2-2000


American Institute of Certified Public Accountants (AICPA)

Follow this and additional works at: https://egrove.olemiss.edu/aicpa_news

Part of the Accounting Commons, and the Taxation Commons
CONSIDERING BUSINESS VALUATION?

Business valuation (BV) has become a very popular client service for CPAs in public practice. A veritable wave of CPAs are hanging a BV shingle on their office doors and creating new BV departments within their firms. Why is this niche attractive to practicing CPAs? First, it is a natural complement to many of the other new client services, such as estate and gift tax planning and litigation support. Second, competition among CPA firms is turning attest and compliance services into commodities. Third, our clients are demanding it. In fact, most CPAs have heard their clients ask, “How much is my business worth?” And last but not least, BV is a very lucrative niche.

CPAs must consider customary strategic planning issues when they develop and manage any new service. However, the methods used in creating a successful BV practice differ greatly from those used to grow and manage traditional CPA firm services, such as audit, accounting and tax. For example, firms providing business valuation services must identify new markets, earn a professional designation, pursue continuing professional education focused on business appraisal, recruit and develop personnel, consider a variety of liability issues and integrate the BV practice into the firm’s current way of doing business.

What valuation entails

Valuations are used for a variety of purposes, including mergers and acquisitions, buy and sell agreements, ESOPs, shareholder transactions, business dissolutions, divorce, estate and gift tax planning, eminent domain proceedings and litigation support (see “Why Are Businesses Appraised?” p. 3). Often, the appraiser must be familiar with a relevant statute, case law or other peculiarity of an event related to the valuation. Therefore, a CPA retained to value a merger or acquisition will need to be very familiar with M&A activity, and a CPA retained to value a business for minority shareholder buyouts will need to be familiar with the statutory requirements in each controlling jurisdiction. A CPA retained to value a business for estate or gift tax purposes must be famil-
ABV EXAM

The AICPA is not a business valuation organization, but—because of the size of its membership—AICPA members probably perform the largest percentage of appraisals. To receive the ABV designation, an applicant has to pass a written examination. To sit for the written exam, a candidate must be a member of the AICPA, hold an unrevoked CPA certificate or license issued by a recognized state authority and provide evidence of 10 business valuation engagements that demonstrate substantial experience and competence. For more information on the AICPA/ABV designation, call 888-777-7077 or visit the AICPA Web site at www.aicpa.org.

The AICPA is administering the fourth ABV (Accredited in Business Valuation) Exam on Monday, November 6, 2000. Applications are due August 31, 2000. Specific sites for the exam and the two-day review course will be determined at a later date. For those interested in the ABV exam, revised information about the program and application procedures will be posted on the AICPA Web site in May at www.aicpa.org/members/div/mcs/abv.htm. If, however, candidates cannot access the information online, they can obtain it via the AICPA 24-hour fax hotline by dialing 201-938-3787 from a fax machine and keying in document numbers 492, 493 and 494.

If you have other questions about the ABV program, you can call the ABV help line at 888-777-7077; fax your questions to the ABV fax line at 888-445-3999 or phone Madelaine Feldman, ABV program coordinator, at 201-938-3653; e-mail: mfeldman@aicpa.org.

amiliar with the IRS revenue rulings governing the various standards for valuation. When valuing a business in a marital dissolution, the appraiser must know what valuation methods might be precluded by controlling case law. Therefore, understanding the nature of each BV assignment is essential. No one can possibly be competent enough to take on every assignment. Know what BV engagements are best for you and your firm.

Regardless of the particular services offered, a successful valuation practice must be staffed by competent professionals possessing the requisite credentials. Because there are no state-issued licenses for BV, practitioners must turn to professional organizations for education, training and credentials. Four primary organizations currently provide the requisite foundation. They include the

1. American Institute of CPAs (AICPA), which issues the Accredited in Business Valuation (ABV) credential.
2. American Society of Appraisers (ASA), which issues the Accredited Senior Appraiser (ASA) credential.
3. Institute of Business Appraisers (IBA), which issues the Certified Business Appraiser (CBA) credential.
4. National Association of Certified Valuation Analysts (NACVA), which issues the Certified Valuation Analyst (CVA) credential.

