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Outsourcing for Accounting Firms

By Bob Wolff

From the January 2005 Issue

Accounting professionals face a crisis.

One that, at worst, could mean the end of the accounting profession as we know it today.

It's not because software has taken away once common write-up and tax services.

It's not because of commoditization of professional services (at least, not entirely).

The situation is caused by the natural confluence of trends.

AICPA research shows a consistent reduction, over 20 percent in the past decade, in the number of newly graduated accountants. Qualified people are harder to find. Resource shortages already inhibit firm near-term growth in various parts of the United States.

The path for long-term growth

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is inevitable.

This viewpoint may appear right on the mark, except for the fact that the accounting profession will still lack qualified resources to deliver services at the same volume and quality. On top of this situation, and even with increasing use of software and technology by clients, demand for services continues to rise. Clients want their accountants to be their part-time CFOs, their primary advisors — to take care of them. Will technology produce a miracle?

With an average age of 50 years among accountants and their staffs, how does a profession with a very large segment ready to retire in five, 10 or 15 years (20 years at the outside) face a future without the qualified resources to continue its high position in the business world?

Hearts should be racing not

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pany, ensuring that resources will rise in a few years when young people see the opportunities for a challenging and rewarding career. This group also believes technology has much more to offer the profession, including substantial productivity enhancements.

Outsourcing

Regardless of the truths, half-truths and biased politics about outsourcing jobs in the recent presidential campaign, for the accounting profession, outsourcing is essential to survival. When the word outsourcing is used, most professionals think of tax return preparation outsourcing first. In fact, outsourcing is expanding as fast as expectations and needs. Most outsource companies now offer write-up, payables and other accounting services, sometimes with U.S.-based work forces, though most utilize charter accountants and trained accountants in India, Sri

Lanka, Kashmir, Ireland, China,

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can be strategic or tactical, but if procedures are not good, then outsourcing does not fix a firm's problems. Also, outsourcing is partnering. It can help increase the efficiency of current staff. Most important, it eliminates 80-, 90- and 100-hour weeks, increasing quality of life for staff and helping the firm to retain quality staff."

Mike Gamble, General Manager, CCH ProSystem fx Outsource (Tax.CCHGroup.com), expanded on the quality of life benefit. "Say a small firm wants to grow. Increasingly, the owner acquires the practice of a retiring accountant. Too often the staff retires too. If the owner can find qualified people to support growth, he must then struggle to increase other service areas so they can keep people busy."

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to the during this season, feeling write-up and other work pile up for two or three months. Staff members burn out and quit, usually heading to a better quality of life within a company where 50-hour workweeks seem like paradise. A growing solution is outsourcing, not for cost reduction, but for the shift of staff to higher value work. This increases their quality of work life, making staff retention easier.”

Glen Keenan, President, Xpitax, LLC (www.xpitax.com), and other executives note that 131 million 1040 tax returns (60 million done by paid preparers) were the initial pain point that sparked the outsource industry. However, the industry has expanded into other areas, relieving other pains associated with qualified staff shortages. Mr. Keenan sees audit tasks being shifted to outsource

accountants, such as turning

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new earnings for 2005 and
2006.

Sensitive to the political comments in the past few years, Mr. Gamble and others noted customer reports that they eliminated few, if any, jobs due to outsourcing. Instead, they shifted staff from tedious compliance work and moving large amounts of data around to review and client nurturing. Mr. Keenan expanded on this observation, echoing the sentiments of most executives, “Firm costs may go down, but more important is the opportunity for more services — for more valuable services.”

A good example is Wayne Farrar of Farrar Financial, a one-man firm in Texas. While outsourcing 1040 tax return to QuickAccountant was a satisfactory experience, the real opportunity came when he outsourced write-up. QuickAccountant's outsource team in Sri Lanka “organizes

everything, does bank reconciliations

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While the process for tax returns and write-up outsourcing can be defined in multiple detailed steps, the fundamentals are simple:

1. **Scan documents into a document management tool.** The process often involves a secure web site and/or transfer of information across the Internet to a fortress server location that makes going through an airport seem like Romper Room Playtime.
2. **Organize, enter data and process data** following the tax regulations and accounting rules of the United States. Most companies do this offshore with a firm-designed team of chartered accountants and trained accountants. (Security over their actions and interactions with confidential information is very rigid too.) Some companies allow firms to communicate directly with the team via e-mail, while others employ project or case managers (CPAs, accountants) who bridge communications between the firm and the offshore team. In addition, Datamatics offers firms the option for these services to be done on-shore in the United States (called onsite)

or a combination of onsite

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The natural evolution of outsourcing is already beginning. Whether you call it “Offshore Staff Leasing” or “Percent Full-Time-Equivalent (FTE)” (there is no common name yet), it involves hiring qualified resources for a set number of hours per week or month. In some cases, staff members are hired only for a project.

