

SECTION I

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Firm Preparation: Firm Retrospective and Business Model

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In many respects, there is a major beneficial side effect to tax season. The sharp concentration of work creates the need for innovation and quick training to lessen the time spent on tax preparation and eases the workload. This need has led firms to hire temporary seasonal help; use service bureaus to outsource their tax return processing or parts of it; purchase in-house computer systems, high-speed laser copiers, scanners for digitization, smart scanners to populate tax programs, paperless procedures; secure portals and storage, mobility and swift adaptation to cloud-based software. In a lot of respects, smaller firms led the way with technology because they were forced to look for innovative methods and were able to make the quick acquisition decisions that the tax season demanded.

The tax preparation portion of your practice is a separate business, and it needs continuous product development, work efficiency improvement, and service program upgrades. Issues for a firm to focus on annually include the following:

- Conducting a retrospective to determine whether there will be any systemic changes either firm-wide or limited to the tax season department procedures (chapter 1).
- Considering all the options available to the firm for managing seasonality. This may include reconsidering options that were rejected the previous year (chapter 2).
- Updating tax materials, including tax handbooks for staff and forms for the new year, plus an update and installation of tax preparation software and considering moving to the Cloud (chapter 3).
- Identifying clients who will need pre-year-end planning and tax projections. Calls are made to obtain their most recent tax information; then, appointments, when appropriate, are made to meet with the clients (chapter 4).
- Preparing mailings to clients, which include a year-end tax planning newsletter to be mailed out before the end of November

and organizers to be mailed (or emailed) in the middle of January (chapter 5).

- Implementing a staff tax training program, which includes an end of January or early February pre-tax-season staff meeting (chapter 6).
- Updating tax client lists and preparing preliminary staff assignment schedules (chapter 7).
- Reviewing staff hours and payment arrangements and communicating to staff at the staff meeting (chapter 8).

Review and procedure evaluations have to be conducted frequently and carefully to determine how to make the process better. In particular, at the end of tax season, when it is fresh in everyone's mind, the firm should review how the season went. This includes reviewing the firm's structure and processes, which are discussed in the following sections.

The results of both analysis and suggestions for improvement are outlined in a memorandum by staff level personnel. This memorandum is distributed before the retrospective meeting.

Structure

As in any department of an accounting firm, there must be an organization structure. Typically, a partner heads the tax department.

Tax services for clients are a complicated function, and its intricacies are often overlooked or unappreciated by clients and, sometimes, the CPA firm partners and staff. Taxes are subdivided into many separate specialties—preparation, compliance, research, projections, and planning—with each specialty further subdivided. For example, the tax return preparation process is separated into meeting with the client, compiling and assembling the information, preparing the return, perhaps researching some issues, reviewing the return, communicating the results to the client, and planning and projecting for the current year and future years.

The hard part of planning and ensuring that everyone is properly oriented is to recognize the differences and then to prepare accordingly by making sure everyone is coordinated. We find that separating the functions makes tax season flow much more smoothly. Even smaller firms can benefit from this.

Usually higher- or partner-level people interview the clients and get their information. They have to develop a method of taking notes and writing instructions and comments that are easy to read (in my case, decipher) and follow.

Lower-level staff prepare the returns, but they need a resource person to go to for assistance, direction, and guidance; that person must be available to help them or bottlenecks (and unhappy staff and clients) will result.

In most firms, the staff is segmented into service categories, with the bulk of the staff working on audits, financial statement preparation, or recurring work. Tax returns, being extra work, are added to the corporate and business return work, which is also extra work but part of the firm's base of services. Accordingly, every person in the firm has to be conscripted to work on tax returns, either to prepare or review. Ideally, a firm would have a permanent tax preparation department, but the workload is not spread evenly throughout the year, so most firms cannot do this. Using part timers, per diem people, outsourcing and careful and smart scheduling also helps manage the workload. Tax season is a time when everyone needs to participate, especially during the crunch time: the last week in March and first week or two in April. A by-product of the tax season preparation is that the staff becomes well rounded and tax knowledgeable.

Higher-level staff have to review the returns. Also, procedures, which will be discussed later in this publication, have to be put in place to reduce the review time; otherwise, bottlenecks will result here.

Partners and client contact managers have to be available to make decisions and advise clients of the returns' progress.

In the retrospective, a firm needs to identify any bottlenecks that occurred due to structure and consider adjustments to eliminate or minimize them in the upcoming tax season.

