



Robert L. Ramey, P.C.
Certified Public Accountant
El Paso, TX 79925

This has already been published on Facebook as well as the company website.

But, it's sufficiently important to the relationship between CPAs and their clients that it bears repeating.

In November of 2014 I was contacted by a prospective client. She had been referred to me by another client, for which I was greatly appreciative. The prospective client was a small electrical contractor in the El Paso/West Texas area, with revenues in the range of \$2.5 million. I met with her and as we spoke, it was apparent that she was unhappy with the fees charged by the CPA firm she had been using for a few years. It wasn't just the amount of the fees, it was the sudden increase that she objected to as well as the attitude of the partner with whom she worked. And when she questioned the CPA, the only response she received was, "that's what it costs."

As I reviewed her prior year tax returns and financial statements, I noticed a few errors, at least one material. Most were compliance type errors. For example, even though the company reported a pretty decent net income, no officer compensation was reported. Although I was pretty sure I knew the answer, I questioned the owner. My hunch was right on. Since the company was an "S" Corp, they had decided, even though both the husband and the wife, both stockholders in the company, actively worked in the company, they took no compensation, only draws. I pointed out to her that what they were doing was not correct and would not make it through an IRS examination, and because her reviewed financial statements were reported to be prepared in accordance with Generally Accepted Accounting Principles, they were also incorrect. She responded that the CPA had told her how to do it and told her there was no problem. Well there you go, so much for sound tax advice and GAAP financial statements.

When I left our meeting, about a two and a half hour meeting, she had committed to go with my firm and all was well. I sent her an arrangement letter in December outlining the terms of our services. A week later I received an email from her to the effect that, we really liked you and were comfortable with your services and your reputation, and the estimated fee seemed very reasonable, etc., BUT, the CPA they had been using told her that if they would stay with him, he would perform

her services free of charge. No charge! Gratis! Needless to say, the prospective client remained with the firm offering free services.

Now, why would a professional do something like that and why would a client use a professional who would do something like that? Would anyone use a cardiologist who offered to perform heart surgery at no cost, just so he (the cardiologist) could get the patient? Would anyone, anyone who has some wealth, use the cheapest attorney they could find to provide important services?

And why would a professional who is required to have a certificate (obtained by passing a pretty difficult exam along with experience), ongoing continuing education, peer review, etc., give his work away free to a commercial entity (as opposed to a non-profit). I guess there could be several reasons. Maybe he doesn't want another CPA seeing the kind of work he does, eg., signing an 1120S that includes \$250,000 shareholder distributions and \$0 officer compensation. And it's not as though this is some kind of monster client. It's a small electrical contractor. Is this CPA firm so desperate to retain clients, industry sector clients, clients on the east side of town, clients who use pickup trucks, clients who meet some other criteria, etc., that they will provide services, free of charge, just to be able to say they have a certain client list? The word on the street is that this CPA firm is in the process of merging with an out-of-state accounting group. If so, it's perhaps this "business practice" will come to an abrupt halt. But maybe not.

A few years ago, this same CPA firm, via one of its partners, contacted a rather large client of our firm, by letter, and asked our client to switch to their firm. Their enticement was, with no knowledge of our fees at all, "whatever you're paying now, WE'LL do the work for twenty five percent less."

Are CPA firms really that desperate for clients? And finally, I wonder whether the prospective client "got what she paid for".

Should I Hire an Employee to Do It, Outsource It, or Just Do It Myself?

November 16, 2016

© Robert L. Ramey 2016