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Newsletter of the AICPA Consulting Services Section

CPA CONSULTANT

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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

AICPA

Tackling Valuation Issues in the Context of Divorce

By Nancy Fannon, CPA/ABV, CBA, BVAL

With divorce rates up more than 50% nationally, divorce valuation work is fertile ground for business valuers. A significant number of divorces involve the ownership of a family business. Consider further that often at least two valuations are needed for each divorce (one for the husband, one for the wife—and sometimes even a third for the judge!), so it is easy to predict that divorce valuation surely will sustain the CPA profession for many years to come.

Valuation for the purpose of divorce can be one of the most interesting—but surely also one of the most challenging—areas of valuation practice. For many CPAs, a divorce-related engagement is also their entrée into the litigation and business valuation environment, providing an excellent forum for "getting their feet wet."

Despite divorce valuation's being, for many CPAs, the point of entry into the business valuation field, it is really quite complex and extremely sensitive to state and case law in the jurisdiction in which the divorce complaint is filed.

Divorce Valuation Differences

Several issues make divorce valuation "different" from other valuation engagements. Some would argue that valuation for divorce *should be* no different from any other fair market value appraisal. The fact is, however, *it is different*, simply because of the law or legal precedent set in the state. Although practitioners can argue, or at least have an enlightening discussion, about how divorce valuation *should be* done, in many states, such a discussion may be pointless because of precedents set in case law.

Still, however, the door is wide open in many states because there is no consistent legal precedent. In such cases, the CPA can set the rules by presenting a point of view more effectively than the opposing expert. In these states, CPAs need to take particular care to be aware of the issues the courts have grappled with not only in their own states, but also in other states. In this way, they can make informed decisions that enable them to state their opinions clearly and convincingly for the court or other trier of fact.

Some of the issues the valuer needs to grapple with include the definition of marital property, the standards of community property and equitable distribution, the valuation date, the standard of value, the effect of buy-sell agreements, adjustments to financial statements, valuation methodologies, practice and personal goodwill, and covenants not to compete.

What Is "Marital Property?"

In general, marital property includes property acquired during the marriage, regardless of how title is held. It usually excludes property acquired before the marriage or acquired by one spouse but not the other through gift or inheritance. It also excludes property acquired after the valuation date or excluded by a prenuptial agreement.

The marital estate may include increases in the value of otherwise nonmarital property if such increases resulted from marital efforts from the date of the marriage to the valuation date. Often, the CPA's charge in a divorce engagement is to determine not only how much the value has increased during the marriage but also how much of that increase is due to marital effort, not just circumstance, the economy, or the efforts of another key employee. Unfortunately, there is no straightforward, catchall guidance on making this determination. Instead, it is up to the CPA's professional judgment to apply the best methodology to the situation at hand.

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Community Property vs. Distribution

Valuers need to be aware that property distribution laws vary from state to state. States generally follow either the community property or the equitable distribution standard. However, even knowing which standard a state follows may not be enough. States have different rules for characterizing property as marital or separate. Although the characterization does not affect the value of the company itself, it may well affect the manner in which the asset is split among the marital community.

Generally, the concept of community property assumes joint and equal ownership of marital property acquired during the marriage. Depending on the state, the property may get allocated as either separate or marital using one of several methods, some fairly straightforward and some convoluted. Some states include all of the increase in value; some only a portion based on either who held title or the proportion of marital assets used to acquire the asset.

The concept of equitable distribution, which is used more widely, generally divides the marital assets according to relative contributions made by the husband and wife during the marriage. While "fairness" is the goal, there is clearly far more room for latitude here. Taken into consideration in this determination are nonmonetary contributions, such as child-raising and homemaker duties, relative earning power before and after the marriage, and similar considerations.

Valuation Date

As with other matters, the issue of the "correct" valuation date is clearly settled in some states but quite vague and open to interpretation in others. States can differ significantly in the date used for the valuation, and such differences can have a profound impact on the valuation outcome. There is at least one case in which an entire valuation opinion of one spouse's expert was thrown out simply because the wrong valuation date was used.

Dates commonly used include

- Date of separation.
- Date of filing the divorce complaint.
- Date of divorce.

In many states, the date selected depends on the nature of the spouse's involvement with, and effect on, the value of the marital asset. For example, if the wife had a significant impact on the value of her business, but the husband had nothing whatsoever to do with it, then that asset most likely would be valued at the date of separation because that is the date at which joint marital efforts are deemed to have ceased.

Standard of Value

Probably nothing is more controversial in the divorce arena than the selection of the appropriate standard of value. Many forces fuel this controversy, not the least of which is the lack of direction and improper use of terminology in judicial precedent. Many cases make no reference at all to the standard of value used, and many of those that do call it one thing when it is, in fact, something else.

Most practitioners agree that *fair market value* should be the standard used in valuing a closely held business. However, what should be and what is may differ from state to state, so the CPA needs to know the state's judicial precedent.

Some practitioners argue for a standard referred to as either *divorce value* or *value to the*

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Protecting Yourself in Divorce Engagements

The most painful mistake the CPA can make in a valuation engagement for a divorce is to act as an advocate for the client and get caught on cross-examination doing so. It can be difficult not to get caught up in the "team" mentality with the attorney and the spouse he or she represents. Even worse, though, is being tarnished with the reputation of someone who will "give attorneys whatever number they want."

As valuers, we are brought into the divorce situation to act as valuation experts. Notwithstanding the desires of some attorneys to the contrary, our duty is to render an impartial opinion.

Be Consistent

One of the worst things a CPA can do as a valuation expert is to handle a particular matter one way in a case in which he or she is working on the side of the spouse who will retain the business and then the opposite way when working for the side of the spouse who will be giving up the business. The CPA who does so leaves himself or herself open for a tough cross-examination, casting suspicion and doubt over the entire opinion. Before taking the case, the CPA needs to make sure the attorney knows his or her opinions on the issues discussed in this article .

Strong Engagement Letter

Another protection for the CPA is to have a strong engagement letter. No CPA should undertake a valuation engagement without an engagement letter under any circumstances. The CPA's corporate attorney also should review the engagement letter to make sure it is complete and legally sound.

Most valuation professionals require an up-front retainer as well. This is particularly important in the divorce arena where, almost no matter what the valuer does, at least one party will be unhappy with the valuation conclusion. In addition, it's good practice to require payment in full up-front before deposition or trial testimony. ◆

marital community. Using this standard, the hypothetical buyer is replaced with the current marital community, resulting in a form of investment value. This can have a profound impact on the valuation outcome, including the treatment of

- *Personal goodwill*, which some states treat as marital property and others do not.
- *Discounts for minority interest and lack of marketability*, which may have an impact if an actual sale is contemplated but none if the asset is to stay with one spouse.
- *Tax consequences*, which some states would ignore under equitable distribution principles.

The CPA not only must know what divorce case law says in his or her state about standard of value but also really must understand the methodology employed in the valuation. In many states, vague precedents keep the door open to interpretation. The CPA's job—and responsibility—is to know where he or she stands on these issues, so his or her opinion is consistent from one case to the next.

Effect of Buy-Sell Agreements

Before undertaking a divorce valuation engagement, the CPA needs to be sure to understand what precedent has been set in the state—and that the attorney understands it as well! In some states, buy-sell agreements take precedence; in others, they are ignored; and still in others, cases have gone both ways.

