

February 2013

This electronic newsletter is prepared especially for public practitioners and is sent bimonthly to members of the Puerto Rico Society of CPAs. This e-newsletter features regular commentary from Bill Reeb, a CPA firm consultant based in Austin, Texas.

From the BILLiverse

Bill Reeb, CPA, continues the discussion this month on the fundamentals of succession planning. This article picks up by identifying foundational issues of a good succession plan and Reeb offers tips on ways to start this discussion. Take a look at the following article to learn more about succession planning issues that should be included in every discussion.

[Read Reeb's Commentary](#)

<https://www.tscpa.org/eweb/DynamicPage.aspx?webcode=PUBreebJAN13>

AAA 2013 Paperless Benchmark Survey Results

The Association for Accounting Administration (AAA) recently completed its 2013 paperless benchmarking survey to find out the status of paperless office practices in accounting firms this upcoming busy season. See how your firm stacks up against the survey questions and you may find some leading practices your firm could be implementing this busy season.

[Learn More](#)

<https://www.tscpa.org/eweb/DynamicPage.aspx?webcode=PUBpaperlessResults>

Marketing Tip: Busy Season Survival Strategies

As you enter busy season, consider the following ideas to help you take care of yourself and provide much-appreciated encouragement to your team. Krista Remer and Jennifer Wilson from *ConvergenceCoaching LLC* offer insight in this article, as they share suggestions for incorporating fun and stress-relieving activities into your work days (and nights).

[Learn More](#)

<https://www.tscpa.org/eweb/DynamicPage.aspx?webcode=PUBbusySeason2>

12 Reasons to Love Tax Season

Rick Telberg, CPA, shares insight from fellow tax professional Ed Mendelowitz, CPA, in this tongue-in-cheek look at a dozen reasons to love tax season. Take a look at this humorous article and feel free to share your tax season loving reasons with Telberg.

[Learn More](#)

<https://www.tscpa.org/eweb/DynamicPage.aspx?webcode=PUBloveTaxSeason>

Promoting Portal Adoption

Most firms are well on their "paperless" way and have adopted digital technologies and processes within their internal practices. Unfortunately, many of these same firms have not been as effective at getting their clients to use available digital tools. In this article, Roman Kepczyk, CPA, looks at why firms should be educating everyone on portal use and reviews successful selection and implementation of a portal solution.

[Learn More](#)

<http://xcentric.com/2012/promoting-portal-adoption>

Minimizing the Legal Risks of CPA Practice

The public practice of accountancy has inherent liability risks that can be planned for and minimized, but not eliminated completely. The following two-part article from TSCPA's *Today's CPA* is written from the perspective of attorneys who represent CPAs in legal practice. Read on

to learn about the kinds of actions that should be taken (and avoided) to reduce the risks in your accounting practice.

Part I

<https://www.tscpa.org/eweb/pdf/TodaysCPA/2012/NovDec/MinimizingRiskPt1NovDec2012TodayCPA.pdf>

Part II

<https://www.tscpa.org/eweb/pdf/TodaysCPA/2013/MinimizingRiskPt2JanFeb2013.pdf>

How Accountants Use Social Media for Business

Many accountants use social media for their business as a way to be present online where the like-minded linger. Social media can start and nurture conversations between you and clients, prospects, and other business partners. It's free, which makes it appealing, and online; therefore, it's convenient and accessible.

Learn More

<http://www.accountingweb.com/article/how-accountants-use-social-media-business/220857>

SUCCESSION FUNDAMENTALS – PART 2

BY BILL REEB, CPA, CTP, CGMA

As committed, this column will pick up by identifying foundational issues of a good succession plan. I will conclude this series by addressing **why and how the initiatives identified in the first article need to be redirected or refocused to be part of an effective succession plan.**

When we take our clients through succession planning, eventually the focus turns to implementing the best practices for running a firm, but first we normally have to start with short-term retirement issues. Why? Because typically you won't get any buy-in for change until the partners have looked at whether the current retirement system is paying at least roughly a fair market value to the near term retiring partners. Our rule of thumb is that the remaining partners in a firm will pay a retiring partner up to 120% of the fair market price and the partners selling their ownership will take as little as 80% of the fair market price to turn over their ownership. When either group goes even a fraction outside this boundary (and often even when they start coming close to it), then "principle" is invoked and bad things begin to happen. The conversation shifts from one of win-win where both parties come out okay to win-lose with each party out to hurt the other for being selfish and unfair.