Processes

Tax season is a microcosm of everything done in an accounting practice. One of the primary concerns of a business is having proper processes and quality control procedures. Because of the compression of work in a relatively short period, tax season provides an excellent opportunity for a

continuous quality control initiative, the goal of which is reducing errors and increasing planning. Irrespective of the crush of work and deadlines, whenever a systemic or repetitive error is uncovered, you should look at that as the time to find the cause and then institute whatever procedures you can that will eliminate such errors in the future. We did, and one of our results was to reduce by half the tax notices our clients receive. This effort has also led to many other time-saving initiatives, which are accomplished by analyzing tax return review notes and tax notices. Even though you are swamped, you should take the time for process improvement as the situation arises or you will never achieve the growth you might desire.

Tax Return and Financial Statement Review Notes

Copies of all tax return and financial statement review notes are collected and analyzed to determine the types, categories, and repetition of errors and changes to the returns and reports; who is making the errors; and the progress made to reduce the incidence of errors. An example of the types of items that might reoccur would be shareholder loan issues or personal auto use.

The object of this analysis is to raise the service level to clients, their confidence in the firm, and their overall financial security by providing error-free work to them. This will also make the firm's staff prouder and more confident in what they do, as well as more responsible for their work and more aware of the errors' costs.

With regard to review notes, I do not recommend retaining them beyond tax season or for the short period afterwards where they are used to increase quality and possibly change procedures. The notes primarily have notations about errors. There is no reason to keep work product that is discoverable in litigation. However, I would keep the preparer and reviewer checklists which are part of and evidence of your quality control system.

Tax Notices

A review is also made of tax notices received during the last year, what the notices were for, and who worked on the returns that generated the notices. The purpose is to determine if there are patterns to the notices,

or the person who prepared the return, or if there is an absence of notices for returns prepared by some and a deluge for returns done by others. The firm most definitely needs to find out about any absence of notices so it can replicate what those staff members are doing. The firm should also try to monitor client complaints and compliments.

In that regard, our monitoring showed that a major source of notices has been for erroneous reporting of estimated tax payments. Most of the time, the errors are due to incorrect information the client provides to the firm. Accordingly, one solution is to require clients to provide proof of payment when they submit their tax information. Everyone working on returns should get that information.

In many cases, slightly more deliberate thinking about what is being done, its purpose, and the expected or intended reaction or response of the client will reduce the errors. In others, a less rushed attitude will do the job. And in still others, a little extra attention to the final product works.

Types of Changes

Be aware of this program for what it is: a tool to try to identify areas where service to clients and firm efficiency could be improved. This program should not be thought of as a method of eliminating every mistake. The freedom to make mistakes could create an environment that, at the proper time, will encourage initiative, imagination, and a degree of aggressiveness in representing clients' best interests. Also, be mindful that if an associate does not ever make errors, this behavior might indicate a passivity that would cause the firm to not represent clients as fully as it should.

Keep in mind that the search is for patterns rather than isolated instances. The object is to reduce carelessness and inattention to what is being done, as well as to improve the efficiency in the way the staff work.

Some of the procedural changes we made or instituted because of this program are as follows:

- Signed copies of all engagement letters will be given to our administrative assistant, who will enter the appropriate information in the Tax Control. This was a result of information not being entered in the Tax Control for new engagements that grew out of

initial single-purpose noncompliance jobs. We also now require engagement letters for all assignments, with the exception of individual tax return preparation (which we should insist on, but do not).

- If a staff person wants to do something that will take more than one hour, he or she must first clear it with a partner. Previously, staff who were frequently interrupted by so-called “urgent requests” by clients and who decided to work on those requests determined that the new request was of a greater priority than what they are working on. That’s changed.
- All requests for tax research must now be in writing, with an estimated time limit for the research and due date. This requirement will force the requestors to be more careful and selective in their request and will clarify and possibly limit the issues and questions to be addressed.
- Many of the errors were because the checklists were not properly or completely filled out. Some of the errors were due to carelessness, but because the errors were widespread, we have changed our training to emphasize adherence to the procedures and attention to the questions. Some of the omissions are “non-number” items, such as the clients’ telephone numbers and birthdates of the clients and their children.

Why Checklists Are Critical

Author’s Note: This is an area I feel very strongly about, and it is a major reason for the success of the better firms and the lack of growth of smaller firms. Please read this section carefully and do not hesitate to call me with any questions about using checklists.

By my way of thinking, a system must be established to assure the greatest quality at every level, reduce the number of touches per return, and present the client with the type of return with the right degree of planning he or she is relying on you to deliver. This system is the strict adherence to the processes and procedures, and it includes the careful and deliberate use of checklists.

Following are some bullet points that will explain what I believe and want to convey to you:

- Delegating means leveraging work, which creates opportunities for the delegator and delegate.
- Opportunities for the delegator and delegatee mean professional growth in a planned, organized manner.
- Delegating means trusting that what is needed to be done will be done the way it needs to be done.
- Firm systems create a method of training, supervision, oversight, and confidence that the work will be done the way it needs to be done.
- The system makes it easier to delegate and manage because a structure is in place.
- Checklists are part of the system and make it easier to lay out what needs to be done and how it should be done and in what order.
- Not doing the checklists the right way cancels everything I just said and creates added work and the need for supervision.
- Not doing the checklists also reduces profits; remember that you are running a business.

