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Practicing CPA, vol. 27 no. 1, January 2003

American Institute of Certified Public Accountants (AICPA)

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Recommended Citation

American Institute of Certified Public Accountants (AICPA), "Practicing CPA, vol. 27 no. 1, January 2003" (2003). *Newsletters*. 1742.

https://egrove.olemiss.edu/aicpa_news/1742

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The Practicing

CPA



www.pcps.org

THE NEWSLETTER OF THE AICPA ALLIANCE FOR CPA FIRMS

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January 2003

Getting the Firm Together

Bringing all employees together for Firm Day fosters a cohesive culture

Two challenges top the list of the 2002 MAP Top 5 issues for large and mid-sized firms, namely, finding and retaining qualified staff, and marketing and practice growth. To help meet these challenges, firms need to foster a culture that helps individual employees develop their knowledge and skills, feel that they're on the right career path, and grow in their ability to identify opportunities to serve clients.

Boston-based Vitale, Caturano & Company, PC, (VCC) has developed Firm Day, a tool that helps meet these challenges, as well as provide several other benefits to the firm and employees.

For the last two years, VCC has conducted this all-day informational and educational firm meeting, which has proven to be highly beneficial to the firm. Many employees have commented on the value of meeting other members of the firm and the benefits of gaining a deeper understanding of the firm's direction, of learning more specific information about the firm's various services, and of being kept informed on firm initiatives. Firm Day has enabled staff to work more cohesively and, as individuals, to have greater career satisfaction. In addition, we have increased cross-selling opportunities because we are better able to communicate about the full range of services we provide.

Along with providing skills training and services education, Firm Day builds employee pride in the firm. From the feedback forms for each session of Firm Day, we've learned that we get immediate results from the day in the cohesiveness and pride employees demonstrate after Firm Day.

All of these benefits extend to clients in the form of enhanced quality service. With a better understanding of the scope of services we offer, the VCC team is better able to help clients by introducing them to additional service offerings.

VCC has a total of 180 employees, 70 of whom are CPAs. Partners number 26. With one office, VCC offers a wide array of audit, accounting, management, business advisory, tax and financial planning, and technology services. Audit and tax services generate most income for the firm.

How we do it

The idea of Firm Day was conceived at a partner retreat during which we discussed the need for greater internal communication. We developed a proactive plan to ensure that the entire firm has the same knowledge and understanding of the firm's plans, and that we had everyone's attention. We wanted to make sure that all staff were receiving the same message and understood the firm's mission and values.

To set up Firm Day, a group of department managers create agendas and implement ideas for the day.

By Richard J. Caturano, CPA

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We break the day into various segments (see the sample agenda on page 3). Typically, we have a Meet-the-Team breakfast for which employees are assigned to tables in a way that mixes members of various departments. To each table, we assign employees who would be unlikely to form such a group otherwise. At breakfast, each person spends a few minutes telling other employees at the table about his or her role in the firm. At the Meet-the-Team lunch, employees again are assigned to different tables with different people to give them another chance to learn more about their colleagues and what they do.

After breakfast, a "State of the Firm" address covers all of the firm's strategic initiatives and current events. In particular, the "State of the Firm" address gives employees a strong sense of security and confidence that the firm leaders have a well-planned strategy. It also gives employees the incentive to assist in the execution and success of the firm strategy.

This is normally followed by some form of skills training. We segregate staff into different rooms depending on the training being offered. Sometimes staff are segregated according to department, at other times according to their role in the firm.

Firm Day activities also have included in-depth presentations about particular services, presentations about events the Vitale, Caturano & Company Foundation has sponsored, and a fashion show to demonstrate the firm's dress code.

We usually also have some form of "staff fun" or game designed to educate the staff about services. In the past, for example, we have had a musical performance by a band of employees, a game show with questions about the firm's services, a skit about our new office space, and a Value or Not-a-Value Quiz.

