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Members in Medium Public Accounting Firms, January 2004

American Institute of Certified Public Accountants (AICPA)

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Highlights

Benchmarking Outside the Box

By Bradley J. Allen, CPA

news update

By strategic design or by instinct, businesses do benchmark. Many tend to compare their current financial performance, operations, sales and marketing figures against their previous year's figures. Though this kind of internal benchmarking has solid advantages, it is only half the story.

Benchmarking is powerful when it is the first step in identifying performance gaps between a company and its competitors or peers. Think about the value of knowing that a company improved its accounts receivable from last year's 55 days to 45 days this year, versus understanding that the best businesses in its industry are at *35* days. Perhaps discovering that a company's IT spending lags meaningfully behind industry peers would prompt an investigation into the type of IT in which competitors invest and why. Are easy-to-use billing systems enabling them to handle higher sales volume? Are upgraded Web-based technologies helping them interface directly with clients or helping internal project teams share information? Are competitors using customer relationship management systems to their advantage?

With more information available on pri-

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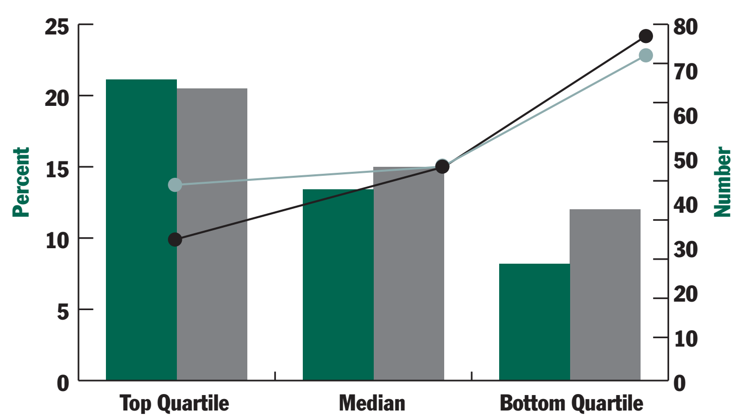
One Key Metric



Percent
- Trade Accounts Receivable (% of Total Sales) (Industrial Products 10-15MM)
- Trade Accounts Receivable (% of Total Sales) (Industrial Products 15-20MM)

Number
- Days Receivable (DSO) (Industrial Products 10-15MM)
- Days Receivable (DSO) (Industrial Products 15-20MM)

Source: Pricewaterhouse-Coopers' AMMBIT® (Advanced Middle Market Business Intelligence Tool) designed for small and midsize private companies with sales up to $500 million.

LEGEND	Top Quartile	Median	Bottom Quartile	Units
Industrial Products: $10 million to $15 million				
Working Capital, except Inventory				
Percent of Total Sales				
Trade Accounts Receivable (% of Total Sales)	21.10	13.40	8.20	Percent
Ratios				
Activity				
Days Receivable (DSO)	30.05	49.01	76.78	Number

continued from page B1—**Benchmarking**

vately held companies, small and midsize businesses can benchmark to redesign business processes, understand company value drivers, conduct strategic forecasting, manage costs and minimize taxes.

Benchmark, Analyze, Act

Let's look at how a business could use just one key metric, accounts receivable/days sales outstanding, to improve performance. Days sales outstanding (DSOs) is an integral part of managing almost every company's working capital.

The exhibit on the previous page shows the accounts receivable collection period, or DSOs, for fabricated metal manufacturing businesses in the $10 million to $15 million revenue range to the $15 million to $20 million revenue range. The median performers in the larger companies show a higher investment in accounts receivable and almost 10 days' higher DSOs.

A fabricated metals company in the $10 million to $15 million revenue range that anticipates growing into the $15 million to $20 million range could see from the exhibit that as it grows it may require a higher investment in accounts receivable. Alternatively, if the company could maintain its investment in accounts receivable at its current level, it could obtain a competitive advantage as it grows by freeing up the capital to invest in further growth.

Examining the metrics for larger businesses in the industry could help a company understand and plan for the metrics it should anticipate as it grows.

