

Indiana CPA Society - 2009 Case Study

Solid Rock CPAs



VALPARAISO
UNIVERSITY

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EXECUTIVE SUMMARY

Based on extensive research, I, Sarah Evans, have composed a strategic plan for our managing partner at Solid Rock CPAs in response to the effects of our firm and the failing economy. The following is an executive summary of the key findings realized during our research provided by industry publications, news articles, and other relevant information as well as our recommendations.

KEY FINDINGS

Recruiting

Recruiting new hires during tough economic times is a problem many firms are facing. Reduction of staff at firms has potential hires weary of starting a career with a firm that is laying off employees. In the past year, many firms have made layoffs, and more are looking to do the same. It has become increasingly difficult with the state of the economy, to keep workers busy. Many clients are asking less of CPA firms. For instance, a client may now ask for a review instead of an audit.

A firm needs to be competitive in what it offers its employees. It is crucial that firms involve internships, evaluate salaries and compensation, and implement work/life balance programs.

One of the best ways to attract new employees is to provide internship programs. These programs offer valuable hands on training experience and exposure into various industries. In addition, it provides each intern with an accurate depiction of what it means to be a CPA.

The creating and implementing a work/life balance program is a major challenge for firms. Employees are increasingly moving towards this kind of flexible work schedule, and the benefits these programs have to offer. As a result of advances in technology and alternative work arrangements, employees are finding ways to balance life and work. Some of the more popular benefits are flex-time, flex-week, telecommuting, child care, paternity leave, and job-sharing.

A key element found in all good businesses is an environment in which employees feel welcome. The work environment has a direct impact in deciding where one works. This used to be a large factor in deciding which company to work for, but because of the economy, most people are happy to be employed.

Retaining employees has become a key to success because of the economy. Turnover rates need to be minimized, and hiring expenses need to be kept low. Hiring employees in short periods of time due to employees leaving the company is not good for client relations.

In the late 1980's to early 1990's the American Institute of Certified Public Accountants (AICPA) formulated and implemented a plan to give potential accountants added experience. In order to accomplish this, the AICPA increased the requirement to sit for the CPA Exam from 120 credit hours to 150 credit hours. Many people feel this is too big of a change, and has not produced the results they were hoping for.

Sitting for the CPA Exam is takes time, preparation, and money. One must be focused and intent on preparing for the exam. This process can be a very costly one between buying books and attending review classes. Because of this, most CPA firms have a reimbursement plan to pay for most, if not all of the costs associated with taking the exam. This not only relieves financial pressures on the employee, but it makes him feel important to the company.

Employee Morale

In order to enhance employee morale, firms should evaluate alternative options, such as part time employment, to obtain in the firm's financial goals without letting employees go. It is important to realize the potential for long term gains.

Another way that firms can maximize morale is taking advantage of the time after busy season, which tends to be relatively slow for CPA firms.

Firms also have the ability to maintain morale, by properly communicating honestly to all employees. Not only will this create a work-atmosphere that will be conducive to results; but will earn the trust of each employee.

Lastly, firms can build goodwill by avoiding future layoffs by cutting back on Selling, General and Administrative expenses.

Client Relations

Accounting firms universally have high receivable and work-in-process balances. It is important to note that during a recession cash is a key component for success. Strong cash flow management allows a firm to make investments in people, technology and other assets it needs to be competitive. In order to maximize service revenue, it is pertinent to protect billable time. Firms should stress that administrative staff should handle billing orders.

In order to decrease delayed payments, firms should have an added awareness to make sure its bills are clear and concise. Clients will be more willing to pay promptly when they understand all the costs associated with the service

provided. Likewise, firms should review its timesheet policy, and make it a point to hold employees accountable.

The relationship between alternatives and alternative wages should be kept in mind when it reconstructs its billing process. Fees can be fixed for certain work, a combination of fixed and hourly, or a set floor or ceiling price.

Another method firms can use to improve its pricing and billing structures is to acquire retainers from new clients. Generally three months worth of fees is viewed as a reasonable amount to ask for at the beginning.

A centralized approach to engagement letters, fees schedules, and billing methods can free up time for billable work. It is important to keep in mind flexibility in accordance with client preferences.

The value of services is communicated by everything a firm does. Brand recognition must always be considered and maintained in choosing to price clients and alter rates.

Quality should always remain a key in effective communication and always outweighs other factors. No matter how a firm bills, realization is a key consideration for growth.

Making the decision to accept or reject clients should be treated with gentle care. It is significant to promptly research and assess prospective clients. In addition, it is important to realize that not all clients are created equal. The private company's practice section of the AICPA recommends that firms regularly evaluate its clients, and use this evaluation as a starting point for the client retention plan. The current downturn in the economy provides a perfect rational for explaining to those clients terminated why the firm can no longer provide services to them. It is important to assess the key financial matrix for each client. The PCPS also recommends making more subjective evaluations of a client. Lastly there should be a formalized client approval process that is overseen by an executive committee.

Everyone who deals directly with the billing and collections should have access to the client's spreadsheets. Detailed information about a client should be visibly seen on a computer network. This not only allows a firm to track trends, but allows the firm to easily spot a client who is having difficulty in his payment plans.

Accepting clients in industries in which dramatic impact will be felt by the results of the stimulus package, should be highly considered when preparing investment decisions. CPA firms must develop business opportunities driven by the stimulus plan, as opposed to writing them "one-off."

During the recession, a major risk involves choosing when to maintain a client relationship, and when to pursue other opportunities. It is valuable to clients to see that one is aggressively fighting to stay viable in these economic times. There needs to be a striking balance in being aggressive and standing still.

Efficiency

With countless clients on the verge of financial ruin due to the poor condition of the global economy, accounting firms are finding that the only way to maintain a reasonable client base is to offer lower rates. Lower rates, however, require higher efficiency to reduce costs so that the firm can preserve its profit margin. Along with the previous staff and compensation reduction, Solid Rock CPAs should utilize detailed time budgets, voluntary unpaid leaves of absence, and reorganizing the current business structure. Also, more efficient operations means that employees must execute a high standard of professional judgment in client engagements in order to separate time well spent from wasted time.

Time budgets would be beneficial to Solid Rock CPAs as it would enable management to both track time spent on client engagements, as well as allow for comparison between budgeted time and actual time spent performing the necessary services. These budgets, however, must be flexible, changing when the scope of work changes. For example, if an employee is assigned a task that is budgeted to take four hours and an issue is detected that requires additional attention, the four hour initially budgeted is adjusted to reflect the additional time required. Also detailed time budgets would be beneficial in helping to explain to a client where time is spent during a particular engagement, which may not only help the client to understand the fees they have incurred, but also may be beneficial in creating feelings of trust and openness between clients and Solid Rock CPAs.

Instead of initiating staff reductions, Solid Rock CPAs would likely benefit from offering voluntary, unpaid time off during what the firm considers to be its "down times." This would greatly increase efficiency during the summer and fall months when the work flow is just not as abundant as during the busier months between January and April. Moreover, since these are voluntary leaves, Solid Rock employees may be much more accepting of this strategy, as opposed to a corporate mandate to reduce staff. Also, certain employees may welcome this strategy as a way for them to spend more time with their families during the sunny summer weather, when the majority of children are on vacation from school.

Another component of a strategy to improve firm efficiency is one that often goes unlooked, business restructuring. This option often receives little attention because many within a firm view the business structure as something rigid and permanent. However, when one welcomes the idea that the structure of a

business can adjust to current economic conditions, the benefits of such a restructuring become all too clear. For Solid Rock CPAs, one aspect in which the business may derive benefits from restructuring is the consolidation of its three offices. Such a consolidation would allow the firm to reduce its overhead while increasing staff utilization. Another component of a restructuring plan for Solid Rock CPAs may involve the outsourcing of simpler, less value-added services.