The educational programs and credential process can vary greatly, especially when the CPA considers the quality of a particular curriculum and the rigor of the exam. Many firms hire staff members with a variety of credentials from different organizations, and it is very common for an individual appraiser to hold credentials from two or more of these organizations. Potential BV clients will expect their CPAs to possess the requisite credentials. The Uniform Standards of Professional Appraisal Practice (USPAP) require an appraiser to disclose to a client any deficiencies in his or her level of competence, as well as what will be done to compensate for it. All the appraisal organizations have competency standards for their members.

If you are setting up a BV services group within your firm, you should avoid hiring audit or tax professionals who are untrained or only marginally trained in BV. The standards for BV, governance, measures of value and approaches to the engagements can be drastically different from audit or tax. Your competitors will staff their valuation practices with well-educated, well-trained and experienced professionals. You must do the same.


**WHY ARE BUSINESSES APPRAISED?**

Certain types of business valuations are guided by specific sets of rules, such as state statutes and IRS or Department of Labor regulations. If a minority interest is being valued, certain adjustments may not be able to be made to the company’s financial statements because the minority interest cannot legally make such adjustments. Valuations in divorce proceedings may have case law restrictions that must be considered, for example, separating goodwill from the goodwill of the practice.

Businesses are commonly appraised in connection with the following:
- Mergers and acquisitions.
- Allocation of purchase price.
- Estate and gift taxes.
- Marital dissolution.
- Employee stock ownership plans.
- Liquidation or reorganization of a business.
- Buy-sell agreements.
- Stockholder disputes.
- Financing efforts.
- *Ad valorem* taxes.
- Incentive stock option considerations.
- Initial public offerings.
- Damages litigation.
- Insurance claims.
- Charitable contributions.
- Eminent domain actions.


**Your liability exposure**

It is likely you will be working with an attorney or a law firm in each of your BV engagements—many valuation engagements require that an attorney be involved. Thus, it can be considered a caveat that the CPA offering such services must have some legal exposure. Of course, certain valuation engagements have historically carried more exposure than others. For example, valuations required to facilitate pending or anticipated litigation are low-risk engagements, while ESOPs and valuations involving fairness opinions have a higher risk.

Certain valuation engagements will expose the appraiser to liability for a longer period of time. The length of the exposure is related to third-party challenges of transactions that result from a BV engagement. Because litigation-related valuations generally are challenged at the time of the valuator's deposition or during the trial and because the results of the valuator's work are typically known at the time of settlement or conclusion of the trial, such valuations usually have shorter liability timelines. Tax, ESOP and transaction-related valuations that affect third parties generally are challenged after the valuation and, therefore, extend the valuator's exposure. All well-managed valuation practices should carry an appropriate level of professional liability insurance.

**Your resources**

Just as tax practitioners have a complete library of research and authoritative materials, so should appraisers. At a minimum, the library or resource center should include the major treatises on business valuation theory and practice, studies supporting discount and capitalization rates, restricted stock studies and sources for Tax Court cases and revenue rulings, as well as both print and online up-to-the-minute information resources. Business valuations are often performed in an adversarial setting, and the success of the appraisal often is incumbent upon the appraiser's skill and ability to respond effectively to the opinions of the opposing valuation professional. Each of the BV accreditation organizations has a list of "must have" resources for the BV library. Look them up.

**Marketing your services**

Of course, you have to market the BV service to get this niche off the ground. Your number—one clients most likely will be local and regional law firms. You should have the savvy to network with attorneys and other professionals with whom you are in contact. Consider attending education programs of common interest to attorneys where you can develop and cultivate relationships that may result in BV referrals. This will convey the impression that you and your firm are committed to acquiring cutting-edge BV information.

Do not overlook marketing opportunities within your firm. Many of your existing clients will require valuation services as part of their transactional or tax planning activities. To take advantage of all your opportunities, you should teach your staff in the audit, accounting, tax and consulting departments how to identify potential BV engagements.

**Before you dive in, check the water**

Venturing into the business valuation practice area can be challenging and profitable for any CPA firm. However, the costs of getting such a practice off the ground are high. You must be willing to hire competitive staff and spend a lot of time educating yourself and other members of your valuation team. You and your staff also must

*continued on page 4*
BE AN INVESTMENT ADVISER

Financial planning is currently a very popular high-growth service. Your competitors most likely have begun offering some kind of financial advisory services, and government regulations are being relaxed, allowing even the smallest CPA firms to offer their clients one-stop shopping.

