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CPA

MANAGEMENT CONSULTANT

WHAT'S INSIDE

"A friendship founded on business is better than a business founded on friendship."

— John D. Rockefeller, Jr.

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

AICPA

Breaking Up Is Hard To Do: Corporate Divorce

by Robert M. Quinn, CPA

In a recent survey, owners of privately held businesses were asked to identify the five best and the five worst things they ever did in their business careers. One thing appeared on both lists: the taking of a partner. We all know that approximately 50 percent of marriages end in divorce but few recognize at the outset that many "corporate marriages" also break up and partners "divorce." The initial attitude that "we're in this together for better or for worse," all too frequently does not provide a mechanism for conflict resolution. Absent a well-drawn-up stockholder's agreement analogous to a "prenuptial agreement" that provides for financial settlement in the event of separation—and not just because of unexpected death—the business marriage is frequently headed for "corporate divorce."

Most business people are aware that many of our best known technology companies such as Microsoft and Apple Computer were founded by two partners who are no longer together. Few realize, however, that this is not a new or unusual phenomenon. Century old institutions were also started by partners. How many of our children will remember that Sears was once Sears Roebuck? The conflict of egos, disagreements about credit for success or blame for failure, the ability of the business to support several owners, health and personal issues, and divergent life styles and other interests—all too often lead to friction and ultimately to a corporate divorce.

Corporate Contention

Even the CPA with extensive experience with partner buy-outs will find that no two corporate divorces are alike. While most corporate divorces are due to conflict over credit for the success or blame for the failure of the business, many other reasons or issues can be involved. I represented a client in a corporate divorce that involved successful businesses. The conflict was between the partner in charge of operations who was on call twenty-four hours a day and the partner who was office manager but was not on call. Unfortunately, the differences in their salaries did not reflect their different responsibilities. This was not a problem when the business was barely meeting payroll, but became a problem when S-corporation distributions exceeded base salary. The resulting bitterness festered in the operations partner and would not be addressed by the administrative partner until their divorce was the only option.

In another assignment, the conflict resulted from one partner's just taking time off for golf and sailing without advising his partner. Taking advantage of the absences, employees would ask one partner and then the other until they got the

CONTINUED ON NEXT PAGE

answer they wanted. In another corporate divorce, the conflict was over the amount of S-corporation distributions reinvested in the business by the partner with substantially higher compensation as determined by an independent committee of the Board. Much of the reinvestment was needed to fund growth. He felt that he was providing, over a period of years, a disproportionate portion of the capital necessary to develop the business and therefore was entitled to additional equity, not just interest.

Robert M. Quinn, CPA, is president of Certified Financial Advisors, Inc., Franklin Lakes, NJ. He is co-chair of the Litigation Support Subcommittee of the New Jersey Society of CPAs.

Just as in a marital dissolution, a corporate divorce can be amicable or it too can be a "war of the roses." The issues in a corporate divorce parallel the issues in a marital dissolution: Although the corporate divorce does not focus on who gets the kids, the house, support and alimony, and the like, it still needs to resolve issues related to severance pay, disposition of clients (in a professional service firm), and enforcement of restrictive compete covenants. Many of the emotional issues are similar to those experienced in the breakup of a marriage, occasionally leading to vindictive and irrational behavior, and frequently to litigation.

The CPA's Role

In such situations, the CPA can be an invaluable advisor. Recent surveys have placed the CPA as the most trusted business advisor and someone a business owner is likely to turn to in the case of a corporate divorce. Before accepting such an assignment, however, the CPA should consider three issues:

1. Identification of the client and understanding of the assignment. Is the client the company, one of the owners, or a group of owners acting in concert? If the client is the company, or all of the owners, is the CPA acting in the role of an arbitrator or mediator? Is the assignment to value the company or to structure a buy-out, or both?

2. The independence of the CPA. Can the CPA, particularly if the company is a client, represent all, and in some cases any, of the parties at interest? Perhaps so in an amicable buy-out that is analogous to a mediation but even then there can be great potential for real or perceived favoritism to one party related to past or future loyalties. In a corporate divorce in which litigation is being considered or is a possibility, the CPA should be especially sensitive to real or potential conflicts of interest.

3. The need for legal advice and counsel. All parties to a corporate divorce should be aware of their rights and options under existing stockholder, partnership, or other agreements, and under minority oppression statutes and case law dealing with adversarial corporate divorces. This usually requires the input of competent legal counsel and extensive collaboration with the CPA, especially when the divorce is not entirely amicable. By working with counsel, the CPA creates an opportunity to demonstrate to lawyers the important role of a qualified CPA in such disputes, thereby developing valuable sources of referrals.

Before undertaking a corporate divorce assignment, the CPA should consult the AICPA consulting services special reports related to professional standards and conflicts of interest in litigation services. (See the sidebar "Consulting Services Special Reports Related to AICPA Professional Standards" on page 3.) It is especially important to consult these publications if the assignment is adversarial and there is significant possibility of litigation.

Skills Required

As with any other assignment it is essential that the CPA be both competent and objective. A corporate divorce is one of the most difficult assignments for a CPA to undertake. Emotion is always involved and the issues are multidimensional. There is usually no clear answer and one cannot refer to published reference material for an authoritative solution because each situation is unique to the circumstances of both the individuals and the business. The expertise required in a corporate divorce assignment includes skills in accounting and other areas, such as:

- Tax
- Business valuation
- Projections of profitability and cash flow
- Minority oppression and employment law
- Estate planning
- Business succession planning
- Pension and benefit programs
- Alternative dispute resolution
- Sale, liquidation, and dissolution of business

In addition, the CPA needs skills in:

- Understanding personal circumstances and interests
- Negotiating strategy and techniques
- Lateral thinking and objectivity to avoid deadlock

The CPA also needs to be prepared to conduct extensive research and analysis and to expect that preparation will be considerable.

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The CPA's Contributions

The advantages of retaining a CPA in a corporate divorce are obvious. Besides being a trusted business advisor, the CPA has the benefit of experience with many different businesses and financial transactions. The qualified CPA will possess a background and expertise in the areas indicated above and will be of invaluable assistance to the individuals and the business that will invariably have to fund the buy-out. He or she will consider not only the value of the business but also its ability to fund the buy-out, the effect of the form and structure of the buy-out on the income taxes to be paid by both the business and individuals, and several other issues. The CPA will have to consider current and pending tax laws that may influence the timing of the transaction and the taxability of any installment sale payments. Other important considerations include such issues as the continuation of medical and other benefits, estate taxes, and the ability to secure payments under consulting or similar agreements.

