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The Ohio Society of Certified Public Accountants

VOICE

November
December
2019

MEETING THE CHALLENGE OF **ARTIFICIAL INTELLIGENCE**

CRYPTOCURRENCY ACCOUNTING ARRIVES

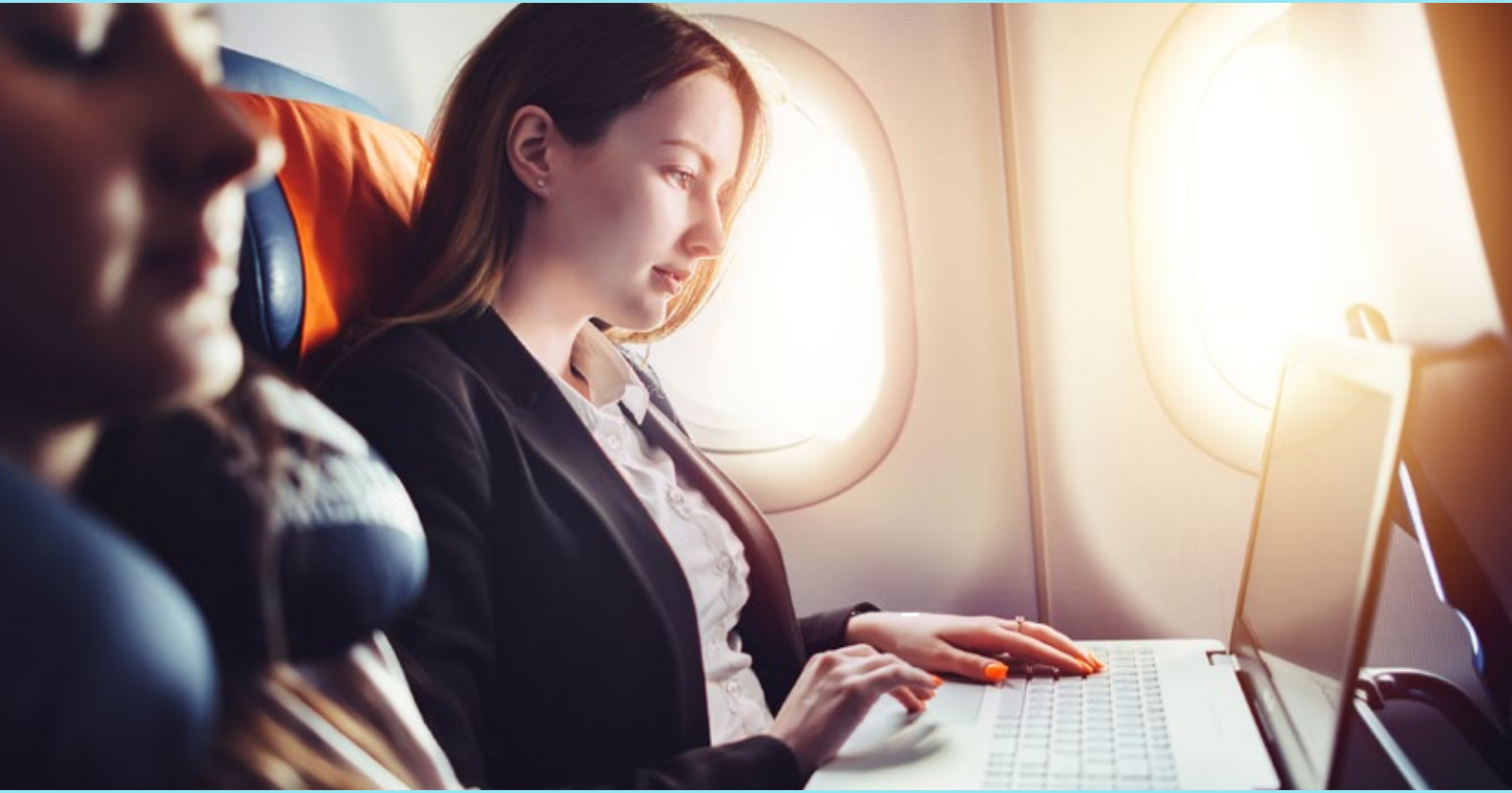
PROCEDURAL ERRORS IN **OHIO TAX MATTERS**