What do these changes mean for you? While many CPAs are feeling a bit whipsawed by all that is happening in the marketplace, the opportunities are providing you with great client service options. A sole practitioner who recently expanded into investment advising told me her practice already is growing. "I don't have to refer my clients to the person down the street anymore," she said. "This opens a whole new door for me."

There are plenty of reasons CPAs—large and small—should add investment advice to their list of client services. After all, they traditionally have been asked for financial advice, they customarily charge a fee for their services, their objectivity and integrity are well-recognized, they have the trust of their clients and, most important, they are at the center of their clients' financial universe.

Five models to choose from

A CPA who wishes to add investment services and financial planning to his or her client services can choose from several different business models. Business models help you structure how your firm does business and your relationships in the securities industry. The five most common business models for adding investment services to your financial planning services are described below.

1. Direct affiliation. With this model, your firm will be an official National Association of Securities Dealers (NASD) securities brokerage office. Your employees must be licensed to sell securities and/or registered as investment advisers. Your "payout" would depend on your volume of business. You can choose to work on a commission or fee basis with clients. The broker-dealer for your office provides services, including trading and operations, product and market research, accounting, marketing, compliance, training and advisory services.

The pros of direct affiliation are these:
- You have a smaller capital investment.
- You have a well-capitalized, experienced organization behind you.
- There usually are no restrictions on ending the relationship with a your broker-dealer if it doesn't work out.

The cons are as follows:
- You and your staff will need additional licensing.
- You will be governed by the NASD.
- The broker-dealer controls what you do.
- You will have less flexibility.

2. Partnering. With this model, your firm partners with an existing broker-dealer in your region, and the service is transacted through that partner. CPAs will need to get licensed and registered to share commissions and fees. The payout is much smaller because of the partnering agreement.

The pros of partnering are as follows:
- Partnering is easy to establish.
- It limits your involvement in investment problems.

The cons of partnering are these:
- The payout is smaller than with direct affiliation.
- You have less control over the client's affairs.

3. Turnkey asset management program (TAMP). A TAMP is a useful model for start-up firms because TAMP provides firms with a package system for reports, compliance, training and asset managers. TAMPs will provide a firm with the research on capital markets and money managers. They also help with business development and account administration, and they have resources for portfolio design.

The TAMP will charge your client from 1% to 1½%, while you charge an additional fee for your services. The pros are these:
- TAMPs are easy to get started.
- A large selection of asset management service is available.

---

*Continued from page 3

be able to market the practice to stay ahead of the competition. Before you start committing resources to a BV practice, take the time necessary to acquaint yourself with what it takes to be successful by contacting at least two of the accreditation providers and reviewing one or two business valuation books. It's time well spent! ✓

—By Michael G. Kaplan, CPA, CVA, a forensic accounting, valuation and litigation consultant. Kaplan serves on the faculties of the University of Southern California Leventhal School of Accounting and Marsball School of Business. Phone: 818-222-9009; e-mail: wildlife@mikekaplan.com.
### 2000 AICPA Practitioners Symposium

<table>
<thead>
<tr>
<th></th>
<th>PCPS Member</th>
<th>AICPA Member</th>
<th>Nonmember</th>
</tr>
</thead>
<tbody>
<tr>
<td>(M6) Super Early Bird Registration (register by 3/16/00) — Save $50</td>
<td>$545</td>
<td>$645</td>
<td>$745</td>
</tr>
<tr>
<td>(M2) Early Bird Registration (register by 5/5/00) — Save $25</td>
<td>$570</td>
<td>$670</td>
<td>$770</td>
</tr>
<tr>
<td>(M1) Regular Registration (register after 5/5/00)</td>
<td>$595</td>
<td>$695</td>
<td>$795</td>
</tr>
</tbody>
</table>

### Optional Workshops (additional fees)

<table>
<thead>
<tr>
<th>Workshop</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>(101) Assurance Services</td>
<td>$99</td>
</tr>
<tr>
<td>(102) Implementing the Vision for CPA Firms</td>
<td>$99</td>
</tr>
<tr>
<td>(103) Mock Trial — Expert Witness</td>
<td>$99</td>
</tr>
<tr>
<td>(104) Marketing Your CPA Firm</td>
<td>$99</td>
</tr>
</tbody>
</table>

Credit hours are recommended in accordance with the Statement on Standards for Continuing Professional Education (CPE) programs. Your state board is the final authority for the number of credit hours allowed for a particular program.

