Public Practice E-News
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This electronic newsletter is prepared especially for public practitioners and is sent bi-monthly to members of the Puerto Rico Society of CPAs. This e-newsletter features regular commentary from TSCPA Member Bill Reeb, a CPA firm consultant based in Austin. For questions or comments concerning the articles featured in this issue, or to suggest future topics, please e-mail Reeb at bill@tscpa.net.

From the BILLiverse
This article continues the series on the upside down pyramid and hour glass capacity models. Both of these models are the evolution of inaction regarding developing a better, stronger, faster staff, which in turn, puts more and more pressure on the partners and managers to perform the work. Eventually, these models create significant issues and problems for firms to overcome, including workload compression, more hours required from the more experienced personnel and weakened profitability, sustainability and succession. In the article, Bill Reeb discusses the steps that can be taken and how the steps can be put together in a way to correct either the upside down pyramid or the hour glass capacity models. The steps covered are really fairly simple, but they all need to be executed in the correct order to make a real impact for the firm.
Read Reeb's commentary
https://www.tscpa.org/eweb/DynamicPage.aspx?webcode=PUBreebPyramid2

How's Your Tax Season So Far?
New warning signals came at the start of tax season this year when the Tax Advocate Service issued a comprehensive critique that should have prepared tax professionals for the worst. In this article, Rick Telberg looks at how IRS capabilities have been deteriorating. The latest soundings from the 16th annual *CPA Trendlines Busy Season Barometer* show about 30 percent of practitioners are finding security, privacy and theft issues. Tax preparers might do well to prepare their clients for possible delays and errors.
Learn more
https://www.tscpa.org/eweb/DynamicPage.aspx?webcode=PUBtelbergTaxSeason

How to Safely Harness the Power of Social Media to Promote Your Firm
Social media can be used to spread the word about your firm's offerings. However, your firm may want to consider developing a policy to establish parameters to meet challenges and satisfy compliance requirements, all while spreading the word about what you can do for your clients.
Learn more
http://blog.aicpa.org/2016/02/4-steps-to-creating-a-social-media-policy-for-your-firm.html#sthash.9PHHYU3n.P6ttn6zO.dpbs

Q&A: Millennials Can Play a Role in Move to Value Pricing
In this Q&A session, author and consultant Ron Baker discusses why young CPAs need to know about the value pricing process and how they can contribute to it. He says that firms are going to be gravitating more and more to this model, so younger CPAs need to understand it and drive as much of the change as they can.
Read the Q&A session

http://www.journalofaccountancy.com/news/2016/jan/move-to-value-pricing-201613729.html

2016 Pulls Accounting Into Real-Time Data Race
CPAs are resolving to maximize resources to help their clients stay competitive and improve market standing. The key to achieving superior performance is on-demand access to data. Real-time access to data can provide accounting professionals with meaningful insights, such as how employees are using corporate dollars and where dollars can become more efficient.
Omar Qari takes a closer look
http://www.accountingweb.com/technology/trends/2016-pulls-accounting-into-real-time-data-race

Retiring the Billable Hour as a Measure of Performance
Moving away from billable hours as a measure of performance may help CPA firms keep their most valuable resource: their people. Savvy leaders spend less time focused on utilization rates and more time talking with their employees so they can understand what drives them.
Learn more
http://www.journalofaccountancy.com/newsletters/2016/jan/retiring-billable-hour-as-measure-of-performance.html

Five Steps CPA Firms Can Take to Avoid Legal Claims
A combination of factors within the legal system and the CPA profession are driving litigation trends. This article covers five strategies for practice management that firms can take to improve their odds of avoiding claims or properly manage them should they occur.
Get the details
http://www.accountingweb.com/practice/practice-excellence/5-steps-cpa-firms-can-take-to-avoid-legal-claims

Coaching Programs Get New Partners Off to a Great Start
The transition to partner can be a challenge as relationships with co-workers change, delegation becomes a necessity and workloads increase. Coaching can help partners successfully manage the change. Coaching also lets firms take a more active role in shaping their future leaders.
Courtney L. Vien takes a closer look
http://www.journalofaccountancy.com/issues/2016/feb/cpa-firm-coaching-programs.html

What Firms Look at When Reviewing Resumes
Average accounting and finance firms will look through 21 CVs before making a job offer, according to research from Robert Half. The research, conducted in the UK, shows firms will often focus on factors such as candidates' previous roles and how long they spent with their employers. Finance professionals are 10 times more likely than other recruiters to look at a candidate's skills and experience before reviewing information about their qualifications and education.
Learn more
http://economia.icaew.com/news/february-2016/making-your-cv-work-for-you

