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is key to
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by Kevin Currier, CPA

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Sarbanes-Oxley Act aims to fix old problems, poses new ones

Corporate scandals such as the Enron and WorldCom crises spurred Congress to pass the Sarbanes-Oxley Act in July, 2002. It is a law designed to reform corporate America and protect individual investors. While Sarbanes-Oxley aims to fix old problems, provisions of the new law may result in unintended consequences for the financial community and more specifically, the accounting profession.

Here is a look at how some of the reforms are shaping up, what they mean for the individual investor and how they will change the way public and private companies conduct business in years to come.

Good deal for individual investors

After Enron filed for bankruptcy and its stock closed at 72 cents, down from more than \$75 just a year earlier, thousands of investors lost billions. "From the investor's point of view, Sarbanes-Oxley is a great deal because it's going to lead to more independence in the accounting field and there will be less coziness between public companies and the firms that are auditing them," said James Prescott, CPA, (jprescott@yourcpafirm.com) of Providence-based Cayer Prescott Clune & Chatellier LLP, whose firm performs audit work for public companies.

Some raise objections to overreaching rules

The U.S. is the largest capital market and the most prestigious one on which to list. However, some foreign companies that list in U.S. stock exchanges cite



Local firm teaches kids smart money management

Though we deal with money on a daily basis, many of us aren't good at managing it. If we had learned basic money management skills as children, things might be different today.

David DiSanto, CPA (ddisanto@dpcpas.com) of the Providence accounting and financial services firm DiSanto, Priest & Co. and RISCPA member since 1983, has implemented a program that teaches kids smart money management and helps them grow into financially savvy adults.

"One of the things that continues to come up in our financial planning and trust work is that children don't know anything about money," said DiSanto. "No one really talks to their children about money – how to spend it or how to save it."

Communication is key to RISCPA's success

by Kevin E. Currier, CPA, President of the Rhode Island Society of Certified Public Accountants

Welcome to the first issue of *What Counts*, RISCPA's new quarterly publication which is replacing the *Society Report*. Our goal is to provide useful information in a new, easy-to-read format with features that appeal to all RISCPA members and a broad audience including educators, students, legislators and business leaders.

The articles in this newsletter and future issues will help readers understand the broad depth of services covered by CPAs as well as the current issues before the profession and business in general.

The newly designed newsletter is one component of our overall strategic communications plan started last year under the direction of our immediate past president, Thomas J. Westgate, CPA (twestgat@cpane.com). It includes RISCPA's weekly television show, *The CPA Now*, which airs on Cox Cable Channel 13 every Friday at 8:30 p.m., and our revamped web site (which went live at the beginning of February) with user-friendly navigation at www.riscpa.org. Check them out!

All of these exciting changes extend well beyond a single president's agenda. As such, Tom Westgate and I have worked closely with

our next two presidents, Bill Pirolli, CPA and Greg Porcaro, CPA, to build a solid communications plan that will continue to be implemented in the years to come.

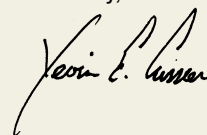
Ongoing communication with our members and external audiences is one of the keys to RISCPA's success. That is why we welcome your input and feedback.

While change is good, we rely on our members to uphold the society's traditions and mission since its inception in 1905: *To provide leadership and resources which promote to society the high standards of integrity and honor of the CPA profession and contribute to the success of our members.*

It has been a privilege and pleasure to serve as RISCPA's president during the past year and I have thoroughly enjoyed the experience. As I come near the end of my term, I have the utmost

belief in the ability of the Society's staff, President-Elect Bill Pirolli and the board of directors to guide the profession through the current uncertainties and establish the platforms for the Society's future success.

Sincerely,



Kevin E. Currier, RISCPA President



Kevin E. Currier, CPA

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Upcoming Events

Annual Dinner slated for April 22

Join us on April 22 for the Rhode Island Society of Certified Public Accountant's Annual Dinner to be held at the Providence Marriott from 5 p.m. to 9 p.m. The event will begin with a society meeting, followed by a CPA certificate ceremony, reception, dinner and speaking program. Look for your invitation in the mail. For more information, contact the Society office at 331-5720 or e-mail Kris Moretti at kmoretti@riscpa.org.

Watch *The CPA Now* tv show for the latest in financial news

Be sure to watch *The CPA Now* television show which airs every Friday night at 8:30 p.m. on Cox Cable Channel 13 (RI Interconnect A). Here's a preview of upcoming shows:

FEBRUARY

How to Draft a Business Plan

Arthur Lambi, Jr., CPA (arthurlambicpa@aol.com) interviews Clifton Dutton of the Providence River Group, RITEC Venture 2003 and the \$50,000 Business Plan Competition. They will be discussing the methods, uses and strategies of business plans.