Conference fee includes all sessions, conference materials, 3 continental breakfasts, 2 luncheons, refreshment breaks and a reception. Fee for optional sessions includes all conference materials and refreshment breaks. Hotel accommodations and other meals are not included. Please note there is no smoking during conference sessions. Suggested attire: business casual.

### Ways to Register Fast!

(American Express, Discover, MasterCard or VISA)

- **BY FAX:** 1-800-870-6611
- **BY PHONE:** 1-888-777-7077

**IMPORTANT:** To expedite your registration, please mention the source code shown on the mailing label beginning with the letters **C09900AC**.

**BY MAIL:**
Complete and mail the form on the reverse side to:
American Institute of CPAs
Meetings Registrations
PO Box 2210
Jersey City, NJ 07303-2210

### Cancellation Policy
Full refunds will be issued if written cancellation requests are received prior to 5/10/00. Refunds, less a $100 administrative fee, will be issued on written requests received before 5/20/00. Due to financial obligations incurred by the AICPA, no refunds will be issued on cancellation requests received after 5/20/00.

For further information, call the AICPA Meetings and Travel Services Team at (201) 938-3232 or send e-mail to conference@aicpa.org.

### Hotel Information
For reservations, contact the hotel directly. Rooms will be assigned on a space available basis only. All reservations require a one-night deposit by check or credit card. The hotel will process credit card deposits when you make your reservation. Check with the hotel for cancellation policy. To receive our special group rate, please mention that you will be attending the 2000 AICPA Practitioners Symposium.

- **Caesars Palace**
  3570 Las Vegas Blvd. South
  Las Vegas, NV 89109
  (702) 731-7110
  Room Rates: $130 Single/Double; $170 Deluxe Spa Tower
- **Hotel reservation cutoff:** May 5, 2000

### Airline Information
- **American Airlines:** 1-800-433-1790  Index #9375
- **Delta Air Lines:** 1-800-241-6760  File #134391A
- **Continental Airlines:** 1-800-468-7022  Reference Code #NLNJ2T

**CAR RENTAL:** Hertz Car Rentals — AICPA Member Discounts:
Call 1-800-654-2240 — Reference Code CV #021H0001

Discounts available only when you or your travel agent book through the 800 number. We strongly advise you to confirm your conference registration and hotel reservation prior to making your flight plans. The AICPA is not liable for any penalties incurred if you cancel/change your airline reservations.

### Exhibit and Sponsorship Opportunities
Don't miss your opportunity to present and sell your organization's services and products to thousands of financial professionals and CPAs at AICPA conferences. For more information on AICPA Conference exhibit and sponsorship opportunities, please call (212) 596-6136.
2000 AICPA Practitioners Symposium
June 4–7, 2000
Caesars Palace • Las Vegas, NV

When ordering by mail, please return this entire page.

Mail to: American Institute of CPAs
Meetings Registrations
PO Box 2210
Jersey City, NJ 07303-2210

*Credit card registrations only

Please check applicable boxes:

(A) Conference Registration
☐ (M6) Super Early Bird Registration
(by 3/15/00) — Save $50
$545  $645  $745
☐ (M2) Early Bird Registration
(by 5/5/00) — Save $25
$570  $670  $770
☐ (M1) Regular Registration
(after 5/5/00)
$595  $695  $795
Subtotal (A) $__________

(B) Optional Pre-Conference Session Sunday, June 4, 2000 (Additional fee)
☐ (101) Assurance Services
$99 (all)
☐ (102) Implementing the Vision for CPA Firms
$99 (all)
Subtotal (B) $__________

(C) Optional Post-Conference Session Wednesday, June 7, 2000 (Additional fee)
☐ (103) Mock Trial — Expert Witness
$99 (all)
☐ (104) Marketing Your CPA Firm
$99 (all)
Subtotal (C) $__________

TOTAL (Add A+B+C) $__________

PLEASE COMPLETE:

AICPA Member? ☐ Yes ☐ No  Member No. (required for discounted rates)

BUSINESS TELEPHONE  NICKNAME FOR BADGE

E-MAIL ADDRESS  FAX NO.

