

## CASE STUDY

# Key Considerations in Paperless Processes

By Nick Magone, CFP®

**Nick Magone, a principal of Couto, DeFranco and Magone in West Orange, N.J., spearheaded his firm's transition to the "paperless highway" starting in 2002. Magone applies global views to client business and personal needs based on his 20 years of audit and business advisory experience. He is past chair of the New Jersey Society of CPAs' Government Accounting and Auditing Committee's Nonprofit Subcommittee.**

Alarmed by the byproducts of a thriving economy, some urban planners in the early 1900s predicted that increased traffic from horse-drawn carriages would soon leave American cities "knee deep." According to the Environmental Literacy Council, this was a genuine concern, considering that a single horse produced about 35 lbs. of waste a day, and major cities were removing 10,000-15,000 *dead* horses a year from streets.

Today, many CPA firms may feel that they are faced with a similar problem when it comes to managing documents.

CPAs were always besieged by a glut of paper, but government retention and compliance requirements now magnify its magnitude. Offsite, costs for secure, temperature-controlled, document storage have skyrocketed, exceeding \$12 to \$14 per sq. ft. in urban areas. Onsite, filing cabinets hoard space that may cost \$40 to \$60 per sq. ft. Minimizing overhead can be a challenge, but efficiently handling information is the real race. Most mid-sized firms can see the "virtual office" goal (see Fig. 1 on page 8), but like the hybrid car, not everyone is driving one yet.

The paperless office tends to be elusive partly due to costs, but also because it requires solving a "simultaneous equation" — integrating the Internet, telecommunica-

tions and computing power with "people" processes. Similar to how the Ford Model T was built back in 1908, the *process* is critical to success. Document hardware and software continue to advance, and in the last few years, electronic storage costs have fallen dramatically, putting viable solutions within reach for those ready to get behind the wheel or trade up.

One key to building the paperless office is to phase it in over several years. That spreads the hard costs, which can easily exceed \$20,000 annually, as well as the soft costs involving people, such as investigating options and learning the many new aspects of an evolving system. Couto, DeFranco and Magone (CD&M) serves clients in the New York-metro area and internationally with consulting, tax, auditing and accounting services. Since embarking on the "paperless" journey in 2002, the firm has grown in excess of 20 percent a year — doubling business while maintaining the same storage footprint. Through measurements, we also improved customer service with an administrative/staff ratio of just 1:6.

The transition takes time and planning. Expect some heartaches, but know that there *is* a tangible payoff in efficiency and customer satisfaction; in fact, clients see and experience these benefits through faster response times in interactions by phone and in person. Remember that CPA firm clients expect a high level of service. We are measured not only against other professional service firms, but against such service icons as Disney, Microsoft and Ritz-Carlton.

### Mobile Access

Mobile productivity is a key reason for implementing a paperless office, a natural next step once the virtual storage-and-retrieval system is in place. Of course, firms maximize productivity by keeping the workforce out of the office and in the field. However, returning to the office to

complete client work consumes time and effort. Instead, accountants should spend more time with their clients, building relationships and focusing on other matters without worrying about what is going on in the office.

Sounds good, but security was a prime concern. CD&M turned to BDE Computer Services in Clifton, N.J., for help. BDE, a 10-year veteran in computer networks and service, equipped CD&M's 15-member workforce with Intel notebooks, and set up a virtual office and terminal services on the office network server to handle traffic from the field. Staff can securely log in from the client site, upload data directly to the home office server, and run e-mail and all accounting applications remotely.

The process is more efficient because no sensitive information sits on the staff's hard drives or in their briefcases. While the notebook computers include utilities to establish a secure virtual private network (VPN) connection to the CD&M network firewall, machines are equipped with minimal software to keep costs down. The VPN allows the staff to work from cyber cafés, from home or wherever they can access the Internet.

Mobile computing also gives the staff greater time flexibility in dealing with client demands while out of the office. For example, e-mails from European clients can be reviewed first thing in the morning right from home, providing feedback before the end of the day.

### Where to Start

**The paperless office begins with a vision.** Principals must understand the emerging needs of current and prospective clients to identify the needs of the paperless or less paper operation. Some processes may already be in place, but defining the ideal system gives the organization a clear direction.

