumeister
Fort Worth

Mitchell Perry
Dallas

Brenda (Roxie) Samaniego
El Paso

Carol Warley
Houston

Sheila Enriquez
Houston
(At-Large)

John Mackel
Houston
(At-Large)

Fill in nominations below:
(Terms expiring 2020)

How to Get in Trouble with the Texas State Board of Public Accountancy

A 10-year review of Texas State Board Reports provides insight into the most frequent ways that Texas CPAs run afoul of the Board and its rule.

By Gavin R. Villareal, JD

The Texas State Board of Public Accountancy is charged with policing the accounting profession and, when necessary, meting out punishment for violations of the rules of professional conduct that the Board has promulgated. (Tex. Occ. Code §§ 901.051, 901.501) Four times a year, the Board publishes the Texas State Board Report, a newsletter in which it lists the outcomes of Board enforcement actions. Many of these actions conclude with the Board's acceptance of an agreed consent order with the respondent.

The list covered in the following paragraphs represents the top 10 ways that practitioners (or in some instances firms) have run afoul of the Board. The list is based on a review of 40 Texas State Board Reports over 10 years (from May 2005 to May 2015), encompassing the outcomes of more than 5,000 reported enforcement matters, including licensing and CPE actions. The Board frequently opens separate matters involving both an individual practitioner and his/her firm based on the same underlying conduct. Many matters involved multiple rule violations.

Failing to Pay Licensing Fees

The most common type of Board enforcement action involves failure to pay licensing fees. In the 10 years reviewed, the Board revoked the certificates of 2,796 practitioners based upon Section 901.502(4) of the Public Accountancy Act, which authorizes discipline for "the failure of a person who is licensed under this chapter to renew the license not later than the third anniversary of the date on which the person most recently obtained or renewed the license." (Tex. Occ. Code § 901.502(4)) Pursuant to this subsection, the Board revokes the certificates of CPAs who have failed to pay license fees for three consecutive license periods. The revocation is "without prejudice," which means that the practitioner may regain his/her certificate by paying all of the outstanding fees and penalties, and "by otherwise coming into compliance with the Act."

Not Meeting CPE Requirements

Failing to take enough continuing professional education (CPE) is the second most frequent way to get in trouble with the Board. Texas CPAs are required to "participate in a program of continuing professional education designed to maintain professional competency." (Tex. Occ. Code § 901.411) To do so, they must complete 120 hours of CPE in each three-year period, and a minimum of 20 hours in each one-year period. (22 Tex. Admin. Code § 523.112(a)) Failing to meet the CPE requirements may result in license suspension for three years or until the licensee comes into compliance, whichever is earlier, as well as a $100 fine for each year of noncompliance. In the 10 years reviewed, the Board suspended 1,580 practitioners for failing to keep up with their CPE.

Ignoring the Board

It is a bad idea for a Texas CPA to ignore a communication from the Board. Rule 501.93 states that failing to respond to a Board inquiry, typically within 30 days from when the Board sent the inquiry (not from the practitioner's receipt of the inquiry), constitutes a separate rule violation. (22 Tex. Admin. Code § 501.93) In fact, the Board cited practitioners for not responding in a timely manner in 134 enforcement matters in the 10 years reviewed. The lesson: if a practitioner thinks he/she needs more time to respond, the best course of action is to communicate that need to the Board and seek an extension.

Practicing Without a Firm License

A firm cannot hold itself out to be an accounting firm or offer to provide attest services unless the firm holds a firm license issued by the Board or qualifies under certain practice privileges. (22 Tex. Admin. Code 501.81(a)) All firms are required to have a firm license if they have an office in Texas. (*Id*. § 501.81(b)) In addition to many cease and desist orders for entities holding themselves out as accounting firms without a firm license, the Board cited violations of these licensing rules in 134 enforcement matters between 2005 and 2015, frequently involving a practitioner holding himself/herself out as working at a firm when that firm had an expired firm license or no firm license at all.

Not Performing Work "Competently"

The current version of Rule 501.74 states that a person "shall not undertake any engagement for the performance of professional accounting services or professional accounting work which he cannot reasonably expect with due professional competence," including (where applicable) compliance with generally accepted auditing standards, generally accepted accounting principles and other

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professional standards. (22 Tex. Admin. Code § 501.74(a))

Texas CPAs can run afoul of this broad "competency" rule in a number of ways. The rule encompasses both the technical ability to do the work, and the ability to supervise and evaluate the quality of work performed by staff. (*Id*. § 501.74(a)(1)) If a practitioner does not have or cannot gain sufficient competency for the work, the practitioner "shall suggest to the client the engagement of someone competent to perform" the work, either independently or as an associate. (*Id*. § 501.74(a)(2)) In addition, licensees are expected to exercise due professional care in their work, adequately plan and supervise such work, and obtain and maintain appropriate documentation to provide a reasonable basis for their conclusions and recommendations. (*Id*. § 501.74(b)-(d))

Respondents were cited with a violation of the competency rule in 131 reported enforcement matters in the 10 years reviewed. About half of these matters involved tax services, and included such issues as failing to timely prepare a client's tax return or doing so incorrectly. About a quarter of the matters involved issues related to attest services, such as failing to properly plan a financial statement audit or to maintain adequate documentation of the work performed. The remainder included a variety of mistakes relating to general accounting advice, such as failing to apply the proper accounting treatment for a specific type of transaction.

Not Participating in Peer Review

This issue relates more to firms than to individuals. The Board has established "a peer review program to monitor CPAs' compliance with applicable accounting, auditing and other attestation standards adopted by generally recognized standard-setting bodies." (22 Tex. Admin. Code § 527.1(a)) Every firm licensed with the Board that performs "any attest service or any accounting and/or auditing engagements, including audits, reviews, compilations, forecasts, projections or special reports" is required to participate in the program. (*Id*. § 527.4(a)) If a firm does not perform such services, it is nonetheless required to submit a written request for an exemption from the peer review program. (*Id*. § 527.4(b)) In 105 matters in the 10 years reviewed, the Board disciplined firms for violations of the peer review requirements, often for wholly failing to participate in the peer review program.

Practicing Without a License

Rule 501.80 is fairly straightforward: "A person may not engage in the practice of public accountancy unless he holds a valid license or qualifies under a practice privilege." (22 Tex. Admin. Code § 501.80(a)) Also, a person cannot use the title "CPA" or "certified public accountant" without a valid license. *id*. In addition to many cease and desist orders for people using terms such as "CPA" and

"

THE MOST COMMON TYPE OF BOARD ENFORCEMENT ACTION INVOLVES FAILURE TO PAY LICENSING FEES.

"

"accountant" without a license, the Board had 78 enforcement actions between 2005 and 2015 involving practitioners performing accounting work without a valid license (often involving an expired or a suspended license).

Ignoring a Client and Other "Discreditable Acts"

Rule 501.90 prohibits Texas CPAs from committing "any act that reflects adversely on that person's fitness to engage in the practice of public accountancy." (22 Tex. Admin. Code § 501.90) The rules provide a non-exclusive list of acts that are "discreditable." The most frequent reason for discipline under this provision in the 10 years reviewed was the conviction or deferred adjudication for a felony. (22 Tex. Admin. Code § 501.90(4)) This provision came up in 65 reported matters, many involving convictions for drug crimes or felony DWI.

Other "discreditable acts" that were mentioned include:

- Suspension or revocation of, or entering into a consent decree concerning, the right to practice before any state or federal regulatory or licensing body, for a cause that the Board believes warrants the action. (22 Tex. Admin. Code § 501.90(7)) The Board cited this provision in 55 reported matters in the 10 years reviewed, most frequently following the revocation of a Texas CPA's practice privileges with the SEC or IRS.
- Repeated failure to respond to a client's inquiry within a reasonable time, without good cause. (22 Tex. Admin. Code § 501.90(12)), *previously id*. § 501.90(11). The Board cited this rule in 49 matters from 2005 to 2015.
- Final conviction or deferred adjudication in a crime involving dishonesty or fraud, moral turpitude, alcohol or drug abuse, or physical harm or the threat of physical harm. (22 Tex. Admin. Code § 501.90(5)) A crime of moral turpitude is defined as "a crime involving grave infringement of the moral sentiment of the community." (Id. § 501.90(19)) This subsection was cited in 46 reported matters.