The Long-term Impact of Building an Upside Down Pyramid – Part 2

By Bill Reeb, CPA, CITP, CGMA


Bill Reeb, CPA

In the first article in this series, we introduced the Upside Down Pyramid Capacity Model™ and the Hour Glass Capacity Model™. For either of those models to be in place, the firm has had to have either actively or unintentionally put systems in place (often like compensation and/or employee evaluations) that predominantly support personal production while discouraging spending time developing others. Both models are the evolution of inaction regarding developing a better, stronger, faster staff, which in turn, puts more and more pressure on the partners and managers to perform the work. Eventually, this model creates significant problems for firms to overcome, including workload compression, more hours required from the more experienced personnel and weakened profitability, sustainability and succession.

As promised, this article picks up discussing steps a firm can take to fix either the upside down pyramid or the hour glass capacity models. We have already alluded to or discussed all of these steps in previous articles, but we are going to try to put them all together here. The steps are really fairly simple, but they all need to be executed in the correct order to make a real impact:

• Hire enough people to create excess capacity
• Everyone needs to report to someone for development and performance assessment
• Do your job – not someone else's job, but your job
• Before you start your work, determine all of the work that can be delegated to someone below you
• Once you know what work can be delegated, verify whether the people you are handing the work to are able to do the work
• If the person you are delegating work to does not have the requisite skills, then train them

The first step – hire enough people – is covered in our previous article titled "Metrics: Their Value is in Creating More Questions – Part 2." In that article, we go through an example of why most firms under-hire, which is simply because they have never really thought through the combination of:

• Add: New hires needed to do the work required from the expected growth
• Add: New hires needed to develop overtime to close some talent/competency gaps that exist in the firm
• Add: New hires needed to give the firm enough capacity to allow management to dismiss marginal performers or problem employees
• Subtract: New hires who never perform and need to be let go in the first 90-120 days

• Subtract: New and existing hires who are performing but leave the firm for various reasons, many at no fault of the firm
• Subtract: Marginal existing performers
• Subtract: Problem employees

Without available excess capacity, firms tend to keep every employee, no matter how much of a virus they are due to the negativity, dysfunction and morale problems they create, which eventually have the added bonus of driving off the firm’s top performers too. It is always surprising how so many firms consider a negative to be a positive. For example, consider a very low employee turnover rate. While a low turnover rate could be something to be proud of, the vast majority of the time it is a sign of negligent hiring practices (not hiring enough people) and lack of accountability. This then allows marginal performers to stay for years longer than is justifiable, because the firm needs the bodies to do the work (and you read that right – we mean years).

By the way, the more your firm hires people right out of school, the greater the likelihood that your employee turnover rate for those new hires will be double your normal experience. Why? It is simply because many of the accounting school graduates are not even sure they are interested in public accounting or they might not be cut out for it or they have not established roots in your area, which makes them more likely to leave to follow a dream, a love interest, go back to family, etc. So while hiring people right out of school is definitely our suggested approach as a capacity-building strategy, firms need to consider counseling new hires out much more quickly who are not performing than they are probably accustomed to doing. (Not performing includes not catching on as to how to do the work, as well as attitudes about doing the work.) And that window, instead of being years as is typical in most CPA firms, should be 90-120 days.

Interestingly enough, we have this conversation all the time with our client firms. It is not uncommon for the firms to create goals for management to act more timely in this decision-making evaluation. But recently, we had this conversation with a partner who is also a savvy investor in the stock market (and consults in that area). After a quick discussion about the problems being encountered, that partner said something like this:

I totally get what you are saying, but I never applied it to hiring practices within a CPA firm. When I invest in a stock, I decide that day what my stop-loss will be. If the stock falls below my minimum expected performance level, it is automatically sold. I don’t hold on to it hoping it will recover the losses it has sustained thus far, but rather cash it out and reinvest that money in some new stock that has been performing and has a promising outlook. This approach has allowed me to make all of my money work for me rather than just some of it. It frees up an investment that is marginally performing and allows me to buy into something that has a chance to be my next star performer.

That is exactly what we find with firms. Every time we let someone go because they have a bad attitude or treat people poorly or perform marginally, while the firm will go through a little bit of pain shifting work and bringing along someone new to fill the gap created, they almost always trade up. And every spot a marginal performer is filling now is a spot that might be filled if available by your next rising star. However, because you only have a limited investable amount to pay employees (salary and bonuses) that makes sense with your current and near-term volume, it is critical that you free up those funds that are tied up in marginally performing people assets so that you are constantly building a better firm with stronger people driving it. You can't trade up if your firm philosophy is really about holding on and hoping!