However, too often we've seen companies initially extend their DSOs so that they can grow. One company with about $17 million in revenues in the industrial product service and rental area had higher-than-average DSOs. On investigation, the company found the following correctable underlying causes:

- Unnecessarily liberal payment terms for larger customers, which created a precedent allowing other customers to slow their payments.
- Bad debt had increased with the age of the receivables.
- A high incidence of billing errors caused by growth and other factors, which resulted in break downs in the billing process and significant collection delays.
- The company lacked discipline in promptly wrapping up service projects, which delayed billing and collection.

A company must understand the full impact when it carries costs that exceed those of its industry peers. Having cash in hand allows companies to pay down debt, reinvest in the business and invest in productive assets to grow the business. Often, the biggest cost that businesses overlook is opportunity cost. Whether a company is embarking on an aggressive growth plan, considering an acquisition or just wants to know how it stacks up to competitors, benchmarking provides the guideposts to proceed with confidence.

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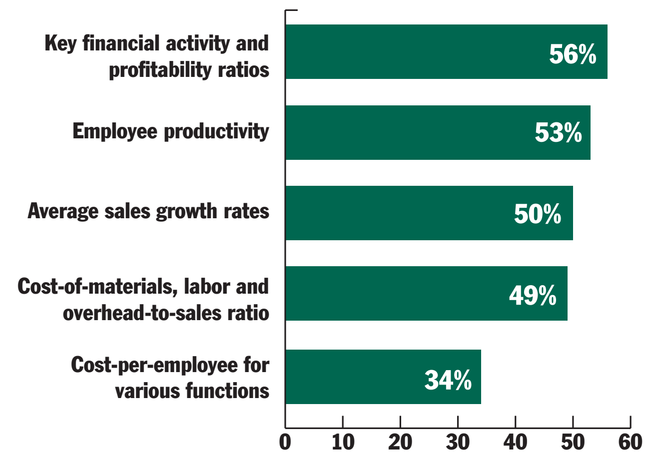
Bradley J. Allen, CPA, is a PricewaterhouseCoopers partner and chief architect of AMMBIT® (Advanced Middle Market Business Intelligence Tool), an online benchmarking tool designed for small and midsize private companies with sales up to $500 million.

Most Useful Peer Group Information

A recent PricewaterhouseCoopers Trendsetter Barometer Survey of over 400 of the fastest-growing businesses in the U.S. found that companies that benchmark their performance against their peers outperform companies that don't by almost 20%. Among the peer group information they found most useful:



MAP Survey Statistics

As readers know from an article in last month's main *CPA Letter*, the PCPS/Texas Society of CPAs National MAP Survey has recently been released. The survey provides valuable benchmarking data for regional and local accounting firms. Among some of its findings:

Earnings and rates. Firm employees reaped the benefits of local and regional firm success. The average salary increased 5% over last year and bonuses averaged 5% of total salary. On average, owners took home 36% of their firm's income, with each owner averaging approximately $150,000. Entry level CPAs' salaries averaged $37,000. The average hourly billing rate for a professional earning $50,000 rose to $95 this year from $86 in 2002.

Retirement plans. The data reveal that nearly 74% of firms have a retirement plan. Among all firms, 45% have a provision for partner retirement, of which 70% are funded plans.

The survey is free to PCPS members. For more information on how to purchase the survey or join PCPS:

800/CPA–FIRM

www.pcps.org, click on the 2003 PCPS/TSCPA National MAP Survey logo on the left side of the screen

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Starting Salaries to Stay at or Near 2003 Levels This Year

Average starting salaries next year for accounting and finance professionals should remain consistent with 2003 levels, according to the *2004 Salary Guide* from Robert Half Finance & Accounting and Accountemps. Additionally, experienced accountants who can help businesses improve cash flow and address new reporting requirements will be in demand, research shows.

"While salary levels overall will likely remain stable, candidates with highly sought-after skill sets may see modest gains in compensation," said Max Messmer, chairman and CEO of Robert Half International. "Companies faced with increasing workloads are recruiting financial professionals in areas such as internal audit, credit and collections and general accounting.