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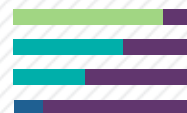
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Reflecting on 2019 while preparing for 2020

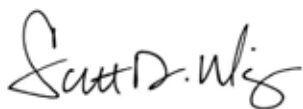
As 2019 draws to a close it's natural to reflect on all that's happened over the year and look forward to new beginnings in 2020. At the Ohio Society of CPAs, we're proud to continue to advocate on your behalf for accountants in Ohio and the profession. Through efforts at the Statehouse, protecting the credential and excellent learning opportunities we're always working to ensure the future of the profession. Here's how several of our accomplishments this year have benefited you:

- Through our spring and fall Advance sessions, On-Demand Series I and II and CPA Voice self-assessment exam members can now earn 20 free CPE credit hours in one year.
- OSCPA secured a law change protecting your CPA certificate by making it clear that solely providing professional services to businesses that deal in medical marijuana products will not subject impacted CPAs to license revocation – or any other form of discipline – by the Accountancy Board of Ohio. It's a growing business opportunity for CPAs to provide professional services and legal sales are expected to hit \$80 billion by 2030.
- OSCPA successfully ensured that SB 255, which sought to limit barriers to employment by sun-setting all licensing boards and limiting related regulations to the “least restrictive means,” did not harm the integrity of the CPA certificate/license or the ability of Ohio CPAs to provide services in other states without obtaining multiple state licenses. Accounting is the only profession to secure this.
- The biennial budget bill, Am. Sub. HB 166, included the continuation of the Business Income Deduction as-is for almost all businesses. The BID was kept at \$250,000 and maintains the 3% flat rate cap on income above it. And the Society successfully convinced legislators to avoid tying the BID to the federal 199A law. This is a positive financial impact for many members' businesses.

But we're not just proud of what we've accomplished this year, we're also proud of everything you've done for the profession and the community. Head to our Facebook page at facebook.com/OSCPA to watch a video we created highlighting the impressive work our members have made in 2019 in business, philanthropy and more.

And now in 2020 we're ready to find new ways to partner with you. For those companies planning to grow their business, our Vested Learning service is an exceptional offering that helps organizations meet their full potential. And consider joining our Ohio CPA Proud program, an opportunity to promote and strengthen the CPA credential and the profession with exclusive perks.

As the demands of accounting require us to consider the future now more than ever, we're investing in you and your company. I hope you have a Happy New Year and I look forward to advancing the state of business with you in 2020!



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accounting

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Cryptocurrency accounting arrives

By Laura Hay, CPA, CAE

The July 2019 declaration by Overstock.com of a dividend to be paid in cryptocurrency had many investors scrambling to address accounting and reporting issues that would be posed by receiving these digital shares.

The dividend payment has since been postponed to address liquidity and other regulatory issues regarding the distribution. But many in the investment and accounting communities who previously viewed this as a narrow issue are playing catch-up on how to treat these assets once received, forcing the market to solidify answers on how to value cryptocurrency and the regulations surrounding it.

OSCPA spoke with Lauren Stuntebeck, CPA, vice president within the fund administration industry, regarding tactical, accounting and reporting issues that would need to be addressed in accepting these funds. Some of the most immediate issues that need to be addressed by shareholders include:

1. Custody

One immediate question to be answered is where custody of the investment will reside and who will confirm its existence. Both traditional and non-traditional sources who are willing to accept custody of cyber assets are growing, including many banks.

2. Valuation

One reason for the postponement of the dividend was to ensure it has an active market for trading. As originally structured, there would have been a six-month holding period before secondary resales could occur. To provide liquidity for the market, Overstock.com is seeking to register the shares so they are freely-tradable.