Respectfully submitted,

Sarah Evans

Sarah Evans

Assumptions

The following assumptions have been made by our team regarding this case study:

- We, the team, have taken on the identity of Sarah Evans, CPA and senior manager
- Solid Rock CPAs does not have an internship program
- Solid Rock CPAs does not have a work/life balance program implemented
- The firm did not reduce staff to “clean house”
- Employee morale has declined in the past year
- Workers are nervous about losing their jobs
- Solid Rock is having a hard time paying expenses because it is having issues collecting from clients
- The firm is looking to expand its services
- Solid Rock CPAs will take advantage of the new economic stimulus package
- The firm does not use time budgets
- Partners visit the client site approximately once per two weeks of engagement
- We recently lost several 6/30 year end clients
- We are streamlining our administrative processes by having all of the employees under one system would be both attainable and desirable
- Assuming hoteling is not being used, reducing the office area, this will reduce rent and other related expenses
- Staff level accountants are not allowed to work from home

RECRUITING

A common problem many firms are facing in today's economy is how to effectively recruit new hires when staff reductions are taking place. For whatever the reason, layoffs and staff reductions are happening, but the firm must hire new people in order to continue operations. Another worry is that there are not enough new graduates to go around.

According to Allan Koltin, president and CEO of PDI Global Inc., 20 percent of the firms he has worked with have made significant layoffs, and another 40 percent are looking to lay off workers, post busy season. The other 40 percent, however, do not have layoffs planned (Ohio, 2008). After busy season, firms sometimes find it hard to keep employees busy. Because of the economy, many companies are asking less of CPA firms; they ask for reviews instead of audits or even switch to smaller, two-man firms to have work done. It can be a struggle for firms to keep continuous work coming.

Bill Reeb of the Succession Institute LLC argues that the layoffs might not be due, solely, to the economy, but to "clean house" and make way for new hires (Ohio, 2008). Some firms are using this excuse to expand or hire new, talented people that will fit the firm's structural mold. This weeding out is also a way for firms to create higher expectations and standards, as well as provide an opportunity to restructure and implement new ideas in hopes of bettering itself.

Julie Markiewicz, a CPA with the South Bend office of Crowe Horwath, feels that the pool of candidates is still relatively large, and that colleges are producing an adequate amount of graduates to meet the needs of firms. According to a survey done by the AICPA, in 2008, enrollment in accounting was up almost 19 percent to just over 203,000; the previous study, conducted in 2005 for the 2003-04

school year, had placed enrollment at 171,000 (Reigle, 2008). The survey also found, that going forward enrollment is expected to continue increasing by about 60 percent.

Recruiting is the first step to finding and hiring key employees. In order to attract key people, the firm needs to be competitive in what it can offer the employee. Some recruitment tactics used by firms involve offering internships, higher salaries or compensation, work/life balance programs. CPA firms need to meet the needs of its employees if they want to keep them happy.

Internships

Having an internship program is one of the best ways to attract prospective employees. According to the CPA Journal, flexible or summer internships are an “excellent way to develop a competitive recruiting edge over other firms” (Busta, 2007). Internships offer the person a chance to see inside the company and try out new areas of the profession to see if he or she would like to continue in that area. It allows experimenting with different aspects of the accounting profession. Internships provide valuable training experience in a variety of areas.

The CPA Journal gives three suggestions to ensure that a firm creates a meaningful experience for the intern:

- “Give regular and quick feedback. Without timely feedback on their work performance, interns can repeat errors, only to learn about them at the end.
- Provide a formal training program covering not only technical issues, but also simple tasks such as operation of the phone system, technology (e.g., computers, printers, and photocopiers), and organizational structure. A mentor can be especially helpful for nontechnical issues.

- Keep the intern or new hire busy with meaningful tasks. “Make-work” activities or unbillable time give a poor impression of the firm and dramatically lower the quality of the internship experience” (Busta, 2007).

The intern can also become a valuable recruiting tool. If the firm left a positive impression on the intern, he or she will be more likely to speak highly of the firm, and recommend it to friends or other students looking for internship opportunities. Word travels quickly, and any bad experiences are likely to stay with the former intern. Having a negative reputation doesn’t help recruiting matters.

Salary

A little over 10 percent of firms feel that offering a higher starting salary is a successful hiring tactic. (CPA Firms, 2008). Offering higher starting salaries is another way to entice job hunters to take a closer look at a firm. Every year, the *Robert Half Salary Guide* is compiled and made available for use. According to this guide, the starting salary for a junior level employee (0-3 years) in 2009 is expected to be between \$42,750 and \$62,500 for those working in a medium size firm (Tennessee, 2009). For more details regarding salaries, please see **Figure 1** below.

Accounting Salaries at a Glance (Junior level 0-3 years)

Position	Salary
Public Accounting (large firm)	\$48,750-\$69,250
Public Accounting (medium firm)	\$42,750-\$62,500
Public Accounting (small firm)	\$41,000-\$56,000

Corporate Accounting - General Accountant (large co.)	\$38,000-\$57,250
Corporate Accounting - General Accountant (medium co.)	\$35,750-\$53,250
Corporate Accounting - General Accountant (small co.)	\$33,500-\$49,000

Figure 1

The combination of higher salaries and job growth are very attractive to those looking for a career. Michael Rosenblatt, president of the Quest Organization, said in a presentation, “job growth for accountants is projected at 12 percent and as high as 18 percent for some sectors through 2016, according to the BLS.” (Patterson, 2009). No one wants to be at a dead end job where there is no opportunity for advancement. Once an employee attains one goal, it is time to set a new goal. If there is no place left for him to go, the motivation and the energy that he used to have when coming to work, slowly fades. Job advancement also presents new opportunities, and new challenges. Working in a different field can produce challenges, and the opportunity to learn something new.

Work/Life Balance

Many companies are implementing work/life balance programs. In society today, it is normal to have a dual income family, meaning both parents work. This has provided a challenge for firms and their employees. Parents have found it difficult to work with employers who are not willing to work out a flexible schedule with them. Luckily, because of technology and alternative work arrangements, employees are finding it easier to balance life and work.

Work /life balance programs are becoming more popular; some of the more popular benefits are flex-time/flex week, telecommuting, child care, paternity leave, and job-sharing.

- Flex-time allows the employee to set his schedule, as long as he is available to be in the office at peak times (10:00 AM to 3:00 PM) Flex week is working out an arrangement where an employee works Monday through Thursday, ten hours a day instead of Monday through Friday, eight hours a day.
- Telecommuting allows employees the luxury of choosing where they work. Working from home has become very popular. Working from a coffee shop is another option.
- Some companies offer child care for employees In-house, after school, and referrals are offered by some companies.
- Companies allow parents to take time off of work, normally 12 weeks, after a child is born. This time off does not affect salary or endanger the employees job.
- Job-sharing is also another option offered. This option allows two people to work part time, and work as if they were one person.

As technology advances, society is migrating toward these some of these options. It allows parents the ability to be around for their children. It also allows other employees to spend less time commuting to and from work.

Environment

In any good business, there needs to be an environment in which the employee feels welcome, and wants to be in. Benefits, job growth and pay are among the categories listed in being one of the best companies to work for, but it also has to do with bonding of employees. Having social activities outside of the office, or

even time during the work day, helps employees bond. “CPA firms reported that flextime, greater involvement of staff in firm operations, more CPE, more social activities, and training in marketing and leadership development were the best methods for improving staff retention” (CPA Firms, 2008).

The environment in which one works has some impact when deciding which company to work for. With the current economy, it may not be very high on the list because many people right now are happy they have a job (Queenan, 2009). However, no one wants to be berated or belittled. The good news is that according to that same article in the *Wall Street Journal* that the jerks in the company could be some of the first people to be let go.

Retaining Employees

Once a firm has its employees, its goal is to keep them. Frequently hiring new employees is not good for business. It slowly destroys long term relationships with clients by having to switch teams all the time. The work environment, opportunity for job growth, and work/life balance are all areas in which a company can make improvements for the employee. Hiring new employees also costs more. A firm has to market itself, which requires paying money to advertise, and bring employees in for interviews. It is more beneficial to try to keep current employees happy than to hire new ones.