CONCURRENT SESSIONS
YOU WILL BE ABLE TO SELECT YOUR CONCURRENT SESSIONS VIA CONFIRMATION PACKAGE.
Start cashing in on your future success—right now!

2000 AICPA
PRACTITIONERS SYMPOSIUM
JUNE 4–7, 2000 • CAESARS PALACE • LAS VEGAS, NV
Recommended CPE: Up to 33 credit hours

It’s coming soon — AICPA’s 5th annual Practitioners Symposium — the first of the new millennium. This most comprehensive conference for public practitioners promises to be the best ever — guaranteed to deliver the cutting-edge business and strategic information you must have to excel in the 21st century. Here’s what we’ve planned for year 2000 participants at this must-attend event.

Three and a half days of interactive information gathering sessions . . .
in a range of specific interest tracks — accounting and auditing; small-, medium- and large-firm management; technology; taxation; and specialty services. Optimize your potential for future success by designing your own personal conference agenda. Choose from a carefully selected variety of different concurrent sessions — and then collect all the information you really want, and need — to master. Practical information you can use immediately to strategically expand your practice, strengthen your technical and managerial skills, and flawlessly service your existing — and newfound — clients in a multitude of business areas.

Practical, hands-on professional training . . .
conducted by respected national subject matter experts. This is the only multi-informational, practice development symposium in which high-profile authorities in finance, business planning, technology, taxation and management share their specialized knowledge directly with you. You gather authoritative advice and proven techniques for energizing every area of your practice — all at this one conference.

• Get critical updates on FASB, SSARS, peer review standards, and more.
• Discuss management issues such as recruitment, compensation, alliances, consolidation, merging practices, customer service, work-life balance, firm branding, staff training and motivation, and strategic planning.
• Understand the newest technology supporting virtual offices, operating systems, document imaging, voice recognition and telephony, and system reliability.
• Hear about current developments in taxation affecting financial and/or estate planning, high-income clients, family limited partnerships, S corporations, IRAs, and the like.
• Learn how to handle specialty services such as niche practices, performance measures, investment advice, technology consulting, international tax, business valuation, succession and retirement planning, and bankruptcy.
• Discover how to become a CPA Vision firm by strategically repositioning your practice to offer value-added services to your clients.

Register by 3/15/00 and SAVE $50!
PCPS Members save an additional $100!
Continuous networking and learning opportunities . . .

at receptions, outings, breakfasts, luncheons and breaks — with the exhilarating sights and sounds of Las Vegas to heighten the experience. Take these multiple opportunities to network with your peers from coast-to-coast — partners, sole practitioners, shareholders of CPA firms, directors, administrators, senior staff members, and other highly motivated professionals. Profit from informal chats with key subject matter experts who are eager to address your most pressing problems. Visit with top-notch exhibitors offering increased productivity for your practice with the latest resources, collateral materials and practice aids available. Learn what your colleagues are doing to attract new business, what the experts are advising, and what manufacturers have developed to enhance the efficiency of your daily operations.

29 valuable CPE credit hours . . .

earned in the most cost-effective way. Register by March 15, 2000, and take advantage of special savings: PCPS members pay less than $19 per credit hour, AICPA members pay less than $23 per credit hour, and Non-AICPA members pay less than $26 per credit hour!

Early summer fun and relaxation in Las Vegas . . .

one of the most popular conference destinations. Day or night, there’s just so much to do in this most amazing conference town, the entertainment capital of the world. You can sample incredible cuisine at top-name restaurants, try your luck at the slots and gaming tables, enjoy spectacular lounge acts and multi-million dollar production shows, or when time permits, simply chill out with your colleagues at poolside. Las Vegas offers you endless opportunities for fun and camaraderie.

Optimize the educational opportunities for your firm — bring members of your professional team to this truly affordable conference. Register today — and profit from the best investment you’ll make all year.

