



**FINANCIAL LITERACY**  
from page 6

Literacy, an education program designed for everyone from young children to the elderly.

The first was to establish of the National CPA Financial Literacy Commission. Additionally, the 360 Degrees of Financial Literacy program will build on previous AICPA financial education efforts. The Institute has also devoted a section of Web site, [www.aicpa.org](http://www.aicpa.org) to this effort.

“CPAs need to be more involved with their clients,” said Peri Ann Aptaker, CPA and Kahn, Litwin, Renza & Co director of tax services. “They should be held responsible for more than just plugging in numbers. Instead, they should talk to and educate their clients.”

**Local education**

Rhode Island Society of Certified Public Accountants, (RISCPA) is taking action locally. The organization held several sessions this fall to help educate individuals and businesses on aspects of financial literacy. The session topics included planning for retirement and Medicaid planning.

Aptaker, presenter for the planning for retirement session, said the goal was to inform and educate individuals.

“We focused on the basics and taught people about portfolio investments and assets allocation,” Aptaker said. “This session was directed at individuals who are beginning to think about their retirement and need to know how to get ready for this process.”

To learn more about future RISCPA financial literacy sessions visit their Web site at [www.riscpa.org](http://www.riscpa.org). ❖



# What Counts

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# What Counts

[www.riscpa.org](http://www.riscpa.org)

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*Published for friends and members of the Rhode Island Society of Certified Public Accountants*

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by Greg Porcaro, CPA

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## White Collar Crimes Impact Businesses of All Sizes

### CPAs play critical role in detecting and preventing occupational fraud

Cases of white collar crimes, such as occupational fraud are popping up more and more frequently in today's headlines. Occupational fraud is the use of a person's occupation for personal improvement through deliberate acts of misuse or misapplication of the employer's resources or assets. According to the Association of Certified Fraud Examiners (ACFE) all occupational fraud schemes have four common elements; they are conducted in secret; violate the perpetrator's fiduciary duties to the organization; financially benefit the perpetrator; and cost the employing business assets, revenue or reserves.

#### The fraud triangle

Ernest Almonte, CPA, CFE and R.I. auditor general, describes fraud visually by comparing it to a triangle. He says the top half of the triangle represents the perpetrator's motive to commit, the right bottom half represents the opportunity to commit and the left bottom half stands for the rationalization to commit.

"If you take away one of the pieces, the triangle is incomplete and the act cannot occur," Almonte said. "Businesses need to take action and install the prevention methods that eliminate at least the opportunity."

#### The missing numbers

Actual numbers detailing how frequently fraud occurs in the United States are few. According to Lori



## Executors fulfill numerous duties

The duties of an executor are often far from our mind as our loved ones are happy and healthy. But there may come a time when this task becomes a reality. An executor is the person responsible for settling a deceased person's estate. Unfortunately, successfully carrying out this duty is not quite so simple. Executors are responsible for everything — from inventorying, to appraising and distributing assets, to paying taxes and to settling debts owed by the deceased. While the executor carries out these acts they are also legally obligated to act in the best interest of the deceased and to follow all the wishes expressed in that person's will.

#### An eligible executor

Any person over the age of 18 who has never been convicted of a felony can legally be named the executor

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## What Counts

# CPAs Responsible for Offering Financial Literacy Education

by Gregory A. Porcaro, CPA, President of the Rhode Island Society of Certified Public Accountants

According to several organizations, the lack of individuals in this country with a satisfactory level of financial literacy is a growing epidemic. As CPAs it is part of our job to offer assistance to alleviate this problem. There are many financial aspects of day-to-day life and business that we can teach the public and our clients to better understand the relationship between their financial skills and the quality of their lives. They need to be aware of the information that is available to them and how to use these resources to make more educated decisions regarding their finances.

The American Institute of Certified Public Accountants (AICPA) has acknowledged how pertinent this issue is and has recently begun a serious effort to solve the problem. The AICPA launched 360 Degrees of Financial Literacy, a program aimed at educating Americans to improve their level of financial literacy. The AICPA hopes this program will help people in basic

areas including money and income; money management; spending and debt; saving and investing; risk management; and planning for their future and life's milestones. You can retrieve more information on the AICPA's program at [www.aicpa.org](http://www.aicpa.org).

On the local level the Rhode Island Society of Certified Public Accountants, (RISCPA) is following in the AICPA's footsteps by pursuing avenues that will help educate individuals. We have included an article in this issue (see Professional News page six) to give you a better idea of how deeply entrenched this issue is and what is being done to solve the problem.