150 Credit Hours

The 150 credit hour requirement was implemented in different states at different times. For example, eleven states implemented the requirement between 1993 and 1998 and at the present, 46 states now require 150 credit hours. The rule requires students to take an additional 30 credit hours. Many hoped the

additional 30 credits would better prepare students for the real world. There is an article in the CPA Journal that states, “The requirement was instituted to meet the goal of developing professionals with stronger critical and analytical skills” (Fierstein, 2008). However, there are arguments against this idea that 30 extra hours will better prepare anyone for the CPA.

Each state, in the year of implementation, saw a drastic decrease in the number of applicants wanting to sit for the CPA Exam. According to Nicholas W. Schroeder, DBA, CPA, and Diana R. Franz, PhD, CPA, and both are professors at the University of Toledo, Ohio, believe that there were other reasons for the decline in enrollment in accounting programs and CPA Exams; ignorance about a career in accounting, faulty information about the profession, and negative perceptions of the role of accountants in society are said to be three of the main reasons for a decline in the accounting profession (Schroeder, 2003).

At present, 46 states require any person wanting to sit for the CPA Exam to complete 150 credit hours. A majority of CPA firms require new hires and future employees to meet the 150 hour education. According to Julie Markiewicz, Crowe Horwath, LLP does not consider hiring new employees unless they meet the 150 requirement or are in the process of finishing the 150 credit hours.

Many feel this requirement is a bit much, and maybe even more so because of the state the economy is in, but Solid Rock feels differently. It has been argued that the 150 credit hours have not improved the profession. A survey was conducted in 2006 about the requirement by William H. Dresnack, CPA, an associate professor of accounting and law, and Jeffrey C. Strieter, PhD, an associate professor of marketing and statistics, both at SUNY College. One question that was asked, “Overall, do you believe the 150-hour requirement is better for the accounting profession than allowing four-year graduates to become CPAs?” received a 64 percent “no” answer (Dresnack, 2006). In an interview, David M. Walker, Former Comptroller General of the United States said he

believed the 150 rule would benefit the profession. He was asked about the extra 30 credit hours, and if programs needed to take a closer look at them. “Ultimately, the market will react here, because those programs that do a better job ultimately will be rewarded. Their graduates will be hired and possibly receive multiple job offers, they will earn more money, and they will make quicker progress in their careers” (Kranacher, 2008).

Sitting for the CPA Exam

Most everyone knows that sitting for the CPA Exam is no small feat, not to mention the amount of money it costs to buy books and pay for a review session, and then, to pay for the exam itself. That is why most CPA firms offer some kind of reimbursement its employees. For example, BKD, LLP feels passing the exam is a very important part of their staff's career development. The firm offers new hires the Becker review course, free of charge. It also offers the new hires four paid days off in addition to vacation days. This additional time off allows the new employee to sit for each section of the exam.

Crowe Horwath, on the other hand, offers a maximum allowance for study materials and exam expenses of \$2,500. The reimbursement is made as long as the employee adheres to Crowe’s CPA Examination and Study Materials Expense Reimbursement Policy. The policy states the employee has 18 months to complete all four sections of the exam.

This not only helps the new employee, but it makes him or her feel important to the company. This will most likely lead to the employee taking pride in the firm, working harder, and continuing to work for the firm farther down the road. Not only that, but most companies have a policy that will not allow an employee advance unless he has his CPA license.

Future Plans

Earlier this summer, we reduced our staff by five percent. This staff reduction came about for a reason. We are trying to find ways to cut costs, but we would still like to expand our company if at all possible. The five percent reduction was not due to simply letting go of everyone, some of our employees were offered early retirement packages, and others decided to look for work elsewhere. With this reduction, we can focus on creating a higher standard for our firm, and recruit potential candidates that fit those standards.

With the economy in its current state and all the recent scandals that the accounting profession has seen, the public looks to accountants to be moral and ethical. They are relying on us to report information to the best of our abilities, and find misstatements in business's financial statements.

Solid Rock should implement an internship program to draw potential employees to the company. We should have a basic plan for the program, write it out, and explain it to the potential candidates. During this process we should also ask the candidate what he would like to get out of the experience and try to tailor the program to him. By doing this, we hope to create a better experience for the intern.

We also believe the Solid Rock should look into creating and implementing a life/work balance program. We feel that with the changing society, we need to be flexible in order to meet the needs of our employees, and to keep them happy. By doing this, we should the employees that we care about their well being, and their life outside of the company. We ask them that they work hard, and not take advantage of the system.

We strongly suggest that everyone at Solid Rock meet the 150 credit hour requirement. The state of Indiana requires 150 credit hours in order to sit for the

exam, and we at Solid Rock encourage all employees to sit for the exam. We strongly support our employees to sit for the Exam. A study was performed, and it came showed that another benefit to completing the 150 credit hour rule is individuals who sit for the CPA exam after completing the 150 hours have higher first-time pass rates than their peers who take the exam after only four years of school (Ohio, 2008). Also, in order to advance within the company, one must have his CPA license.

We do not feel that this rule will hamper our prospective recruits. When this new rule was introduced, the number of participants willing to sit for the CPA Exam declined drastically. Since then, that number has been growing steadily. See **Figure 2**.

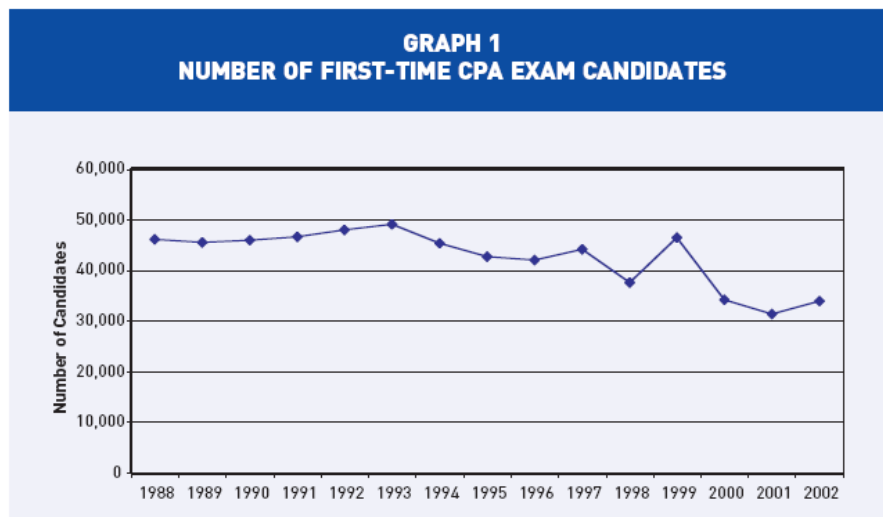


Figure 2

Solid Rock agrees with what David Walker stated above. We feel that the extra 30 hours, if applied correctly, can be very valuable to our firm. Those extra hours will help with communication, research, and writing skills. These are all essential to the profession. We feel the 150 credit hours will provide future benefits to our employees and to our firm in the long run and is crucial to the betterment of the CPA profession.

EMPLOYEE MORALE

Due to the devastating effects the current economy has had on all businesses, many CPA firms have realized that their businesses will not return to the way they were before the economic downturn. Firms cannot lay people off and reduce employee benefits and then expect work to continue as normal. In order to move forward in the best way possible, Solid Rock CPAs must recognize that we are entering into a new business economy that will be unlike anything we have experienced before.

With the recent reduction in compensation and bonuses in the past year, it is more crucial than ever that we at Solid Rock CPAs find ways to promote positive employee morale. The current economic times have been difficult on everyone, and adding the anxiety of an unsure financial situation can cause significant strain on our employees' spirits.