The CPA's experience in related areas of due diligence reviews, business valuations, and even forensic investigations are of invaluable assistance to any client in an adversarial divorce. In any engagement, the CPA will have to obtain and analyze important documents, such as stockholder agreements, partnership agreements, articles of incorporation, by-laws, employment contracts, past stockholder transactions, and loan agreements. The CPA may also play a role in a resulting corporate dissolution, which could include a sale or liquidation of the company requiring yet another set of skills that the qualified CPA can provide.

The obvious best solution to a corporate divorce is a well drawn stockholder's or "prenuptial agreement" which provides for the possibility of divorce. Even in an amicable divorce or one that is being effectuated under an existing agreement, the early input of a CPA can be very valuable. For example, the tax deductibility of non-compete agreements has changed and such payments must now be amortized over fifteen years rather than deducted when paid. Reductions in capital gains tax rates and other changes in the tax laws may not have been contemplated at the time of the original agreement and these issues may therefore need to be revisited.

When a corporate divorce is adversarial, even if it is not quite a "war of the roses," the advice of a qualified CPA is absolutely essential because breaking up can be very hard to do, and even harder to do well. ◆

Consulting Services Special Reports Related to AICPA Professional Standards

In any "corporate divorce" engagement, the CPA will find it helpful to consult the AICPA Consulting Services Special Report 93-1, *Application of AICPA Professional Standards in the Performance of Litigation Services*, and Special Report 93-2, *Conflicts of Interest in Litigation Services Engagements*. These publications offer guidance on the issue of conflicts of interest, as well as the standards of professional competence, due professional care, planning and supervision, sufficient relevant data, and other areas including serving the interest of the client.

Special Report 93-1 states:

> Litigation services are consulting services provided by CPAs and . . . adherence to the SSCS [*Statement on Standards for Consulting Services*] is required. The general standards contained in rule 201 of the AICPA Code of Professional Conduct apply to litigation services . . . .

The general standards cover:

- Professional competence
- Due professional care
- Planning and supervision
- Sufficient relevant data

Consulting Services Special Report 93-1 also states:

> In addition to the general standards, specific consulting standards apply to the consulting process and are established by the SSCS under rule 202 of the AICPA Code of Professional Conduct. These standards concern serving the clients' interest, entering into an understanding with the client, and communicating with the client.

Special Report 92-2 relates to conflicts of interest in litigation service engagements involving potential or pending litigation or dispute resolution proceedings with a trier of fact. The Report stresses the need to maintain integrity and objectivity:

> In a litigation services engagement, a conflict of interest exists when a CPA's ability to objectively evaluate and present an issue for a client will be impaired by current, prior, or possible future relationships with parties to the litigation. As a professional, the CPA should avoid engagements that involve conflicts of interest.
>
> The criterion for evaluating whether a conflict of interest is involved in a litigation services engagement is the ability of the CPA to maintain integrity and objectivity as described in the Statement of Standards for Consulting Services. . . .
>
> The rule provides, however, that if this significant relationship is disclosed . . . , and they consent to the CPA's acceptance of the engagement, the rule shall not prohibit the performance of professional service. ◆

— Robert M.Quinn, CPA

Even Well Thought Out Stockholders' Agreements Can Wind Up in "Divorce Court"

Even a well thought out stockholders' agreement can lead to a contested divorce. I was involved in a case in which there were four partners with one partner more equal than the others. Ownership was divided 40/20/20/20 percent to reflect both their initial contributions to the business and to provide a mechanism for conflict resolution. The dominant partner controlled as long as he had the support of one of the other three. He was held in check, however, by virtue of the fact that the other three partners could collaborate and outvote him. The seemingly inevitable problem arose from two directions. One area of conflict was a second business intended as a 50-50 joint venture start-up between two "techies" and the four original partners but structured as an S-corporation and owned individually (25/25/20/10/10/10 percent) for tax reasons.

This led to a "Benedict Arnold" situation in which one of the original partners and a 10-percent owner of the joint venture switched allegiance to the techies, thereby creating 60/40 voting blocks. Disputes arose largely related to the ego issue of who deserved credit for success, the techies who developed the software or the industry suppliers that sold it. This conflict was further complicated by changes in lifestyles and personal interests of the original stockholders once the businesses were successful.

Resolution of this situation, in which I represented the 40-percent and one of the 20-percent stockholders, took several years and several steps. Ultimately it was resolved as follows:

- One of the original four stockholders sold his interest in the original business on an amicable basis. For estate tax purposes the stock was purchased by the children of the remaining stockholder, and a three-year noncompete agreement (at the time, deductible when paid) was entered into between the business and the seller.
- The Benedict Arnold 20-percent stockholder was terminated under the shareholders' agreement, which provided a valuation formula with a five-year payout in the event of termination. This was done because, from a cash-flow standpoint, the company could not afford a second three-year payout. An independent appraiser valued the agreement to determine the portion of the purchase price applicable to the treasury stock and the portion related to the noncompete provision of the stockholders' agreement.
- A minority oppression lawsuit was brought by my clients, 20-percent and 10-percent owners of the joint venture. This ultimately led to a court-mandated valuation and, after many negotiations, to the purchase of my client's interest in lieu of a court-ordered auction of the business. (The business ultimately failed.)

Surprisingly, now that the control and emotional issues are behind them, all four original partners are still amicable partners in the related real estate partnership formed to acquire, on very favorable terms, the building occupied by the original business. ◆

— Robert M.Quinn, CPA

Sheldon H. Eveloff, CPA, CISA, is a management consulting partner of Goldenberg Rosenthal Friedlander, LLP, Philadelphia, PA. He is chairman of the Technology Conference Committee of the Pennsylvania Institute of Certified Public Accountants.

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The Office of the Future: The Growth of Technology

Sheldon H. Eveloff, CPA, CISA

The office of the future holds much promise. Computer hardware has historically provided more power at less cost. This trend will continue as computer hardware becomes cheaper, faster, and smaller.

