August 2014

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
In this series, Bill Reeb, CPA, has explored the job of the managing partner. In this final column of the series, Reeb continues the discussion by covering how to compensate the managing partner. He also looks at a common question of how much of a book the managing partner should maintain, as well as having the right person in the role, setting the correct goals and objectives, emphasizing firm performance vs. individual performance, clearing up common misconceptions, and other related issues.
Read Reeb's Commentary

Marketing Tip: Develop Business with Internal Marketing First
Building a relationship with the successful rainmakers in your firm is an effective strategy for growing your development skills and obtaining advice and experience. Brianna Marth of Convergence Coaching LLC also advises that your internal marketing include developing real relationships with other "non-rainmaker" members of your firm. This article looks at getting to know your team members on a deeper level and building rapport with them.
Learn more

Survey Says: CPAs Find Power and Freedom in Mobile Tech
According to preliminary findings from new *CPA Trendlines* research, CPAs say it takes a mix of discipline and technology to stay in touch and work out of the office. However, a vast number of CPAs say new mobile technologies are helping to solve work/life balance issues that have plagued the accounting profession. The research uncovered seven key trends. Rick Telberg discusses the research findings in the following article.
Learn More

Show Me the (Overtime) Money – Audit Associates Strikeout
In July, the U.S. Court of Appeals for the Second Circuit rendered an important decision for the accounting profession in *Pippins v. KPMG*. The issue in question: Are entry-level accountants (non-CPAs) exempt from the overtime requirements of the federal Fair Labor Standards Act (FLSA)? The plaintiffs were first-year audit associates at KPMG who alleged they regularly worked more than 40 hours per week, but did not receive overtime compensation as required by the FLSA. Overtime lawsuits by inexperienced accountants have been lurking in the background for several years. The court ruled that entry-level audit associates are exempt from the FLSA overtime requirement.
Read the article

There's a New Way to Spot Talent for Your CPA Firm
The work environment for CPAs is changing. What makes someone successful in a particular role today might not tomorrow if the competitive environment shifts, the strategy changes, or he/she must collaborate with or manage a different group of colleagues. So the question is not whether your firm's employees and leaders have the right skills; it's whether they have the potential to learn new ones.
This article from Rita Keller takes a closer look

http://www.bizactions.com/n.cfm/page/e105/key/271955963G2186J2576724N0P0P10279960T0/

The Four Security Questions for a Cloud Move
The cloud has been gaining great traction in the accounting world. This is due to its ability to reduce hardware, software, and storage costs. The cloud can scale up or down easily with the size and needs of your firm while adding enhanced functionality to your operations. While the benefits of the cloud are numerous, one item that many CPAs are concerned about is security. There are four questions you should always ask a cloud-based service provider.
Learn more
http://www.accountingweb.com/article/four-security-questions-cloud-move/223686

Setting Your Firm Apart from the Competition
Firms often misidentify what makes them unique and miss opportunities to stand out. While many accounting firms understand that specialization is a key to growth, brand differentiation still remains a challenge for too many firms. To succeed, you must be special to *someone* – and this means differentiating yourself.
Get the details
http://www.cpa2biz.com/Content/media/PRODUCER_CONTENT/Newsletters/Articles_2014/CPA/JUN/yourpublicaccountingfirm.jsp

The Benefits and Challenges of Moving Away from the Billable Hour
Changing the billing model is something many CPAs have considered in recent years, especially as more and more consultants have called for the elimination of the billable hour. This *Journal of Accountancy* article provides an instructive case study for firms that want to understand the challenges and potential benefits of such a change.
Read the article
http://www.journalofaccountancy.com/Issues/2014/Aug/billable-hour-20149888.htm#

Building a Pipeline for CPA Firm Success
For a practitioner in a busy CPA firm, success requires the ability to handle multiple tasks effectively. Adding an "idea" inventory can generate some very comprehensive benefits and help CPAs achieve even greater professional success. This article offers guidance to help you tap into the power of new ideas.
Read the article
http://www.accountingweb.com/article/building-pipeline-cpa-firm-success/223595