Attend the pre-conference workshop on Assurance Services . . .

where you’ll learn the tools, techniques, and strategies you need to offer these critically important, lucrative new services to your existing and new clients on an immediate basis.

- **ElderCare** — assuring family members that care goals are being achieved for their elderly family members who no longer can be totally independent.
- **SysTrust** — assuring the reliability, availability, security, integrity and maintainability of business systems.
- **WebTrust** — assuring online customers that businesses adhere to standard practices and controls.
- **Performance Measures** — ascertaining how effectively business goals and objectives are being achieved and/or how performance compares with competitors’ efforts.

And you’ll earn four additional CPE credit hours.

Take advantage of special super early bird registration savings. Call 1-888-777-7077 to register today!
Glossary of Investment Advisory Terms

Broker. An individual or firm who acts as an intermediary between a buyer and seller. A broker usually charges a commission.

Dealer. Any person or company in the business of buying or selling securities for his or her own account, through a broker or otherwise.

Broker-dealer. NASD member firms that act as securities dealers and/or brokers.

Investment adviser. Any person or entity who is compensated for providing advice to others or issuing reports or analysis regarding securities, as defined in section 202(a)(11) of the Investment Advisers Act.

Solicitor. An investment professional who “finds” and refers clients to an investment adviser for a fee.

Commissions. Usually paid by a third party (not the client) to the CPA. Commission contracts are between the CPA and the third party, and the CPA is not responsible for performance, reliability, product or service.

Wrap fee. The charge for an investment program that bundles or “wraps” a number of services, such as brokerage, advisory, research, consulting and management, and covers them with a single fee based on the value of the assets under management.

The cons are as follows:

- The services are higher priced.
- The payout is lower.

4. Open platform. This model allows you to choose how client money is managed. You can pick your money managers and you can also do some or all of the money management yourself. Both you and the third-party managers charge your client fees, and a custodian collects them for you.

A broker-dealer performs trades, provides custodial services, prepares statements and reports and provides client data for your analysis and compliance. With institutional brokerage services you enjoy consolidated assets and the ability to trade with several broker-dealers, have access to foreign exchange markets and a large universe of fee-based, fee-waived, and no-fee mutual funds. With an open platform, you enjoy discounts or rebates on portfolio accounting software, real-time market information, independent research and charting and equity mutual fund reports. In addition, you can, if you wish, use third-party advisers to manage your clients’ accounts, as well as multiple managers of your choice, and they can all be combined on one statement. The AICPA’s new Center for Investment Advisory Services (CIAS) encourages CPAs to adopt the open platform approach.

The pros of the open platform model are these:

- The firm enjoys more freedom and flexibility with clients in this approach.
- It costs less to operate.
- There are fewer people with whom to share fees.
- The CPA will lose clients if investment performance is poor.
- There is more liability exposure.

5. Independent money manager. CPA money managers manage stocks, bonds and derivatives with full discretion, and with little or no financial planning experience. The AICPA Center for Investment Advisory Services does not recommend, however, that CPAs become money managers. It is not a part-time service. CPAs can make the transition to investment adviser because they are the trusted financial adviser; however, being a money manager is a completely different thing. It’s a full-time career. Money managers charge what they please, and clients pay all commissions or fees and custodial charges on top of the manager’s fees.

The pros are as follows:

- The margins are higher.
- The CPA can control the relationship.
- The firm must have a portfolio manager and analyst.
- You are judged on the portfolio’s performance record.

Choose the model and get started

As the barriers between professionals crumble, more and more investment advisers are forming alliances with CPAs, attorneys and other professionals. These advisers and their new partners need to thoroughly understand the rules governing each professional’s activities, including the services the financial adviser and the other professionals will each be providing, how the alliance will be organized, the registration and solicitation requirements and special concerns regarding other professionals’ activities.

The AICPA Center for Investment Advisory Services encourages CPA financial planners to focus on adopting the open platform model and keeping their clients focused on long-term goals.

Learn more about the CIAS and what it has to offer you by visiting the Web site at http://investmentadvisory.aicpa.org.

—By Phyllis Bernstein, CPA, PFS, director of the AICPA personal financial planning division. E-mail: pbernstein@aicpa.org.
SHOULD SMALL FIRMS CARRY MALPRACTICE INSURANCE?

