

THE FILIPINO GLOBAL ACCOUNTANT

Monthly e-newsletter of PICPA International

April - May 2011

HISTORIC CPA RECIPROCITY MEETING DURING GLOBAL CONVENTION

The Philippine Board of Accountancy (PBOA), represented by Chairman Atty. Eugene T. Mateo and Dr. Rufo R. Mendoza, will meet with representatives of the US International Qualification Appraisal Board (US-IQAB) and the National Association of State Boards of Accountancy (NASBA), to be represented by Professor Ruben Davila, on May 26, 2011 from 3:00PM to 5:00PM at the Marriott Pinnacle Downtown Hotel in Vancouver, Canada to discuss the possibility of a mutual recognition agreement (MRA) between the US and the Philippines. The passage of an MRA will allow Filipino CPAs to sit down for the International Qualification Exam (IQEX), which is a requirement for internationally-trained accountants to be granted a reciprocal CPA designation in the US.



Atty. Eugene T. Mateo, PBOA Chairman

According to the NASBA website, the IQEX is used to examine the professional competence, from a United States perspective, of accountants from foreign bodies, determined by the US-IQAB to have education, examination, and experience requirements substantially equivalent to United States CPAs. The IQEX tests reciprocity applicants on their knowledge of U.S. professional standards, U.S. taxation laws and American business law. It is a five (5) hour examination and consists of 150 questions.

Other than CAs (Chartered Accountants) from Australia, Canada, Ireland and New Zealand, and CPCs (Contadores Publicos Certificados) from Mexico, all other candidates need to take the Uniform CPA Examination in one of the 54 jurisdictions. According to the website of the CPA review firm Becker, the Uniform CPA Examination consists of four (4) parts: (a) Financial Accounting and Reporting for 4 hours, 90 multiple choice questions and seven task-based simulations (b) Auditing and Attestation for 4 hours, 90 multiple choice questions and seven task-based simulations (c) Regulation for 3 hours, 72 multiple-choice questions and six task-based simulations and (d) Business Environment and Concepts for 3 hours, 72 multiple-choice questions and three written communication tasks.

VANCOUVER GLOBAL CONVENTION UPDATES

Here are some tips to make your convention more enjoyable:

- Vancouver Marriott Pinnacle Downtown Hotel is located at 1128 West Hastings St., and telephone number is (604) 684-1128
- If taking a taxi, it will take about 30 minutes, depending on the traffic, and cost will be approximately \$35. Tipping in Vancouver is approximately 10%.
- To get there by Skytrain - the YVR Airport Skytrain (above and below ground subway-type train) is the quickest way to get from Vancouver International Airport to downtown Vancouver. To pay, press the appropriate zone# for Vancouver and pay the fare indicated. The machine accepts cash (and gives change), debit or credit cards. Travel time is 25 minutes. You will get off at the Waterfront station. From the Waterfront station, head northwest on West Cordova St. towards Granville St., turn left on Granville St.; turn right at West Hastings St.

Inside this issue:

<i>Vancouver Convention Program Overview</i>	3
<i>Brief Speaker Bios</i>	4
<i>PICPAN of the Month and birthdays</i>	9
<i>Chapter news</i>	10
<i>Private Company GA-TAP Standards</i>	14
<i>Creative Accounting 101</i>	15
<i>Auditing the Service Contract</i>	20
<i>Job Openings</i>	24

REMINDER

Please bring a flag or banner, as well as lots of business cards for raffle prizes.

THE FILIPINO GLOBAL ACCOUNTANT

Monthly e-newsletter of PICPA International

April - May 2011

(from page 1)

In addition to passing the Uniform CPA Examination, most states require education credit hours and related work experience before issuing the CPA certificate. This applies also to candidates who pass the IQEX examinations. For example, the Nevada State Board of Accountancy require CPA candidates to complete 150 semester hours of education, including 30 semester hours in accounting courses above the introductory level, 3 semester hours of business law and 24 semester hours in business at the undergraduate or graduate level. They also require two (2) years or 1,000 hours public accounting work experience, of which 700 must be in an auditing function. The Pennsylvania State Board of Accountancy has almost the same requirements as Nevada, except for 36 hours in accounting courses above the introductory level.

The passage of the MRA between the US and the Philippines can be mutually beneficial to both countries, because the US needs accountants and the Philippines have a lot of them. According to the Occupational Outlook Handbook for 2010-2011 by the US Department of Labor's Bureau of Labor Statistics, employment of accountants and auditors is expected to grow by 22% up to 2018 to 1.57million.

On the other hand, the Philippines have the largest pool of accountants in Asia with 105,000 graduates of finance, accounting and management and increasing by 3,000 annually, according to a speech delivered before the Philippine Institute of Certified Public Accountants Commerce and Industry Sector and the Association of CPAs in Commerce and Industry in Baguio City in 2007 by Atty. Eugene Mateo, Chairman of the Philippine Board of Accountancy.

However, there were legal setbacks in previous efforts for a reciprocity agreement. According to Angel Dayan, a Filipino CPA and PICPA Orange County (California) Chapter President, previous efforts for an agreement similar to that enjoyed by Mexico, Canada, Australia and Ireland fizzled out because of the absence of a trade agreement between the Philippines and the US. A trade agreement covers not only commerce between two countries, but also the exchange of qualified professionals such as CPAs. Had the reciprocity agreement been successful, a Philippine CPA would only be required to hurdle a 5-hour examination (in lieu of the normal 16 hours of testing) to pass the U.S. CPA exams.

Angel Dayan added that after passing the IQEX, a Philippine CPA would have been able to practice in any part of the United States of their choice, perhaps even immigrate as a professional under this program. An immigration law under a new category for accountants could have passed in the U S. Congress by now. All that the Philippines needed was a GATS (General Agreement on Trade-In Services) Agreement with the United States.

(from Page 1) **VANCOUVER GLOBAL CONVENTION UPDATES**

- All Skytrain station does not have a gate to swipe your tickets. It is honesty system in all Skytrain station but there are spot check of tickets anytime by Skytrain security. If you don't have a ticket it will cost you a fine of \$100 to \$200 and you will be escorted outside the train by security. So be sure to buy tickets before boarding any train.
- There are food courts at the Bentall Mall (Burrard & W. Georgia St.), Waterfront Station and Pacific Centre.
- Early registration are on the following dates:
 - May 25, 2011 (Wednesday)
Coal Harbor Room – 2nd floor of Vancouver Marriott Pinnacle Downtown Hotel
10:00am to 2:45pm and 5:00 pm to 8pm
 - May 26, 2011 (Thursday)
Coal Harbor Room – 2nd floor of Vancouver Marriott Pinnacle Downtown Hotel
10:00am to 2:45pm
- Always have a spring jacket with you since weather in Vancouver is unpredictable. Most of the times during spring it is cold in the evening especially Downtown Vancouver.
- May 23, 2011 is a statutory holiday in BC. This is Victoria Day. So if you plan to go to Victoria, it will be a line up at the ferry terminal. You can take a one day trip to Victoria and back in the evening.
- Remember that when you buy anything in Vancouver and neighboring cities that prices are plus 12% HST. Tax in British Columbia is 12%.