So now that we are hiring enough people and running off those who are marginal (having bad attitudes and treating people poorly are two excellent reasons to free up your human capital investment), we can move on to the next step, which is to set up a system so that everyone reports to someone for development and performance assessment. For those who are new to our articles, know that we totally understand that in a CPA firm everyone could report to almost everyone above them on a project-by-project basis. But here, we are talking about management and someone being responsible for specific people to make them better, faster and stronger. Just as with the first bullet above, we have a recent set of articles that address this process as well, from implementing accountability, how to develop an organizational chart around everyone reporting for performance and development to only one person, how to set goals, how to coach and develop others, and how to assess performance. That series of articles is called "Developing People Faster Takes a Different Approach." We also have a monograph on this same topic called "SI Performance Management Monograph." In this series of articles or the monograph, we cover this bullet point, as well as some other topics mentioned in this series of articles.

The main point here regarding fixing the Upside Down Pyramid™ or the Hour Glass™ models is that you won't close competency or talent gaps consistently enough or quickly enough without implementing accountability. Accountability requires that someone has been identified, not anyone or everyone, as responsible for making each person in your firm better, faster and stronger. This is not to say that everyone reports to the same person, but rather that you should be able to go to anyone in your firm and each person you ask will know which specific person is their boss or coach who is responsible for their performance assessment, skill development and career development. In a videotape we use in our training on accountability, created by CRM Learning called "Accountability that Works," the author makes the statement that:

"'We' can't do anything. Tasks only have a chance of getting accomplished when an 'I,' an individual, is willing to take personal responsibility and ownership. Simply put, a 'we' unowned is a 'we' undone."

Unfortunately, most management in a CPA firm is based on a "we" approach to accountability. Don't misunderstand us – we very much value a "we" approach or a team approach, but the clarification is that while it does take a village to develop your people (meaning that many people will likely be involved in the training, coaching, mentoring, etc. of each individual within your firm), a village can never be accountable for anything. That is why we focus on making sure that each individual has a direct boss, a person responsible for his/her direct reports' performance. At the end of the day, for any direct report who is not getting better, faster and stronger, we can then turn to his/her boss for that accountability. If that boss was negligent in making sure the proper training occurred, or negligent in assessment and oversight of the work performed, or sloppy about the timely addressing of poor performance, then the boss along with the direct report will suffer the consequences of marginal performance. For the record, our experience is that any time a boss is held accountable for his/her direct report's performance, the boss from that point forward takes a definite interest in making sure his/her direct reports are performing. For those who are not performing, bosses will drive them out much more quickly.

This focus on accountability takes the common cycle found in CPA firms of letting marginal people go after about four years of moving them around in the firm, to counseling out poor performers in a matter of months. This, in turn, allows the firm to reinvest in new human assets, which increases the chances of the firm trading up regarding personnel, which in turns creates a much stronger bench of people to build the firm around.

Our last point for this article is “Do your job – not someone else’s job, but your job.” Bill Belichick, head coach of the New England Patriots, is known for telling people to “Do their job well.” Don’t worry about doing someone else’s job … make sure you take care of the job you are filling. Yes, we have articles on this too. Our monograph “SI Roles and Responsibilities” certainly touches on this. Our competency model drills down even further. And just as we covered in Part 1 of this series, partners have a specific job to fill, and it is NOT filling the role of manager. (Manager is meant here just to describe the employment level below partner.) If the partners won’t do their job, then the managers, supervisors, seniors and staff have no chance of living up to their expectations. We see over and over partners only filling a portion of the job responsibilities they hold. Some lean towards the business development side, some lean more towards the technical side, some delegate everything and others delegate hardly anything. The point is … everyone, at every position, working in a CPA firm should be expected to operate at least at a minimum level for each competency for that level. In other words, you can’t be overqualified in one area with that special talent allowing you to be void in another.

As we tell our new partners in our partner-in-training workshops, we are not trying to develop you to be as good as your current senior partners, but rather that the firm is setting a higher bar for them and wanting them to be better than their current senior partners. The “better” we are describing is for partners to “do their job,” and “do all of their job,” not just the parts of it they like. When people start actually living up to the jobs they hold, the firm quickly jumps to a whole new level of performance, sustainability and profitability.

We are going to leave you for now and pick up the next article on the final points firms need to address to reverse the Upside Down Pyramid™ and/or the Hour Glass™ models. We hope you are having a profitable, but not overwhelming, tax season!

How's Your Tax Season So Far?