Financial Statement Adjustments

As in any valuation, often several adjustments need to be made to the financial statements. The most obvious adjustment is to the owner's salary in cases in which the owner may have drawn too much or too little compared with what a hypothetical buyer would pay a comparable employee. In some states, the issue of the value of the business and the rest of the divorce settlement can become entangled because of the risk of "double-counting" the owner's excess salary by capturing it in both the determination of the value of the business and in the calculation of alimony. The CPA needs to have a crystal-clear understanding of the state's judicial precedent and needs to be sure the attorney understands how he or she is handling this.

Another common—and difficult—adjustment to financial statements arises when the nonparticipating spouse claims the family business produced more money than reported on the company tax returns. A difficult conundrum is raised: If the CPA doesn't include the underreported income, he or she may undervalue the company; if he or she does include it, the spouse (who, no doubt, signed the tax return) risks retribution from the IRS. This is obviously an issue to discuss with counsel and to consider carefully whether and how to include it in the value determination.

Valuation Methodologies

Generally, all methods of valuation that typically would be relevant for a particular ownership

interest are relevant for a divorce valuation—or, rather, should be relevant under a fair market value standard. However, many jurisdictions frown on or outright disallow the use of certain methodologies.

The CPA needs to check what methods have been allowed or disallowed in the jurisdiction and how clear that guidance has been. For example, just because a judge disallowed the use of the discounted future cash flow (DCF) method in one case, it does not necessarily mean that it should not be used in future cases, assuming there is a compelling reason for doing so.

Many divorce cases use the excess earnings method, which is a method many judges like and can understand. In particular, this method is widely used in valuing professional service firms because it provides a value for each of tangible assets and goodwill.

It is critical that CPAs know what is going on in the divorce courts in the states in which they offer valuation services.

Practice and Personal Goodwill

States vary widely in their treatment of goodwill. Some states include it only if it would be "salable" in an actual transaction. Some courts look for the existence of "practice" goodwill, separate from the goodwill associated with a particular owner. Still other states include all goodwill. Most states include practice goodwill but are split on the inclusion of personal goodwill.

- *Practice goodwill* is associated with the entity itself. It takes into consideration such elements as location, qualified workforce, and required licenses (separate from the individual owner).
- *Personal goodwill* is associated with the individual. It takes into consideration the practitioner's age, health, personal reputation, and effort.

Generally, practice goodwill is considered to be "salable," but personal goodwill is not unless there is also an enforceable agreement that either requires the owner to continue working for the practice or prevents him or her from competing with the practice.

Covenants Not to Compete

It is very important that the valuer consider the issue of covenants not to compete in arriving at the value. Covenants not to compete are not marital property in many states. If a considerable part of the value is predicated on or would be allocated to a covenant not to compete with the spouse retaining the business, the CPA needs to be aware that part of the value may not be part of the marital estate.

That is clearly an issue the CPA and client don't want to be blindsided by. Therefore, the CPA needs to understand not only the issue of personal goodwill but also how covenants not to compete are treated in the state.

Finding and Applying Legal Precedents

One thing should be eminently clear by now: It is critical that CPAs know what is going on in the divorce courts in the states in which they offer valuation services. For many CPAs, this is a daunting task.

One of the most powerful tools available for finding case law is the Internet. Westlaw and Lexis/Nexis are both useful resources, but can be costly alternatives, particularly for states with many cases on point. Typically, in searching for cases, the CPA narrows the search to a particular state and uses the words *divorce* or *marital dissolution* along with *company, corporation,* and *stock*. The CPA may want to look further for cases with particular issues and use such words as *goodwill, noncompete agreements*, or *buy-sell agreements*.

If access to Westlaw or Lexis/ Nexis is not an option, the CPA can ask the attorney for assistance. I have found most attorneys to be very helpful in this area, sometimes even providing copies of relevant cases.

What Guidance Takes Precedence?

Generally, state supreme court decisions, as the courts of last resort, provide the primary guidance in resolving the question of how value is determined in the divorce arena. However, the CPA often has to go back to the superior court (sometimes called the trial court) case that led to the appeal in the supreme court to find the details of the guiding information. A notable exception is the State of New York, where the court of last resort is the Court of Appeals.

What to Do With "Bad" Case Law

When engaged to do a valuation, the CPA is asked for an opinion. To render an opinion, the CPA relies on a combination of research and empirical data, coupled with knowledge of business valuation theory and professional judgment. The CPA may disagree with the court decision or may feel that if the valuer in the case had made a more compelling case, the outcome would have been different.

What to do then? Is the CPA bound by bad case law? While the CPA certainly needs to know the judicial precedents set in the state, he or she may find that some of the precedent is predicated on a poorly rendered opinion of value. Whether the CPA relies on that case law is for the attorney—not the CPA—to decide. In some cases, the answer may be no. However, the CPA ought to point such things out to the attorney.

Divorce valuation work can be very challenging because each state and each case has its own set of complications. CPAs need to be sure they

understand these complications in order to be effective. As with many valuation areas, CPAs can be assured there will be plenty of work to go around for a long time. ◆

"Buying Out" a Spouse's Business Share

In almost all divorce cases, the court will award the business to one spouse rather than retain joint ownership. Rarely is a sale or dissolution of the entire business forced by the judge or mediator, who are loath to force the disruption of the family business.

CPAs often are called on to advise on how to get one spouse "out of" the business, as part of the divorce settlement, as well as participate in the proceedings as a valuation expert.

It is sometimes better, however, to refer this work to another CPA. The reason is that, if a CPA who opines on an entity's value is called back to testify or further opine on the valuation, his or her continued impartiality (or lack thereof) can be called into question.

Planning the Buyout

In structuring the transaction, planning and proper wording of the divorce decree are crucial. Attorneys, even those who regularly play in this field, are often woefully ignorant of and unprepared for the tax ramifications.

Generally, either the retaining spouse directly acquires the stock, or, more commonly, the corporation redeems the stock. If the corporation is acting on behalf of the spouse who is retaining the business, the courts have determined that the spouse whose stock is redeemed escapes tax liability on the amount received under the redemption. The spouse who retains the interest in the corporation likely will be viewed as receiving a constructive dividend.

However, there is room for wide latitude in the wording of the divorce document, which could cause the tax burden to shift to the nonretaining spouse. It also could result in a case in which neither spouse is taxed on the redemption.

The exclusion from gross income, found under section 1041 of the Internal Revenue Code, applies to transfers between former spouses "incident to divorce." A transfer is incident to divorce if (a) the transfer occurs not more than one year after the date on which the marriage ceases or (b) the transfer is related to the cessation of the marriage.

If the redemption of the stock is found to satisfy the nonretaining spouse's obligations under the divorce decree, then the redemption will likely be nontaxable under section 1041. The *Ames* case (*Ames* v. *U.S.*, 981 F.2d 456 CA9, 19M) further found that the retaining spouse did not receive a constructive dividend (even though the redemption of his wife's shares was found to be nontaxable) because his guarantee of, and the subsequent redemption of, her shares did not relieve him of his "primary and unconditional" obligation under the divorce decree.

In many cases, it is wise to suggest that the attorney include language indemnifying the client in the event of any unforeseen tax consequences. ◆

Capitalizing on Your Business Valuation Skills

CPAs who are skilled providers of business valuation services can exploit that expertise to market their services by acquiring the Accredited in Business Valuation (ABV) designation.

To earn the ABV designation, a candidate must take a written examination. Eligibility to sit for the written examination requires that the candidate be a member in good standing of the AICPA, and hold an unrevoked CPA certificate issued by a recognized state authority, and provide evidence of ten business valuation engagements that demonstrate substantial experience and competence.