Not Complying With GAAS

Rule 501.60 states: "A person shall not permit his name to be associated with financial statements in such a manner as to imply that he is acting as an auditor with respect to such financial statements, unless he has complied with GAAS." (22 Tex. Admin. Code § 501.60) The Board cited this rule in 62 reported matters involving audits with a wide variety of alleged GAAS deficiencies, including insufficient planning, mathematical errors, failure to make required disclosures and inadequate support for representations made in an audit report.

Not Telling the Board About a "Reportable Event"

As discussed above, Texas CPAs can run afoul of the Board by being involved in certain discreditable acts. But under Rule 501.91, practitioners can also get in trouble by failing to inform the Board about certain "reportable events," many of which are similar to discreditable acts. (22 Tex. Admin. Code § 501.91) For instance, a Texas CPA has an affirmative responsibility to report to the Board in writing within 30 days any of these events:

- a conviction or imposition of deferred adjudication for: a felony; a crime of moral turpitude; any crime "of which fraud or dishonesty is an element or that involves alcohol abuse or controlled substance;" or any crime "related to the qualifications, functions, or duties of a public accountant or CPA, or to acts or activities in the course and scope of the practice of public accountancy or as a fiduciary;"
- the loss of a CPA certificate in another state, foreign country or other jurisdiction;
- an unappealable adverse finding in a court, or an agreed settlement in a civil matter concerning professional accounting services or work, or a finding of breach of fiduciary duty, fraud or misappropriation; and
- the loss of a professional license from a state or federal regulatory agency resulting from an unappealable adverse finding.

Failing to report such events to the Board came up in 49 enforcement matters in the 10 years reviewed. In many instances, practitioners got in trouble (or, more accurately, in deeper trouble) for failing to report criminal convictions.

These are just a sampling of the ways that Texas CPAs get in trouble with the Board. Keeping these frequently violated rules in mind may help a practitioner avoid showing up on the Board's radar screen. ■

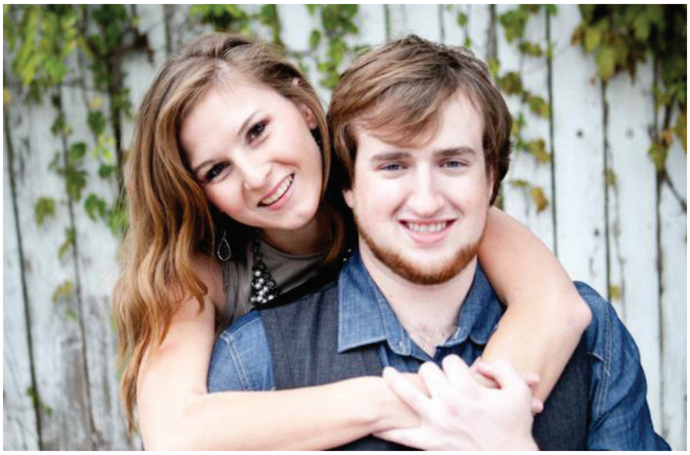
Gavin R. Villareal, JD is a litigation partner in the Austin office of Baker Botts L.L.P. He is past chair of the Professional Liability Litigation Committee of the American Bar Association's Section of Litigation, and has represented individuals and accounting firms in enforcement actions brought by the Texas State Board of Public Accountancy. He may be reached at gavin.villareal@bakerbotts.com.

A Change of Seasons

INCOMING CHAIR FINDS FRESH INSPIRATION IN TEACHING AND NEW TSCPA ROLE

Kathy Kapka, CPA-East Texas

Kanesha Roberson, senior accounting student, and Kathy Kapka



Chelsea and Kevin Kapka

PHOTO CREDIT: ALEX MALDONADO – ALEX M. PHOTOGRAPHY

By Anne McDonald Davis

Six years ago, incoming TSCPA Chairman **Kathy Kapka**, CPA-East Texas, was an auditor. She'd been an auditor for a long time; she was good at it and she liked it. So … how did she end up a college professor?

Kapka laughs, "When I speak to student groups, I tell them: 'Don't worry if you don't know what kind of accounting you want to do right now, because in my career, I've done it all – public accounting, corporate accounting, governmental accounting and now academia.'"

In 2012, Kapka was presented with the Society's Outstanding Accounting Educator Award – Small Institution. As she embarks on her 2016-17 term as chairman, Kapka discusses her more than 30-year journey as a CPA, and how it led to life as she knows it today.

After working in public, corporate and governmental accounting, you joined UT Tyler as an internal auditor, moving up to chief audit executive, from 1999 to 2010. Yet at that juncture, you clearly felt called to teach. Does part of you wish you'd been doing this all along?

Actually, I've never had a job I regretted. Each one taught me something. Besides, the more work experience you can bring into the classroom, the more relevant it makes what you're teaching. Students enjoy learning accounting from someone who's actually done it. They want to know how what they're learning is going to be applicable to what they are going to be doing.

What was it that motivated your move to higher education?

When I went to work at the university 17 years ago, it was because I was going to get to create the internal audit function and I always love new challenges. I like to build things, make a difference.

You also chose to advance your education during that time. What prompted that?

Well, when I was interviewing auditors for our staff, all of the younger CPAs had master's degrees, because it takes 150 hours to be a CPA; I'd been one long enough I hadn't had to do that.

And I thought, 'Well, this isn't right. I'm hiring people with more education than me and I work at the university!' Plus, you know, UT Tyler has free tuition for employees … so I signed up for the MBA program. Once I finished getting my master's, one of the professors suggested that I take a couple more accounting classes so that I would meet the college accreditation requirements to teach.

Now at that time, teaching wasn't even on my radar, but I thought the accounting classes were all very interesting. I ended up taking every single accounting class that was offered, enough to teach at the college level. The dean then asked if I would teach one class a semester – auditing. I did that for a few years … and then the new dean asked me to teach full-time.

What was your reaction?

Well, I was up to my eyeballs with my chief audit executive job. But then, I realized something: my favorite day of the week was when I walked across the street to the Business building to teach my class. So I discussed it with my family. My son was graduating from high school at that point and going off to Texas A&M and we decided, why not? Take a chance. (laughs) Guess I finally figured out what I want to be when I grow up.

At the ripe old age of 50, I realized that what I wanted to do was create new accountants. I wanted to teach them that accounting is not a boring subject, that it is like solving puzzles and that it's fascinating. I've actually had students say to me that they wish that they were good at accounting, because I make it sound like so much fun.

It's very rewarding. I've learned as much from my students as they have from me. I have a lot of hope and faith in this upcoming generation. My mother was a teacher and she loved it; now I know why. She was a math teacher – anybody who teaches math, you've got to admire. That's not my favorite subject, even though I'm an accountant! My students on the first day of class, especially the freshmen and sophomores, they're terrified. They're like, oh gosh, it's accounting; it's math. I'm not any good at math. But I tell them all we do is add, subtract, multiply and divide – we don't do calculus; we don't do simultaneous equations. Over the course of the semester, you can see them start to relax a little bit when they realize it's not about math, it's about understanding and analyzing financial data, and learning.

You explain in your chairman's message in this issue of *Today's CPA* that your special goal for the year is to launch a campaign to get more accounting graduates to sit for the CPA exam. But you know, not all of them will.

Yes, but I know if we don't encourage certification and try to do something about the current trend, we are not going to have enough CPAs to meet demand in the near future. I get to teach all kinds of students, from freshmen taking a couple of accounting classes to seniors majoring in accounting to grad students in internal auditing and forensic accounting. I've been doing it long enough now that I see them on the front end, and then I see two or three years later who's made it through the accounting program to the grad program, and hopefully on to certification. It's interesting. I even play a game where I predict to myself who is going to take it to that level.

So you try to predict …

I do and I try to steer too. There are some people who just have a knack for accounting. Unfortunately, students have to declare a major now on the first day of college – which is not something that we had to do – and they may not think that they're good at accounting until they take those first two classes. It's then they realize they have a knack for it and they like it. So I try to pick out the ones who have a natural ability and steer them to accounting as soon as possible. I tell them, 'You know, an accounting degree is the most versatile business degree there is, because you can do anything with it.'

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Jared Milker, senior accounting student, and Kathy Kapka

Kathy and her husband Robert

What else do you say to students?

The piece of advice I give students most often is that they need to figure out the best way for them to learn, because they will be learning their entire life. Technology is changing at warp speed and accounting rules are constantly changing. Our profession is one of continuous learning.

You speak of life in Tyler with great affection.

Yes, I've lived in Tyler since I was seven years old. While I like to travel and see other places, there's nowhere else I want to live. It is home, for lots of reasons. Most of my family is here. We have lifelong friends here. It's a beautiful city. Tyler is known for its roses and azaleas. We have our red brick historical district and we have our modern neighborhoods too. We have excellent medical facilities. And, of course, a great university. It's a great place to live and raise a family.

