



HMWC CPAs & Business Advisors  
Celebrates 50 years

Part II

**“Establishment of Traditions”**

Written by: Gerry Herter

## **HMWC CPAs & Business Advisors**

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#### **Decade II – 1978-1988**

##### **Establishment of Traditions**

The second decade of the firm would see a number of traditions develop. These would include annual events like the State of the Firm Breakfast, the Partner Planning Retreat, and the Death March, as well as the triennial Peer Review. However, one tradition that carried over from the firm's early years was the holiday party. As the first decade drew to a close in December 1977, the party was held, as in prior years, at the home of Bob and Henny Sterman in the North Tustin hills.

New staff CPA's, Marilyn Millare and Gerry Herter, were warmly welcomed to their first of these annual festivities. After a delicious dinner, Sterman proceeded to pass out envelopes to the spouses of the employees. As he did, he cordially informed the spouses that the contents of the envelopes were meant to help tide them over for the next few months when their spouses would be working the long hours of the tax season. Herter, who had been with the firm all of three days, was especially impressed that his wife's envelope contained a check for \$25. Though that may not sound like much in today's dollars, back then for a new employee, who had barely started working for the firm, the check was an encouraging sign of affirmation.

That tax season was a tough one, where all the accountants, partners included, put in hundreds of hours of overtime. That would be the standard for most years throughout the life of the firm. At times, the prospects for completing all the tax returns by April 15 seemed like an impossibility. Nevertheless, when the due date came around, somehow they all got done.

Then it was time to play. Another tradition that had started in an earlier year was the after-tax outing. In April 1978, right after the 15<sup>th</sup>, the firm hosted all the employees and their spouses to a weekend in Las Vegas.

In those days, the partners were avid tennis and racquetball players, so the logical resort was the Tropicana, which had both tennis and racquetball courts, as well as a newly built tower of rooms. Tournaments were held for all who were game for a physical test. No one could top the partners, however, who were seasoned veterans in the sports. Newer staff had wondered during the year about who the

two clients were that Sterman was often signed out to visit. Their initials on the sign out sheets were THRC and OCRC. Only after experiencing Sterman's powerful serve and backhand, did they learn of his regular workouts at the Tustin Hills Racquet Club and the Orange County Racquet Club.

During the summer of 1979, Gerry Herter learned why Sterman had queried him in depth during his original job interview about his MBA degree and what he planned to do with it. Back then a CPA did not need an MBA to be an effective public accountant. In reality, part of the reason for Herter's taking time to obtain the MBA was to help prepare for the CPA exam, as well as to delay getting drafted by the army, which was a concern back in those days.

Sterman had something else in mind. He and his partners were experts in the tax law, and wanted to focus their time advising clients in that area. They did not have a background in firm management, and did not care much for the necessity of spending time dealing with the myriad of tasks, some unpleasant, required in running a company.

So it was in June 1979 that Herter was appointed the firm's first personnel manager, in addition to his duties as an auditor. He should have suspected that something of this nature was likely to occur. Shortly after being hired, he had been assigned to create the firm's first employee manual. Prior to that, the firm's personnel policies consisted of a list of the key items, such as office hours and holidays, hand written on a single sheet of 8-1/2" by 14" green accountant's working paper.

Though pleased with the opportunity to take on the additional responsibility, Herter was caught by surprise the very first day after his appointment. Partner Ernie Ortiz stopped by his office and casually remarked "By the way, you need to fire Mary Ann." Now Mary Ann was the secretary/receptionist. Herter had developed a pleasant working relationship with her, and had not been apprised of any issues prior to this day. As might be expected, Herter was literally "baptized by fire." He had to maintain professional decorum and try to soften the blow to an unsuspecting Mary Ann, who peered at him in disbelief through eyes filled with tears. Herter had learned the hard way that his new found power and prestige came at a sometimes painful price.

One of the firm's longest standing traditions (and an unusual one for an accounting firm) also began in the summer of 1979. Ortiz, Herter, and new staff CPA, George DiGaetano, wanted to try their hand at hiking to the top of Mount Whitney, located in California's Sierra

Nevada mountain range, and the highest mountain in the lower 48 states of the USA. Knowing little about backpacking in rugged mountains at high altitudes, the trio, also in dubious physical shape, along with Ortiz's son, Russell and DiGaetano's friend, Kirby, blithely proceeded up the trail with heavy packs as rain started to pour down. Three days and forty-five miles later, they emerged half dead at the trailhead, never having even reached the summit.