Checklists

Most people do not like filling out checklists. Why? I don't know because I like them.

Checklists create order, cause me to not reinvent the wheel every time I need to do something I previously did, create a place where I can list things that need to be done that won't be forgotten, help me make sure I cover everything I am supposed to cover, and enable me to more easily pass on what I know and have learned from my experiences.

Checklists also make it easier to assure the quality of work and procedures of people I supervise. Despite these many benefits, many staff members do not like to fill them out, including both less- and more-experienced staff and even some partners.

The issue with many checklists—and this is especially so with income tax preparation—is that the checklists are just too long. The AICPA Tax Section checklists and PPC Tax Preparation checklists run over 20 pages; however, in these instances there is a very good reason for

their length. Tax returns are very complicated, requiring a myriad range of knowledge that most preparers, many reviewers, and few partners possess.

Many firms try to solve this problem by abandoning checklists or circumventing them by preparing their own one-page checklist. Some firms even look the other way, knowing the completed checklists were not read. In my opinion, these acts destroy your quality control system.

Tax returns take time. At many firms, the newer staff (read that as less experienced) prepare returns. In some firms, very experienced audit staff take time off from their audits to prepare or, worse, review returns. That quality must be assured is a given, yet procedures are followed that cause reduced quality, a poor result, greater overall time spent on the returns, greater time spent by overstressed reviewers, and less profits.

Zero Tolerance

If it were up to me, I would have a zero tolerance policy for noncompliance with checklists and procedures. If firm partners take the time and expend the effort to develop standardized forms and checklists, they should also commit to having these procedures followed. I find that many firms have great systems in place but that they don't follow through on the implementation and actual use. This is a defect of management and shows a lack of leadership. It also shows me a firm that is not maximizing its potential for profits. Isn't that why you are in business?

Smaller Firms

I continually get emails and calls from smaller firms including one-owner practices with one or two staff questioning the value of what I said and suggested in the previous two editions of this book. Many of these procedures started when I was moonlighting and evolved into procedures and processes that I used as my practice grew and that I still recommend today. Almost everything in this book can be adapted by the smallest firm as well as the largest. Actually, the smaller firms can introduce new processes easier and quicker than larger firms where anything new needs to get sign-off from multiple partners and layers of management. Here is one example to illustrate my point about applicability to smaller practices: I prepare my own return and no one reviews it for me. By using

the Excel tax comparison worksheet, I am able to perform an effective self-review and catch any errors I've made before I file the return. In larger firms where many times there is a disconnect between the partner and the preparation of the return, the Excel tax comparison worksheet serves the function of allowing the partner to get the big picture of the client's previous year income and expenses in comparison to the last two or three years' returns, make sure all categories are covered (such as real estate taxes and mortgage interest), get some ideas for planning (such as a SEP or 401(k) for a self-employed client), that the return has been properly prepared, and that the client could understand the information on the return by looking at or having the partner review the return with the client, by going over the Excel sheet, all in a minute or two. A smaller practice can introduce the Excel sheet as a procedure quite easily; a larger firm cannot. There are many other illustrations, but the point is that everything in here is relevant for any size firm and smaller firms should not prejudice themselves before considering how these ideas might work for their firm. Also, I welcome emails and calls from readers. Send me an email with your question and include your phone number and I'll likely call you to discuss your question or issue, or email you something I've written elsewhere addressing your question.

Individual Tax Preparation Pre Hand-in for Review Procedure Sample Checklist

The following checklist is not a tax preparation checklist but a checklist of some essential steps that a preparer must do before handing in a return to be reviewed.

Sample

Individual Tax Preparation Pre Hand-in for Review Procedure Checklist

(Please fill this out only after you have completed each of the steps below)

Taxpayer:

Preparer:

Initial when complete:

1. Look at and compare to last year's tax return.
2. Look in paperless filing cabinet for any information received during the year that is needed for current year return.
3. Make sure all questions were resolved and all missing information was obtained.
4. Prepare the tax payments worksheet and the Schedule D reconciliation worksheet and scan into working papers with the tax work papers.
5. Review the completed return in Print Preview, including Diagnostics.
6. Look at two year comparison (or Excel tax comparison worksheet if applicable).
7. Clear all diagnostics and E-filing rejects.
8. Make sure that the last thing that you do is a full recompute and create the electronic file.

Please include this checklist on the outside of the client's documents when you route them to review.