Therefore, the first stake to put in the ground for building a succession plan is a fair retirement benefit. Generally that is made up of two components. The first is a return of capital and the second is the retirement benefit. For small firms (one- to two-partner firms), this equates to buying the retiring partner's book. For larger firms, it is about paying a benefit for the contribution that the retiring partner has made to the firm. This calculation often comes in the form of a multiple of salary or the partner's share of equity ownership applied to the revenues of the firm.

Based on the results from the PCPS and Succession Institute 2012 Succession Planning Survey, here is how those results shook out:

On average, about a quarter of firms with up to 200 FTEs (full-time equivalent employees) use the ownership percentage times Net Annual Revenue (NAR) to calculate retirement benefits. Larger firms clearly favor the multiple-of-salary approach, while the smaller firms prefer to use the book of business method. Based on our experience, book of business is almost always the default model used to sell firms with one to two partners, although that statistic is not reflected in the survey results below.

	1-2 FTEs	3-7 FTEs	8-15 FTEs	16-25 FTEs	26-50 FTEs	51-100 FTEs	101-200 FTEs	201-350 FTEs	351+ FTEs
We have no agreement at this time to pay a retirement benefit	100%	64%	47%	41%	15%	4%	5%	0%	11%
Multiple of salary	0%	1%	6%	7%	15%	53%	32%	56%	56%
Ownership percentage times net annual revenues (NAR)	0%	21%	24%	27%	28%	18%	27%	11%	0%
Client book of business	0%	8%	13%	11%	15%	6%	5%	0%	0%
Other	0%	7%	11%	14%	26%	20%	32%	33%	33%

Firm size does not affect whether the firm pays more or less than \$1 for \$1 of client book or firm revenue. For firms using ownership percentage times NAR, 46% pay less than \$1 for \$1 of revenue, while slightly less pay a full \$1. Just 8% of firms pay more than \$1 for \$1, similar to the 2008 responses. Among firms using a multiple of salary to determine benefits, a little over half pay less than three times salary. A little more than a third of the firms pay three times salary. Only 13% pay more than three times salary, which is consistent with 2008 results.

Our general rule of thumb is that if you are going to sell your book, it will be done based on a retention agreement paid out over 4 or 5 years. So, while the agreed-to purchase price would probably default to a \$1 for \$1 of revenue, given normal retention, the final payout to the selling partner over the payout period would likely be somewhere between 60 cents to 70 cents on the dollar (since the selling partner only gets paid for clients retained each year).

If you are using salary as your retirement benefit calculator, the most common multiplier we run across is three times total compensation, based on the average of your three highest years' salary in the last five years. Some firms throw out the high and low figures. Some firms have moved to 2.5 times compensation because of the high compensation paid to its senior partners.

As for ownership interest times net revenue, the most common discount we see is 15 cents on the dollar, resulting in a net benefit of 85 cents on the dollar. The NAR is usually an average of the last two years to reflect consistency of revenues, as well as to ensure games are not played inflating revenues in the final year before retirement. However, you also have to subtract any outstanding debt owed to retired partners for their benefits (not outstanding loans to operate the business, just those amounts still due to owners who have sold their interest in the firm). So, if you were a \$5,000,000 firm, with \$1 million owed to a recently retired partner, and if the current retiring partner owned 20% of the firm, the calculation would be as follows:

Average Net Annualized Revenues	\$5,000,000
Outstanding debt to retiring partners	1,000,000
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Average NAR less retirement obligations	\$4,000,000
Revenue Discount	85 cents on the dollar
Equity interest of the Retiring Owner	20%
Retirement benefit ($\$4M \times .85 \times 20\%$)	\$680,000

In this example, the 20% owner would be entitled to \$680,000, usually paid out over 10 years, at no interest. While we see some firms pay out the benefit over seven years, the most common we find now is 10 years.