"Employers are hiring selectively, focusing their recruiting efforts on professionals who can provide solid leadership and contribute immediately to critical business operations," Messmer added.

Stable Salaries Forecast in Public Accounting

Average starting salaries for public accountants should remain little changed from 2003 levels, the survey showed. Managers at midsized public accounting firms ($25 million to $250 million in annual sales) can expect base compensation of $57,000 to $74,250, a 1.4% increase over last year. Average starting salaries for senior accountants at large public accounting firms (more than $250 million in annual sales) are forecast to rise an average of 1.1%, to the range of $48,750 to $62,250 annually. Both directors and managers at large public accounting firms are expected to see base compensation increase 0.9%, with average starting salaries ranging between $77,750 to $119,000 and $63,000 to $82,250 per year, respectively.

To get a copy of the salary guide, go to:

www.rhii.com/resources/index.html

Modernization, Human Capital Issues Raised at Tax Forums

The IRS Oversight Board says that tax practitioners who participated in the IRS National Tax Forums believe the nation's tax administration system is better than it was five years ago. Nonetheless, the agency must make progress with its business systems modernization program and overcome pressing human capital issues, according to the oversight board.

Thousands of tax practitioners attended the IRS-sponsored forums, which were held in six cities and concluded in Sept. The oversight board led discussion groups at each event to probe the views of those who deal regularly with the IRS and IRS employees.

"Board members spoke with dozens of accountants and tax preparers throughout the nation, as well as IRS employees, at this year's forums," said board chair Nancy Killefer. "And there is no question that the IRS is making progress in improving service."

IRS' e-filing and the agency's Web site were often cited as efficient time-savers, and the National Taxpayer Advocate Service was praised for its hands-on approach to solve specific problems.

However, practitioners voiced impatience at the IRS' slow progress in modernizing its computer systems. All are now accustomed to modern business systems used by major financial service companies, and say their work is slowed by the IRS' aged legacy systems.

Forum participants also raised concerns about human capital issues. Although IRS employees continue to adjust to the agency's major reorganization, their workload continues to grow, and many said that employees are retiring and often are not replaced.

Turnaround in Appeals

According to Dave Robison, Director of Appeals at the IRS, one of the division's greatest challenges is keeping up with its growing workload. Last fiscal year, Appeals handled about 100,000 cases, up from about 68,000 in FY2001. The division says it is finding ways to shorten the appeals process. Emphasizing early intervention, including "fast-track" settlements, and following successful models in areas such as innocent spouse, is helping, the Service says. Robison says that the division is becoming more effective, resolving 90% of cases it receives.

The division also reported a dramatic increase in employee satisfaction. In FY2002, Appeals ranked lowest among all IRS divisions in the agency's annual Gallup workforce survey. This year, Appeals' employee satisfaction jumped dramatically.

"Appeals' turnaround is a remarkable achievement," said Killefer. "In only a few years, this division has made a real difference for taxpayers who want to resolve their cases without resorting to litigation."

Board Calls for Long-Term Tax Administration Initiative

The board called on the IRS to undertake a major initiative to develop a long-term performance measure.

According to Bob Tobias, chair of the board's Performance Measurement Committee, "Although the IRS made significant strides in measuring its performance, it has struggled with the development of long-term performance measures and more important, outcome measures that can be used to track the 'health' of the nation's tax administration system."

What's needed, Tobias said, is to create national goals that define a "Healthy Tax Administration for 2015." Such an effort, he said, would "assess the health of the tax system, assess how well the tax system is working, and identify outcome measures that are indicators of health, much like taking the temperature of individuals to determine if they are sick." He outlined a recommended approach to undertake the concept, which would culminate in a report.

IRS Commissioner Mark Everson agreed with the concept, and pledged the IRS would implement the initiative.

Business Systems Modernization

The board also discussed the status of the IRS Business Systems Modernization program. Six independent analyses of the program are under way. The board's Business Transformation Committee will review the findings.