Employees get to know more about their colleagues through "Show and Tell" at which they demonstrate their hobbies and interests. Show and Tell receives rave reviews from Firm Day attendees. Employees enjoy learning more about the passions of fellow employees. One employee,

for example, told of swimming various international waterways; another described participating in synchronized skating, which may become an Olympic sport.

We have also implemented the tradition of the Firm Day "Relentless Award" to an employee who has demonstrated dedication to client service and firm values.

Who the players are

All employees attend each Firm Day. To date, we've held Firm Day off-site at several local hotels, a meeting hall, and a local college. Each Firm Day, we have a combination of employee speakers and professional speakers. We facilitate most activities. However, we also engage a keynote speaker or a professional trainer. For instance, Bill Butterworth, a motivational speaker, covered such topics as embracing change and balancing work life with personal life. He spoke in the morning, and we had special change management workshops in the afternoon.

Two graphic designers in VCC's in-house marketing department use their skills to create professional visual presentations.

With each passing Firm Day, the staff have commented that they continue to feel more educated about who we are. In addition, they appreciate being continually informed about the "State of the Firm."

If done properly, with a mix of serious and fun events, I think any firm would see results immediately. Partners and staff comments range from such statements of general approval as "Well organized and informative" and "Invaluable" to more specific comments such as the following:

- "Firm Day is an outstanding concept that will do a lot to keep VCC on path to goals by keeping all staff aware."
- "Obviously, a huge amount of work was involved in putting Firm Day together. It is meaningful to staff to see this level of commitment."
- "Great Day—great way to get everyone together."

The Practicing CPA (ISSN 0885-6931), January 2003, Volume 27, Number 1. Publication and editorial office: Harborside Financial Center, 201 Plaza Three, Jersey City, NJ 07311-3881. Copyright 2003 AICPA. Printing and mailing paid by PCPS/The AICPA Alliance for CPA firms. Opinions of the authors are their own and do not necessarily reflect policies of the AICPA.

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A new client service?

Although we have thought of providing a similar event as a service to clients, there are roadblocks to doing so. The planning activities around Firm Day are intense. Our in-house departmental managers can bring many, many ideas to the table because they understand the firm's culture and staff needs. As familiar as we are with our clients' operations and staff, it would be difficult to reproduce the necessary depth of understanding for an external client. Because Firm Day is managed by managers with a deep understanding of the firm and culture, many ideas are implemented without significant input from the executive committee. This would also be difficult to reproduce for a client.

Furthermore, in addition to being an expensive service to sell, it would make significant demands on firm resources that might be needed elsewhere.

Passing a test

Between June and August of 2002, Vitale, Caturano & Company merged with another accounting firm of 25 people and also assimilated eight former Andersen partners along with another 25 Andersen staff members. Firm Day helped with the integration of people from three different cultures.

Richard J. Caturano, CPA is President of Vitale, Caturano & Company, P.C., Boston.

Firm Day Agenda

8:30- 9:00 AM	Meet the Team Breakfast Participants will be assigned to tables for breakfast. Each person at the table will spend a few minutes telling the others who they are and what they do in the firm.
9:00- 9:30 AM	Expect More (Rich Caturano)
9:30-11:30 AM	Embracing Change (Bill Butterworth)
11:30-11:45 AM	Break
11:45-12:15 PM	VCC Charitable Foundation (Lisa Catapano, with a special presentation by Gail Jacoby)
12:15-12:30 PM	Show and Tell (Doug Bosley)
12:30- 1:30 PM	Meet the Team Lunch—Same as breakfast, different table assignments for all
1:30- 2:00 PM	PFPP Presentation (Dick Vitale)
2:00- 3:00 PM	Work/Life Balance (Bill Butterworth)
3:00- 3:15 PM	Break
3:15- 3:30 PM	Show and Tell (David Gardner)
3:30- 4:15 PM	Professional Staff Competencies (Elizabeth Phillips)
4:15- 4:45 PM	Fashion Show Presentation (Elizabeth Phillips)

Adding Value to the Family Business

Business succession requires addressing the risks that threaten family businesses

CPAs can help clients create more value in their businesses. Closely held businesses are particularly ripe for this service. This was the conclusion of Robert Pulliam, CPA, speaking at the AICPA Business Valuation Conference in New Orleans, November 17–19, 2002. Pulliam is managing director of Pulliam Financial Group, Winston-Salem, North Carolina. He presented the first of a two-part session entitled “Keeping Family and Business Together During Succession.” Although Pulliam was speaking to an audience of valuation analysts, he focused much of his presentation on guidance that would help CPAs help clients create more value in their family businesses.

