

FOR THE RECORD



Storming the Citadel

CRAIN'S NEW YORK BUSINESS

Watson Rice LLP was one of three business and financial services firm's featured in a recent article in Crain's New York Business's Small Business section which published operations owned and operated by diverse management. Managing Partner Raymond P. Jones (pictured at left) described the firm's initiatives to develop more corporate clients.

Excerpts from the article follow: "Of the hundreds of investment banks and financial advisory firms in New York City, a scant two dozen are officially classified by the city as minority-owned.

Those that managed to survive the stock market bust, the recession, and legions of doubters are prospering, including Diving Capital, investment bank M.R. Beal & Co., and accounting firm Watson Rice.

"In addition to taking advantage of set-aside programs for minority-owned businesses, they are making the most of technology that allows them to compete effectively with far larger firms, and they are inspiring loyalty thanks to their near-religious attention to customers' needs.

"Many minority-owned firms got their start in the 1970s and 1980s. At that time, big corporations and local governments launched supplier diversity programs, designed to give preferential treatment to minority-owned bidders...

Not all of the programs are effective. Many purchasing managers in the private sector are still focused on business as usual.

"Minority-owned firms in the accounting world have faced similar struggles in breaking into corporate work. A case in point is Watson Rice, a 32-year-old enterprise that still derives 70% of its revenues from government agencies and nonprofits, despite efforts to break into the corporate sector.

"More doors are opening, but it's tough," says Raymond Jones, which moved to Manhattan from its original base in Cleveland a number of years ago. 'I'd like to see more companies have diversity programs so more minority businesses can do more work with larger companies.'

"With mentoring from several of the accounting industry's giants – including PricewaterhouseCoopers, Deloitte & Touche, Ernst & Young and KPMG, at the outset – Watson Rice has grown to 80 employees. It has four other offices around the country, and Mr. Jones expects revenues to reach \$7 million this year.

"Lately, he has been targeting retirement plans and corporate governance issues in order to generate new income.

"If we can't do (the accounting for) Fortune 500 companies, we'll try to do their retirement plans,' says Mr. Jones.

"Three years ago, Watson Rice invested in new technology: a paperless audit tool that allows managers to review projects on-line. That, combined with tight cost controls, has given the firm an edge over competitors and helped ensure its future."

FRAUDULENT TAX PREPARERS BEWARE

In a news release distributed for the 2004 tax season, Patrick Largie, a principal at Watson Rice LLP and the firm's chief tax advisor, noted that many people have come to expect a "kinder and gentler" IRS. A restructuring of the agency in 1998, suggests weaker enforcement and opportunity to fraudulently filing – especially if a CPA signs off on the form. "But that's no guarantee that the IRS won't check a form for fraudulence," he said.

A recent survey noted that a little more than half (52%) of the nation's taxpayers express at least some concern regarding fraudulent tax reporting. But only 16% have checked their tax preparer's reputation with a Better Business Bureau or the Attorney General's office, and just 28% say that they have asked for and checked references.

Others, Largie notes, look the other way and welcome scams such as special slavery reparations for African-Americans; refunds for Social Security payments paid in the years prior to retirement; offshore deals that underreport earnings; abusive trusts; and exaggerated expenses for home-based businesses.

He adds that many taxpayers believe, incorrectly, that so long as they report every penny they earned, they can file false deductions in any amount with impunity. The worst thing that can happen, they believe, is that if caught via a tax audit, they only will have to make up the difference. But there is a definite threshold (25% or more), beyond which it becomes fraud and/or evasion, and is subject to prosecution.

An IRS survey showed that 17% of Americans find cheating on taxes is acceptable, up from 11% reported in 1999. According to the agency, a

reduction by one-fourth in enforcement staffing and by one-half of its auditing function in 1998 led to a growth in tax cheating. By 2001, they estimate, some 15% of taxpayers were paying not a penny in taxes, defrauding the government of an estimated \$311 billion.

Largie adds that recent headlines reporting corporate bookkeeping scandals and the huge sums underpaid by those being investigated may have encouraged some individuals to believe that the government is targeting big business while ignoring the individual. "Nothing can be further from the truth," he says. "the federal government's latest budget preparation includes an extra \$393 million to pay for 2,900 new enforcement officers. There also is a new program encouraging State auditors to report back to the Feds to catch individual taxpayers as well as corporate filers – with "finder" incentives of 20 cents on every dollar collected – to shorten the odds on getting away with tax fraud."