“There have been multiple calls of mutual fund groups working on how to value the initial distribution,” Stuntebeck said. “Some are asking, if it has no impact on the Overstock.com share price, would that indicate that it doesn’t have any value? It’s always difficult to say something has no value, and we expect there will be a wide range of valuations for the initial dividend. Everyone’s trying to get on the same page so there will hopefully be some consistency.”

3. Trading account

The currently-proposed market has a single broker at the time of drafting this article, and owners of the investment would need to set up an account with that broker to trade the security.





4. Little guidance

Requests to the SEC regarding accounting and other disclosures have generated little feedback thus far, and preparers are looking to early adopters for examples.

“I think many were hoping this wasn’t going to happen or that the SEC would say it’s not allowed,” Stuntebeck said. “But it appears to be moving forward. Investors made enough noise that we are going to see changes in some aspects of the dividend.” This fall the IRS issued some additional guidance since 2014 on their website, such as determining gains and losses and being paid in virtual currency. The new guidance includes Revenue Ruling 2019-24 and frequently asked questions.

Accounting for cryptocurrency

Cryptocurrency is a digital token provided on a common, distributed ledger infrastructure known as a blockchain. Transfers of tokens within a blockchain are validated by the members of the network. Cryptocurrency is a medium of exchange, but other types of tokens can provide other types of rights, such as rights to use or ownership.

In the absence of official guidance, many CPA firms have published their conclusions on an analysis of the applicability of U.S. GAAP to accounting for cryptocurrency. Some common takeaways from these analyses include:

- Cryptocurrency is not currency. Cryptocurrency is not a legal tender backed by a government or other legal

entity. It does not convey specific rights in the same way as financial instruments, and is not tangible, like a commodity or inventory. Therefore, under U.S. GAAP, it is likely an indefinite-lived intangible asset per ASC 350, which would be accounted for at cost, with an annual assessment of impairment. Thus, declines in market value would be recorded as losses, and increases in value above the original cost or previous declines in value would not be recorded in earnings.

- Cryptocurrency is a volatile asset, with rapid changes in value, creating difficulty in applying judgment on when and how to assess impairment.





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- Advisers urge high transparency in disclosures regarding risks and uncertainties related to cryptocurrency assets. If impairment is recorded, ensure that robust fair value disclosures are provided. For SEC registrants, consider additional non-financial disclosures, including the impact on capital resources and liquidity and related risk factors.
- The IRS has stated that cryptocurrency will be treated as property for tax purposes. Buying, selling or trading cryptocurrency creates a taxable event. In a trade, the selling price becomes the cost of the cryptocurrency acquired, thus requiring tracking of multiple cost bases.

While most cryptocurrency holdings will be treated as an intangible asset, accounting treatment could differ based upon the purpose for holding the asset. For example, there may be circumstances where the cryptocurrency is being held as an investment that meets the criteria for investment company status, in which case it could be

recorded at fair value. Futures and other types of contracts with cryptocurrency as the underlying asset are financial instruments. The type of rights conveyed by the digital token could result in property. As regulators and standard setters look at clarifying guidance for accounting for cryptocurrency, some are advocating for fair value as a more accurate capture of the economics.

Regarding the Overstock.com move, “we’re in a holding pattern right now waiting for the new record date,” said Stuntebeck. “Everyone’s figuring it out as we go along.”

Laura Hay, CPA, CAE is executive vice president of The Ohio Society of CPAs and staff liaison to the Accounting Auditing Committees. She can be reached at Lhay@ohiocpa.com or 614.321.2241.



FAST FACTS

1. The July 2019 declaration by Overstock.com of a dividend to be paid in cryptocurrency had many investors scrambling to address accounting and reporting issues.
2. Custody, valuation, trading accounts and the lack of guidance are all issues that need to be addressed.
3. In the absence of official guidance, many CPA firms have published their conclusions on an analysis of the applicability of U.S. GAAP to accounting for cryptocurrency.
4. While most cryptocurrency holdings will be treated as an intangible asset, accounting treatment could differ based upon the purpose for holding the asset.