As the mental health of employees decreases, so will productivity and efficiency. According to Thomas Boyt, Dean of the College of Business at Valparaiso University, "An unhappy employee is an inefficient employee. Accounting firms are in the business of selling a service, and that services is impaired if the employee cannot dedicate him- or herself to the required task" (Boyt). Employee morale is an essential part of any services-based firm, since employees are the primary asset of the organization.

In order to improve employee morale, Solid Rock CPAs has several possible methods it can implement. These include:

- Allowing for flexible scheduling

- Publicly acknowledging both small and large accomplishments by employees
- Creating an anonymous way for employees to provide feedback, ask questions, and offer advice for future endeavors
- Allowing employees to dress in casual attire while at the office

Another debated approach to promoting employee morale has been to use a points system where employees can earn points through exceeding standards, working overtime, bringing in new clients, or other similar ways that benefit the firm. Employees would then be allowed to redeem these points for extra time off, gift cards, or small employee appreciation parties. However, this tactic is controversial and will be discussed later.

Flexible Scheduling

A major concern for Solid Rock CPAs is improving employee morale without incurring a large increase in employee expenses. An ideal way to do this is to offer greater flexibility to employees when it comes to their scheduling. This can be done through offering flexible work hours within a single day or week, allowing employees to work only part-time, or giving employees the opportunity to take additional time off from work without pay. In addition to reducing the firm's high level of fixed salary costs, this will help raise the morale of employees through the promotion of a healthy work/life balance.

By offering flexible scheduling for its staff, employees will be able to work during the times that they are most productive. For example, if an employee likes to work early in the morning, he or she would be allowed to start work at 6:00 A.M. and leave for home early. Not all people work the same, so allowing this increased flexibility is generally viewed as a positive for most employees and managers, as shown in **Figure 3**.

Flextime a hit with managers, workers

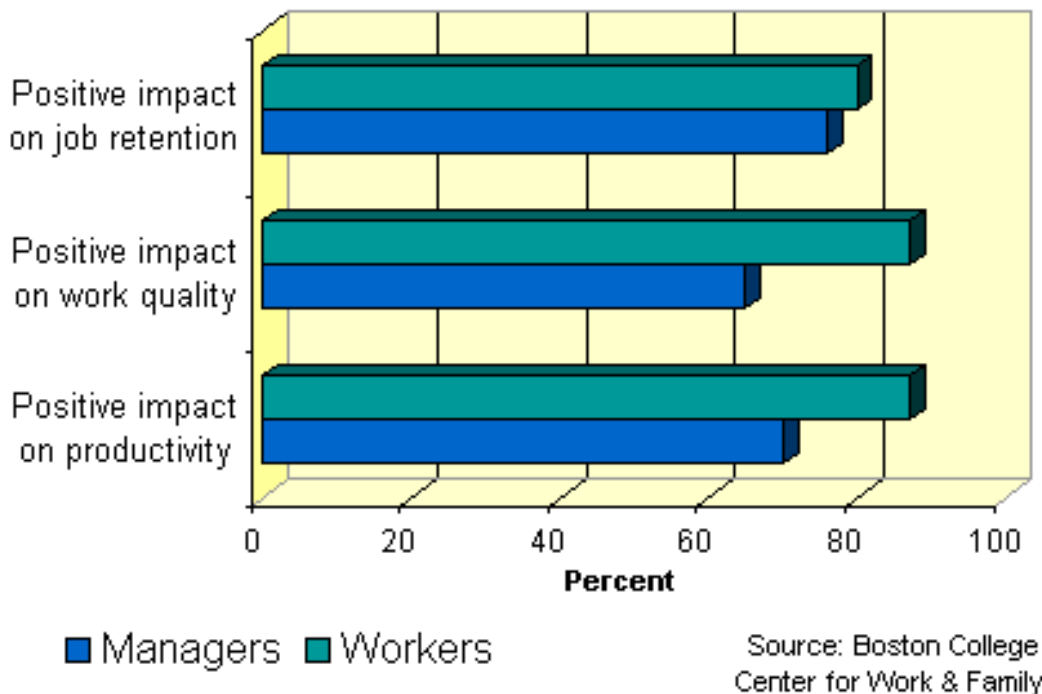


Figure 3

A similar option would be to offer part-time positions to both new hires and current employees. By allowing employees to work part-time, individuals that desire a reduced work schedule will be given the opportunity (Lewison). Naturally, these employees will be expected to contribute the most work during “busy season.” This situation should be desirable for employees with young children or ailing relatives and will help the firm reduce its staffing during less busy times. Helping employees maintain a healthy work/life balance will have a positive effect on their overall morale.

Another alternative for Solid Rock CPAs is to give employees the option of taking additional time off from work without pay. This option, which would be less drastic than becoming a part-time employee, would be desirable for employees who want to have a healthier work/life balance.

The public accounting profession, unlike many specialized fields, is comprised mostly of young professionals. Offering additional time off from work without pay may be an attractive option for these individuals, as young people are generally thought of as trying to start families. According to Justin Dowe, Staff Accountant at the Indianapolis office of Deloitte & Touche, LLP, engagements and weddings are commonplace around the office. Although the Indianapolis office only has approximately two hundred professionals, this past summer four different staff members got married, with multiple more announcing engagements. Dowe believes that offering time off from work without pay would be highly desirable for such individuals.

Public Acknowledgements

Who doesn't like to be publically recognized for their accomplishments? Recognizing employees for achievements such as passing a portion of the CPA exam, securing a new client, or simply reaching another year at the firm help show employees how important their role is within the firm. Such recognition helps increase employee morale in a positive way.

Sending out companywide emails about the accomplishments made by members of its staff is a great way to encourage and promote hard work. According to Susan M. Heathfield, "People who feel appreciated are more positive about themselves and their ability to contribute. People with positive self-esteem are potentially your best employees." (Heathfield). By recognizing employees, the company is taking an active interest in what they do and how they perform.

Anonymous Feedback

According to Marc LeClere, CPA, when an employee feels as though he or she has a voice within a company, that person is more likely to have a positive opinion of the organization. Therefore, Solid Rock CPAs should create an anonymous system that allows employees to provide feedback, ask questions, and offer advice for future endeavors.

At Deloitte & Touche, LLP, CEO Barry Salzberg answers questions submitted by employees every week. A major problem caused by the current economy is the uncertainty employees have over what will happen in the future. By having the CEO answer important questions held by staff, it helps ease this uncertainty. It also helps get all of the employees on the same page with the decision that have been made and where the firm is headed. Uncertainty has a negative affect on employee morale, so it is vital that action be taken to reduce such feelings.

Casual Attire

“Dressing for success used to mean that men were required to wear a dark-colored business suit, starched button-down shirt, red power tie and wing-tip shoes” (Parus). Evans Research Associates recently conducted a survey on dress code policies within companies. This survey found that companies now tend to favor casual dress over professional dress in the office. Why the shift away from professional dress?

Research has shown that casual dress in the workplace has led to an increase in employee productivity. The increase comes about because employees feel more comfortable with their appearance and are not distracted by uncomfortable clothing. In the survey conducted by Evans Research Associates, approximately nine out of ten companies surveyed allowed casual dress at some point during

the year. **Figure 4** shows a statistical breakdown of the frequency in which casual dress is allowed for those surveyed.

