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DIGITAL OPTIMIZATION

A Paperless Office or a World Series Title?

By Barry MacQuarrie, CPA

Barry MacQuarrie, CPA, is director of Technology at KAF Financial Group in Braintree, Mass. where he has overall responsibility for the technology direction of the firm. He also consults with CPA firms on their implementation of paperless office technologies.

As a lifelong fan of the Boston Red Sox, I have become very good at saying, "Just wait until next year." When asked if the paperless office will ever become a reality, the optimist in me keeps saying, "Just wait until next year."

In Bill Gates' book, *Business @ The Speed Of Thought*, he writes, "The first use of the phrase paperless office appeared in a headline a quarter of a century ago in a trade publication for phone companies. The Xerox Corporation (although it never called it a 'paperless office') did more to promote the concept than anyone else. In 1974-75, the company was talking about 'the office of the future' that would have computers and e-mail with information online."

Will we ever find the "paperless office" that was the vision of these pioneers in the early 1970s? Can a company really do business without paper? For many of us, these questions remain unanswered.

Case Study—KAF Financial Group

In 1999, KAF Financial Group looked like most other CPA firms. Our office was filled with file cabinets. We had hundreds of binders with client related documents. Our computer system had thousands of electronic files in various folders and databases. Often, we maintained an electronic and a paper version of the same document. We spent thousands of hours each year sorting, organizing and filing paper documents.

The system was adequate, but not efficient, and we were reminded of the inefficient nature each time we had to search for a paper document that was suddenly "lost."

We were ready for a change.

Our pursuit of the paperless office began in 2000 with implementing a paperless engagement solution and document management system. I am often asked why we implemented two systems that appear so similar. While it's true that these two types of software have many common features, our firm uses them to meet very different business needs.

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Our Paperless Engagement Solution

We selected ProSystem fx® Engagement from CCH (www.tax.cchgroup.com) as our paperless engagement solution. Our goals were to improve the efficiency of our audit process and provide an organized method for storing electronic workpapers. At the time, the process of preparing financial statements and tax returns was labor intensive and involved a significant amount of data entry.

We developed new procedures to exchange data between our audit-related applications and reduce the amount of time spent re-keying data. Our clients are encouraged to submit their data in electronic format allowing us to import it into ProSystem fx Engagement. We also developed standardized procedures for preparing, reviewing and storing electronic workpapers. The result of the project is an audit process that is more efficient, organized and profitable.

Although our paperless engagement solution was a success, we realized that it would not provide for the document storage needs of the other business units at KAF.

Our Document Management System

The process of purchasing a document management system can be very difficult. It seems that every vendor has a different definition of the same term. A document management system should provide the user with the tools to capture, manage, share, secure, index, find and retrieve documents.

Our goal was to find a system that would allow us to control all the non-audit related documents that existed within our firm, including tax returns, consulting projects, correspondence, billing records and internal firm documents.

We selected a solution called Xerox—DocuShare, (<http://docushare.xerox.com/ds30>) that provided the software and hardware necessary to create and manage all of our electronic documents. We scanned two years of existing client documents and

moved all electronic documents from our network folders to our new document management system. Our team also developed new procedures for converting all documents into an electronic format.

Improved Business Process

Implementing the document management system significantly improved our business processes, allowed us to better serve our clients and increase our ability to recover from a disaster.

Everyone uses the same interface — DocuShare — to create, manage, search for and retrieve documents. We no longer have to search through numerous network folders or file cabinets to find client documents. We maintain a digital repository that contains all of the documents. DocuShare includes a powerful indexing system that indexes every word in every document. Their search tool allows us to scan tens of thousands of documents in seconds.

Regarding improved service to clients, here are the details of how we conducted business prior to the new system.

Each April, our partners and staff were busy preparing individual tax returns from the paper-based documents we received from our clients. Suddenly, the phone would ring and it was a client calling with a question about the tax return we mailed to them two days earlier. For some, “panic” would set in as they realized they needed the client’s tax file and they had no idea where it was located. Our clients would often hear us say, “Let me find your file and call you back.” This resulted in hours of non-billable time spent searching for files — not a model for good client service.

Our procedures have changed. We scan the client’s organizer and source documents when they arrive. We convert them to Adobe PDF files, and add bookmarks and annotations to the PDF files as we prepare and review the tax return. Once complete, the tax return is printed in PDF format and stored with the electronic version of source documents in DocuShare.



Today, when the client calls in early April, we no longer panic. While we share our thoughts about this year's Red Sox team, we are opening their tax return and source documents from DocuShare. We are ready for their questions and can provide quality client service.

