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The Practicing CPA

PCPS

JUNE/JULY 1998

WHAT'S INSIDE

A Special Supplement on Risk Management (see centerfold)

American Institute of Certified Public Accountants

AICPA

THE TOP FIVE MAP ISSUES OF 1998

For the last two years, the PCPS management of an accounting practice (MAP) committee, working with state society MAP representatives, has conducted a poll to determine the top five practice management issues. As reported in the April/May *Practicing CPA,* over 50 percent of the participants chose staffing as one of their top five, followed by keeping up with technology, capitalizing on consulting opportunities, marketing, and new service development. Following, are some detailed discussions of these issues.

FINDING, HIRING, AND RETAINING STAFF

One of the reasons staffing is a major issue in the accounting profession is the generally low unemployment level across the country. A typical way to cope with a tight labor market is to increase compensation levels. This is what firms have done in the last twelve months, and it has worsened the problem. Our employees are constantly contacted with job offers at salaries significantly beyond our expectations, even though in some cases we had just increased their compensation.

But perhaps our biggest disappointment in the staffing area has been with the people we recruited from college. We had never recruited on campus until three or four years ago, but our firm was growing fast and we needed staff. Last year, though, just about everyone we had hired in that first group left the firm, telling us that although they thought they liked public accounting, and they thought they liked our firm, they had never had any intention of staying more than three of four years.

By the time we retire, many of us will have had only one or two jobs in our careers. But people leave college today with the clear intention of only working at an organization for two or three years, then going to another one. We have created what we think is a unique, competitive environment, and a great place to work. But not having worked somewhere else, they have no way to make comparisons.

We are much more successful at retaining staff who have worked elsewhere. One of the reasons for this is our employee stock ownership program.

Our firm is now in the fourth year of this plan, and our retention rate with senior staff is almost 100 percent. When we started the plan, it drew a lot of attention, but not many firms followed us. But now, with the difficulties concerning staff, I con-

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stantly receive calls from firms considering a similar strategy.

Perhaps twenty-five or thirty firms now have employee stock ownership plans in place, and almost as many are looking at additional ways of giving staff an ownership tie to the firm. I believe these are the types of strategies CPA firms need to compete with corporate benefit packages and make employees feel like part of the organization.

—by **Gary S. Shamis, CPA,** *Saltz, Shamis & Goldfarb, Inc., 31105 Bainbridge Road, Solon, Ohio 44139, tel. (440) 248-8787, FAX (440) 248-0841*

We find our biggest challenge is to staff our specialty areas with the highly experienced people we need. These areas have the largest potential for growth, and as we expand into them we require people who are experienced in certain disciplines. Not only do we find it difficult to locate such individuals, but search professionals, other CPA firms, and various corporations are extremely aggressive about contacting our staff and making employment offers.

We are convinced that the way to keep staff members from leaving is to make every effort to keep them attached to the firm. We actively re-recruit staff while they are with us and have developed numerous "high-touch" systems to maintain their connection with our firm. They need to know they have lots of career options within the firm, and they need to know they can work the way they want to work within the organization and enjoy long-term success.

One of the benefits we offer is child care. The child care program is in operation on Saturdays during tax season (from 8:00 am to 4:00 pm) in eight of our offices. We use licensed care providers, and have the necessary insurance coverage, but it is not a licensed program, and we require the parents to stay on site.

We have been running the program for approximately nine years, and it is interesting to note the demographic changes. In the beginning, the program was utilized mostly by staff members whose spouses needed a break from their child-minding duties by the time Saturday rolled around. With the staff member working late every evening and on Saturday, the program provided a significant relief and a huge boost to morale.

In addition to that usage, every year more and more single parents, dual-career family members, and part-time staff who need to work on Saturdays find they are better able to do so because they can utilize the child care program. We have developed a package of information for use by other offices that are considering setting up the program.

I don't believe we should give up trying to create an idealistic environment that attracts the type of people we want in our firms and helps us retain them. Our firm seldom loses staff to larger CPA firms, but we do lose people to industry. But even in those situations, we have had some staff members return after less than a year. They were bored. Staff want to be challenged. They want peer interaction. After working elsewhere, they now value our firm's environment more than they did before.

One area where I believe we all need to do a better job is in helping staff understand the professional development process and the benefits of a professional career. By this I mean knowing about continued growth, not only in professional responsibilities, but also in terms of changes in the business environment in which we work. The development track is amazing, and we should make sure staff know about it and focus on it.

I also believe we should build development programs based on what appeals to the individual. We need to work with staff members to help them realize that the work they are doing today won't be anything like the work they will do ten years from now. We have to help them visualize that, so they see that public accounting is a journey of growth and development.

—by **Leslie A. Murphy, CPA,** *Plante & Moran, LLP, Bridgewater Place NW, Suite 600, Grand Rapids, Michigan 49504-5370, tel. (616) 774-8221, FAX (616) 774-0702, E-MAIL murphy@plante-moran.com*

Our staffing problems are a little bit different. We don't have a problem attracting entry-level people or those with eight-plus years of experience. Our problems concern people who have four to eight years of experience.

Our firm doesn't have a retention problem. We encourage staff input and emphasize the ability of professionals to

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Editor: Graham G. Goddard

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work directly with the partners, and believe this goes hand-in-hand with our high retention level. Indeed, most of the accountants have been on staff over eight years. But getting new people to come on board at the above-mentioned experience level is incredibly difficult, and it is not a money issue.

Our practice region is not experiencing the dramatic pay increases seen in other parts of the country, although there is some pressure on starting salaries. At the mid-level, it is not dollars; it is a change of lifestyle that is the issue.

What we have found to be successful in addressing those needs are various types of flexible work arrangements, or other accommodations, that still permit us sufficient control. We also use a number of part-time staff. These, typically, are working mothers—mature, responsible people—who welcome the opportunity to work, say, twenty hours a week to stay involved and earn some money. We accomplish a fair amount of our compliance work with part-time staff.

Last year, we started a recruiting firm to help clients find top-flight personnel. As an experiment, I ran some help-wanted advertisements for ourselves, but under the banner of the recruiting company. We found the level of response was much higher than when we advertised under our CPA firm name. We think the reasons for this are a) the perception of grinding work at a CPA firm, and b) the fear that CPA firms may communicate with one another and word might get back to the applicants' own firms. At any rate, the advertisement enabled us to interview talent not previously available to us.

For years, we wouldn't consider hiring someone with a heavy private industry background who wanted to get back into public accounting. But today, we do, and it has worked well for us in certain specialty areas.

I think part of the retention problem for us all is the conflict in expectations. People enter the profession expecting to do tax and accounting work, but we owners are looking for more. We want them to be creative.

We need to get the message out—on campus, in the accounting programs, in the fraternities and sororities—as to what is unique about our local firms and the interesting career opportunities they offer. It's tremendous advertising for the profession and our firm to be on campus speaking about accounting, and the cost is nominal.

—*by* **Ira S. Rosenbloom, CPA,** *Mintz, Rosenfield & Company, LLC, 60 Route 46 East, Fairfield, New Jersey 07004-3098, tel. (201) 882-1100, FAX (201) 882-1560*

I would say that the staffing situation has deteriorated over the last several years. A decreasing percentage of accounting graduates enter public accounting, today, as compared to ten years ago. In addition, firms cut back their campus recruiting activities when the economy was in recession. As a result, there is a shortage today of professionals at the levels of seniors, supervisors, and managers. These are the people firms now need.

We have significantly improved our firm's benefits package to compete with industry. In addition, we have initiated programs to try to maintain and improve employee morale and create a quality workplace environment. One example is our Suggestion Box Program which awarded airline tickets to three employees with the best suggestions for boosting productivity and efficiency. We have also had an ice cream cart brought into the office on Fridays during the summer, held monthly wine-and-cheese socials, provided bagels on Saturdays during tax season, pay cab fare home to staff who are working late into the evening, and provide a daily selection of fresh fruit for all employees. Although these efforts are appreciated, people still listen if approached by recruiters who are talking significant base dollar differences.

Great corporate-style benefits may not mean anything to a twenty-two-year-old out of college, but they do to the seasoned people we need. If they look at the 401(k) plan, profit sharing plan, pension plan, cafeteria plan, insurance program, vacation and sick day policies, along with tuition reimbursement and the scholarship program, I think they will be attracted to our firm. If they believe we provide a quality workplace environment, as well as challenging work, they are likely to stay.

