

Outsourcing

The Boomer Advantage

Helping the Best Firms Get Better

A Focus on Xpitax



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Company Summary

Xpitax is the creation of a U.S. accounting firm seeking better ways to adapt technology to client service. The affiliated accounting firm, KAF Financial Group in Braintree, Massachusetts has many years of experience in public accounting and tax preparation, and is viewed as a leader in the field of digital workflow and automated business processes. KAF was awarded the prestigious Practical Accountant Magazine “Innovation Award” in 2002 for its development of the outsourcing model used by Xpitax today. Their outsourcing partner in India is Aithent Inc.; a U.S. based global information services company focusing on infrastructure and security. With offices in the United States, Canada, Japan, Singapore, and India, Aithent truly has a global footprint. Some of Aithent’s clients include American Express, Citigroup, Credit Suisse First Boston, JP Morgan Chase, Deutsche Bank, Lipper Analytical, and Morgan Stanley. Both Xpitax and Aithent are privately held, so detailed financial data is unavailable.

Xpitax has completed one tax season in full production of outsourced tax preparation and has an experienced and qualified team in place. In tax season 2003 they processed approximately 2,500 individual tax returns, and plan for up to 15,000 in 2004.

Perhaps the greatest strength of Xpitax is a powerful web-based workflow program – the Xpitax Client Manager (Xcm). This tool enables detailed tracking of every step of the tax return process while serving as the primary workflow system for the CPAs tax return process which includes the communication of clarifying questions, and the hand-off of each return between the participating CPA firm and Xpitax.

Aithent is certified at SEI CMM Level 5, the highest possible rating based on the Capability Maturity Model (CMM) developed at Carnegie Mellon University's Software Engineering Institute (SEI).

Service Offerings

Xpitax has been a leader in the outsourcing of U.S. individual tax returns (Form 1040). For 2004 they plan an expansion into several additional areas:

- Business tax returns
- Partnership tax returns
- Fiduciary tax returns
- Client write-up (primarily utilizing QuickBooks and Creative Solutions Client Bookkeeping Solution)
- Pension tax returns

Xpitax plans to scale up to 15,000 individual returns in 2004 with the target of 30-40,000 in 2005.

Security

Xpitax has placed an extremely high priority on security, and the results are impressive. Security of data and sensitive information forms a strength for this company. Xpitax has four levels of safeguard to protect customers. The four levels are:

Physical Security

- Data center located in U.S. (Boston)
- Data files never leave U.S. India accesses by Citrix Server (VPN)
- Secure, guarded, data center with access control, and environmental control
- Power backup and fire suppression at data center
- Restricted access work areas (India)
- Strict controls over what employees bring into tax preparation work areas (India)

Network Security

- Multi-tiered firewall providing two layers of security
- Packet encryption – 128 bit
- Secure FTP data uploads, 128 bit SSL downloads
- Internal email system behind firewall.
- Logging of every contact with data files; date, time, individual.

Desktop Security (India)

- No Internet access in India except through Xpitax VPN through Citrix Server.
- (No worldwide web, no Internet email)



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No printer access
No floppy & CD drives in computers
Antivirus with auto-updates

Other Safeguards

Non Disclosure Agreements signed by every employee
24x7x365 security guards at data center
Biometric (thumbprint) verification for data center access

The key to Xpitax security structure is the U.S. based data center. No tax files or supporting documentation leave the data center. Tax preparers and supervisors in India use Citrix to access the data. In addition, all tax and other software used in the Xpitax process are located at the U.S. based data center, insuring additional security in the access of client information and control over the processing functions. The ONLY Internet access the India office has is through the Xpitax VPN for connection to Citrix Server and the data center. Communication between U.S. and India locations occurs over an internal email system which never passes beyond the firewall.

Workflow

Workflow management and control are perhaps the strongest element in the Xpitax system. They have developed their own web-based application which controls the entire process. From end-to-end the entire sequence of events is accessed through this single application.

At the beginning the accounting firm uses the web interface to upload prior year tax files and scanned supporting documentation to the data center by means of 128 bit encrypted FTP. The tax files and supporting documentation are then attached to a taxpayer “profile sheet” within the web application and the return is submitted to Xpitax.