The next ABV exam will take place on Monday, November 6, 2000. Applications are due by August 31, 2000.

For more information, visit the ABV page of the AICPA Web site (**www.aicpa.org/members/div/mcs/abv.htm**) or contact the ABV program coordinator at mfeldman@aicpa.org.

For information about programs providing training in business valuation, see "New Business Valuation Training Programs" on page 13. Programs in business valuation fundamentals are available along with advanced programs. ◆

Practice Opportunity: Moving Clients From Compliance to Business Ethics Programs

"The concept of business ethics is remarkably old and remarkably current. I cannot open a newspaper and not find a topic of interest that has application to business ethics," said Joan Elise Dubinsky as she started her presentation, "Compliance and Ethics: Tales From the Corporate Trenches," at the AICPA Fraud Conference in Washington, D.C., September 13–14, 1999. Dubinsky directs the Rosentreter Group, Kensington, Maryland, which provides consulting and other services associated with business ethics, corporate compliance, and human resources.

Organizations with ethics programs see improved employee morale and reduced attrition.

According to Dubinsky, business ethics creates an environment for "straight talk" about how we conduct business. Straight talk means employees can ask questions ("But, Boss, is that exactly the right thing to do?"), get answers, and challenge assumptions. Business ethics helps employees solve ethical dilemmas.

When Dubinsky works with companies, she finds employees are eager to talk about dilemmas and about the real questions they have that impede them from doing the best job possible.

Dubinsky looks at ethics as a management tool. "If you train managers to think about the ethical dimensions of their jobs," she said, "you'd be amazed at the increase in employee retention, morale, and improved decision making." It is difficult, however, to persuade a CEO, the audit committee, or the board of directors that a business ethics initiative will provide a return on investment. No available statistics say that each dollar invested in an ethics program gives a measurable return. Nevertheless, Dubinsky believes such a program helps a company conduct business properly, reduce the risk of wrongdoing, and provide employees with a safety valve.

The Doctrine of Relative Filth

Some corporate wrongdoers practice what Dubinsky calls "the doctrine of relative filth" when they excuse their unethical behavior by saying to themselves, "I'm not as bad as the guy down the street." Among the many barriers to right action—denial, arrogance, bottom-line mentality, and excuses such as "I don't have enough time"—the doctrine of relative filth "trumps them all," said Dubinsky.

Dubinsky cited an organizational example of the doctrine involving a conflict-of-interest problem. In the client organization, a major purchase involved a kinship relationship: The employee placed the order with a vendor who was her brother-in-law. She should have disclosed the relationship and should not have been involved in placing the bid. That is pretty much the standard rule in purchasing.

After Dubinsky and her colleagues investigated the situation, they asked those involved why they had made those decisions. The employee was quick to respond with denials: The rules didn't apply to her, it was a small purchase, and no one was harmed by it. Her supervisor said in all seriousness, "I don't have to take responsibility for my employee's actions that are below my expectations."

Why do corporate managers have to think about ethics and compliance? "Because the world is changing," said Dubinsky. "Society expects it, the law expects it, and employees expect it."

Among the benefits of a business ethics program is the likelihood that an employee whistleblower will report wrongdoing to managers rather than go outside the company. Organizations with ethics programs also see improved employee morale and reduced attrition. Studies conducted and underwritten by the telecommunications company Nortel have found that customer loyalty is linked to how customers view an organization's ethics. Furthermore, Dubinsky said, "Companies with ethics programs have an easier go of it when the prosecutor knocks at the door."

Federal Sentencing Guidelines

Many organizations established programs to comply with the 1991 Federal Sentencing Guidelines for Organizations, which prescribed penalties for corporations held criminally liable for violations of the law. The guidelines established the following elements as the bedrock of a compliance program:

- The appointment of a high-ranking individual as compliance officer.
- Clear rules and guidance.
- Communication, education, and training.
- An employee response mechanism.
- A place to go to make complaints, seek advice, or ask questions.
- Monitoring activities to determine the program's effectiveness.

The federal sentencing guidelines, however, provide direction for a compliance program, not an ethics program. Ethics and compliance are parallel but not identical. Compliance focuses on the rules. It's a legal discipline that examines what happens when things go wrong and determines the penalties.

A compliance program doesn't eliminate misconduct or provide an absolute defense against prosecution. It does, however, help to reduce illegal activity, provide reporting mechanisms, and support investigations. More impor-

tant, especially in environmental and antitrust issues, an effective compliance program generally results in more favorable prosecutorial treatment. The Department of Justice Antitrust Division has indicated that it may not pursue criminal charges against organizations it believes are involved in minor antitrust violations if they have effective compliance programs in place *and* if those perpetuating the illegal activity are not high-ranking corporate officers.

The bases of ethics programs are shifting from compliance to business conduct to values (see the chart below). A compliance program is rules based; its purpose is to reduce legal risk. Often, the compliance officer is called the *designated defendant,* and compliance is motivated by legal considerations and the fear of litigation. It's very hard to get employees excited about this type of program because it is based on fear. Employees are savvy, especially younger employees. They're not going to change their behavior to comply with a program designed to keep the CEO out of jail.

"I have trouble," Dubinsky said, "saying to a prospective client, 'The reason you need a compliance program is that today you're thinking about committing a crime and you're worried about lessening your penalty.' It's not an effective way of describing the importance of thinking about business conduct."

Compliance vs. Ethics

Ethics, on the other hand, is a moral or philosophical discipline. Ethics describes moral conduct—how you want people to behave. "Ethics programs," said Dubinsky, "do not create philosophers or elaborate decision-making protocols, and they don't insulate your judgments from challenge. But they do help employees recognize, appreciate, and resolve the ethical dilemmas they face everyday on the job. And they show people how to use corporate values in decision making.

Generally, a formal ethics program is directed by an ethics officer, an individual who reports to the CEO, a board committee, or an executive level operating committee. The high level oversight is required so that the ethics officer has a safety valve to resort to in the event he or she is asked to address ethics concerns at the highest levels of the corporation.

Most organizations adopt a formal code of conduct, which can be anywhere from one to several pages. Values statements are not enough. Many organizations have values statements. They say to employees, "Here are our company values: loyalty, patriotism, trust, fairness, justice, integrity. Management encases them in Lucite and sticks them on the wall, but most individuals can't remember them because they don't come alive. Values statements don't help employees with business conduct. A formal ethics program with a code of conduct does, however," said Dubinsky.

The code must be readable, user friendly, and easy to navigate. The ethical values promulgated in the code need to be supported by examples of proper on-the-job behavior.

One organization defined its values through multiple focus groups involving 4,000 employees. The result was a set of statements that say, for example, "I show stewardship when I honor the donor's intent about the use of the donated funds." "My boss shows trust when she allows me to do my work without micromanaging me." Such statements make values come alive and show employees how to apply them every day.

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Ethics Programs Elements: Shifting From Compliance to Conduct to Values

Compliance	Business Conduct	Values
Focus on rules.	Focus on how business gets done.	Focus on primary organizing principles.
Risk reduction.	Interaction with stakeholders.	Values viewed as management tools.
Designated defendant.	Stakeholders include customers, communities, funding sources, and employees.	Dealing with moral choices, ambiguities, and judgment calls.
Motivated by legal considerations and fear of litigation.	Based on cultural concerns and organizational development.	Based on training and development, human resources, and human capital.

Source: The Rosentreter Group

Communication and Training

An organization cannot over-promote its business ethics program. Various methods—speeches, posters, handouts, presentations, wallet cards, brochures, and other ways—get the message out so the program gets down to the shop floor.