In addition, RISCPA recently sponsored four public sessions, each devoted to a different area of financial literacy. The sessions were well attended and the audience reported that they found the information incredibly valuable to their future financial standing. RISCPA hopes to continue to offer similar sessions and better equip Rhode Island residents and business leaders with the

knowledge and resources they need to prosper financially.

I cannot adequately stress the importance of this issue and the need for all CPAs to take an active role in increasing financial literacy. I am sure our efforts will be appreciated and will have a positive role on Rhode Island's businesses and residents' personal finances.

As always, please feel free to contact me with questions or ideas on how we can achieve our goal of a more financially educated society.

Sincerely,



Gregory A. Porcaro, RISCPA president



**Greg Porcaro, CPA  
RISCPA President**

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## U p c o m i n g E v e n t s

DECEMBER 2004

### What Counts Cable Television Program

Every Friday at 8:30 pm on Cox Channel 13. The program includes education information on obtaining a mortgage for the first time as well as how to refinance a current mortgage.

JANUARY 25, 2005

### CPA, Bankers, Lawyers Night

Networking reception at the Providence Marriott.  
Call 401-331-5720 for more information.

APRIL 26, 2005

### RISCPA Annual Dinner

This event will mark the commencement of RISCPA's centennial celebration and will be held at the Crown Plaza. For details contact RISCPA at 401-331-5720.

JULY 12, 2005

### Annual RISCPA & Bankers Golf Outing

Agawan Hunt Country Club, Rumford, RI. To register your foursome or to sign up individually call 401-331-5720.

## Government Affairs

# President Bush Signs Tax Break Legislation into Law

## American Jobs Creation Act 2004 to repeal export taxes

President George Bush signed into law a piece of legislation expected to benefit a range of businesses throughout the country and to dramatically improve the situation with tariffs on exports. Prior to the President's approval, the American Jobs Creation Act 2004 was approved by the Senate by a vote of 69 to 17 on October 11th, just four days after the legislation was approved in the House on a vote of 280 to 141.

### Repeal export taxes

The legislation, initiated by the House Committee on Ways and Means, repeals existing federal income tax breaks for foreign sale corporations (FSC) and extraterritorial income (ETI). This became a necessity because the World Trade Organization ruled that the FSC/ETI regime amounted to an illegal export subsidy. WTO's ruling resulted in heavy taxation of all US exports.

Once the program is fully implemented, eligible businesses and individuals will receive a 9 percent tax deduction. However, the legislation calls for the deductions to be phased in with a three-step format. A three percent deduction will be available for tax years beginning in 2005 and 2006, for tax years beginning between 2007 and 2009 a six percent deduction will be applied and finally, for tax years beginning in 2010 and beyond the full nine percent deduction will be available.

### Eligible industries

According to the National Tax Advisory taxpayers who will qualify for the write-off include those engaged in traditional manufacturing, construction, civil engineering and architectural services for U.S. construction projects, production of electricity, gas

and potable water, software production, film and videotape production, renting and licensing and farming.

"I expect that Rhode Island businesses will see this legislation as a positive improvement," said Patricia Thompson, Piccerelli, Gilstein & Co. tax partner. "Individuals and companies will be able to take a deduction for their qualified production activities."

### Preparing clients

Since the changes are complicated and may require CPAs to apply a significant amount of attention to those clients who qualify, CPAs should be informing eligible business and preparing for the needed procedures.

"CPAs should be informing their clients of these new provisions," said Thompson. "They should also be gathering the appropriate documentation and begin the calculations that will be needed to obtain the deduction."

### The final three components

In addition to ending sanctions on American products, the American Jobs Creation Act also has three other components. The first is a package of regulations that are expected to reduce the corporate tax rate from 35 percent to 32 percent for domestic manufacturers, providing tax incentives and benefits to small businesses and farmers. The second component simplifies



international tax law and is expected to enhance United States competitiveness. The law establishes regulations to reduce double taxation on businesses engaged in the worldwide market by simplifying complex international tax laws.

The final provision is that the law was designed to create American jobs. A statement released by the House Committee on Ways and Means said that by "reducing taxes for manufacturing done in the United States, ending sanctions and encouraging business investment will generate American job growth" because business will have more resources available to create new jobs and keep existing employees.

For additional information and details on the American Jobs Creation Act of 2004 visit [www.thomas.loc.gov](http://www.thomas.loc.gov) or [www.waysandmeans.house.gov](http://www.waysandmeans.house.gov).