Computer software has not advanced as rapidly as computer hardware. Software currently does not take advantage of features in the latest computer hardware, especially the ability to do several things at once. Software will begin to take advantage of these features. We will also see advancements in compatibility between database systems and a continuing trend toward more user-friendly software.

Emerging Technological Trends

Several emerging technological trends will have a direct effect on future offices. Optical storage is a virtual reality now. More widespread networks will develop. Artificial intelligence will help executives retrieve information more easily without becoming computer experts. Voice recognition technology offers promise, but it is still in its infancy.

Although the outlook is bright for the office of the future, there are factors that indicate limits to growth. Historically, most organizations follow a growth pattern that indicates that technology explodes onto the scene, but inevitably levels off. This is borne out by the fact that we are not absorbing technology at the same rate as it is growing. Therefore, a technology gap is developing. These factors indicate that we may not be prepared to take full advantage of technological advancements as we

AICPA

February 20, 1998

AICPA MCS SECTION DATABASE PEER EXCHANGE PROGRAM UPDATE

SECOND REQUEST

If you have already responded, please discard this questionnaire and accept our thanks for participating in this member service.

Dear AICPA MCS Section Member:

Most CPA consultants recognize that because of the increasingly complex business environment and a more competitive marketplace, clients may have service needs that the practitioner cannot satisfy because he or she does not have the necessary experience or training to provide that service. In other cases, practitioners may have difficulty addressing a technical or professional issue related to an engagement. Or, some practitioners may overlook MCS practice growth opportunities because either they are unfamiliar with a particular industry or they do not recognize the core skills required for a particular service.

One important way to meet these challenges is to network with your fellow CPA consultants and learn from their experience. Since its inception, the AICPA MCS Membership Section has facilitated networking through its Member Database Peer Exchange Program. Hundreds of members have contacted their colleagues in the section to seek advice, assistance, or engagement referrals.

It is important to maintain the program's usefulness by periodically updating the database to keep it current with new technical service and industry experience areas. **Please assist us by completing the attached *revised* member profile form and forwarding it as soon as possible to AICPA, Market Research Team, Harborside Financial Center, 201 Plaza Three, Jersey City, NJ 07311–3881.** Because we are actually reconstructing the database from scratch, we request that you submit a ***revised*** profile form even if you submitted an original form when you first joined the MCS section.

Please note that the program will be available online this year. MCS section members will be able to access the MCS section profile database directly through a password-protected members only section of the AICPA website, *AICPA Online* (aicpa.org). Members who do not actively participate in the electronic environment will still be able to use the mail or fax routes to request and receive information.

Thank you in advance for participating in this member service. We will continue to identify products and services to enhance your consulting practice.

Sincerely

Monte N. Kaplan

Monte N. Kaplan
Technical Manager
AICPA MCS Team

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MANAGEMENT CONSULTING SERVICES
SECTION MEMBER SURVEY

Name: ______________________ AICPA Member #: ______________________

Firm/Company: ____

Address: ____________________ City: ______________ State: ________ Zip: ________

Telephone: ____________________ Fax: ________________ E-Mail: ______________

1. The state in which you work: (6–7)
2. Do you wish to have your profile in the MCS Section database? (36–37)

Yes, for: (Check either or both) | **No**

1 ☐ Information exchange | 1 ☐

2 ☐ Service Provision

3. The MCS Section has a member database and referral program through which its members can contact one another to exchange information or services. So that we may update our database, please indicate below with check marks those technical areas and industries in which you feel qualified to assist other practitioners with specialized information or services.

Note: Even if you answer "no" to question 2, we would appreciate your completing this question. The information will be used to develop statistical data and for practice aid development projects.

(KP: No check = blank; check =1)

TECHNICAL AREAS

Administrative Services

(38) ☐ Asset Protection
(39) ☐ Office Automation
(40) ☐ Office Planning/Design/Utilization
(41) ☐ Policy/Procedure Manuals
(42) ☐ Records Management
(43) ☐ Time and Billing Systems
(44) ☐ Other ______________

Finance and Accounting

(45) ☐ Banking
(46) ☐ Budgeting
(47) ☐ Capital Investment Analysis
(48) ☐ Cash Management
(49) ☐ Cost Accounting
(50) ☐ Credit and Collection
(51) ☐ Financial Feasibility Studies
(52) ☐ Financial Forecasts and Projections
(53) ☐ Financial Modeling
(54) ☐ Financial Planning
(55) ☐ Financial Ratio Analysis
(56) ☐ Forensic Accounting
(57) ☐ Intangible Assets
(58) ☐ Offshore Financing
(59) ☐ Profit Planning
(60) ☐ Public and Private Offerings
(61) ☐ Taxes
(62) ☐ Valuations and Appraisals
(63) ☐ Other ______________

Government Administration

(64) ☐ Contract Procurement
(65) ☐ Government Contract Administration
(66) ☐ Government Health Care Regulations
(67) ☐ Grant Management Evaluation
(68) ☐ Municipal Government
(69) ☐ Utility Rate Analysis
(70) ☐ Other ______________

General Management

(71) ☐ Business Turnaround
(72) ☐ Buying/Selling a Business
(73) ☐ Business Planning
(74) ☐ Corporate Policies and Objectives
(75) ☐ Contract Management
(76) ☐ Business Process Re-Engineering
(77) ☐ Cost Reduction
(78) ☐ Crisis Management
(79) ☐ Family Business
(80) ☐ Feasibility Studies
(81) ☐ Insurance Reviews
(82) ☐ Internal/External Benchmarking
(83) ☐ ISO 9000
(84) ☐ Management Reports and Controls
(85) ☐ New Business Start-ups
(86) ☐ Obtaining Funds
(87) ☐ Organization Development
(88) ☐ Organization Planning and Structure
(89) ☐ Operations Management
(90) ☐ Performance Measurement
(91) ☐ Profit Improvement Programs
(92) ☐ Public Relations
(93) ☐ Regulatory Compliance (OSHA, GMP, etc.)
(94) ☐ Standards Manual
(95) ☐ Succession Planning
(96) ☐ Total Quality Management
(97) ☐ Turnaround Management
(98) ☐ Other ______________