Generally, organizations provide two kinds of training. There is usually a topic-based curriculum covering such compliance topics as antitrust, gathering business information, conflict of interest, and procurement integrity. In addition, companies provide training in thinking through ethical dilemmas and resolving complex business issues. This becomes part of the core management development or leadership development program. This approach enables managers to appreciate, recognize, and resolve workplace dilemmas. Managers trained in ethical decision making learn how to make decisions and explain those decisions even though they may not be popular.

To further ensure ethical behavior, organizations are revamping their hiring processes to recruit individuals who support their values. They are also installing hot lines and help lines and implementing guidelines and other mechanisms for employees to bring up questions. Many companies are finding that employees are losing interest in hot lines: Call usage is dropping. They're finding the response is better if they switch the focus slightly by making the 800 number a guide line or an advice line for the employee to call before taking an action. Employees say they don't need confidentiality or anonymity; they want to know what the rule is.

Programs often start with a focus on compliance as a way to reduce legal risk. Programs that focus only on values tend to falter. Companies need to adopt programs that integrate the best aspects of compliance, values, and business conduct. ◆

When Corporate Compliance Programs Are Not Enough

The existence of a compliance program to deter corporate fraud can help a corporation, if not to escape prosecution, at least to be treated with leniency in the event of conviction for wrongdoing. In fact, the U.S. Federal Sentencing Guidelines allow for mitigation of punishment for corporations with such programs. Nevertheless, the programs must be effective, not merely props.

Federal Prosecution of Corporations, recently published by the U. S. Department of Justice, offers guidance to federal prosecutors bringing criminal charges against businesses with corporate compliance programs. It includes the factors to consider in deciding whether to bring charges or negotiate plea bargains with corporations:

"Compliance programs are established by corporate management to prevent and to detect misconduct and to ensure that corporate activities are conducted in accordance with all applicable criminal and civil laws, regulations, and rules. . . . However, the existence of a compliance program is not sufficient, in and of itself, to justify not charging a corporation for criminal conduct undertaken by its officers, directors, employees, or agents. Indeed, the commission of such crimes in the face of a compliance program may suggest that the corporate management is not adequately enforcing its program. In addition, the nature of the crime (e.g., antitrust violations) may be such that national law enforcement policies mandate prosecutions of corporations notwithstanding the existence of a compliance program.

"The critical factors in evaluating any program are whether the program is adequately designed for maximum effectiveness in preventing and detecting wrongdoing by employees and whether corporate management is enforcing the program or is tacitly encouraging or pressuring employees to engage in misconduct to achieve business objectives. The Department has no formal guidelines for corporate compliance programs. The fundamental questions any prosecutor should ask are: 'Is the corporation's compliance program well designed?' and 'Does the corporation's compliance program work?' In answering these questions, the prosecutor should consider the comprehensiveness of the compliance program; the extent and pervasiveness of the criminal conduct; the number and level of corporate employees involved; the seriousness, duration, and frequency of the misconduct; and any remedial actions taken by the corporation, including restitution, disciplinary action, and revisions to corporate compliance programs. Prosecutors should also consider the promptness of any disclosure of wrongdoing to the government and the corporation's cooperation in the government investigation.

"Prosecutors should therefore attempt to determine whether a corporation's compliance is merely a 'paper program' or designed and implemented in an effective manner. In addition, prosecutors should determine whether the corporation's employees are adequately informed about the compliance program and are convinced of the corporation's commitment to it. This will enable the prosecutor to make an informed decision as to whether the corporation has adopted and implemented a truly effective compliance program that, when consistent with other federal law enforcement poli-

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The monumental problems fraud causes continue to plague the business world. Headlines cry out exposing companies accused of "accounting trickery" . . . "deceitful disclosure" . . . "deceptive practices" . . . "inadequate due diligence" . . . "financial reporting irregularities" . . . "restatement of earnings" . . . or "fraud of historic proportions." Both print and broadcast journalists relish detailing the specifics. The SEC shows no tolerance for the company executives involved. And fraud defense is becoming a vital niche practice for attorneys. All this attention signifies a need for CPAs and other financial professionals to take a proactive approach to detecting and preventing fraud.

Definitive help to do just that is a simple two-day investment of your time. Time spent attending the **fifth annual AICPA National Conference on Fraud** . . . this year in a partnership effort with the **Institute of Internal Auditors (IIA)**. Your participation at this key industry event will give you the newest tools, techniques, and strategies to improve your expertise and increase your revenue potential in this critical arena. Filled with crucial new data, this year's program has been enhanced to include a wealth of interactive, industry-focused sessions to help you identify, manage, and detect fraud . . . and then build internal controls to prevent it.

Get insider's information on all aspects of fraud from respected experts and key newsmakers including:

- Mark Morze — the "creative accountant" in the now infamous ZZZ Best case
- Robert Hare — author of *Without Conscience: The Disturbing World of the Psychopaths Among Us,* a book exploring the motives of these dangerous people
- Valerie Caproni — SEC regional director and financial fraud guru
- Philip Desing and James Trimbach — FBI Academy authorities on money laundering
- Larry Pozner — the highly skilled defense attorney who very often protects the "presumed guilty"

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at breakfasts, luncheons, breaks, and most especially the "Meet the Pros" reception on Thursday evening. You'll chat with your peers from coast-to-coast as well as key specialists in government, Web security and e-commerce, financial statement preparation, Accreditation in Business Valuation (ABV) awareness, forensic computing, interviewing techniques, and fraud indicators.

September 21–22, 2000
Caesars Palace, Las Vegas, Nevada
Recommended CPE credit: 16 credit hours
September 20, 2000 (Optional Workshop) Recommended CPE: 4 credit hours

Las Vegas

Build a solid foundation for your continuing fraud studies.
Attend the special optional workshop scheduled for Wednesday, September 20, 2000 — just prior to the **2000 AICPA/IIA National Conference on Fraud**.

"Conducting a Fraud Investigation: The Basics You Need to Know" is a must for newcomers to the world of fraud examination and forensic auditing. It's designed to enhance the value of your complete conference experience by adding depth to your understanding of the subject. Created for those with little or no previous experience, this half-day series of sessions presents the fundamental elements of fraud investigation and offers suggestions for developing your forensic practice with tips and techniques for getting, conducting, and completing a fraud investigation mandate. It defines the role of the forensic accountant; documents how to conduct investigations; details the rules you can know without being an attorney; and explains how to write the report and present your findings.
Recommended CPE: 4 credit hours

Conference attendees

- CFOs, internal auditors, and other financial professionals in industry who must know how to identify, detect, investigate, report, and manage fraud and then construct and implement internal controls to prevent it
- CPAs in public practice who handle auditing or financial reporting and must know how to identify and detect fraud, advise clients about the problem, and help them to solve it.
- CPA consultants who investigate and report fraud, quantify losses, serve as expert witnesses, and undertake litigation engagements

Conference objectives

- Deliver the collected intelligence of specialists in fraud investigation, identification, reporting, and deterrence in four carefully designed session level tracks: Technical, Advanced, Intermediate, and Mixed Bag.
- Supply up-to-date guidance and practical advice on the latest advances and challenges in fraud detection and management, internal control procedures, digital analysis technology, and more.
- Offer the latest strategies for calculating fraud damages, applying investigative techniques, and alerting management to fraud . . . both suspected and detected.
- Demonstrate how to apply complex analytical techniques, scrutinize online consumer transactions, explore public databases, conduct advanced interviews and face video depositions, address Benford's law and Daubert challenges, and analyze written statements.