Consumer Alert on Credit Counseling Agencies

The Internal Revenue Service, the Federal Trade Commission and state regulators together issued a consumer alert for those seeking assistance from tax-exempt credit counseling organizations. The IRS noted that many consumers seek help from not-for-profit credit counseling organizations in managing their debt or "repairing" damaged credit. The agencies urged consumers to be cautious when choosing a credit counseling organization.

Many credit counseling organizations provide valuable help, the agencies said, but an increasing number of complaints indicate that some are engaging in questionable activities.

Federal and state regulators are concerned that some credit counseling organizations using questionable practices may seek tax-exempt status to circumvent state and federal consumer protection laws. State and federal statutes regulating credit counseling agencies often do not apply to Section 501(c)(3) tax-exempt organizations.

The IRS offered the following tips to consumers:

- Check that the organization helps the consumer manage better through counseling and education.
- Carefully read through any written agreement that a credit counseling organization offers. It should describe in detail the services to be performed; the payment terms for these services, including their total cost; how long it will take to achieve results; any guarantees offered; and the organization's business name and address.
- Beware of high fees or required "voluntary contributions" that, with high monthly service charges, may add to a consumer's debt and defeat any efforts to pay bills.
- It is illegal to represent that negative information, such as bankruptcy, can be removed from a credit report. Promises of quick and easy fixes are a red flag.
- Make sure that creditors are willing to work with the agency. If they are, follow up with creditors regularly to make sure the debt is being paid off.
- Check the organization's record with state agencies and the local Better Business Bureau.

To address some concerns, the IRS has stepped up its enforcement efforts to ensure that existing Section 501(c)(3) organizations are complying with the applicable rules and regulations. Further information and background can be found in Fact Sheet 2003-117.

Clients who believe they have been victims of credit improvement fraud should file a complaint with the FTC:

877/FTC–HELP www.ftc.gov

IRS E-Services Launched

The Internal Revenue Service has launched the first of a suite of Internet-based business tools that it says give tax professionals and financial institutions easier access to client information.

Known collectively as e-services, the suite of products provides tax professionals with new choices for working electronically with the IRS. The first three products provide a foundation for future services that will significantly enhance how the IRS does business with tax professionals and those who file selected information returns, such as banks and other financial institutions.

"These new e-services begin a series of steps that will improve how tax professionals interact with the IRS," said IRS Commissioner Mark W. Everson. "Through the use of technology, we are working to simplify and reduce the burden on thousands of tax professionals and more than 4 million firms that send us special information returns."

Three recently introduced e-services are:

- *Registration*. Before using other e-services products, tax professionals must register online to create an electronic account. Registration is a one-time process for tax professionals to select a user name, password and personal identification number. An on-screen acknowledgment immediately confirms the registration process. For security purposes, a confirmation code is also mailed to the tax professional to complete the registration process.
- *Preparer Tax Identification Number application.* The Preparer Tax Identification Number, or PTIN, application lets a paid preparer apply for and receive a PTIN immediately over the Internet. There is no longer the need to complete and mail a paper Form W-7P. This should reduce processing time and input errors associated with a paper application. Anyone paid to prepare a tax return must sign the return and provide either a PTIN or a Social Security number. The ability to substitute a PTIN for a Social Security number began in 1999 to address concerns that clients and others outside the IRS could use a preparer's Social Security number inappropriately.
- *Interactive Taxpayer Identification Number matching.* This option, known as TIN matching, is a new pre-filing service offered to banks or others that pay income subject to backup withholding. Authorized payers can match up to 25 taxpayer identification number and name combinations against IRS records before submitting an information return. Results of the match are returned within seconds. This pre-filing check prevents mismatches and possible penalties for the payer. In the past, only federal agencies could request TIN matching.

Future e-services include an online application for those who want to become authorized e-filers, an expansion of TIN matching that allows bulk matching of thousands of Taxpayer Identification Numbers within 24 hours, and special incentive products for e-filers who file more than 100 electronic returns.

Register through the Tax Professionals page at:

www.irs.gov

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