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Accounting Firms Expect Slow or No Growth Next Year

ACCOUNTING: Decrease in SOX, public offerings curbed hiring to 4%

By Jessica C. Lee

Orange County's biggest accounting firms saw another gain in workers in the past 12 months due to ongoing Sarbanes-Oxley work, mergers and acquisitions and tax work.

The next 12 months could be a different story.

Last year's subprime mortgage crisis and subsequent credit crunch has many firms bracing themselves for a weaker economy with less deals to work on with fewer acquisitions and initial public offerings.

Local employment at the 40 largest accounting firms here grew 3.9% to 4,285 people during the past 12 months, according to this week's Business Journal list.

A year earlier, the largest firms here added workers at a 6% pace.

Firmwide, employment grew 11% to 622,753 people in the past year.

The county's accounting firms shrunk their number of certified public accounts 6% to 1,355.

Seven of the 40 firms on the list reported declines in OC workers compared to the two firms that posted declines a year earlier. Six firms on this year's list were Business Journal estimates.

The Big Four—No. 1 Deloitte LLP, No. 2 Ernst & Young LLP, No. 3 KPMG LLP and No. 4 PricewaterhouseCoopers LLP—all posted gains of 6% to 7%.

Much of the gains seen at the accounting firms on the list stemmed from ongoing work related to Sarbanes-Oxley, which was passed in 2002 after corporate scandals at Enron Corp., WorldCom Corp and other companies. Sarbanes-Oxley requires controls and standards to increase companies' communication with investors and to reduce fraud.

It's bolstered the accounting industry in the past six years with extra work in helping public companies comply with the rules.

Section 404 of Sarbanes-Oxley requires public companies to examine and test their internal controls and hire external auditors to check their processes.

Slowing Work

But the Sarbanes-Oxley wave is starting to subside as many public companies and accounting firms have fully adapted to its rules and become more efficient in complying, firms say.

“The impact of SOX has moderated,” said Scott Farber, managing partner of the Irvine office of No. 5 Chicago-based Grant Thornton LLP, which counted an estimated 200 OC workers. “Companies are better prepared and it’s becoming more of a routine maintenance process for them.”

In addition to a slowdown in Sarbanes-Oxley work, accounting firms are also dealing with a slow economy that has dampened transactional activity such as mergers and acquisitions and initial public offerings, Farber said.

“There’s no question that we’re feeling the impact of the economy,” Farber said. “Our clients are feeling the impact as their sales volumes and profits are down.”

A slower economy is pushing firms to become more competitive with their services, said Glenn Carniello, managing partner of the Irvine office of No. 15 Los Angeles-based SingerLewak.

“A few years ago your phone was ringing off the hook, but now you have to work harder to bring in new business,” Carniello said. “It’s about being aggressive and working hard because the fish aren’t jumping in the boat anymore, you have to fish the old way now.”

SingerLewak along with No. 29 Talley & Co. were the biggest percentage gainers on the list with a 21% growth in local workers each.

Singer, which counts clients in the commercial construction industry, grew its local headcount to 74 workers from 61 a year ago.

The firm saw an uptick in work related to commercial construction transactions in the past year along with ongoing work related to Sarbanes-Oxley and tax laws, Carniello said.

A new marketing strategy is also in place as the firm recently shortened its name from Singer Lewak Greenbaum & Goldstein LLP.

Talley & Co. counted 34 people at its Orange headquarters.

Last year the firm kept busy with audit, tax and mergers and acquisition work, said principal Andrew Talley.

This year the firm expects to see a slowdown in transactions but a boost in work from clients who want to restructure their business plans to adapt to a slowing economy, Talley said.

“Our clients have to address the fact that the growth run is definitely stalled,” he said. “We’ll be assisting clients in this difficult financing and credit market.”

A slow economy could present opportunities for accounting firms, said Dean Samsvick, managing partner of the Costa Mesa office of New York-based KPMG, which grew its OC workers 6.6% to 390 people.