The Job of the Managing Partner – Part 4
By Bill Reeb, CPA, CITP, CGMA

In our first three columns focused on the managing partner, we covered:

- Managing partner definition, considerations, and roles and responsibilities
- Roles and responsibilities of the board of partners versus that of the managing partner
- Generic partner group roles and responsibilities (or partner board)

- Why the managing partner is the one charged with implementation and accountability
- The role the compensation committee might play in accountability
- Electing, the term of, and dismissing the managing partner
- Notice required when the managing partner is getting ready to retire

In this final column, we will pick up our discussion by covering how to compensate the managing partner and related issues. Here is the general definition we use:

> *The managing partner should have a compensation plan unique to that position focused on carrying out the strategic and tactical objectives of the firm. While there can be some individual performance goals assessed, the bulk of the managing partner's incentive package and focus should be on overall firm performance. The key here is that you don't want an incentive system for the managing partner that is overly focused on individual goals, because the real value of this position is in driving firm-wide change.*

The most common question we hear when we get into this topic pertains to "How much of a book should the managing partner maintain while serving in that role?" The question is common, because most partners think that, "We can't pay this person if their own personal production doesn't cover more than whatever they are making." Well, this mentality flies in the face of successful businesses everywhere. If you are in a sales organization, that attitude would say that you shouldn't have a sales manager unless he or she was earning their own keep through their personal sales quota. Or if you are running a manufacturing line, the theory would imply that, unless you were working on the line, you wouldn't be earning your pay.

The reality of what we find is simply that, as you grow larger, there is more money to be found or made by getting your resources to work together to achieve the common goals of the firm. In a CPA firm, that job falls to the managing partner. And its most critical and scarce resources include the partner group, which surprise, surprise, is a primary focus on the managing partner.

A generalized answer as to what is the appropriate client service load for a managing partner varies by firm size. Before we get into some ranges, it is important to start with this concept. If your firm is $30 million or less in annual revenues, managing partners need to service clients. The reason is very basic: Partners in CPA firms don't have the same level of trust for the managing partner s who no longer service clients. Once a managing partner becomes totally administrative in his or her work, partners deem them out of touch with what it takes to fill the "client service partner role" in the firm and the managing partner therefore is not deemed to be in a good position to provide guidance or evaluate a line partner's performance. Given this position, here are some broad and generalized guidelines to answer this question. If your firm generates:

- Less than $2 million in revenues, the managing partner will probably carry the biggest or second largest book in the firm
- From $2 million to less than $4 million in revenues, the managing partner should manage between $1 million and $800,000 of business
- From $4 million to less than $7 million in revenues, the managing partner should manage between $800,000 and $500,000 of client revenues

- From $7 million to less than $10 million, the managing partner should have between $500,000 and $300,000 in book being managed
- From $10 million and larger, the managing partner should have around $300,000 in book being managed

As I mentioned, the brackets above are generalized. But the message is very specific. As the firm grows larger, the managing partner's main priority needs to shift from personal billings and managing clients to managing the firm. To do this, the managing partner needs to be seen as still being in touch with the job of servicing clients, which is why we suggest that managing partners keep some client service responsibility.

Before we go on, I want to digress for a second because of another common misconception. Given that we want to limit the number of clients the managing partner is still responsible for, it is important to note that those few clients shouldn't be the smaller clients of the firm; small clients are suitable for managers and principals and maybe even young partners, but certainly not the managing partner. It is the complexity of working with the firm's larger clients that helps the managing partner stay abreast of what the marketplace is expecting in terms of service, quality and competence, which then helps him or her better lead, advise and counsel the firm and its individual partners.