I also believe we should be doing all we can to attract outstanding people to the profession by letting them know we do not just provide compliance services. These are changing times, but for somebody who joins a progressive firm, there will be plenty of opportunities.

I see our firm, and other firms of the future, as department stores of business services. Consulting services and the traditional services will be just some of our many service opportunities to the business community.

It will be an exciting career for people who have the desire to grow and be successful, and who join a firm where the fit and chemistry are right. We are challenged at the moment, but I think the right environment is there. It's a new future. ✔

—*by* **Leslie L. Hoffman, CPA,** *American Express Tax and Business Services/Checkers, Simon & Rosner, LLP, One South Wacker Drive, Suite 2400, Chicago, Illinois 60606, tel. (312) 917-0648, E-MAIL Les-Hoffman@CHECKERS-LLP.com*

SOME MESSAGES FROM THE EDITOR

I am taking an early retirement after twenty years as editor of the *Practicing CPA*. Before I leave the Institute, I would like to

Thank you for your encouragement and friendship.

Thank PCPS for its support since the first issue in November 1977 and its financial sponsorship since August 1991.

Urge you to join PCPS. The benefits (see the April/May PCPS supplement) far exceed the moderate cost of membership.

Urge you to attend the AICPA Forum on Competing in a Changing Marketplace at the Ritz Carlton in Naples, Florida, on August 17-18. (Brochure in mail.)

Graham G. Goddard
Editor

KEEPING UP WITH TECHNOLOGY

In 1980, our firm did not have any computers—in fact, computers weren't of any particular interest to us. About a year later, though, we began to focus on what the firm would need to survive into its second and third generation of partner-shareholders. This made us think about technology. In 1981, we bought a couple of CPM-based machines for time and billing purposes, and from that date on, we began using technology in our practice.

Today, clients are looking for continuity in CPA firm personnel and want to have their services provided by bright, intelligent people. To recruit the type of people we want, we have to be able to show them we use state-of-the-art technology and are the sort of firm where they believe they could have a long career. Technology also enables us to provide employees with a work environment that is conducive to a good quality of life, and lets us offer clients the types of quality services they want and need, all without sacrificing firm profitability.

Some of the ways we have been able to address quality-of-life issues are by implementing four-day work weeks, establishing remote offices for certain employees, and by allowing employees to work flexible schedules.

We started off with a rudimentary system for the first remote office, but that employee now has an ISDN line at home. She is able to keep her software programs updated, has full Internet access, and access to our online research services and tax return information, just as if she were in the firm's office. Out of thirty employees, seven have remote access. Two of these are full-time, and the other five work both in the office and at home.

Technology updates

Since 1984, we have had a three-year rotation schedule for our technology investment. (In other words, we update a third of our equipment every year.) This strategy has allowed us to grow efficiently, without a commensurate increase in staff. And when we do hire people, these technologies enable them to work more efficiently.

Our firm has a thirty-node network with seven servers. Seven servers could be considered excessive for this size network, but we do a lot of in-house research and development. At the core of the network are five Novell IntranetWare 4.11 servers running everything from file and print services to our Internet firewall. In addition, we have a small IBM AS/400 and a Microsoft Web server. Novell NetWare has been MB & D's network of choice for a long time because it enables us to integrate many different resources within a stable, manageable environment that can grow along with the firm.

Traditionally, file and print services have been the nucleus of the network, but those are really just the jumping-off point for a whole host of other services. E-MAIL, group calendars, network-shared FAXes, and CD-ROMs all leverage the power of the network. And networks can be tied to the Internet, opening up a new line of communication between ourselves and clients.

Remote access is a good example of how technology evolves at our firm. We were looking to upgrade our telephone system, and one vendor showed us an NEC system (NEAX 2000IVS) that uses a twenty-three-channel ISDN line to deliver digital voice, analog data and FAX, and even BRI (two-channel) ISDN lines. The amazing part was that the NEC system could allocate the twenty-three channels dynamically between all of the types of services as needed.

We could use the system for direct inward dial (DID), to ring at an employee's desk directly, or we could use it for a modem to dial out, or to send and receives FAXes. We could even connect a router to a BRI ISDN line and provide Internet access for the network. We jumped at the opportunity.

We eventually expanded the system to include other BRI lines, which we use to provide remote employees with access to the network. The remote employees have BRI lines in their homes connected to a small home office router. The routers have analog ports that allow us to connect a regular home telephone and use one of the BRI channels for voice calls. This allows the remote employees to forward their office extension to the telephone hanging off the router. The other BRI channel is used essentially to extend the network out to the remote employees. Their home computers are just another node on our office network.

The system is completely transparent to clients. They dial their tax preparer's telephone number here, and the call is transferred to the employee's home, who answers it as if in the office. Remote employees have the freedom to work their own hours, and clients' access to our employees remains the same.

We did not know this technology was available until we began searching. It took some effort to find a vendor who had the same vision that we had in terms of voice and data communications, but once we did, everything fell into place.

Deciding what we need

Technology has become such an integral part of our operation that we never think in terms of what our technology strategy is. It's a given that we need to be on the cutting edge.

When we are determining our technology needs for the next year, we develop an administration plan and budget, and decide what we need to be looking at in terms of new technologies.

When you are evaluating new technology, you have to be prepared to make a few mistakes. If you are too cautious, you might miss out on something that could revolutionize the way you operate your practice. In order to serve our clients better, we have to be able to answer questions, have access to information, and be able to respond quickly. Technology enables us to do that.

Each year, we develop a list of equipment on which the firm might spend its technological budget. The amount is usually about $1,000 to $1,500 per person (in total, not necessarily on each individual PC). When you start applying numbers to the various scenarios, keep in mind the efficiencies and opportunities that new technology will permit.

Security is a concern

Novell is a secure operating system, but it is only as secure as the procedures one sets up within it. Our passwords have to be changed every forty days, cannot be re-used, and have to be of minimum length. We restrict the times employees can access data, the workstations from which they can access information, the clients which they can access, and the programs they can use.

As CPAs, our primary objective is safeguarding assets. We do that with passwords, backup tapes, providing protection from power outages, and making adequate provisions for disaster recovery.

The Internet

Firms can't do much today without addressing the Internet in some way. It is an outstanding communications tool which affects not only the way we communicate, but also the way we do business with clients.

From a firm standpoint, you need a Web page to advertise your firm's services. We have this and an internal Web page for communications and E-MAIL access, so employees on-site anywhere can access their E-MAIL.

The Internet provides a means to communicate in ways people would never have dreamed, five years ago. It gives the audit staff the ability to connect back into the office, not only for E-MAIL but for voice mail and FAXes, and provides us with a whole host of connectivity and communication options that weren't available before.

Most people are looking for a direct payback on their Web server, but we preferred, initially, to look at it as a means of serving our clients. We use it as a way for people to find us, see who we are and what we do, and how we can serve them. The network administration group's support page, for example, has network manuals online.

In essence, this is how we look at all of our technology investments. We believe state-of-the-art technology enables us to serve clients better and expands the reach of our communications infrastructure both to clients and employees.

Network administration services

Our internal network administration has allowed us to expand our services to clients, although that was not the intention. It began when clients came to our office and saw our technology at work and how it enabled us to respond to their requests so quickly. They asked about it, and from that evolved a full-service business.

Our network administration services group can replace the MIS departments of clients that have 10 to 200 desktop computers. In some situations, our staff works full-time on-site at the client's office. We rotate staff so people know other networks and can fill in if there is a need.

Companies are now at the point where they realize there is more to computer systems and technology than just hardware, cables, and software. Systems need to be maintained to work properly. When we check clients' network environments, however, we find many are not set up correctly.

The main reason servers and printers don't work as they should is that they were not installed and implemented properly. Because clients' technology problems affect their accounting systems, CPAs are usually the first professionals to whom companies turn when such problems arise. Our network administration group is tenacious about making hardware and software work properly together.

Technology has allowed us to expand the types of services we provide beyond network administration services. Clients now have the ability to use E-MAIL, and we are able to transfer information and files between their systems and ours. Our growth opportunities are with companies doing business over state and national lines.