In addition to the retirement benefit, an owner will receive a repayment of his or her capital. Simply put, if the firm is a partnership, then the capital account is tracked and that is the money the selling owner is returned. In a corporate structure, the owner will receive his or her percentage of ownership multiplied times the net book value of tangible assets. Thus, it normally includes cash, marketable securities, receivables and work in progress, with some estimated or depreciated value of fixed assets, minus all liabilities except those representing deferred compensation obligations owed to retired owners. Obviously, if we are talking about a sole proprietor selling his/her book of business, the sole proprietor keeps whatever cash is available after the dissolution of the company and its assets, in addition to whatever is earned through the sale of the book. Capital is typically returned over three to five years (three years if the number is low, but five years if that number is several hundred thousand dollars or more) at the firm's borrowing rate of interest.

Although these might be viewed as common starting places for retirement benefit calculations, there are variations. For example, interest or guarantees added to the retirement benefit usually end up with the retiring partners being paid a premium. If the benefits are set at something less than described above, the odds are high that the retiring partner is getting less than market. But understand that in this column, we are only talking about this from the 30,000 foot level and not dealing with common quirks or dysfunction in the firm. Your numbers can vary significantly from what I have described above and still be fair depending on the perks.

For example, if the partner wants to continue working for the firm after his or her sale of ownership, how good or bad the terms of post-sale employment are will determine whether the entire retirement benefit is in line. Or, if a partner poorly transitions clients and the retirement benefit is not reduced for that infraction, then that can make a good deal bad or a bad deal to the seller good. Or if 85 cents on the dollar is used to determine the benefit but the firm's revenues are tied to services that will not be offered after the partner retires, or a significant amount of revenues will move with the retiring partner, or most of the client work is not recurring ... these are all examples of how a fair value is no longer fair.

What I have shared above is just a starting place for this discussion, but in the end, it assumes predominantly recurring revenue, strong infrastructure (trained people), governance that will allow the firm to continue (in other words, a system where the remaining partners can be held accountable to the firm's strategy), etc. The assumption within the pricing of any deal other than "selling a book of business on retention" is that there is an organized firm with talent ready to

profitably sustain it. And while it is not required, if I was selling my book on retention, I wouldn't consider selling it to a firm that didn't meet this requirement. So, anything short of a sustainable, profitable firm means that the best practice fair price should be in question and up for adjustment.

As you know from reading my past columns, I can't walk away from this last paragraph without adding this caveat. Probably 80% of the senior partners in firms would suggest that their firm, without them, is dysfunctional. So my concern with what I just wrote is that it could be interpreted that I have just given a free pass to every senior owner to sell the firm out from under its remaining partners. I haven't. Since my favorite phrase is "the fish stinks from the head," if you are one of the senior partner getting ready to retire and you haven't built anything sustainable, then shame on you. And know that you are one of the people who needs to be taking a discount in retirement benefits for "the lack" of what you have built. So, if dysfunctional is how you would describe your firm without you, then fix it before you leave. That will not only be your legacy, but it will also justify you getting full benefits (not premium benefits, but full benefits).

Once "fair" retirement benefits have been determined, for this moment in time, we can move on to the next step in building our succession plan. The reason I mention that we are simply putting stakes in the ground is because as we set additional stakes in the ground, those new stakes might require us to rethink a decision made when setting a previous stake. For example, if the firm later establishes premium perks for past-owners who want to continue to work for the firm after sale of ownership, then that might require reassessing the retirement benefit calculation agreed to when setting that earlier stake (because in the end, the retirement benefit is about the whole package offered, not just one component).

The next area of discussion quickly shifts to when someone has to retire. For the rest of our discussion on this, we will refer to this as "mandatory date of sale of ownership" (MSO). For example, many senior owners want to stay until they can't come to work anymore. And for most of them, they also want to be paid their high salaries throughout that extended period, which often includes years of working part-time (and I am being liberal calling it part-time). Regardless of what people make, after working with executives for over 30 years, everyone thinks they earn every penny of their compensation, with the vast majority feeling like they are underpaid. So, don't expect a light to go off in the head of a senior partner with him or her saying, "Wow ... I am vastly overpaid for what I do!" I have never seen it. Even when partners are working less than 1/2 time and are still among the highest paid, they justify their compensation with quotes like "this firm wouldn't exist without me," or "I brought these people in and they wouldn't have a job without me," or one of many other self-serving rationalizations.

