EVALUATING YOUR ACCOUNTING FIRM

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BY HENRY CHAVEZ

When did you last seriously evaluate your accounting firm and ask how well it has served your lending operation? Years come and go and very often this sort of assessment falls by the way side. But it shouldn't. Like all businesses, accounting firms experience changes in management and personnel that can directly impact their clients in terms of the responsiveness they experience and the expertise they receive.

Previous studies that have analyzed how businesses select accounting firms have found that team experience in an industry and the related skills are a major consideration. Other high ranking factors include fees, personal relationships, shared values, respected industry experts, referrals and a good reputation.

While these are important considerations, from a tax and audit standpoint, there are several other factors you should consider when making a thorough and accurate assessment of your accounting firm and determining how well it is meeting your financial and tax reporting needs. Here are 8 key questions to ask yourself when evaluating the guidance and service your accounting firm is providing:

1.) Do you have easy access to senior level personnel?

Who are your main contacts at your accounting firm? Is it easy to reach a decision maker within the accounting firm whenever you need their assistance? Are they present at meetings? Do they meet with you at least quarterly for planning and tax purposes? Or, when special transactions arise, such as a merger or acquisition, are they involved in the process? The importance of meeting with seasoned tax and audit CPA professionals early and often cannot be overstated. By having quarterly meetings with you, your accounting firm is better positioned to proactively address any incremental changes as they occur in your lending business, such as changes in regulations, financing arrangements, acquisitions or adding branch locations.

2.) How much mortgage industry expertise does your accounting firm truly have?

Most accounting firms are well versed in accounting, tax and audit best practices, rules, regulatory considerations, etc. However, not all accounting firms understand the nuances of the mortgage industry and the issues that affect lending operations from a tax and audit standpoint. When you think about your unique needs as a lender relative to financial performance, tax issues, compliance, sales force retention and commercial, legal and intellectual property due diligence, does your accounting firm have what it takes to proactively address them? For example, does your accounting firm understand the proper valuation criteria for interest rate lock commitments, loans held for sale, mortgage servicing rights and loan loss reserves? These are important accounting and tax issues that your accounting firm should understand to assist you with proper financial and tax reporting.

3.) What value do you realize from the cost of your accounting firm's services?

Cost is always a consideration, but the value you receive for the money you spend is what truly matters. Does your accounting firm go above and beyond in terms of proactively suggesting ideas or do they nickel and dime you for every question they answer? Often, and especially with new engagements, it is common to see cost overruns whereby a price will be quoted up front and then additional costs start piling up. Alternatively, a value-added approach would consider the time and effort spent on a new engagement as an investment. How does your accounting firm stack up?

4.) How well does your accounting firm resolve challenges?

Did you encounter problems this past tax season, such as selling mortgage service rights and the proper determination of capital gains treatment, or issues with the proper valuation of interest rate lock commitments, and were they resolved quickly and competently? Efficient and effective problem resolution is closely tied to the mortgage industry knowledge your accounting firm has, so you can rest easy if it has this expertise. If not, the resolution to your problems may be slow in coming and poorly crafted.

5.) Were deadlines met and extensions filed on time?

As they say, "timing is everything." That's especially true when it comes to tax filings and audits. Were your reporting requirements filed on time? Did you experience unnecessary pressure from your accounting firm as deadlines approached for corporate tax returns, HUD and GNMA filings? The truth is, your lending operation should not be pressured from a timing standpoint. Rather, your accounting firm should be working methodically and deliberately to meet deadlines as they approach.

6.) Were your tax returns drafted and presented correctly?

This is an especially important consideration when it comes to the proper filing of federal and state tax returns. There are very specific guidelines for lenders operating in a single state or in multiple states that must be followed, such as tax rules for mark to market accounting. If you are using a CPA without industry-specific experience, they may not be aware of all of the mortgage banking rules you must adhere to. If this is the case, you are operating at a disadvantage.

7.) Is your accounting firm consistent in terms of their knowledge and service levels?

Was your most recent engagement with your accounting firm a smooth one? Did team members change frequently or did they remain dedicated to your business throughout the audit and tax season? The consistency of your accounting and tax teams is critically important because it directly affects the amount of time and effort you must expend throughout the season. If you found yourself having to repeatedly train your accounting firm's staff about your business, it may be time to search for a new one.

8.) How well do your accounting firm's values mesh with yours?

When it comes to tax and audit considerations, do you operate somewhat conservatively and cautiously – or do you take a more aggressive approach? Working with an accounting firm that shares your values is an important consideration because only that way can you approach issues as a team, with a similar mindset when it comes to resolving problems and identifying opportunities.

As you look ahead to the fall and the busy months that follow, take some time and evaluate how well your accounting firm has supported your lending operation. If after asking and answering these questions you find that your CPA firm is lacking in some of these areas, it may be time to find a new one – one that is well-versed in the mortgage industry and the unique tax and audit issues that come with it. ❖

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