THE FILIPINO GLOBAL ACCOUNTANT

Monthly e-newsletter of PICPA International

April - May 2011

VANCOUVER GLOBAL CONVENTION PROGRAM OVERVIEW

Friday, May 27, 2011

- Parade of Colors All chapter participants
- Welcome Remarks Marissa Velarde, host chapter
- Welcome Address Acting Mayor of Vancouver Ellen Woodsworth
- Formal opening of plenary session Roland Ditan, PICPA International President and Chairman
- Mutual Reciprocity Agreement (panel discussion) Prof. Ruben Davila (US-IQAB), Prof. Eugene Mateo, Dr. Rufo Mendoza, Dr. Jose Cabalum, Loretta Doon
- International updates on Uniform AICPA Examination and GAA membership requirements Loretta Doon
- Global standards in auditing, ethics, education and public sector accounting Warren Allen
- Benefits of Dual Citizenship Vice Consul Melanie Diano
- Beyond the deer in headlights: Counterintuitive strategies for dealing with difficult situations Sue Wazny
- Health by choice, not by chance Renee Wood
- Transfer Pricing Greg Noble
- Human Capital and Immigration Meena Thakrar

Saturday, May 28, 2011

- Applying Risk Assessment Standards Prof. Mark Dauberman
- Currency translation effects, risks and issues in accounting and tax Prof. Susan Sorensen
- Internal Audit as a Revenue Center Ralph Villanueva
- Updates from PICPA national office Dr. Jose Cabalum
- Outsourcing opportunities Alfredo Non
- Updates on CPA exams in the Philippines Dr. Rufo Mendoza

THE FILIPINO GLOBAL ACCOUNTANT

Monthly e-newsletter of PICPA International

April - May 2011

ABOUT THE GLOBAL CONVENTION SPEAKERS



WARREN ALLEN

Warren Allen became Deputy President of the International Federation of Accountants (IFAC) in November 2010. Prior to this, he had been an IFAC Board member since 2006. He previously served on IFAC's Education Committee (now the International Accounting Education Standards Board) for over 10 years, including as Chairman from 1998 to 2004.

Mr. Allen is a partner at Ernst & Young in New Zealand and served on the firm's Management Board for more than six years. He has held several other leadership positions in the New Zealand firm, including National Leader of Audit Practice and Country Director of Audit. He is also a Fellow and Past President of the New Zealand Institute of Chartered Accountants, where he has served on and chaired various boards and committees.



DR. JOSE CABALUM

Dr. Cabalum is the current president of the Philippine Institute of Certified Public Accountants (PICPA). He also served the organization in various capacities, as National Executive Vice President in 2009-2010, as PICPA National Director for Western Visayas region in 1989, 1990 and 2000 and PICPA Iloilo Chapter president in 1988. He is also active in various civic organizations such as the Knights of Columbus, the Jaycees and the Rotary Club. He was also a former president of Cabalum Western College, and is currently a CPA practitioner, chairman of the Board of Directors of JOCA Realty Corporation and a secretary/director of Edmond Development Corporation and EDD Holdings Corporation.

Dr. Cabalum is a Certified Public Accountant, and completed his bachelor's degree in business in the University of the Philippines.



PHILIPPINE VICE CONSUL MELANIE RITA BALISI DIANO

Vice Consul Diano is the Officer-in-Charge for the Authentication Section of the Philippine Consulate General Office in Vancouver, Canada, and also handles Dual Citizenship, Civil Registry, Cultural, Tourism, "Fil-Com" relations and Overseas Absentee Voting. Before assuming the post on Sept. 29, 2008, she was previously assigned to the Department of Foreign Affairs as Principal Assistant at the United States Division of the Office of American Affairs (2005-2008), as a Country Assistant at the Southeast Asia Division of the Office of Asia and Pacific Affairs (2003-2004) and Consular Assistant at the Office of Consular Affairs (2002-2003).

A lawyer by profession, Vice Consul Diano graduated from the University of the Philippines with a degree in BA Social Sciences, major in Behavioral Studies.

THE FILIPINO GLOBAL ACCOUNTANT

Monthly e-newsletter of PICPA International

April - May 2011

PROFESSOR MARK DAUBERMAN

Mark Dauberman currently provides CPE and technical staff training for CPA firms, private industry employers of accountants, and government organizations on topics that include applying the risk assessment standards, fraud, internal and external auditing, developing internal controls, strategic planning, and practice management. He also provides consulting services to CPA firms, providing assistance on matters involving strategic planning; partner compensation issues; client management; and the planning, performance, and review of financial statement services.



Mark Dauberman is a CPA, and completed his bachelor's degree in accounting from California State University at Northridge (CSUN) in June of 1970. In 2010, he completed the Executive MBA program at the Peter Drucker and Masatoshi Ito School of Management at Claremont Graduate University, where he had been a student of Dr Drucker in 1971.

PROFESSOR RUBEN DAVILA

Ruben Davila is a CPA – lawyer with extensive professional experience in teaching and practicing accountancy and law. He is the Clinical Professor of Accounting at the Leventhal School of Accounting at the University of Southern California since 1986, and also renders consulting and forensic accounting services. He also served as litigation consultant and expert witness in a variety of business litigation cases such as Lincoln Savings, Gemstar, Homestore.com, AOL/Time Warner, Schafer vs. Daewoo International America Corporation and Popejoy v. Balboa Bay Club. He was the associate director of the master's program of the University Of Southern California School Of Accounting until 1989, and was Senior Accountant for the Audit Division of the CPA firm Deloitte Haskins and Sells (now Deloitte and Touche). He is also a part-time professor for the Loyola Marymount University, Mt. San Antonio Community College, Los Angeles City College, Los Angeles Academy of Finance, Accounting Careers Awareness Program.



Professor Davila completed his accounting degree from the Loyola Marymount University in 1979, and his MBA from the University of Southern California with dual emphasis in accounting and organization behavior. He earned his Juris Doctorate law degree from Loyola Law School in 2000.

LORETTA DOON

Loretta Doon is a CPA and the current CEO and former COO of the 36,000-member strong California Society of Certified Public Accountants and the California CPA Education Foundation. Under her direction, the foundation expanded its financial literacy outreach efforts, focused on promoting opportunities for students and young accountants and conducted programs to develop leaders for the accounting profession. The Accounting Today magazine recognized Ms. Doon as one of the 100 most influential leaders in the accounting profession. Ms. Doon holds a master's in education from San Francisco State University and a bachelor's degree from the University of Hawaii.



THE FILIPINO GLOBAL ACCOUNTANT

Monthly e-newsletter of PICPA International

April - May 2011

DR. RUFO R. MENDOZA



Dr. Rufo R. Mendoza is a member of the Philippine Board of Accountancy and concurrently the Chair of the Continuing Professional Education Council for Accountancy. He is a member of the Auditing and Assurance Standards Council and the Philippine Interpretations Committee, a sub-group of the Financial Reporting Standards Council.

He has a Ph.D. degree in Community Development and Agribusiness Management and a degree in Master in Management, major in Development Management, both from the University of the Philippines Los Baños and is a member of three international honor societies: International Honor Society of *Phi Kappa Phi* for overall academic excellence; *Pi Gamma Mu* International Honor Society in Social Sciences; and *Gamma Sigma Delta* International Honor Society of Agriculture.

