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Status of the "Paperless" CPA Firm

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"Paperless" has been the term used by many practitioners to describe the transition of today's CPA firms to more streamlined electronic workflows that automate processes by eliminating the manual handling of physical documents. To better understand and evaluate the status of this paperless environment in 2007, the Association for Accounting Administration (CPAAdmin.org) surveyed 221 firms with an average size of 67 personnel, following up on their groundbreaking 2003 and 2005 paperless surveys. Below are the results of the survey in regards to today CPA firm digital best practices.

Tax production

One of the first steps in transitioning to the paperless office is eliminating the creation and storage of paper files. Today's tax programs create default image formats for the firm's digital copy of the tax return that promote standardization and streamline production by sending the final tax file directly to the appropriate digital location. In 2007, 87% of surveyed firms were storing digital (PDF) versions of their tax returns, up from 76% in the 2005 survey. Another trend towards streamlining tax production is scanning all client-supplied supporting documents as part of the final document, which 75% of firms were doing this busy season. The survey also asked if any firms were utilizing intelligent scanning/input tools such as ProFx Scan and found that 29% of firms were using them, which we can expect to increase in the future.

Tracking due dates and status of returns is an important firm process, which traditionally was done with manual checklists or spreadsheets. Today's practice management and document workflow tools allow for real-time updating of due date status, which 69% of firms were doing this year. While CCH Practice has this capability, their new partnership with XpiTax XCM is providing an option, as they have made it part of a digital workflow process that will eventually incorporate document management.

One of the more cumbersome processes of tax production has been

requesting clients send missing or additional information, which usually entailed a string of phone calls and reminders on yellow sticky notes. In 2007, more than half (54%) of firms were using e-mail as the primary method of communicating with clients, which was up from 37% in 2005. For this reason, it is critical that firms make a concerted effort to capture all client e-mail addresses in a centralized database, such as practice management or groupware (Outlook), which 72% of respondents said they were using for firmwide contact management.

While many firms fax or e-mail clients a copy of their return when requested, there are concerns about the security of these methods. The 2007 survey found that 45% of firms had a policy to deliver tax information to clients in a password-protected or encrypted format. While some firms are using e-mail encryption, the long-term trend points towards firms using secure Web sites, such as CCH's Client Portal. One of the new questions on this year's survey found that 22% of respondents already were using an extranet or client portal to transfer and store client data.

One of the major benefits of the "paperless" environment is that since all files are stored on the network and can be searched instantaneously, the time firms once spent looking for lost files disappears. Consequently, as people look to their networks for data, they require additional monitors to see two or more files simultaneously. The AAA survey found that 69% of firms standardized on dual monitors for all tax personnel and that 10% for firms already had tax professionals with three monitors.

Audit production

One of the first steps auditors go through before they begin field work is to accumulate documents prepared by clients, which is increasingly being done in a digital format. More than two-thirds (69%) of firms requested information in an electronic format, such as a spreadsheet, scanned image or PDF file. This year, 71% of firms were organizing and managing these digital files in an audit document container, such as CCH Engagement, which further streamlined the process, and 75% of respondents were producing the financial statements utilizing the electronic links in their audit application, rather than re-keying the data into a word processing or spreadsheet program. The survey found that 64% of firms were also using the tax groupings in their audit application to electronically link the audit balances to the tax return, which eliminated the re-keying of data. As much of the audit work is done in the field, the AAA survey asked how many firms had their personnel connect to the office *via* virtual private networks or remote access tools such as Citrix or Windows Terminal Server the

majority of the time, which 54% of firms were doing.

Administrative processes

One of the key tools for the transition to a "less-paper" environment is the use of a firmwide document management program, which 55% of firms had in place this year. For determining who was responsible for the scanning process, the survey found that two-thirds (67%) of firms utilized a centralized scanning process, rather than making their individuals primarily responsible. Managing digital files requires that firms update their document retention policies so they take into account electronic document destruction, which 39% of respondents had already done.

An important function of the administrative department is managing all the firm information and procedures that everyone in the firm needs access to, such as personnel manuals, firm policies and human resources items, which traditionally are in a physical format. Placing digital versions of these items in a central repository helps organize the data, and 68% of firms had an intranet. Interestingly, this percentage is down from the 2005 survey (73%), which could be due to firms transitioning some of their administrative knowledge to either a document management application or a knowledge management database. The 2007 survey found that 19% of firms were currently using either a Lotus Notes or Microsoft SharePoint server for their knowledge base.

Within the firm's own accounting department, the automation of accounts payable to digital payments has streamlined procedures. The survey found that 34% of firms paid invoices *via* credit card or online transfers, reducing the individual check writing process. Another manually intensive process in CPA firms is the delivery of firm financial and management reports, which traditionally were printed out, physically delivered and individually filed by each recipient. This can be streamlined by electronically delivering financial report files *via* e-mail, secure portal or posted to a secure portion of the intranet, which 46% of firms were doing this year. The survey also found that for less-confidential practice management reports, 67% of respondents were e-mailing the report or had taught users to look them up in the system themselves. In regards to optimizing the invoicing process, today's practice management applications can create all invoices onscreen, which more than half (51%) of firms were utilizing. The survey also found that 13% of firms were delivering client invoices *via* e-mail or digital fax, which eliminated the manual handling and postage involved with mailing invoices.

Communications and technology

One of the surprising findings of the AAA survey was that the number of firms that mandated that owners and managers utilize notebooks as their only computer went from 49% in 2005, to 31% in 2007. This could be for a variety of reasons including that today's smart phones and PDAs provide much of the remote information access that traditionally desktop-bound users needed or that many users had computers at home that they could use instead. The survey found that 67% of firms provided remote access tools to the majority of their personnel to work outside the office, including from their home computers.

While firms still send and receive faxes, the survey found that half (50%) of the respondents had implemented a digital fax solution that allowed faxes to be delivered to recipients as a digital attachment *via* e-mail. This allows the documents to be delivered immediately, and then, easily forwarded and stored, without ever being printed out. As firms become comfortable with storing and transferring files on the Internet, it is predicted that they will transfer applications and data when they are convinced it is available, secure and cost-effective. The 2007 survey found that 25% of respondents were already backing-up all firm data to Web-based storage at least once per month. As the cost of hard drive storage plummets, this is expected to increase significantly.

Conclusion

Technology will continue to evolve and bring about best practices. Comparing your firm against the benchmarks of the 2007 AAA Paperless survey can provide direction to where your firm can improve, or provide assurance to management that your firm is on the right track.

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