MARCH

How to Obtain Financing

Arthur Lambi, Jr., CPA will interview Gina Raimondo, partner, of the joint venture capital firm Point Judith Capital.

APRIL

How to Manage Your Start-Up Business

Arthur Lambi, Jr., CPA interviews Ralph Kinder, Esq., partner of the law firm Armstrong, Gibbons and Gnys, LLC about the different forms that your business may take, and other business strategies.

MAY

Family Business

Richard Carriere, CPA (carriere@carriere.org) interviews Dr. William O'Hara of Family Enterprise at Bryant College about the ups and downs of running a family business.

JUNE

Healthcare Costs

Greg Porcaro, CPA, will discuss the costs of healthcare.

Government Affairs

Protecting your personal assets is your business

New Rhode Island Public Law 205 offers limited liability and flexibility

As a business owner, you've worked hard to earn a comfortable lifestyle for your family – a house, two cars, and a healthy financial portfolio. But what if all your personal assets were suddenly at risk because of one liability suit?

Consider this: You and a long-time friend acquire real estate which you believe can be resold in a few years at a substantial profit. Under

Rhode Island law you have formed a general partnership – no writing, no formal contract, just a handshake agreement between friends.

You did not know about the old abandoned well on the property and years later, just two weeks before the scheduled sale to a developer, a neighborhood child falls into the well and suffers injuries that will have a long-term effect on the youngster's life. As partners, you and your friend are each 100 percent financially responsible for all the damages to the youngster – which puts not only your investment but also your personal assets at risk.

LLC provides an extra shield of protection

One way you can help prevent a situation like this from happening is to form a Limited Liability Company (LLC). With an LLC, owners and investors who are targets of a lawsuit may lose their investment in the venture but they do not put their other assets at risk. "Limited liability is an important objective in any business enterprise," said Providence Attorney and Counselor at Law Gordon A. Carpenter. "Think of it as an extra shield of protection. It is a smart way to protect your personal assets and therefore protect those who depend on you financially."

Who is eligible?

Until recently, every business entity was allowed to be an LLC, except for professional service companies. Effective July 28, 2002, the General



Assembly amended the state LLC law to allow all professionals, from physicians to landscape architects to certified public accountants, to use the LLC business entity form.

Carpenter, who was instrumental in pushing the amendment through the legislature, added that attorneys are the only professionals who cannot take advantage of the new law. Attorneys are governed by the Rhode Island Supreme Court, which to date has not authorized them to practice in the LLC form. Efforts are underway to petition the Supreme Court on this issue.

Transforming to an LLC

For years, Rhode Island law has had mechanisms in place to transform corporations, LLCs, LPs, and LLPs from and to each other. But that left out the general partnership because it was not an "entity." Yes, a GP could be transformed into an entity but it was cumbersome and sometimes messy. R.I. Public Law 205 provides an easy and efficient solution for all Rhode Island GPs to convert into LLCs and thus get the benefit of the LLC liability shield. (Be sure to consult your tax professional when considering conversion of an entity.)

How to form an LLC

If you are starting a business with one or more individuals or would like to convert your existing business to an LLC, here's the process:

- 1 Choose a business name (if starting a new business).
- 2 File formal paperwork, usually called articles of organization with the Secretary of State's office (ask for an example to follow to assist in writing them).
- 3 Create an LLC operating agreement, which outlines who will do what.
- 4 Obtain licenses and permits that apply to your business and State.
- 5 When converting from a partnership to an LLC, add a Good Standing Certificate and a Certificate of Conversion to accompany the Articles of Organization.
- 6 File all documents with any applicable real estate records and /or provide copies to interested parties.

LLC continued on back cover

One-on-One With Cate Monroe

What Counts recently spoke with RISCPA member and certified public accountant-turned-publisher Cate Monroe. As co-founder of Moon Mountain Publishing, specializing in children’s books, in North Kingstown, R.I. with her husband, Robert Holtzman, Cate juggles the responsibilities of a successful business person, parent – and more. Here’s what she had to say:

What Counts: *How long have you belonged to RISCPA and how have you benefited as a member?*

Cate Monroe: Since 1991. Certainly the continuing professional education they offer is a benefit, but also the networking potential. It’s always useful to have a network of people you can call on.