Human Resources

(99) ☐ Actuarial Services
(100) ☐ Attitude/Behavioral/Psychological Studies
(101) ☐ Compensation Planning
(102) ☐ ESOP and Appraisal

(103) ☐ Employee Compensation
(104) ☐ Executive Compensation
(105) ☐ Executive Development
(106) ☐ Executive Recruiting
(107) ☐ Gainsharing
(108) ☐ Health Care Cost Management
(109) ☐ HMOs and PPOs
(110) ☐ Human Resource Information Systems
(111) ☐ Human Resource Planning
(112) ☐ Job Evaluation and Rating Systems
(113) ☐ Management Development
(114) ☐ Outsourcing
(115) ☐ Performance Evaluation
(116) ☐ Personnel Policies and Procedures
(117) ☐ Personnel Recruiting/Selection/ Placement
(118) ☐ Relocation Management
(119) ☐ Retirement Planning
(120) ☐ Strategic Planning
(121) ☐ Supervisory and Employee Training
(122) ☐ Other ____________________

International Operations

(123) ☐ Export
(124) ☐ Joint Ventures
(125) ☐ Licensing
(126) ☐ Marketing
(127) ☐ Mergers and Acquisitions
(128) ☐ Multinational Company Policies and Strategies
(129) ☐ Patents and Trademarks
(130) ☐ Privatization/Divestiture
(131) ☐ Technology Transfer
(132) ☐ Training
(133) ☐ Other ____________________

Information Technology and Systems

(134) ☐ Accounting Systems
(135) ☐ Computer Networking
(136) ☐ Computer Security
(137) ☐ Data Communications
(138) ☐ Disaster Recovery
(139) ☐ EDP/MIS Audit
(140) ☐ Equipment Evaluation and Selection
(141) ☐ Information Technology Strategic Planning
(142) ☐ Management Information Systems
(143) ☐ Microcomputer Software
(144) ☐ Microcomputer Systems Implementation
(145) ☐ Systems Design
(146) ☐ Telecommunications
(147) ☐ Turnkey Installations
(148) ☐ Windows 95 Setup and Maintenance
(149) ☐ Other ____________________

Manufacturing Administration

(150) ☐ CAD/CAM/CAE
(151) ☐ Facilities and Capabilities Studies
(152) ☐ Facilities Planning
(153) ☐ Gainshare Plans
(154) ☐ JIT Inventory Systems
(155) ☐ Maintenance Management
(156) ☐ Manufacturing layout
(157) ☐ Plant Site and Selection
(158) ☐ Product Development
(159) ☐ Production Controls
(160) ☐ Production Planning and Control
(161) ☐ Productivity Improvement
(162) ☐ Quality Assurance
(163) ☐ Warehouse Planning/Utilization
(164) ☐ Work Measurement and Standards Development
(165) ☐ Other ____________________

Marketing

(166) ☐ Advertising and Sale Promotion
(167) ☐ Competitive Analysis
(168) ☐ Franchising
(169) ☐ Industrial Marketing
(170) ☐ Licensing
(171) ☐ Market Research
(172) ☐ New Product/Services Development
(173) ☐ Sales Forecasting
(174) ☐ Other ____________________

Materials Management

(175) ☐ Inventory Management
(176) ☐ Materials Handling
(177) ☐ Purchasing
(178) ☐ Resource Recovery
(179) ☐ Other ____________________

Other Specialties

(180) ☐ Alternative Dispute Resolution
(181) ☐ Anti-Trust
(182) ☐ Arbitration
(183) ☐ Bankruptcy & Troubled Businesses
(184) ☐ Business Brokerage
(185) ☐ Business Valuation
(186) ☐ Construction Management
(187) ☐ Divorce — Related Issues
(188) ☐ Due Diligence Studies
(189) ☐ Environmental Impact Studies
(190) ☐ Expert Witness
(191) ☐ Facilitation
(192) ☐ Franchising
(193) ☐ Fraud Accounting and Auditing
(194) ☐ Health Care
(195) ☐ Litigation Services
(196) ☐ Mergers, Acquisitions and Sales
(197) ☐ Operational Auditing
(198) ☐ Participative Process Consulting
(199) ☐ Planning/Strategy Meetings
(200) ☐ Retreat Facilitation
(201) ☐ Risk Management
(202) ☐ Security Plant Protection
(203) ☐ Site Selection/Location
(204) ☐ Syndications
(205) ☐ Team Building
(206) ☐ Telecommunications
(207) ☐ Travel and Relocation Cost Studies
(208) ☐ Other ____________________
(209) ☐ Other ____________________

Purchasing

(210) ☐ Inventory Control
(211) ☐ Local Sourcing
(212) ☐ Offshore Sourcing
(213) ☐ Store Operations
(214) ☐ Other ____________________

Physical Distribution/Logistics

(215) ☐ Distribution Networks
(216) ☐ Inventory Management
(217) ☐ Traffic and Transportation
(218) ☐ Warehouse Arrangements and Management
(219) ☐ Other ____________________

Research and Development

(220) ☐ Program Evaluation
(221) ☐ R&D Design and Planning
(222) ☐ Technology Forecasting
(223) ☐ Technology Licensing
(224) ☐ Other ____________________

INDUSTRY AREAS

Agriculture, Forestry and Fishing

(225) ☐ Agricultural Services
(226) ☐ Crops
(227) ☐ Livestock
(228) ☐ Forestry
(229) ☐ Other ____________________

Construction

(230) ☐ Building Construction — General Contractors and Operative Builders
(231) ☐ Construction Other Than General Contractors
(232) ☐ Other ____________________

Finance, Insurance and Real Estate

(233) ☐ Banks & Thrifts
(234) ☐ Combination Real Estate, Insurance, Loans, Law Offices
(235) ☐ Credit Unions
(236) ☐ Insurance Agents, Brokers and Service
(237) ☐ Security and Commodity Brokers, Dealers Exchanges and Services
(238) ☐ Other ____________________

Government

(239) ☐ Executive, Legislative, and General Government Except Finance
(240) ☐ Other ____________________

Health Care

(241) ☐ Dentists
(242) ☐ Diagnostic Centers
(243) ☐ Doctors
(244) ☐ Hospitals
(245) ☐ Nursing Homes
(246) ☐ Veterinaries
(247) ☐ Other ____________________