Dr. Mendoza is a Certified Public Accountant and was a graduate school faculty member of UP Los Baños, UP Open University, and De La Salle Lipa. He now teaches in the Master in Public Management program of the Ateneo de Manila University's School of Government.

ATTY. GREG NOBLE



Greg Noble is a member of the Transfer Pricing practice of Ernst and Young LLP, Ernst and Young's global member firm in Canada. He is based in Vancouver and held the position of Canadian National Market Leader for the Transfer Pricing practice from 2007-2010. Greg has been practicing in the area of transfer pricing since 1997 and has been involved in transfer pricing documentation studies, risk review assessments, planning and benchmarking studies, as well as dispute resolution assignments.

Greg received a Bachelor of Arts, with honors, and a Juris Doctor from the University of Saskatchewan. He is a Barrister and Solicitor in Saskatchewan and of the Supreme Court of England and Wales.

ALFREDO NON



Alfredo Non is the Chairman of KPS Outsourcing, a business process outsourcing company specializing in financial services, internal audit and IT. He is also the President of OWL Consulting, a business consulting and training firm. Mr. Non's professional experience includes twenty six (26) years with SGV and Company, a Filipino CPA firm affiliated with Ernst and Young International, of which thirteen years (13) were spent as partner.

Mr. Non is a Certified Public Accountant in the Philippines. He finished his business degree with cum laude honors from the University of the East and completed his Masters in Management degree from the Asian Institute of Management.

THE FILIPINO GLOBAL ACCOUNTANT

Monthly e-newsletter of PICPA International

April - May 2011

DR. SUSAN SORENSEN

Dr. Susan M. Sorensen is the Faculty Chair of Accounting at the University of Houston-Clear Lake. She teaches MBA and undergraduate international accounting courses as well as business taxation. She is a CPA with 29 years of experience in public accounting before completing her Ph.D. from the University of Minnesota in 2003 with a dissertation on international transfer pricing. Her career includes working for three of the big four CPA firms. Susan has lectured for many years to professional groups such as the AICPA, the Houston Chapter of the TSCPA, the AWSCPA, the Institute of Management Accountants, and Philippine Institute of CPAs PICPA International on both accounting and tax topics.



Her publications include the following *Journal of Accountancy* articles: "Found in Translation A guide to using foreign financial statements" February 2007, "Taxing International Transactions" April 2007, and "Currency Translation Adjustments - Use Excel to understand how multinational companies manage currency translation risks", July 2008.

ATTY. MEENA THAKRAR

Meena is an associate lawyer of Egan LLP and the manager of its Business Immigration Practice. Her practice has focused exclusively on immigration law for the past 7 years, advising individuals as well as large and small organizations. She provides strategic immigration advice and legal services for her clients, including the preparation and submission of applications for permanent residence and temporary entry to Canada, citizenship, and passport matters. She works with Ernst & Young's Global Immigration professionals to facilitate the admission of foreign nationals to the US, as well as Canadian expatriates to jurisdictions outside of North America.



Meena finished her LLB degree from the University of Victoria in 2003 and earned her BA degree with honors from the University of Calgary in 1999. She was called to the British Columbia Bar in 2004.

RALPH VILLANUEVA

Ralph is an audit and accounting professional with over twenty years' accounting, audit, financial management and fraud examination experience. Before his current job as IT Security and Compliance Analyst at the Las Vegas Hilton, Ralph worked for Philippine and American companies and organizations such as the Nevada Cancer Institute. Ralph has a business degree from the University of the Philippines and an MBA from the Ateneo de Manila University. He is a Certified Public Accountant, a Certified Internal Auditor and a Certified Fraud Examiner, and recently earned his Competent Communicator certificate from Toastmasters International.



THE FILIPINO GLOBAL ACCOUNTANT

Monthly e-newsletter of PICPA International

April - May 2011

SUE WAZNY



Sue Wazny, MSc, Dip. Leadership, CRC, MBIT Practitioner, Sue is a highly sought after speaker because of her energetic, humorous and engaging presentation style. She effectively pairs the subject theory with her poignantly relevant real life examples of how she has put her teachings into practice in her daily work. She has been an adult educator within numerous government agencies, educational institutions, social organizations and the private sector for the past 17 years.

Sue delivers entertaining keynote addresses and plenary sessions at conferences on a wide variety of topics. Closer to home, she teaches a wide variety of courses in the areas of Conflict Management, Communication Skills, Anger Management, Team Building and Leadership. She holds a Master's of Science degree in Psychology, certificates in Conflict Resolution and Mediation from the Justice Institute, and is a certified Myers Briggs Type Indicator practitioner.

RENEE WOOD



Renee Wood is a Registered Nurse from Vancouver, B.C. She has 30 years of experience as a R.N., 15 of which were spent in the area of Psychiatry. She currently works in acute psychiatry and respite care for Vancouver Coastal Health and long-term care for Fraser Health. Previously, she has worked in both St. Paul's Hospital and Vancouver General Hospital in the areas of Urology & Gynecology, Critical Care, Cardiac Care, Medical & Surgical, Radiology, and Hyperbaric. She previously served as R.N. supervisor for VGH and as Director of Care at Cordova House.

In addition to her work as an R.N., Renee is also the Director of the Vancouver Community Health Society, an organization involved in bringing health & wellness programs to communities, schools, churches, hospitals and corporations. There she serves as Director for Dr. Hans Diehl's Coronary Heart Improvement Program (CHIP) and Dr. Neil Nedley's Depression Recovery Program. She was trained as a director for the CHIP program by Dr. Diehl in Loma Linda, CA and as a director for the Depression Recovery program by Dr. Nedley in Orlando, FL. Her vision is to empower and inspire people to make educated choices so they can have hope and experience a difference in quality of life.

THE FILIPINO GLOBAL ACCOUNTANT

Monthly e-newsletter of PICPA International

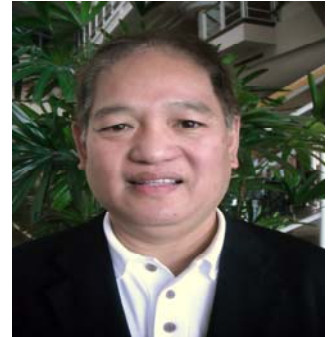
April - May 2011

PICPAN FOR THE MONTH OF APRIL

BERT PARUNGAO

Bert Parungao is the owner of All Year Tax and Business Services, which provided year-round support for bookkeeping, personal and corporate tax and professional financial planning advice for the past 20 years. His special interest is in providing assistance to people with Power of Attorney and to Executors in dealing with probate, asset inventory and distribution, legal documentation and property transfer.

Bert has also worked at a variety of companies such as Columbia Trust (Senior Accountant); Brownies Holdings International (Controller); Coca Cola Bottling Company (Supervisor, Settlement Audit), First Canadian Title (Senior Title Officer), and Americredit Finance (Compliance and Audit Officer). Bert is a Certified Public Accountant (Philippines) and graduated with a degree in Accounting from the Far Eastern University. He is currently the co-chair for the Canadian delegation of PICPA to the 4th PICPA Global Convention, was president of PICPA Vancouver between 2009-2010, and also represented PICPA Vancouver as a director, Leadership Roundtable for BC Internationally Trained Professionals.