You have been a TSCPA volunteer for a long time, chairing and serving on a number of statewide committees, as well as on the Board of Directors and Executive Board. You have also served in leadership roles in the East Texas Chapter, including Chapter president, and in roles with the Association of College and University Auditors (ACUA) and the Accounting Principles Council for the National Association of College and University Business Officers (NACUBO). Why is service in these professional organizations so important to you?

It just is. It's been a part of my career from the beginning. My very first job in 1981, one of the CPAs in the office, **Barbara Bass**, came up to me and said, "You're going to this (chapter) meeting," and she's been a mentor to young accountants ever since. I think that's what it takes to get people more involved in our profession – someone explaining what you need to do to build a career. I've always had someone behind me, raising me up, pushing me along. Especially in my chapter (East Texas), they are a great group of friends and supporters. By the time I finish my (chairman's) term, I will have been on the Executive Board seven years in a row and will have served with six different chairs, each with his or her own unique talents and expertise. I've learned something different from every one of them and the fellow CPAs serving on the Board. I have been surrounded by good leaders and good mentors.

How do you feel about being TSCPA chairman yourself?

My profession has been very good to me. I've never regretted for a minute my choice to be a CPA. This is just my way of giving back to the profession that has given so much to me. You know, not everybody is fortunate enough to figure out what path they need to take in life when they're 20 years old, but from my very first accounting course, I knew that this was for me.

I also hope to be a "servant leader" as chairman. When you put others' needs before your own, then you all end up being successful. My parents were that way. I was raised that way. I don't believe that you become a good leader by tearing other people down. We've all seen people take credit for other people's work, throw them under the bus, whatever you want to call it. I don't believe that's what makes a good leader, not in the long run. They might reach their short-term goals, but in order to be a leader, people need to get on board with you, and people tend to not want to get on board with individuals like that.

"People will forget what you said; people will forget what you did, but people will always remember how you made them feel." Maya Angelou said that and I have found it to be true. If you make them feel good about themselves and what they have accomplished, then the next time you want them to do something, they're much more likely to do it.

TSCPA just finished celebrating its 100th anniversary, so you'll be the first chairman for the next century. What are your thoughts on that?

I wonder what they will think of us when they look back at us 100 years from now. Will they think we did the right thing? Will they think that we cared for the profession adequately? We look back now at those first CPAs with their handlebar moustaches and their serious faces. And we're very thankful that they decided to do what they did. We too are making decisions about the future of the profession and I just wonder how will history treat us? 100 years and counting, here we go ... the next century.

For example?

Well, there's the CGMA (Chartered Global Management Accountant) designation. In fact, by the time this article comes out, we will have already voted on whether or not to go this route and create another credential through AICPA. This is intended to give us an international presence and to further reach the percentage of our members, or future members, who are in industry. Although it will have its own certification process and is not going to be easy, it will provide an alternative to those accountants who don't want to be a CPA, but who could become a CGMA and remain under the AICPA umbrella. So how that evolves over the next several years will be very interesting and has the potential to impact our profession for decades to come.

We face many daunting tasks, but ones we must take on if we want to remain relevant and keep moving forward. "If you always do what you've always done, then you'll always be where you've always been." I had that saying hanging in my office at one time, because the worst thing that you can ever say to an auditor is, "we've always done it this way." What that really says is, "I have no idea why I'm doing this; it's just what the person before me told me to do." And that's no reason to do anything.

A lot of people are scared of change. They don't want anything to change, but change can be an opportunity, and we are a profession of change.

Overall, what is your philosophy of life?

I think the Golden Rule was the first thing I ever learned in Sunday school, and I still believe it. My faith, my sense of right and wrong, and how you treat people. These are my guiding principles. Also, I think the definition of success isn't what you personally achieve, but what you have assisted other people in achieving. At UT Tyler, we're going to have our first accounting banquet this year and we're inviting all the students who have graduated and passed the CPA exam in the last three years. To me, that is rewarding. That is what it's all about. When you help other people fulfill their dreams and their goals, that's an awesome feeling.

As hectic as the coming year may prove, Kapka should at least have some tranquil down time. She and her husband reside on 20 peaceful acres "out in the country."

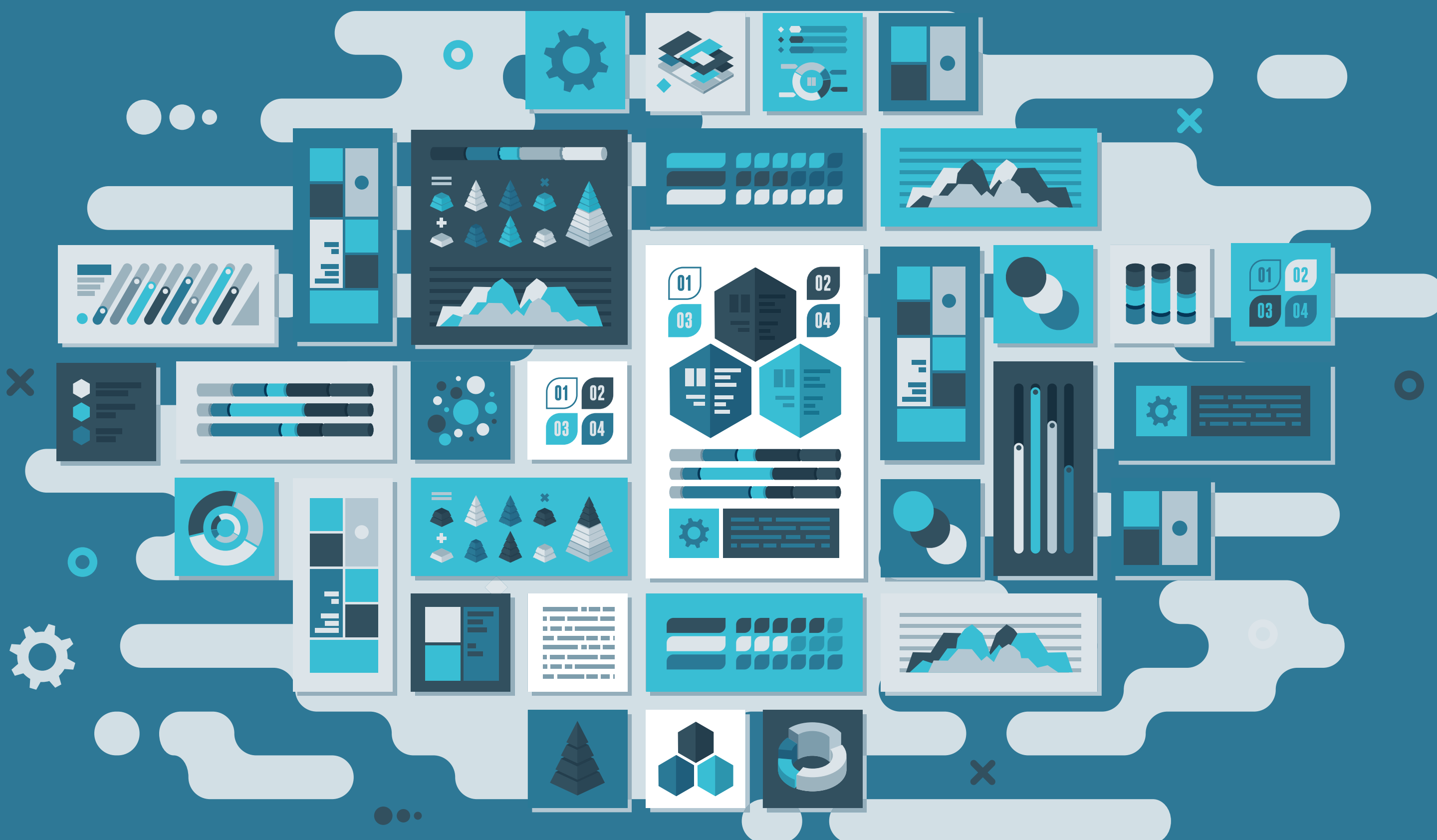
She admits: "We could never imagine living in town again. We are country folk. We love the outdoors. We have our very own pond stocked with bass. The deck Robert built out over that pond is my favorite spot in the world. I watch the sun set behind the trees every day."

Even when the Kapkas travel, they try to accommodate their yearning for the great outdoors. Not too long ago, the pair rode the "million dollar highway" around Telluride, Colorado on their Harley. "Oh my gosh, it was beautiful," she enthuses. So much fun. We just like being outdoors." They also love the beach and ocean, and will spend a week each summer for the next 10 years in Grand Cayman.