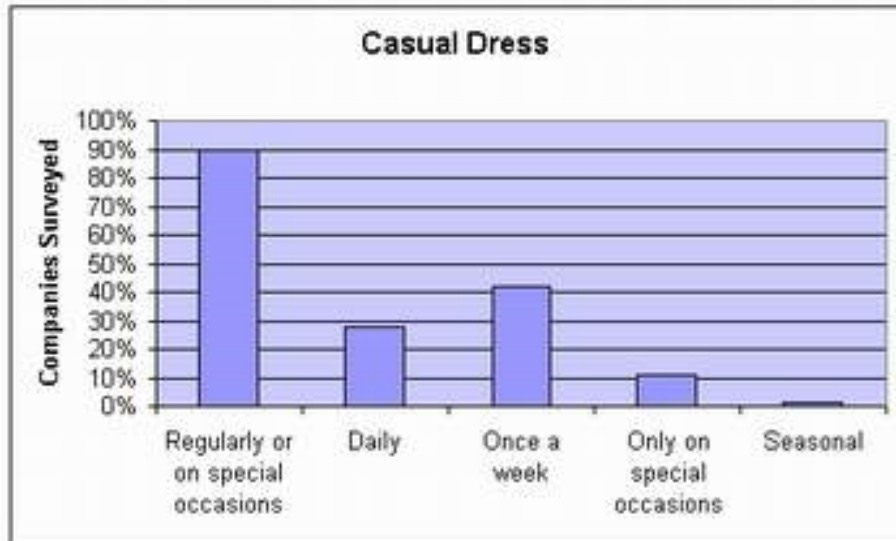


Figure 4

Although wearing business casual or professional attire is appropriate for actual visits to client sites, wearing such apparel is not necessary for employees working from the office. Allowing employees at Solid Rock CPAs to wear casual apparel on a daily basis would undoubtedly have a positive effect on employee morale.

Points System

As previously stated, points systems are a popular, yet controversial means for motivating employees. The general concept is that employees are rewarded for behavior that the firm deems to be beneficial and “over and beyond” the normal

expectations for employees (Schiffel). Employees can then cash in their points for various rewards, such as additional paid time off or gift certificates.

Points systems have long been utilized in motivating employees. Many companies swear by this method, saying it brings out the best in its staff. Points systems promote competitiveness within the company and give employees incentive to work hard. However, a points system can hamper work ethic. A competitive rewards system can encourage gossip, create jealousies, or promote fighting among coworkers. Instead, companies should review teams as a whole, and evaluate the team based on performance. This kind of system encourages teamwork, helps coworkers think of more efficient ways to complete projects, and promotes reliance on the team in difficult times (Schroeder).

Summary and Future Plans

While these techniques are not all-inclusive, they comprise a good starting point for Solid Rock CPAs. By employing these methods, employee morale will undoubtedly be positively affected. Helping our employees find a healthy work/life balance is crucial during this difficult economic time, and creating ways to do so falls on the company as a whole, not on the employees themselves. Most importantly, the suggested techniques for improving employee morale have very minimal cost. Moreover, the benefits we will realize from improving morale should more than offset the costs.

While the above methods should help to improve employee morale, if Solid Rock CPAs decides to implement the future lay-offs that are currently being considered, this would have the reverse effect on morale. Instead, the firm should consider alternative options, such as part time employment, to obtain the firm's financial goals without letting employees go. While some of these options

may not seem beneficial in the short term, doing so has the potential to provide long term gains.

The time after busy season tends to be relatively slow for CPA firms. This can be used to Solid Rock's advantage in making summer staffing adjustments. Employees typically have less work to do during this time of year and naturally feel the desire to spend time outdoors in the warm months. Additionally, employees with young families may wish to have time with children or for extended vacations. One strategy for our firm to consider is to offer employees the opportunity to take an unpaid leave during summer, with the guarantee that they can return to their position in the fall. This would allow employees to feel the decision was theirs, instead of having it forced upon them.

Another strategy to consider is staff-wide cutbacks. If the situation is presented openly and honestly to all employees that Solid Rock is in a position where it must either lay some employees off completely or cut everyone's hours, the staff may decide as a whole that it would rather suffer in a small way as a group instead of letting a limited number of people carry the entire burden. By being upfront about the situation, the employees will feel they were part of the decision and, while perhaps not joyfully, will shoulder the responsibility voluntarily. This will prevent the firm from losing the knowledge and experience that layoffs would create and will maintain positive goodwill.

While future layoffs are an option for Solid Rock to consider, this strategy would have a large negative impact on the firm. Not only will the previously mentioned knowledge, experience, and goodwill be lost as employees are forced out, but those who remain will lose morale as well. Those who are not let go will begin to fear for their own job, and they will harbor ill feelings towards the company that laid off their co-worker/friend. Overall, despite the potential for strained employee relations, adjusting summer staffing annually will have a lesser impact on the firm than lay-offs.

Solid Rock will do everything within its power to avoid future layoffs by looking to cut back on Selling, General and Administrative expenses. We will also work with employees to work out a solution where we can maintain the staff levels we currently have, rather than let employees go.

CLIENT RELATIONSHIPS WITHIN THE ACCOUNTING INDUSTRY

According to Michael Ramos, CPA firms are much closer to their clients than a sales representative who provides a product. A symbiotic relationship exists between the firm and its clients which is unique to a professional services firm, and this relationship has its advantages and disadvantages. The primary advantage is that the single biggest switching cost for a CPA firm client is the relationship with that firm.

Billing and Collecting within the Accounting Industry

Collectively, accounting firms have tremendously high receivables and work in process balances. According to the most recent AICPA Management of an Accounting Practice (MAP) survey, on average, a CPA firm has nearly 4 months of gross billings tied up in receivables and unbilled work. Moreover, nearly 30 percent of total receivables are more than 90 days old. If the average CPA firm simply collected its overdue receivables, it would have enough cash to pay its expenses (including salaries) for 4 weeks. During a recession, cash is the key

component for success. Without strong cash flow management, a firm may find itself unable to make the investments in people, technology, and other assets it needs to be competitive. Maintaining a regular inflow of cash depends on solid billing and collections practices.

For any firm, the ability to protect billable time is crucial in order to maximize service revenue. Proper support should be offered for the administrative staff to best handle billing matters. Partners, executives, and other employees who directly work on the engagement should have minimal non-billable tasks and distractions.

Improving Pricing and Billing Structures

In order to enhance prompt payment, there should be an added emphasis on ensuring that bills are clear and concise. Questionable billed activities are likely to increase delayed payments. Clients should receive bills that show what service was done and by whom.

Firms should review their time sheet policy and hold their employees accountable. According to an article in *Consulting Magazine*, “all partners in the firm should submit time sheets by the first working day of the month. Draft bills should be out by the end of the second or third working day of the month, so that staff can have their bills in by the seventh working day of the month. The goal should be to get 90 percent of bills out of the door by the eighteenth calendar day of the month.”

The relationship between alternatives and hourly rates should be considered as a new billing structure. According to an article in *Consulting Magazine*, “offering fee alternatives can help your firm better market its services and gain the appreciation of clients that will be more likely to pay promptly. You can set fixed

fees for certain work, use a combination of a fixed fee plus an hourly rate, or set hourly rates with a floor and ceiling.”

Acquiring retainers from new clients is another strategy that could be implemented to improve the pricing and billing structure of the firm. Typically, three months worth of fees is a reasonable amount to ask for at the start; after that the retainer can be replenished for ongoing work.

In order to combat the difficult task of maximizing billable hours, a centralized approach to engagement letters, fee schedules, and billing methods should be taken into consideration. Firms should assign these functions to either the firm's administrator or comptroller. This as a result, can free time for billable work. In addition, it also ensures stability in the language of engagement letters and in the billing and collections practices.

Firms should keep in mind that flexibility pays an important factor in preparing the billing format in accordance to client preferences.

Service Rates

It is pertinent that firms realize the value of their services is communicated by everything they do. This includes how they choose to price their clients. In choosing to alter rates, brand recognition must be considered and maintained.

The fear of undervaluing services is that firms may not be able to collect sufficient fees (inflows) to cover their cost of services sold (outflows).

According to a publication produced by the Illinois CPA Society, though hourly billing is still the leading way for CPA firms to manage engagement time, less-traditional ways can help firms to grow. The authors use a small Georgia CPA firm as an example of becoming more innovative with billing practices. The firm has a single office and revenues in the range of \$2 million to \$4 million. It is

composed of three equity owners, two non-equity owners, and 12 staff. The focus of this practice is on tax and audit work.