Mining

(248) ☐ Metal Mining
(249) ☐ Mining & Quarrying of Non-Metallic Minerals Except Fuel Oil and Gas Extraction
(250) ☐ Oil and Gas Extraction
(251) ☐ Other ____________________

Manufacturing

(252) ☐ Apparel
(253) ☐ Computer Software
(254) ☐ Chemicals
(255) ☐ Electrical and Electronic Machinery
(256) ☐ Fabricated Metal Products
(257) ☐ Lumber and Wood Products
(258) ☐ Measuring, Analyzing & Controlling Instruments
(259) ☐ Paper
(260) ☐ Pharmaceuticals
(261) ☐ Petroleum Refining and Related Industries
(262) ☐ Primary Metal Industries
(263) ☐ Rubber and Plastic
(264) ☐ Stone, Clay and Glass
(265) ☐ Tobacco
(266) ☐ Textile Mill Products
(267) ☐ Other ____________________

Services

(268) ☐ Accounting Firms
(269) ☐ Advertising Agencies
(270) ☐ Architectural Firms
(271) ☐ Arenas
(272) ☐ Auto Repair
(273) ☐ Bottlers
(274) ☐ Business Services
(275) ☐ Casinos/Gaming
(276) ☐ Charitable Organizations
(277) ☐ Collection Agencies
(278) ☐ Convention Centers
(279) ☐ Country Clubs — Golf
(280) ☐ Educational Services
(281) ☐ Engineering Firms
(282) ☐ Environmental Firms
(283) ☐ Franchises
(284) ☐ Fuel Distributors
(285) ☐ Health Clubs
(286) ☐ Holding and Investment Offices
(287) ☐ Hotels and Lodging Places
(288) ☐ Import/Export
(289) ☐ Janitorial Services
(290) ☐ Laundries
(291) ☐ Law Firms
(292) ☐ Mail Order
(293) ☐ Magazine Publishers
(294) ☐ Membership Organizations
(295) ☐ Motion Pictures
(296) ☐ Museums, Galleries & Zoos
(297) ☐ Newspaper Publishers
(298) ☐ Nonprofit Organizations
(299) ☐ Printing/Duplicating
(300) ☐ Property Management
(301) ☐ Radio/Television
(302) ☐ Real Estate
(303) ☐ Social Services
(304) ☐ Spas
(305) ☐ Sports Teams
(306) ☐ Telemarketers
(307) ☐ Travel Agencies
(308) ☐ Warrantee Services/Repair
(309) ☐ Other ____________________
(310) ☐ Other ____________________

Transportation, Communication, Electric, Gas & Sanitary Service

(311) ☐ Air Transportation
(312) ☐ Limousine Services
(313) ☐ Pipelines
(314) ☐ Radio/TV Stations
(315) ☐ Railroad
(316) ☐ Trucking and Warehousing
(317) ☐ U.S. Postal Service
(318) ☐ Water Transportation
(319) ☐ Other ____________________

Wholesale and Retail Trade

(320) ☐ Apparel Stores
(321) ☐ Automotive Dealers, Distributors & Manufacturers
(322) ☐ Automotive Services, Parts & Body Shops
(323) ☐ Building Materials, Hardware, Garden Supply
(324) ☐ Food Stores
(325) ☐ Furniture Stores
(326) ☐ General Merchandise Stores
(327) ☐ Restaurants and Bars
(328) ☐ Wholesale — Durable Goods
(329) ☐ Wholesale — Non-Durable Goods
(330) ☐ Other ____________________

Please return completed survey as soon as possible to AICPA, Market Research Team, Harborside Financial Center, 201 Plaza Three, Jersey City, NJ 07311–3881.

Thank you for your cooperation.

manage in the "real world" of limited resources. The real office of the future depends upon our ability to take advantage of emerging technologies while facing the realities of limited budgets, resistance to change, and the need for education.

Processors will continue to become faster; many of the speed improvements over the next decade will come from parallel processing. If hardware continues to be the darling of the computer industry, software has been the problem-child. While hardware development has exploded onto the scene in waves of wonderful gadgetry, software has oozed out slowly, not very surely, and to mixed reviews at best during the 1990s. Slow software development has been the result of vendors trying to be everything to everyone, slow user accep-

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Top Ten Technologies for 1998

In October, 1997, the top ten technologies for 1998 were determined by the AICPA Information Technology team committees and selected guests. In the Group Decision Support Laboratory of the University of Arizona, participants determined what impact various technologies had on auditing, accounting and assurance services, tax, consulting, and financial and operational management. They also selected the top emerging technologies. In selecting the technologies, the participants focused on their impact on revenue, organizational productivity and effectiveness, personal productivity and effectiveness, and related risks and exposures.

1998 Top Ten Technology Impacts

Overall

Rank	*Description*
1	Internet, intranets, extranets, and private networks
2	Year 2000 issues
3	Security and controls
4	Training and technology competency
5	Electronic commerce
6	Communications technologies—general
7	Telecommuting/virtual office
8	Mail technology
9	Portable technology (notebooks, palmtops, etc.)
10	Remote connectivity

Consulting

Rank	*Description*
1	Year 2000 issues
2	Internet, intranets, extranets, and private networks
3	Training and technology competency
4	Communications technologies—general
5	Electronic commerce
6	Mail technology
7	Portable technology (notebooks, palmtops)
8	Strategic technology planning
9	Remote connectivity
10	Business process re-engineering

1998 Top Emerging Technologies

Rank	*Description*
1	Agents (intelligent agents, focusing agents, filtering agents)
2	Push technology
3	Smart cards
4	Voice systems (voice/speech recognition, text to speech)
5	Auditing electronic evidence

Sandi Smith, CPA, CMA, CDP, discusses the overall top ten technologies in detail in *Top Ten Technology Opportunities: Tips and Tools* (New York: AICPA, 1998, product no. 042300.). The cost is $19.95 (AICPA members) or $24.95 (nonmembers).