Q. WHEN SHOULD SMALL BUSINESSES START PLANNING TO FILE FOR 2004 TAXES? A. NOW!

The 2003 season has come and gone, and not a moment too soon for a large segment of the population. Good riddance for those who must pay as well as file! It's time to relax and forget about those agonies for a while. Or is it? If you operate a small business, the best time to plan for tax-year 2004 is now, while memories of last year's problems are sharpest and easiest to avoid.

There's a decent chance that an upgrade of your computer software is in order. You'll want to put it to work right away. Also, if you're on a January-December fiscal year, that dreaded April 15 deadline (and the weeks since then) have come

and gone, and you're well on your way to second quarter results. So if things are not going according to plan, corrections made now can avoid larger headaches later on. And if you're retaining a new tax preparer, matters will function much more smoothly by bringing him/her on at the earliest possible date.

One of the most common mistakes made by business operators is to defer setting funds aside to pay the coming year's taxes. Another is to delay planning and



thereby miss out on ways to maximize tax deductions, in the rush to meet the filing deadline. Focus now on losses that will carry forward to offset gains. Recheck filings from the past two years for errors in your favor. You have three years to amend them and benefit.

WATSON RICE SUPPORTS TREND TO INCREASES IN ACCOUNTING MAJORS

"Being in the 'bottom-line' business of accounting," says Watson Rice LLP Managing Partner Raymond P. Jones, "makes a person focus on the numbers at the bottom of the page. So when I see that the number of accounting degrees nationwide jumped 11% last year from the year before, I'm pleased with the result no matter why it was achieved."

Jones' hesitation comes from indications that the main reason more youngsters are turning to degrees that had been considered less attractive than, say, medicine or law, is that corporate scandals and the Sarbanes-Oxley Act

have headlined accounting and the firms that practice it as never before.

“My predecessor, Bennie Hadnott, and I are particularly happy to see these results because we’ve been working with the National Association of Black Accountants to encourage African-American students to enter our profession after years of stagnation in their college enrollment numbers,” he said. “the new attention on accounting is bound to ripple into the African-American community as well as the nation at large.”



Jones also points to these encouraging reports:

- Miami’s Florida International University, home of the nation’s largest accounting program, experienced a 43% increase in student enrollment between 2000 and 2003
- Over the same period, the University of Michigan’s masters in accounting program grew by 76%
- The University of Illinois’ accounting program, one of the nation’s largest, saw an enrollment rise of 66% from 2001 to 2004

Sarbanes-Oxley also opened up new opportunities by creating well-paying positions for auditors, while jobs in banking and consulting are on the decline.

LITIGATION, FORENSICS, FRAUD: MARKETING PROSPECTS FOR CPAs

Watson Rice LLP Raymond P. Jones Managing Partner, an expert in forensic accounting, cites a recent survey of 100 accounting firms nationwide as evidence that litigation-related issues constitute a leading area for growth in the accounting profession.

The survey by *Accounting Today* magazine, found that a majority of respondents regard forensic accounting and fraud investigation and litigation support to be significant marketing opportunities.

According to the National Center for State Courts, these jurisdictions have been processing approximately 100 million new court cases annually in recent years. Expert note that few CPAs, even those with a dedicated marketing department, can devote enough time to web-based research to fully uncover cases where CPAs could serve as expert witnesses.

According to Mr. Jones, accounting firms should develop a broad client list to avoid conflicts that can arise when they engage only a few law firms. He adds that they should balance their work between plaintiff and defense cases to maintain maximum credibility.

CERTIFICATION UPGRADES STATUS FOR BOOKKEEPERS

The American Institute of Professional Bookkeepers (AIPB) has launched a certification program for bookkeepers designed to “tell a business owner that the bookkeeper is a true professional with a clear understanding of correct accounting practices that are so crucial for small businesses seeking investors, loans, or simply tax returns.”

The quote is from Society co-president Steve Sahlein, who adds: “Even more important is the protection that Certified Bookkeepers bring to company assets because of their training and preventing fraud by employees, customers and vendors.”

While certified bookkeepers cannot be expected to match their professional CPA counterparts in expertise, a number of smaller businesses – for budgetary reasons – rely on them to serve as their sole financial officer. Additionally, more than 100 colleges and universities offer courses leading to the AIPB certification exam, and an additional 150 colleges and community campuses offer on-line courses to bookkeepers with little more training than a high school diploma.