Often overlooked, a document management system also can help an organization with their disaster recovery planning process. In the paper world, it is impossible to maintain an off-site copy of every document in the office. A fire or flood would have a dramatic impact on a CPA firm. A digital repository allows us to reduce this risk. Each day, a copy of our entire digital repository is moved to an off-site location as part of our normal backup procedures.

Our Clients Benefit From Document Management Systems

CPA firms are not the only organizations that can benefit from a document management system. As an example, let's look at how a general contractor struggles with paper in its normal business process. Most general contractors maintain a central office and have teams working at remote job sites.

The project managers oversee the work performed at, and materials delivered to,

remote job sites. Accordingly, the project managers are often called upon to review and approve vendor invoices. However, most vendors deliver the invoices to the general contractor's central office. The paper — and the person who needs the paper — are in different locations. The general contractor is forced to ship the paper to the job site or the project manager must travel to the central office.

Using a document management system, a general contractor could solve this problem. The staff at the central office would scan all vendor invoices on arrival. The system allows the project manager access to the digital version of the invoices from the remote job site. The system also can be used to handle the routing and approval process as the invoices move from one person to another, and the general contractor can also build a single digital repository for all job related documents.

It's All About Process

Moving from a paper-based system to a digital storage repository will not happen overnight. It should be a carefully planned and executed process. A few of the lessons I have learned include the following:

- A member of management must champion the project

- Document your business process
- Select a solution that best fits your process
- Avoid being sold on the "features" of the new system
- Develop standardized policies and procedures
- Select a solution that integrates hardware and software
- Invest in quality products from quality vendors
- There will be resistance
- The results will be worth the aggravation

The impact our document management system has had on our firm is tremendous. We truly could not operate without it. The firm has improved as we have moved from paper-based storage to our digital solution. I believe that most CPA firms can benefit from the move to a digital office.

Will we ever see a truly paperless office? Will we ever see a World Series Title in Boston? We should know by next year

Contact Barry MacQuarrie
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DISASTER RECOVERY

CREATING YOUR BUSINESS CONTINGENCY PLAN

By **Bob Spencer, Ph.D.**

Bob Spencer, Ph.D., is chief technology officer for K2 Enterprises (www.k2e.com). He is a nationally recognized writer, educator and consultant, and speaks nationally for K2E. Dr. Spencer has written several books and thousands of articles on technology, including that provide guidance on Disaster Recovery Planning and Risk Management published by the AICPA and the American Bar Association. *Technology Best Practices*, which he co-authored with K2E's Randy Johnston, is available from Amazon.com and Barnes and Noble.

Before you begin reading this, do a simple exercise for me. Imagine that you are sound asleep in your bed, it is four in the morning, your

phone rings and a panicked voice on the other end says, "Your office is ablaze!"

Goosebumps yet? What is your next step? Retirement is not an option! How will you reconstruct your business? Will you survive the turmoil, your people, your clients and customers? Now that I have your attention, you are ready to continue reading.

Wrapped inside the Business Contingency Plan is Disaster Recovery, or the process of returning to operations following some type of failure. There are many levels of failures, from a small event that can be corrected in under an hour, to catastrophic failure that

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may take days or weeks — and a failure from which you may never recover.

Recovery and minimizing loss depends on how well you plan. Having developed and tested disaster recovery plans for the last 30 years for a wide range of businesses, from financial institutions to manufacturers, I can attest that many disasters could have been prevented or loss minimized through adequate planning before the mishap. When I am engaged to help prepare a Business Contingency Plan, the client often assumes that we begin and end in the computer room, but this is not the case. Your recovery plan must include written procedures for all the functional areas of your organization, as well as computer recovery.

Getting your computers up and running may be the least of your problems. What about getting your people into work? If a disaster destroys your office or plant, where will your people go, where will the workspace be, and what equipment and office supplies will be available? What tasks *must* be done, *should* be done, and would be “nice to have?” How long can you go without performing less important tasks, such as taking inventory or closing month end?

Sept. 11 made many of us more aware of the potential threats we face daily. And, while we know this, in itself, is a good reason to protect ourselves, the greatest threat to any business is still natural causes from violent storms, earthquakes and fire, or man-made causes, including chemical spills or accidents. Finally, there are threats you must recover from that do not destroy your physical surroundings, but can be just as catastrophic, including computer viruses, cyber crime and employee theft. Collectively, these potential threats should share space in your written Business Contingency Plan and disaster recovery processes.

Writing the Contingency Plan

Begin with an Emergency Response Team (ERT) that can define and manage the recovery process. In larger organizations with multiple locations, you may assign secondary teams to manage the recovery at each location, but the ERT — typically composed of senior management from each critical area of your organization — is responsible for conducting the overall recovery process.