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Beware of procedural errors in Ohio tax matters

By Debora D. McGraw, CPA, JD, LL.M. and Richard Farrin



The Ohio Board of Tax Appeals recently denied a taxpayer's application for refund of sales tax paid when the taxpayer-appellant's supporting documentation was not properly submitted at a hearing before the BTA.

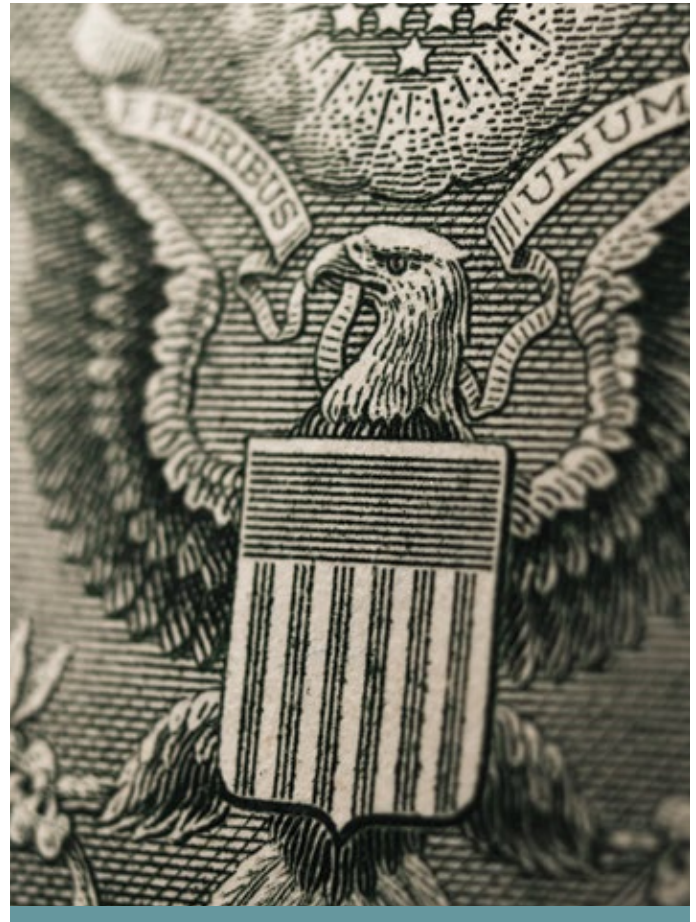
Environmental Quality Management Inc. v. McClain, BTA No. 2018-1194 (Aug. 8, 2019). The decision highlights some important procedural rules that must be followed to be successful at the board. The case also provides an example of situations where taxpayers fail to avail themselves of appeals available prior to litigation at the BTA.

Refund process background

A refund claim is audited by either the Ohio Department of Taxation Refund Group or the ODT Audit Division. If the ODT Refund Group or the ODT Audit Division denies the refund claim, a letter (referred to as a "60-day letter") must be sent denying the refund claim and notifying the taxpayer he or she has 60 days to provide additional information and/or to request a hearing. Many taxpayers (and some practitioners) do not realize the 60 days is a statutory deadline. If additional information is provided and/or a hearing is requested, the refund will be transferred to a different group, the ODT Appeals Division. The ODT Appeals Division assigns an attorney hearing officer who will review the case and the ODT Audit/Refund Group's decision. Frequently, the taxpayer or a practitioner sends in additional information but fails to understand the significance of the 60-day letter and fails to request a hearing with the ODT Appeals Division. The hearing at the ODT Appeals Division may be the only chance for discussion with the hearing officer. As in the case described below, the ODT Appeals Division is not required to request additional information and taxpayers are frequently surprised to receive an unfavorable final determination that must be appealed to the BTA.