Training policies

We find that training has to be considered on two levels. People in their 20s and 30s expect to be using technology when they start working at our firm. Because of that, training is not an issue, except in certain advanced areas. On average, staff receive technology applications training of, perhaps, four to six hours a year, although individuals may take as much training as they want.

When we introduced Novell GroupWise (E-MAIL and group calendar) a couple of years ago, we brought someone in for a couple of days to train the staff. We are considering enhancing our contact management system and might do the same again, but that tends to be the extent of training in our firm.

There has to be a technology leader

The capital requirements and management style necessary to implement technology are different from traditional CPA firm norms. While we may not continue to rotate our equipment on a three-year schedule in the future, there will always be a certain amount of turnover because we are always looking for new ways to implement technology. We consider one of our firm's strengths is having an attitude oriented toward capital replacement.

But management has to lead. A lot of technology implementation is not successful because management does not lead. Everyone in the firm needs to get on board the technology band wagon, but it is *essential* that all partners be part of the movement. Even having one partner who does not embrace the project can cause it to fail.

It is important that the person responsible for technology in a firm not limit his or her focus to just the network operating system. The telephone, Internet, and data communications all have an impact on how the firm is going to do business. He or she needs to stay current with latest developments, be aware of what equipment is available, and know what questions to ask vendors. ✔

—by **Karl V. Springer, CPA and James D. Lancaster, CPA,** *Middleton, Burns & Davis, PC, 3500 Oaklawn, Suite 600, Dallas, Texas 75219, tel. (214) 989-0400, FAX (214) 989-0480*

YOUR VOICE IN WASHINGTON

Taxpayer confidentiality approved by Senate as part of IRS restructuring bill

The Senate approved expanded confidentiality rights for taxpayers as part of the IRS restructuring bill it passed unanimously on May 7, 1998. The AICPA has been battling hard for this change.

The Senate's action represents a big win for taxpayers because it means, in general, that the tax advice taxpayers receive from anyone who is authorized to practice before the IRS is confidential. Current law provides confidentiality protection for tax advice only when it comes from the taxpayer's attorney.

Other provisions in the Senate IRS restructuring bill that are of particular interest to the CPA profession include:

IRS oversight board, which is granted authority to set policy and review IRS operations. The majority of the board's members will be from the private sector, although seats on the board are reserved for the Secretary of the Treasury, the IRS Commissioner, and an IRS employee representative. The AICPA supported establishment of the oversight board.

Innocent spouse relief, which will protect a taxpayer from liability for tax bills run up by his or her spouse without his knowledge or participation. The AICPA advocated inclusion of such a provision.

Tax simplification, which requires Congress to give more consideration to the complexity of the tax laws it passes. This provision is similar to the AICPA's tax complexity index.

A host of taxpayer rights initiatives—from creating an independent taxpayer advocate to assist taxpayers in disputes with the IRS, to making it easier for taxpayers to recover legal fees and to collect damages for wrongful collection actions—are also included in the Senate bill. The AICPA supports most of these initiatives.

Despite opposition from the tax practice community, including the AICPA, the Senate insisted on including language shifting the burden of proof from the taxpayer to the IRS in court cases, provided the taxpayer kept proper records. The concern about shifting the burden of proof is that it might result in more intrusive IRS practices during the examination phase in order to ensure that the IRS obtains whatever information it might need if the case were to go to court.

The Senate-passed bill also modifies the effective dates of certain programing-intensive provisions in the IRS restructuring bill so that they do not conflict with IRS efforts to address Year 2000 computer problems.

In addition, while the House and Senate versions of the bill encourage electronic filing of tax returns by taxpayers, the Senate responded to concerns voiced by the small business community and adopted an amendment to make electronic filing for taxpayers voluntary.

Congress has targeted Memorial Day as its goal for having completed work on the final version of the IRS restructuring bill, although the schedule could slip. President Clinton is expected to sign the bill. ✔

AICPA CONFERENCE CALENDAR

Assurance Services
June 4–5—Caesars Palace, Las Vegas, NV
Recommended CPE credit: 16-17 hours

Investment Planning
June 11–12—JW Marriott, Washington, DC
Recommended CPE credit: 16-17 hours

Tech '98 Computer & Technology
June 14–17—Hilton, New Orleans, LA
Recommended CPE credit: 24 hours

Not-for-Profit
June 18–19—Grand Hyatt, Washington, DC
Recommended CPE credit: 16 hours
(Pre-conference optional program on **June 17**
Recommended CPE credit: 4 hours)

Bankruptcy
July 9–10—JW Marriott, Washington, DC
Recommended CPE credit: 16 hours

Advanced Estate Planning
July 22–24—Westin Harbour Castle, Toronto, Ontario, Canada
Recommended CPE credit: 24-26 hours
(Optional program on **July 21**
Recommended CPE credit: up to 11 hours)

National Advanced Accounting and Auditing Technical Symposium
July 23–24—Royal York, Toronto, Ontario, Canada
Recommended CPE credit: 18 hours
(Optional program on **July 22**
Recommended CPE credit: 4 hours)

National Healthcare Industry
July 27–28—Grand Hyatt, Washington, DC
Recommended CPE credit: 16 hours
(Optional program on **July 26**
Recommended CPE credit: 3 hours)

National Governmental Accounting and Auditing Update
August 17–18—JW Marriott, Washington, DC
Recommended CPE credit: 16 hours
(Optional program on **August 19**
Recommended CPE credit: 4 hours)
September 14–15—Hyatt Regency Tech Center, Denver, CO
Recommended CPE credit: 16 hours

Fraud Conference
September 17–18—Caesars Palace, Las Vegas, NV
Recommended CPE credit: 16 hours
(Optional programs on **September 16**
Advanced Computer Software
Recommended CPE credit: 3 hours
Off-Book Frauds
Recommended CPE credit: 4 hours)

To register or for more information, contact AICPA Conference Registration, tel. (888) 777-7077.

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The AICPA Plan Administrator

JUNE/JULY 1998

In This Supplement

AICPA PROFESSIONAL LIABILITY INSURANCE PROGRAM

AICPA

The Risk Management RESOURCE

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MINIMIZING TEAM LIABILITY IN THE REFERRAL NETWORK

In a world increasingly inhabited by narrowly defined practice niches, CPAs may more frequently team up with a group of specialized professionals who combine their talents for optimum client service, via a referral network. Common examples include the development of a financial plan by a group which includes a licensed securities representative, an attorney, and a CPA; a tax planning engagement completed by the combined efforts of a lawyer and a CPA; and a systems engagement completed by a team comprising a systems designer, a hardware manufacturer, a software publisher, and a CPA.

In each of the above engagements, the assignment may have been brought to the CPA through another member of the team. The client may be billed through the referring party and may not have actually been involved in selecting the CPA. In some cases, the CPA may have a prior relationship with the referral source, such as a bank, further clouding the lines of responsibility.

Although certain liability risks can be minimized by exclusively performing specialized accounting services where the CPA's expertise is strongest, and outsourcing all others, new risks may be developed under these networking arrangements. Before organizing formal or even informal teams with other professionals or firms, it is important to recognize that clients may attempt to recover damages from everyone involved in a failed project. Consider the following illustration.

A CPA is contacted by a local attorney preparing a will for a client. The attorney wants the CPA to handle the "tax end" since she doesn't have a tax background. The CPA asks questions, meets with the client at the attorney's office and reviews the will.

When it is time to administer the will, it is discovered that the ownership of assets by the deceased was not properly structured to effect the desired estate tax result. The estate now owes more than two hundred thousand dollars in taxes. Aggrieved heirs elect to sue the attorney and the CPA.

Before the suit is filed, the CPA and the plaintiff learn that the attorney has no malpractice insurance coverage. The plaintiff, depending on local law, either sues both parties and attempts to collect the judgment against the insured CPA, or leaves the uninsured party out all together, perhaps with the understanding that any evidence implicating the CPA be provided.

Another example is when a CPA teams up with a systems provider to design and implement a new information system for a client. The CPA performs the needs assessment and the systems provider selects the software and specifies hardware. When the system fails, the CPA and the client learn that the software provider is uninsured and, worse still, a corporation with limited financial resources. The result could leave the CPA alone facing a claim for the entire damage.