Given that senior partners:

- usually delegate more and more of their work to younger partners and managers,
- often top-out where the book they manage stops growing,
- commonly shift their thinking from growing, improving and investing in the organization to maintaining the status quo and maximizing compensation; and
- have a more and more difficult time giving fair consideration to the demands and expectations of the youngest employees because of an age gap of more than four decades,

it is essential for a good succession plan to embrace a mandatory date of sale of ownership.

According to the Succession survey, the most common age for MSO is 65. Of the multi-owner firms surveyed, 47% included MSO in their partner agreements, with 54% of those choosing age 65 as the MSO year. Of note: firms with up to 25 FTEs were less likely to include MSO in their agreements than firms with more than 25 FTEs. Based on our experience, firms are starting to change this from MSO at age 65 to a partner being eligible to receive full retirement benefits at age 65 assuming 2 years advance notice, with MSO at Social Security age (which is often set at either 66 or 67 with only a few firms setting this at the floating value established by Social Security).

MSO is usually the ugliest discussion of all ... far uglier than the retirement benefit amount. Why? Because you are telling a senior partner -- who takes pride in the business he/she has been part of building over the years -- that he/she is no longer needed or wanted. A common response from one of the remaining partners might be, "that isn't the case ... we are willing to create an agreement after MSO for them to continue to work." Well, if you are one of the ones who said that ... at least be honest because in almost all of the cases we see, MSO is a way to severely restrict a partner's daily impact and influence on the firm. There are two sides of being a partner. One is that you fill the role of partner, and the other is that you are a leader and have decision influence in the firm. After MSO, the second should never be true (once partners have sold their interest in the firm, they should never be part of the management or decision teams -- they might share an opinion, but should not be in the room when it is time to vote). And we believe that retired partners (after MSO) should no longer be doing partner-level work, so they shouldn't still be filling the role of partner either. They should be relegated to senior manager level work (like reviewing), business development or some other specialty work that might be valuable to the firm (maybe technical training perhaps). Or said another way, regardless, they should NOT be managing client relationships.

Once you have pinned down the date for MSO, you need to move on to the client transition process and the system and penalties for following or ignoring them. This is where I will pick up with the next column. And we will keep moving through the process until we have all of the stakes in the ground that we normally process with our firms. Happy Busy Season!!!

AAA 2013 Paperless Benchmark Survey Results

by Roman H. Kepczyk, CPA.CITP, CGMA

The Association for Accounting Administration recently completed their 2013 paperless benchmarking survey to find out the status of paperless office practices in accounting firms this upcoming busy season. The survey has been conducted every two years beginning in 2003 to help identify trends in adopting "less paper" processes. This year, 115 firms participated in the survey. See how your firm stacks up against the questions below and you may find some leading practices your firm could be implementing this busy season. To find out more about the specific results of this survey, Roman H. Kepczyk, CPA.CITP presented a webcast on January 25, 2013 which is available on AAA's website (CPAAdmin.org) to member firms.