The next step is to write the plan. The Business Contingency Plan is a formal document that records the objective of the overall plan. Who is responsible? How will the recovery take place? Involvement and commitment to the process begins in the boardroom, not the back room. From the highest level of the organization, there must be a commitment to Contingency Planning. The ERT actively ensures that this plan is created, tested and reviewed annually.

When you develop your written recovery plan, you must define what a disaster is. There are four levels of disasters, and not all of them are catastrophic:

Level IV: Catastrophic. The organization must have these systems in operation within 72 hours or it will experience significant economic

loss. Level IV disasters occur when the computer center is lost due to system failure or natural disaster (hurricane). When a Level IV disaster is declared, it is time to head to the alternate processing site.

Level III: Severe, but not yet catastrophic. With a timeframe up to 72 hours, this type of emergency is monitored very closely beyond 48 hours to determine if it will escalate to Level IV. Level III disasters are expensive. Incidents could range from the data center losing critical components, to a loss in telecommunications or branch operations, with portions of the organization functioning correctly.

Level II: Common disasters affecting some of the organization. Level II disasters are very common and usually only affect a segment of an organization, such as a department, branch or warehouse. A Level II disaster is considered up to 24 hours (one full business day) and may escalate to a Level III if corrective measures are not effective.

Level I: The most common disasters and the most overlooked. These are the everyday annoyances you experience. The duration of the failure is typically less than four hours and isolated to one workstation, workgroup or office. An example might be a Network Interface Card (NIC) or Network Hub that fails, bringing the users down until repaired.

Note that there are many more Level I than Level IV disasters each year. Level I disasters, collectively, cost most businesses more money annually than Level IV disasters do. Time to plan?

Test the Plan

Once the plan is written and approved, the most important task that remains is to test it. Failure to test the plan leaves you vulnerable to errors. Through the ERT, management should review the plan at least annually and adjust for any changes that occurred in the business, then retest again. Make sure your people are aware of the plan and know how to react.

Required Responses

There are six required responses to a disaster, or to a problem that could evolve into a disaster, and each of these points must be addressed in the Plan:

1. Identify a point of failure and determine a disaster condition.
2. Notify persons responsible for recovery.
3. Declare an emergency and initiate the Contingency Plan.
4. Activate the designated hot site (if the disaster Level is appropriate).
5. Disseminate information.
6. Provide support services to aid recovery.

Expanding on these six points, how is your Plan formatted? At this point, it is assumed that you have formed your ERT, and evaluated



your forms and manual procedures. You also should have documented all critical systems, network components and software needed to run your business's mission-critical processes. Finally, you also have listed all vendor and supplier contacts, and the items you receive from them, so that additional stock may be ordered in an emergency.

A Step-by-Step Disaster Recovery Strategy

The disaster recovery strategy and its phases explained below pertains specifically to a disaster disabling the main data center. This functional area provides computer and major network support to core applications. Especially at risk are critical applications — those designated as Level IV systems. The plan must provide for recovering the technical capacity to support critical applications within 72 hours. Summarizing the provisions of the Plan, subsections below explain the context in which the organization's Contingency Plan operates. The Contingency Plan complements the strategies for restoring the data processing capabilities normally provided by the Data Processing Department.

Emergency Declaration Phase

The emergency phase begins with the initial response to a disaster; this is the identification of a "Point of Failure." During this phase, the existing emergency plans and procedures direct efforts to protect life and property, the primary goal of initial response. Security over the area is established as local support services, such as the Police and Fire Departments, are enlisted through existing mechanisms. The ERT On-Call Duty officer is alerted and begins to monitor the situation.

If the emergency situation appears to affect the main data center (or other critical facility or service) — either through damage to data processing or support facilities — or if access to the facility is prohibited, the Duty Person will closely monitor the event, notifying ERT personnel as required to assist in damage assessment. Once access to the facility is permitted, an assessment of the damage is made to determine the estimated length of the outage. If access to the facility is precluded, then the estimate includes the time until the effect of the disaster on the facility can be evaluated.

If the estimated outage is less than 72 hours, recovery will be initiated under normal operational recovery procedures. If the outage is predicted to last longer than 72 hours, then the Duty officer activates the ERT, which in turn notifies the chairman of the Contingency Plan Steering Committee and director for Information Services; at this point, the Contingency Plan is officially activated. The recovery process then moves into the back-up phase. Under some conditions, it is advisable to notify the ERT that a disaster occurred, even if the event is expected to last less than 72 hours. Your company should account for these types of disasters that are normally Level II (less than 24 hours) or Level III (less than 72 hours).

Getting started is often the toughest part of developing the Business Contingency Plan. Dr. Spencer offers an example at www.tsif.com.

The Emergency Response Team remains active until recovery is complete to ensure the organization will be ready in the event the situation changes.