Kathy and Robert love spending time with their favorite Aggies – "scientist" son, Kevin, and his "business" wife, Chelsea (Kapka notes that's a fortuitous combination) who visit often from Houston with their three "granddogs." Plus, the Kapkas are very active in their church.

"Robert is the chair of the trustees committee, so he's like Mr. Fixit. If it breaks, they call him. And, of course, I'm the church treasurer – I know that's a shock," she jokes. "Every CPA who has ever been a member anywhere gets asked to be on the finance committee." ■

Big Data



Poses Big Challenges and Benefits

By Greg Bostick and C. William Thomas

"Big data" is being captured and analyzed by more businesses now than ever before in history. This so-called "big data" is being used for a multitude of purposes, including to more fully understand customers, to offer more specialized services and products, and to assess companies' performance in more innovative and effective ways.

The term big data is formally defined as dynamic, large and disparate amounts of data. It includes all types of data, gleaned from a multitude of sources – from informal social media to more formal data captured both from internal and external sources. These new types of data include social media posts, news articles about a company, its customers and suppliers, texts and instant messages between employees, and exact locations of inventory items.

In spite of the changes made in accounting and auditing over the past several decades due to increased regulation, these disciplines have failed to keep pace with the gains made in data availability and technology. Miklos Vasarhelyi, director of Rutgers University's accounting research center & continuous auditing and reporting lab, believes that future changes to incorporate big data into accounting and auditing are inevitable. When asked about the use of big data in auditing, he responded "... there can be no way that the profession will not use it. The more difficult prediction is when the change will happen."

For requisite changes to occur in accounting and auditing, the public accounting profession will need to reassess its processes and methodologies to keep up with the ever-increasing volume of data being made available, as well as to develop and implement improved technology to retrieve and analyze that data and put it to use. Among the many questions that need to be answered are: (1) what additional data is available that might be useful to accountants and auditors? (2) how might that data be retrieved in a cost-effective way? (3) what technological tools will have to be employed to analyze the data? and (4) how can the data be used to help clients manage their businesses?

This article will explain some of the challenges, risks and benefits of big data. It will also explore potential ways that audit firms may harness the power of big data to perform more effective and efficient audits, as well as potentially provide more reliable financial and other information to ultimate users of that information.

Challenges and Risks

The transition to an auditing world that fully incorporates big data will likely not be seamless. The use of big data poses numerous challenges and risks, including, but not limited to:

- obtaining the data,
- dealing with information overload,
- changing the audit process,
- training professionals to retrieve data,
- insuring data integrity,
- modifying auditing standards to accommodate the use of additional data,
- dealing with increased litigation risks associated with the retrieval and use of the data.

Obtaining Data

The first challenge that must be addressed with big data in auditing is how to obtain it from clients and outside sources. Companies have security policies to protect their customers, vendors and employees as much as possible against unauthorized access to sensitive data. The release of too much information by a company can lead to the loss of competitive advantages within the industry, and violations of confidentiality agreements and applicable laws. Due to these facts, companies typically refuse to provide proprietary information except when absolutely necessary.

It is logical to assume that companies will exercise caution to ensure they do not violate any agreements with third-parties that might expose them to criminal or civil litigation risk. To permit auditors to access certain data, most companies will have to re-negotiate confidentiality agreements to permit auditors to access information regarding customers, vendors and employees. It will be a challenge for auditors to convince clients that they employ proper safeguards in their data management systems to protect the information from access by unauthorized users. If clients allow auditors access to the additional information, they may require auditor assurance and indemnification against systems failure when handling information while it is in the auditors' possession.

Information Overload

Big data may include types of data never before available to auditors, such as "unstructured" data – social media posts, pictures, text messages, email messages, news articles, Wi-Fi sensors and blogs, as well as more traditional "structured" data found in ledgers, journals and other source data for financial statements. The increase in the sheer volume of information could lead to difficulties in distinguishing relevant from irrelevant information, as well as in recognizing correlations and making timely decisions.

The process of searching and analyzing massive amounts of irrelevant data by hand would be impossible and far too costly to make it worth the effort. Therefore, development of new data retrieval and analytical tools that utilize computer technology will be imperative. Even then, auditors will need to spend significant amounts of time planning the data retrieval process and programming data analysis software to search for relevant information. This will inevitably lead to increased engagement planning time and increased fees, at least initially, which will only be accepted by clients if they find it is cost beneficial. At present, it is not clear that auditees view the additional data as sufficiently important to warrant the increased cost of retrieving it. However, if auditors do not review all the available information, they potentially run the risk of making incomplete or incorrect decisions.

Changing the Audit Process

Introduction of big data into the audit may necessitate costly changes in the audit process itself. An illustration of the potential

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high costs associated is KPMG's recent $1 billion investment plan in data and analytics solutions. New types of auditable information will be introduced, requiring expanded forms of analysis not currently used in the traditional audit process. With the new data, auditors will be required to study and redefine what needs to be analyzed, set applicable thresholds for inclusion of such data and outline how it will be used.

Transitioning to audits utilizing big data will initially require some experimentation. In the near term, these audits may not be considered efficient from a cost standpoint because of the extra time needed to initially sift through and sort the available data. The process may lead to some false starts and "dead ends." More experienced auditors will need to study and weigh the perceived benefits of additional information versus the additional cost to obtain such information.

An example of how the audit process might change, provided by the American Institute of CPAs (AICPA) in their white paper titled "Reimagining Auditing in a Wired World" (August, 2014), is that sampling as it is currently utilized in audits may disappear, because advanced computer technology permits the application of audit procedures to entire audit populations, allowing auditors to examine every material misstatement or anomaly in the data set, rather than merely those extrapolated by sample errors. Identification of 100 percent of the errors in audit populations may permit more detailed analysis of systematic causes of those errors, leading to improved information systems that become capable of producing essentially error-free information.

Another change that use of big data on the audit might precipitate is increased outsourcing of certain audit procedures to data centers in developing countries. The use of advanced computer technology via the Internet makes virtually instantaneous transfer of large files for processing possible at a relatively low cost. Such practices are becoming commonplace as these data centers have been shown to improve audit quality and efficiency.

Training and Retraining

As audits of big data employing advanced technologies become reality, audit training programs will likely expand and change to include the issues raised by, and new procedures necessary due to, the availability of big data. New theories requiring implementation of new audit procedures will have to be developed, requiring significant investment in research and development of new training programs and audit procedures. Christine Earley, associate dean of the Business School of Providence College views this training as the biggest challenge facing the industry in regards to the use of big data. Earley believes auditors of all experience levels will need a significant amount of training to adjust to using the new types of information, which will take time to implement.

Data Integrity

Data is only useful to an auditor to the extent that it is accurate and complete. Auditors need to be concerned with integrity (reliability, accuracy and completeness) of the data gathered, because fields other than accounting may be capturing and manipulating the data as well. Some other fields, unlike accounting, are comfortable with ambiguity and lack of data quality. However, if the information received by the auditors is either unreliable or incomplete, the reliance on such information by the auditors could result in a mistake or misjudgment potentially leading to material misstatements in the financial statements.

The best way to ensure that data is reliable is to require an audit of the processes used to capture it. This poses a significant challenge to auditing firms since in some cases, it is provided through third parties. Auditors must be allowed access to the systems and personnel of the third party vendors in order to audit the controls in place and to ensure that capture of the data is legitimate and reliable. This additional layer of auditing could result in increased audit time and costs.

Standards

As mentioned in the AICPA white paper, current auditing standards are largely based on the premise that audit conclusions are based on sampling. Since the employment of big data and use of technology to audit it may allow auditors to examine all transactions, audits of the future may no longer require sampling. In the event that happens, audit standards (including those governing the form and content of the standard audit report) will need to be rewritten. The concept of audit risk (which deals partially with sampling) will change.

Standard-setting bodies that oversee the audit practice (such as the Public Company Accounting Oversight Board) may need to outline appropriate uses for big data in the audit process. Auditors need to know how much they can legally rely on big data, its impact on the audit process, and the judgments that are based on it.

Potential Legal Exposure

A significant risk is that, with the ability to test every transaction and use advanced data analytics to pinpoint financial statement misstatements, auditors may have to acknowledge increased engagement responsibilities. As an example, auditors have previously been successful asserting sampling risk as a defense against liability for failure to detect fraud and/or material misstatements. The defense is based on the fact that the auditor did not examine the transactions in which fraud or mistakes were contained and the sampling practice is acceptable according to auditing standards.