Companies will need help adapting to a slow economy and could tap accounting firms to help them rework their business plans in order to save on future costs, he said.

“In a slow environment, many companies need assistance in improving their cost structure,” he said.

Executive Changes

The local accounting industry saw executive management changes in the past year.

Firms in OC that saw some management changes include Deloitte, Ernst & Young and No.14 Tustin-based HMWC CPAs & Business Advisors.

Deloitte brought in a new managing partner in June.

Robert Lucenti has taken over for Rick Rayson as managing partner of the accounting firm’s Costa Mesa office.

Rayson, who led Deloitte’s OC office for three years, has been promoted to regional managing partner for audit and enterprise risk services for the firm’s offices in Southern California, Arizona and Nevada.

He now sits on Deloitte’s national executive committee and board of directors.

In his new role, Rayson is overseeing 1,000 employees and splitting his time between OC and Los Angeles.

“Clearly with the challenges there will also be great opportunities,” Rayson said.

Lucenti, who has been a partner at Deloitte’s Los Angeles office for 17 years, now will oversee the firm’s OC workers, daily operations and its audit, internal audit, tax, consulting and valuation practice areas.

He said he wants to deepen Deloitte’s roots here by attracting clients. Deloitte is the biggest accounting firm here with 870 OC workers, a 7.3% growth from a year ago, according to the list.

Unlike the other Big Four firms, Deloitte didn’t break off its business consulting practice into a separate company and has 264 consultants in its total headcount.

The firm’s local clients include clothing maker Quiksilver Inc. in Huntington Beach and retailer Pacific Sunwear of California Inc. of Anaheim.

Lucenti said he sees Deloitte keeping busy with audit, tax and consulting work.

Higher fuel, materials, labor and insurance costs and a tight credit market could push more companies to redo their business plans to cut costs, which requires accounting work, Lucenti said.

“We’re going through a time where the economy is struggling a bit so obviously cost containment is going to be at the top of clients’ minds as they navigate through a slowdown,” he said.

Growing regulatory complexity should generate work for Deloitte and other accounting firms, he said.

Deloitte's competitor Ernst & Young also saw an executive change at its local office. John Belli, managing partner of Ernst & Young's San Diego office, took over the Irvine office earlier this month.

The management change took place a year after Michael Bertolino took charge of the accounting firm's OC operation.

Bertolino was promoted to regional managing partner for tax services for the firm's Pacific Southwest area, which includes offices in Southern California, Nevada, Colorado, Hawaii and Arizona. He now oversees nearly 550 employees and splits his time between seven offices in the Pacific Southwest area.

Belli, who has been a partner at Ernst & Young's Buffalo, N.Y., and San Diego offices for 31 years, now will oversee the firm's OC workers, daily operations and its assurance, tax, transactions and advisory practices.

Belli worked with Bertolino while managing Ernst & Young's San Diego office, where Bertolino was a partner for many years.

Belli specializes in assurance and advisory work for technology and consumer products companies.

Ernst & Young grew its local headcount 5.6% to 418 workers, according to the list.

Its local clients include chipmaker Broadcom Corp. and drug maker Allergan Inc., both of Irvine, and Santa Ana-based vocational college operator Corinthian Colleges Inc.

Ernst & Young, among other accounting firms, is seeing a boost in work related to changing tax laws, Belli said. Increased scrutiny from the Securities and Exchange Commission and the 2002 Sarbanes-Oxley Act also continue to generate work for firms, he said.

The firm, like others, is seeing less work related to initial public offerings as the market has slowed and some companies are shying away from the expenses of being public.

Instead, Ernst & Young is seeing a spike in work on acquisitions from large companies and private equity firms looking to buy small to midsize companies, Belli said.

Private equity is seeking out companies to buy, but has slowed down a bit, said Steve Williams, managing partner of HMWC.