Alternate Site Activation Phase

The Alternate Site Activation phase begins with the initiation of the Plan for outages lasting longer than 72 hours, or when the Emergency Response coordinator deems the emergency warrants activating the back-up processing site. In the initial stage of this phase, the goal is to resume processing critical applications. Processing may resume either at the main data center or at a designated "hot site," depending on the results of the assessment of damage to equipment and the physical structure of the building.

In this phase, the initial hot site must support critical applications for whatever timeframe is necessary to recreate a permanent site. During this period, processing of these systems resumes, possibly in a degraded mode, up to the capacity of the hot site. If the damaged area requires a longer period of reconstruction, then the second stage of this phase commences. During the second stage, a shell facility (a pre-engineered temporary processing facility) is assembled and placed in a designated area.

Recovery Phase

The time required for recovery of the functional area(s) and the eventual restoration of normal processing depends on the damage caused by the disaster. The timeframe for recovery can vary from several days to several months. In either case, the recovery process begins immediately after the disaster and takes place in parallel with back-up operations at the designated hot site. The primary goal is to restore normal operations as soon as possible, and the definition of "normal" might be relative to what you can afford. Many businesses may be able to perform at a diminished level and still meet mission critical objectives. Some time should be spent on this point because operating at full or normal levels might be much more expensive, or might result in additional cost that are not really justified.

The Recovery Phase incorporates all steps necessary to bring mission critical functions back up to a service level. This could mean restoring operating systems procedures, applications and data (data bases), and validating all information as current before beginning. Part of the planning and procedure documentation for this Phase includes documenting the time required from the moment a disaster

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Level III or IV is declared, and that the Coordinator activates the alternate processing site until the system is operational.

To determine what is really needed in a reduced capacity, you should categorize all software and processes under the following categories and then concentrate on where your greatest weaknesses are.

Category I — Critical Functions: These are must-have functions, including manufacturing, order entry and environmental control, for example. Without these systems — you shut down.

Category II — Essential Functions: It is hard to determine the difference between Critical and Essential. However essential functions might be defined as inventory control, shipping, customer address and phone numbers. You could do business for a short time, but the impact would be significant.

Category III — Necessary Functions: Functions, such as Accounting Financial Reporting, Accounts Payable and Payroll (which could also be critical!) are considered as necessary, but again, you could get by for a short period of time.

Category IV — Desirable Functions: This would most likely be everything else, from spreadsheets to word processing.

The final sections of your plan describe the people who manage the recovery process, including their responsibilities. This will differ drastically by company. Don't forget a section on Disaster Recovery Procedures, including building evacuation and what to do in case of medical emergency, fire, hurricane and tornado, to name just a few examples. In this section, there are specific action items and who is responsible.

Cost Considerations and ROI

How much does disaster recovery planning cost? A great question! However, a better one is how much will it cost if you *don't* plan? I like the adage, "Those who fail to plan, plan to fail!"

The actual cost of disaster recovery and business contingency planning varies with the type of company or business, and the depth of your plan. You also must consider the level of exposed risk. For example, I live on the Florida Gulf Coast, so what are my chances of experiencing a Hurricane in the next few years? I can tell you that they are very good! Therefore, my plan focuses on the threats of high winds, rising water and loss of power for extended periods of time.

On the other hand, the chances of my Florida office experiencing a snow or ice storm are fairly slim, thankfully. Your plan will determine your risks from natural conditions, as well as other threats, including hazardous chemicals and theft. All these affect your costs of developing and testing your plan. In addition, consider costs that are "out of pocket" — hiring a consultant to assist you in plan development versus soft cost where your staff prepares the entire plan.

We face emergencies every day, and the more dependent our world is on technology, the more fragile we become and susceptible to failures beyond our control. It is a wise company that prepares.

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Contact Dr. Bob Spencer at drbob@tsif.com. ●

INFOTECH UPDATE PROFILE

Ken Askelson Follows the Golden Rule at JCPenney

The various generations making up our population say quite a bit about belief systems, occupational outlook, motivators and philosophies. What's important to the Baby Boomers is far and apart what matters most to Generation X and Y — hence the term, "generation gap."

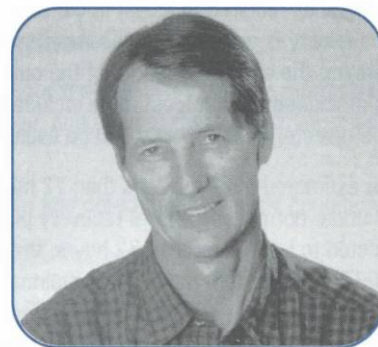
So what does the background of a person like Ken Askelson, CPA/CITP, CIA, look like to an accounting professional in his or her 20s and 30s?