## What Counts

### One-on-One With Larry Friedlander

*What Counts recently checked in with Larry Friedlander, owner of The Hi-Hat, an up and coming Providence hot spot and co-owner of Stevens, Friedlander & Co. a CPA firm. Larry gave us some insight on working as a CPA and using his financial skills to make a lifelong dream come true.*

**WC:** Can you discuss your background and what led to your decision to become a CPA?

**LF:** My whole life I've wanted to open a nightclub and when I was in my twenties I discussed this dream with my cousin who worked in a bank. I wanted to know what I had to do to make this a reality. He set me up with Carl Weinberg, CPA who really encouraged me to go to school to become a CPA. He talked to me about what was involved in the profession and how the education and experience would give me a head start in the business world and could eventually lead to me fulfilling my dream.

**WC:** Did you adhere to Carl's advice?

**LF:** Yes, it seemed logical. I really believed that this background would help me succeed in the business world. So I applied, was accepted and attended Bryant College. This was definitely the first step towards a successful future. From the moment I began my classes I realized the education I was receiving was invaluable and I began to acknowledge that Carl had steered me in the right direction.

**WC:** What did you do after graduation?

**LF:** I worked for Carl for a year prior to and for six months after graduating. From there, I went to Price Waterhouse in Providence where I worked for a few years in both the audit and tax departments.

I then moved into the private industry as the controller for Mutual Benefit Financial Service Management Company. Hank Kates, who was the president of Mutual Benefit taught me a great deal about analyzing and structuring business deals, including real estate, oil and gas, cable television and publishing.

**WC:** When did you branch off and open your own firm?

**LF:** I felt that I had built a strong base of knowledge and that I had really sharpened my skills as a CPA. When the Tax Act of 1986 passed, my job at Mutual Benefit became an endangered species. I hoped I had learned enough to venture out and open my own practice and in November 1986, I opened my sole proprietorship. After two years, I merged with Peter Stevens and formed Stevens, Friedlander & Co. in 1988.

**WC:** What have you enjoyed the most about owning your own firm?

**LF:** I am always learning about different areas and I can continuously apply the financial knowledge I have to these topics. I have learned many things including real estate, syndication and how to structure a deal. All of these

have helped me in many aspects of my life, both at work and outside of the job.

**WC:** How did you eventually make the circle back to your dream of owning a nightclub?

**LF:** The thought and desire never left my mind. I knew it was something I wanted to do and I truly believed that I would fulfill this desire someday. After I opened my own practice I thought I would wait to open a club until I was ready to retire from being a CPA. In the meantime, I was building a strong understanding of the business world that I knew would eventually help me when I was ready for the task.

Then some sudden life circumstances showed me that there was no reason to wait — if owning a club was something I wanted to do, I should go ahead and do it. I decided then to get the ball rolling.

**WC:** When did the plans for The Hi-Hat start to take shape?

**LF:** In 2001 I began looking at locations and in May of that year I found the space at Davol Square and began developing plans. One year later construction began and this process lasted about 13 months. With much anticipation the doors opened to the public in the September 2003.

The entire process has been a labor of love and watching the club open for the first time was amazing. It truly was a dream realized.

**WC:** How has being a CPA helped you in this business?

**LF:** The advantages I have because of my CPA background are endless. My knowledge of real estate obviously helped in locating the space and negotiating the lease. Also, knowing how to develop and structure a deal helped me through that process, through the construction phase and continues to aid me in day-to-day tasks at the club. These advantages are just the tip of the iceberg.



**Larry Friedlander's dream was realized when he opened the doors to his Providence nightclub the HiHat, pictured above.**

**WC:** In what other ways have your CPA skills been useful?

**LF:** One of ways that I apply my CPA skills and knowledge is in all of the financial dealings. Although other people can read numbers they don't always understand what they are looking for and what they should be doing with these numbers. The fact that I've learned how to not only read numbers, but how to interpret what they mean and how to manipulate them is a huge advantage. I know where costs should be, where break even points have to be set, where money can be saved and where it can be spent. These things would all be a foreign language to me without a CPA background.

**WC:** How has business been at The Hi-Hat?

**LF:** The club has seen a good deal of success. It's still a new business so I'm constantly trying to build it. It's the type of business that partially relies on word of mouth advertising so I'm working on getting the needed publicity. A number of private parties have been held at the club and I'd like to see this type of usage increase. I think it's the perfect spot for functions including office parties and weddings. The space is large enough to hold a significant number of people, but it is designed to still have an intimate feeling.