One of the biggest problems we run into with firms of all sizes is their lack of implementation ability. That problem rests squarely on the shoulders of the managing partner. But to be fair, the reason for this deficiency is because most managing partners we encounter carry far too large a book for the job they are tasked to do. If the client load responsibility of the managing partner is too burdensome, the firm will not only have access to a limited number of hours from the managing partner to implement strategic changes, but it will get the worst hours he or she has, because the management needs will be covered at nights and on weekends.

As we introduced in Part 1 of this series, many firms in the critical growth range from about $3 million to $7 million (we referred to them as Eat What You Kill firms moving to the Building a Village or Once Firm Concept) don't believe a managing partner is necessary, so the role really is only a prestigious title bestowed on a partner with one of the largest books, who typically is less excited about running the firm and more excited about servicing clients. As we have said so many times in our columns, as you grow larger, what helped make you successful in the past will likely actually undermine your success in the future. And as you grow, the job of the managing partner needs to not only become a real job, but the most important job of the person filling that role. If you don't make the necessary adjustments to managed book, you will be setting your managing partner up to fail, and more important, setting your firm up to stagnate.

Now before you start transitioning the managing partner's clients to others, an important question is ask is whether you have the right person in the role in the first place. If the person currently filling the role doesn't want to wake up every morning focusing on the firm first, thinking about ways to approach developing employee competency, holding staff and partners accountable to the firm strategy, implementing changes approved by the partner group, etc., then that person should step down from the managing partner role.

Many times, the person filling the role of managing partner is really that firm's best rainmaker or one of the best marketing partners in the firm. So, if this is the case and you have a current managing partner who loves to be viewed externally as the visible leader of the firm, but really prefers to find new business and take care of clients, we suggest moving this person to a position such as "Chair of the Board (or Partner Group)." This is actually a better role, because it is a visible leadership role with very limited implementation expectation and it allows them to do what they love, but gets them out of the way of someone who actually wants to focus on making the firm better, faster and stronger.

Assuming you have the right person in the role and you are reducing the book they manage (therefore, the time required to manage the firm is in line with the size of the firm), the next question is "How do you motivate someone who has historically focused on personal achievement to focus on achieving the firm's objectives?" The best answer is for you to put your money where your mouth is; make the majority of the managing partner's incentive compensation based on meeting the firm's strategic objectives. This means that the managing partner would have a special compensation plan created to motivate that outcome. And while the managing partner might have some small amount paid for his or her personal performance as a client service partner, the vast majority of the compensation would be tied to firm objectives such as:

- Meeting firm profitability targets
- Earning a specified average net income per partner goal
- Meeting firm growth targets
- Building capacity appropriate to meet expected future client demand levels
- ensuring developmental, training and/or competency objectives are being reached for employees
- Overseeing certain operational priorities (e.g., retiring partners transitioning clients properly, implementation of major technology changes, successful merger of a new office, etc.)

As you can see from the examples above, the emphasis is on firm performance, not on individual performance. We believe that it is a pretty simple concept: if you want a managing partner to do that job, create performance objectives that reinforce working on the firm rather than in the firm.

There is a general rule CPAs need to understand. CPAs will default to individual goals almost every time if they have a choice, because they are easier to accomplish. Firm goals or team goals usually take a back seat to individual goals, as they require others to perform and we, as a group of professionals, are much better at just putting our own head down and getting it done. Therefore, when we work with managing partners, especially in the beginning of this redefined governance effort, we put hardly any financial emphasis on individual goals except for one. The common individual goal exception for managing partners pertains to transitioning clients to other partners, principal or managers. For example, we might set up three or four major firm objectives for the managing partner to accomplish along with an individual goal of transitioning $250,000 of client relationships in a given year. We do this because if the managing partner doesn't start transitioning client relationships early on, he or she will never have the time, or be allowed the time based on client demands, to ensure that the firm achieves its objectives. But understand that virtually no person put in the managing partner role will transition any clients without some protection regarding their future compensation should they be removed from that position (either voluntarily or involuntarily).