Despite this traditional flavor to the practice, about 40 percent of the billing is value and engagement billing. "Value billing is tough," admits one of the firm's partners. He goes on to say, "You may, in fact, incur losses before you figure it out. My perspective is to look at every product that we deliver as a commodity and price it accordingly. While you may price yourself out of some opportunities, the economics speak for themselves when you finally land a solid value-billed project. These opportunities usually result in long-term, large clients."

It is also producing a comfort level with raising fees that other firms may envy. Another partner in the firm goes on to say, "We have also carefully set billing rates for medium-level performers based on efficiency factors as well as the traditional cost approach. We are informing clients as we go and so far have not received resistance."

Quality is key in effective competition—and outweighs other factors, the partner added. No matter how the firm bills, realization is a key consideration for growth. This firm is reducing its emphasis on nonprofit service, which was a primary niche, because of lower realization on these engagements. Profits have been strong enough that the firm planned to put up to 10 percent of profits into new initiatives this year. The most popular of these initiatives is moving to a paperless system. "The staff loves the paperless system and this has the potential for long-term savings despite the upfront costs in terms of investing in software, hardware upgrades, and training," he said.

Client Evaluation

Accepting new clients should be treated gently. It is critical to properly research, assess, and analyze prospective clients. In an unstable economic environment,

the client acceptance and retention evaluation is still the key to producing a high-quality client portfolio.

Not all clients are created equal. The AICPA Private Companies Practice Section (PCPS) notes that 20 percent of a firm's clients account for 80 percent of the firm's profits. The PCPS recommends that firms regularly evaluate their clients, and use this evaluation as a starting point for the client retention plan. They suggest that there should be focus on the best clients, terminate relationships with the worst ones, and work to improve the relationships with all those in the middle.

The current recession provides a perfect rationale for explaining to those clients terminated why the firm can no longer provide services to them. To meaningfully evaluate a firm's clients, it is important to assess the key financial metrics for each one. These metrics typically include profitability, margin, number of billable hours, and gross fees. The PCPS also recommends making more subjective evaluations of the client, which might include the following: Whether the client is a reliable referral source, the client's growth potential and the firm's ability to provide additional services in the future, a firm's ability to provide services to the client that currently are performed in-house or by another firm, whether there is a particular enjoyment in working with the client, and the relative risk the client poses to the firm.

There should be a formalized client approval process that is overseen by an executive committee.

Don Istvan, a practice management consultant for hundreds of small CPA firms, explains in an article from AccountingWeb.com that the starting place for most of his consulting engagements was a required evaluation of a CPA firm's clients. After completing a questionnaire evaluating client quality, CPA firm partners and managers assigned points to favorable attributes of each of their clients. The point awards were placed on a spreadsheet in descending order to help identify the bad and the ugly. One of Don's first recommendations was to terminate 10

percent of the clients ranking the lowest. His second recommendation was usually to complete a similar evaluation for prospective clients and to accept only those with point awards higher than the previous year's terminations. The results of this process over the years produced client portfolios of the highest quality for Don's clients.

Firms can have a better understanding of a client's financial stability if everyone who directly deals with billing and collections should have access to client spreadsheets. Client spreadsheets identified by client number should be on the firm's network so that detailed information about the client can visibly be seen. This will enable the firm to not only track trends; but allows them to immediately spot a client who is experiencing difficulty in paying their bills.

American Institute of Certified Public Accountants (AICPA) – Client Evaluation

According to an article from AccountingWeb.com, over the past year or so, the AICPA has alerted CPA firms to the importance of client acceptance and retention evaluation. As a defense for preventing association with less-than-reputable clients and potentially erroneous or fraudulent financial statements, these evaluations are an integral part of the financial statement audit process.

These evaluations were treated as a compliance function by many CPA firms. Practice aids were filled out and signed as a matter of routine, only to be initialed and carried forward for many years simply to comply with the quality control standards. Intended to help CPA firms cull their client portfolio to separate out the bad and the ugly, the process resulted in little more than a few extra pieces of paper in working paper files.

New Services

According to the article titled, *Strategies for CPA Firms to Thrive, Survive, and Grow in a Down Economy* written by Michael J. Ramos, firms should take into consideration federal government spending. The stimulus bill includes approximately \$350 billion of direct federal government spending whose aim is to make investments that will position the economy for future growth.

Those investment priorities include the following:

- Public infrastructure and science
- Education and training
- Healthcare
- Renewable energy

The following table summarizes the tax relief and federal spending contained in the stimulus bill.

Stimulus Bill Summary (in billions)			
Targeted Area	Tax Relief	Spending	Total Stimulus
Infrastructure and science	\$15	111	126
Protecting the vulnerable	61	81	142
Education and training	25	53	78
Renewable energy	22	43	65
Healthcare	-	59	59
General tax relief	165	-	165

Other	-	8	8
Total Stimulus	288	355	643

Most CPA firms will focus on the tax changes proposed by the stimulus bill, but it should be noted that the spending elements of the plan are larger. In addition to the \$355 billion to be spent at the federal level, state governments will receive an additional \$144 billion to be spent. Combined, planned spending increases are almost twice the size of the tax cuts. It should also be noted the segments of the economy where the money will be spent. Companies that operate in these industries (for example, solar or wind power companies) have the potential for significant growth over the next few years. CPA firms looking to grow should consider obtaining new clients in these industries.

This has many implications for CPA firms. In many respects, the economic blueprint contained in the 2010 fiscal year budget is a continuation of the policies and priorities enacted in the stimulus bill. CPA firms that identify business development opportunities driven by the stimulus plan should not consider these “one-off” opportunities. The stimulus plan is just a big first step in what promises to be a long-term commitment by the federal government. For example, if the stimulus bill gives your firm an opportunity to provide services to alternative energy companies, your decision to pursue that opportunity should take into account that the federal government will continue to invest to encourage innovation and attract private capital to the industry. The end goal would be to create an alternative energy industry that is self-sustaining and that ceases to require government involvement to thrive.

During a recession, the biggest risk to a firm is choosing to stand pat. Many of those around you are taking action and moving forward. Firms that choose to stay the course not only miss the chance to cash in on new opportunities, they also risk becoming anachronistic. If your clients are aggressively fighting to stay viable in these difficult economic times but see their most valuable financial

advisor acting as if nothing has changed, won't they begin to wonder if their CPA advisor "gets it?" To be clear, this is not intended to advise taking action just to be perceived as "doing something." Rash or careless action can be nearly as damaging as no action. The purpose of this section is to help you strike a balance between aggressive action and standing still, so that your firm is stronger coming out of the recession than it was going in.

In order to obtain growth in the down times, firms need to think outside the box by offering additional services to their clients. Editor, Jeremy Stoltz, writes in *The Business Ledger*, about Skich LLP., an accounting firm in Illinois. As one of the largest providers of accounting services in Illinois, Sikich LLP has expanded its service over the past 15 years to include a full range of resources available to help organizations succeed. "The accounting profession, as it is today, its days are numbered," said James A. Sikich, chief executive officer. "With technology changes and changes in the standards, firms that are just traditional accounting firms won't be around 10 to 15 years from now. Everybody is going to have to convert to something else. We saw that coming in the 90s and we started to develop additional services that our clients can use."

Sikich now provides accounting and consulting, technology, human resource consulting, small business, marketing, asset management, corporate finance and retirement planning services. "Today, we're only about half accounting," Sikich said. The company has grown from 20 employees in 1982, to over 300 currently, and it continues to expand. For the past 15 years, Sikich has grown annually by 17 percent on average, and even in a down economy, it is still forecasting 10 percent growth this year. "When we added additional services, it gave the accountants additional services to provide to their clients and put us ahead of our competition," Sikich said. "Our growth in accounting has been fantastic and I think it's because we've had a metamorphosis into something a little bit different."