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Team liability

A new referral engagement can take advantage of specialized skills unique to the CPA; yet, when the team engagement results in a lawsuit, who gets caught holding the liability bag? To make that determination (in addition to culpability of the CPA and others) one needs to know what kinds of promises were made in marketing the engagement, who was on the team, if client confidences were observed, who the client really was, to whom the CPA owed a duty (and who can therefore pursue the CPA in a liability action), what warnings signaled potential team project problems, what the financial (insurance) resources of the other referral team members are in the event of a malpractice claim, and on whom the client relied.

It is important to recognize that many malpractice cases against CPAs are caused by a breakdown in communications. In referrals and team engagements, there are more parties involved; thus, the opportunities for malpractice claims arising through misunderstandings are greatly increased.

Marketing

Marketing or proposals for the engagement may have used the CPA's name and credentials alongside those of other team members. Sometimes, the CPA will have no control over the statements made in marketing pieces or will not have been privy to the representations made by the other team members.

When the CPA does not participate in the initial client acquisition, he or she should independently verify that an understanding has been reached with the client, specific to the CPA's work. Without such an understanding, the possibility of a breakdown in communications leading to a malpractice claim may increase. Engagements initiated via referrals still require the use of clearly-defined engagement letters detailing the expectations and responsibilities of both the CPA and the client.

The CPA's final work product may be included in a combined package that doesn't clearly define the portion of the work done by each team member or could be interpreted to have been totally performed by the CPA. In these cases, compensation for the CPA may not flow from the client to the CPA but come from another member of the team. When reports are unclear about who has done what work, the potential for blame to be laid at the CPA's feet expands. A clear description of the CPA's role in the project should accompany the final work product.

Defining the client

It may seem sophomoric to ask who is the client; yet, the answer is important. At the very heart of the origin of a malpractice claim is the question of to whom does the CPA owe a duty. In every state, the CPA owes a duty to the client; thus, the client must be clearly identified.

The laws regarding obligations to other users of CPA work product vary widely by state. When work comes as part of a package or in a referral, the lines of authority sometimes blur. Examples appear in many kinds of team engagements: Has the CPA been hired by the investment professional to outline tax issues or by the individual to assess individual tax consequences? Does the CPA conduct a needs assessment on behalf of the software vendor or the client?

A prudent risk management technique when dealing with a referral or team engagement is to specifically document in an engagement letter to the client, exactly what the relationship is and who the client will be before the engagement begins.

Year 2000 Updates

Look for continuing coverage about CPAs and the Year 2000 issue on the AICPA Insurance Programs Web site (www.cpai.com), in *The Risk Management Resource*, the AICPA Professional Liability Insurance Program Risk Management Seminar, and other Program publications. Risk management techniques, topic insight, and more are highlighted. Information distributed by the AICPA professional Liability Insurance Program on the Year 2000 is available on a special Y2K Risk Management Alert section of the Web site.

Warning signs

Warning signs of potential liability exposure in the team engagement include significant distance between the client and the CPA, aggressive advertising promises made by a member of the team, reluctance to let the CPA and the client discuss the engagement alone, and some or all team members receiving commission compensation. These factors all lead to a lack of mutual understanding and a potential for a breakdown in communications. Further, when commissions are paid, certain recommendations may be examined in light of fiduciary duty to the client.

Confidentiality

In some jurisdictions, statutes govern the use of confidential information by certain professionals, including CPAs. Failure to observe such confidences can result in access of information by unauthorized individuals, and an action for damages may arise. If all team members will have access to client confidences, an understanding should be reached about who can share the information and on what basis.

Insurance

The CPA preparing to enter into a strategic alliance should consider requesting a copy of the current declarations page or policy of the alliance member as a routine part of accepting the engagement. Look for appropriate liability limits, pol-

The Professional Liability Insurance Plan Committee objective is to assure the abailability of professional liability insurance at reasonable rates for local firms, and to assist them in controlling risk through education. For information about the AICPA Plan, call the national administrator, Aon Insurance Services, 800-221-3023, or Leonard Green at the Institute 201-938-3705 or visit the AICPA Insurance Programs website at www.cpai.com.

icy expiration dates, claims paying ability of the carrier, reputation for service, and similar issues in evaluating the coverage of the strategic partner. It may seem awkward to make such a request; however, large enterprises have learned the hard way that doing business with an uninsured or poorly insured vendor can leave the insured party in a difficult position should a liability claim arise.

Conclusion

To lessen liability exposure in the referral engagement, CPAs should 1) exercise control over the marketing of their services, 2) screen referral client prospects with the same acceptance standards as any other client, 3) determine who is the client (and third party users, if appropriate), 4) define the specific work and conclusions to be reached by the CPA and communicate them to the client, 5) establish whether other team members are licensed, and 6) obtain adequate documentation to confirm the adequacy of other team members' malpractice insurance coverage. ✔

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EMPLOYMENT PRACTICES CLAIMS CAUSING CONCERNS

The news today is filled with charges, counter charges, and huge awards arising from employment practice issues. In fact, employees are probably one of the greatest liability challenges in business today. Whether the charges involve discrimination due to race, sex, or age, wrongful termination, or sexual harassment, the results can be financially devastating. A worker in Iowa was awarded $85 million, another in Milwaukee, $26.6 million.

The more employees read of employment practices charges and awards in the newspapers and magazines, and see cases heavily covered on television, the more they begin to feel their gripes are actionable and they should be monetarily compensated. The charges may seem minimal: "He looked at me funny–suggestively." "She brushed against me unnecessarily." "I refused to date him and that is why I was fired a year later." "My boss insisted I go out with her after work. My girlfriend didn't like that." Yet, the consequences can be overwhelming.

Many claims appear to be bogus and the employer often has no knowledge of the alleged discrimination or sexual harassment until after termination when the charges are first made. Even if an employee quits, the employer is not free from potential claims. The employee may charge constructive termination, suggesting that he or she had no choice but to leave the hostile environment. All current and prior employees may present charges at any time, even months after an employee's departure.

Consider as an example, the employee who is injured in an accident outside the work place and is out on a non-workers' compensation disability leave for several months. During the leave, the employer discovers there are many serious deficiencies in the employee's work. When the employee reports back to work after the leave, he or she is then terminated for cause.

Because the worker was protected by the Family and Medical Leave Act (FMLA) during the disability, a problem is now likely to develop. A termination for any reason after such a leave could easily be construed as a violation of FLMA. An attorney specializing in employment law should be consulted prior to the termination to confirm that no laws are being innocently violated. Ignorance of the law is no defense.

Employers are often left wondering how to appropriately address personnel issues. It may seem that even with the development and implementation of appropriate human resources policies and procedures, the charges and claims still arise; however, good human resources policies and procedures can mean the charges are defensible. Unfortunately, the costs to conduct an effective defense can quickly escalate.

One way for employers to limit their exposure is obtaining Employment Practices Liability Insurance (EPLI). This product protects employers in two important ways. First, in the event of charges against the employer for covered incidents such as wrongful termination, discrimination, harassment (both sexual and non-sexual), or negligent hiring, the insurance carrier will provide the employer with attorneys and experts specializing in the defense of such claims.

This professional guidance in the assessment and response to charges significantly improves the employer's defense. Additionally, EPLI coverage will help to protect the employer's financial well-being by covering eligible losses.

Although many carriers offer EPLI, each one has a different form providing different coverages. It is important to determine the type of coverages needed and what is being offered. While some of the less expensive policies may save the employer money in the short term, these policies may not pay for the claims which are most likely to occur.

In today's litigious environment, protection from potentially devastating employment practices claims is critical. By implementing a combination of human resources policies and procedures, employment practices legal advice, and employment practices liability insurance, employers can better protect themselves against this growing threat. ✔

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Defense-only Employment Practices Liability coverage is an optional benefit available through the Premier Plan, part of the AICPA Professional Liability Insurance Program. For additional information on this Plan, call (800) 221-3023.

WATER IN THE HULL: THE YEAR 2000 PROBLEM

Few issues in modern times have received more comment than the century date change risk known as the Year 2000 (Y2K) Problem. The problem stems from the inability of many computer systems to distinguish a "00" entry in a "year" data field as 2000 or 1900, resulting in a variety of miscalculations and inappropriate system reactions when calculations for the year 2000 and beyond are necessary.