Solstice practitioners and small CPA firms often have close business relationships with their clients—the result of years of individualized service and attention. Practitioners generally assume these longstanding relationships are risk free and that any problems can be resolved quickly and without confrontation. Therefore, they don’t feel the need for professional liability insurance. Unfortunately, there rarely is a “problem-free” client. Consider the following case and point:

The Case: A sole practitioner developed a practice by providing personal and business tax, bookkeeping and compilation services to a variety of small business clients. As the practice matured, he hired his daughter as well as a recent accounting graduate, both CPAs. It wasn’t long before the two employees were providing services to most of the practitioner’s clients. At the time, the firm was grossing $230,000 annually.

One of the firm’s tax clients was a family-owned manufacturer with approximately $3 million in sales. The company had been in business for 40 years and a client of the CPA firm for 8 years.

Three years after the two younger CPAs had been brought into the firm, the manufacturing company’s tax returns for the prior two years, including form 5500 C/R, were audited by the IRS. The form 5500 C/R was for a pension plan set up by a benefits consulting company several years before the CPA firm was initially engaged to provide tax services.

As a result of the audit, the IRS determined the plan was top-heavy and that prohibited party-in-interest transactions had been made. The IRS felt the transactions jeopardized the plan’s viability. It assessed substantial penalties against the manufacturer and was considering disqualifying the plan.

At the same time, the company felt it had an obligation to provide for two long-time employees who had been scheduled to retire shortly after the audit.

The CPA firm owner—who previously had established a strong relationship with the client—tried to resolve the situation. But the company president was extremely upset with the results of the audit, and the CPA’s efforts were unsuccessful. The manufacturing company sued the firm and the principals of the benefits consulting company, seeking to recover from them the penalties and costs stemming from the audit, as well as the costs of setting up a new plan that would meet all regulatory requirements. The two retirees also sued the benefits company and the CPA firm.

The benefits consulting company was no longer in business and, like the CPA firm, had operated without malpractice insurance. On the advice of its attorney, the CPA firm quickly settled the claim to avoid incurring substantial defense costs and to avoid the risk of trial. Although the CPA firm had no responsibility for monitoring the plan’s compliance with IRS and Department of Labor regulations, there was a risk that a jury might take a different view, especially given the longstanding relationship between the CPA firm and the client.

The Point: Strong personal relationships with clients can develop over time and may be a significant factor in retaining clients. However, no matter how strong the relationship, if a problem arises from the work performed by the CPA, it can lead to a malpractice claim. Claims can be asserted by clients and, as seen in this case, third parties.

Sole proprietors and small CPA firms are particularly vulnerable to claims of malpractice because financial resources devoted to the business may be limited, exposing the CPA’s personal assets. CPA firms, large and small, always should have professional liability insurance.

— By John McFadden, CPA, CFE, and Joseph Wolfe, Director of Risk Management, CNA Pro, CNA Plaza, 36 South, Chicago, IL 60685.

Copyright 2000, Continental Casualty Company. All Rights Reserved. Continental Casualty Company, one of the CNA insurance companies, is the underwriter of the AICPA Professional Liability Insurance Program. CNA is a registered service mark, domain name and trade name of the CNA Financial Corporation.

This article should not be construed as legal advice or a legal opinion on any factual situation. Its contents are intended for general information purposes only.

HUD DEADLINE EXTENDED

The U.S. Department of Housing and Urban Development (HUD) announced that the filing deadline for audited financial statements for HUD-supported multifamily housing projects has been permanently extended to 90 days after a project’s year-end.

The earlier requirement was 60 days after the end of the project’s fiscal year. HUD extended the deadline to alleviate workload compression for small and midsize CPA firms.

“Many calendar-year clients of the small and midsize firms do not have their HUD multifamily housing projects paperwork completed until the middle of February,” said James A. Koepke, partner of Doreen Mayhew in Troy, Michigan.

“Considering that February marks the busiest time of year for most smaller firms, partners have been forced to augment staff and schedules to make the 60-day deadline. The extra 30 days really helps those CPAs who prepare and process the electronic submissions for their clients,” said Koepke.