Pulliam started his presentation by emphasizing the pitfalls of a family business's failure to plan for succession. He cited the experience of Krispy Kreme Doughnuts. The business was begun by the Rudolph Brothers back in the 1930s. Pulliam said, “They had what I would term a very successful *permanently small business*.” The business gave the families what they needed and met their objectives. Upon the deaths of the founders, however, “the company suddenly gained a third partner that no one had ever thought about—Uncle Sam,” Pulliam said. “They absolutely could not keep the business going and pay the estate taxes.” The moral of Pulliam's story is, “Learn that problems result from not looking ahead.”

Assessing risk to improve strategy

Pulliam spent much of the session discussing the elements of family businesses. Valuation analysts need to consider these elements to assess the risks associated with the business and their impact on the business's value. However, an understanding of the elements not only would help CPAs to assess the value of a family business, but also would help provide value-added services by recommending strategic measures that would help ensure business growth and continuity.

FYI

PCPS, the AICPA alliance for CPA firms, represents more than 6,000 local and regional firms. The goal of PCPS is to provide member firms with up-to-date information, advocacy, and solutions to challenges facing their firms and the profession. Please call 1-800-CPA-FIRM for more information.

Organization charts: culture and complexity

Pulliam cited the complexity of family businesses. Often, the firm's culture is based on the "intertwangling" of the family and the business. Each family business, Pulliam said, had four organization charts:

1. Stated business organization
2. Real business organization
3. Stated family organization
4. Real family organization

As the terms *stated* and *real* suggest, the official charts do not describe the actual organization of business or family. In the real family organization, for example, the wife of the owner is usually a silent partner in the business. She is the only individual who has an outside perspective on both generations and sometimes three generations. Pulliam said, "Any time I have an opportunity to interview her separately, I do it. And I acquire a lot of information. Again, you need to understand the culture." To address issues that may arise from the differences, the practitioner needs to understand the family business's culture and complexity.

"Empirical" evidence

To determine what elements CPAs need to consider in working with family businesses on succession issues and what characterizes successful family businesses, Pulliam reviewed his involvement with closely held businesses over the last five years. He selected 15 firms in existence for at least two generations. He was involved with them as a consultant or a CPA, or as a provider of litigation services in dissenter shareholder suits.

After considering these companies, Pulliam concluded the following:

- 50 % were successful. The companies survived and are able to do more than generate revenues for their owners or may have been sold to take advantage of synergies.
- 20 % are "still out." The future is uncertain.
- 30 % are unsuccessful, meaning that they are out of business or were forced to sell.

The "number one" characteristic of a successful business that Pulliam observed is that "Communication is the key. Every single one that was successful had some sort of forum to communicate to each other what each

other's roles were." They had that characteristic in varying degrees. Some had that culture from the start. Pulliam's firm had helped some develop that culture.

Pulliam also observed that there were generational differences. "I don't think you, as a valuator, can understand the risk unless you play the odds. If I have an older individual, there are certain influences that are most likely to be there," he said. (See "Understanding Generational Differences" on page 5.)

Improving the odds

Pulliam offered the following six elements the CPA can recommend that a family business include in its organization to improve the chances of a successful transition:

1. **Business plan.** Nothing is more important than a business plan, Pulliam said. Statistics show that of the family businesses that have formal business plans, 91 % have seen a significant increase in revenues; 81 % experience a significant change in profits; and 67 % enjoy at least a threefold increase in profits.