The nature of the issue is such that organizations can gradually take on increasing risk through avoidance and procrastination until sunk by the weight of the problem. The primary reason for such intense media focus is the fear that the problem won't be appropriately addressed and the effect this will have on the global economy.

As professionals whose effectiveness is related to knowledge of their clients' financial well being, CPAs cannot overlook the importance of Y2K preparation by clients. A review of a client's plan for resolution of these issues will provide valuable insight into the potential for success or disaster within an organization.

Year 2000 issues may not be readily apparent due to the gradual accumulation of such problems. In fact, business losses from the problem began many years ago and continue to manifest themselves in the form of mounting repair and replacement costs, lost business potential due to allocation of resources to repair work, and the virtually unlimited potential for future claim and litigation expenses.

Losses continue to grow due to the need for stronger commitment from leadership in both the public and private sector. Most global companies are at least 25 percent behind plan, while many mid-size firms have an even greater lag. Governments, in many cases, have failed to address the problem at all. Two thirds of entities do not have detailed plans for dealing with the problem and 80 percent have not yet begun to implement a full-fledged strategy, necessitating intensified Year 2000 work efforts.

Some high-level forecasts of the impact of year 2000 failures are necessary so that timely decisions can be made to avert disaster.

Will the enterprise stay afloat?

Businesses are generally structured to effectively handle numerous operational risks. This problem, however, requires business leaders to assess Y2K risks within their internal operations, products, third-party relationships, and the infrastructures of travel, power, water, resources, and services relied upon every day. Companies best positioned to minimize losses have well-defined action plans. These are often outlined by company executives in consolidated written statements and coordinated action plans as follows:

- *From the chairman, president, and/or CEO* recognizing the serious nature of the problem and committing company resources to address it internally, while working with business partners and vendors to complete corrective actions.
- *From the chief information officer* discussing the technical aspects of the mission and detailing initiatives to successfully handle the problem.
- *From the year 2000 project director* describing project tasks for each department, including time tables for completion and steps taken to avoid the interruption of the enterprise's on-going business and growth.

Such directives minimize growing fears and frustrations by demonstrating careful consideration of the problem and highlighting the need for team efforts and focus.

Companies likely to survive will have addressed the critical need to meet established completion deadlines. Missed deadlines may quickly escalate business losses ranging from inventory risks to losses due to an inability to recognize time and distance calculations for transactions with maturity dates beyond January 1, 2000. Excessive transition errors will only further exacerbate the problem; therefore both corrective actions and validation testing must be timely. At the close of 1998, business losses will increase dramatically and continue to rise throughout 1999.

Third party assistance

Business losses and litigation costs can be reduced further by undergoing independent third-party validation of Y2K programs, plans, actions, and time tables by Year 2000 specialists. Such groups offer corporate executives, CPAs, regulators, attorneys, and stakeholders the opportunity to verify the effectiveness of the company's Y2K plan. Just as financial statements are audited, performances evaluated, and regulatory issues checked for compliance, a company's Year 2000 action plan could benefit greatly from outside assistance. As such details could affect the very survival of the enterprise, the decision to check, confirm, and monitor the project with an objective third party may help to minimize losses.

Validation teams work with the staff of the enterprise to address issues such as

- Change strategies.
- Deliverables.
- Programming.
- Implementation.
- Project management reporting.
- Vendor management.
- Configuration management.
- Bridge and interface development and management.
- Test criteria effectiveness for remediation actions.
- Insight to those areas of greatest risk.
- Contingency planning options.

The uncertainty of Year 2000 plan results continues to concern organizations worldwide. Companies with dedicated resources and written, tested, and monitored plans of action are best positioned to welcome the new millennium with the anticipation of new successes and achievements. Those less dedicated to resolving the issues at hand are more apt to succumb to the potential failures inherent in the arrival of the year 2000.

A general knowledge of relevant Y2K risk management techniques will help professionals evaluate these actions and go a long way towards keeping the enterprise vessel afloat by preventing water from entering its hull. ✔

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CAPITALIZING ON CONSULTING OPPORTUNITIES

The following article is excerpted from the book, *Start Consulting: How to Walk the Talk* (Jersey City, New Jersey, AICPA, 1998), by William L. Reeb, CPA. We pick up as Mr. Reeb is discussing quantifying the value of your involvement during the information-gathering phase of the structured sales call, which he believes is the single most important ingredient to closing new consulting business. At this point, we will assume you have progressed from the introduction and rapport-building phases of the sales call and have transitioned to talking about the business at hand.

Quantification is the key to closing consulting services

Once the discussion is focused on the business concern, continue your role as Sherlock Holmes and investigate further. We reference Inspector Holmes due to his renowned skill at uncovering the obscure. At this stage of the sales call, your job is to unveil issues, concerns, opportunities, etc., many of which are far from being volunteered, in order to find out how to motivate someone to buy your services. The objective of the information-gathering phase of the sales call is to gain knowledge about the client's situation and identify his or her "hot buttons."

To gain the necessary knowledge, your investigation needs to

- Uncover your client's concerns.
- Identify what your client expects to gain, protect, or reduce by addressing these concerns.
- Quantify the value of resolving each concern.
- Estimate (roughly) the cost, including your fee, of fixing each problem area.
- Weigh the expected gain, the likelihood of achieving that gain, and the cost of implementing the needed changes against each other to ensure the end justifies the effort.
- Determine whether you have (or have access to) the required resources to manage and/or perform the detailed work relative to this project.

During this questioning phase, be careful not to sound as if you are interrogating the client. Remember, you are attempting to gather information, not to put the client on the spot. Also, don't

- Jump to conclusions.
- Provide solutions before thoroughly investigating problems.
- Tell clients what to do. Instead, pose your ideas as questions.

In addition to obtaining general knowledge about the client and his or her situation, you need to identify the client's "hot buttons"—the issues and needs that push the client into action because there is a sense of urgency about them. "Hot buttons" are the key to persuasive selling, but they are rarely obvious. The problem is that if you haven't discovered them and quantified the value of resolving them by the time you wish to close, you will be "closing on air" (trying to persuade the client to commit to doing business with you when there is no tangible reason to do so). And if you do that, the client will not be motivated to buy.

With traditional services, there are built-in client motivators. We just have to convince clients we can do the work, not of the necessity to do it.

Tax services have built-in "hot buttons," for example. Clients have to file their tax returns by certain dates, and as these dates draw near, they are automatically motivated into action to avoid penalties, interest, and exposure to the Internal Revenue Service. The same is true regarding audits and financial statements, especially if an outside source, such as a lender, is demanding them. In such situations, clients come to us boiling over with anxiety, focused on meeting their deadlines.

With consulting, rarely are there dates that create this sense of urgency. Even when such dates exist, they are often internally generated (which means they are subject to change). Therefore, during the investigation phase of a sales call, you not only have to pin-point the ideas or concerns that are keeping the client awake at night, but also quantify the expected results of addressing them. If you don't, the client may leave the meeting knowing a problem exists, but thinking it is just one of those irritants that is not worth the cost of resolving. Consider the following example.

Finding a hot button to push

Let's say Mike wants your help in selecting an accounting system for his small business and spends several hours outlining the requirements. Although he is thorough, you know through experience that even if you found a system that satisfied every wish on his list, Mike would likely be unhappy. This dissatisfaction would occur because the price would be beyond reason, the system would require changes in the way he has always conducted business, or it wouldn't perform many of the "not listed," but assumed functions.

You believe a work-flow analysis should be conducted to identify documentation and information needs and flow and bottlenecks that are causing problems. This preliminary step will cost from $5,000 to $10,000, and will be in addition to the research he wants you to do. Mike has already commented that he is concerned about money, so you know he is going to resist this idea.

In order to sell the work-flow study, you will need to find a "hot button" to push.

During your investigation, Mike told you about several friends who spent hundreds of thousands of dollars on computers that proved to be only marginally effective. He said his greatest fear was making the same mistake, and for that reason alone, has never begun to automate. When asked why he has decided that now is the time to automate his accounting, Mike replied, "Because my inability to adequately manage my inventory, invoicing, and accounts receivable is not only putting the company in a major cash bind, but is causing me to lose customers because of too many out-of-stock conditions."