This is why we suggested the policy in Part 3 that protects the managing partner's compensation should they be removed. If you don't manage the client load of the managing partner, you will never really have one, nor will you be likely to ever experience the real economic or performance benefits this role commonly delivers.

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Develop Business With Internal Marketing First

In my last article, "**Defining Your Ideal Target Client**," we explored the first of seven rainmaking realms in which practitioners can participate to improve their business development activities and skills. We explored why we must first identify our ideal target client before we can begin active marketing. Once you've established a process for identifying and defining your ideal target clients, it's appropriate to move into the second rainmaking realm: internal marketing.

The simplest way to build your rainmaking skills is to assist and support other business developers in your firm. Ask how you can "shadow" their client, referral source and networking activities. Let them know that you would like to observe and learn, and that they shouldn't worry about you interfering or interjecting with the discussions. Share that in the future, you'd like to evolve into a more meaningful role if possible, but initially you're just seeking to listen and learn.

Offer to assist your firm's different business developers in supporting their sales processes where applicable. There are learning opportunities in helping to develop solutions for the client, scoping and pricing your firm's solutions, researching what similar engagements took to produce, and preparing the proposal and proposal presentation. Consider seeking a shadowing opportunity with a great rainmaker in your firm who is at the initial stage with a new prospect. If you're able to, plan to shadow the experience throughout the various meetings, the solutions development process, and the proposal stage. Observing the entire sales process from first meeting to closing with a new client will aid in building your understanding of, and confidence in, the various stages.

Building a relationship with the successful rainmakers in your firm is a wonderful strategy for growing your development skills and obtaining advice and experience. However, your internal marketing should also include developing real relationships with other "non-rainmaker" members of your firm. Get to know your team members on a deeper level and build rapport with them. Consider attending other service line meetings to learn about their work and their ideal target clients so that you can better make referrals and find synergy between your target clients.

And when you learn about the other service areas in your firm and the ideal target clients they serve, and they learn about yours, you'll establish mutually beneficial internal referral sources. This also enhances the one-firm feel of your firm's culture and promotes genuine collaboration.

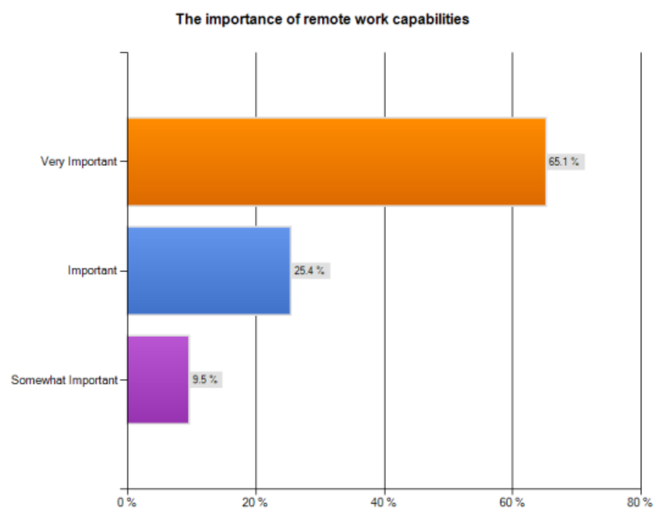
Utilize your firm's internal resources and seek learning opportunities to improve your personal marketing abilities and confidence in rainmaking. When you exhibit an earnest interest in your colleagues' service lines and success, you'll develop a deeper understanding of your firm as a whole and begin to sustain the future of your firm. Investing time in strengthening your internal marketing resources first will establish a framework for stepping out into external marketing and cross-selling activities in the future.

Brianna Marth is the sales and marketing coordinator and Jennifer Wilson is co-founder and partner 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.