2. **A forum for communication.** You, as a consultant, give people permission to be open, even though nobody's given you that authority. Participants will be open, particularly if the president is sitting in the room and they think that you have the president's permission.

3. **Separation of shareholder/employee/family roles.** Be sure to separate the activities and responsibilities of the shareholder, the employee, and the family in determining their roles. First, do it orally, then in writing, and then monitor it over and over again.

4. **Stated objectives of the family including spouses.** Pulliam says, "It's ok to say, 'I don't want to be in the business.'" He advises that you "make sure that the father and mother don't get away with imposing a guilt trip." A parent may say, "My son's here working and my daughter doesn't want to be in the business, but I want to be fair." Pulliam advises clients to differentiate between the roles of earning a salary and creating value.

5. **Outside members of "advisory team."** Pulliam thinks a board of advisers is very important. For his CPA firm, he has a three-member board, consisting of a retired executive, a psychologist, and an attorney.

6. **Forum for compensation allocation.** This is "one of the more difficult" recommendations to implement,

Pulliam said. One possibility is to get someone outside, maybe the board of advisers. Pulliam also advises to set up some objective standards for compensation.

Pulliam said that every dissenter-shareholder suit that he has been involved in could have been prevented if the family business had implemented these steps.

Understanding Generational Differences

The following summarizes some of the typical differences that Pulliam observed between the generations in family businesses that he has advised.

- The older generation tends to:
 - Reflect the influence of the Great Depression.
 - Assume that families rely on a single-wage earner.
 - Be secretive, and refuse to share information about the payroll, etc.
 - Be autocratic, expecting others to do as they are told.
 - Stay pretty close to home.
 - Be gender-sensitive, looking at sons and daughters differently.
 - Be satisfied with a permanent small business that provides a monthly income without expectations that go beyond the near term.
- The younger generation tends to:
 - Live for the moment.
 - Assume that the family has two wage earners.
 - Be open-minded by looking at new ways for the future.
 - Be entrepreneurial—sometimes, sometimes not.
 - Assume that two careers means sometimes relocating.

More Antifraud Resources

Tools—some free—to help CPAs and their clients fight fraud

The AICPA's Antifraud and Corporate Responsibility Program introduced two new resources to help CPAs and corporate America fight fraud. The first is a one-hour training program designed to help the U.S. business community provide corporate fraud prevention training to all personnel. Created by the Institute with the Association of Certified Fraud Examiners (ACFE), the new program, *How Fraud Hurts You and Your Organization*, is available free-of-charge on CD-ROM or downloadable from the Internet. It is designed to provide valuable insight to a range of audiences, from consultants to corporate financial managers, senior executives, and boards of directors.

The course can be downloaded from www.aicpa.org/antifraud. AICPA members also can order the CD-Rom by calling 888-777-7077 and requesting Product Number 056513HS (an \$8 shipping and handling fee applies).

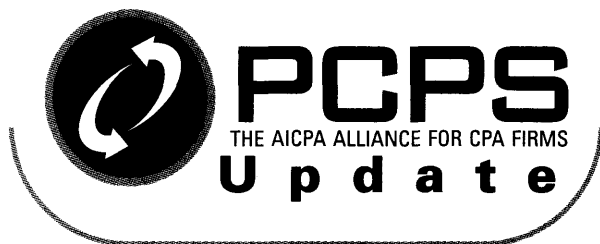
Antifraud center

Also up and running is the new Antifraud and Corporate Responsibility Resource Center devoted to the prevention, detection and investigation of fraud. The Center features technical literature, educational materials, training, and news on recent developments, as well as links to supporting products and services that can be ordered through CPA2Biz.com. Visit the new Center at www.aicpa.org/antifraud to explore its many sections, information, and tools.

Antifraud programs and controls

The cornerstone of the Anti-fraud and Corporate Responsibility Program is the new audit standard, Statement on Auditing Standards (SAS) No. 99: *Consideration of Fraud in a Financial Statement Audit* (AICPA, *Professional*

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Dear PCPS Members:

Happy New Year!