Consider this: Ken has spent 32 years working for JCPenney, first in stores, district and regional offices, and then in Plano, Texas, a suburb of Dallas where the company relocated its home office from New York several

years ago. The job with the retailing giant is practically the only one he's ever had since graduating from the University of Northern Iowa with degrees in Marketing and Accounting.

In his current role as Senior IT Audit Manager, Ken supervises the IT Audit staff responsible for auditing and monitoring the activities of the company's information technology infrastructure. Other positions held over the last three decades include Regional Accounting Coordinator, Merchandise Manager and Audit Manager.

Consider this as well: while others live by current-day, Covey-like philosophies, Ken subscribes to a different mantra.



Ken Askelson

"As a career JCPenney associate, I have tried to live by James Cash Penney's belief for doing business and conducting your personal

life by the standard of the 'Golden Rule,' he says. "Incidentally, in 1913, Mr. Penney interpreted the meaning of the Golden Rule for his business by establishing a set of principles that is the foundation for our Company's ethical expectations. It's known today as 'The Penney Idea.'"

Add all of this up and you probably have a preconceived idea of what our parents used to call "lifers;" individuals who spend an eternity working for one company who are perfectly satisfied with living the American dream.

In Ken's case, this description — in reality — couldn't be further from the truth. Ken is the kind of accounting professional who is constantly in search of the most dynamic solutions for his employer, as well as his own acumen.

"My background as a CPA provides me with the financial, accounting and auditing skills needed to effectively perform my job responsibilities. Since I have spent a significant part of my career in Internal Auditing with JCPenney, I found that all of these skills are necessary to contribute to the success of the Company. These skills are important whether we are auditing accounting ERP systems, financial consolidation and closing procedures, or our supply chain business applications."

Ken also works on behalf of the profession, and regularly meets and exceeds his personal growth goals. For example, he holds the AICPA's CITP (Certified Information Technology Professional) credential, and also is a CIA (Certified Internal Auditor), a designation issued by the Institute of Internal Auditors that provides great guidance on internal auditing standards and practices.

"The CITP has helped me in my current position as Senior IT Audit Manager by demonstrating to the CIO that we have a broad knowledge and good understanding of the IT infrastructure needed to effectively support our business."

Holding the designation also has given him the opportunity to participate on several strategic IT committees charged with enhancing his company's business

processes or improving the security and control of its IT systems. For example, he chaired the committee that looked at the security and privacy of JCPenney's critical information assets, as well as the committee on developing standards and procedures for enhancing the security of the company's workstations.

"I also participated on an IT business process reengineering team responsible for migrating our systems to support the business moving from a decentralized business model to a centralized model. Knowing and understanding the body of knowledge for the CITP has provided another measure of credibility with our IT clients when we perform technical IT audits."

Ken has certainly seen his share of technology innovations over the years, and while systems may change, the process involved in getting from Point A to Point B remains similar. For example, he says the company continually evaluates and upgrades its existing technology or deploys new technology to better run its business.

"Whether we are looking at areas such as wireless technology, supply chain applications, network security, financial and inventory systems, or data storage solutions, we want to make sure these IT strategic initiatives are aligned with our business needs. We use automated monitoring tools developed internally or purchased to assist us in ensuring our systems and data are available, accurate, reliable, maintained and secure."

He says these same tools also help to quickly identify opportunities on an "exception" basis.

"For example, when we evaluate the security and configuration of our servers, we use an automated tool to assist us in this assessment. The advantage is that it provides us with good benchmarking information to ensure our servers are secure and properly maintained."

Currently, Ken is actively involved as vice chairman of the AICPA's Privacy Task Force, an initiative to help businesses and organizations implement Privacy standards on behalf of their clients and customers. One of the

f A significant responsibility of management is to maintain the trust of its customers and employees; if this trust is lost, it is difficult to get back and could lead to a financial disaster for your organization. ”

Task Force's most recent projects is the new AICPA/CICA Privacy Framework, available for download at www.aicpa.org/privacy.

"A significant responsibility of management is to maintain the trust of its customers and employees; if this trust is lost, it is difficult to get back and could lead to a financial disaster for your organization." How you protect the privacy and security of personal information that you collect, use, disclose and retain about your customers and employees becomes critical for maintaining that trust.

Ken says the Privacy Framework provides an excellent benchmark of good privacy practices that all organizations should use to better manage personal information.

"The Privacy Framework's criteria can be used to assess your existing privacy program or to develop, enhance, or implement such a program. It's a great resource that considers and incorporates concepts from significant domestic and international privacy laws, regulations, and guidelines."

If you still think Ken may one day receive his gold watch, stay tuned. In the meantime, you'll probably find him first in line to help with new company initiatives, and, at the same time, stay active in the profession.