2013 AAA Paperless Benchmark Survey	2013	2011
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1. Tax - Does your firm instruct its personnel to primarily utilize email for communicating with tax clients for additional information requests?	87%	61%
2. NEW Tax: Is your firm delivering the MAJORITY of your Organizers via digital means?	14%	NEW
3. Tax - Is the due date status of returns updated electronically by personnel in real time format (including managing the digital workflow of tax documents in practice or another digital workflow tool?)	89%	70%
4. Tax - Does your firm PRIMARILY scan client source documents (W2, 1099, etc.) at the front end of the process when the return is received and/or prior to review (mid-level scanning) so they are utilized onscreen?	78%	63%
5. Tax - Is your firm utilizing internal software or external services to organize/bookmark scanned client source documents into a standard PDF Format (CCH FxScan, SurePrep, Gruntworx Organize, etc. bookmarking services)?	57%	72%
6. Tax - Is your firm using <i>internal</i> software that utilizes Optical Character Recognition to automatically transfer data from scanned source documents to your tax program (CCH AutoFlow, etc.)?	33%	29%
7. NEW Tax: Do your tax personnel utilize onscreen digital annotation tools?	84%	NEW
8. Tax - Does your firm primarily deliver tax returns in a Digital format?	35%	NEW
9. Tax: What is the primary monitor configuration for tax professionals?	63% use more than traditional dual monitors	NEW
10. Tax – Is your firm using <i>external/outsourced</i> services to have data manually input into your tax program (SurePrep, Gruntworx Populate)?	9%	10%
11. Audit - Are documents prepared by clients requested first in an electronic format such as a PDF, spreadsheet, or scanned image via email, portal, or flash drive?	82%	78%
12. Audit - Does your firm primarily link its audit applications to its tax application to digitally transfer trial balance information?	68%	71%
13. Audit - Do your personnel working outside the office access firm applications and information via a remote connection (Saas, Virtual Private Network, Citrix/WTS) more than 50% of the time?	70%	68%
14. Audit - Do your auditors carry dual monitors in the field?	63%	40%
15. NEW Audit Do auditors carry printers/scanners into the field?	63%	NEW
16. NEW Audit: Do your auditors utilize data extraction tools on the majority of their engagements?	58%	NEW
17. NEW Audit: Do your auditors utilize a dedicated audit scheduling program?	29%	NEW
18. NEW Accounting: Does your firm utilize web-based accounting products for client service?	71%	NEW
19. Administration - Does your firm utilize an intranet to store firm wide information (i.e. personnel manual and internal firm procedures)?	64%	72%
20. Administration - Does your firm deliver firm <i>internal</i> financial and management reports electronically via email, secure portal, or posted to owner section of the intranet/DM?	75%	67%

21. Administration - Does your firm have an electronic document destruction procedure to ensure deletion of outdated electronic files on the network?	53%	50%
22. Administration - Does your firm use a firm-wide document management program for archival of all final tax returns, financial reports, and firm correspondence?	66%	70%
23. Administration - Does your firm pay accounts payables via electronic means such as credit card, online bank draft, or online service (Bank ACH, Bill.com, etc.)?	50%	41%
24. Administration - Does your firm utilize a remote check scanner in your office to deposit client checks?	63%	52%
25. Administration - Does your firm deliver digital payroll stubs via secure email or portal?	58%	40%
26. NEW Administration: Are expense reports submitted electronically?	33%	NEW
27. Practice Management - Do owners/managers receive internal management reports electronically (via email or by looking them up on the computer)?	66%	73%
28. Practice Management - Do firm personnel utilize information dashboards within your Practice Management application to update internal reporting information?	48%	25%
29. Practice Management - Are the majority of invoices prepared onscreen rather than using <i>manual</i> billing sheets?	68%	56%
30. Practice Management - Does your firm deliver client invoices electronically? (WAS: by email or digital fax?)	44%	40%
31. Practice Management - Does your firm maintain its contact/prospect list in its practice management or groupware applications?	82%	71%
32. Communications - Do your personnel utilize smart phones for remote email, calendar, and contacts?	94%	76%
33. Communications - Does your firm provide internet enabled devices (other than smart phones) for senior management working outside the office? (WAS: NetBooks, iPads or similar mobile tablet devices other than smart phones to senior management for when they work outside the office?)	33%	10%
34. Communications - Has your firm implemented Unified Messaging Technology for all staff? (Was: Does your firm have a digital fax system that allows personnel to receive faxes via email and save them digitally to the network?)	66%	63%
35. NEW Communications: Does your firm utilize Instant messaging?	27%	NEW
36. NEW Communications: Does your firm utilize video calling/conferencing?	37%	NEW
37. Communications - Does your firm utilize a client portal/FTP site to transfer and store <i>other non-tax</i> client documents?	65%	64%

38. Technology - Does your firm backup all firm data to the Internet (web-based storage) on at least a monthly basis?	57%	46%
39. Technology - Does your firm utilize a SharePoint server or Lotus Notes knowledge database?	31%	29%
40. Technology – Has your firm transitioned to a virtualized server environment (VMware, Microsoft HyperV, Zen, etc.)?	56%	45%

Roman H. Kepczyk, CPA.CITP is Director of Consulting for Xcentric and works exclusively with accounting firms as an independent, outsourced Chief Information Officer (CIO) optimizing the firm's tax, audit, client services and administrative workflows, utilizing the Firm Process Optimization (FPO) Review process which Roman has partnered successfully on with over 275 firms.