As we close our 25th Anniversary year and herald the arrival of 2003, it seems appropriate to take a moment to look back at all that we have accomplished in 2002 and what we anticipate for the year ahead.

2002: The Year In Review

As PCPS celebrated 25 years of advocacy, action and answers, we found ourselves confronted with new challenges and opportunities. Here are some of the highlights of the year:

Sarbanes-Oxley Response:

As the year began, we faced a significant challenge to the profession: the Enron debacle. As the news unfolded and the media and government called accountants to task, PCPS e-mailed materials to the managing partners of all PCPS member firms with updates on the profession's response, as well as recommendations on how to communicate with clients, staff, and bankers about the quality of your firm and its work. In addition, PCPS provided regular updates, toolkits, statements of position, and transcripts of media interviews

through our Web site — www.pcps.org

As the government began to take action and consider legislation, as chair of the PCPS Executive Committee, I had the privilege to testify before the Senate Committee on Banking, Housing, and Urban Affairs. My testimony addressed the concerns faced by small firms and small businesses in the U.S. in light of the Enron crisis. After the legislation was crafted, we posted regular updates on Sarbanes-Oxley to our Web site including transcripts of speeches and testimony. Finally, on August 26th and 28th, the AICPA and PCPS hosted conference calls for CPA firms across the country to hear a panel of speakers address the newly implemented Sarbanes-Oxley legislation. We were thrilled that more than 250 practitioners listened in on the calls and participated in the question and answer periods that followed. The transcripts are posted at http://www.pcps.org/member/sarbanes_oxley_2002.html.

New Website: In June, PCPS launched its new Web site — www.pcps.org. The new site boasts a multitude of resources for member firms. In addition to keeping you posted on what is going on at PCPS, the recently opened "members only" section of the site grants instant access to member benefits, such as exclusive survey results, technical issues alerts and updates on developing legislation and important accounting news. If you haven't been there recently,

please stop by to check out our new look and improved offerings.

TIC Committee: Throughout the summer, the PCPS Technical Issues Committee closely evaluated some of the more ambiguous components of the new GAO standard and, along with other AICPA committees, developed questions that were submitted to the GAO in requesting an interpretation of the new rules. The GAO responded, answering questions addressing both underlying concepts of the new independence standards and which services would render a firm not to be in compliance. To provide practitioners with guidance on these new independence standards, PCPS Executive Committee member Wayne Berson and TIC Committee member Tim Green co-authored an article that outlines the impact of these standards on local firms, which was published by many states societies and posted on www.pcps.org.

MAP Survey: This year, for the first time, PCPS partnered with the Texas Society of CPAs to present the 2002 PCPS/TSCPA National Management of Accounting Practice (MAP) Survey. We understand that it is a challenge to find accurate, representative data for local and regional accounting firms. The goal of our effort was to renew and improve the annual survey to provide our member firms with data against which they can benchmark their policies and performance. A record-breaking 2,500 accounting firms from across the U.S. responded to the survey,

with an average respondent firm size of 12 employees, eight of whom are CPAs. We were pleased to find that 98% of all respondent firms either grew or remained the same size in the past year, while 13% increased by 20% or more. We hope that the comprehensive research offers insight into what firms across the nation are doing and how your firm measures up. The national report is free to all PCPS-member firms; for more information on this year's survey, visit www.pcps.org.

MAP Forum: The PCPS MAP Committee developed a groundbreaking leadership forum for accounting firms this year entitled, "The State of the Profession... Preparing Today for Tomorrow." Held in early November in Phoenix, Arizona, the Forum was the first opportunity for managing partners of non-national firms to hear the status of major legislative and regulatory change and to discuss their strategies for moving ahead in this environment. One of the most engaging presentations was the town hall question and answer session, during which attendees asked the speakers about specific issues that can have an impact on their firms. Other notable sessions included a dialogue with Joseph Berardino and "A View from the GAO," led by David Walker. The Forum offered PCPS members an opportunity not only to learn from leaders within the profession, but also to talk with peers about major concerns and potential solutions.