Contact Ken Askelson at kaskelso@jcpenny.com. ●



DIGITAL OPTIMIZATION

BEST PRACTICES: CREATING A PAPERLESS AUDIT AND TAX PRACTICE

By Robert E. Reynolds, CPA

Robert E. Reynolds, CPA, is director of Accounting and Assurance Services for Brady Ware in Dayton, Ohio. As chairman of the firm's Assurance Services Group, he advises the Efficiency and Operations Committee, which is responsible for the implementation of best practices and new technologies at Brady Ware. He led the team of professionals responsible for the design and implementation of the procedures and processes necessary for the performance of accounting and auditing services in a digital environment. Bob is a member of the Ohio Society of CPAs and the Indiana CPA Society, where he serves as a member of the Society's Leadership Cabinet.

Much has been written over the past few years about how firms of all sizes transitioned to a completely digital (paperless) environment. Whether the desire is to increase the effectiveness of client service or to improve firm profitability, the goal for all CPA firms should be to create a digital environment where data is managed effectively and efficiently. A well-designed digital environment can help a firm enhance its use of human resources and facilities.

A digital firm is able to serve more clients with fewer people. The typical CPA firm has 20 percent of its operating facility devoted to the storage and retention of paper files! Storage and retention of excessive files cost money. Going paperless does not mean "no paper." More realistically, it means "less paper." Some clients will still provide manually prepared documents during an engagement, and most will continue to issue financial statements and tax returns in a paper format. Paperless, then, is the digital storage, manipulation and retrieval of client data.

Firms that made the transition to a digital environment report marked reductions in administrative support personnel. These valuable people do not necessarily need to be terminated; they can be re-tasked with more profitable assignments. Today's accounting software packages are designed to help eliminate or significantly reduce clerical tasks, such as typing financial statements and other engagement reports.

Benefits of Working Digitally

The current trend in our industry is for more fixed fee engagements. Whether you choose to believe it, many clients, today, view traditional audit and tax compliance services as "commodities." These "commodity" services are the foundation for many firms, and those that can operate more efficiently will see higher profits. Firms that implemented digital environments are already showing higher profits, in addition to seeing increased efficiency. On average, in the second year of a digital office implementation, engagement hours

are reduced by approximately 25 percent for audit engagements and 50 percent for tax engagements. This, in itself, is incentive to make the change.

Increased profits, however, are not the only benefit of a digital environment. Many firms report improvements in the quality and timeliness of client service. Sharing information digitally is already available in many of the accounting software solutions. This digital sharing of electronic data with clients eliminates many of the non-value tasks required today, including keying in or re-keying financial data and spending time pulling paper files. Most of these packages also provide the means to integrate general ledger data with financial statements, and the ability to import financial information directly to many different tax software packages. Many firms investing in these software solutions have seen marked improvement in timeliness of engagement deliverables.

Creating a Culture for Success

Let's face it. Most people, including many CPA firms, live by the credo, If it Isn't broke, don't fix it! Leadership is often averse to making changes in processes and systems because change requires an investment of time and financial resources. If the system is not fundamentally broken, why incur additional time and resources to change it, particularly if these costs cannot be immediately passed through to clients? The reality is that if a firm does not review systems and processes, the firm is probably not maximizing its profits. If we fear what we do not know, this fear must be managed to move forward. Focus must be placed on education and communication. Learning new skills takes time, patience and an open mind. We should always be open to finding a better way to do business. Working in a digital environment is a better way to do business!

Consider the typical CPA firm. The culture is predominantly risk-averse, overly analytical, focused on controlling resources and technical competence is more important than creativity. This culture has helped the typical CPA firm excel in times gone by, but the world has shifted and change is required. Most firms have classical organizational hierarchies; change is often slow and protracted. Given these inherent characteristics, how do you facilitate change when change is needed *now*?

In an environment where often one partner equals one vote, successfully implementing strategic initiatives is not an easy task. Far too often, the strategic direction agreed upon in the boardroom is quickly undermined by partner behaviors outside the boardroom. Making the move to a digital environment is a significant undertaking, but the benefits are many! Still it should not be attempted

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unless there is unwavering commitment on the part of the firm's leaders.

Implementing any significant organizational change takes strong leadership. Every project needs a leader and careful consideration must be given when selecting a project "champion." While your project champion must possess strong leadership and organizational skills, it is equally important that this person possess a willingness to take risks and the creativity to see what "could be" rather than what "could go wrong." They must also have full support. To effectively lead the charge forward, the champion must be empowered to act.

Management cannot allow those resistant to change to undermine its technology project. There are two very important issues to acknowledge right up front. First, it is not possible for everyone in the firm to have a "say" in project decisions. Second, there may be casualties, and the firm must be prepared for this. Many firms assemble a committee or task force to oversee the project — an effective approach that includes representation from the various disciplines within the firm, including, for example, audit, tax, technology, administration and management. This type of structure provides for input from the various functional areas while preventing dominance from one particular point of view.