Failure to request a hearing at the ODT appeals division

In *Environmental Quality*, the refund claim related to a purchaser's ability to reduce the amount of Ohio sales or use tax paid on software where there are non-Ohio users (i.e., multiple points of use of the software). A review of the final determination issued by ODT provides some insight into the

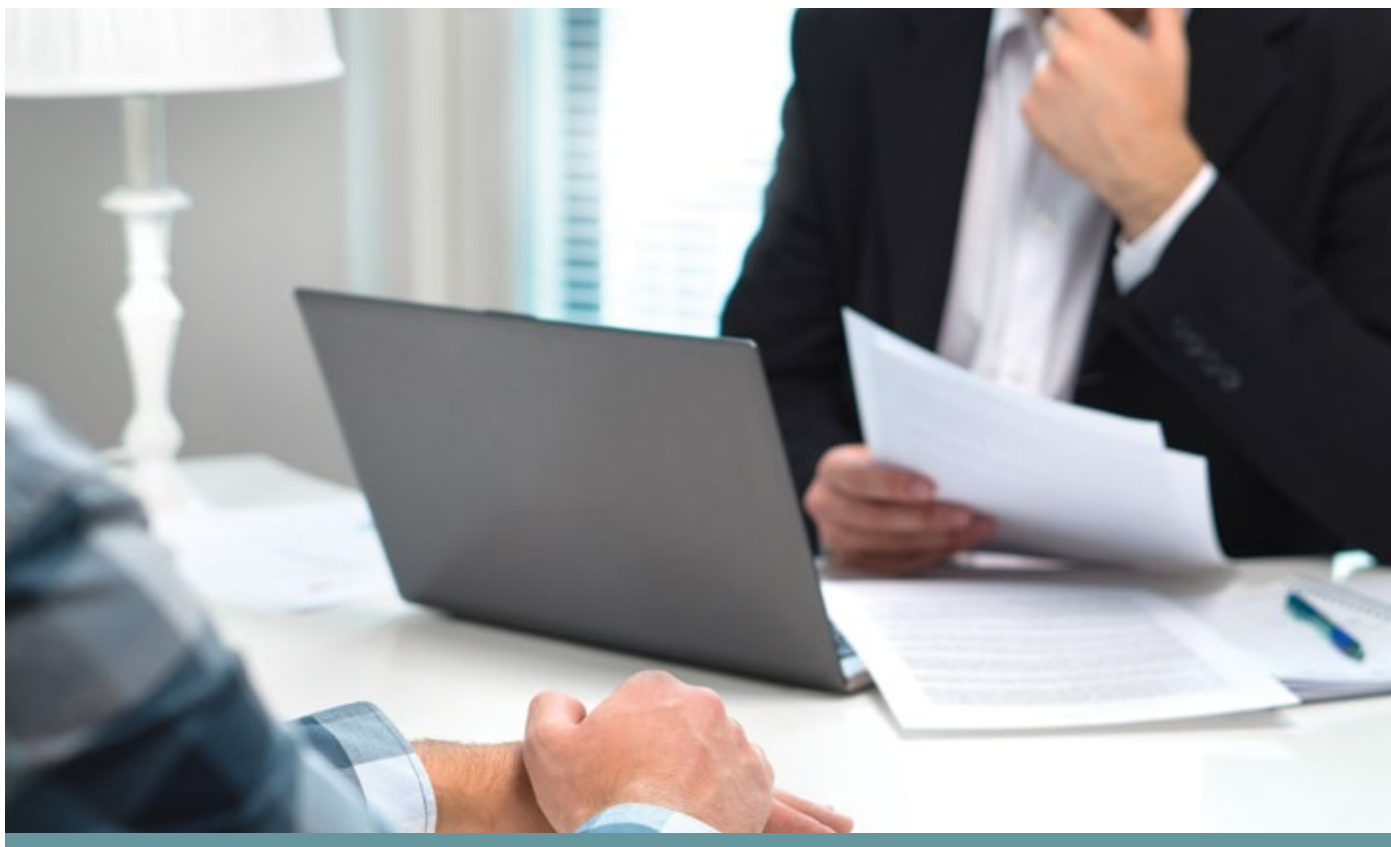


facts. The taxpayer had submitted additional information in response to a 60-day letter from the ODT Audit Division. It is unclear what information was provided but it is clear the taxpayer did not provide ALL the requested information to ODT.