If auditors, in fact, test every transaction (including those transactions revealing the misstatements caused by fraud) acknowledged audit risk may evolve to more of a non-sampling nature, in which the source of the error is failure to recognize the error, rather than the failure of drawing unrepresentative sample items. This, in turn, will lead to a demand for more training in how to exercise good judgment on the audit and how to improve judgment making.

Harnessing the Power

Software to mine and organize information from big data currently exists. Many companies are currently using this software to better analyze customer buying preferences and patterns, marketing effectiveness and targets, pricing strategy and product bundle combinations. Since this software already exists, audit firms could approach these vendors to develop a specialized version of the existing software for use in auditing.

Many types of data mining software could be helpful to auditors. Available software includes clustering and associations software. Clustering software identifies attributes of a certain segment of the population given specified criteria. It can also group similar transactions without criteria being set. This software can help auditors pick out exceptions or see abnormalities. For example, cluster software can group checks by amount written. If there is an abnormally large amount of checks written just below an amount requiring specific approval, the auditor can then investigate the cause.

Associations' software captures patterns and associations between different variables to identify the process behind the occurrence of an event. It can show how often and in what order specific data attributes occur. Use of advanced mathematical techniques such as Benford's Law have been proven effective in identifying digital patterns in data that point to fraud or mistakes in audit populations. This information can help auditors look for specific characteristics when analyzing transactions to help lower the risk of fraud or mistakes within client data sets.

The information compiled from the software can be used to create

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mathematical models that predict the likelihood fraud or mistakes will occur using historical data provided by the software and other relevant inputs from the auditors.

Outsourcing

Some companies do not merely specialize in creating software, but also mine and organize data for companies. Audit firms might contract with third party vendors to help mine client data and outline what information they need. Through pursuing direct relationships with such third party vendors, audit firms might perform due diligence on selected vendors, thus helping to assure and control the quality of the data used. Access to client systems and personnel would need to be negotiated with the client, but if such outsourcing reduces the overall cost of the audit, the client may be receptive.

Benefits and Results

If auditors can overcome challenges and harness the power through software or outsourcing, they can reap major benefits and results from the use of the extra information. The most significant benefits will come from the increased ability to test entire populations (discussed earlier), the ability to perform continuous auditing and more informed decision-making.

Continuous Auditing

AICPA believes that a major benefit accompanying the use of big data will be the ability for audit firms to continuously audit their clients. With a continuous audit, data is captured in real time, allowing for simultaneous application of audit procedures. This allows an internal or external auditor to analyze exceptions throughout the year rather than designated interim of final field work dates.

The continuous audit allows auditors to test items more quickly and closer to the date of occurrence, resulting in both more effective and more efficient audits. Employees of the client will have more recent and accurate memory of how transactions were authorized and executed, as well as why and how they performed certain internal control procedures. The ability to examine data on a more real-time basis will help detect errors sooner and might limit the number of instances in which employees are able to commit fraud successfully and leave the company before the fraud is detected. Also, if the auditors see a course of events that allowed fraud to be possible or resulted in mistakes soon after the events occur, the company can implement necessary controls sooner to prevent future fraud and mistakes, thus limiting the frequency and magnitude of misstatements overall.

Better Decision-Making

After the growing pains are absorbed, many experts believe that auditors who use advanced analytical tools will be enabled to make better decisions regarding how to handle exceptions, test controls and choose areas of high risk for greater scrutiny. Proper use of big data, along with the right analytical techniques, will provide auditors with expanded knowledge bases, which they can then use to make better decisions.

Benefits Worth the Challenges

While there will certainly be challenges, the use of big data will produce a higher volume of more accurate financial information for the company and users of that information. Auditing will be both more efficient and more effective since many audit processes will be automated, thus lowering overall long-term costs of audits. Also, companies will benefit from more accurate and up-to-date financial reporting, because of more accurate estimates, the ability to examine whole populations and continuous auditing. These results will help make users of financial statements more confident in the financial information being produced by audited entities and more confident in auditors as well.

Greg Bostick and C. William (Bill) Thomas are affiliated with Baylor University. Thomas is J.E. Bush professor of accounting.

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CPE ARTICLE

Congress Makes Significant Changes to **Partnership Audit Rules**

By Farley P. Katz, Joseph Perera and Katy E. David

On Nov. 2, 2015, the Bipartisan Budget Act of 2015 (BBA) became law. The BBA provides new rules that will replace the long-standing Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) and the Electing Large Partnership rules that previously governed partnership audits. Some minor changes were made by the PATH Act (Dec. 18). These new rules drastically change established partnership tax law and, as a result, practitioners should review their clients' partnership agreements in light of the changes.

Curriculum: Tax

Level: Basic

Designed For: Tax practitioners

Objectives: Learn how recent legislation changes the taxation of partnerships; become familiar with changes to partnership audit rules; learn what changes partnerships may want to make to partnership agreements as a result of new legislation.

Key Topics: New IRS audit procedures of partnerships; how new legislation impacts current partnership agreements

Prerequisites: None

Advanced Preparation: None

Under the BBA rules, if a partnership understates its income or overstates its deductions, it is subject to an income tax. The tax is imposed and payable in the year the audit is completed or, if the partnership seeks judicial review, the year the court decision is final. Consequently, the economic burden of the tax could be borne by partners who had no interest in the partnership when the partnership generated the income or claimed the disallowed losses. Conversely, if a partnership overstated its income in a prior year, the benefit of correcting that overstatement will accrue to the current partners, not those who were partners in the earlier year.

In some instances, the BBA calculations will actually benefit taxpayers by letting partnerships deduct capital losses against ordinary income and converting a net capital loss into an ordinary loss! Where additional tax is owed, however, the BBA provides a rule that allows the partnership to elect to "push out" the adjustments to those who were partners in the years audited. In such case, those partners will be liable for the tax, but in the year in which the audit adjustments become final. Some partnerships may even be eligible to elect out of the BBA rules entirely. In that event, the IRS will have to make adjustments individually to each partner's tax return.

The BBA rules apply to partnership returns filed after 2017, although a partnership may elect to have these rules apply to returns filed before 2018. Not only will these new rules vastly complicate the audit of partnerships that elect out, but they will also require that virtually every partnership in existence consider whether to elect out or revise its partnership agreement to address the BBA.

Who is Subject to the BBA?

All partnerships are subject to the new rules unless they elect out. Although TEFRA excluded partnerships with 10 or fewer individuals (excluding nonresident aliens), C corporations or estates as partners, the BBA has no such automatic exception. As a result, the new rules apply to all partnerships, even those with as few as two individual partners; family limited partnerships; LLCs treated as partnerships for tax purposes; and tiered partnerships. The only excluded partnerships are those that are eligible to elect out and that do so on a timely basis.

What Does the BBA Do?

The BBA is similar to TEFRA in many respects. Like TEFRA, new Section 6221 of the Internal Revenue Code (IRC) requires that all items of income, loss, deduction or credit are determined at the partnership level. If the IRS determines that there is an underpayment of tax, the IRS assesses and collects the tax from the partnership. (New IRC § 6221(a)(1)) If the partnership ceases to exist before the IRS makes an assessment, the IRS may make adjustments directly to the former partners' returns. (IRC § 6241(7)) Like TEFRA, new IRC § 6222 provides that a partner's tax return must be consistent with the K-1 the partnership issued, unless the partner files a notice of inconsistent treatment. If a partner fails to file the notice, the IRS may treat any underpayment of tax resulting from the undisclosed inconsistent position as a mere mathematical or clerical error and assess the tax against the partner without issuing a deficiency notice.

Like the Tax Matters Partner under TEFRA, the BBA's "Partnership Representative" (who does not have to be a partner) is the point of contact for the IRS and can bind the partnership. (New IRC § 6223) Unlike TEFRA, however, the BBA provides that the tax attributable to adjustments (called the "imputed underpayment") is assessed against and collected from the

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partnership, along with interest (determined from the due dates for the reviewed years) and penalties. (New IRC § 6225(a)(1)) Also unlike TEFRA, the BBA provides that penalties are exclusively determined at the partnership level; there is no partner-level defense. (New IRC § 6221(a)(1))

How Does the BBA Calculate an Underpayment?