Though vowing never to undertake such an ill-conceived venture again, within a few months the three had forgotten all about the hardships and only remembered the grandeur of the mountain experience. Then and there they began planning what was to become the second annual Death March.

Shortly thereafter, Steve Williams was hired as a staff accountant. He quickly bought into the Death March mystique, also. He would subsequently join in with Herter as they became the driving forces going forward, creating decades of challenging and rewarding team building adventures, open to anyone willing to participate. In July, 2018, almost fifty participants, including partners, employees, clients, family and friends of the firm will embark on the 40<sup>th</sup> HMWC Annual Death March to majestic Grand Teton and Yellowstone National Parks. The Death March tradition is recounted in a newly published book authored by Herter, titled *From Ledgers to Ledges*.

Williams first came to Personnel Manager Herter's attention through a mutual attorney friend. After a two-year stint in the Disneyland cash management department, Williams had gone to work for a regional accounting firm in Los Angeles. A couple years later, wanting to return to Orange County, he interviewed with the firm. Though no positions were open at the time, Herter promised to keep Williams' resume on file, in case something opened up. In his several decades of hiring for the firm, Herter had only one occasion to ever pull a resume back out from that file. Fortunately for Williams, his was the one. A few months after Williams' interview, a key accountant unexpectedly announced his resignation, in order to move north. Williams got the call, and before long was the firm's newest staff accountant, working alongside Millare and DiGaetano.

Later in 1979, Sterman saw another opportunity to reduce his direct involvement in the day to day management of the firm, so that he could focus more intently on the sophisticated tax planning and consulting for which he had become widely known. Coupling that goal with the available corporate structuring alternatives, Sterman turned over the title of President of the accountancy corporation to Herter.

Though the practice was officially run as a professional corporation since 1972, Sterman, Higashi and Ortiz informally spoke of themselves as partners. In keeping with that tradition, at a surprise luncheon in June, 1982, Herter became the fourth partner, as well as a shareholder.

The other partners were more than happy to turn over more of the firm management tasks to Herter, so that they were freed up to better serve their clients. That led to the establishment of another annual tradition: the Partner Planning Retreat. Since a number of years had passed since a new partner was brought on board, a thorough review and updating of the firm ownership and compensation agreements was in order. Sensing that endeavor would require quality time without the day to day distractions of the office, the partners called for an offsite retreat.

Herter was tasked with making arrangements. Hearing about a new resort facility on Catalina Island, Herter reserved rooms and booked passage for partners and spouses on a morning ship to Catalina. The partners may have had second thoughts about their new partner when they arrived on Catalina ready to settle into the “new” resort lodging. All they found were some ramshackle run down cabins. Nearby, the “new” lodgings consisted only of unfinished concrete pads. Unfortunately, the current real estate recession had prevented completion of the units. The edition of the AAA tour guide that Herter had relied upon had been issued months before. Since at that time the units were expected to be ready by now, the guide included them. Needless to say, years would pass before Herter could live that one down.

On the plus side, the partners spent the next two days in swimsuits at a table by the pool hammering out the new agreements, in between swimming and happy hour breaks. The rustic accommodations weren't that bad after all.

Weeks later, back at the office, with the partners poring over the agreements the firm's attorney had typed up, Herter's humiliation was complete. Sterman had been discussing the agreements over the phone with the attorney as he prepared them, apprising the attorney of his new partner's name. However, though Sterman had been in California for many years, he had never lost his New York accent. Consequently, when the typed agreements arrived, all through them Herter had become Herda, the phonetic equivalent of Herter for someone with a New York accent!

The foresight of hiring Herter to run the audit practice paid off in 1982. A new law required accounting firms to undergo an independent peer review of their audit and accounting engagements every three years. Though the process was nerve wracking, causing a few sleepless nights, the firm passed its first peer review with flying colors. That tradition has continued for the ensuing thirty-five years through to the present, with every subsequent peer review having been passed without a hitch.

In the fall of 1984, two firsts occurred at the firm. The accounting practice of Gordon Shields was acquired in September. The terms called for Shields to continue as a consultant, phasing out gradually over a five-year period. This was the first acquisition by the firm, and the only one until quite a few years later. The firm's primary growth through these years would be from internal expansion and new clients.