Even more importantly, the taxpayer did **not** request a hearing before the ODT Appeals Division, an important procedural step in any matter. When a taxpayer does not request a hearing at the ODT Appeals Division, the hearing officer can resolve the matter based on the information already provided and is not obligated to request additional information. No hearing was held and an unfavorable final determination was issued. The taxpayer-appellant was forced to appeal the tax commissioner's decision to the BTA, a tribunal.

Failure to request a hearing at the BTA and enter evidence and testimony

A notice of appeal was filed with the BTA by Environmental Quality but the taxpayer did not request a hearing. Most information requested by ODT at the lower level was attached to the notice of appeal. The board held that it could not consider any of the documentation attached to the notice of appeal or statements in the notice of appeal. The BTA's decision reiterates the long-standing holding that a taxpayer



appealing to the BTA has the burden of proving that the tax commissioner's findings are incorrect. (*E.g., Federated Dept. Stores, Inc. v. Lindley*, 5 Ohio St.3d 213 (1983). Because the appellant elected to waive a hearing before the BTA, the board could only review the documents previously provided to ODT at the audit and ODT Appeals Division levels and contained in the transcript certified by the tax commissioner. *Pi In The Sky, L.L.C. v. Testa*, 155 Ohio St.3d 113, 2018-Ohio-4812, ¶ 25. "Evidence presented at a hearing is accepted only upon conditions designed to insure its reliability. Appellants must first be sworn on oath. Their sworn testimony is then scrutinized and subjected to cross-examination. Documentary evidence is also subject to the scrutiny of the parties and their counsel." *Cunagin v. Tracy*, BTA No. 1994-P-1083 (March 31, 1995), unreported at 3. Thus, the attachments and statements included with the notice of appeal were deemed to not rise to the level of evidence and could not be considered by the BTA.

The decisions in *Environmental Quality* and *Pi in the Sky* underscore the importance of requesting a hearing before the board. Further, evidence and testimony should be presented at the hearing in accordance with the rules of evidence. In some limited instances, legal counsel and the Ohio Attorney General's office may be able to stipulate to all the pertinent evidence and then the parties can forgo a hearing before the BTA.

The case also highlights the importance of requesting a hearing at the ODT Appeals Division. A taxpayer is not required to follow the rules of evidence during an ODT Appeals Division hearing and, therefore, it is much easier to provide evidence in support of a refund claim. Requesting a hearing and providing the written evidence often results in matters being resolved at the ODT Appeals Division. Even when a case must be appealed to the BTA, any evidence provided in writing at the ODT Refund/Audit Division or ODT Appeals Division level is included in the transcript certified to the BTA. Evidence located in the certified transcript does not have to be resubmitted or authenticated at the BTA, which may make litigating an issue easier. Thus, it is important that taxpayers request a hearing with the ODT Appeals Division and provide evidence at the lower level.

Notice of appeal filed by non-attorney constitutes the unauthorized practice of law but a notice of appeal will not be dismissed for lack of jurisdiction

One unclear but interesting aspect of the *Environmental Quality* case is that the firm that represented appellant, US Tax Recovery Partners, does not appear to be a law firm. Based on the Ohio Supreme Court's attorney directory, the person listed on the notice of appeal is not licensed to practice law in Ohio.