Don't delay!
Register by June 30, 2000 . . . and save $75!
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Preliminary Agenda

(Session topics are subject to change.)

Optional Workshop Wednesday, September 20, 2000

101. Conducting a Fraud Investigation: The Basics You Need to Know (SK)

12:00pm– 1:00pm	Registration and Message Center Open
1:00pm– 1:45pm	The Role of the Forensic Accountant
1:45pm– 2:30pm	Conducting the Fraud Investigation
2:30pm– 2:45pm	Refreshment Break
2:45pm– 3:30pm	Knowing the Rules Without Being an Attorney
3:30pm– 4:15pm	Writing the Report
4:15pm– 5:00pm	Presenting Your Findings

Day One Thursday, September 21, 2000

7:45am– 5:30pm Registration and Message Center Open

7:45am– 8:10am 1. **Introduction and Welcome**

8:10am– 9:50am 2. Keynote Address: How I Falsified Documents and Fooled Them All . . . for a While, Mark Morze (SK)

9:50am–10:20am Refreshment Break

10:20am–11:35am **Concurrent Sessions** (select one)

- T 3. Fraud and the Auditor: Best Practices, Fables and Fallacies (AU)
- A 4. Anatomy of a Fraud (AU)
- I 5. Financial Statement Fraud: Identification and Resolution (AU)
- M 6. The Ponzi Legacy (SK)

11:35am– 1:30pm 7. **Lunch and Speaker:** White Collar Psychopaths, Robert Hare (SK)

1:30pm– 2:45pm **Concurrent Sessions** (select one)

- T 8. Fraud Issues Relevant to E-Commerce (SK)
- A 9. Advanced Interviewing Techniques (SK)
- I 10. Financial Statement Fraud: Identification and Resolution (AU) (Repeat session #5)
- M 11. Corporate Espionage: Primer (SK)

2:45pm– 3:15pm Refreshment Break

3:15pm– 4:30pm **Concurrent Sessions** (select one)

- T 12. Fraud Issues Relevant to E-Commerce (SK) (Repeat session #8)
- A 13. Advanced Interviewing Techniques (SK) (Repeat session #9)
- I 14. Fraud Checkup and Prevention (AU)
- M 15. Analyzing Written Statements (SK)

4:30pm– 5:30pm **Reception**

Day Two Friday, September 22, 2000

7:00am– 7:30am 102. Strategic Directions for the Profession (SK)

7:30am– 4:20pm Registration and Message Center Open

7:30am– 8:45am **Concurrent Sessions** (select one)

- T 16. Web Sites for Fraud Investigator (SK)
- A 17. Money Laundering (SK)
- I 18. Benford's Law — Investigations Using Digital Analysis Technology (AU)
- M 19. Fraud Checkup and Prevention (AU) (Repeat session #14)

8:45am– 8:55am Change Break

8:55am–10:10am **Concurrent Sessions** (select one)

- T 20. Using Computers in Fraud Investigation (AU)
- A 21. How to Ruin Your Career in a Daubert Challenge (SK)
- I 22. Teaming Up to Tackle Trouble: Combining the Audit and Legal Efforts (AU)
- M 23. Anatomy of a Fraud (AU) (Repeat session #4)

10:10am–10:30am Refreshment Break

10:30am–11:45am **Concurrent Sessions** (select one)

- T 24. Public Databases (SK)
- A 25. Avoiding Minefields When Conducting Internal Investigations (SK)
- I 26. Benford's Law — Investigations Using Digital Analysis Technology (AU) (Repeat session #18)
- M 27. Using Computers in Fraud Investigation (AU) (Repeat session #20)

11:45am– 1:30pm 28. **Lunch and Speaker:** For the Defense, Larry Pozner (SK)

1:30pm– 2:45pm **Concurrent Sessions** (select one)

- T 29. Network Security: What Really Goes Wrong (SK)
- A 30. The Dos and Don'ts When Preparing to Give a Video Presentation (SK)
- I 31. Public Databases (SK) (Repeat session #24)
- M 32. Making the Most of Electronic Evidence (SK)

2:45pm– 3:05pm Refreshment Break

3:05pm– 4:20pm **Concurrent Sessions** (select one)

- T 33. Network Security: What Really Goes Wrong (SK) (Repeat session #29
- A 34. Corporate Sentencing Guidelines and Compliance Programs (SK)
- I 35. Quantifying Losses (SK)
- 36. How to Ruin Your Career in a Daubert Challenge (SK) (Repeat session #21)

4:20pm Conference Adjourns

Session Levels: T Technical A Advanced I Intermediate M Mixed Bag

Fields of Study: (AU) Auditing (SK) Special Knowledge

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Conference fee includes all sessions, conference materials, 2 continental breakfasts, 2 luncheons, refreshment breaks and a reception. Hotel accommodations and other meals are not included. Please note there is no smoking during conference sessions. Suggested attire: Business casual.

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THURSDAY, SEPTEMBER 21, 2000

Time				
10:20am – 11:35am	☐ 3	☐ 4	☐ 5	☐ 6
1:30pm – 2:45pm	☐ 8	☐ 9	☐ 10	☐ 1
3:15pm – 4:30pm	☐ 12	☐ 13	☐ 14	☐ 15

FRIDAY, SEPTEMBER 22, 2000

Time				
7:00am – 7:30am	☐ 102			
7:30am – 8:45am	☐ 16	☐ 17	☐ 18	☐ 19
8:55am – 10:10am	☐ 20	☐ 21	☐ 22	☐ 23
10:30am – 11:45am	☐ 24	☐ 25	☐ 26	☐ 27
1:30pm – 2:45pm	☐ 29	☐ 30	☐ 31	☐ 32
3:05pm – 4:20pm	☐ 33	☐ 34	☐ 35	☐ 36

WEDNESDAY, SEPTEMBER 20, 2000 — OPTIONAL WORKSHOP (additional fee)

1:00pm – 5:00pm ☐ 101

4948-051 5/00

cies, may result in a decision to charge only the corporation's employees and agents."

A Framework for Prosecutors

The guidelines may help practitioners working with clients in setting up programs to reduce fraud or other criminal activity and to minimize the effect of prosecution if such activity takes place.

The other guidelines in the document concern

- The nature and seriousness of the offense, including the risk of harm to the public.
- The pervasiveness of wrongdoing in the corporation, including the complicity in, or condoning of, the wrongdoing by corporate management.
- The corporation's history of similar conduct, including prior criminal, civil, and regulatory enforcement actions against it.
- The corporation's timely and voluntary disclosure of wrongdoing and its willingness to cooperate in the investigation of its agents, including, if necessary, the waiver of the corporate attorney-client and work-product privileges.
- The existence and adequacy of the corporation's compliance program.
- The corporation's remedial actions, including any efforts to implement an effective corporate compliance program or to improve an existing one, to replace responsible management, to discipline or terminate wrongdoers, to pay restitution, and to cooperate with the relevant government agencies.
- Collateral consequences, including disproportionate harm to shareholders and employees not proven personally culpable.
- The adequacy of noncriminal remedies, such as civil or regulatory enforcement actions.

The complete document is available at **www.usdoj.gov/criminal/fraud/policy/Chargingcorps.html**. For further reading on corporate ethics, including a list of resources, see "Practice Development Opportunity: Corporate Ethics Audits," by Bruce N. Lowery, CPA, in *CPA Management Consultant* July/August 1997. For a copy of this article, e-mail wmoran@aicpa.org. ◆

Family, Nonfamily Managers Disagree on Core Values

Family and nonfamily managers in the same family business disagreed in their perceptions of the business's predominant cultural values 70% of the time, according to a study by Richard Brandt, PhD, and Stan Beecham, PhD, of Corporate Psychology Resources in Atlanta.