The CEO admits that many of the company's clients have felt the brunt of the recession, forcing Sikich to hold rates and even offer free services when necessary. "But we've had such good luck in getting new clients that it has more

than picked up the slack,” he said. In certain industries, Sikich has devoted substantial resources to develop a significant base of expertise and experience. These verticals are the strongest and longest verticals in the firm, and include manufacturing/distribution, construction/real estate, government, not-for-profit and small business. “The idea behind verticals is to get a dedicated team in the firm across all services to support those verticals,” said Sikich. In this way, teams are already assembled and prepared to help public sector organizations timely and effectively meet their constituent demands and regulatory compliance.

EFFICIENCY

With the competitive nature of the accounting industry, it has become essential that firms develop more efficient ways of conducting business. According to a recent survey, “Cutting costs remains the top strategic priority, with 56 percent of executives ranking cutting and managing costs as their top strategic issue” (Deloitte).

With the current economy, clients are demanding lower prices for accounting services, which will reduce the profit margin if measures are not taken to reduce the cost of performing such services. Wasted time, inefficient technology, and duplicate work can no longer be tolerated. In order to help ensure the future success of Solid Rock CPAs, it is imperative that we adopt more efficient means for performing our work.

Solid Rock CPAs has already proved its willingness to make the necessary changes to compete in the ever-changing accounting industry. Over the past year, our firm has reduced its staff by five percent and has made cutbacks to both compensation and employee benefits. In order to continue improving the

efficiency of the firm, we can make several additional changes, including creating detailed time budgets for each client, allowing unpaid leaves of absence, reorganizing the current business structure, and using more professional judgment during client engagements. By making these changes, Solid Rock CPAs will be able to reduce the cost of performing our client services, which will allow us to continue being competitive in the public accounting industry.

Efficiency through Time Budgets

In order to become more efficient, managers should develop detailed time budgets for each of their clients. According to Aaron Wright, Senior in Charge at the Indianapolis office of Deloitte & Touche, LLP, time budgets are a great resource for manager to communicate with partners the strengths and weaknesses of a client engagement. After all, time budgets allow managers to track the actual and expected time it takes to complete each task that is required for an engagement. A time budget, as shown in **Figure 5** can be easily updated by each employee to track the hours spent on each assignment.

Example Time Budget

Task	Expected Time to Complete	Actual Time to Complete
Cash	4 Hours	3.5 Hours
Accounts Receivable	4 Hours	7 Hours
Plant, Property, Equipment	8 Hours	7 Hours

NOTE: A/R selected for testing is improperly recorded. Further testing was

Travel Time (In Excess of One Hour)	6 Hours	6 Hours
Prepare Reports	2 Hours	2.5 Hours
Update "Perm" Files	1 Hour	1 Hour
Walkthroughs	3 Hours	3.5 Hours
TOTAL	28 Hours	30.5 Hours

Figure 5

These time budgets need to be flexible and adapt to the actual situations that arise. For example, if a staff member is told to test the accounts receivable balance within four hours and discovers that additional testing is required due to an improperly recorded selection, it would be unrealistic to continue holding the staff member to the original four hour estimation. However, staff should be expected to record any reasons for overages that occur. This will help the manager in the succeeding year to better prepare for the engagement.

According to Liesl Flanagan, Accounting Manager at Earlham College, a leading concern in choosing a CPA firm to perform an annual audit is cost. Flanagan believes it is imperative that a CPA firm provide detailed information about the cost breakdown of an audit. As more clients become cost-conscious, being able to track where time is being spent by the accounting staff will become ever more important. Having detailed time budgets will be a helpful, easily explainable way of communicating to clients where the accounting fees are going.

In order for detailed time budgets to effectively help the firm, it is vital that the actual results be compared to the original estimates. If this does not happen, then any potential benefits are greatly minimized. By creating estimates and

periodically reviewing them, it will allow senior managers to recognize weaknesses in the audit, make sure that all employees are on task throughout the audit, and better prepare for future engagements.

In order to recognize weaknesses within the audit, higher level personnel needs to have information about what is happening at the staff level. At Solid Rock CPAs, partners visit the client site approximately once per two weeks of engagement. This separation, which is typical for most accounting firms, can make it extremely difficult for partners to recognize where time is being most inefficiently used. As shown by **Figure 6**, accounting firms tend to have a heretical structure, which creates a disconnect between partners and staff.

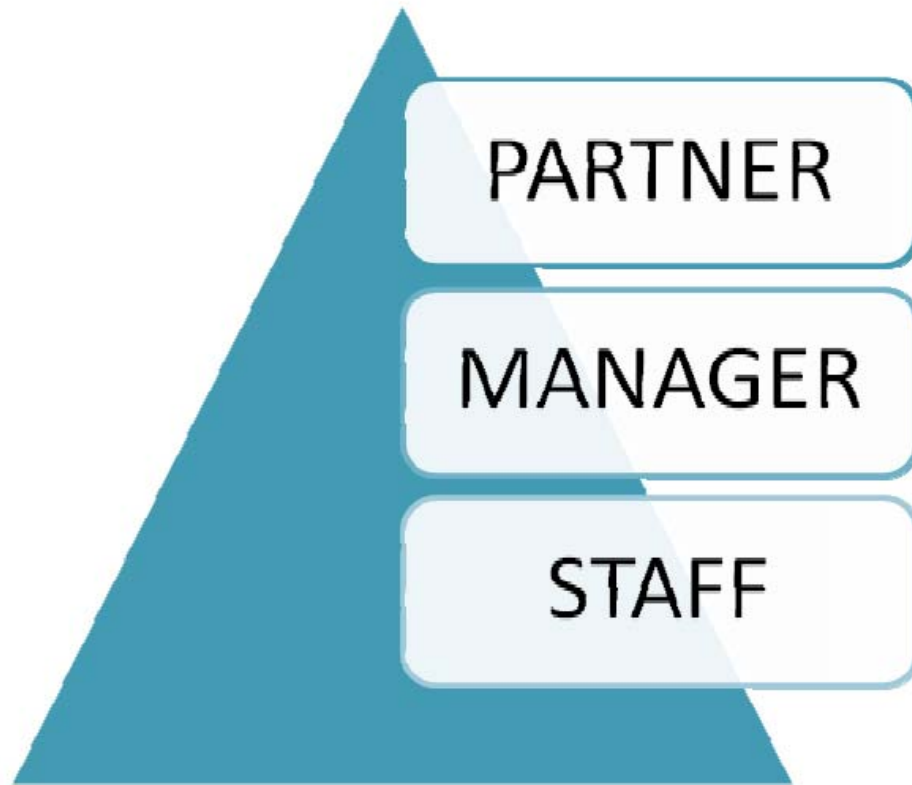


Figure 6

By creating time budgets, the senior manager will be able to communicate this information to the partner in a clear, easily understandable way. This will also help the firm decide the profitability of current clients and assist in future fee negotiations.

Efficiency through Unpaid Leave

Another way that Solid Rock CPAs can help reduce fixed costs would be to offer time off from work without pay during “down times.” With the recent loss of several 6/30 year end clients, our firm has experienced even greater extremes between our peak busy season from January to April and the summer and fall months. In order to help alleviate the cost of paying a high rate for salaries during down times, the firm can offer part-time positions and additional time off from work without pay. These would help reduce the firm’s high level of fixed costs while helping to raise the morale of employees through the promotion of a healthy work/life balance.

According to the article *Ride the Bear: Strategies for CPA Firms to Thrive, Survive, and Grow in a Down Economy*, “Compensation is the single biggest expense in a professional services firm. In general, compensation expenses at a CPA firm are 30 percent to 35 percent of gross billings, so it is natural for firms to look for ways to cut compensation expense” (Ramos). The article goes on to state that layoffs and pay freezes have not been uncommon for accounting firms over the past year, which is exactly what Solid Rock CPAs has done. However, instead of going straight to additional layoffs and pay freezes, our firm should implement a more creative approach to reducing its salaries expense.