2003: The Year Ahead

As PCPS turns its sights to 2003, we

anticipate that the events of 2002 will continue to influence our work as CPAs and to shape our programs and services for members. Accordingly, many of the initiatives we are working on now respond to the obstacles we see our members grappling with:

Understanding Legislation and Implementing Change: As the government continues to distill their learning and set up an operating PCAOB in response, PCPS is here to help members navigate the new rules. A particular challenge will be to respond to the plurality of reactions of the states. PCPS will be an advocate for small firms, highlighting the importance of distinguishing between public and non-public audits. In addition, one of our most important responsibilities in the year ahead will be to help our member firms position their role in the current environment. One tool we will be offering member firms are template letters for distribution to clients. These letters outline the issues surrounding and answer the questions raised by recent scandals. We hope they will provide you with a framework for reaching out to clients during this difficult time, to reiterate your commitment to honest auditing and voice your belief in integrity.

As always, we encourage you to voice your concerns to PCPS so that we may best position ourselves to help members.

Supporting All Aspects of Firm Management: One of the most significant concerns we have heard voiced by our members is the impact of recent legislation on small

firms with non-auditing services. We will strive to provide additional support in 2003 for our members as they react to the narrowed definition of allowable services and to help them strengthen core services.

In addition, we will be working to improve the resources we offer member firms and to create a strong culture of continued advocacy.

Enhancing MAP Survey: While we were thrilled with the strong response to and results from our first sponsorship of the MAP Survey, we look forward to further developing the questionnaire in order to ensure that the results provide the most value for member firms.

Drawing on the Strength of Our Heritage: In delving into our archives to find materials for our 25th anniversary celebration, we were reminded of the importance of institutional memory. We have no greater resource than past leaders. As we embark on our next 25 years, we will be creating a new consultative group of past leaders of PCPS Committees. We hope that building on their experience, interest and passion will further enhance our ability to weather the current storm and to charge forward with confidence and strength.

As always, we welcome your thoughts and feedback on how PCPS can serve your firm's needs. As we ring in the New Year, we raise a glass to a successful and profitable 2003!

Regards,

William Balhoff

Chairman, PCPS Executive
Committee

Standards, vol. 1, AU sec. 316), approved by the AICPA's Auditing Standards Board in October 2002. Although the new standard has the same name as its predecessor, it is clearly more far-reaching than SAS No. 82, *Consideration of Fraud in a Financial Statement Audit* (AICPA, *Professional Standards*, vol. 1, AU secs. 110, 230, 312, and 316). SAS No. 99 gives U. S. auditors expanded guidance for detecting material fraud and will result in a substantial change in auditor performance.

Key provisions focus on four areas of increasing professional skepticism, discussing fraud risks with management and others in an organization, performing unpredictable audit tests, and responding to management override of controls. The standard is effective for audits of financial statements for periods beginning on or after December 15, 2002, but the AICPA is encouraging firms to implement the new rule early.

Although the new fraud standard supports CPAs in their efforts to detect material fraud, another document issued by the AICPA and several other professional organizations helps businesses combat fraud too. *Management Antifraud Programs and Controls: Guidance to Help Prevent, Deter, and Detect Fraud* identifies the measures an

organization can take to prevent, deter, and detect fraud. These include creating an honest and ethical corporate culture, evaluating antifraud processes and controls, and developing an appropriate oversight process. Strong antifraud programs and controls such as these can help businesses of all sizes save revenue, enhance market value, avert civil lawsuits, and maintain a positive image.

In addition to the AICPA, the organizations sponsoring the document are the Association of Certified Fraud Examiners, Financial Executives International, Information Systems Audit and Control Association, Institute of Internal Auditors, Institute of Management Accountants, and the Society for Human Resource Management. Other organizations that participated in reviewing and offering advice include the American Accounting Association, Defense Industry Initiative, and the National Association of Corporate Directors.

Management Antifraud Programs and Controls is available from any of the sponsoring organizations and can be accessed at <http://www.aicpa.org/antifraud/management.htm>.

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