Survey Says: CPAs Find Power and Freedom in Mobile Tech

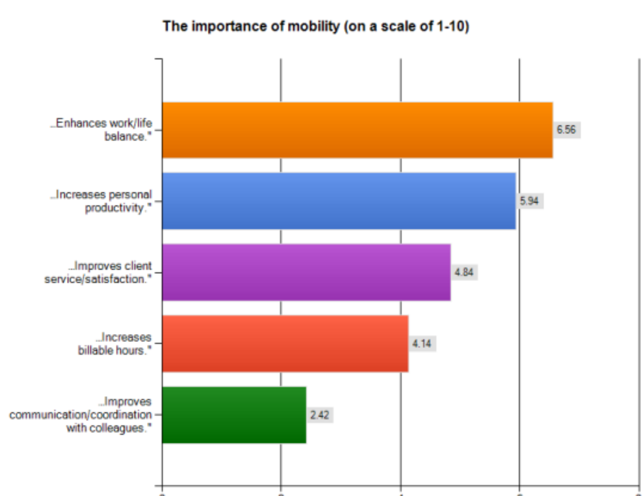
Sole practitioners lead mobile trend with virtual offices.

By Rick Telberg
CPA Trendlines Research



CPAs have come to rely on their iPhones and tablets as essential tools of the trade, with more than 90 percent terming the devices "important" or "very important," according to preliminary findings from new *CPA Trendlines* research. Join the research panel; get the results.

CPAs say it takes a mix of discipline and technology to stay in touch and work out of the office. However, a number of CPAs say new mobile technologies are helping to solve the pernicious work/life balance issues that have long plagued the profession.



CPA Trendlines Research found seven key trends:

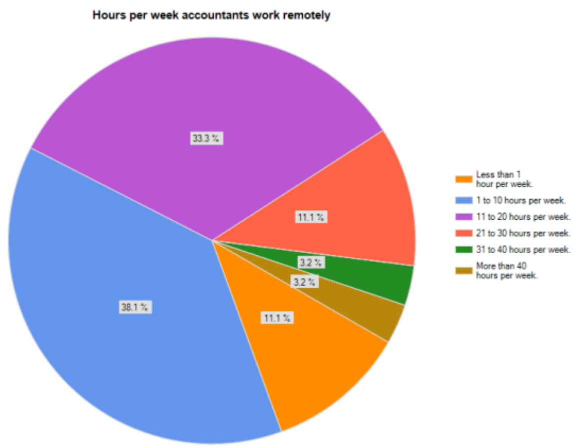
1. Accountants crave mobility
2. Mobile accountants are happier, more productive

3. Half of all accountants work at least 11 hours per week out of the office
4. When choosing a smartphone, office connectivity tops list of buying criteria
5. Time & billing and CRM apps top the wish lists for future smartphone plans
6. Soloists are driving the mobile tech trend in accounting
7. Working from home is cited as one of the most "effective" ways of controlling costs

To be sure, about 10 percent of accountants insist they use neither smartphones nor tablets for work. But they are a distinct and shrinking minority. Otherwise, the new technologies are increasing accountants' personal productivity, improving client service and satisfaction, boosting billable hours, and streamlining coordination with clients and colleagues.

No wonder then that half of all accountants – in mostly the smallest practices, apparently – are working at least 11 hours per week out of the office, including 17 percent who are clocking 20 to 40 hours per week away from their desks.