WC: *How has your professional background prepared you for your publishing career?*

CM: I have had a variety of experiences, but becoming a CPA was really valuable in starting my own business. What accounting has done in general, besides all the wonderful specific

skills in financial management, it has also provided me a way to organize big projects. I devise checklists for my publishing projects very similar to what I had used in preparing taxes and doing audits. So, organizing my thinking has been a really useful result of being an accountant. Also, there’s that practical aspect of being able to do my own financial analysis and cash flow forecasting and all of those helpful skills that are key to understanding how your business works. It’s been a lot of fun to be able to apply them to my own.

WC: *How did you end up in the publishing field after 10 years as a CPA?*

CM: Publishing was a natural evolution if you can believe that. I had gotten my undergraduate degree in English. I was working in a library and I’ve worked in book stores, so I had a strong interest in books. I took a lot of creative writing and adult education art classes and I can honestly say that books are my very first love. When I decided to look at where I wanted to go next, publishing seemed to be



Cate Monroe, CPA, and Robert Holtzman

a logical extension of my interest in art and writing and books in addition to the accounting and business background that I had acquired.

WC: *Why did you choose to remain a RISCPA member after the career switch?*

CM: I’m very proud of being a CPA and I don’t want to lose that. It’s a very practical means for me to maintain my CPA certificate plus be connected to the business world.

WC: *Any advice for those who are just starting out in the accounting profession?*

CM: Once I discovered the world of accounting – I took my first accounting class at Salve Regina University – I thought, how exciting. I hadn’t even thought of being a CPA. My original intention was to get my knowledge level up enough in accounting so I could do the bookkeeping for a company I was working for. Becoming a CPA opened up exciting possibilities.

I would encourage the new accountant to become involved in professional groups and meet other accounting professionals. By doing this, they can learn about the wide range of opportunities that accounting offers.

WC: *You have worked as a librarian, bookkeeper and certified public accountant. Now you’re the president and art director of your own publishing company – and a mom. What’s next?*


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CM: Well that's a big plateful right now. What's next is to run the business. My husband and I are both in the business together and it is now three years old so we're still in the very young stages of putting the business on line and that's my focus, getting the business growing and keeping it vital, so it occupies a full-time position.

WC: Sounds like Cate Monroe defines the modern-day Renaissance woman.

CM: I blush to think about that, but there are so many things to be interested in. There's a whole world out there.

WC: What is your greatest asset?

CM: My greatest asset is my interest in a lot of different things. I'm interested in accounting and numbers, but I'm also very much interested in art and things that are more "right brain." So I've got strengths that make a good generalist.

WC: What do you enjoy during your spare time?

CM: I enjoy playing with our son – he's five – and going on family trips. His name is Maxwell Beowulf. And doing things as a family is great whether it's decorating the Christmas tree or playing games. He's at a wonderful age. Of course, every age is wonderful, I'm discovering, so that's really quite a joy.

WC: Where does "Beowulf" come from?

CM: Beowulf is the wonderful Danish story of the king who wrestles the monster and comes out victorious. He also turns out to be a very good and wise king and rules to an elderly age. So we felt it was a wonderful middle name to give our son. It reflects our love of literature and also wishing wisdom and a long life and all of those good things that you want your child to emulate.

WC: Speaking of literature, what's the last book you read?

CM: I just finished a young adult title by Robin McKinley called "Beauty" – it was a wonderful retelling of "Beauty and the Beast." I recently finished "Getting Things Done," one of those

business how-to books ... that was pretty good. And I just finished rereading "Ann of Green Gables." That's such a wonderful book.

WC: How many titles have you released since founding the company in 1999?

CM: In October, 2000 we had our first two books come out. It takes about a year to produce a book. We have a total of nine books out and we have two new titles coming out in the spring. My husband does the marketing and sales and editing, and between us doing everything, four books a year is our limit.

WC: How many submissions do you receive on any given day?

CM: We get at least three or four a day.

WC: That sounds like a lot.

CM: It is. There are a lot of people out there who want to be published. We end up getting about 1,000 manuscripts a year and out of those we get four that are published. But it's still interesting to see what comes in. Most of the books that we've published have been unsolicited manuscripts.

WC: Do you have a hand in illustrating the children's books you publish?

CM: No, but I do enjoy illustrating as a hobby. My favorite areas are calligraphy and botanical watercolor. Creating books is a fulfillment of a lifelong desire of being involved in books. ❖



Moon Mountain Publishing will release two titles, *The Invisible Seam* and *Hamlet and the Enormous Chinese Dragon Kite*, this spring. For more information on these and other titles, visit www.moonmountainpub.com.