Under the BBA, the years audited are called the "reviewed years," and the year in which an audit becomes final is called the "adjustment year." (New IRC § 6226(d)) The imputed underpayment is determined by adding together or "netting" all adjustments to items of income, gain, loss and deduction, and multiplying the result by the highest tax rate in effect for the reviewed years under Section 1 (individuals) or Section 11 (corporations). (New IRC § 6226(b)(1)) The imputed underpayment is calculated without regard to the nature of the adjustments; all positive or negative adjustments to capital gains, losses (whether long or short term), items of ordinary income or other types of income or loss, are netted. It does not appear to matter that items might be subject to restrictions on deduction at the partner level, such as the "passive activity" limitation; those are also netted. If the audit adjusts tax credits, those adjustments also are taken into account.

Changes in partners' distributive shares are treated differently and are not netted. (IRC § 6226(b)(2)) For example, if an audit reallocates income from one partner to another, the BBA counts only the increase in income, not the decrease, and adds the increase to the partnership underpayment. This treatment will result in phantom income and tax to the partnership even though it does not change the net income reported on the Form 1065 unless the affected partners file amended returns as explained below.

Can the Calculation of an Imputed Underpayment *Benefit* Taxpayers?

Because the imputed underpayment is calculated by netting all the positive and negative adjustments regardless of type, it may actually result in a windfall to the partners, reducing their taxes compared to what they would owe had the original returns been correct. For example, if a partnership omitted $1.2 million of ordinary income, but also failed to claim a $1 million capital loss, the imputed underpayment would be $200,000 times the tax rate. But if the items had originally been reported correctly, the partners would have paid tax on $1 million of ordinary income and may or may not have been able to use the capital loss and never could have netted those items. In such a case, the imputed underpayment calculation lets taxpayers deduct capital losses against ordinary income, in excess of the $3,000 limitation for individuals and the total limitation for corporations in IRC § 1211. In addition, the netting approach appears to reduce the self-employment taxes and net investment income taxes that otherwise would apply in such circumstances. It is possible, however, that Treasury will issue regulations to prevent these results, but it is unclear whether such regulations would be supportable.

What if There Would Be Less Tax if the Adjustments Flowed Through to the Partners?

In many circumstances, the imputed underpayment will be less overall if the adjustments flowed through to the partners. For example, a partner might have a net operating loss that could absorb an adjustment. The BBA provides that Treasury shall issue procedures allowing partners to elect to file amended returns for the reviewed years (i.e., the audited years). If the amended returns take into account all adjustments made, and if the tax is paid, then the adjustments will be removed from the partnership-level adjustment. (New IRC § 6225(c)(2)(A)) Reallocations of distributive shares will be removed only if all of the affected partners file amended returns. (New IRC § 6225(c)(2)(B))

Treasury will also issue rules to reduce the partnership-level tax rate without requiring amended returns from the partners in certain situations, such as where there are tax-exempt partners.

> "UNDER THE BBA RULES, IF A PARTNERSHIP UNDERSTATES ITS INCOME OR OVERSTATES ITS DEDUCTIONS, IT IS SUBJECT TO AN INCOME TAX."

(New IRC § 6225(c)(3)) A similar rule will apply lower tax rates if the adjustment includes ordinary income to a C corporation partner (which would pay a lower tax than an individual partner would) or if the adjustment includes capital gain or qualified dividends to an individual partner. (New IRC § 6225(c)(4)) Finally, Treasury may issue regulations that make other modifications to the imputed underpayment in similar circumstances. A partnership seeking to reduce its imputed underpayment under this provision must supply supporting documentation to the IRS within 270 days of the issuance of a Proposed Partnership Adjustment. (New IRC § 6225(c)(6))

How Does a Partnership Elect to "Push Out" the Tax Liability to the Partners?

Under New IRC § 6226, the partnership may elect to have the adjustments shown in a Final Partnership Adjustment (FPA) flow through to its partners. The partners' tax for the year of the election will be increased by the amount that their tax in the reviewed years would have increased based on their distributive share of the adjustments made. In addition, the tax will include any tax that would have resulted from those adjustments in the years after the reviewed year and before the election year. All affected tax attributes, such as basis, will be appropriately adjusted.

The partnership must elect this flow-through treatment within 45 days of the issuance of the FPA. If it makes the election, the partnership will not be liable for any tax. Although the statute is unclear, it appears that the partnership can still contest the FPA in court. The effect of this election is similar to a TEFRA adjustment, but instead of actually imposing tax in the earlier years, it imposes a tax in the election year. In addition to the tax, partners will be liable for any penalties and interest, but the interest rate is increased by two percentage points and runs from the earlier years that generated the liability.

What if an Audit Reduces the Income or Increases the Deductions Reported?

If a partnership audit reduces the income originally reported or increases the net loss originally reported, the net adjustment will be taken into account in the adjustment year and will flow through to the partners for that year as a reduction in non-separately stated income or an increase in non-separately stated losses. (New IRC § 6225(a)(2)(A)) Because of the netting, this rule permits the partnership to deduct capital losses against ordinary income. For example, if an audit determined that a partnership had an unclaimed $1.2 million capital loss and $1 million of unreported ordinary income, the amounts would be netted and would result in a $200,000 loss flow-through in the adjustment year. Not only does this allow the partnership to deduct capital losses against ordinary income, but it appears that the net $200,000 loss would be an ordinary loss. In effect, these rules (unless Treasury can modify them by regulation) can convert capital losses into ordinary losses.

As under TEFRA, new IRC § 6227 allows partnerships that have over-reported their income to file an Administrative Adjustment Request (AAR), but the IRS will treat any decrease in income or increase in loss as occurring in the year the AAR is filed. If the partnership determines it underreported its income, it may file an AAR, but payment of tax is due on filing.

TEFRA provided that the Tax Matters Partner could file an AAR on the partnership's behalf or that any other partner could file an AAR on its own behalf. However, under the BBA, only the partnership can file an AAR; a partner is no longer permitted to file its own AAR. If the partnership chooses to file an AAR, it must do so within three years of the later of the date the partnership filed its Form 1065 or the due date for filing the Form 1065 (determined without extension).

Who Can Elect Out?

Partnerships that issue 100 or fewer K-1s can elect out of the BBA, if the partners are all individuals (including nonresident aliens), C corporations, foreign entities that would be treated as C corporations if they were domestic, or estates of deceased partners. (New IRC § 6221(b)) An S corporation may also qualify if it identifies all of its shareholders to the IRS. In that event, each of the S corporation's shareholders is treated as receiving a K-1 for purposes of the "100 or fewer K-1s" test. (New IRC § 6221(b)(2)(A)) A partnership with even one partner that is itself a partnership cannot elect out, nor does it appear that a partnership can elect out if a trust is a partner. However, Congress has given the IRS the authority to promulgate regulations that can extend the election to partnerships with partners that are partnerships or trusts. (New IRC § 6221(b)(2)(C))

What Happens if a Partnership Elects Out?

If a partnership elects out of the BBA, the consistency provisions no longer apply. As a result, each partner may take an inconsistent position regarding partnership items reported on its K-1, without providing notice to the IRS of the inconsistent position.

If a partnership elects out, the IRS can still audit the partnership, but it must make all tax adjustments at the partner level. Accordingly, it would have to issue 30-day letters or notices of deficiency to the individual partners. We expect many partnerships that were subject to TEFRA to elect out of the BBA, which will put the IRS in a bind. If the IRS issues a notice of deficiency to a taxpayer and the taxpayer petitions the Tax Court, the IRS ordinarily is barred from issuing another deficiency notice if it later discovers additional adjustments. (IRC § 6212(c)) Accordingly, if a partnership elects out of the BBA and the IRS makes adjustments on audit, it will have to decide whether to fully audit the returns of the partners (significantly increasing its workload) or issue notices of deficiency and thereby risk losing the opportunity to make further adjustments to those returns.

How Does a Partnership Elect Out?

An election applies to one year only and must be made in a timely filed return for that year. The partnership must identify all of its partners to the IRS and give the partners notice of the election. (New IRC § 6221(b)(1))

What are the Procedural Rules for Audits?