They administered William Schneider's 68-item organizational culture and alignment indicator to 198 key family and nonfamily managers in 22 businesses that belong to Kennesaw State University's Family Business Forum. The responses allowed the identification of four core organizational cultures: collaboration, control, cultivation, and competence. Each of these cultures predisposes an organization toward varying management styles, goals, and characteristic approaches to human interaction. The instrument helps to identify an organization's core culture and indicates the extent of alignment among management in relation to the company's culture.

The typical business surveyed had more than 50 employees, has been in business for more than 25 years, and was led by second- or third-generation family executives.

They exhibited a wide range of core values:

- Collaboration—44%.
- Competence—19%.
- Cultivation—15%.
- Control—7%.
- No pattern—15%.

Collaboration culture stresses synergy, close partnerships with employees and customers, team building, trust, and adaptability. Competence stresses superior performance, knowledge, competition, training, and incentives. Cultivation stresses enrichment, employee growth, constant change, belief in a cause, creativity, and inspirational leadership. Control stresses certainty, predictability, structure, authority, and objectivity.

Family managers were more likely than nonfamily managers to perceive collaboration as the predominant culture. More nonfamily managers than family managers perceived that the use of power, decision making, selection, and promotions are based on control.

Brandt recommends that companies invest time in clarifying core values for both family and nonfamily managers.

For more information about the study, contact Richard Brandt at Corporate Psychology Resources, Inc. at 404-266-9368.

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Differentiation: The Key to Sustaining a Competitive Edge

The differentiation approaches used by accounting and consulting firms require other approaches to follow up and sustain the effort.

A variety of forces have dulled the competitive edge many CPA and consulting firms have enjoyed in the past. These firms are being challenged by the commoditization of services and the entry of new players into the arena, along with clients seeking new services to help cope with ever-changing markets. "We are moving from a seller-driven market to a buyer-driven market," said Joe Forehand, managing partner and CEO of Andersen Consulting, as he introduced his company's strategic plan on April 19, 2000.

Most firms—large, mid-size, or small—are well aware of these challenges. Many are responding to them, and some have succeeded in regaining a competitive edge. But it hasn't been easy.

In response to the challenges, many firms have pursued differentiation. Their success so far—and going forward—depends on several variables, according to the findings of a recent survey of professional service firms by Concord, Massachusetts-based Expertise Marketing.

The report, *Differentiation: How Are Professional Service Firms Using It to Compete?* presents detailed findings related to the four industries with the largest number of survey respondents(architecture/engineering/construction [A/E/C], accounting, consulting, and general contractors). Accounting firms most frequently used the following differentiation approaches last year

- Hiring specialized individuals (67%).
- Improving or evolving current services (61%).
- Increasing prices (60%).
- Adding new services that blend into the services of another industry (for example, providing litigation services) (58%).
- Reorganizing practices or lines of business (53%).

(See the chart on page 11 for a list of the differentiation approaches used last year and the percentage of respondents selecting each.)

Consulting firms also most frequently chose the approaches of improving or evolving their current services (56%) and reorganizing practices or lines of business (51%). Their other most frequently chosen approaches included:

- Repackaging current services (59%).
- Developing a new positioning (51%).
- Using new techniques and tools to "deliver" services (for example, printed reports delivered via CD-ROM) (43%).

The approaches expected to be used in the future differ somewhat from those used last year.

What Worked

The report does not detail the success of accounting and consulting firms in using these differentiation approaches. Instead, the report presents all survey respondents' estimates of the success of the differentiation approaches used. Survey respondents rated only one of the approaches most frequently used by accounting firms (adding new services that blend into the services of another industry) as a "high success" approach. For consulting firms, two of their most frequently used approaches were rated as "high success" approaches: repackaging current services and developing a new positioning.

Commenting on differentiation choices made by survey participants, the report concluded: "The actual impact of any differentiation approach depends on the situation. . . . The greatest market impact will be obtained from differentiation approaches that create a sustainable uniqueness that has true value for the client." The objective most often cited by respondents in choosing differentiation approaches was "to look distinct against competitors." The approaches most frequently selected suggest they are making "substantial" changes that will effect "real changes," the report concluded.

Going Forward

The differentiation approaches used by accounting and consulting firms require other approaches to follow up and sustain the effort. Accounting firms indicated most frequently that they would continue to hire specialized individuals (56%), increase their training of professionals to follow their proprietary methodologies (56%), and continue to improve or evolve current services (55%). Slightly more firms plan to enter into joint ventures, alliances, or referral networks with firms that extend their services (up to 51% from 49%). Significantly more will use new techniques and tools to "deliver" services (49%). The latter approach and other "image burnishing" approaches, the report concluded, are logical follow-ups of more effective approaches used in the last year and can be "highly effective" for firms "with a sustainable, advantageous uniqueness." However, "in the absence of a sustainable uniqueness, their effectiveness may be questionable" because service delivery techniques are easily copied.

Consulting firms also plan to increase joint ventures, alliances, or referral networks with firms that extend their services (up to 53% from 37%). Improving or evolving services will continue to be very important; 56% plan to use this differentiation approach in the future. Somewhat increased will be hiring of specialized individuals (39%) and training professionals in their proprietary methodologies (43%). Fewer firms will reorganize practices or lines of business (31%).

continued on page 12

Use of Differentiation Approaches in the Past Year (Accounting and Consulting Firms and All Industries)

Differentiation Approaches	Accounting	Consulting	All Industries
Improve or evolve current services	61%	56%	68%
Reorganize practices or lines of business	53%	51%	55%
Enter into joint ventures, alliances, or referral networks with firms that extend our services.	49%	37%	53%
Hire specialized individuals.	67%	37%	53%
Add new variables to our prices	44%	41%	46%
Repackage current services.	39%	59%	43%
Use new techniques and tools to "deliver" our services.	33%	43%	42%
Train professionals to follow our proprietary methodologies.	40%	39%	40%
Develop a new positioning.	42%	51%	40%
Add new services that are within our industry.	45%	35%	40%
Create a new visual identity.	42%	37%	36%
Communicate our firm's positioning through a new motto or tag line.	42%	33%	34%
Implement a formal relationship management program to strengthen our bonds with current clients.	23%	29%	29%
Embark on a public relations campaign.	23%	25%	29%
Increase our prices	60%	29%	29%
Increase the speed of our service delivery.	23%	16%	27%
Create new divisions of subsidiary companies.	53%	8%	265
Embark on an advertising campaign.	28%	20%	22%
Add new services that blend into the services of another industry.	58%	6%	22%

Source: Expertise Marketing, Concord, Massachusetts (**www.expertisemarketing.com**)

Solving Problems

Asked what was the single most difficult problem encountered in implementing differentiation plans in the past year, 65% of respondents indicated three problems:

- Required more time and effort to implement than expected (29%).
- Never got fully integrated throughout the organization (21%).
- Was more difficult to communicate to outside publics than thought (15%).

To implement a differentiation approach, it "must be credible and powerful to clients," the report concluded. Incomplete or incorrect assumptions or information will cause roadblocks. "The very nature of a professional services firm—with people as the 'product'—requires a rigorous internal consensus-building and communication effort."