Well, if you ever wanted a "hot button" or two to slap you in the face, there you have them. By the way, if most CPAs actually quantified these issues to the degree we are in this scenario, our closing ratios would be excellent. But even in this case, there is still more work to do.

So far, Mike has said he is scared of spending a couple of hundred thousand dollars acquiring a marginally effective system and, also, that by not doing something, he is losing business. The logical next question, which is rarely asked, should be:

"So, how much revenue do you think you are losing each year due to stock outs?" His reply, "Half a million in sales." You then ask, "If you had the automated accounting system you identified earlier up and running, how much of that stock-out revenue loss could be avoided?" Mike states confidently, "At least 75 percent of those stock-outs wouldn't happen with a better inventory system." You again, "What would you say your average gross margin is on items in which you are typically out of stock?" "My average gross margin is 35 percent on almost everything we sell," is his response.

Quantifying the downside

Even with all this information, you still need to quantify what Mike thinks is the downside of purchasing a marginally effective system. Maybe you should say:

"You stated earlier that several friends spent hundreds of thousand of dollars on marginally effective computers and your greatest fear is making the same mistake. What do you think a mistake like that would cost you?" Let's now assume he replies, "I am concerned that I will spend $200,000 and still have the same problems I have today."

In this example, Mike has just quantified the risk of failing to find the right system at $200,000, plus valuable employee time, and remaining in the same situation. While you could have *assumed* that, based on his earlier comments, he didn't *say* it. Therein lies a key issue. Whenever possible, you want to use clients' own words, rather than your own, to convince them.

Throughout the selling process, you have to resist the temptation to dive in and solve problems. Once you have quantified an issue, or found out it can't be quantified easily, the investigation needs to quickly revert back to high-level questioning. If you are not diligent about maintaining that high-level perspective, you will find you have become the most popular, overworked, and underpaid consultant around.

The point of this is not to try to tell you what questions to ask; rather, it is to remind you of the need to gather the type of information that helps clients better understand the magnitude of the decision they are about to make.

Taking the above scenario as an example, by quantifying the risk of making a hasty judgment regarding which new accounting system to implement, you begin to construct a foundation of reasoning to support your involvement. Mike has said that he doesn't want to emulate his friends and virtually throw away several hundred thousand dollars. On the other hand, he believes he is walking away from over $130,000 a year in lost profits due to inventory mismanagement ($500,000 in lost revenue times a 75 percent recapture ratio, if a good inventory system were implemented, times a 35 percent gross margin). By your asking the right questions, Mike is allowed to convince himself (which is the most persuasive way) that it is time to take action. While his fear of buying the wrong system is costly, his inaction carries an even higher price tag.

Now that there is adequate information, when you ask for the business, your fees of $10,000 to $50,000 (which might have seemed enormous earlier in the conversation) will be fairly compared to the anticipated results. Through your investigation of the business' needs, you not only significantly reduce Mike's chances of wasting several hundred thousand dollars, but you stop the annual $100,000 plus profit bleeding that is currently occurring.

If we don't quantify the expected results, we cannot create the proper perspective regarding our fees or a high enough level of urgency. Or more simply put, without this required information, you will be "closing on air"—a situation which rarely converts into business opportunity.

In closing, let me say that lack of quantification is the most common failing we find in our work with CPAs across the country. In situation after situation, whether in role-plays or real-life, the results are the same. Once we have identified clients' various concerns, we think it is time to move on. Until clients realize the cost of inaction, however, the price of our involvement doesn't seem justified.

Although Mike's concern about throwing away $200,000 by buying inappropriate technology warrants our suggested work-flow study, without our creating a greater sense of urgency through additional quantification, he will likely do nothing. As he begins to see that his inaction is costing him—in his own words, about $130,000 a year in lost profits—plus lost customers, he realizes that the price he is paying to maintain the status quo is far more than his paralyzing fear of automation.

Conclusion

By quantifying Mike's fear of buying inadequate technology and his loss if he does nothing, you not only justify the price of a thorough investigation of his needs, but you allow him to see clearly that every day he waits carries a price tag too high to pay. Quantification is the key to closing non-traditional business opportunities. ✔

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MARKETING

Business owners are sophisticated and demanding, today. Economic conditions have created a focus on value provided, and the availability of abundant information has expanded their knowledge of business in general. Further, partly as a result of the profession's own educational and marketing efforts, business owners tend to perceive CPAs' services as all being the same, and CPAs themselves as interchangeable with one another.

For example, when we asked firms what makes them different from their competition, the response, typically, was, "We provide top-quality services, our tax department is superb, we care about about our clients, we return calls promptly," and so on. While CPAs think they are different because of these reasons, the business-buying public can't possibly comprehend how the technical expertise so important to the CPA is relevant to the business person's needs. To business owners, only two things really matter—their income and quality of life.

Changes in the marketplace due to the computerization of traditional services, fewer client oportunities because of industry consolidations and the effect of mega stores on local businesses, and greatly increased competitive pressures are affecting all CPA firms. Many have hired or are working with marketing professionals to give them an edge. But when you compare what business owners say they want from their CPA (help with business problems, growth, and strategic planning, and for their CPA to be a sounding board) with what CPAs say they sell in the marketplace (tax return and financial statement preparation, audits, estate planning, litigation support, etc.), you can see there's a problem.

Own your power as a professional

To be successful in this environment requires a different relationship with the client. It requires you to own your power as a professional. To give an example, if your doctor, after a two-hour examination, asked what treatment you thought he should prescribe and what medication you thought you should take, you would find another doctor. But as a CPA, how often do you ask a client or prospect, how frequently you should visit or provide a particular service? And when you give good counsel, are you paid for the value of the result or the time it took you to give the advice?

To the argument that clients don't want to pay for services, we would respond that you probably don't possess the skills, mindset, and training to successfully communicate the value of the services in a way that makes the client anxious to engage you and happy to pay you. In reality, there is a huge market for services that create a result—with willing buyers who focus on their goals, rather than on their purse strings.

A different approach is needed

What is required to provide the requisite level of service is a serious commitment and a major investment in time and energy. The following approach should result in a considerable return on investment, if all steps in the process are applied consistently and efficiently. But before you can begin, you will need to overcome resistance regarding

Change. Most firms say they are open to change but fall short in the implementation. Success in the new environment requires a different type of client relationship, different skills, and a new perspective in terms of service delivery and client acquisition.

Time. It requires a commitment of time to define, design, create, learn, and apply the various processes to achieve the planned result.

Investment. The real investment is not in dollars; it is in learning and using new processes, tools, and ideas. Each participant must challenge his or her beliefs about clients, fees, selling, marketing, and so on. Without direction and support, this is a long and sometimes futile task. Re-focusing the firm will depend on the participation and full cooperation of the partners, principals, and staff.

How to begin

Decide what type of practice you want to grow. Determine what you like to do on a day-to-day basis. Is it exotic tax research? Is it business consulting? The point is, if you are working with a passion, it will dramatically enhance your chances for success.

For example, would your ideal practice involve high-level consulting, such as business valuation or forensic accounting? This type of practice typically offers a narrow range of services and realizes high fees for successful practitioners. Perhaps you are more comfortable number crunching and enjoy compliance work. Here, competition is greater than with a boutique specialty practice, and profitability is predicated upon becoming the lowest-cost producer. A third alternative—one which we at CPA Network believe has great demand in the marketplace—is a profitability consulting practice to the small business community (that is, closely held companies with \$1 million to \$50 million in sales).

Analyze your client base

You need to know which clients offer the most potential. In CPA firms, the eighty-twenty rule tends to apply; that is, 80 percent of your profits come from 20 percent of your clients, and 80 percent of your problems come from another 20 percent of your clients. So, analyze and categorize your client base. A and B clients will comprise the top 20 percent. These are the clients who involve you in their activities, cooperate with you, pay promptly, and are profitable to you. Category A clients also make three or four unsolicited referrals a year.

Category C clients—the bulk of the practice—are apparently satisfied with the level of service they receive and reasonably profitable to you. Nevertheless, there are often opportunities to provide additional support and show these clients that, through good fiscal management, their incomes and quality of life can be greatly enhanced.

Practitioners are often reluctant to challenge clients that are unprofitable to them—category F—because they don't want to lose the revenue stream. But once you have become comfortable being paid for providing high-level services that produce results, you should either upgrade category F clients to those standards or terminate the relationship.