We frequently have special events and theatrical/musical shows here and this seems to be very popular. Again, the design of the facility allows for these events to take place comfortably.

**WC:** Between the club and the firm you must be very busy. How do you manage your time?

**LF:** I basically split myself between the two places. I end up going to where I need to be at that particular time. I don't hold typical nine to five hours and my family has been very understanding of this. I really don't mind the long hours because I'm interested in what I'm doing. It's more like a passionate pastime instead of an occupation.

When I do have a spare minute I like to spend some time with my wife, who is also a CPA and five children.

**WC:** Can you offer any advice to someone who would like to follow in your footsteps some day?

**LF:** The best advice I could give to anyone who might have the slightest inkling to enter the world of business is to start off by becoming a CPA. You can use this base to branch off in any direction, whether it be to open a nightclub or any other business. The opportunities are endless. Being a CPA is the best source of a business foundation and I truly believe it will help any individual find success. I have used being a



**Larry Freidlander, Kenny Loggins, HiHat performer and Joe Barone, HiHat manager.**

CPA as a building block — I took each piece of information that I learned and used it to help me get closer to my end goal. Now I am using these skills to live my dream. ♦

## Rhode Island Society of Certified Public Accountants celebrates 100th anniversary

IN 2005, THE RHODE ISLAND SOCIETY OF CPAs WILL BE CELEBRATING 100 YEARS OF SERVICE TO OUR STATE. INDIVIDUALS OR COMPANIES HAVE THE OPPORTUNITY TO BE A PART OF THE YEARLONG FESTIVITIES THROUGH SPONSORSHIPS OF VARIOUS LEVELS. SOME PACKAGES INCLUDE:

ADVERTISING IN THE RISCOA COMMEMORATIVE BOOK  
A TABLE AT THE CENTENNIAL GALA  
TICKETS TO THE CENTENNIAL CPA/BANKER GOLF TOURNAMENT  
ACKNOWLEDGEMENT ON THE RISCOA WEBSITE WITH A LINK  
LOGOS ON MARKETING MATERIAL FOR CENTENNIAL EVENTS  
SIGNAGE AT CENTENNIAL EVENTS

TO BECOME A SPONSOR OR RECEIVE MORE INFORMATION ON SPONSORSHIP OPPORTUNITIES, CONTACT KRIS MORETTI AT RISCOA AT 401-331-5720.



## What Counts

### Professional News

# Lack of Financial Knowledge Impairs Individuals

## AICPA and RISCPA launch efforts to increase financial literacy

It may seem logical that the amount of money an individual spends in a year should be less than that person earns in that given year.

However, just under half, 43 percent of all families in the United States spend more money than they earn each year. In 2003 alone, overspending led 1.6 million Americans to file for bankruptcy.

According to the American Institute of Certified Public Accountants (AICPA) this is the highest amount of personal bankruptcies ever reported and is twice the number since 1993.

### The problem - financial illiteracy

Financial illiteracy is a growing epidemic in the United States. AICPA's Web site defines the problem as the inability "to effectively evaluate and manage one's finances in order to make prudent decisions toward reaching life goals and achieve financial well-being." The site states that because

of the lack of a comprehensive financial plan, two out of three Americans will fail to accomplish one or more of their major life goals.

Unfortunately, the lack of financial knowledge does not stop at the individual. As the number of financial illiterate individuals grows so does the likelihood that the issue will effect the nation's economy. And with the national deficit rising, this is something that cannot be ignored.

### AICPA investigates the issue

In early 2004, AICPA conducted a survey to gain a better knowledge of how deep the roots of this issue are imbedded. The results were astounding. The Institute released a statement that said, "Many Americans lack a basic understanding of how to prepare for their short- and long-term financial needs." Some of the most astonishing facts included nearly two thirds of

Americans 65 and older are not confident in their knowledge of how to plan for an adequate retirement; nearly half of all Americans are unfamiliar with the impact of a 401K plan; for 61 percent of Americans the concept of income replacement is unknown; and a quarter of Americans would file for bankruptcy if they were faced with a financial emergency they deemed unmanageable.