The firm, which caters to small to midsize companies in the healthcare industry, saw its local headcount decline 8.5% to 75 workers as some of its accountants have retired and one passed away.

Williams replaced Gerald Herter as managing partner of the firm this month. Herter still works at the firm but plans to retire soon, he said.

"We're going through a transitional period now," Williams said.

The firm plans to stay busy catering to the healthcare industry, which continues to thrive.

Growing Global Business

Globalization also generates work for firms, Belli of Ernst & Young said.

Belli, who sits on Ernst & Young's global advisory counsel, said the firm also is getting work related to local companies doing more business with companies around the world.

The weak U.S. dollar is spurring more foreign companies to look at local businesses for acquisition or investment, according to Belli.

Growing global business could push more companies to adopt an accounting standard used in Europe and Asia, the International Accounting Standards Board's International Financial Reporting Standards, Belli said (see related story on page 32).

The new accounting standard, which many say is just on the horizon, could be a boon for accountants as companies that already conform to generally accepted accounting principles would need guidance in navigating new rules.

But the profitability of this practice ultimately comes down to when the Securities and Exchange Commission provides an official timeline for its enactment and whether it will be optional or a requirement, said Wayne Pinnell, managing partner of No. 13 Irvine-based **Haskell & White LLP**, which saw about a 2.6% decline in OC workers to 76 people.

The local accounting industry also saw some consolidation this year.

Sacramento-based accounting firm Macias, Gini & O'Connell LLP acquired Newport Beach-based Moreland & Associates Inc. in May to build on its business in OC.

Terms of the deal weren't disclosed.

Moreland & Associates ranked No. 17 on the Business Journal's 2007 list with 52 accountants and has since been replaced by Macias, which came in at No. 20 on this year's list with an estimated 45 people.

All of Moreland's accountants were offered positions after the acquisition, according to Macias' managing partner Kevin O'Connell.

Michael Moreland continues to run the Newport Beach office as managing partner and reports to Jim Gazi, a regional managing partner for Macias' Southern California offices.

Macias has more than 100 accountants at its offices in Sacramento, Walnut Creek, Oakland, Los Angeles, San Diego, San Marcos and now Newport Beach.

The firm has carved its niche by offering tax compliance, accounting and assurance services for governments and companies in technology, real estate, manufacturing and healthcare.

Macias' clients include the counties of Orange and Los Angeles, John Wayne Airport and the California

Public Employees' Retirement System.

Through the years, Macias considered opening an OC office as its local client base grew, according to O'Connell.

Rather than going it alone, the firm opted to acquire Moreland since it already had a strong presence in OC, O'Connell said.

"Culturally and strategically it was a good fit for us," he said. "We want to build on the reputation that Mike Moreland created with his firm."

Macias is looking to its personal services business, which links up businesses with temporary and full-time accountants, to help the firm stand out against competition.

The biggest decliner on the list by number and percentage was No. 12 Irvine-based Redwitz Business Solutions, which saw a 20% drop in local workers to 98.

Senior managing principal Randy Redwitz was not immediately available for comment.

The list saw one newcomer this year.

No. 32 RoseRyan of Silicon Valley counted 30 workers at its Irvine office, the same number as a year ago.

The firm has kept busy in the past year working on mergers and acquisitions, initial public offerings and Sarbanes-Oxley work, said Mike Rose, its chief executive.

This year the firm plans to help companies rework their business plans for a slower economy and gear up for International Financial Reporting Standards, he said.

Firms that closed out the list include No. 37 Link, Murrell & Co. of Irvine, No. 38 Fullerton-based Bates Coughtry Reiss LLP, No. 39 McKennon Wilson & Morgan LLP of Irvine and No. 40 Almich & Associates of Lake Forest.

Link counted about 29 workers, up from 28. Bates saw a 3.4% decline in OC workers to 28 people. McKennon's OC workforce grew 12.5% to 27 workers and Almich saw a 7.1% drop in local workers to 26 people.