In implementing differentiation, survey respondents advised patience, persistence, and realism. A plan with a timetable is needed and progress must be monitored. All elements of the organization must buy into the plan. Resources must be allocated with the expectation that more money probably will be needed. ◆

Coping With Change

A Review of Who Moved My Cheese? An Amazing Way to Deal with Change in Your Work and in Your Life *by Spencer Johnson, MD (The Putnam Publishing Group, 1998)* ISBN: 0399144463.

Hubert D. Glover, CPA

Hubert D. Glover, CPA, of PricewaterhouseCoopers, Atlanta, is a member of the AICPA Consulting Services Executive Committee.

Fortunately, we all survived the Y2K and new millennium hysteria and can settle down into the twenty-first century. But settling is just what we, as accounting professionals, cannot afford to do today, when change is at the speed of light.

Phenomenal economic events and changes have occurred in the last few months, not to mention the last decade. Consider, for example, the planned merger of America Online (AOL) and Time Warner. *The Wall Street Journal* noted that AOL is not old enough to buy beer but has the financial strength to acquire one of the nation's largest media and entertainment enterprises.

In two years, we have gone from a record-setting merger of $63 billion when NationsBank acquired Bank America to the $164 billion AOL–Time Warner merger. In fewer than eight years, the bull market raised the Dow Jones industrial average (DJIA) from 3,000 to beyond 11,000. Furthermore, during the twentieth century, the DJIA member companies changed completely except for General Electric. Most of the industrials have been replaced by financial, technology, and retail services companies, symbolizing the nation's shift from an industrial economy to an information economy.

At a recent meeting of The Group of 100, an advisory body established to assist the AICPA with strategic decisions for 2000 and beyond, one speaker observed this phenomenon regarding market value and asset value: The world's largest automaker, General Motors, has an asset value of more than $260 billion and market capitalization of less than $45 billion while Microsoft has market capitalization of more than $400 billion and less than $20 billion in assets. Clearly, our historical costing model must change to embrace this economic reality of market value. The AOL–Time Warner merger validates the tangible worth of such market value.

The CPA's Changing World

Within the accounting profession, change has been monumental. In 1996, for the first time consulting revenues exceeded accounting and auditing revenues for the then-Big Six and most of the top 100 accounting firms. During the same year, the Top 100 firms included consolidators American Express and H&R Block. Since 1996, the Big Six has become the Big Five, and, more important, they no longer refer to themselves as *accounting firms* but as *consulting* or *professional services firms*. In this century, as we seek to redefine our role as business advisers, the key issues that will continue to prevail are non-CPA ownership, technology, and maintaining value and relevance.

The AICPA has been effective in anticipating change proactively through efforts such as the CPA Vision Project, which produced the strategic focus for the twenty-first century. In addition, the AICPA took the lead in promoting assurance services in response to the demand for nonattestation services. These initiatives among others indicate that the AICPA has already embraced change and is providing guidance for the membership to respond effectively to the changes in the profession and the overall business community.

Like it or not, our world is changing and as CPAs we must embrace change and lead our clients, organizations, students, and the business world successfully through each stage. This is where our value exists, and this is how we will be measured.

The Joy of Change

Adapting to the changes required of us often is difficult. Fortunately, a friendly, humorous, and

succinct guide to adapting to change is available in Dr. Spencer Johnson's *Who Moved My Cheese?*. More important, it helps you realize that change is an eminent part of life, and thus we must embrace—in fact relish—the opportunity to navigate successfully through cycles of change.

A plethora of books provide guidance on organizational change. *Who Moved My Cheese?* offers perhaps a unique opportunity to focus on change and the individual rather than change and the organization. Few other books provide insight on how to look within and cope, embrace, and enjoy change.

Who Moved My Cheese? is a simple parable that reveals profound truths about change. It is an amusing and enlightening story of four characters who live in a maze and look for cheese to nourish them and make them happy. The cheese is a metaphor that can represent our careers or our companies' positions in the marketplace. For CPAs, the cheese can symbolize our traditional services, and the movement of the cheese parallels the pronounced changes in our profession and careers. The maze in the story represents our environment and demonstrates the challenge of surviving through ongoing changes.

The characters in the story are faced with unexpected change. One set of characters (two mice named Sniff and Scurry) effectively anticipates and responds to change while the other set of characters (two humans, Hem and Haw, who are "little people") denies recognition of change. The two in denial eventually split as Haw finally acknowledges change and becomes a prophet who writes what he has learned from his experiences in coping with and, in fact, learning to love change.

Haw writes: "When you come to see 'The Handwriting on the Wall,' you can discover for yourself how to deal with change, so that you can enjoy less stress and more success (however you define it) in your work and in your life."

Who Moved My Cheese? is available in both paperback and unabridged audio book. The paperback is good for easy future reference, while the one-hour audio book is ideal for group sessions—for example, participants can listen and discuss the book at company retreats. This may offer opportunities for CPA consultants to help clients navigate their changing environments.

Once you read this book, your perspective on change will change and that is where growth can begin. ◆

New Business Valuation Training Programs

"For many CPAs, a divorce-related engagement is also their entrée into the litigation and business valuation environment," said Nancy Fannon, CPA/ABV, in her article on page one of this newsletter issue. Divorce valuation is among the topics highlighted in the new business valuation fundamentals program and is the subject of an advanced program as well. Practitioners can expand their understanding of the business valuation body of knowledge by attending two new three-day basic programs cosponsored by the AICPA and state societies: *Fundamentals of Business Valuation–Part-1 (FBV1)* and *Fundamentals of Business Valuation–Part-2 (FBV2)*. For the experienced business valuation practitioner, the AICPA and state societies offer ten one-day advanced business valuation programs across the United States. Call 888– 247–3277 for complete descriptions, dates, and locations (for FBV1 and FBV2, extension 8256; for advanced courses, 8253; and for course content, 8216).

Basic Programs

Fundamentals of Business Valuation–Part-1 (FBV1) provides an introduction to the valuation process and focuses on the most accepted approaches to valuing a company. Program highlights include AICPA and USPAP standards; quantitative and qualitative analysis of the company; the income approach and specific risk; valuation of ESOPs; divorce valuation; and valuing the professional practice.

Fundamentals of Business Valuation–Part-2 (FBV2) builds on the skills developed in Part I. Its highlights include asset-based approaches; the market approach; models used to estimate discount and premium valuation adjustments; reconciling alternative indicators; quality valuation report writing; and providing litigation support.

Advanced Programs

Advanced Analysis of Discounts and Premiums (BVA-ADP) focuses on the conditions affecting the marketability of a company including

- Analysis of discount for lack of marketability studies such as restricted stock and IPO studies and costs of floatation.
- Analysis of minority interest and control premium studies and publications.
- In-depth discussion of other important discounts including the key person-thin management discount; the investment company discount, blockage; market absorption; voting vs. non-voting; the small company risk discount; lack of diversification; and Rule 144.
- Review of selected court cases.
- Valuation of limited partnerships.

Advanced Research and Analysis (BVA-ARA) addresses the research and analysis critical to any valuation engagement and provides the tools for the application of either the income, asset, or market approaches to business valuation including

- Importance of data gathering.
- External and internal data gathering.
- Advantages of electronic data gathering.
- General search strategies.
- Economic research.
- Industry analysis.
- Guideline company analysis.
- Financial statement data.
- Sources of data for the market approach.
- Data sources for rates of returns, premiums, and discounts.

Valuing ESOP Companies (BVA-ESOP) outlines the mechanics of organizing, funding, and operating an ESOP and uses a market approach to valuing a company for ownership or termination. Topics include

- Basic features of ESOPs.
- Valuation methodology for ESOPs.
- Leveraged ESOPs.
- Valuation of S corporations.
- Best practices for creating value.
- Litigation and case histories.