### Taking action

Troubled by their findings, the AICPA pledged the support of CPAs across the country to help Americans better understand the consequences of their finances and encourage them to become more financially literate. With this pledge came the inception of AICPA's 360 Degrees of Financial

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### EXECUTOR DUTIES from page 1

of a will. Although individuals frequently choose to name a family member or close friend as their executor, experts can also be named. Professionals such as lawyers, accountants and financial consultants are familiar with the responsibilities of an executor and the processes that they must follow. They can often expedite this easily. If an individual without expertise is chosen it is often advised they seek expert counsel, especially if the deceased person's estate is large or complex.

"Depending on the complexity of the estate there may be a number of things an executor could have questions about," said Renee Evangelista, Edwards & Angell trust and estate group partner. "Seeking the advice and assistance of an expert can help the executor find answers to these issues and may help the process move more smoothly."

### Jumping into action

In the period immediately following an individ-

ual's death, the first matters that need to be resolved are the funeral and burial arrangements. These arrangements are the legal responsibility of the next of kin, but an executor may be looked upon for assistance, especially if he or she is a family member.

According to Evangelista, there are many misconceptions about matters that must be resolved immediately after an individual passes away.

"It is not unusual for friends and family members to offer advice to an executor about the steps they should take," Evangelista said. "This advice isn't always correct and often exaggerates the urgency of the executor's responsibilities."

A document prepared by Edwards and Angell regarding the responsibilities of an executor insists that initiating the legal process of estate administration can be postponed for one to two weeks after a person's death. This document also clarifies other misconceptions. It states there is no need to immediately empty safe deposit boxes or bank accounts; joint bank accounts can be used by a

surviving spouse; powers of attorney are no longer in effect; and funeral bills do not have to be paid in cash and can either be mailed or delivered to a family member or the named executor.

### The first step

The first action an executor should take is to initiate probate. This is the formal process of proving the authenticity of a deceased person's will and estate. The executor needs to file the will and an application to appear before the probate court. In order to properly carry out this task the executor must gather documentation, including the original will, a death certificate, which can be obtained from the funeral home and the names and addresses of the surviving spouse, children or other next of kin.

### The probate hearing

Once all the appropriate documents have been filed a hearing date is set in probate court. At this hearing the court reviews the will, confirms its

legality and appoints the executor named in the will. The executor is not typically required to attend this hearing, although unusual circumstances may call for their presence.

After the hearing, the appointment of the executor is publicized in the legal notices section of the local newspaper and creditors have six months to file any claims. The probate process cannot be completed until this time has passed. After this time an executor can complete the probate process by filing proof in the court that all terms of the will have been carried out. This can be done in one of two ways. The first is by filing a detailed account of all assets collected and payments made, while the second is by an affidavit with the consent of all beneficiaries to the will.

### The tax process

The next step an executor must complete for the deceased's estate is the tax process. If the taxable assets of the decedent exceed the federal exclusion amount a federal estate tax return is due nine months after death even if no tax may be due as a result of various deductions. This return, which is the legal responsibility of the executor, is a detailed listing of the descendant's assets.

Executors should be forewarned that the IRS often takes several months before reviewing an estate tax return. After a preliminary examination, the IRS chooses to either audit an estate or issue a closing letter. If an audit takes place, additional information about the decedent's financial records will be reviewed. When the audit is complete, or if the IRS has determined that no audit is necessary, the IRS will issue a closing letter. Once this letter is received, the executor must file it with the state and request tax clearance, which is required to close the probate proceedings.

An executor is required to file the decedent's final income tax return. According to Evangelista, this process usually requires professional preparation because income in the final year of life must be allocated between the decedent's return and the estate's tax return.

### Distributing assets

One of the most critical responsibilities of an executor takes place at the end of the process. This is the actual collection of assets, payment of bills and expenses and distribution of assets. If a tax return is not required all assets are generally distributed shortly after the creditor's six-month claim period. Once all assets have been distributed the probate process is complete. It is the duty of the executor to ensure that all assets are distributed in accordance with the wishes set forth by the decedent's estate plan.

### Appropriate compensation

Legally, executors are entitled to compensation for their expenses, such as travel and phone calls. They are also entitled to a 'reasonable fee' for their services, but there is no set rule on how this reasonable fee should be determined. Fees collected by an executor are seen as an expense and can be used as a tax deduction on their state tax return.

"Agreeing to be an executor of an estate is a huge commitment," Evangelista said. "Individuals who are preparing their will should consider the size of the estate and the complexity of the issues that the executor will be responsible for and then determine compensation. This compensation should be stated in their will."