Professional News

IRS encourages taxpayers to e-file

Electronic tax filing is getting a huge push from the Internal Revenue Service (IRS) this year. Out of 132 million expected returns, the IRS anticipates 54 million will be electronically filed, a 15 percent increase compared with 47 million last year. While e-filing benefits Uncle Sam, taxpayers' benefits vary depending on the situation.

Government touts benefits of electronic filing

E-filing benefits taxpayers by reducing the time it takes to process a return in which case they would receive a refund much quicker. Taxpayers can also use the Internet to find out the status of an expected refund. If there's a balance due, that's

convenient too. The IRS simply withdraws the amount due from the taxpayer's account, eliminating the hassle of writing a check.

Another benefit to e-filing is the reduction in error rates. According to the IRS, paper returns have an error rate of 20 percent while electronic returns have less than a one percent error rate.

Direct deposit, direct access

Because taxpayers who file electronically must submit the routing number of their bank account, the IRS has access to it.

"That's one of the detriments that I see," said Cheryl A. Ruggiero, CPA, (cruggiero@kahnlitwin.com) director of tax services at Kahn, Litwin, Renza & Co (KLR&Co.). "Taxpayers who have a refund coming wouldn't be concerned. If you owe money on a paper return, you have some control as to when you're going to pay it. However, if you file electronically and have a balance due, they're [IRS] going to pull that money immediately – once they've got the routing number in their system that money's gone." Ruggiero also advises that if the IRS erroneously says you owe more money than you really do and they've already taken it out of your account, "you're going to have to chase them to get it back."

While the direct deposit method is the easiest, fastest way to get a refund deposited into your bank account, by the same token, the government has access to it if you have a balance due.

A paperless future?

Not exactly. Although everyone will eventually have to file electronically practitioners still have to provide a paper copy to the taxpayer, so it's not completely paperless. "All we're doing is eliminating the paper on the government's end. I would still have to provide a copy of a tax return to my client even though we electronically filed it with the agency. So, what are we saving? One copy of the return," said Ruggiero.

"From a practitioner point of view, we see no benefit to e-filing whatsoever," said Ruggiero. "We still have to get the information on the return and make sure it's correct. The only thing we're not doing is printing an extra copy of the return, we're just transmitting it electronically."

Tax strategies

Whether or not you decide to e-file, here is some useful information to remember:

- Tax on short-term capital gains is almost twice that on long-term gains, but short-term losses offsetting long-term gains will create a smaller tax benefit. So you need to plan carefully which assets to sell and which losses to take before year end.
- As incomes rise and regular tax rates decrease, the alternative minimum tax (AMT) is affecting more and more taxpayers. Make sure you know what triggers the AMT, whether you have to pay for it, and how you can reduce your taxes accordingly.
- The Job Creation and Worker Assistance Act of 2002 offers businesses a special 30 percent bonus depreciation allowance for certain property, plus a longer net operating loss carryback period for tax years 2001 and 2002.
- A falling stock price can result in costly tax consequences if the sale of stock purchased through an incentive stock option is not planned properly. Be sure to consider the tax consequences before selling such stock.
- Retirement plan contribution limits have increased this year. Take advantage of these changes to reduce your current taxable income while putting more away for your later years.

E-filing does not replace professional tax advice

In a recent report released by the IRS, statistics show an upward move in the number of people e-filing their taxes both from home computers and in prepared returns from this time last year.



MONEY MANAGEMENT from page 1

According to an article in the *Wall Street Journal*, children 6 to 12 years old spend \$24 billion a year in the United States.

DiSanto borrows from west coast

DiSanto first learned about the KiddAccounts program at a conference in San Diego last May. "A Northern California firm presented this money management program for kids and I thought it would be really neat to bring it back home."

The KiddAccounts® Children's \$Money\$ Management Program, tailored specifically for third to fifth graders, is a business/education partnership that helps teach children important life skills. Developed by Santa Rosa, Calif. CPA firm Linkenheimer LLP for elementary school students, the children's money management program uses a fun character, Lester Lynx, that kids can identify with, in teaching them how to budget and save.

Spreading the word

DiSanto, Priest & Co., the only company licensed to teach the program in Rhode Island, started last fall with Mrs. Sullivan's fourth-grade math class at St. Rose of Lima Elementary School in Warwick. Their goal is to form partnerships with schools across the state. "We want to take it [KiddAccount program] statewide and touch as many kids as we can," said DiSanto.

How it works

While there is no formal training session, the \$1,000 licensing fee to Linkenheimer LLC also buys a video with classroom training. Program materials are extra. "Budget Bucks" are used with the "Tracking My Money" organizer which includes four special envelopes for Rainy Day Savings, Sharing and Giving, Sunny Day Savings, and Spending. The KiddAccounts program is free to all schools.