Accountants in India are organized into teams of one supervisor and 3-4 tax preparers. Each team is assigned to a CPA firm; a CPA firm may be assigned one or more teams depending on volume. When the India supervisor logs onto the web application, his home page shows any newly uploaded returns. The supervisor then assigns those returns to one of his preparers. The preparer’s home page shows any newly assigned returns along with those in process. Using Citrix, the preparer accesses the tax file and supporting documentation, rolls forward the tax file, and enters the data. Any questions the preparer may have are entered onto the taxpayer profile sheet through the web application, which automatically generates an email to the U.S. responsible accountant with directions to check the web application to address the questions for that particular taxpayer. Note that questions and answers are contained in the system, not sent by unencrypted email. The U.S. accountant enters clarification onto the taxpayer profile



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sheet, which then appear on the Indian preparer's screen. Upon completion of the return, the workflow application displays the return's readiness for review on the India supervisor's home page. When the supervisor's review is complete, he uses the application to notify the U.S. firm that the return is ready for review. The U.S. firm uses the same application to download the tax file from the datacenter using 128 bit SSL encryption.

Tax programs to be supported in 2004 include ProSystem fx, Lacerte, UltraTax, and Pro Series.

A full suite of reports is available to monitor progress of any return at any stage of the process. Drill down reports allow the tracking of every "touch" upon that file: who viewed it, who entered data, who asked or answered questions, and who reviewed it.

Coming enhancements to the web application is the Xpitax Client Manager (Xcm). This enhancement will provide the ability to not only track the progress of an outsourced return within the CPA firm from the time the return is logged in to the time the return is delivered to the client, but will allow the CPA firm to use the same web based workflow functionality to process in-house returns within the CPA firm. This will allow a firm to use this single web interface to track and manage tax workflow for both returns sent to India and those kept for in-house processing. This has the potential to tremendously streamline internal workflow for accounting firms!

In addition, the Xpitax Client Manager will allow the US responsible accountant to identify the preparer questions (from India or In-house preparers) that need to be addressed by the taxpayer and automatically, with a click of a button, copy the questions into an email containing the taxpayer's email address. The US responsible accountant will then make appropriate changes to the questions and send the email to the client, thereby avoiding unnecessary telephone tag with the client.

Both these enhancements will be available by the end of September, 2003.

Communications

Xpitax features a robust, secure, and safety-redundant communications grid with India. The Xpitax data site is hosted by Cable and Wireless (C&W), a world leader in providing secured hosting facilities and Internet and storage technologies. An important feature of Xpitax is that confidential data never leaves the United States. It remains on the C&W site near Boston and the accountants in India use state-of-the-art remote access technologies to view, enter, and process each tax return.



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Communications are provided by C&W as well. Xpitax uses a secure VPN connection between Boston and India, direct to the worksite. Redundant backup routing is built into the system. As mentioned previously, these lines are used only for Citrix connections, and carry no data files in either direction.

While questions pertaining to a particular return are handled through the web application as noted above, Xpitax provides for direct communication between the CPA firm and its India team through a private secure email system that sits behind the Xpitax firewall at C&W. This email system allows the CPA firm to interact with its India team in much the same way as they do with staff members in their own back office. The email system is set up so that the India team can send emails only to the firms they are assigned to, with access to the World Wide Web turned off. Firms can use this email system to send specific instructions on how to process their tax returns and to deal with general issues as they arise. This email system helps the CPA firm and their India team develop a good working relationship.

Aithent facilities in India are impressive. An Xpitax executive (Chief of India Operations) serves as onsite liaison with Aithent to ensure close coordination and immediate problem resolution during every stage of tax preparation.

Scalability

Current India facilities are located at Chennai, with plans to open a second site in New Delhi for both increased capacity and redundancy. The existing facilities have the required communications infrastructure as well as the technology and workspace. Plans call for up to 100 employees in 2004 to process an expected 15,000 returns.

Recruiting and Training

Aithent has offices in New Delhi, Bangalore, and Chennai. This gives them access to a broad recruiting base as additional staff is required. Currently all supervisors are Chartered Accountants. All tax preparers are college graduates with accounting degrees who are in the process of completing the exams for Chartered Accountancy. All are highly proficient in English, which facilitates clear written communication over the internal email system.

Training for staff in India uses a combination of methods. On-site leader training, in which supervisors come to Boston (trained by KAF personnel) for several weeks of training then return to train their teams, has been used successfully in the past.



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Additional tax training is provided in India from a variety of sources. Training on the workflow application is done from Boston using web delivery techniques such as WebEx. India accountants are internally certified at multiple levels based upon training, skill, and experience. Tax technical support is provided for the Xpitax India office through the tax department of KAF Financial Group,

Conclusion

Xpitax is a growing company with passionate and committed leadership. Key leaders in both the U.S. and India operations have been together through one entire tax season and are preparing for the future. We see two keys to their success: ironclad data security and a workflow system which is extremely impressive. Firms concerned over security should be comforted by the fact that data files never leave the U.S., and the processing environment in India is rigidly controlled. In the end, however, whether work is done offshore or in-house, workflow management is critical and Xpitax has developed an application which is clear, easy to use, and very complete. As they grow and add additional services Xpitax will remain an attractive outsourcing partner.