### Choosing an executor

Choosing the appropriate person to be the executor of a will can be a difficult process and it is one that deserves a significant amount of time and thought. It is important to consider who will have the availability and who will devote themselves to the task. "You want to name someone who will pay attention to what is happening and who will feel comfortable with the responsibility," Evangelista said. "Time is an issue. Make sure the individual you choose will be able to devote the appropriate amount."

If an individual is unable to find a person who will be able to carry out the responsibility of being

their executor they may wish to consider naming an expert such as a lawyer.

"You need to make sure that there isn't any tension between the person you name and your family members or other individuals named in the will," Evangelista said. "If there is tension or issues with some people, go with an independent person."

Choosing an executor is an important part of your future and of the future of your estate, but with careful consideration the task can be completed successfully. ❖

## An Executor's Checklist

- Locate the will.
- Obtain a lawyer, if necessary.
- Apply to appear before the probate court.
- Notify beneficiaries named in the will.
- Arrange for publication of notice to creditors.
- Mail a notice to each known creditor.
- Notify post office, utilities, banks and credit card companies of individual's death.
- Inventory all assets and if necessary have them appraised.
- Collect debts owed to the estate.
- Check with the deceased's employer for unpaid salary, insurance and other employee benefits.
- File for Social Security, civil service or veteran benefits.
- File for life insurance and other benefits.
- File city, state and/or federal tax returns.
- File state death and federal estate tax returns.

*Tips from [www.metlife.com](http://www.metlife.com)*

## What Counts

### Academics

# Accounting Major Enrollment Increases

## Area colleges report strong interest in accounting programs

Rhode Island CPAs can rest assured that the future of the profession will be in good hands as area colleges and universities are seeing a strong demand for accounting classes and majors are quickly filling up.

Bryant University's Accounting Department's enrollment increased 30 percent in the 2004-2005 school year from the previous year. This school, which began as an accounting-only school, reports that 60 percent of its yearly graduates earn a degree in accounting.

While the University of Rhode Island places a cap on the number of students allowed into the business program the university reported that the number of students interested in this area has been steady and has slightly increased. With the cap in place the number of seniors graduating with an accounting degree cannot increase, but they have graduated approximately 60 students each year for the past eight years.

### Is any publicity good publicity?

Recent corporate scandals, such as Enron and Halliburton, have resulted in major press coverage

of the importance and value of proper finances, accounting and fraud prevention programs. This type of coverage has sparked an interest in individuals who may not have otherwise chosen this career path.

According to Saeed Roohani, Bryant University Accounting Department Chairperson, students at the high school and college level have become more aware of the profession and now see it as more interesting.

"Publicity always leads to heightened interest," Roohani said. "With cases like Enron in the media, more students consider what they could do with an accounting degree."

Roohani said that students may feel that they would like to prevent such scandals or they may just be intrigued by the spotlight. But either way it gets them to give the major a try.

### A major with stability

When faced with choosing a major, students typically look at what opportunities they will have upon graduation. Not only are they concerned with the number of jobs that will be available in the near future, but they also need to determine if the profession will still be in demand 20 to 30 years down the road.

The recent surge in available accounting jobs and the fact that it has been a stable profession has been enough to convince many young adults entering college to enroll in these classes.

"Right now the profession is faced with a shortage of accountants so there is a large

number of jobs available for graduating seniors," Roohani said. "The added positive is that the profession has always been very stable and there will always be a need for accountants. Recently we have seen a great deal of students move from more trendy majors to this more stable one."

### A multitude of options

Another convincing feature associated with an accounting degree is the ability to choose to develop a career from a number of fields. Graduates from Rhode Island colleges have the skill sets and the business knowledge that allows them to be successful at many different things.

"Many, but not all of our students do start out in public accounting," said Henry Schwarzbach, University of Rhode Island doctorate professor and director of graduate accounting programs. "These students then realize that they have the ability to enter other fields because they have such a strong business and financial knowledge. Accounting is a great entrance into so many things."

Students and individuals who are interested in learning more about choosing an accounting major can visit the American Institute of Certified Public Accountant's Web site at [www.aicpa.org](http://www.aicpa.org). The site includes detailed information on what a job as a CPA entails, course recommendations, pertinent skills, CPA education and experience requirements and information on colleges and universities throughout the country that offer an accounting undergraduate and graduate major.

Whether it is the involvement in major news stories, a love for numbers, or the desire to gain a strong business background that drives students to choose accounting as their major, the increased interest is sure to lead to a future of competitive accounting fields. ♦



## AICPA revamps profession certification exam

### Updated test evaluates students potential CPA skills

With a degree in hand and apprenticeship hours under the belt, there is only one thing missing on the resume of someone hoping to become a licensed CPA — a passing grade on the American Institute for Certified Public Accountant's (AICPA) certification exam.