PICPAN FOR THE MONTH OF MAY

JOY DEREH

Joy is currently the President of PICPA Vancouver and co-chair for the Canadian delegation of PICPA to the 4th PICPA Global Convention. She worked as an accountant at the accounting firm Marsh, Marsh and Company, Certified General Accountants (formerly Marsh and Marsh, Chartered Accountants) since January 1990. Joy is a Certified Public Accountant (Philippines), and was active in PICPA-Vancouver as Outstanding Member in 2005, Director in 2006, Vice-President for Professional Development in 2008 and President since November 2010.



BIRTHDAYS FOR APRIL AND MAY

Your PICPA Global family wishes you a happy birthday and more success, love, good health and happiness in the years ahead

- ROSE DONES (Las Vegas) May 1

THE FILIPINO GLOBAL ACCOUNTANT

Monthly e-newsletter of PICPA International

April - May 2011

Chapter News



BOARD OF ACCOUNTANCY VICE CHAIR ELENITA CABRERA VISITS PICPA NEW YORK/TRI-STATE CHAPTER

Philippine Board of Accountancy Vice Chairman Prof. Elenita Cabrera visited the PICPA-New York/Tri-State Chapter on April 25, 2011. On hand to welcome her at the Food Parc in Manhattan is chapter president Jess Fernandez, CPA and the enthusiastic members of the Big Apple chapter.

Among the topics discussed was the proposed MRA or Mutual Reciprocity Agreement between the Philippines and the US. Jess suggested that accountancy be included in the next GATTS negotiation (GATTS stands for Generalized Agreement on Tariff and Trade) so that the US IQAB can finally process the Philippines' request for reciprocity. This means that the Filipino CPA candidate has to hurdle only the 6 hour exam, instead of the Uniform CPA long form exam, which takes two days.

The PICPA - NY/Tri-State Chapter members who attended the cocktail meeting, aside from Jess Fernandez were Jaena Valles, CPA, Partner/Finance Director of Dadia Valles Vendiola CPAs LLP, Gil Vendiola, CPA, Partner, DVV CPAS LLP, Aileen Damaso, CPA, Josie Domingo, Rori Salenga, Medy Roan, Espie Angeles and Neva Fajardo.

Members of the PICPA-New York/Tri-State Chapter are from New York, New Jersey and Connecticut.

THE FILIPINO GLOBAL ACCOUNTANT

Monthly e-newsletter of PICPA International

April - May 2011

PICPA CAL-SAN FRANCISCO AND SILICON VALLEY HERALDS



It is a fun-filled activity at the park for PICPA California – San Francisco headed by its President Rusty Bernardo and by PICPA International President, Roland Ditan. PICPA CAL-San Francisco together with their family members have lots memories to share.

Last year, PICPA CAL-San Francisco started with a kick through its first quarter Update on Income Tax on February 27, 2010 at the Hampton Inn, Daly City, California, and was attended by about 60 accounting and tax professionals. Together with PICPA Silicon Valley Chapter, the seminar was real success. Considering the forty-five minute drive from San Jose to Daly City, Siliconians headed by its President Joey Kimpo garnered the highest attendance on a per club level. One of its member-attendee was no other than the County of Santa Clara's Assistant Division Chief of Business Division, Ms. Cristina Torio (concurrent Treasurer of PICPA Silicon Valley).

The seminar was conducted by respected officers of California Franchise Tax Board and Internal Revenue Services. Everyone took turns to get a tip or two on his individual concerns. It was through the aggressive and articulate moderation of PICPA CAL-San Francisco officers, Rusty Bernardo, President, Lito Non, Treasurer and Danny Raval, Vice President for Professional Development that made the entire seminar especially the Q & A segment more productive and interesting to all participants.

THE FILIPINO GLOBAL ACCOUNTANT

Monthly e-newsletter of PICPA International

April - May 2011

Of course, all of these would have not been made possible if not for the well-coordinated and ever reliable efforts of PICPA Cal-San Francisco pillars Flora Nolasco, concurrent Treasurer and Linda Del Rosario, Concurrent Secretary.

By mid-May, PICPA CAL-San Francisco and Silicon Valley jointly held a picnic at the Kelly Park in San Jose, California on August 21, 2010. Everyone brought something special to share with the members, guests and family and friends of both clubs. One thing that kept members mouth watered was the "Pinaputok Na Tilapia", Pinaputok Na Pusit (Grilled Squid marinated in soy sauce and spices), one of the specialties of Lito Non. Of course, who can forget the "Inihaw na Talaba" (grilled oyster pinched with lemon, Tabasco and a little salt).

While the food was being prepared, a fun and breath-taking parlor games were spear-headed by Roma Aguinaldo, Auditor of PICPA CAL-San Francisco, Cristina and Marianne Suriaga. Everybody was surprised and on their toes to finished ahead on the "Caterpillar Walk", where four groups of five members connect themselves with balloon filled with air, hands on the side and walked around a post. Equally fun-filled was the "Egg Relay" and "Water Balloon Tossing".

By the time the game ended, everybody was hungry and rushed to the delicious gourmet food prepared and served on the buffet table. Flora and Linda's special "Bar-B-Q" was far more finger licking and more delicious than Philam Bar-B-Q in Daly City. How could anyone forget Siliconian's "Lechon De Cebu" as a main attraction of the day? Diabetic and high blood pressure was forgotten during this sumptuous lunch.

It was mid December 2010 that a joint Christmas Party was held at Henry's Restaurant, South San Francisco on December 11, 2010. "Bling-blings" and Christmas gifts filled the venue. Parlor games and singing was unstoppable. Al Aquino and Rey Eugenio, Past Presidents of PICPA CAL-san Francisco and Silicon Valley showed their hidden talents. Adding to this, Simeon Orejudos (PICPA CAL-San Francisco founding President), Fred Perez, Raffy Cabatic, and Nick Pagsanjan (Directors) showed their singing and dancing prowess. On the finale, Silicon Valley depended its crown as the "Karaoke Champion". It depended its crown head on with PICPA CAL-San Francisco. After a series of clapping, laughing and chanting, PICPA CAL-San Francisco turned out as the new "Karaoke Champion".

Come one, come all and join the fun! Join the PICPA California-San Francisco Chapter or Silicon Valley Chapter. Join the PICPA chapter near you!

THE FILIPINO GLOBAL ACCOUNTANT

Monthly e-newsletter of PICPA International

April - May 2011



PICPA California-San Francisco Chapter and PICPA Silicon Valley Dual Citizenship Drive as administered by the Philippine Consulate Offices in San Jose, California

THE FILIPINO GLOBAL ACCOUNTANT

Monthly e-newsletter of PICPA International

April - May 2011

PRIVATE COMPANY GATAP STANDARDS

Angel Y. Dayan, EA, CPA, ABA, ATA

There are approximately 28 million private companies in the United States. They are mostly unregulated businesses unlike public companies registered with the Securities and Exchange Commission. But even so, lenders, bonding companies, regulators, and other users of their reports, require a significant number of them to prepare financial statements when needed strictly under the rules of GAAP (generally accepted accounting principles). In this reporting process, private companies have been expected to conform with GAAP standards albeit they may be irrelevant to them. It has therefore caused them to incur significant yet unnecessary costs on GAAP prepared financial statements over the past 50 years. Private companies for instance may not need to conform to disclosures on "variable interest entities, uncertain tax positions, fair value measurements, and goodwill impairments," among others, that GAAP standards require. And when they could not, (actually should not) management today is just willing to accept "qualified opinions" from accountants "a development that calls into question whether those aspects of GAAP are truly generally accepted" according to reports. It is a broken wrench that needs repair.