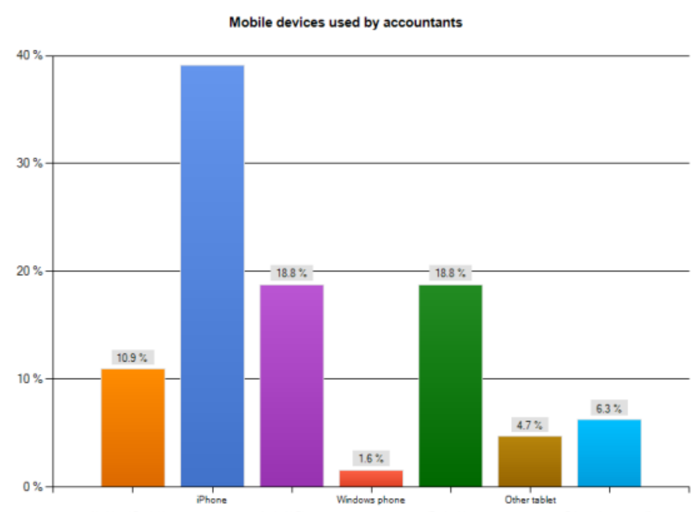
In choosing their mobile devices, the primary consideration is the ability to connect with office applications. But, oh, they love their iPhones. Accountants prefer Apple over Android devices by margins of two to one.



And looking into the future beyond phone, voicemail, email and web surfing, a significant number of accountants are planning to add time and billing systems and client relationship management databases to their handhelds.

In off-the-cuff comments, *CPA Trendlines* respondents gave a bevy of tips and strategies to make the best of working office-less. They go beyond the basics (stay out of the kitchen, go as electronic as possible, and keep to-do lists organized by where work can be done) to give us their hard-won lessons on staying on task, whether it's at home, on the road or even at the beach.

CPA Paula Allgood, a partner with Beaird Harris & Co., PC, in Dallas, Texas, says it is tough to find time for her compliance responsibilities, which are final global review before returns go out the door. Keeping one day a week free of meetings helps, but so does working at home: "Take one day a week out of the office (usually Wednesday) to catch up on email. Also, seeing sunlight, catching up on home laundry and working in shorts is a huge morale boost."



"Have your phone forwarded to your cell to avoid the necessity of returning calls at a later time and playing phone tag," says solo practitioner Michael Edson.

"Take a break every couple of hours to check the smart phone for emails from clients who can be dealt with quickly," says Cynthia C. Reid, a CPA in Peoria, Ariz. "Helps to come back to work a little fresher and lessens email tasks to handle when back in the office."

Howard B. Shatz, CPA, of McGuckin, Shatz & White, LLC, in Little Silver, N.J., disagrees. “Don’t answer the phone – return calls later. It will be much more efficient.”

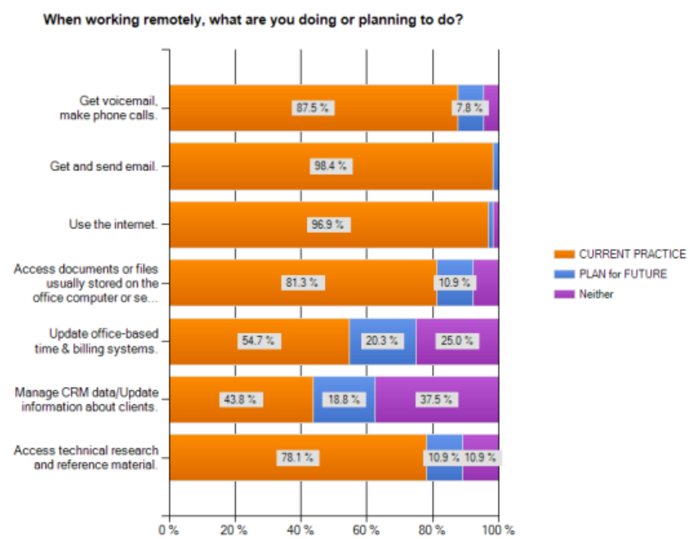
“Having mirrored setups at home and office with info in the cloud to access data anywhere” helps Carl McGookey of Payne Nickles & Company CPAs & Business Advisors in Sandusky, Ohio.

“I have a VPN connection to the office network that I can’t live without,” says Sheri Kagan, CPA, of Kagan & Associates, Ltd., in Rolling Meadows, Ill. “Since we scan everything, I can access almost anything I want from home. This setup allows me to work when I want, and to avoid driving to the office in 8 inches of snow!”