One such option would be to offer part-time positions to both new hires and current employees. By allowing employees to work part-time, individuals that desire a reduced work schedule will be given the opportunity (Lewison). Naturally, these employees will be expected to contribute the most work during “busy season.” This situation should be desirable for employees with young

children or ailing relatives and will help the firm reduce its staffing during less busy times.

Another alternative for Solid Rock CPAs is to give employees the option of taking additional time off from work without pay. This option, which would be less drastic than becoming a part-time employee, would be desirable for employees who want to have a healthier work/life balance.

The public accounting profession, unlike many specialized fields, is comprised mostly of young professionals. Offering additional time off from work without pay may be an attractive option for these individuals, as young people are generally thought of as trying to start families. According to Justin Dowe, Staff Accountant at the Indianapolis office of Deloitte & Touche, engagements and weddings are commonplace around the office. Although the Indianapolis office only has approximately two hundred professionals, this past summer four different staff members got married, with multiple more announcing engagements. Dowe believes that offering time off from work without pay would be highly desirable for such individuals.

Efficiency through Business Restructuring

Perhaps one of the most overlooked ways of improving firm efficiency is to consider reforming the entire structure of the firm. Although employees have the tendency to view a firm's structure as being permanent, it is nevertheless possible to change the organization of any firm.

As previously stated, professional salaries, excluding those paid to owners, typically account for 30 to 35 percent of a firm's income. After salaries expense, "the next-highest single expense [is] office rent and other occupancy costs, [which] represent 5.3 percent of total income" (Ramos). With office rent

representing such a high proportion of a firm's costs, it would seem illogical to ignore such a large expenditure. After examining Solid Rock CPAs's income statements for the past five years, it would appear as though our occupancy expenditures are consistent with the national average.

Although society as a whole generally opposes significant, unexpected change, restructuring the entire layout of a firm would certainly require ample amounts of change. After much consideration, it is my belief that Solid Rock CPAs could derive much benefit from consolidating its three offices into one larger office in the Indianapolis area. By combining the three offices, it would greatly reduce the firm's fixed cost expenditures on rent and other occupancy costs. In the current economy, cutting costs is crucial for any firm's success, and rent expense is simply too high of an expenditure for it to go unnoticed.

By consolidating the three offices, Solid Rock CPAs will be able to better utilize its staff and reduce down-time due to employees being unassigned. At Deloitte & Touche, LLP, significant focus has been placed on the importance of realigning its administrative services team. This has allowed the firm to have fewer human resources personnel that are responsible for a wider range of offices. Furthermore, relatively simple tasks like processing payroll expenses and calculating employee efficiency have been outsourced to one of its offices in Hyderabad, India. Although outsourcing may not be a feasible possibility for our firm, streamlining our administrative processes by having all of the employees under one system would be both attainable and desirable.

If the offices do get consolidated into one large office, there are several techniques that can further improve the efficiency and cost-cutting efforts of the firm. For starters, many of the large public accounting firms use a system called "hoteling" that allows employees to register for a workspace rather than having an assigned area. The accounting profession is unique in the fact that employees often work from the client site rather than at the firm's main office. In

other words, there is a lot of vacancy that occurs in accounting firms. This hoteling technique allows for less office space, since not all employees need to have an available spot within the office at all times. By reducing the office area, this will reduce rent and other related expenses.

Furthermore, Solid Rock CPAs can adopt a more lenient policy regarding working from home. Currently, staff level accountants are not allowed to work from home. Although this is a policy designed to prevent wasted time, I believe the benefits of relaxing this policy during the summer and fall season outweigh the potential negative repercussions. After all, during these months more employees will require an office space, since fewer visits to client sites are necessary. Therefore, if the hoteling system is used, there could be a potential for overcrowding the office. Furthermore, as long as Solid Rock CPAs implements detailed time budgets, it will be easy for managers to track the work of staff accountants and make sure that work is being completed in a timely fashion.

Another added benefit of combining offices is that there will be a larger pool of employees from which to select a team for each client. Not all employees compliment each other, so having the ability to better match employees will create a better and more efficient work environment.

Efficiency through Increasing Professional Judgment

One of the most important ways Solid Rock CPAs can improve the efficiency of its auditing services is to change its audit approach. Currently, we use a blank formula for performing audits, which involve slight levels of customization for each client. As shown in **Figure 7**, if a client has a high level of internal controls and no specific risks for a given area, then 10 percent of the population would be selected for testing. On the other hand, if a client has a low level of internal

controls and a specific risk has been located, then 35 percent of the population would be selected for testing.

	No Specific Risk	Specific Risk
High Level of Internal Controls	Test 10% of Population	Test 20% of Population
Moderate Level of Internal Controls	Test 15% of Population	Test 25% of Population
Low Level of Internal Controls	Test 20% of Population	Test 35% of Population

Figure 7

Instead of having a set level of testing, managers should be given more leeway to use professional judgment. As clients demand lower prices for engagements, reducing the amount of testing needed for immaterial accounts should be drastically reduced. Such work is not important to the overall report and is therefore not necessary when stating an audit opinion.

Future Plans

In order to remain a competitive firm in the public accounting industry, Solid Rock CPAs must focus its efforts on cutting costs and becoming more efficient. In order to do so, we need to engage in the following activities:

- Create detailed time budgets for each client
- Allow unpaid leaves of absence
- Reorganize the current business structure

- Use more professional judgment during client engagements

Solid Rock CPAs currently has three profitable offices throughout Indiana. However, after extensive research, it is my opinion that combining the three offices into one larger office in the Indianapolis area would both increase efficiency and decrease the fixed costs of the firm. Although implementing such a drastic change could come with some resistance, the current economy demands change.

By engaging in these activities, our firm will be able to cut costs and become more competitive in the public accounting market.

RECOMMENDATIONS

Recruiting

In order to stay competitive, Solid Rock CPAs must continue to enhance their recruiting strategies. Through the use of an internship program, competitive salaries, and a better work/life balance, we should be able to satisfy the necessary components for quality recruiting. Moreover, we will continue to require the 150 credit hours as we feel this will provide our new hires with the highest degree of expertise and necessary experience to sit for the exam and perform quality services.

Employee Morale

Given the tough economic times, it is vital to our success that we pay close attention to employee morale. Specifically, our goal should be to enhance the work/life experience for our employees. We set to accomplish this through flexible scheduling, casual environment, and providing numerous employee services. Likewise, employee appreciation is something to be highly considered in assessing employee morale. Systems of public recognition will be implemented to ensure that employees feel that their contribution is appreciated. In addition, this allows our employees to feel that their work is valued. In addition, we will give employees the opportunity to make anonymous suggestions to ensure that each employee has an avenue for voicing his or her opinion.

Client Relations

In an effort to receive prompt payment, detailed billing statements will be included with client invoices. Each service provided will be properly documented and clearly stated so as to avoid all possible confusion. Another instrument that Solid Rock CPAs can utilize in order to improve their collectability is the implementation of retainer fees. We feel that it is important that Solid Rock CPAs understand that their brand name is a direct correlation to their service fees. Therefore, we assess our fees in the same line of thought as offering a differentiated, and thus more valuable, product. It will be pertinent for Solid Rock CPAs to properly evaluate their client base. Due to the tough economic times, careful consideration should be given as far as client assessment is concerned. Before we just accept any client, we want to make sure that they possess high quality credit worthiness and integrity.

Efficiency

Solid Rock CPAs should utilize detailed time budgets for each engagement so that we can guide staff as to how long a particular activity should take. Furthermore, these time budgets will allow for management to compare actual time spent to budgeted time. Another method to promote efficiency is the option for voluntary time off. By allowing employees to take time off during the summer months will not only positively effect work/life balance; but also decrease compensation expense during the slower months. Corporate restructuring in the form of consolidating the three offices into one Indianapolis office will decrease overhead and increase staff utilization, thus increasing efficiency. In addition, Solid Rock CPAs should consider outsourcing some of the simpler, less value-added activities. Lastly, the use of quality professional judgment should be highly regarded within the firm culture so that value-added activities are separated from inadequate utilization.

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