How could an accounting standard be declared, or deemed "generally accepted" and delivered to the business world when in reality it should not be applicable to private companies? The bankers now "also are more willing to accept financial statements prepared on another comprehensive basis of accounting (i.e. OCBOA, EA Tax-Basis) without fair value disclosures that indicates lack of relevance" an industry literature reports. This current dilemma has required the emergence of a separate Accounting Standards Board for Private Companies. But the National Association of State Boards of Accountancy (NASBA) is opposed to this idea. It prefers to reign supreme as the standard setting body for private companies even as it finds itself torn between implementing some irrelevant GAAP standards or allowing/supporting the formation of a new standard setting body that will adopt relevant standards that meet the needs of private companies ostensibly at reduced cost.

It makes a lot of sense to create a new standard-setting body in my opinion. The present condition in the industry if not addressed quickly as foreseen will make add more complexity when the use of International Financial Reporting Standards (IFRS) becomes prevalent in the United States. SEC-registered companies had just begun to adopt IFRS. The creation of a new and separate standard setting body for private companies should be inevitable. I believe this initiative will be in the best interest of the public. The big number of private companies in the U.S economy that lack clear-cut and independent financial reporting platforms should be a good reason to regulate the submission of their financial statements. A new breed of "tax basis" accountants outside the influence of the CPA profession should even be born to assist private companies in financial reporting. The EA Profession that claims to "own" the comprehensive concepts of "Tax Basis of Accounting" (Generally Accepted Tax Accounting Principles (GATAP) should seize this role and take the lead. The CPAs for all we know have trained principally for the accounting standards applicable to SEC-registered companies but not for private companies. The need for guidance to regulate the financial reporting of private companies is important and the time has definitely come. But most importantly, GAAP accounting principles must be "generally accepted" primordially in the private sector where they are used and they should be made directly relevant for private business financial statements purposes.

Short of these fundamental principles, they cannot be declared "generally accepted" in the accountant's certificate before the eyes of the financial statement's users or the general public at large. It will be another reporting misrepresentation we should not be willing to tolerate. We have already seen far too costly misrepresentations in the accounting world. We also cannot put Luca Pacioli's Trojan horse ahead of the cart in the private business world. (email your comments to: angel@taxwork.com).

(Angel Y. Dayan, EA, CPA, ABA, ATA is a Tax Problems Resolution Specialist California Enrolled Agent, and a CPA in Texas. He has a Masters Course in Tax Representation and is a Graduate Fellow in Advanced Tax Practice and Procedures. He has complete accreditations in Business Accountancy, and Tax Advisory. He could be reached at (213)-365-1040 for an appointment. You could visit his website at www.taxquestion.us or www.taxwork.com. Mr. Dayan has a weekly tax column at Philippine-American Mabuhay News in California. This useful article is also distributed as Client Care News.)

THE FILIPINO GLOBAL ACCOUNTANT

Monthly e-newsletter of PICPA International

April - May 2011

Creative Accounting 101: Lessons from the Trenches of Fraud Warfare

Ralph Villanueva CIA CFE

The modern corporate world would not exist without the double-entry accounting system. For every debit, there is a corresponding credit. For every dollar received, there is a corresponding credit to accounts receivable, owner's equity or sales. Unfortunately, the double-entry system is also a double-edged sword. It can be used to hype management's operational performance, or hide employee fraud. Here are some examples from the trenches of fraud warfare. Sadly, some of the frauds, especially the ones committed by management, have no remedies, other than all-out nuclear annihilation or the Second Coming:

Capitalizing operating expense

Does this entry look familiar?

Property, plant and equipment -----	XXX
Operating expense -----	XXX

This is an obvious trick done by managers either at the operational or the top levels. Lesser operational expenses would mean a more attractive EBITDA, or earnings before taxes, depreciation and amortization. To make it less likely to be scrutinized, the amounts are reclassified in small amounts throughout the year. Since the external auditor normally sets a certain threshold for their audit sample, this accounting trick almost always escapes undetected. For instance, if the external auditor sets a minimum transaction amount of \$5,000 for audit sampling, then the chances that incremental operating expenses of \$4,000 or less will escape scrutiny is huge.

Moreover, the expense is recorded in such a way that it closely correlates to the asset being capitalized. For example, purchases of printer ink and other printing supplies from the same vendor as the industrial printing machine will less likely be examined, because they appear to be capitalizable expenses.

A quick trace back of the reclassification journal entry or the accounts payable ledger entry to the details of the vendor's invoices will easily disclose this accounting trick. Internal auditors are better equipped in conducting this investigation, since they have a more intimate knowledge of the accounting system, the accounting records and the people who maintain them, as compared to the external auditor.

THE FILIPINO GLOBAL ACCOUNTANT

Monthly e-newsletter of PICPA International

April - May 2011

Reclassifying travel expenses

Here's a good way to fool the IRS and your shareholders:

Advances to affiliate company ----- XXX
Travel and entertainment ----- XXX

Company officers resort to this accounting gimmick if the travel and entertainment expense cannot be justified as a business expense. Examples would be family vacations to the Caribbean or a helicopter ride in Hawaii. Since non-business travel and entertainment expense can be considered as taxable benefits, the company officer, in connivance with the accounting officer, must find a way to hide this expense. One of the best ways to do so is to reclassify the travel and entertainment expense as an advance to another company where the company officer has friends. Even better if the other company is registered in another country, because then it is beyond the reach of the IRS.

Concealing corruption

Here are two accounting entries that are probably prevalent in companies operating in an environment prone to corruption:

Consulting fees ----- XXX
Cash (or accounts payable) -----XXX

Cost of goods sold (or other direct cost) ----- XXX
Consulting fees ----- XXX

These accounting entries will erase any doubt as to the disastrous effects of corruption to the economy. Since most companies set their selling price as a mark-up over the cost of goods sold, the consumer basically subsidizes whoever benefited from corruption.

Corruption can also be disguised as travel and entertainment expense, advertising and promotion or professional fees. They are sometimes reclassified as payments to foreign consultants, especially if the payment is done in cash. This is also a good way to hide the real identities of the government official or private individual who received the cash bribe. A confirmation from the external auditor would yield a positive answer, because the foreign consultant is a friend of the company's officers. Moreover, the foreign consultant is under no obligation to provide detailed supporting documentation. Eventually, all cash payouts are reclassified into cost of goods sold.

THE FILIPINO GLOBAL ACCOUNTANT

Monthly e-newsletter of PICPA International

April - May 2011

Hiding Fraud

The recessionary more for less mantra has increased not only the average American worker's productivity (increase of 1.9% in 2010 per US BLS data), but also the incidence of employee fraud. The recession forced a lot of companies to cut back on manpower, which lead to compromised internal controls brought about by combining incompatible duties.