Earline La Buy, Antioch, Calif., tried using a program that allowed her to use her office computer from home, “but it was too slow and cumbersome,” she says. “When I work at home I am more relaxed and seem to get more done. I transfer my clients’ files to a flash drive, take it and their paperwork home, transfer it to my home computer, do the work and reverse the process to get the info on my office computer.”

Soloists Drive Mobile Tech

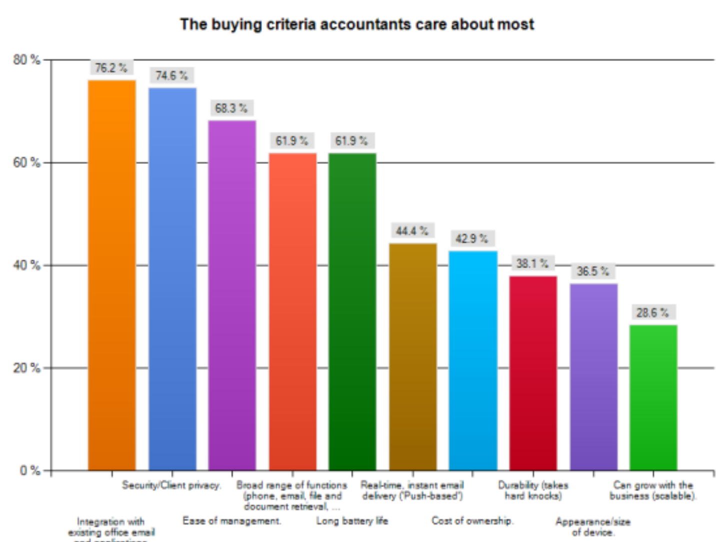
In another survey, 44 percent of sole practitioners report they put in billable hours out of the office more than a quarter of the time, placing them in the vanguard of the mobile workforce trend.



In fact, 5 percent use no office at all, reporting instead they work virtually – maybe from home, car, a client’s desk or even a Starbucks, according to the *[Accounting Firm Operations and Technology Survey](#)*, co-sponsored by *CPA Trendlines*.

By comparison, accountants at larger firms are relatively desk-bound. Large firm practitioners, working in firms of 50 or more persons, were the most office-bound, with none reporting that they work out of the office more than 50 percent of the time.

“Although many firms have dreamed of ‘going virtual,’ with employees working from home all of the time, only 2 percent of all respondents report that they do not have a physical office,” according to the report’s authors, Randy Johnston and Leslie Garrett. Notably, 3 percent of large firm accountants report they have a virtual office.

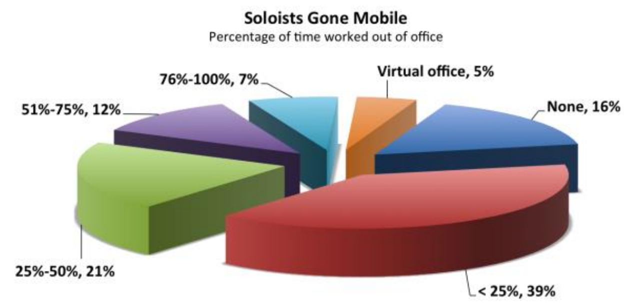


At small firms, with up to 10 people, one in five accountants report they book more than 25 percent of their hours out of office. At mid-size firms, with up to 50 persons, it’s one in four.

large, 50-person-plus, firms, it’s one in five, including the 3 percent with completely virtual work spaces.

The authors suggest that practice owners are casting a wary eye on mobile, wireless and virtual solutions, mindful, first and foremost, of the costs.

“A desktop computer costs less, can be used for a longer period of time, and gives better performance than a comparable laptop,” they say. The value proposition, they add, “is not understood or there is no perceived ROI to the technology.”