Using Ibbotson Associates Publications in Private Firm Valuations (BVA-IBBOT) uses Ibbotson Associates' methodology to derive discounts and capitalization rates for private firm valuations. Topics include

- The strengths and weaknesses of Ibbotson's equity risk premium methodology and other potential equity risk premium methodologies.
- Ibbotson's small capitalization premium and incorporating it into either the CAPM or build-up methodologies.
- Minority discount in Ibbotson's equity risk premium data.
- Size and industry data resources.

Valuation Issues in Divorce Settings (BVA-VID) focuses on the critical issues in divorce-related engagements and provides the tools for an expanded litigation services practice. Program highlights include

- Data-gathering, discovery, and forensic accounting issues in divorce proceedings.
- Discussion of jurisdictional differences in acceptable valuation methodologies.
- Professional practices: professional vs. practice goodwill.
- Understanding attorney-client and CPA-client professional relationships.
- Pension valuations and providing assistance with implementation of court orders.
- Successful expert testimony and deposition strategies.
- Federal and local rules of evidence.

International Business Valuations: Overview and Methodologies (BVA-IBV) compares the tools and techniques used in valuing a U.S. business with those necessary to value off-shore operations. It addresses the adjustments needed to incorporate the regulatory, economic, and cultural conditions in industrialized as well as market countries; key factors affecting dollar-based and national currency rates of return; and the legalistic approach to financial and tax disclosures. Program highlights include

- Differences in financial, economic, and cultural environments, and their effect on the qualitative analysis of companies.
- The necessity for alternative methods of developing discount rates, such as World CAPM (WCAPM).
- Key factors affecting the specific adjustments required to adapt the WCAPM properly to the subject company.
- Dollar-based vs. national-currency-based discount rates.
- Specific issues for developing discount rates in countries with and without formal capital markets.
- Issues related to the company's and investor's domicile.
- Processes of analyzing political risks and researching problems in non-industrialized countries.
- Examples of emerging market company valuations.

Healthcare Industry and Medical Practice Valuation (BVA-HC) uses transactional and asset-based approaches to value medical practices and other healthcare providers. Topics include

- Basic healthcare valuation concepts.
- The healthcare regulatory environment.
- Data-gathering issues.
- Valuation methodology: discounted cash flow, transactional and asset-based approaches.
- Issues related to industry-specific marketability and discounts.
- Case study analysis.

Market Approach: Advanced Guideline Company Analysis (BVA-MA) focuses on the market approach to determine value. Attendees learn how to locate and screen guideline company data in relation to a specific valuation target; understand the effect of control on the marketability of the stock; and explore fundamental differences when applying a valuation multiple derived from publicly traded equity markets to a closely held enterprise. Program highlights include

■ Overview of the market approach to valuation.

■ Data gathering and sources of market transaction data.

■ Application of acquisition data and public company multiples to specific targets.

■ Analysis of guideline companies to determine applicable multiples.

■ Issues related to using the market method of valuation in control environments.

■ Application of the market method in a detailed case study.

Computing the Cost of Capital (BVA-ROR) focuses on the techniques to develop, apply, and defend calculations of rates of return. It uses classic approaches to determining the weighted average cost of capital and determine appropriate risk premiums or discounts. Topics include

■ Build-up models.

■ Capital Asset Pricing Model (CAPM).

■ Three-factor analysis and three-stage discounted cash flow analysis.

■ Weighted average cost of capital (WACC).

■ Calculation and selection of risk premiums.

■ Proper use of beta.

■ Sources of information.

■ Proper applications of discounted cash flow and capitalization rates, such as historical information.

■ Typical incorrect information used to develop discount and capitalization rates, such as historical information.

■ Applications for both minority and control valuations.

Small Business Valuation Case Study (BVA-SBCS) applies the tools and techniques discussed in the preceding courses to a small business valuation engagement. Program highlights include

■ Critical issues inherent in small company valuation engagements.

■ Planning the appraisal engagement.

■ Data-gathering issues and valuation methodologies in small business settings.

■ When not to use public company multiples.

■ Issues related to small business marketability and discounts.

■ Small business case study analysis and report writing. ◆

American Arbitration Association Seeks Panelists

The American Arbitration Association (AAA) and the AICPA are offering qualified CPAs an opportunity to provide alternative dispute resolution services. Each year, the AAA assists thousands of business people in resolving disputes with vendors, customers, and employees. In many cases, the parties would benefit if the panel included an arbitrator with accounting and financial knowledge.

CPAs as Neutrals

The AAA and the AICPA have joined to expand the Association's roster of neutrals with CPAs who have broad knowledge of a particular industry and have extensive, in-depth experience in providing professional services to it. The AAA has more than one hundred different industry panels. If you've developed an industry niche, there's a good chance an AAA panel will match your knowledge and experience.

In addition to demonstrating expertise in a particular industry, a good arbitrator candidate must possess sound judgement, high integrity, and a judicial temperament. An arbitrator also must be able to listen well, understand the issues discussed, and decide the matter in accordance with the evidence and testimony presented and the contractual agreement of the parties. Arbitrators must be impartial in fact and appearance. Previous experience as an arbitrator is not required.

The process for applying to be an arbitration panelist is as follows:

■ The individual submits a detailed résumé to the AICPA by September 1, 2000 for consideration by an evaluation team of volunteer CPA arbitrators. The résumé must describe clearly the candidate's history and experience as a CPA and provide in-depth information about the individual's experience in providing services to a particular industry.

■ Candidates selected by the team of CPA arbitrators are nominated for appointment to the AAA.

■ Nominated CPAs complete an application sent to them by the AAA and pay a $150 filing fee (regularly $300).

■ The AAA processes the application and appoints the candidate to an industry arbitration panel.

■ Within six months of being accepted to the panel, the arbitrator must complete a 24-hour course consisting of eight hours of home study and sixteen hours of classroom participation in a workshop setting. In rare cases, based on observation of an individual's role-playing in the workshop, the AAA may determine that he or she lacks the temperament for arbitration.

■ In the second year of panel membership, the panelist must successfully complete a sixteen-hour practicum on advanced case management techniques.

Once a person is on the AAA's roster of neutrals, that person's name is included on lists of panelists that the AAA sends to parties in dispute. The parties select the arbitrators from the lists. The AAA makes the selection only if the parties can't agree. All AAA arbitrators set their own fee, which is included in the information sent to parties.

If you'd like to be considered for AICPA nomination to be an arbitration panelist with the AAA, please *mail* a detailed résumé as previously described to Monte Kaplan, AICPA, Consulting Services Team, 1211 Avenue of the Americas, New York, NY 10036. If you have any questions, please contact Mr. Kaplan. Phone: (212) 596-6061; E-mail: mkaplan@aicpa.org. ◆

Strategic E-Business Forum Being Held

The AICPA Strategic E-Business Forum is designed to help CPAs understand fully how to provide e-business consulting for their clients. It also will teach firms how to update their practices with emerging technologies. This forum will be held July 10-11 in Chicago. Register by June 10 to save $50 and receive a free copy of Chuck Martin's bestseller, *Net Future: The 7 Cyber Trends that Will Drive Your Business, Create Wealth and Define Your Future* (New York: McGraw-Hill, 1998).

For further information or to register, call 1-888-777-7077 and mention code G50099 or go to the AICPA Web site at **www.aicpa.org/conferences**. ◆

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