Don't say you weren't warned

By Rick Telberg

CPA Trendlines

If you're having trouble with the IRS this tax season, you can't say you weren't warned. The agency's capabilities have been deteriorating for years and the IRS is the first to admit it. The latest soundings from the 16th annual ***CPA Trendlines Busy Season Barometer*** show about 30 percent of practitioners are finding security, privacy and theft issues, for instance.

New warning signals came at the start of the season this year when the Tax Advocate Service (TAS) issued a comprehensive critique that should have prepared tax professionals for the worst. For example:

• The IRS may adopt user fees to fill funding gaps without fully considering the consequences.
• The IRS is compromising taxpayer rights in administering parts of the ***Affordable Care Act***.
• The procedures the IRS has in place for assisting victims of identity theft still impose excessive burden and delay refunds.
• The "future state" plan from the IRS may leave critical taxpayer needs and preferences unmet.
• Recognition as a tax-exempt organization is now virtually automatic for most applicants.
• False positives within the IRS pre-refund wage verification program are causing significant delays of refunds.
• The IRS is still falling short in its administration of the earned income tax credit.

So tax preparers might do well to prepare their clients for possible delays and errors.

How's tax season so far for most practitioners?
Join the survey; get the answers

Most of the delays, which have been reported as a serious problem since 2003, are caused by automatic freezing of refunds when the IRS Pre-Refund Wage Verification (also known as Income Wage Verification) identifies suspected false wages and withholding. The fundamental problem is that the false positive rate for the Electronic Fraud Detection System in 2015 was a staggering 35 percent. That's not a whole lot better then random identification would be.

The problem extends to the Taxpayer Protection Program, which is grappling with identity theft. There the false positive rate leaped from 19.8 percent in 2014 to 36.2 percent in 2015.

The problem is exacerbated by taxpayers' inability to reach a live agent in the Integrity & Verification Operation unit. Taxpayers can neither find out the cause of the delay nor offer explanations that might clear up the problem. Consequently, the average delays for taxpayers who are eventually issued their refunds – that is to say, taxpayers innocent of any false withholding – is nothing less than 18 weeks.

What can tax preparers do about it? Not much besides say, "Hey, it happens." And it happens for a minimum of 11 weeks, during which the IVO attempts to contact the employer to verify the questionable information. If that doesn't work, the IVO sends a letter to the taxpayer requesting documentation. How long that takes is unknown, as the IRS does not track this information. Tax preparers can assist frustrated clients by suggesting that they contact their employers regarding authentication.

If it makes the client feel any better, preparers can tell them which of their legal Taxpayer Rights are being infringed. According to the TAS, there are six:

1. The right to be informed.
2. The right to quality service.
3. The right to challenge an IRS position.
4. The right to be heard.
5. The right to privacy.
6. The right to a just tax system.

The TAS is an internal, independent arm of the IRS that reports directly to Congress. Theoretically, Congress will direct the IRS to remedy the problems that the TAS identifies. In reality, however, sometimes the problems persist. The TAS has been reporting the needless refund delays since 2003. There has been some improvement, but the problem remains the second-most common complaint referred to the TAS.

If the problem is suspected identity theft, the taxpayer will receive a letter requesting authentication of identity. This would be a good moment for the tax preparer to assure the client that identity theft is real and getting worse and that it's better to be queried by the IRS than to have refunds sent to fraudsters.

The preparer can expedite the refund by helping the client self-authenticate through the TPP's Out of Wallet website. Yes, that's really what it's called. Just a little IRS humor.

Still, tax professionals might have a friend in the TAS. The TAS has two main objectives: 1. to help individuals resolve difficulties with filing their taxes; and, 2. to identify systemic problems and suggest solutions.

The TAS can't fix the problems, only point them out. It's up to Congress to fix the problems. Here are some of the biggest problems the TAS is citing this year. Maybe you've already run into some of them:

1. The comprehensive "future state" plan – The IRS has developed a "future state" plan that aims to transform the way it interacts with taxpayers. Some parts of the plan will prove helpful, but others will make it harder and more expensive to get help.

2. User fees – Due to budget cutbacks, the IRS is considering raising user fees. It may become more costly for taxpayers to grapple with complicated rules and procedures. Given the reduced assistance that the future state plan threatens, this could become not only painful, but a disincentive for honest, accurate, voluntary tax filing.

3. Exempt organizations – Form 1023-EZ, Recognition as a Tax-Exempt Organization, has become a veritable shoo-in. Nobody's checking. While this will streamline the application for an exemption, it is also likely to invite noncompliance resulting in reduced tax revenues. And woe

unto the organization that later finds out it never qualified for exemption.