It also is important to communicate to the entire firm the role of this group and provide a system for collecting ideas. Providing an environment where creativity is encouraged is beneficial, but it is important to remember that the leader must decide when it is practical to solicit opinions in the process.


As CPAs, we are often predisposed to finding "the right answer" to a problem rather than simply making a decision and moving forward. This is a significant undertaking and building momentum is critical to a successful implementation. Firms that have struggled or had their implementation effort stall tend to find that they tried to build consensus for every project decision and that they over-analyzed every available project alternative.

Getting Started

Getting started on the road to becoming a digital firm will require management to focus on four key areas: engagement approach and desired file content, internal procedures and systems, hardware and software requirements, and training.

Engagement Approach

An important goal in creating the digital audit and tax practice is gaining engagement efficiencies. Careful consideration should be given to establishing required engagement documentation, standardized workpaper structure and content, and uniformity, wherever possible. We all know if a firm has five partners, then often there are five ways to do the same task. Individual partner preferences are a sure-fire way to kill any efficiency initiative. Many firms under-



“ This digital sharing of electronic data with clients eliminates many of the non-value tasks required today, including keying in or re-keying financial data and spending time pulling paper files. ”

estimate the impact of technology on engagement efficiency. If a firm's engagement approach is inefficient or ineffective, then technology, by itself, will not correct the problem.

Internal Procedures

When considering procedures and systems, don't overlook the "little things." In all firms, there are hundreds of steps or actions that take place when serving clients. There is a given "paper flow" throughout the client service process, and it is important to first document what currently takes place and then seek ways to streamline them by using technology. In this stage, the devil is in the details.

For example, consider the details surrounding the typical engagement to prepare an individual tax return. We must determine where and how the client's source data will be obtained, what data will be kept to support the tax return, and how the source data will be stored. How will supervisory review of the tax return be handled, at what stage will the tax return be printed for delivery to the client, and how will the firm's copy of the tax return be maintained? Recognizing each individual step greatly increases the likelihood of a successful change.

Hardware/Software

The investment in hardware required to transition to a digital environment greatly depends on a firm's current system. Many firms with best practices invested in laptop computers configured into a small local area network (LAN) for field use. Portable printers are often replaced by printer-scanner combinations. In addition, there is an increase in the number of firms providing wireless access to the Internet and remote connectivity to the firm's main servers. The

options are seemingly endless. A word of caution: the digital office does not have to be bleeding edge. As we know, "Bleeding Edge" is not always "Leading Edge" when it comes to technology. When researching, remember that system stability and security are very important and the "latest and greatest" techno-toys are not always practical.

In terms of available software, there are several accounting software alternatives available to enable a CPA to conduct its client engagements in a digital environment. To enhance efficiency, engagement software should allow client data to be accessible to multiple users, and be portable or accessible in and out of the office. Software should promote automation of clerical tasks, including keying financial data or typing financial statements, and should allow for data to be easily imported from or exported to other software.

Training

Moving to a digital environment is not a one-time undertaking, but rather a fundamental paradigm shift for the entire firm. Technology advances rapidly and the digital firm must be willing to embrace these changes. The digital firm is tenacious in its commitment to training and professional development. The investment in training and education is as important as the investment in hardware and software.

Whether the desire is to increase the effectiveness of client service or improve firm profitability, the goal for all CPA firms should be to create a digital environment where data is managed effectively and efficiently. A well-designed digital environment can help a firm enhance its use of human resources and facilities.

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EMERGING TECHNOLOGIES SOAP INTEGRATES DATA AND PROCESSES

By Anne Stanton

Anne Stanton is president of The Norwich Group (www.thenorwichgroup.com), a national consulting firm specializing in higher utilization of existing technology for accounting and consulting firms. She serves on the Top Techs Task Force and is a recent addition to the *InfoTech Update* Editorial Board.

Do you know any programmers who don't regularly bathe and need some special motivation? While you might think this article is about the new "Shower Shock Soap" — the world's first caffeinated soap from ThinkGeek (see reference in the table of Web resources) — SOAP or Simple Object Application Protocol actually is more than just an Irish Spring alternative to developers, and it should mean more to you as well!

What has Microsoft provided to the world of corporate computing? Standards and integration between wide arrays of applications within the Microsoft Windows operating system. As the World Wide Web and Web services become more and more in demand, the new emerging Web services standards, such as SOAP, enable machine-to-machine, program-to-program and system-to-system integration that is easier than ever before.