For decades this exam went unchanged, but recently the AICPA decided it had become stagnate and was in need of an update. The Institute worked to redesign the test and in April 2004, the new exam and delivery method were launched. At that point, students across the country began testing their skills in a new manner.

#### Added convenience

The exam, which tests students' knowledge in four areas — audit, financial accounting, regulation and business environment and content — was offered for decades in a paper based format and students were required to take all four sections at one time. The new format was designed to better align the content of the exam with skills that students will need in the field and is a computer exam. Students can now choose to take one or all four sections at a time and the test is offered eight out of 12 months of the year during the day, night and on weekends. Previously, the test was only offered twice a year, once in May and once in November.

According to Arlene Thomas, AICPA vice president of professional standards and services, students are reaping the benefits from the improved exam.

"The advantages of the exam for students are twofold," Thomas said. "The students are able to demonstrate that they have the knowledge and skill sets that are required of a CPA and they can take the exam one section at a time, at their convenience."

#### One common link

The CPA exam is one of three components that individuals must fulfill before they can become licensed CPAs. The other two requirements relate to education and work experience, but the details of these vary from state to state — leaving the exam as the one common denominator linking all CPAs in the country.

"The importance of the exam is obvious," Thomas said. "The test results in some form of uniformity and brings about a sense of consistency across the board. It gives students the opportunity to demonstrate that they have the same level of skills as their peers."

#### Conducive conditions

Under the revised format, the test-taking environment has been adapted and improved for students. When the exam was offered only twice a year, a large number of candidates needed to take the exam at each test session. To accommodate the large number, the exam was offered in a building that could house all the candidates and there was potential distractions surrounding each one. Now, the convenience of offering the test so frequently has led it to be administered in smaller, more intimate environments.

"Candidates enjoy taking the test in a library type setting," Thomas said. "The change has allowed us to offer the exam in a much more conducive environment that is ideal for the students."

For more information on the CPA exam visit AICPA's Web site, [www.aicpa.org](http://www.aicpa.org) or RISPCA's Web site at [www.riscpa.org](http://www.riscpa.org). ❖



### CPA Exam Checklist

- ✓ Be comfortable with the use of a computer, keyboard, mouse and common word processing and spreadsheet functions.
- ✓ Take the tutorial and sample tests available at [www.cpa-exam.org](http://www.cpa-exam.org).
- ✓ Schedule your exam at [www.prometric.com/cpa](http://www.prometric.com/cpa).
- ✓ Schedule your exam 45 days in advance of your preferred test date.
- ✓ Bring your Notice to Schedule to the test center.
- ✓ Bring two valid forms of ID to the test center.
- ✓ Arrive at least 30 minutes prior to your exam time.
- ✓ Carefully read and follow research problem directions.
- ✓ Report any functionality problems to the test center administrator.

*Tips from [www.aicpa.org](http://www.aicpa.org).*

## What Counts

### **DETECTING FRAUD** from page 1

Tellier, CPA, CFA and R.I. State Police Financial Crimes Unit fraud manager, the reason for this is lack of reporting.

"It is impossible to state exactly how often fraud occurs because so few of the occurrences are actually reported," Tellier said. "Businesses try to avoid the negative attention and coverup the crimes instead of reporting them to officials."

Lorraine Horton, CPA, CFA and owner of L. Horton & Associates, a forensic accounting and fraud investigation practice, agrees that the desire to avoid publicity causes many organizations to not report the crimes.

"Companies tend to try to fight fires, resolve issues quietly, cover their losses and avoid publicity," Horton said. "Instead, they should be reporting these crimes to the police so the problems can be solved instead of just covered up."

To help identify the extent of the problem, the ACFE recently released the 2004 Report to the Nation on Occupational Fraud and Abuse. The report details the results of examinations into 508 cases of occupational fraud that totaled \$761 million in losses. The report states that "occupational fraud and abuse is a widespread problem that affects practically every organization, regardless of size, location or industry." The report also estimates that the typical United States organization loses six percent of revenue to fraud annually. This amounts to approximately \$660 billion in total losses each year. The full report is available to the public at [www.cfenet.com](http://www.cfenet.com).