4. False positive problem flags – An increasing number of legitimate tax returns are getting "false positive" flags in the Pre-Refund Wage Verification Program, delaying refunds for hundreds of thousands of honest taxpayers. This was the second-most common complaint received by the TAS.

5. Affordable Care Act – The IRS administration of the ACA is improving, but is still onerous with regard to the Premium Tax Credit and the Individual Shared Responsibility Payment.

6. Identity theft – Assistance to victims of identity theft has improved, but still results in burdens and refund delays.

7. Improper earned income tax credit – The improper payment rate for the earned income tax credit is over 25 percent and rising. Better administration would improve compliance and reduce burdens.

8. Delinquent tax collection – The volume of taxpayer delinquency accounts is resulting in delays and the IRS often goes after the biggest, even if oldest, balances, thus losing the advantage of going after the more recent balances, which are easier to collect.

9. Hispanic taxpayers – The IRS needs to better understand the characteristics and problems of Hispanic taxpayers. Their numbers are increasing and now constitute almost one in five Americans.

Meanwhile, professionals should be aware that when they identify a systemic problem with IRS rules, regulations and procedures, they can contact the TAS and report the problem. The website is taxpayeradvocate.irs.gov.

Thousands of people may suffer a given problem, but you may be one of the few who report it. Don't take your gripes home. Take them to people who want to hear them. Who knows? Your gripe may well make its way to Congress and then result in real change.

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4 Steps to Creating a Social Media Policy for Your Firm

Posted by Guest Blogger on Feb 01, 2016

One way to deepen existing client relationships and connect with more prospects is to use social media. While LinkedIn, Twitter, Facebook and other applications will help your practice evolve, social media also presents several compelling challenges, especially when it comes to compliance.

If your firm is planning to use social media, you'll want to create and maintain a social media policy. Keep in mind that this policy is not meant to restrict activity for tweeting and posting, but instead to establish parameters to meet these challenges and satisfy compliance requirements.

Four Steps to Your Policy

Your social media policy should outline what outcome you hope to achieve from social media and how you will achieve it. Here are four areas to consider:

1. **Vision.** Your vision will detail how you and your team perceive social media, respond to engagement and think creatively for ongoing communications and initiatives. Consider it the extension of the culture of your business – the reason why you come to work and why clients stay with you.
2. **Planning.** Having conceptualized and defined how you want to use social media, your plan should identify the platforms you will participate in, such as a blog, Twitter, LinkedIn, Facebook and others. During this stage, you should also determine who will manage these platforms. Will it be comprised of internal staff, external parties or both
3. **Purpose.** Financial planners choose to use social media in different ways. How will you define your experience? Consider the following when determining how to engage:

- Do you want to use social media as a customer service channel?
- Do you want to share educational tips, often delivered in client letters, conference calls and meetings, via social media?
- Are you interested in leveraging the business development nature of social media? If so, you might focus on expanding your network of connections on LinkedIn.
- Do you want to be known as a thought leader in your area of expertise? If so, developing credible content such as articles, videos and podcasts might be a good way to get your name out.

Certainly, it would sound natural to respond with, "I'd imagine we'd do all of those things at some point." That is a safe assumption; however, in getting started, opting for a focused starting point helps you shape that voice and cultivate a rhythm to your use of social media.

4. **Goals.** By the time you are ready to set goals, your social media vision has taken on a clear shape for you and your team. Like that financial plan, you can now start to envision mile markers and longer term goals you would like to achieve. Don't neglect to consider how you could measure your progress of these goals, ensuring you factor analytics into your strategy.

Final Checklist

Social media policy is the ticket to entry to the use of social media. Start there and you will be more prepared to move ahead. In the meantime, here are a few areas to address:

- When selecting a compliance solution for social media – think about ease of use. Choose a provider who can accommodate this with simplicity and meet your needs.
- Recognize that content that gets shared widely and publicly may fall into the advertising and marketing materials classification. Understand who regulates you – FINRA, SEC, states – and know how advertising content is treated.
- Keep in mind that testimonials are prohibited. We may not like it – and we know they are very valuable for word of mouth referrals, but when they are written, they are like ads. Just steer clear until the regulatory bodies change their minds.
- If in doubt about what part of social media is static content (blog posts, articles, profile backgrounds and bios) versus interactive (tweets, status updates), have your content compliance-reviewed before you use it.

And, speaking of compliance, you'll want to get some very clear direction from your compliance provider for social media. Some are stricter than others, so check to make sure you are following the rules. And, above all, have fun!

PFP members and PFS credential holders can listen to a podcast on this topic.

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