For more information on SOAP, check out these Web pages and Blogs:

- ◆ <http://www.Webservicesource.com>
- ◆ http://msdn.microsoft.com/archive/default.asp?url=/archive/en-us/dnxml/html/Websvcs_platform.asp
- ◆ <http://www.oasis-open.org/cover/soap.html>
- ◆ <http://Weblogs.asp.net/mpowell>
- ◆ <http://www.soaprpc.com>
- ◆ <http://www.thinkgeek.com/caffeine/accessories/5a65>
- ◆ <http://www.w3.org/2000/xp/Group>
- ◆ <http://ws.apache.org/axis>
- ◆ <http://Webservices.xml.com/pub/a/ws/2001/04/04/soap.html>
- ◆ <http://www.xmethods.net>
- ◆ <http://www.xml.com/pub/a/2003/02/26/binaryxml.html>

SOAP eliminates the operating system limitations currently faced in multi-operating system environments, ranging from very big data centers all the way down to the small-

est company integrating Linux to save costs. Think of the data center supporting Wall Street! This data center includes thousands, and even millions of bits of data on

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different machines, running under different operating systems, of various flavors. While much of this data is interrelated, it is currently duplicated. Colleges and many universities have the same problem, and represent another example where extensive data transfer routines take place. Even small- and medium-sized businesses that are now supporting Linux, Macintosh and Windows platforms, have integration needs, and, as a result, they want their choice of vendor products to help reduce costs. Web services and the World Wide Web are going to provide the answer as we move forward.

What is SOAP?

According to Microsoft, SOAP is a light-weight XML-based messaging protocol used to encode the information in Web service request and response messages before sending them over a network. SOAP messages are independent of any operating system or protocol, and may be transported using a variety of Internet protocols, including SMTP (Simple Mail Transfer Protocol), MIME (Multipurpose Internet Mail Extensions) and HTTP (HyperText Transfer Protocol).

Apache, a clearinghouse of Web Services projects, says SOAP consists of three parts: an envelope defining a framework for describing what is in a message and how to process it, a set of encoding rules for expressing instances of application-defined data types, and a convention for representing remote procedure calls and responses.

A Brief History

Microsoft provides an analogy: "If XML represents the basic language, then SOAP is the grammar."

SOAP originated in early 1998, and in "computer" years, that is almost a lifetime. Unlike other products, however, SOAP had some big hurdles to face. First, SOAP depends on XML; in 1998, XML standards were also in development, and as a result, each standard limited the other's development path. In addition, SOAP is a collaborative between many players, which required that a vendor balance be found.

SOAP is used to create "open pathways" or "integration" between all operating systems, whereas previously, HP, Microsoft, SUN, IBM and many other vendors had a unique market niche based on the proprietary nature of the platform. These vendor wars pitted vendor against vendor in the race to develop the standardization or improve on the standardization that was started by one vendor and then taken over by another. Yet, they did achieve this collaboration and SOAP is real. Vendors moved past the wars and into the next millennium.

Where is SOAP today?

Today, SOAP is still in its infancy. The current version of SOAP is v1.1, and the actual specification can be found at www.w3.org/tr/soap. The XML schema specifications are standard and available, but the standardized metadata (how the data is formatted) for SOAP is not yet complete. Spearheading this effort as the centralized body is the World Wide Web consortium (W3C), the international consortium of companies involved with the World Wide Web, the Internet and the development of SOAP.

What about .NET and SOAP?

Certainly we have all heard the term ".NET" and we have seen a number of commercials on the subject, but the concept has not yet fully sunk in — even in some technical circles. Many firms working on development projects today are using the .NET platform. .NET is Microsoft's implementation of Web services. XML, SOAP and a few other acronyms are all part of the total solution and recipe.

What can Web Services and SOAP do for you?

In two simple words: Data Integration! Have you recently commented on the fact that you have data distributed throughout multiple software packages and databases? Certainly, I have heard that complaint for years. Have you expressed an interest in wanting everything integrated, or have you

“SOAP is used to create “open pathways” or “integration” between all operating systems, whereas previously, HP, Microsoft, SUN, IBM and many other vendors had a unique market niche based on the proprietary nature of the platform.”

recently moved to the “one vendor for everything” model only to find that a single vendor doesn't really have all the products or features you want?

Microsoft reports that companies often find that valuable information is locked away in stand-alone systems that were not designed to exchange information with other systems. If information is the life blood of any company, *the real beauty of technology is in the access to this information*. Systems and software programs do what they were made to do, but often fail to meet company goals because of all the different systems within an office. We are frustrated with the duplication within our own office and with multiple databases, multiple copies of the customer information, and bits and pieces of data spread throughout accounting, tax pep and practice management software.

Web Services and SOAP, and its sister tools, are all about solving this problem in a scalable format.

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