Anand Mazurka, Vice President North America, Datamatics (www.DatamaticsTech.com), has seen Percent FTE evolve since his company began offering outsource services in 2000.

“Datamatics has 25 accounting firms hiring temporary help for projects from our India office and our three U.S. operations centers. Mostly mid-sized firms request these people. Chartered accountants and others come from the team that worked with them on tax returns or another project. They know the firm’s

procedures, and the firm knows

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that time trying to find a qualified person for a limited-term assignment. Compliance work also drives demand.”

Mr. Mazurka expects demand for Percent FTE to grow geometrically in the next five years. “Our professional population is aging. Qualified people will be increasingly harder to find to meet demand for SOX and other compliance work.”

Kishore Mirchandani, president of Outsource Partners International (OPI; www.opiglobal.com), succinctly summarized the caution shared by most competitors about Percent FTE: “It is not about staff alone.”

Percent FTE requires infrastructure, controls, process, workflow — the same key factors found in tax return, write-up and accounts payable outsourcing. The main difference is that SOX, audits and other services have more shades of gray and thus demand more management.

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previously worked with them.

will know each person's strengths and weaknesses and will hand out assignments based on skill set."

Mr. Wyle also raised questions typical of bringing a new "invention" to market:

- Who is responsible for the offshore accountant?
- Can a firm pull out of the project without being hit for the entire contract amount and/or a penalty?
- What if the project for which a Percent FTE was hired falls through?
- Will members of a known team be available on short notice?
- Must a known team be kept on retainer to ensure access for possible projects?

Workflow

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up front.

That's why every vendor and customer interviewed here emphasizes electronic workflow. While firms have tried (and some have successfully implemented) manual workflow systems, they are cumbersome to keep up-to-date. But make that system electronic, manipulating data from a browser or program screen, and manageability leaps forward. Electronic workflow increases efficiency and promotes good communication.

While workflow tools included with outsourcing contracts are more basic than robust (though continuing to rapidly evolve), all incorporate document management functionality and speed up and simplify the tracking process. For example, SurePrep provides a Dashboard for tracking work (SurePrep Tax Center), whether it is outsourced or done internally by a firm. In addition to

offshore staff updating the

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to save review time.

Other workflow tools add customization, such as OPI's Tax Tracking Tool or communication flexibility like QuickAccountant's electronic sticky notes to guide an offshore team. QuickAccountant also supports workflow customization for both the firm and its clients, line by line, if desired. Datamatics, which uses FileNet, a document management and workflow tool used by 60 percent of financial institutions for its exceptional security and other capabilities, can also customize workflow procedures. Some systems, such as ProSystem fx's Outsource Status System, send e-mail notifications when a processing stage has been completed. Also, a firm can view a tax return at any stage of completion, which can be helpful for adding clarifications.

Alternative Path To The Future

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personal computers over time, he says. "It allows easy and efficient outsourcing today, but other technology, like XML, is the better solution. We need to replace keypunch with much more intelligent and efficient harvesting of data.

"The future is not cheaper labor; it is about working smarter. The Internet is the roadway, and innovation is the key. For example, most accounting software today is designed for end users. They are told they do not need accounting knowledge. On the other hand, accountants spend most of their time correcting client mistakes. Clearly, small business owners need real-time accounting information for effective management."

Dr. Bhansali, among others, believes the next productivity boost will come from accountant-client collaboration. "Accountants

will define workflow for client

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data entry.”

Dr. Bhansali has high expectations for the future. “Working smarter means improved productivity, which minimizes the need for outsourcing. And when the professional supply rises in the next five years, the people will be far more open to innovative ways of delivering services. Their comfort will drive another renaissance in productivity beyond what many can visualize today. Outsourcing is a temporary fix that will be replaced with innovative technology.”

Bottomline

“A few years ago I ran a 20-employee firm,” says Jim Baltimore, CPA. “The future I saw said my firm was too small to succeed in the long-term, so I merged. Now I realize that a small firm can be exceptionally

profitable, successfully competing

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for ways to serve them better.”

That is the fog clearing from the path for long-term growth.

In his 22 year career, Mr. Wolff has consulted with more than 500 accounting firms and small businesses in the area of technology and marketing. He has also led marketing, product and support groups in several software companies, and consulted with more than 250 software and technology companies. To date, he has reviewed more than 500 software packages.

Technology

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