In addition, three other guides discuss some of the top ten technologies in more detail:

- *The CPA's Guide to Web Commerce* (product no. 093004MCS; AICPA members—$29.00; nonmembers—$39.00; with optional CD-ROM: product no. 093007MCS; AICPA members—$39.95; nonmembers—$47.95)
- *The CPA's Guide to Information Security* (product no. 093003MCS; AICPA members—$29.00; nonmembers—$39.00)
- *The CPA's Guide to Intranets* product no. 093002MCS; AICPA members—$29.00; nonmembers—$39.00; with optional CD-ROM: product no. 093006MCS; AICPA members—$39.95; nonmembers—$47.95)

To obtain any of these publications, call the AICPA Order Department at 800-862-4272, and select option no. 1.

tance, non-standardized environments, glitches, expensive programmers, and the uncanny proclivity of software companies to cut corners in development, rushing software to market before it is ready. In spite of these factors, we are beginning to see strides in software development. Compatibility between database systems is emerging and the use of Windows is emerging as a standard. Major database systems are now "seamless" bonding of databases. This will continue to be an important trend.

- **Optical storage.** This laser-based data storage system is much closer to becoming an office reality than many people realize. It utilizes the same technology as the CDs we now play on our stereos. Its great advantage is that it allows access to enormous amounts of information. One optical disk the size of a stereo CD can store as much as 600 million characters of information. Using an average of 2,500 characters per page, this represents 240,000 pages of information on a single disk.

- **Artificial intelligence.** The term "Artificial Intelligence" (AI) conjures up thoughts of computers taking on human proportions. Actually AI covers a number of emerging technical disciplines. These include computers that can "see" (automated vision), learn by trial and error (machine learning), or take seemingly unstructured directions and develop a system (expert system). Basically, AI refers to systems with the ability to make complex decisions and learn as they work. Programs which blend graphics and AI capabilities should emerge during the next few years.

- **Voice recognition.** It would really be helpful if all of the possibilities of artificial intelligence and its inherent inquiry capabilities could be wrapped into a system that does not require keyboards. Instead of typing instructions, we would speak to the computer. Unfortunately, voice recognition technology is not yet as advanced as most people perceive. Like everything else, voice technology will evolve, rather than spring on the scene all at once. However, some simple systems have begun to come to the market.

The potential for technology in the next decade is nothing short of an electronic smorgasbord. But technology does not run unbridled. If it did, we would all be carrying notebook computers, sending near-letter-quality faxes and holding video conferences as a part of our daily routine. These technologies have been developed and are almost commonplace. But for various reasons, we are not using technology to its potential, even when it is available, affordable, and easy to use. The trick to speculating about the office of the future is determining what balance will prevail between technology and the factors that restrain it.

Many other trends are developing for the office of the future. Technological developments in all fields, not just computers, will come into play to provide unprecedented options for convenience (and perhaps frustration). We are on the threshold of technology that will not merely provide "cheaper, faster, smaller" options, but will also allow for the mixing, or integration, of technologies. As a result, the prospects become astonishing. Without doubt, the office of the future will see technology-based tools that:

- Are much more powerful.
- Provide the power at much lower cost.
- Are more specialized in purpose.
- Blend mixed media such as voice, television, sound, and phone communications.
- Are increasingly easy to use.
- Have the ability to do several things at once.

The office of the future looks exciting. The fact is, though, there is little in this scenario that can't be done today. It is not a matter of developing the technology; rather, it is a matter of implementing it. ◆

Seven Hundred CPAs Sit for ABV Exam

Almost 700 CPAs took the first examination for the Accredited in Business Valuation (ABV) designation in ten cities across the U.S. on November 15, 1997. The exam was administered in Atlanta, Boston, Chicago, Dallas, Denver, New York, Philadelphia, San Diego, San Francisco, and Seattle.

To earn the ABV credential, in addition to passing the written exam, candidates must provide evidence of ten business valuation engagements that demonstrate substantial experience and competence. To maintain the credential, every three years, they must submit evidence of substantial involvement and continued competency in five business valuation engagements, and they must earn sixty hours of related CPE.

The next exam is scheduled for Monday, November 2, 1998. The cities in which it will be administered will be determined later this year.

The AICPA has maintained a list of those members who requested information packets for the first exam, but chose not to participate. Those members will automatically receive updated information about the next examination, along with a new application and experience affidavit in April.

Other members can request information packets by:

- Calling the ABV HelpLine at 212-596-6254.
- Faxing their request to the ABV FaxLine at 212-596-6268: Include firm name, telephone and fax numbers, e-mail address, and AICPA member number.
- Visit the AICPA Homepage at www.aicpa.org/members/div/mcs/abv.htm. ◆

Credentials Demonstrate Professional Skills

At the 1996 AICPA National Advanced Litigation Services Conference, practitioners were advised by Martha Hudson Sawyer, president of Atlanta-based Hudson Sawyer Professional Services Marketing, to demonstrate their professional skills to prospective clients by, among other things, acquiring professional designations, "the more the better." Apparently, many practitioners providing business valuation services agree that adding credentials to their CPA credential gives them a competitive edge. Many of those who took the first examination for the Accredited in Business Valuation designation already have other credentials. The most commonly held credentials included Accredited Senior Appraiser (ASA), Certified Business Appraiser (CBA), Certified Financial Planner (CFP), Certified Fraud Examiner (CFE), Certified Valuation Analyst (CVA), and Personal Financial Specialist (PFS).

Saving Your Staff from Burnout

Dr. Edward Wakin

If managers listen to what staff members are saying in the current climate of increasing work pressures, they are likely to hear versions of the following comments:

"How do they expect us to get all this work done on time?"

"No matter what we do, it's never enough."

"When are they going to give us what we need to get the job done?"

"I don't even have time to go to lunch."

"I just don't care anymore."

Remarks like these can be early signs of staff burnout, the condition of being stressed out after striving too hard for too long and not experiencing positive results and satisfaction. This can result in on-the-job fatigue: not caring about work and not caring about not caring.

This situation is particularly damaging because the most likely victims are qualified staffers who set high goals and then lose motivation when their expectations are not met and their efforts aren't recognized. Employee productivity drops, as does the quality of work.

The stakes are high. Stress-related productivity losses to the American economy are estimated at $17 billion annually.

Stress can also be dangerous. Consider Black Monday Syndrome: Statistically, more people have heart attacks and strokes on Monday than on any other day, and these occur around 9 a.m., when the workweek is just beginning. Overall, stress is the single greatest health problem for working adults.