The three-week program includes an initial visit by a representative from the CPA firm to introduce the program. During the 45-minute classroom presentations, DiSanto emphasizes responsibility. "There are different uses of money – some to be spent on necessities, some to be spent on luxury items, some to be saved for rainy days and some to be saved for retirement."

The teacher distributes materials during the second session and the CPA returns during the third week to wrap up the discussion and pass out certificates of completion.

Ambitious students aim high

So far, DiSanto's young audience has responded with enthusiasm. "We had a lot of fun working with the students," said Kathy Wiggins, DiSanto's assistant. So, what are today's children saving for? A few high-ticket items on the list include a new bedroom set, a horse, and



autographed sports memorabilia that can be purchased for a mere \$900 on e-Bay.

Educators interested in the KiddAccounts program should contact Kathy Wiggins at 521-1550. ❖



Academics

Computer-based CPA examination: Leave your pencils at home

Good news for future CPAs: Starting in April, 2004, the American Institute of Certified Public Accountants (AICPA) Board of Examiners will trade in the current paper and pencil format for a 14-hour computer-based version of the Uniform CPA Examination. The Joint AICPA and National Association of State Boards of Accountancy Computerization Implementation Committee (CIC) will manage the transition from a paper-based to computer-based test.

While the current CPA exam is offered only twice a year, the more convenient, electronic

version will be available frequently throughout the year. Qualified candidates will be required to sign up for the exam at one of the yet to be announced regional testing centers.

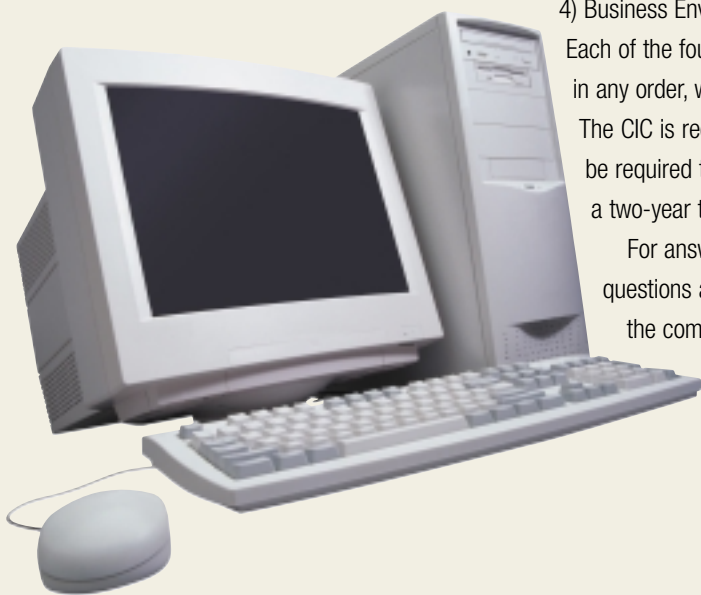
The new format will include 80 percent multiple choice and 20 percent simulations with reference, spreadsheet, database and word processing software to be used in tasks such as preparing financial statements from a trial balance.

The proposed four sections of the exam are 1) Auditing and Attestation; 2) Financial Accounting & Reporting; 3) Regulation; and 4) Business Environment & Concepts.

Each of the four sections, which could be taken in any order, would take 2.5 to 4.5 hours.

The CIC is recommending that a candidate be required to pass all four sections within a two-year time period.

For answers to frequently asked questions and up-to-date news on the computer-based CPA exam, log on to www.cpa-exam.org.



RISCPA to award \$11,000 in scholarships to college juniors and seniors

To help with college tuition costs, RISCPA will be awarding \$11,000 in scholarships to college level juniors and seniors for the 2003-2004 academic year. Eligible students must be pursuing a course of study in business with a concentration in accounting and have a

grade point average of 3.5 or higher. Students should contact RISCPA at 331-5720 or log on to www.riscpa.org for an application, and attach a letter of support from their accounting instructor.

The 2003-2004 scholarship application deadline is April 4.

Did You Know?