For more information on the HUD deadline extension, visit the HUD Web site at www.hud.gov/reac/second-cycle.pdf.
**PCPS Firms Satisfied With Reviews**

A survey of 325 firms that completed their 1999 peer review revealed satisfaction levels with the on-site review program remain high. In fact, a large majority (84%) of the survey respondents who received an on-site review said they found it "valuable."

While most firms said they fully understood the objectives and processes of the peer review program, those that had undergone an off-site review were less satisfied with the review process because they "missed out on the face-to-face interaction with the review team."

The survey gave firms an opportunity to provide PCPS with questions on, and recommendations for, the peer review program. PCPS is organizing the questions and recommendations by category and will post them on the PCPS Web site with responses from experienced reviewers.

The PCPS executive committee will continue to monitor the peer review program, suggest improvements and find new and innovative ways to make peer review a worthwhile exercise for CPA firms. In the spirit of its commitment to the program, the committee established a task force on adding value to peer review. The task force plans to use the survey data in setting its agenda for future programs—among which are the advertising campaign to bankers (see below) and the local firm handbook, *Roadmap to Peer Review*. More information on the peer review program will be provided in PCPS Update in the future.

**Ad Campaign to Bankers**

For the past year, PCPS has sponsored an advertising campaign that targeted bank lending officers, and was intended to educate them about the value of peer review and the PCPS public file. PCPS and the AICPA have updated the ad campaign with four new ads promoting the peer review program.

Why? PCPS firms spend a great deal of time,.

---

**BizSites**

**Useful Web sites for the practicing CPA**

**Direct Marketing Online**

Practice development begins with setting goals—the hard part is meeting them. The following Web sites specialize in direct marketing techniques that will help you market your firm more effectively, allowing you to meet your practice development goals and boost your revenues.

**www.advisormarketing.com**

Originaly designed for financial advisers, this Web site is packed with free marketing information, tips and ideas for CPA firm partners. Users can download free information on public relations, direct mail, customer service and sales. For example, the site offers articles such as “26 Tricks to Get Your Envelope Opened” and “How to Write a Power-Packed Sales Letter.”

**www.amazingmail.com**

This site allows users to send picture postcards with personalized messages to U.S. clients. You create the postcards by choosing an image and typing a personal message and the recipient’s address. You can store a list of client addresses and send postcards in bulk. It costs 99 cents to create and mail each postcard (10 for $8.90; 25 for $21.25).

**www.giftinghq.com**

You always impress your clients when you make a special effort to say thank you. This site makes it very easy to choose the right gift for the right client. It has gifts, including gourmet treats, flowers and spa treatments, for any occasion.

**www.squarecd.com**

Create a CD-Rom version of your business card, pass it out at networking events and give it to potential clients. This site allows you to download information and graphics to create a business-card-size CD-Rom that can be used on any PC. The CD-Rom holds up to 50MB of content and costs $1.50 each to create (minimum orders of 100). You can download multimedia presentations, Web site content, audio and other documents.

—By Martin R. Baird, a marketing consultant. E-mail: mbaird@advisormarketing.com.

The AICPA/PCPA does not endorse Web sites that appear in BizSites.
money and attention on their quality control systems and their triennial peer reviews. They demonstrate their confidence in their own quality by publishing the review results in the public file. The program is an important part of the profession’s self-regulatory process and a key to the quality of financial statements for businesses—large and small. As it’s critical that bank lending officers understand this program, PCPS designed the campaign to remind them of the key benefits. The ads are running every other month in the ABA Banking Journal and in each Community Banking Quarterly. They have appeared twice in American Banker.

**Calls to Public File Up 50%**

During the third quarter of 1999, PCPS fielded approximately 400 calls from financial institutions that wanted information from the PCPS public file on CPA firms. Inquiries mostly came from bankers, stock exchanges, investment banks and individual businesses.

In the fourth quarter, the phone rang even more! More than 600 calls from institutions requesting public file information were received—about one call for every business hour. Just to give you an idea what entities are requesting public file information, in the past four months, PCPS received requests from Merrill Lynch, NASDAQ, the American Stock Exchange, state auditors and many other financial institutions across the country.

**LETTERS TO THE EDITOR**

The Practicing CPA encourages its readers to write letters on practice management issues and on published articles. Please remember to include your name and your telephone and fax numbers. Send your letters by e-mail to pcpa@aicpa.org.