Here is a sample of journal entries from an accounting controller who was discovered to have stolen almost \$200,000 over a five-year period:

Office supplies (or miscellaneous exp) -----	XXX
Cash -----	XXX
Donation (or customer) refund -----	XXX
Cash -----	XXX

The absence of segregation of duties in preparing and authorizing wire transfers and journal entries enabled this crook to award himself a substantial bonus over time. Moreover, since most of the transactions are below the external auditor's audit sample threshold of \$5,000, these remained undetected until it was too late.

Bogus revenue

This is applicable to companies which recognize revenue based on installment basis. Say for example, revenue can be recognized when payment for installment sales is 25% of total sales price. The trick to inflate revenue would be:

Investment (in investment or finance company) -----	XXX
Cash -----	XXX
Cash (from finance company who "represents" buyers) ---	XXX
Accounts Receivable (for the balance) -----	XXX
Sales -----	XXX

The company accomplishes two things: a better current ratio and an attractive sales and EBITDA figure. This is perfect when the company is attracting investors who only look at the year-end audited financial statements. At the same time, the company gets its cash back, which makes its statement of cash position look awesome.

THE FILIPINO GLOBAL ACCOUNTANT

Monthly e-newsletter of PICPA International

April - May 2011

Instant assets

This is a good technique for instantly boosting your company's assets. Say for example, Company A is required by the SEC to have an asset of \$100Million, but has only \$70Million, including \$10Million in cash. An affiliate company (Affiliate A) has property worth \$30Million. Using the powers of lawyers and crooked accountants, Company A, and Affiliate Company A executes a deed of sale, and completes a series of journal entries as follows:

Company A's books

Property ----- 30Million
Cash ----- 10Million
Accounts Payable ----- 20Million

Cash ----- 10Million
Equity investment from Company B ----- 10Million

Accounts Payable ----- 10Million
Cash -----10 Million

Cash ----- 10 Million
Equity investment from Company B -----10 Million

Accounts Payable -----10 Million
Cash -----10 Million

Cash ----- 10 Million
Equity investment from Company B -----10 Million

At the end of the day, Company A has additional property worth \$30Million, zero debt and one more major investor. Since the financial disclosures are normally in fine print, the average Joe will think that Company A has done an awesome job of managing its assets and finances. An asset-equity swap may be simpler, but it may raise a lot of questions and possible tax implications.

THE FILIPINO GLOBAL ACCOUNTANT

Monthly e-newsletter of PICPA International

April - May 2011

But what is Company B's role? The cash received by Affiliate Company A is transferred to its affiliate, Company B under the guise of inter-company investment. Since the ownership of Company A is not considered "controlling", there is therefore no need to present the financial statements on a consolidated basis. Who really owns the affiliate company and Company B? Obviously on paper, it's someone else.

The best part of this transaction is that the \$10 Million ends with Company A at the end of the day. Ideally, this is best accomplished when all three companies have accounts in the same bank, and the need for clearing time and timing differences are eliminated.

Stock Price Hying

Is it any coincidence when on the day the company signs a bank loan secured by the majority shareholder's shares, you find the following journal entries:

Investment in affiliate company ----- XXX
Cash ----- XXX

Even more interesting if the affiliate company's records show an investment in the main company's shares on the same day. Creating artificial demand is a surefire way to keep up the stock price. Since the stock price (or a percentage) is the basis for the amount of a bank loan secured by the number of shares owned, it makes sense to keep it as high as possible on the date the loan covenants are signed.

Of course, at the end of the day, the affiliate company can pledge the shares owned to secure a bank loan, and then "advance" the loan proceeds to the company despite the loan covenant's requirement that it be used for company expansion or acquisition of plant and equipment. After all, why rock the boat when the bank officers and the company's top corporate honchos belong to the same country club.

These are not the only list of creative accounting techniques available. Despite the advent of SOX, COBIT, COSO and other acronyms that sound reassuring to people from Wall Street to Main Street, the mangling of the double-entry accounting system continues. Will you be the next Madoff or the next Markopoulos? Will you be for the dark side or for a better future? If you are for a better future, take heed of the evils of creative accounting, do your share in fighting it and share your knowledge and experience with your colleagues. The modern world will eternally be grateful to you.

Ralph Villanueva is an IT Security and Compliance Analyst at the Las Vegas Hilton. He is an MBA graduate and a Certified Public Accountant (Philippines), Certified Internal Auditor and Certified Fraud Examiner with over 20 years' accounting, audit, fraud examination and financial management experience. Ralph recently earned his Competent Communicator designation from Toastmasters International, and his latest project is how to be funny with accounting, audit, fraud examination and financial management concepts.

THE FILIPINO GLOBAL ACCOUNTANT

Monthly e-newsletter of PICPA International

April - May 2011

Auditing the Service Contract

Sam Kulumani, CPA CIA CFE

Executive Summary: *Auditing service contracts helps management to identify and mitigate the risks associated with such contracting including reaping the desired service to be received at the right time, cost, and quality. This is where internal auditing can add value.*

Contract auditing involves reviewing the entire contracting process, to improve its effectiveness and efficiency in meeting management's requirements for outside services. This article will help internal auditors to gain an understanding of service contracts by contrasting with the typical audit of purchase of materials in an organization. These audit techniques could be applied to many aspects of auditing service contracts, e.g. engaging consultants, maintenance, and construction and for any other services, where the organization desires to use external labor to perform tasks.

As part of the operational audit, service contract audits play an important role in the Internal Audit function. The purpose is to reduce the risks associated with the contractor's performance and waste of funds in non-performance due to ineffective monitoring by those who are responsible to monitor. They occur due to poor internal controls. Auditors can add value by helping management identify and mitigate the risks associated with contracting for services. While outsourcing and other forms of contract services can provide solutions to an organization's resource, schedule, or expertise constraints, it is sometimes fraught with potential fraud and wasted resources. Internal audit can identify issues and possible pitfalls to enable management that the desired service is needed and received at the right time, cost, and quality. This article would cover a generic outsourcing of contracts that could be applied to many aspects of auditing service contracts, e.g. engaging consultants, maintenance, and construction and for any other services, where the organization desires to use external labor to perform tasks.

Process - First discuss the process of outsourcing. This would involve examining company organization charts, responsibilities, whether the process is centralized or dispersed at various departmental levels, existing policies, guidelines for authorities by dollar and area. It might be difficult if there are decentralized contracting process and authority at different departments to manage.

Policy - Review the policy to ensure if there are specific guidelines as to when outsourcing could be done, including the process to call for competitive bids, how many bids are required, the dollar threshold for advertising for bids through various sources via bids through telephone, online, newspaper advertisements etc. In addition, the internal control measures are to be established as to who would receive (usually some independent staff) the sealed bids and who opens it in the present of officials from various departments including operations, finance and procurement/purchase departments.