**Plot the workflow.** If a client or the IRS has a question, how will the information be accessed? To start the transition to electronic storage, it's important to understand the processes behind each of the firm's core functions — auditing, tax preparation, corporate financial statements and other areas. Examine the workflow in detail and follow all the paper trails. Consider how the final product is produced and look at how final documents are stored on the network.

After determining workflow, estimate potential document throughput when the new process is in place, as well as project needs three to five years into the future. CD&M committed to the virtual-office vision five years ago by investing in a high-speed document copier/scanner, more memory and newer laptops.

Before making a buy/lease decision on scanning equipment, consider document retention requirements; many firms can avoid the time and expense of scanning historical documents. At the outset, CD&M decided *not* to scan any documents already on paper. Assuming that outdated tax records are discarded on time, all tax returns should be in electronic format after three years of operating the new system.

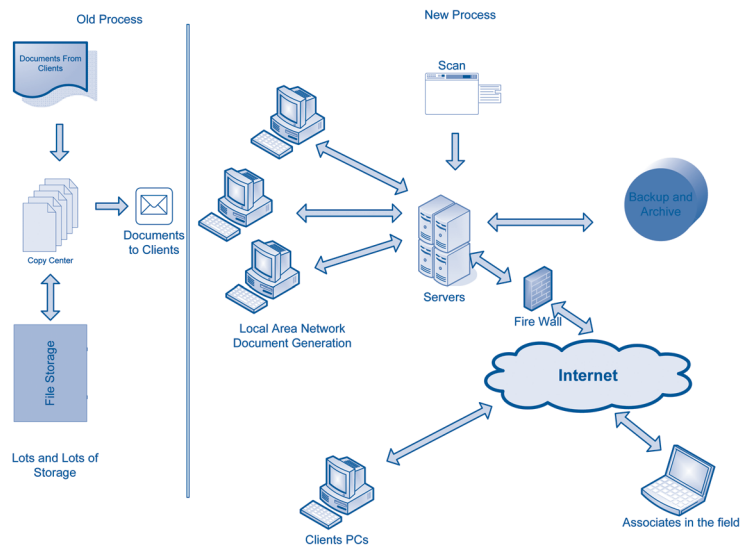
**Allow sufficient time for the trial of new equipment and processes.** CD&M started trials during a traditionally slow period — six months before the year of full implementation. During the trial period, experiment with different software packages and options, and talk to others for feedback. Test drive a prospective solution on a manageable project and review all the processes again in detail. Then, go through a trial period on several more projects.

Involve staff throughout the process. Obtain their input to see what works and what can be improved. For example, by soliciting staff input, one of the items CD&M team members identified was the need for electronic faxes. The old paper and scan routine would be too time consuming. As a result, CD&M invested in GFI Fax for receipt of faxes and FileCabinet CS (FC) from Thomson Tax & Accounting for storage.

Faxes are forwarded to the appropriate staff person, regardless of location, enabling them to respond quickly to client inquiries. CD&M elected to store all incoming faxes in the particular client drawer within FC, enabling the firm to control the archiving and saving of faxes for future reference. Letting staff dissect and reconstruct in advance minimizes pushback once the system is in place and focuses them on further process improvements.

Formal training is also part of the task. Not every CPA or office professional is adept at using all the advanced functions of Adobe, for example, so allow plenty of time for training. Your return on investment will depend, in a large part, on the time put into training.

Figure 1



**Lean on legal and technology experts.** Document management has important legal ramifications. In general, documents must comply with federal rules of evidence and scanned documents are not always admissible in court. Talk to an attorney about policy decisions and procedures.

Software and hardware decisions will impact the efficiency of operation long-term. There are many details involved that must mesh together seamlessly, including scanning, document management, security, terminal services and telecommunications. An experienced system integrator can help save time, avoid pitfalls, and keep a system up-to-date and running smoothly.

Security is essential, inside and out. Reputations depend on it. This is one area a firm *must* get right, and there are many places where it can go wrong. Access and versions of active documents must be properly managed and protected, and final documents, especially tax returns, must be "locked." Firewalls between servers and the Web should be handled by experts to help keep confidential information hack proof.

## Understand the Road Beyond the Horizon

Scalability is important when considering software and hardware investments, but because of the speed of change, improvement becomes a continuous process. Like the advent of the automobile, the virtual office requires a change in mindset. It is more of a vehicle and a direction than a destination, and it can become as good as we can imagine it.

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