WATSON RICE WELCOMES JOINT PROGRAM FOR ENGLISH-SPEAKING TAX ADMINISTRATIONS

Watson Rice LLP, one of the largest and oldest accounting firms to be owned and managed by diverse professionals, with programs relating to tax administrations in Jamaica and the Philippines, look forward to positive results from a newly announced cooperation between Australia, Canada, the United Kingdom and the United States.

A joint task force is being formed to coordinate information toward helping overcome abusive tax transactions.

The task force is designed to share expertise, practices and experience to better identify current and emerging schemes as well as to target individuals who promote them. It also will seek methods for more effective and efficient procedures for enforcement.

The program will be launched in the near future at a meeting in Washington.

NEW AICPA WEBSITE OFFERS WIDE RANGE OF INFO

Whether it's a guide to better financial planning; easy-to-use assessment tools; strategies to save and invest; managing credit; financing a car, or eliminating debt – and lots more – the American Institute of Certified Public Accountants and state CPA societies nationwide recently launched www.360financialliteracy.org.

The new website, is designed to help ordinary people cope with what the AICPA terms “life-stage related financial issues.” Visitors to the site are able to target specific matters as they relate to college years, career, military service, marriage, parenthood, home ownership, entrepreneurial enterprise, life crises and retirement.

BILLIONS IN UNPAID TAXES COULD FUND NASA & TWO FEDERAL AGENCIES

As IRS agents prepare to conduct a more vigorous tax inspection program for 2004, reports from Washington indicate that an inventory of more than two million unpaid tax accounts – totaling \$16.5 billion – were not investigated as this year's tax deadline passed.

Senator Max Baucus (D-Montana), the ranking minority member of the Senate Finance Committee, termed the deferred collection in delinquent tax debt as



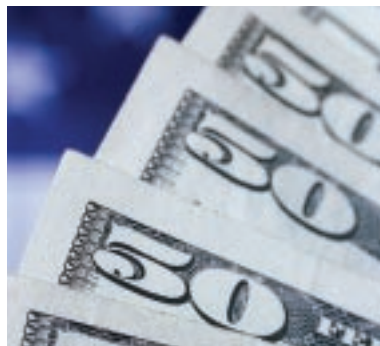
“but another example of one step forward, two steps back. The especially troubling fact, he wrote, “is that the agency knows who owes these back taxes, but isn't taking the time to make the 30-cent phone call that could result in hundreds, thousands or even millions of dollars in lost revenue.”

While the median size of these accounts is \$14,000, the largest that remains “open” totals \$50 million. The total – large enough to fund either the entire NASA space program or the combined budgets for the Departments of Commerce and the Interior – is comprised of \$14.1 billion on individual accounts and \$2.3 billion on corporate accounts.

Moreover, the Treasury Department's Inspector General for tax administration recently reported that the IRS isn't even pursuing criminal cases after a trial and conviction, including 27 tax evaders who didn't comply with terms of their sentences, costing the government more than \$2.5 million in fines and back taxes.

FEDERAL PENSION AGENCY HOLDS \$75M IN UNCLAIMED FUNDS

The Pension Benefit Guaranty Corporation holds unclaimed benefits totaling \$75 million for 26,000 retirees from the airline, steel, transportation,



machinery, retail trade, apparel and financial services industries from six states, including New York, New Jersey and Pennsylvania.

These funds, which range from small amounts to almost \$265,000, came under the protection of the agency when pension plans collapsed at companies within those industries.

Clients who believe that they may be entitled to such lost benefits can access www.pb.gc.gov/search for further information.

WATSON RICE APPLAUDS IRS PROGRAM TO ASSIST LOW INCOME TAXPAYERS

Raymond Jones, and his associates welcome an IRS award of \$7.5 million in matching grants to Low Income Taxpayer Clinics, which will fund 135 of them nationwide this year. The program is in its sixth year of operation.

“No matter how successful and prosperous we become, as a firm and as individuals, we can never turn our backs to the have-nots of our society. We are concerned not only with our clients, but also with those who cannot afford professional accounting services.” says Raymond Jones, Managing Partner.

These clinics represent people with tax disputes with the IRS and those who lack communications skills, either through a lack of education or because English is their second language.

FASB ADVISORY COMMITTEE TO SERVE SMALL BUSINESS

The FASB has formed a diverse, 24-member committee comprised of lenders, investors, analysts, controllers, chief financial officers and auditors from small business enterprises to advise small businesses on accounting issues as they arise and to increase their involvement in developing U.S. accounting standards.

The Small Business Advisory Committee held its organizational meeting in May at the FASB headquarters in Norwalk, CT.