But many professionals would beg to differ once work-life benefits, client service and other relative intangibles are factored in.

For soloists, there’s another big reason to go virtual: profit. Some 48 percent of sole practitioners say working from home is one of the most “effective” ways of controlling costs. At larger firms, the go-to tactics for cost controls start at staff reductions (according to 29 percent of accountants at mid-size firms) and delaying tech upgrades (31 percent at large firms).

Rick Telberg is President and CEO of cpatrendlines.com, the leading independent research and advisory service to tax and accounting firms. Readers are invited to participate in the survey and qualify for free top-line findings and results at https://www.research.net/s/mobile14.

Show Me The (Overtime) Money – Audit Associates Strikeout

On July 22, 2014, the U.S. Court of Appeals for the Second Circuit (Connecticut, Vermont & New York) rendered an important decision for the accounting industry in *Pippins v. KPMG*. The issue in question: Are entry-level accountants (non-CPAs) exempt from the overtime requirements of the federal Fair Labor Standards Act (FLSA)?

The facts in the case are familiar ones. Kyle Pippins and his fellow plaintiffs were first-year audit associates at KPMG. They alleged they regularly worked more than 40 hours per week, but did not receive overtime compensation as required by the FLSA.

KPMG argued that because the plaintiffs worked as accountants, albeit not CPAs, they were nonetheless “professionals” and exempt from the FLSA overtime provisions. The Appeals Court sided with KPMG. Under the FLSA, in order to be exempt from the overtime requirement, an employee must be salaried and fall into one of the three exempt employee classifications – executive, administrative, or professional. The FLSA defines a “professional” as an employee whose “primary duty is the performance of work requiring advanced knowledge in a field of science or learning customarily acquired by a prolonged course of specialized intellectual instruction.”

The associated regulations further specify that the work must be "predominantly intellectual in character, require the consistent exercise of discretion and judgment, and be of the type where specialized academic training is a standard prerequisite." The regulations further state that "certified public accountants generally meet the duties requirements for the learned professional exemption."

Pippins and his cohorts did not dispute that they worked in the accounting profession - a "field of science or learning." They argued, however, that unlicensed audit associates do not meet the exempt employee requirements, because they do not exercise sufficient discretion and judgment, and actually receive the training necessary to perform their duties after joining KPMG.

The Appeals Court was not persuaded by the plaintiffs' perspective. The Court found that, even though the work performed by audit associates was not particularly sophisticated and they were supervised by more experienced accountants, they can "exercise professional judgment even when their discretion in performing core duties is constrained by formal guidelines or when [final] judgment is deferred to higher authorities."

With respect to Pippins' claim that the requirement for specialized academic training was not met, the Appeals Court levied this response, "KPMG's training materials would not be understandable to the average classics or biochemistry major nor could non-accountants develop the requisite understanding of the audit function on the basis of [KPMG's] brief training period." The bottom line: In the Second Circuit, entry-level audit associates are exempt from the FLSA overtime requirement. (The Court did not specifically consider whether tax or consulting associates are also exempt, but it seems safe to conclude that tax associates are.)

While it's not the brightest dot on the accounting industry radar screen, overtime lawsuits by inexperienced accountants have been lurking in the background for several years. At least four of the six largest firms have been party to a case. The potential damages are significant and include not only back overtime wages, but substantial penalties. In addition, converting entry-level associates to non-exempt status can have a major impact on the leverage model and engagement profitability.

The decision in *Pippins* is only good law in Connecticut, Vermont and New York, but it does signal how other jurisdictions may view the issue. Firm leadership can sleep a little better knowing that wage and hour class actions brought by first-year associates have been dealt a serious blow.

NewGate Partners provides legal and risk management services exclusively to the accounting industry. Learn more about NewGate Partners by visiting our website at newgatepartners.com or by contacting Peter Fontaine, Managing Partner, at pfontaine@newgatepartners.com *or 617-513-2440.*