The procedural rules are similar to those under TEFRA. The IRS must give notice of the beginning of the audit. Before the IRS issues an FPA, however, it must give notice of any Proposed Partnership Adjustment and then must wait at least 270 days. (New IRC § 6231(a)) The 270 days gives the partnership time to produce documentation supporting lower tax rates for an imputed underpayment. The IRS must wait 90 days after issuing the FPA before assessing, and – if the partnership timely petitions in court – the IRS must wait until the decision is final to assess. (New IRC § 6232) Petitions in Tax Court do not require pre-payment, but a partnership filing in district court or the United States Court of Federal Claims requires payment of the estimated imputed underpayment. (New IRC § 6234(b))

However, there are several procedural differences between the BBA and TEFRA. For example, the BBA requires that the IRS issue a Proposed Partnership Adjustment, which has legal consequences, whereas TEFRA did not require that an analogous 60-day letter be issued. TEFRA also provided that any partner

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could participate in the audit and many could bring suit, whereas the BBA provides that only the partnership may take those actions. TEFRA also provided procedures by which the IRS or a partner could convert partnership items to partner-level items, effectively opting out of TEFRA, but the BBA contains no such provisions. TEFRA provided that if an AAR is filed and the IRS did not act on it, the taxpayer could bring a suit in court, whereas the BBA provides for such a suit only if the IRS issues an FPA, apparently leaving taxpayers without a remedy.

Statute of Limitations

The BBA provides that an adjustment generally must be made (presumably "assessed") within three years from the later of (1) the date the partnership return for the reviewed year was filed, (2) the due date for that return, or (3) the date the partnership filed an AAR for the year. (New IRC § 6235(a)(1)) However, if the partnership timely submitted documentation to support a reduced tax rate, the adjustment may also be made within 270 days of the date all such documentation was submitted, plus any extensions of time given to submit such documentation. (New IRC § 6235(a)(2)) Finally, even if the partnership did not request a reduced tax rate, an adjustment will also be timely if made within 330 days of the date a Proposed Partnership Adjustment was issued, plus any extensions of time given to submit such documentation. (New IRC § 6235(a)(3)) An adjustment made within any of these periods is timely, and the partnership can further extend the time to make the adjustment. The periods are also extended in other situations. For example, if the amount of unreported income exceeds 25 percent of the gross income of the partnership for the reviewed year, the IRS has six years to make the adjustment. (New IRC § 6235(c)(2)) Moreover, if the partnership did not file a return or filed a fraudulent return, there is no limitation. (IRC § 6235(c)(1),(3))

Will There be Further Guidance?

The BBA rules make fundamental changes in the tax treatment of partnerships and raise a multitude of new questions. Treasury has been directed to issue regulations, and the IRS is expected to issue additional guidance. Nevertheless, the rules undoubtedly will result in much confusion and litigation in the coming years.

What Should Partnerships Do Now?

The BBA raises a number of issues that taxpayers should consider. Among them is whether partnership agreements need to be revised to address the BBA. Partnerships will have to analyze whether it is beneficial to opt out of the BBA. Some partnerships, for example, might consider provisions that *require* electing out of the BBA (if that is possible). Partnerships that desire to elect out should consider adding provisions restricting the transfer of partnership interests to certain types of taxpayers to preserve the partnership's ability to elect out of the BBA.

Under the BBA, the economic consequences of a tax audit of a given year or years will accrue in a subsequent year when the partnership might have different partners. Taxpayers might consider provisions requiring that the partnership make a "push-out" election to make the original partners liable for any tax adjustment. On the other hand, because the netting approach used in the calculation of an imputed underpayment (or in the calculation of a decrease in income or increase in loss) may actually *benefit* the partnership, it may be inadvisable to require a push-out election in advance, and instead wait and see whether there is an audit and what adjustments are actually proposed.

Partnership agreements might be amended to provide appropriate tax sharing or allocation provisions. Additionally, partnerships might want to consider including provisions that compel former partners to remain in communication with the partnership, provide the partnership information in the event of an IRS audit or file amended returns in certain circumstances. In any event, taxpayers using partnerships for businesses or investments and persons buying or selling partnership interests need to be aware of these provisions and should consult with their tax advisors. At a minimum, a person entering an existing partnership should perform some level of diligence to ascertain the BBA-related tax risk of entering the partnership. ■

Farley P. Katz is a partner with Strasburger & Price, LLP in San Antonio. His practice focuses on civil and criminal tax controversies, voluntary disclosures, white-collar crime, defense of tax malpractice claims and representation of tax professionals in discipline proceedings. He has extensive experience representing clients in federal and state tax examinations and investigations, and has handled many tax cases in the United States Tax Court, United States District Courts, the Court of Federal Claims, federal appellate courts and Texas trial and appellate courts. He is a frequent speaker and writer on a wide variety of substantive and procedural tax topics.

Katherine "Katy" E. David is a partner in Strasburger's San Antonio office, counsels clients on tax matters, including federal income taxation and state margin and sales taxation. A significant part of her practice includes advising tax-exempt organizations and advising clients with respect to like-kind exchanges. David is board-certified in tax law by the Texas Board of Legal Specialization.

Joseph Perera is an associate in Strasburger's tax group in San Antonio, and represents clients on a variety of federal and state tax matters. He assists clients at every stage of federal tax disputes, including IRS audits, IRS collection cases, cases at IRS Appeals and cases before the United States Tax Court. Additionally, he advises clients on employee benefit and executive compensation matters, including compliance under ERISA with the IRS and Department of Labor. Perera also represents clients in disputes with the Texas Comptroller of Public Accounts and the Texas Workforce Commission.

By Farley P. Katz, Joseph Perera and Katy David

Congress Makes Significant Changes to Partnership Audit Rules

1 Which of the following categories of partnerships are automatically excluded from the BBA rules?

A. Family Limited Partnerships.
B. Tiered Partnerships.
C. Partnerships with only two individual partners.
D. None of the above; all partnerships are covered.

2 If the IRS audits a partnership and finds unreported income, it will:

A. Increase the income of the current partners in the adjustment year.
B. Increase the income of the partners in the reviewed year.
C. Impose a tax on the partnership in the adjustment year.
D. Impose a tax on the partnership in the reviewed year.

3 How is the imputed underpayment calculated?

A. By adding all unreported income and disallowed deductions and multiplying by 35 percent.
B. By netting all adjustment items and multiplying the result by the highest tax rate applicable to individuals or corporations in the reviewed year.
C. By multiplying all items of unreported income by 35 percent and multiplying all disallowed deductions by 20 percent.
D. By treating all unreported income items as capital gains and all disallowed deductions as ordinary income.

4 How can a partnership reduce or eliminate the imputed underpayment?

A. It can make a "push-out" election.
B. Partners can file amended returns to take into account the partnership adjustments.
C. The partnership can provide additional information to the IRS concerning tax-exempt partners, allocation of ordinary income to partners with lower tax rates, or allocation of capital gain or qualified dividends to partners that are individuals.
D. All of the above.

5 If a partnership disagrees with the Final Partnership Adjustment, the partnership may contest the Final Partnership Adjustment with:

A. The United States Tax Court.
B. Court of Federal Claims.
C. United States District Court.
D. All of the above.

6 If the partnership discovers it over-reported items of income in a prior year:

A. The partner can file an Administrative Adjustment Request.
B. The partnership can issue new K-1s to the partners.
C. The partnership can file an Administrative Adjustment Request.
D. The partnership can file a Form 843 and claim a refund.

7 A partnership that has one of the following as a partner cannot elect out of the BBA rules:

A. A C corporation.
B. A nonresident alien individual.
C. A limited liability company taxed as a partnership.
D. An estate of a deceased partner.

8 If a partnership elects out of BBA:

A. All adjustments to partnership items are done at the partner level.
B. Partners can take inconsistent positions regarding partnership items.
C. The IRS will have to issue the partner a notice of deficiency to assess additional tax due to changes in partnership items.
D. All of the above.

9 A partnership can make the election to opt out of BBA:

A. On a timely filed original return for that particular year.
B. On an amended return for a particular year.
C. On timely filed IRS Form 1134-tM.
D. Notifying an IRS Revenue Agent at the beginning of an examination.

10 Under BBA, if a partnership underreports more than 25 percent of its gross income for the reviewed year, the statute of limitations for the IRS to make an adjustment is:

A. Three years.
B. Six years.
C. 10 years.
D. Any time; there is no statute of limitation in this circumstance.

Today's CPA offers the self-study exam above for readers to earn one hour of continuing professional education credit. The questions are based on technical information from the preceding article.

Mail the completed test by **Aug. 31, 2016,** to TSCPA for grading.

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 TSCPA 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. The answers for this exam will be posted in the next issue of *Today's CPA.*

To receive your CPE certificate by email, please provide a valid email address for processing.

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After completing the exam, please mail this page (photocopies accepted along with your check to: Today's CPA; Self-Study Exam: TSCPA CPE Foundation Inc.; 14651 Dallas Parkway, Suite 700; Dallas, Texas 75254-7408. TSBPA Registered Sponsor #260.