Busy Season Survival Strategies

As you enter busy season, consider these ideas to help you take care of yourself and provide much-appreciated encouragement to your team. CPAs are programmed to “tough it out” or “plow through” to get to the end of busy season, but **busy season could actually be enjoyable if you take some pressure-relieving measures now!**

Incorporate fun, levity, and stress-relief into your work days (and nights). **Undertake a few of these ideas (or pass them on to your administrative or HR staff to implement) to help your team members thrive this busy season:**

Relaxation and Renewal

- Bring in a masseuse to give 15-minute chair massages (you might find someone to donate their time in order to promote their services and hand out cards for future use)
- Have periodic stretch, dance, or recess breaks
- Hold an in-house yoga or meditation class during lunch or at the end of the day
- Design a “resting room” where people can go to take a break, read a magazine, or take a power nap
- Bring in exercise equipment like a treadmill, stationary bike, or elliptical machine (exercise releases endorphins, the “feel good” chemicals, and is one of the best stress management techniques we know of!)

Fuel for the Body

- Bring in yogurt, fruit, bagels, English muffins, or cereal for breakfast and provide a full breakfast and lunch on “working Saturdays”
- Provide healthy afternoon snacks like protein bars, fruit, yogurt, pretzels, or nuts
- Take orders and go on a morning or afternoon coffee/tea run
- Bring in restaurant menus for team members who are working through dinner and order in

- Have theme days with complimentary food, like a Mexican fiesta, Hawaiian luau, Italian feast, barbeque, etc.
- Host a potluck day where everyone contributes a menu item or host a chili or BBQ cook off

Games and Contests

- Develop trivia games with prizes for the winner – you can create a theme such as “The Olympics” or “Songs from the 90’s”
- Have team members bring in their baby pictures and hold a contest to see who can make the most correct matches
- Play memory games or have “Survivor Challenges,” like who can stand on one leg the longest
- Pull problems from SAT or ACT study web sites and post them (if permitted) on the firm’s intranet once a week and hold a contest with prizes for the first five respondents with the correct answer

Convenience and Family Considerations

- Consider making a concierge service available to run errands like picking up dry cleaning or prescriptions
- Allow flexible scheduling (for example, those who consider themselves “night people” may be more productive if they are allowed to come in a little later and work later hours)

Acknowledgment

Acknowledgment and respect is one of the six major motivators for people in their careers.

Acknowledging effort and hard work can go a long way, especially at times when pressure is at its highest and people may be being pushed to their limits. Here are some ways you can demonstrate appreciation to your team members:

- Send personal appreciation e-mails or hand-written notes to people for a job well done
- Stop by someone’s cubicle or office to tell them what a great job they did on a project
- Send group communications acknowledging team accomplishments or single out a team member for an achievement in a staff meeting
- Implement a “wow” note program where anyone can submit someone’s name and accomplishment for acknowledgement and then read the notes at firm-wide meetings
- Give gift cards for exceptional performance

Also, remember that the high level of client contact during busy season brings with it the opportunity to build and/or further develop rapport, identify cross-selling opportunities, and ask for referrals. **By implementing some of these ideas and reducing stress, your team can be at its best, exhibit the interest and capacity to do more for clients, and make the most of these opportunities.**

Your busy season approach can also serve as a recruiting differentiator and improve the morale and engagement of your whole team. While the immediate health and well-being benefits are

crucial, **effectively managing busy season volume and compression by reducing stress and increasing fun will improve your firm's long-term financial health, too!**

Krista Remer and Michelle Baca are consultants of ConvergenceCoaching, LLC, a leadership and marketing consulting and coaching firm that specializes in helping leaders achieve success. Learn more about the company and its services at www.convergencecoaching.com.