Part of the Solution

Clearly, stress is a major issue for executives and supervisors, because their success depends on mobilizing their staffs. So they need to be part of the solution, not part of the problem. While managers can't singlehandedly transform an organization or resolve the personality problems and personal crises of individuals, they can watch for symptoms of job-related burnout. (See "Warning Signs" on page 8.)

Also, they can respond with a two-pronged cure-and-prevention approach. The cure part addresses job problems and makes adjustments in the work situation that show sensitivity to employees' needs. Prevention calls for a setting that minimizes the sources of stress and the chances of burnout.

Sara Zeff Geber, a consultant whose Woodside, Calif.-based company, Sky Ridge Consulting Group, helps staffers deal with the pressures of work, has blunt advice for managers: "Trying to do more with less is burning people out. Stop giving every employee the work of two people." She also points to the lack of choice at work as a "major stress factor on the job."

Giving staffers greater choice falls into both the cure and the prevention categories. Managers can give staffers a say in what work they do and under what conditions. In the process, they need to take into account individual differences and preferences. In fact, nothing can be done in either stress cure or prevention unless managers apply the principle of "know your staffers."

Some people prefer to be left alone, while others like regular attention and feedback. Some employees respond to the pressure of quick turnarounds, but others like long-term projects. Some relish people contact, while other staffers prefer to work on their own.

These differences are right out of a management handbook, but they are necessary reminders to executives and managers who get so swept up in their own work overload that they neglect the people-balancing act that is needed to reduce stress factors.

Fran Sussner Rodgers, whose Boston-based WFD (formerly Work/Family Directions) has become a leading source of employee counseling, explains it this way: "I'm convinced that the natural state of people is to care about the quality of their work and to want to commit to an employer. They want to deliver results.

"The biggest cause of burnout is when people don't have the tools to do their job, and I include under tools both time and information. I've seen people burn out time and again because they don't have the tools."

Time and Attention

The managerial effort required to reduce stress factors

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Dr. Edward Wakin is a professor of communications at Fordham University in New York. An author of numerous articles on business topics, he is also a business communications consultant. ***This article is reprinted with permission from Beyond Computing Magazine, April 1997 issue.***

Staff Burnout *CONTINUED*

takes time and attention and a strategy that is as basic as giving the staff what managers and executives want for themselves. Here are suggestions from specialists in managing job-related stress:

- Open up lines of communication so that staffers feel that management is listening. The manager's door should always be open.
- Share information on what the department and the company face—resources, strategies, the pressures of competition. Don't leave your staff in the dark.
- Use a participatory style of management that is flexible and democratic, without surrendering responsibility.
- Clarify job expectations so that staffers know what's required of them, particularly since they're likely to be receiving assignments and projects from different people and groups.
- Coach rather than criticize, and provide constructive feedback. Criticize in private and praise in public.
- Redesign jobs so staffers have as much control over their work as possible, thereby demonstrating trust in them and in their expertise.
- Vary assignments and responsibilities so staffers have fresh challenges, continue learning, and escape deadening routines.
- Send staffers to workshops and seminars where they have the opportunity to keep their skills up to date.
- Watch for signs of stress and provide staffers with the opportunity to receive stress-management training.
- Provide a comfortable working environment.
- Make sure employees have the time and tools to do their jobs.
- Help staffers set priorities and back them up on the choices they make.
- Be flexible. Emphasize getting the job done rather than iron-clad rules. Be open to work-at-home days and to redesigning jobs so that they're a good fit for the individual.

Barbara Bailey Reinhold, director of the Career Development Office at Northampton, Mass.-based Smith College, makes the point that men and women in their thirties and forties want more time with their families than the current climate of large organizations allows. They are not as willing as previous generations to surrender their families on the altar of high achievement or to turn over child-rearing to their spouses, who themselves often have jobs outside the home. In fact, she points out, three-fourths of men in the work force would trade money for more free time with their families.

Reinhold, in discussing her book *Toxic Work* (New York: Dutton, 1996), has this alert "Organizations that don't take into account the desire of staffers to have time with their families are going to risk losing their high performers. They won't stand for it. They'll go elsewhere, even start businesses of their own. Those who have no place to go will stay."

WFD's Rodgers, whose company has its finger on the pulse of corporate employees through 500,000 counseling contacts each year, makes the same point: Companies (and by extension managers) that don't act as partners in helping men and women balance family responsibilities and professional ambitions face the prospect of losing talent to companies that do rise to the challenge.

Since the stakes in reducing and avoiding burnout are high for both managers and staffers, everyone benefits from confronting the sources of stress. Denial is dangerous. The more that stress is driven underground, the more likely it is to erupt into damaging symptoms and behaviors.

One international consulting company, American Management Systems in Fairfax, Va., has developed a guidebook for its 7,000 employees. The book takes a sensible approach to stress: "It's okay to talk to your manager when you're going through a rough period: most likely, he or she can relate to what you're experiencing."

The guidebook underlines the "first priority . . . you and your health." This is a priority that serves everyone—staffers, their managers, *and* their organizations. ◆

Warning Signs

Staffers in danger of burnout don't need to announce that they are overstressed. Their attitudes, actions, and demeanor do the talking for them. Some warning signals to watch for include the following:

- Drop in productivity—decrease in the quantity and quality of work
- Chronic lateness
- Absenteeism
- Carelessness in handling important details and carrying out assignments
- Preoccupation with busywork at the expense of getting important work done
- Inability to work with teams, deteriorating relationships with colleagues
- Short fuse, emotional outbursts—easily upset or angered
- Negative attitude toward work, overall indifference, lethargy
- Withdrawal from contacts with colleagues
- Drinking problem

— Dr. Edward Wakin

BOOK REVIEW

Investigating White Collar Crime: Embezzlement and Financial Fraud *(Springfield, Ill.: Charles C. Thomas Publishing, 1997) by Lieutenant Howard E. Williams*

Reviewed by Ronald L. Durkin, CPA

The accounting profession has been slow to accept fraud investigation as a practice area for CPAs. Civil judgments against auditors over the past twenty years, however, have clearly pointed out that, even if CPAs don't believe they are responsible for fraud detection, the public believes they are. This divergence in understanding of the role of the auditor has created what has been referred to as "the expectation gap."