Answers to last issue's self-study exam: **1. C 2. A 3. B 4. C 5. D 6. A 7. C 8. D 9. B 10. C**

TSCPA CPE COURSE CALENDAR - AUGUST AND SEPTEMBER CPE COURSES

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

Date	Course	CPE Credit	City
August 1 - 3, 2016	Galveston Cluster	Up to 24	Galveston
August 4, 2016	Preparation, Compilation and Review Annual Update and Review	8	San Antonio
August 4, 2016	Maximizing Your Social Security Benefits	4	Austin
August 4, 2016	Essential Depreciation Update for Practitioners	4	Austin
August 5, 2016	Annual Yellow Book Update and Review: A Realistic Approach	8	San Antonio
August 5, 2016	Maximizing Your Social Security Benefits	4	Dallas
August 5, 2016	Essential Depreciation Update for Practitioners	4	Dallas
August 8, 2016	Advanced Concepts in SSARS 21 and Nonattest Services: Are You Certain You are in Compliance?	8	Houston
August 8, 2016	A Complete Guide to Yellowbook	8	Dallas
August 9, 2016	Construction Contractors: Critical Accounting, Auditing and Tax Issues in Today's Environment	8	Houston
August 10, 2016	Texas Franchise (Margin) Tax	8	Houston
August 10, 2016	Personal and Professional Ethics for Texas CPAs	4	Addison
August 11, 2016	The Latest Developments in Governmental and Non-profit Accounting and Auditing 2016	8	Dallas
August 11, 2016	Personal and Professional Ethics for Texas CPAs	4	Lubbock
August 12, 2016	The Latest Developments in Governmental and Non-profit Accounting and Auditing 2016	8	Fort Worth
August 16, 2016	Audits of 401(k) Plans	8	Fort Worth
August 16, 2016	Personal and Professional Ethics for Texas CPAs	4	Houston
August 16, 2016	Becoming an AICPA Peer Review Team or Review Captain: Case Study Application	8	Dallas
August 16, 2016	Group Broadcast: Financial Statement Preparation, Compilation, and Review Update	8	Various
August 17, 2016	Audits of 401(k) Plans	8	Dallas
August 17, 2016	Personal and Professional Ethics for Texas CPAs	4	Austin
August 18 - 19, 2016	2016 Advanced Estate Planning Conference	20	San Antonio
August 18, 2016	Comprehensive Accounting Issues of Estates and Trusts: Fiduciary Accounting and Tax Issues	8	Houston
August 19, 2016	Advanced Selected Issues for Trusts, Estates and Their Beneficiaries	8	Houston
August 22, 2016	Annual Update for Accountants and Auditors	8	San Antonio
August 22, 2016	Hot IRS Tax Examination Issues for Individuals and Businesses	8	Dallas
August 22, 2016	Comprehensive Accounting Issues of Estates and Trusts: Fiduciary Accounting and Tax Issues	8	Austin
August 22, 2016	Financial Statement Presentation and Disclosures: A Realistic Approach	8	Houston
August 23, 2016	Hot IRS Tax Examination Issues for Individuals and Businesses	8	Austin
August 23, 2016	Texas Franchise (Margin) Tax	8	Fort Worth
August 23, 2016	Individual and Financial Planning Tax Camp	8	Dallas
August 23, 2016	Revenue Recognition: Mastering the New FASB Requirements	8	San Antonio
August 24, 2016	Annual Update for Accountants and Auditors	8	Fort Worth
August 24, 2016	Applying the Uniform Guidance for Federal Awards in Your Single Audits	8	Dallas
August 25, 2016	Revenue Recognition: Mastering the New FASB Requirements	8	Fort Worth
August 25, 2016	Applying the Uniform Guidance for Federal Awards in Your Single Audits	8	Houston
August 26, 2016	Internal Controls Workshop	8	Austin
August 26, 2016	Texas Franchise (Margin) Tax	8	San Antonio
August 26, 2016	Governmental and Not-for-Profit Annual Update	8	Houston
August 29, 2016	Applying the Uniform Guidance for Federal Awards in Your Single Audits	8	Austin
August 29, 2016	2016 Texas State Taxation Conference	9.5	Austin

Date	Course	CPE Credit	City
August 29, 2016	Personal and Professional Ethics for Texas CPAs	4	San Antonio
August 30, 2016	Hot IRS Tax Examination Issues for Individuals and Businesses	8	Houston
August 30, 2016	Governmental and Not-for-Profit Annual Update	8	Austin
August 31, 2016	Financial Statement Presentation and Disclosures: A Realistic Approach	8	Dallas
August 31, 2016	Individual and Financial Planning Tax Camp	8	Houston
September 16, 2016	Accounting & Assurance (Audit & Review) Update	8	Dallas
September 19-20, 2016	2016 Financial Institutions Conference	17	Dallas
September 21, 2016	Annual Yellow Book Update and Review: A Realistic Approach	8	Austin
September 21, 2016	Personal and Professional Ethics for Texas CPAs	4	Addison
September 22, 2016	Tailoring the Audit to Suit a Not-for-Profit Entity	4	Dallas
September 22, 2016	Recent Frauds Occurring in the Not-for-Profit Entities and Governments	4	Dallas
September 22, 2016	Preparation, Compilation and Review Annual Update and Review	8	Austin
September 22, 2016	Personal and Professional Ethics for Texas CPAs	4	Houston
September 22, 2016	Streamlined Tax Staff Training Level 1 Individual	8	Dallas
September 23, 2016	Streamlined Tax Staff Training-Level 2 Business	8	Dallas
September 26, 2016	Advanced Business Law for CPAs	8	San Antonio
September 26, 2016	Form 990: Exploring the Form's Complex Schedules	8	Houston
September 26, 2016	Oil and Gas Taxation: Landowners and Investors	8	Dallas
September 27, 2016	Tailoring the Audit to Suit a Not-for-Profit Entity	4	Fort Worth
September 27, 2016	Recent Frauds Occurring in Not-for-Profit Entities and Governments	4	Fort Worth
September 27, 2016	Employment Law Update: Key Risks and Recent Trends	8	San Antonio
September 27, 2016	Oil and Gas Taxation: Landowners and Investors	8	Houston
September 28, 2016	Annual Accounting Update for Accountants in Industry	8	Dallas

Positions Available

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$842,000 gross. Central TX CPA firm. Accounting (21%), Tax (65%), Audit/Review/Consulting (21%), continued staff and owner involvement to ensure client retention. TXC1060

$295,000 gross. Lufkin CPA firm. Tax (60%), accounting services (40%), high-quality client base, good fee structure, knowledgeable staff in place. TXN1389

$48,000 gross. East Ft. Worth tax firm. Individual & business client base offers opportunity for expansion of services & growth through referrals. TXN1390

$100,000 gross. Weatherford CPA firm. Tax (90%), accounting/bkkpg (10%), loyal client base, experienced staff in place. TXN1391

$830,000 gross. Dallas CPA firm. Tax (58%), Audit/Review services (42%), strong cash flow over 50%, experienced staff in place, quality client base. TXN1410

$83,000 gross. Euless tax & insurance firm. Tax (67%), Insurance Commission (33%), Convenient, high-traffic area, turn-key with loyal client base. TXN1415

$269,000 gross. N. Dallas CPA firm. Primarily tax, loyal client base, solid fee structure, good cash flow in excess of 70%, seller available for transition. TXN1416

$194,000 gross. N. Dallas/Addison CPA firm. (52%) tax prep for individuals, (34%) business tax and (14%) acctng svcs. Loyal clients with strong fees. TXN1417

$1,315,000 gross. Coastal Bend Area CPA firm. High profitability around 83% of gross! Staff and location available to buyer and seller looking to work for new owner after closing. TXS1146

$149,214 gross. East Texas CPA firm. Tax (69%), accounting (31%), quality client base and staff available to assist with smooth transition. TXS1161

$365,800 gross. Near downtown Houston accounting firm. Tax (39%), Bkkpng (37%), Payroll (11%), Other (13%), flexible transition. TXS1174

$93,500 gross. Memorial area CPA firm. 2015 billings around $100K, great cash flow, owner flexible with transition, 99% of clients mail/fax/email work. TXS1175

$525,000 gross. W. Houston tax & acctng. Tax (65%), bkkping (25%), consulting (8%) payroll (2%), good staff in place, nice location. TXS1177-A

$1,171,000 gross. W. Houston tax & acctng. IRS svcs (93%), tax (6%), bkkping (1%), portable can be purchased along with 1177A or as a stand-along practice. TXS1177-B

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