### **AICPA provides resources**

To detect existing cases and to prevent future problems, the American Institute of Certified Public Accountants (AICPA) launched the Antifraud & Corporate Responsibility Program. According to AICPA's Web site, "some of the biggest challenges facing businesses today are re-establishing confidence among investors, promoting ethics and integrity in the workplace and establishing clarity in reporting procedures."

The first step in this program, which launched in September 2003, was the Auditing Standard Board's issue of SAS 99, an upgrade of SAS 82. The change was geared toward improving auditor performance relating to identifying and responding to the risks of material

misstatements or financial misstatements due to fraud.

Since SAS 99 was launched the AICPA has developed an extensive resource center that is available through its Web site, [www.aicpa.org](http://www.aicpa.org). This center includes information and resource tools for CPAs and business owners.

"The resource center is loaded with information useful to CPAs," Almonte said. "One of the best features is a self-assessment test that AICPA members can take. The test uses their evaluation to determine in what areas they need to improve and then provides tools for them to use to develop strength in these areas."

### **Building internal integrity**

One of the most logical prevention methods is to install ethically and morally sound internal controls and integrity. With these characteristics solidly incorporated in management, they will naturally work down through the ranks of employment.

"The best way to prevent problems is to have business leaders with a strong sense of internal integrity," Horton said. "If the organization's managers have ethics instilled in their day-to-day work practices, their employees are going to learn by example."

Part of working from the top down is developing a method of internal controls such as a checks and balances plan. "A major part of fraud prevention should take place through internal controls and a plan for separation of duties," Almonte said "An organization that makes sure more than one individual is responsible for each task and has multiple people checking all transactions is more likely to be free of fraud. Managers need to look at everything critically and cannot ignore anything questionable."

What Almonte calls 'professional skepticism' — looking at everything and every employee critically — should be applied to even the employees assumed to be the most loyal.

## Occupational Fraud Prevention Tips

- Have external audits conducted yearly.
- Establish an anonymous fraud tip hotline.
- Require proper authorization on financial documents.
- Use a checks and balances system.
- Do not give too much control to one employee.
- Practice professional skepticism.
- Conduct background checks on all employees.
- Institute frequent cash counts and account reconciliation procedures.
- Investigate all questionable activities and/or reports.
- Enforce an ethically sound work environment beginning with the managers.
- Restrict employees' access to assets.
- Utilize AICPA's Antifraud and Corporate Responsibility Program's web site at [www.aicpa.org](http://www.aicpa.org).

"Time and time again, we have business owners come to us to report fraud that was conducted by the individual they least expected," Tellier said. "No one should be exempt from the business owner's scrutiny."

### Criminal investigation process

If an incident of fraud is reported to the police there is a series of events that takes place surrounding the complaint. An investigator in the state police department's financial crime unit assists the detectives in determining if a crime did occur. During this period the investigator and the detective are responsible for gathering evidence, including witness statements, executing search warrants, summarizing information and submitting a written report.

Although CPAs are not hired by the department, their work is often used by investigators.

"We often advise the victim organization to hire a CPA because we do not have the resources to conduct a forensic investigation," Tellier said. "Investigations conducted by CPAs are beneficial to these organizations and also make our job easier because we can rely on their reports with some review."

### Educating the future

A way to potentially better equip future CPAs and CFEs with the knowledge needed to detect and prevent cases of fraud is to teach them the needed skills while they are still in college. Unfortunately, the number of colleges and universities that dedicate even one full course to this pertinent subject is very limited.

"In 1999 only 13 colleges in the United States offered a class dedicated to the issue of fraud," Horton said. "I strongly believe that all accounting students should take at least one course focused on this issue before they graduate. This would prepare them to face and conquer the issue in the field."

Within its Antifraud Resource Center, the AICPA has devoted an extensive section to helping educators beef up attention to fraud in their courses. The site includes information on developing a course devoted solely to fraud, incorporating fraud studies into preexisting classes, developing a framework for the study of fraud, presentation materials and class activities. This site is a valuable tool for administrators looking to adhere to Horton's advice and increase the attention they place on fraud prevention and detection education. In addition, the AICPA site lists other Web site and resources.

### Protecting your organization

The most important steps an organization can take to decrease its fraud risk level are often the easiest. Managers need to get back to basics, ensure ethically sound morals and practices and promote these throughout the organization. If fraud does occur, or someone is suspicious, management should immediately take action rather than try to cover up the incident. Not only is this the best way to resolve a case, but it is likely that taking action will deter another individual from committing an act of fraud in the future. ❖

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