- For the superstitious, the number 13 is an unlucky number. But in terms of major stepping stones for Rhode Island, it has proved to be quite a lucky number. Rhode Island was the 13th state in the union to adopt the use of the LLC form and coincidentally the 13th state in the union to sign the constitution.
- The Bureau of Labor Statistics projects a 34 percent increase in job openings by the year 2005. Much of this reflects the increasing complexity of corporate transactions and growth in government. Demand is especially high in the tax and health care areas.
- There is high demand for individuals who can go beyond technical skills and display good interpersonal abilities, legal knowledge, and foreign language skills. Accountants are broadening as business globalizes and becomes more team-oriented. *Source: www.careers-in-accounting.com.*
- A recent survey found that over half of corporations that hire accountants consider the CPA (Certified Public Accountant) designation and the CMA (Chartered Management Accountant) important. *Source: www.careers-in-accounting.com.*

E-FILING from page 6

The ability to file taxes from a home computer does not replace the advice of a tax professional, who may determine benefits that the average person wouldn't even consider. People who prepare returns on their own may not be aware of all the benefits that are available to them – whether they file a paper return or transmit it electronically. People who file through a practitioner should remember that tax preparation fees are deductible.

Security factor

Most tax preparers cannot transmit directly to the IRS and use a third-party service bureau. Taxpayers must attach a pin number to their return which prevents someone else from accessing their financial information. A signature, which must be mailed, is still required. It says that you are responsible and liable for the tax.

R.I. budget cuts to delay refunds on paper returns

On a state level, budget cuts have resulted in less workers. In a recent *Providence Journal* article, Rhode Island Tax Administrator R. Gary Clark cautioned taxpayers that budget cuts could mean lengthy delays in the processing of refunds unless taxpayers file electronically.

E-filing is here to stay

"People need to be aware that at some point electronic filing will be mandatory and they may want to try and get used to it now," said Ruggiero.

With the launch of its Free File initiative in January, where companies will offer free tax preparation and filing to 10 percent of eligible taxpayers, the IRS will encourage even more taxpayers to e-file. Visit IRS.gov for more information on e-filing. ❖

Your Two Cents ...



Your feedback is important to us, and we welcome your suggestions. If there is a topic you would like to see in upcoming issues of *What Counts*, please write, call, or send us an e-mail.

Send questions or comments to:
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SARBANES-OXLEY continued from page 1

conflicts with certain aspects of the new law that are in direct conflict with their own country's law, as reason to withdraw from the U.S. listings. The U.S. Securities and Exchange Commission (SEC) responded by exempting foreign companies from some elements of the new U.S. corporate-governance legislation.

The SEC did not exempt foreign countries from other controversial elements of the new law such as a provision requiring CEOs and CFOs to accept personal criminal liability for the validity of their companies' financial statements. A ban on company loans to corporate insiders also applies to overseas companies. Although many companies see the new law as overreaching, securities-law experts do not view the new law as a deterrent.

According to Reuters, European exchange sources said concern about Sarbanes-Oxley tops the agenda for most potential listings while in the past, regulation was a secondary factor in choosing where to go public. Apart from Sarbanes-Oxley, both the New York Stock Exchange and Nasdaq have also proposed new governance rules.

Lawyers are protesting provisions in the Sarbanes-Oxley Act that require them to take certain steps against their own clients.

The biggest issue is

a provision requiring lawyers to withdraw from representing a corporate client if the lawyer sees evidence of fraud and the company fails to do anything about it after the lawyer brings it to the attention of high-level officers.

The legal community supports the "up-the-ladder" approach which would require lawyers to report a problem such as fraudulent accounting all the way to the board of directors, until the problem is corrected. However, lawyers are protesting the additional mandate that, if the problem is not corrected, they must quit, notify the SEC that they no longer represent the company and indicate which documents they believe are inaccurate. Client confidentiality is another issue of concern.

New 401(k) blackout rules protect participants

Blackout periods, when 401(k) participants cannot make any plan changes, are common when a plan sponsor changes investment providers or recordkeepers for the plan. In the high-profile Enron case where top executives sold the company stock they owned outside of the retirement plan as it plummeted in value, 401(k) participants were under a blackout that prevented them from selling their shares. Many

Enron employees lost their life savings.

Under the Sarbanes-

Oxley Act, plan sponsors must provide notification of any such blackout period at least 30 days and no more than 60 days before the first day of the blackout period. The notice must contain the following information:

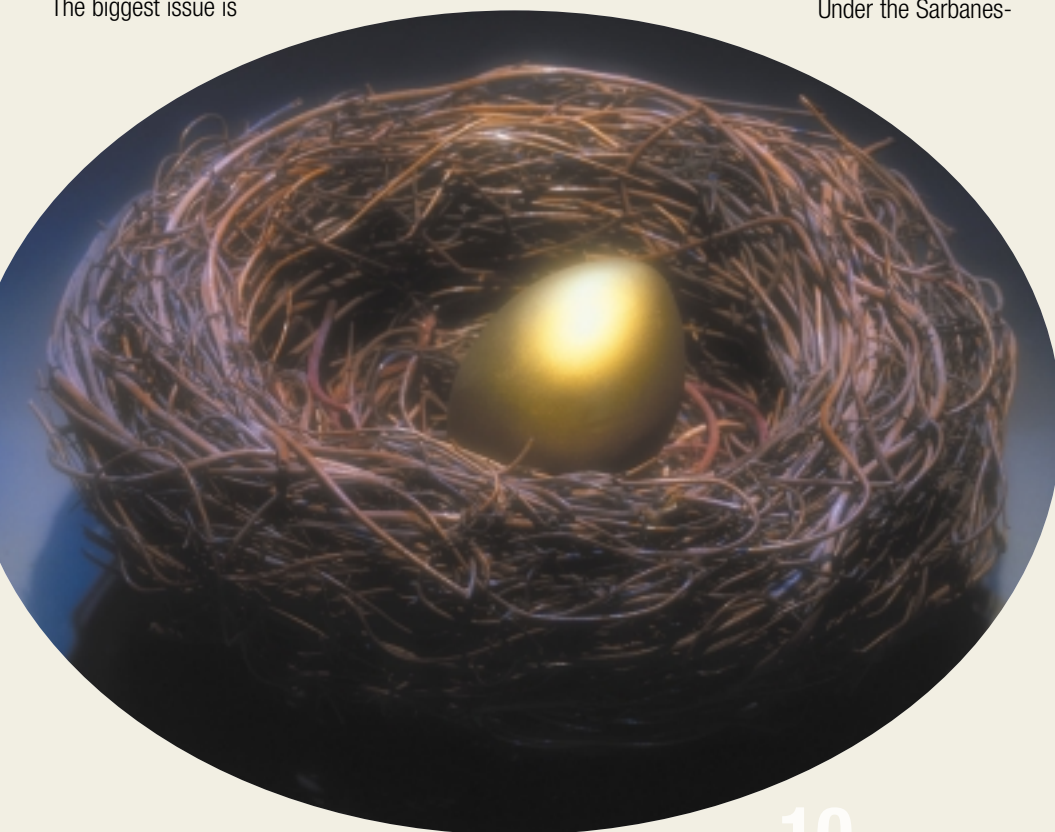
- Reasons for the blackout period.
- A description of the investments and other rights affected.
- The expected beginning and ending dates of the blackout.
- A statement advising participants to evaluate the appropriateness of their current investments in light of the blackout.
- An explanation of why the notice did not meet the 30-day advance requirement if that was the case.
- The name, address and telephone number of the plan administrator or other person to whom questions should be directed.

Plan sponsors who violate the act will pay a maximum penalty of \$100 per day per participant for failure to provide timely notice. However, plan administrators will have 30 days from the date of notice to file a statement demonstrating why the penalty should be reduced or waived.

Large U.S. jurisdictions to dictate what happens locally

To date, there has not been any direct effect of Sarbanes-Oxley on small, closely held businesses in Rhode Island. However, if large jurisdictions such as New York and California adopt rules pertaining to auditor rotation and independence issues, it could have a domino affect across the country. "What everybody in the accounting profession should focus on is what's happening in those large jurisdictions because if they start adopting major provisions of Sarbanes, it's going to have a big impact on local businesses," said Prescott.

If it cascades down to Rhode Island, the law would prevent local CPA firms from engaging in certain accounting functions and consulting for many small to medium size companies that turn to their CPAs to provide those services. The law is supposed to exclude tax preparation, but when it comes to tax strategy and planning, there's a possibility that consulting work would be ruled a



conflict of interest if the accounting firm was performing the audit function as well.

"The unintended consequences really have to do with these independent standards that may cascade down to private, nonprofit and governmental sector. If that happens, it will put a tremendous financial burden on both small and medium size businesses because they rely on their CPAs for certain services," said Prescott.

Board to take over peer review

Moving to a different private sector regulatory structure, a new Public Company Accounting Oversight Board (the Board) will be appointed and overseen by the SEC. The Board, made up of five full-time members, will oversee and investigate the audits and auditors of public companies, and sanction both firms and individuals for violations of laws, regulations and rules. Two of the five board members must be or must have been CPAs. The remaining three must not be and cannot have been CPAs. The Chair may be held by one of the CPA members, but he or she must not have practiced accounting during the five years preceding his/her appointment. The Board will be funded by public companies through mandatory fees.