Need for Outsourcing - One of the crucial requirement for any of the outsourcing contract review should be cost-benefit analysis. Underlying every decision to procure contracted services should be a cost-benefit analysis. The rigor of such analysis will depend on the materiality of the potential contract, but having this control in place helps ensure that the organization gets its expected return on its investment. One has to ensure if the department that proposes such outsourcing has their own staff that is qualified to perform the task. This will enable the company to avoid wasting internal resources who could have done the project without the need for an outside contractor. Such review would also give better understanding to the auditor to recommend if it is worthwhile to employ sufficiently qualified internal staff rather than employing expensive outsourced consultants e.g. IT related tasks. Also, the auditor needs to evaluate if there is frequent usage of outside contractors to perform routine tasks that could have been easily performed by engaging inside staff at a lower cost. Sometimes outside consultants are engaged because of the perceived notion that senior management would pay attention to an outside consultant's recommendations, but not to the inside staff. While cost-benefit analysis and equating it to the return on investment concept is a larger subject, at least at a minimum, the auditor should ensure that the benefit received from engaging the outside contractor is at least twice or thrice the cost.

THE FILIPINO GLOBAL ACCOUNTANT

Monthly e-newsletter of PICPA International

April - May 2011

The Bidding Process - The essence of a bidding process is to get the best vendor at the best price. However, more often than not, it might result in bid-rigging. Bid rigging is a form of fraud in which a commercial contract is promised to one party even though for the sake of appearance several other parties also present a bid. This form of collusion is illegal. It is a form of price fixing and market allocation, often practiced where contracts are determined by a call for bids, for example in the case of government construction contracts. Bid-rigging almost always results in economic harm to the agency which is seeking the bids, and to the public, who ultimately bear the costs as taxpayers or consumers.

There are some very common bid-rigging practices:

- Subcontract bid-rigging occurs where some of the conspirators agree not to submit bids, or to submit cover bids that are intended not to be successful, on the condition that some parts of the successful bidder's contract will be subcontracted to them. In this way, they "share the spoils" among themselves.
- Bid suppression occurs where some of the conspirators agree not to submit a bid so that another conspirator can successfully win the contract.
- Complementary bidding, also known as cover bidding or courtesy bidding, occurs where some of the bidders bid an amount knowing that it is too high or contains conditions that they know to be unacceptable to the agency calling for the bids.
- Bid rotation occurs where the bidders take turns being the designated successful bidder, for example, each conspirator is designated to be the successful bidder on certain contracts, with conspirators designated to win other contracts. This is a form of market allocation, where the conspirators allocate or apportion markets, products, customers or geographic territories among themselves; so that each will get a "fair share" of the total business, without having to truly compete with the others for that business.

These forms of bid-rigging are not mutually exclusive of one another, and two or more of these practices could occur at the same time. For example, if one member of the bidding ring is designated to win a particular contract, that bidder's conspirators could avoid winning either by not bidding ("bid suppression"), or by submitting a high bid ("cover bidding"). The auditor should be aware of red flags for these types of fraud. Some of the tests that the auditor could do to verify if the bids are competitive bids or not, is to call and verify, if the losing bidders do really exist or are just paper companies, and who are the actual owners of the winning and losing bidders to detect if they have common holding corporations or connected managements.

Receipt of the Bids and Opening Bids - Proper compliance of internal control needs to be complied so that the requestor of the bids and the receiver of the bids are not the same person. You would notice in this entire article that the internal control sequence of ordering goods and services are one and the same. More often than not, most of the organizations, while having a sound internal check and balance system for the goods they order, have very weak internal control for the services they outsource. In such instances, the same individual who needed the service usually employs a sole source vendor, evaluate the vendor, certify for the completion of satisfactory performance and also authorize for payment. All these functions should be segregated for effective outsourcing activity.

Defining the scope of tasks - This one of the areas where the organizations may or may not exactly know what they want from the contractor or consultant, which results in vague contractual terms with no specific expected output. By forming a team, this process could be better managed, so that the tasks are better defined with the expected outcome from the contractor that would meet the expectations of the department that solicited the need for such outsourcing and the expertise available within the organization to monitor and evaluate the performance of the contract, including certification after the tasks are completed. This is one of the usual weak aspects in contracting out IT related tasks that are not better scoped and explained in the written contract.

THE FILIPINO GLOBAL ACCOUNTANT

Monthly e-newsletter of PICPA International

April - May 2011

HIPAA - An additional element unique to healthcare audit is that the auditor needs to be aware of compliance with HIPAA to ensure that the outside contractor is fully aware of the provisions of HIPAA and undertake their part of responsibility. The contract should specifically be written to take care of the issues related to confidentiality in business, strategy and other patent related aspects of the tasks involved.

Terms and Conditions - The terms and conditions are the crux of the service contract, where it specifies in clear terms, what is expected of the contractor, when and for how much. The contract should be clear as to how the contractor's tasks will be monitored, certified for payments and the retainer's margin till the close out stage of the contract completion. In addition, audit clauses for audits by the internal audit and Federal Auditors, when Federal grant funds are being used for the tasks and how many years the data should be available for audit, should be stated. While legal would cover most of these elements during their review of contract clauses, other departments should render their guidance as well. E.g. Engineering department could help to specify that the construction would not only require their certification of completion but also to be approved by the coding officer from the city. Finance can guide to add stipulations as to what would be the penalty for not completing the construction on time and by how much etc. The amount payable to the contractor should be definite and specific. E.g. payments to consultants on hourly rates with out any estimated number of hours of work would result in higher fees and in complete tasks.

Selection of the Contractor - Selection of the appropriate contractor is one of the crucial elements in the audit. It should ensure a comprehensive set of criteria for assessing contract bids that is developed and documented as part of the contracting process. Depending on the dollar threshold established in the policy, a committee of officials in the organization which should include independent departmental staff such as Finance or Legal, along with the operational departments that would use the services and monitor the performance of the contractor could be part of this committee so that the selection is unbiased and free of potential fraud. This is similar to the segregation of duties in purchase of goods. Each bidder's ranking based up on their responses and qualifications, prior experience, licensures to perform the work and bid amounts be weighted. Proper documentation enables the committee to make sound decisions by the selection committee and create an audit trail. Bid evaluation process includes the financial soundness of short-listed contractors to minimize the risk in case they could not complete the project. The auditor should ensure that such due diligence takes place. This may involve the finance department reviewing the audited financial statements, credit reports, and credit ratings of contractors, licensures, liability insurance coverage, as well as their past performance on similar contracts. If the contract is to be awarded to a sole-source vendor and not put to competitive bid, the rationale for this decision must be fully documented and duly approved by the appropriate level of management. The auditor should be suspicious of instances where the sole-source vendor has been used because of lack of time or emergency basis. The officials in an organization who are responsible for hiring these sole-source vendors are expected to plan their tasks on time than waiting for the eleventh hour to pick a vendor.

Performance - After the selection of the contractor, the contract is then signed off by the authorized official. After legal review, the next process is to review the performance of the contractor vis-à-vis the terms, conditions and specifications of the agreement. Internal auditors should verify that management is conducting periodic physical inspections of the contractor's work, as well as regularly receiving and reviewing reports from the contractor which indicates progress against key measures such as budget, milestones, deliverables, and quality level etc. Here once again, segregation of duties is important. The same individual who selected the contractor in the first place should not also be the one who certifies satisfactory performance. This is a conflicting task since the selector is not going to disapprove contractor's workmanship after selecting that vendor. Management and the contractor should be meeting to discuss performance issues periodically and any necessary corrective actions.