The AICPA responded to this dilemma in 1996, by releasing, through the Accounting Standards Board, a new auditing standard, Statement on Auditing Standards 82— "Consideration of Fraud in a Financial Statement Audit." In 1996, the AICPA also held its first annual fraud conference. In 1997, the AICPA continued to advance the profession's ability to investigate fraud by issuing Consulting Services Practice Aid No. 97-1, *Conducting Fraud Investigations in Litigation and Dispute Resolution Services*. Most recently, the AICPA offered continuing professional education through a video course entitled *Investigating Financial Fraud*.

In response to the enthusiasm created by the AICPA's recent efforts to educate the accounting profession, practitioners are eagerly searching for other high quality conferences, courses, and literature on fraud investigation and detection, but helpful guidance in this area is rather limited.

Investigating White Collar Crime by Lieutenant Howard E. Williams of the Austin, Texas Police Department provides some helpful guidance. Probably the strongest aspects of the book are the chapters dealing with embezzlement, fraud, and interviewing techniques.

I particularly liked Williams's categorization and descriptions of white-collar crime: crimes committed by individuals against institutions, crimes in furtherance of a legitimate business, and criminal activity disguised as a legitimate business. In describing these crimes, Williams provides the reader with some very valuable insights into the criminal mind.

Williams describes the conditions present when a trusted employee becomes an embezzler and then discusses the elements of proof needed to successfully prosecute the embezzler. He follows this with examples of various types of fraud cases and an illustrative chart. Any fraud investigator will benefit from reading Williams's description of the elements of a fraud case and his lengthy discussion of the reliance by victims on false representations.

Interviews and Interrogations

For fraud investigators, probably the most helpful aspect of the book is the chapter dealing with financial interviewing and interrogation. Although it would be rare for a CPA to interrogate the subject of a fraud investigation, the sections dealing with how to conduct an interview will enlighten even an experienced investigator, particularly Williams's clear and concise description of the three parts of an interview: the introduction, the body, and the close.

I have found that the weakest area for investigative accountants is applying the interview technique. The author provides a good background discussion of the process and then spends a fair amount of time discussing how to conduct the interview. This chapter alone is worth the cost of the book.

Another chapter that is particularly well done and of benefit to even the most experienced investigator is the chapter entitled "Proving Illicit Transactions." It includes a section dealing with net worth analysis, an area in which CPAs are well versed, but few, if any, apply the technique to a fraud investigation.

Investigating White Collar Crime appears to be written primarily for the law enforcement community. Williams refers often to investigative steps performed solely by law enforcement officers, including tips on interrogation, discussions of executing search warrants, knowing the constitutional rights of subjects, and maintaining the chain of custody.

Williams has not written this book for CPAs, since he spends two chapters discussing basic accounting terminology and theory. However, the section dealing with financial statement ratios and analysis is a good refresher for CPAs.

Investigative Report Writing

I was somewhat disappointed in the section on investigative report writing. Williams states that "report writing is a most demanding and important task for white collar crime investigators. The report is often the only evidence as to the work the investigator did and to the manner in which he obtained and preserved evidence. Prosecutions may succeed or fail based on the strength of a case report." I agree with the author's observation, but he offers very little guidance as to how to properly express an opinion on fraud. Williams does not discuss fraud opinions fully or provide much guidance on how to communicate the results of a fraud investigation. This is one of the most important and problematic areas for CPAs.

In *Investigating White Collar Crime*, Williams goes through a paragraph by paragraph exercise to describe the format of the report and even lists the offenses involved as examples. The listing of offenses includes money laundering, conspiracy, and tax evasion committed by each individual and a corporation. Williams then makes a most problematic statement: "the investigator must explain in the narrative why each transaction is fraudulent."

Williams could have spent a few paragraphs discussing the fact that investigators often incorrectly express opinions of guilt or innocence in their reports. These opinions are normally left up to the trier of fact. Investigators may also incorrectly state legal opinions regarding certain transactions that may be fraudulent. A simple example that demonstrates this point would be a case in which a CPA who is investigating a fraud

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Book Review *CONTINUED*

scheme describes in his report that the subject is guilty of perpetrating a Ponzi scheme. The CPA should limit his or her report to describing the procedures undertaken to investigate the potential fraud and his or her findings as a result of taking these steps. The report should contain factual information that will help the trier of fact to determine whether or not a fraud has been perpetrated.

In spite of the book's shortcomings, I believe accountants will find *Investigating White Collar Crime* to be a useful reference guide on how to conduct a fraud investigation. Many readers will be offended however, by Williams beginning Chapter 3 with a quotation from *Mein Kampf*, even though he clearly expresses his disapproval of the author in general. In addition, Williams mistakenly refers to the famous McKesson Robbins, Inc. case that led to the first major audit failure as McKess and Robbins, Incorporated. ◆

Editor's note: The telephone number of Charles C. Thomas Publishing is 217-789-8980. To order AICPA publications mentioned in Mr. Durkin's review, call 800-862-4272. Here are the product numbers and prices: Consulting Services Practice Aid No. 97-1, *Fraud Investigations in Litigation and Dispute Resolution Services* (product no. 055001MCS; $22.50—members; $29.50—nonmembers; MCS section members who were members in the first quarter of 1997 should have received this practice aid.) The *Investigating Financial Fraud Videocourse* is an intermediate level self-study course recommended for 8 hours of CPE. Its format is one VHS tape with a manual (product no. 187070MCS; $129).

Upcoming Conferences

AICPA Information Technology Conference
April 19, 1998
Sheraton, San Diego, California
Recommended for 6 hours of CPE credit

AICPA Spring National Industry Conference
April 20—22, 1998
Sheraton, San Diego, California
Recommended for 21 hours of CPE credit

AICPA Professional Practices Conference
May 18—19, 1998
Bally's, Las Vegas, Nevada
Recommended for 16 hours of CPE credit

AICPA Practitioners' Symposium
May 31—June 3, 1998
Caesar's Palace, Las Vegas
Recommended for 32 hours of CPE credit

For information about these conferences, contact AICPA Conference Registration 800-862-4272. ◆

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