Brokers/dealers must now use PCAOB-registered accounting firm

The National Association of Securities Dealers recently reported that although the Sarbanes-Oxley Act is primarily directed at CPAs and publicly held companies, the new law will require all brokers/dealers, both public and private, to be audited by a public accounting firm registered with the Public Company Accounting Oversight Board (PCAOB). Because many private companies currently use CPA firms not registered with the PCAOB (an estimated only 50 out of 700 accounting firms auditing brokers/dealers will elect to register with the PCAOB), they will have to change accounting firms, probably at an additional cost.

Many Sarbanes-Oxley provisions are not effective until July 1, 2003. The investment community will have six months after the new congressional session begins to address concerns.

Audit partner and firm rotation

The relationship between accounting firms and their publicly held audit clients is different under the new law. Sarbanes-Oxley's mandate regarding partner rotation on audits may lead to auditor rotation (firm rotation rather than partner rotation) and a ban on lucrative consulting work. While Sarbanes-Oxley prohibits auditors from providing technology consulting services to its clients, it doesn't specifically ban the provision of tax consulting or other consulting advice. It can only be done with the express permission of the audit committee.

Publicly traded and privately held corporations set up ethics hotlines

The Sarbanes-Oxley Act requires publicly held companies to have a mechanism for employees to raise anonymous questions about securities fraud. Though not required to do so, privately held corporations quickly followed suit.

Ethics quickly became a major issue for business leaders after last year's corporate scandals. That is why companies across the country have set up "ethics hotlines" that employees can call anonymously if they suspect any wrongdoing in the workplace. Employment experts expect to see an increase in such hotlines which are popping up in financial institutions, health care and retail.

Employers lose an estimated 20 percent of every dollar to workplace fraud, according to a survey of 617 workers by Ernst & Young.

Restoring public confidence in the accounting profession

The accounting profession was dramatically affected by last year's corporate scandals. As always, the Rhode Island Society of Certified Public Accountants is committed to upholding the profession's stringent code of conduct and standards.

A valuable resource to the community it serves, the Society will continue to the best of its ability to restore public confidence in the accounting profession, in light of the changing landscape.

For recent developments regarding the Sarbanes-Oxley Act of 2002, visit the American Institute of Certified Public Accountants web site at aicpa.org/Sarbanes/index.asp. ❖

Sarbanes-Oxley at a Glance

Here are key provisions of the Sarbanes-Oxley Act, passed by Congress in July, 2002. As of this writing, some provisions are already being enforced while others are awaiting regulators' final decisions.

Executive loans.

Outlaws most corporate personal loans to directors or executives.

Making corporate officers more accountable.

Chief executives and chief financial officers required to sign statements attesting to the accuracy of their firm's financial statements.

Lawyers' professional conduct standards.

Corporate lawyers would be required to report evidence of wrongdoing to the CEO, general counsel, company's audit committee, another board committee or entire board.

Auditor independence.

Prohibits auditors from providing certain non-audit services to clients they audit.

Strengthen corporate audit committees.

At least one member of a committee must meet SEC's definition of a "financial" expert and now the auditor directly reports to the audit committee rather than the board of directors.

Executive stock sales.

Executive officers and directors can't trade company stock during pension-fund blackout periods when employees are prevented from trading.

Creation of Public Company Oversight Board to oversee the audits.

Inspect auditing firms, set accounting and audit standards and sanction auditors.

Stock analysts' conflicts of interest.

People involved in investment banking would be prohibited from influencing analysts who recommend stocks or retaliating against them for unfavorable reports.

Source: USA Today

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Tax benefits and ramifications

Before filing as an LLC, businesses should be aware of the tax benefits and ramifications. From a tax perspective, an LLC is treated like a partnership as it incurs single taxation, unlike C corporations, which have double taxation.

The LLC is a flow-through entity similar to an S corporation. The flow-through entity allows income, deduction and losses to be reported on the member's income tax return which results in only one level of tax. "The LLC provides additional benefits over the S corporation in that the LLC may allocate income and deductions unequally as long as the allocations have substantial economic effect," said Patricia A. Thompson, CPA, MST (patt@pgco.com) of Piccerelli, Gilstein & Company. Thompson, who chairs the RISCPA Federal and State Tax Committee, also said that cash distributions may also be made unequally without being concerned with the loss of LLC status. In addition, the LLC has no limitation on the number and type of owners. For example, an LLC may have a corporate investor as a member.

An LLC member also is able to increase his/her basis by the amount of recourse and certain nonrecourse liabilities. Allowing basis to increase by the amount of liabilities allows the member to take additional losses on his/her individual income tax returns.

Whether you are opening a new business or want to consider converting your existing business to an LLC, consult your legal and tax advisors. An LLC, in addition to limited liability, offers you additional flexibility with allocations of income and losses, the number of owners your company can have as well as potential tax benefits. ❖



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