THE FILIPINO GLOBAL ACCOUNTANT

Monthly e-newsletter of PICPA International

April - May 2011

Payments - The auditor should ensure that payments are in compliance with the agreed upon rates for the assigned tasks that are completed as certified by the responsible company officers. Audit tests should be based on risks involved in the types of contract. For instance, cost-plus contracts may be at higher risk for cost overruns than fixed-price contracts. Fixed-price contracts may be more expensive if there is a high use of change orders. At a minimum, the auditor should ensure that invoices have supporting documents for the time records of the contracted staff as certified by the inside staff with whom they worked, receiving reports for material purchased, overhead calculations, and equipment rental sheets. In case of travel, the contractor should abide by the organization's travel policies, and that provision should be added to their original contract as well. This is important especially for the not-for-profit healthcare entities that are under IRS rules, which have clear mandates against incurring extravagant travel and leisure expenses. Compliance with such IRS rules become essential to maintain their status as a non-profit entity. Once again, the auditor should be watchful for segregation of duties, in that the function of selecting the contractor, monitoring performance, certifying performance and approving their invoices are not done by the same person.

Change Orders - Changes to the contracted tasks should be carefully monitored. This should be at the back of an auditor's mind whenever the Legal Department is finalizing a service contract with loop holes that would give rise to changes later on, more so if the same contract is from someone making a low ball bid during the initial bidding process. After securing the contract they would increase the costs via various change orders, which could result in twice or thrice the originally contracted price. This is a typical feature in most government construction contracts. The red flags for the auditor in change orders is to watch for whether the contractor or the internal staff initiated the changes, and if so, why, and inquire if there is a need for such changes. Also, watch out for change orders that should have been part of the originally contracted work. This is one area where corruption prevails.

Post-Completion - One of the areas where auditors fail to follow through is to examine what happened after the completion of the contract, especially in the case of consultants. Sometimes, consultants are engaged by the senior management, usually sole-sourcing the tasks to one of their known prior connected vendors, just to get a report to the Board of Directors on business strategy or solutions at exorbitant rates. They usually result in a bulky report with fancy covers for presentation to the Board, but end up resting on top shelves without any action from senior management. Thus, the auditor should read the final report by the consultant and ascertain what happened to the execution or implementation of the recommendations so that the original need for outsourcing as described in item 3, comes to fruition.

Conclusion – The internal control process for service contracts should be very similar to the control process of purchase of services in the sense that there needs to be segregation of duties. The same person should not be initiating the need for the services, selecting the contractor or vendor, monitoring and certifying the performance of that vendor and authorizing the payment as well. More often in the case of consultant services such internal controls are missed both by the organization and the auditors, resulting in wasteful expenses and even bad publicity that one reads in the newspapers all the time. Examples are:

<http://www.zdnet.com/blog/projectfailures/marin-county-sues-deloitte-alleges-fraud-on-sap-project/9774>
(*Marin County sues Deloitte \$30M: Alleges fraud on SAP project | ZDNet*)

<http://www.eagletribune.com/local/x535469776/Two-fired-as-Lawrence-contract-fraud-probe-continues#>
(*Two fired as Lawrence contract fraud probe continues*)

<http://www.sec.gov/news/press/2010/2010-258.htm> (Company to Pay More Than \$137 Million to Settle SEC and DOJ Charges; Engaged "sham" consultants)

Sam Kulumani, CPA, CIA, CFE is Internal Audit Director for West Penn Allegheny Health System in Philadelphia. He has over 30 years' professional audit experience, mostly in the healthcare industry, and also worked in the Department of Health and Human Services' Office of the Inspector General. He is a member of the American Institute of CPAs, the Institute of Internal Auditors, the Association of Certified Fraud Examiners and the Association of Healthcare Internal Auditors.

THE FILIPINO GLOBAL ACCOUNTANT

Monthly e-newsletter of PICPA International

April - May 2011

JOB OPENINGS

Posted May 4, 2011 in the Institute of Internal Auditors — Houston Chapter

Internal Auditor

TPC Group

Houston, TX

Assist in planning, executing and documenting internal compliance and operational audits. Help to develop internal audit plan based on analysis of risk. Create audit programs with general guidance of Senior Director. Follow steps of audit program to successfully complete the tasks of the audit. Prepare and maintain quality work papers to document and summarize findings and recommendations. Produce clear, highly literate reports to convey findings and recommendations to management. Assist in maintaining and testing internal controls required in connection with the Sarbanes-Oxley act of 2002 (SOX 404).

Qualified candidates should apply on-line via our career center at www.tpcgrp.com. EOE/M/F/D/V

Posted May 9, 2011 in the Institute of Internal Auditors—San Francisco Chapter

Associate Management Auditor

California State Teachers Retirement System (CalSTRS)

West Sacramento, California

The AMA plans, conducts, and reports results of CalSTRS internal audits and performs special assignments. Audit work is performed in accordance with applicable State policies and procedures and the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing (ISPPA), and its Practice Advisory and Code of Ethics.

For additional information and to apply: Please see the full job posting and specific application requirements at: http://jobs.spb.ca.gov/wypos/more_info.cfm?recno=456522

Posted May 3, 2011 in the Institute of Internal Auditors—San Diego Chapter

Senior Internal IT Auditor

DJO Global

San Diego, California

The Senior IT Auditor is responsible for planning, conducting and leading multiple concurrent IT audit projects in accordance with Company Audit policies. The position reviews and evaluates the adequacy and effectiveness of IT system controls and the reliability and integrity of operational information, the safeguarding of Company assets, and compliance with DJO policies and procedures. This person identifies areas of inaccuracy, inefficiency, and cost improvement. and works extensively with external auditors to resolve discrepancies or assist in audit functions. Experience working for a large IT auditor is required. TO APPLY, CLICK:

http://www.djoglobal.com/en_US/Current_Opportunities_United_States.html

Posted May 11, 2011 in the Institute of Internal Auditors—Boston Chapter

Senior Internal Auditor

iRobot

Boston, Massachusetts

Perform comprehensive operational and financial audits, perform risk assessments, prepare narrative descriptions, flowcharts, risk analysis and other audit related documentation identifying control points within business processes, provide input to the development of audit programs and test plans, analyze data obtained for evidence of possible deficiencies in controls, duplication of effort, fraud, or lack of compliance with laws, government regulations, and management policies or procedures, test internal controls and execute test plans, perform SOX testing and update SOX documentation, develop and assist in implementing recommendations to improve internal controls and operational processes, interact with all levels of employees within the company as well as outside vendors and suppliers, identify causes or contributing factors relating to potential issues and/or concerns, monitor findings to their resolution and ensure management action plans are implemented, draft Internal Audit reports identifying project scope, issues identified, recommendations and management actions plans, assist the Director of Internal Audit in completing the annual internal audit plan, develop effective client relationships and complete other audits and special projects are required.

To apply, go to the IIA-Boston website at: http://www.theiia.org/chapters/index.cfm/view_news_detail/cid/13/newsid/13259

The Filipino Global Accountant is a monthly newsletter of PICPA International. PICPA stands for Philippine Institute of Certified Public Accountants. For questions, suggestions and article contributions, please email the editor Ralph Villanueva at rsvillanueva@hotmail.com