The idea is that instead of just providing a product, you have become responsible for creating results for your best clients. And by providing services that support their goals, you will have a more profitable practice.

Graphically define your services

Using a spreadsheet, list your A and B clients (alphabetically) down the left column. Then, across the top, list every service you are qualified to provide. We did this for one firm, coloring the appropriate box blue if the client received a particular service, and gold if not. The key was the contrast between the blue and gold boxes. The client service opportunities in gold stood out. Do this and you will most likely find an untapped gold mine in your client base, just with the services you currently provide.

Define market niches and services

Review your entire client base to determine whether there are four or five clients in an industry that favors your providing pro-active services. Ideally, there would be other local non-client businesses in the industry.

The niche should be of interest to you personally because its development requires a thorough understanding of clients' needs, industry association involvement, holding profitability workshops, and so on. Finally, you will need to learn to package and sell services that will have significant cash flow impact.

Create a unique selling proposition

Differentiation is essential to market penetration, whether you wish to further develop your current client base, or are targeting a newly defined market niche. CPAs ask how they might get in a position to market services. Our response is that there are opportunities every day with the people you meet. What you have to do is talk about how your services could benefit them.

First, however, you have to see yourself as different—as a CPA who provides relevant services to help clients enhance their incomes and quality of life. Consider the following.

Instead of just telling people you are a CPA, when asked about your profession, say, for example, "I'm a profitability consultant with a different type of CPA firm." The response to that, typically, is, "What makes you different?" This is the question you want to hear because it enables you to use a unique selling proposition describing the specific benefits your firm and individual members of it bring to the business world.

So you might answer that question, "We operate with a different philosophy than traditional accounting firms. Because our services are different, we are not necessarily the right firm for everyone." Then say, "May I ask you a question? If it were possible that this different approach might create a significant impact on your income and quality of life, would you invest one hour of your time to explore it?"

That is personal marketing. It is where you will find the key to growth. Marketing is not mailing brochures and hoping people will come running to your door. It involves developing relationships. It requires determining your position in the marketplace, determining the value of your services, and planning your unique selling proposition. You have to make marketing work for you, rather than letting situations happen to you.

Marketing creates opportunities to sell. Once you have created the opportunity, you must sell clients on the benefits they will derive from engaging your firm.

Super client service

CPAs typically perceive super client service as returning telephone calls promptly and providing accurate and timely information. Our definition of super client service is a relationship that supports clients in realizing their dreams and goals. It means really understanding clients as people and letting them know you understand that their businesses are vehicles to achieving these dreams. It also means letting clients know you will constantly provide advice, services, and resources to help them overcome obstacles in their way. These are value billing services that will realize two to three times what you can obtain for compliance work.

Run your firm like a business

There is no management without measurement. Set specific goals for revenue, number of new clients, number of new services, profitability levels, etc. Create a strategic plan for the firm and individual plans for partners and staff.

Provide tools, training, and support to permit a higher level of service and hold people accountable for implementation of their individual plans and profitability. Track profitability per partner, per manager, and per engagement on a regular basis.

The bottom line

A total change to this service philosophy can take one to three years depending on the size of the firm, the level of commitment to making changes, and the support given to creating and implementing the required training and methodology. It is a major commitment, but those who have taken this approach to marketing are excited about the difference it makes. ✔

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IDENTIFYING AND DEVELOPING NEW SERVICES

We are trying to become a "new methods" firm. In all service areas, new types of producers are entering the marketplace. These new methods firms are finding different ways to satisfy their clients' needs, and already, good clients are starting to migrate to them. This leaves old methods firms competing for a dwindling supply of poor quality clients. At our firm, we realized that unless we could find new ways to help our best clients achieve their goals, we would only be able to compete on price and would eventually lose them.

Our initial step in becoming a new methods firm was to identify our best clients. Our definition of an ideal client is someone who buys most of our services and pays us on time, and is someone we like. So we searched our current client database and selected those who met that criteria. Within that group, a profile emerged—entrepreneurs running companies with $2 million to $20 million in sales. They tended to buy most of our services, pay us on time, and we liked them all.

Our prior efforts at developing and selling new services had been only marginally successful. The problem was our lack of a mechanism to match our services with clients' real needs. We wanted to commit ourselves to serving our best clients better than anyone else could, however, and realized that this would take a more formal approach.

We decided that, at least annually, we would conduct a needs analysis with each ideal client, help clients choose services that satisfied their needs and goals, check to ensure we had exceeded their expectations, and develop or obtain new services that would allow us to accomplish the above.

Our formal process for developing or obtaining the requisite services for our best clients entails our

- Identifying problems and opportunities common to them, where we can be part of the solution.
- Obtaining needed resources through alliances (see exhibit I) to help us understand those problems and opportunities better than the clients.
- Obtaining or developing a solution to one particular problem or opportunity.
- Testing the solution with alliance members and making needed modifications.
- Testing the new service with one or two agreeable clients.
- Taking the results back to the alliance members for further modifications.
- Rolling out the new service as part of our total service package.

Let's go over some of these points using our entrepreneurial clients as an example.

Forming alliances

We found that this group of clients commonly had business problems in three areas: 1) sales and marketing, 2) information technology, and 3) human resources. Specifically, the problems involve their 1) getting ideas for new products and achieving some success with them, but being unsure of how next to proceed; 2) needing to both reduce process costs and use technology more efficiently; and 3) needing to know more about the connection between people and profits.

Because we did not have answers to all of these problems, we found professionals in our practice territory who specialize in the related disciplines and formed alliances with them. In a nutshell, our entrepreneurial clients' problems defined the membership of the alliance.

We use the alliance to develop new products and services that are much more focused than before. Entrepreneurs sometimes have problems ensuring that important things get done first. One service, which we call "holding up a mirror to management" (see exhibit II) gives entrepreneurs a better understanding of their own businesses, helps them define their problems and priorities, and lets them better see their financial picture. We ask clients to analyze their own information and tell us how it compares with their goals and with industry trends. We then hold up a mirror to management by telling them our interpretation of their information and discuss what should be done to close any differences.

Discussion is the key to the success of the service. We ask a lot of tough questions. Tough questions encourage dialogue. This is what clients want.

Letting clients talk

Firms need rainmakers, but not every accountant in a firm needs to be a super salesperson. Generally, clients prefer the person to whom they entrust their financial information to be someone who demonstrates common sense and integrity, and whose expectations are realistic, not overstated.

All we have to do is to let clients talk. We can take our existing auditing processes, which are often inquiry driven, and apply a different set of questions. We need to ask, "How do you make money?" "Are you making enough?" "How do you measure profit performance?" "Why do your customers buy from you and not the competition?" "How do you compare with the competition?" "Do you have any problems hiring and retaining good people?" If they are having problems, then we need to provide some answers.

At many of our entrepreneurial clients' businesses, most employees focus on their own jobs. Other than the internal accountant and the president, the CPA is often the only person who has access to the big picture. And it is the CPA who is best trained to digest the information being generated and compare it with the client's goals. The client wants the CPA to take responsibility for the differences he or she sees.

Training staff

Let's use the "holding up a mirror to management" product as an example of how we train staff.

Essentially, we have a three-year training program. First-year staff members are involved in preparation and learning about financial statements and data analysis, much as they would be in other areas. They have a written description of the program and a checklist, and know what information is needed for the analysis and preparation of the performance template. They set up the meetings, generate key questions we should ask clients, and have their input reviewed by a manager or partner.

In the second year, staff members start attending, as observers, the quarterly client meetings (the "holding up a mirror to management" meetings) where the information they have prepared is presented and discussed, and by the third year, are ready to make some of the presentations themselves. There is considerable prepping for these meetings and detailed discussion of them on our return to the office.

The experience is valuable in demonstrating to staff how accounting really connects with clients' needs. In fact, the program has worked so well that we use it at universities when recruiting. It shows students the entrepreneurial clients with whom we work, the training we offer and how it is scheduled, and the type of work they would do at our firm.

Exhibit I

Forming and Managing Alliances

To obtain the resources you need to compete:

- Identify major problems common to your best clients.
- Identify professionals in your market area that can provide solutions to those clients' problems.
- Form alliances with these providers.
- Hold quarterly meetings with alliance members to discuss solutions to client problems.
- Identify, develop, and manage joint marketing opportunities.