At about the same time, the first departure of a partner occurred when Ernie Ortiz decided to leave the firm to pursue a different course for his career. That was followed by the surprise announcement at the December holiday party when Marilyn Millare and Steve Williams were elevated to the status of partner, bringing the partner ranks to five for the first time. The final of this cluster of changes came in February 1985, when the firm name was officially changed to Stermen, Higashi & Herter Accountancy Corp.

By 1985, firm personnel had grown to 20 and billings topped a million dollars. To accommodate the steady growth, the firm needed to relocate to larger facilities. Continuing the long-term relationship with George Argyros and his company, Arnel Development Company (now part of Arnel & Affiliates), the firm leased 5,500 square feet of office space in his Stonebridge Court garden office building located on 4<sup>th</sup> Street in Santa Ana.

With the larger size, the firm recognized the importance and challenges of maintaining effective communication of plans and results throughout the organization. To showcase hopes and dreams as well as successes and shortfalls, a "state of the firm" event was envisioned. So began the Annual Firm Breakfast. Corresponding with the firm's June year-end, the presentation was set for summertime.

In the summer of 1986, the first rendition of the affair was a modest undertaking. With the partners and staff assembled around a long table in the center of the restaurant attached to the Bluebird Motel in Santa Ana, Herter stood up and reported on the prior year results

along with goals for the coming year. The other restaurant patrons looked on with confused bemusement, not quite sure what to make of the goings-on at the nearby table.

From there, the Annual Firm Breakfast has grown and evolved over the years until today it has become a major anticipated occasion each summer. Recent versions have taken place at Disney's Grand Californian Hotel, and have been supplemented with a night's stay and access to the park for the families of the firm's personnel.

The presentations have expanded to include the partners and department managers. As such, the event has served to develop the speaking abilities of the presenters, as well as providing for some friendly competition between departments. With games and skits, each department attempts to outdo the others while presenting their results and goals in a fun and inspiring manner. The partners have the opportunity to bestow productivity, business development and longevity awards to deserving individuals.

Another fun and highly competitive feature at the breakfast is known as the "Where in the world is the HMWC water bottle" award. Each person, when hired, is issued a water bottle inscribed in green with the firm name and logo. As firm members fan out around the world on their travels during the year, they take along their water bottle, seeking to find the most fascinating and exotic place to be photographed with it. The first winning entry in 2011 featured the water bottle next to a stuffed alligator over a bar in Louisiana. The water bottle soon reached the four corners of the world with winners filling the bottle from a fountain in Stockholm, Sweden and giving an elephant a drink in Thailand, among others.

1986 was also the year that Jeff Hipshman was hired as a young staff CPA. Jeff received his accounting degree at San Diego State University, and spent his first two years in the business world on the staff of Laventhol and Horwath, a national CPA firm. His timing was good, as that firm filed for bankruptcy four years later.

As the firm's second decade drew to a close, the personnel numbered 21, more than double the total at the end of the prior decade. Personnel included five partners, seven CPAs and staff accountants, three paraprofessionals, four administrative personnel and two computer operator/technicians.

The computer personnel point to the fact that during this decade the firm first computerized its operations. Prior to that time, key functions were handled by an outside computer service bureau,

where data was picked up and then returned days later. A request for proposal (rfp) covering the client accounting, billing and tax preparation functions was issued to seven vendors late in 1980. The rfp indicated that the firm had about 430 clients and expected that number to increase to 750 within three years.

Following a thorough review of proposals, IBM was selected and an IBM System 34 minicomputer was installed in 1981. The computer system unit measured over five feet long, two feet wide and four feet high, and weighed almost 900 pounds. The monitor was separate, as was the 160 line per minute printer whose dimensions were roughly three feet each way and weighed over 500 pounds. For all that bulk, the system capacity was a mere 48K of memory and 13 MB of hard disk storage, almost unimaginably small compared to 2018 specifications, but powerful for 1981. The price tag for this system, which required its own temperature-controlled room, was over \$40,000 plus another \$15,000 for the application software.

The early 1980's also saw the advent and rapid rise of the micro-computer industry. By mid-decade, the firm had acquired its first IBM Personal Computer. Though fitting on a desktop, the PC had more capacity than the IBM System 34. By the end of the decade, the firm was running on a local area network, with PC's starting to appear on the desks of individual staff members. -