Exhibit II

Holding up a Mirror to Management

To help entrepreneurs better understand their own businesses:

- Meet quarterly with client's management group.
- Conduct a performance-based review of the client's financial information and results.
- Ensure that information generated is relevant and effective.
- Obtain client's opinion and encourage discussion.
- Challenge client's understanding.
- Identify problems and search for solutions.
- Facilitate the formation of an action plan and its enforcement.

Pricing the service

Again, let's use the "holding up a mirror to management" product as an example. We believed this service, which forces management to compare its performance with competitors', should be worth $1,500 per quarter to clients. But when we priced the service at our normal billing rates, we found we could not make money at that price.

We knew we had a good product, but we had to get our costs down. To do this, we simplified the process and made greater use of technology until, finally, we could provide the service at or below our normal billing rates.

So, how do we come up with pricing? We assess the product or service, ask clients what it is worth to them, and then work to reduce our costs so we can make a profit on it.

Our practice philosophy

Our aim is to have our best clients purchase most of our services. In the last three years, the number of best clients has increased by a third, but our fees from them have increased by 50 percent. Our becoming more focused has had a dramatic effect on firm profitability.

The alliances and referral networks have allowed us to reduce our annual advertising and promotion budget from about $46,000 four years ago to $11,000 today. We also don't need to spend money on brochures anymore because our entrepreneurial clients tell their peers what we are doing for them.

It's a formalized program. We force clients to make the connection between what their goals are and what they need from us. We lay this out in a one-page document—their goals, their expectations of how their CPA firm will help them, which services will be performed, by whom, and at what cost.

What it's all about

Identifying and developing new services is all about exceeding clients' expectations. As you begin helping clients understand their businesses better, they want you to take them to a higher level—in current services and new service areas. The work can become quite sophisticated, as time goes by.

The changes in our marketplace from a product-driven focus to a client-driven focus call for customized products. Only a few clients will want off-the-shelf products in their original form. By concentrating on our ideal clients and the problems common to them, the better we can customize products for them. It is a strategy that is profitable for us, because of the commonality of problems and solutions, and one which serves our best clients well. ✔

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Case in Point

THE DIFFICULT ESTATE TAX CLIENT

While many CPAs believe the tax preparation engagement is the least likely to result in professional liability claims, results from the AICPA Professional Liability Insurance Program indicate just the opposite. More claims come from tax preparation engagements than any other practice area. And as the annual assortment of new tax laws is regularly introduced, the opportunities for omissions, errors, and misinterpretations continue.

Yet, as with most areas of malpractice, the implementation of a few basic risk management procedures can help CPAs reduce their exposure to claims. Following is a brief example of a common malpractice event and some risk management suggestions which may help reduce legal confrontations.

The case: A sole practitioner was engaged to prepare his first federal estate tax return. The CPA was introduced to the executrix of the estate, the decedent's sister, by an attorney acquaintance, so the CPA did not think an engagement letter was necessary.

Despite the CPA's frequent follow-up requests, the executrix of the estate often failed to provide necessary information. Additionally, she argued about information such as property appraisals, tried to take deductions for accountant and attorney fees in excess of amounts billed to her, and evaded questions on a foreign investment.

The state tax return was due to be filed on June 1, 1991, but, because of various delays, the return was not completed by the CPA and sent to the executrix until February 10, 1992. She waited until April 20, 1992 to sign the return and send it to the CPA for filling. The total amount due was over $1.1 million, including substantial interest and late-filing penalties. Subsequent discussions with an IRS auditor resulted in a report to the executrix indicating the CPA may have 1) failed to advise the estate that only one six-month filing extension was available, 2) failed to advise the estate about the availability of installment payments, 3) failed to request an extension of time to pay the taxes due, and 4) responded to IRS inquiries in a vague and arbitrary manner.

The CPA was soon discharged and the client filed a malpractice claim against him. Unfortunately, the CPA failed to cover important client discussions and requests for information in writing, so it was difficult to support his assertions about the engagement.

The point: By following some basic risk management guidelines, the CPA may have avoided many of the client's malpractice allegations. For example,

- CPAs should only perform services that they have the experience and training to complete. Estate taxes are particularly complicated and large dollar amounts are often involved, thus, CPAs unfamiliar with the applicable rules and regulations are exposed to significant risks.
- All assignments require a signed engagement letter before the work begins. Don't leave the details for the courts to decide later. Document precisely what services will and will not be performed.
- All important discussions and requests for information should be documented and delivered to the client. Clearly identify all client responsibilities and deadlines in writing. Potential consequences for the client's failure to provide information within the time frames established should also be documented to clients, such as the interest and/or penalties which may accrue.
- Any additional requests to the client for information should also be prepared in writing and contain another statement on potential consequences if information is not provided prior to the established deadlines.
- If a client's integrity is questionable, terminate the relationship immediately. Inform the client in writing and include information about all tax return due dates and the potential interest and penalty consequences if deadlines are not met.

Tax preparation is a vital business segment for many firms, and by following some general risk management guidelines, CPAs can avoid the common malpractice claims often filed by tax clients and keep this service area profitable. ✔

This article should not be construed as legal advice or a legal opinion on any specific factual situation. Its contents are intended for general information purposes only.

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CLIENTS HATE BILLING BY THE HOUR

Now, not too many clients actually say they hate billing by the hour. Typically, they don't think there is any point since it's your business and you decide how to price your services. But the reality is that most clients, are uncomfortable with hourly billing,

This is understandable. Clients don't want to buy an hour of our time. They want to buy a result. They have a goal in mind, be it a completed tax return or a good idea. They don't have much interest in the time it takes to do the job.

Most of us can relate to those sentiments if we consider some of life's other transactions. If we take our automobile in for a tune-up, for example, we are usually more comfortable if we are told that tune-ups are $125.00, plus the cost of oil, than if the mechanic says, "We charge $45.00 an hour but we aren't sure how long it will take."

So, what's a CPA to do when he or she isn't sure how long the job will take? One solution is to break down the engagement into distinct steps and to estimate the time required to complete each part.

A tax return can be analyzed by considering each schedule and determining the volume of transactions in each. If a schedule C is involved, the time calculation would include whether there are accounts to be reconciled and whether there is a lengthy depreciation schedule.

Each schedule lends itself to some measurement and cost determination. The processing costs can be standardized, and the CPA can control and calculate the cost of the interview and return delivery (if a meeting is involved).

Some CPAs may think they don't have time for this type of detail. I would suggest, however, that both the time saved in not beating around the bush about price and the resulting increase in client comfort easily justify taking a few extra steps. And CPAs who adopt this process usually find they become highly proficient at cost estimation and can reduce the time spent at it.

But let's not lose sight of the principle reason we might adopt fixed fees for many (not all) of our engagements—the fact that clients appreciate the certainty of a stated fee, and tend to pay it promptly and almost always without question.

An important aspect of pricing professional services is to be certain the fee is value-based. Simply put, clients will pay a fee when they perceive it represents good value for the service they are receiving.

Usually, clients have some idea of what they are willing to spend for a professional service. The amount may be too high or too low and their reasoning may be off the mark, but one thing you can count on—the sum is probably not based on their estimate of the time it will take you to perform the service.

It is more likely based on what they think someone else paid for a similar service. Or the amount might be related to what they have paid in the past (and here we have to keep in mind that clients aren't particularly adept at factoring in changed engagement conditions).

In the real world, clients have a perceived value of the contemplated engagement, and the CPA needs to relate to that mindset. The CPA's bills, therefore, shouldn't contain any surprises that violate clients' perception of value.

The key to avoiding such surprises is to manage clients' expectations to ensure their perception of value received is in line with the cost of performing the engagement. When this is achieved, clients still have the option of accepting your quoted fee, negotiating with you, or rejecting the fee outright, but the likelihood of billing surprise is eliminated.

If there is a difference between the cost as calculated by the CPA and the value as perceived by the client, the difference can usually be bridged by effective communication. It is far better to do this before expending time on an engagement and then having a blowup over the difference.

At that point, there is no negotiation, opportunity to reduce the scope of the work, limit the role of the CPA, or to consider other options. Far better to resolve problems before expending the hours.

In short, it's best to face reality. Clients hate billing by the hour. Alternatives are available. ✔

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