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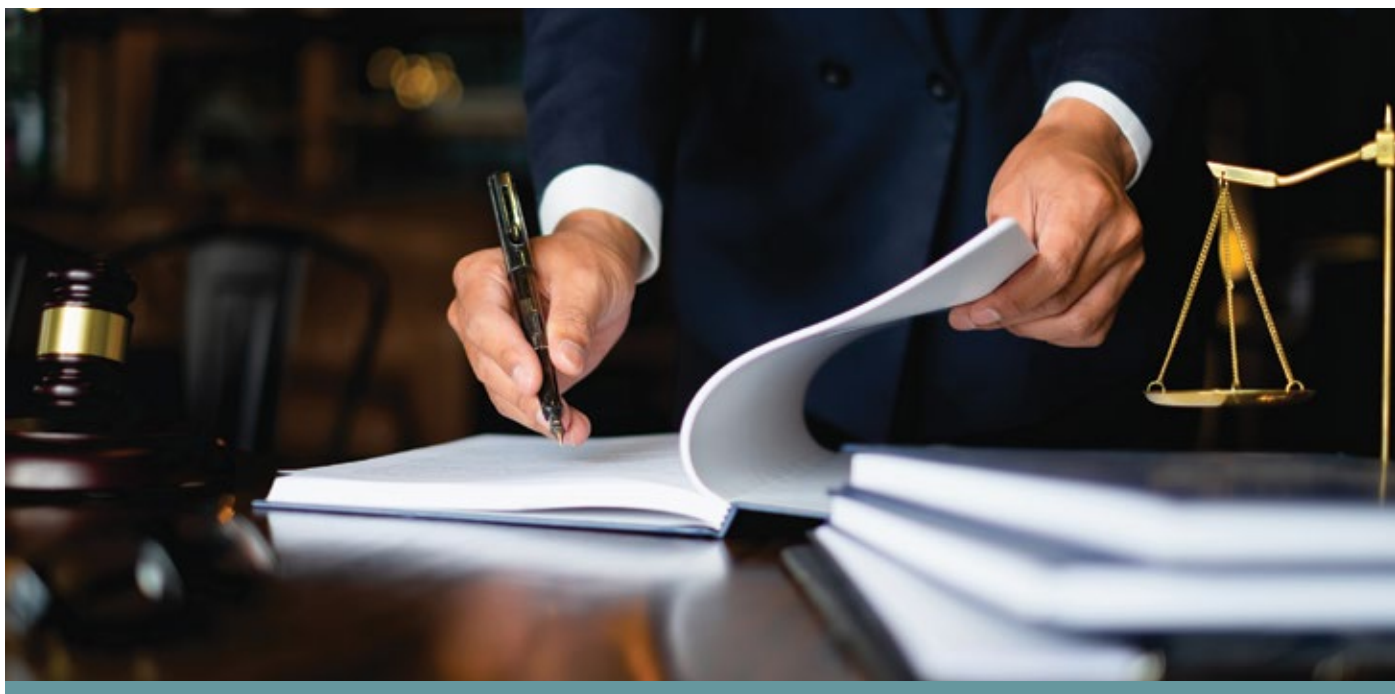
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The person did not file a motion to appear pro hac vice with the BTA, a motion that allows a non-Ohio licensed attorney to practice law in Ohio in a specific case. This may be the reason a hearing before the BTA was not requested. Representing an appellant before the BTA is the "practice of law" and only an Ohio-licensed attorney or a non-Ohio attorney that is granted permission to appear pro hac vice can represent an appellant at a hearing before the BTA.

In *NASCAR Holdings, Inc. v. Testa*, 152 Ohio St 3d 405 (2017), the Ohio Supreme Court held that the filing of a notice of appeal with the BTA by an attorney not licensed in Ohio did not deprive the board of jurisdiction over the appeal. The decision held that a notice of appeal filed by a non-Ohio attorney authorized by the taxpayer properly invokes the jurisdiction of the BTA over the appeal. It does **not** hold that

a taxpayer can be represented by a non-Ohio attorney in the proceedings before the BTA. That would clearly constitute the practice of law, which can be undertaken only by an Ohio-licensed attorney or an out-of-state attorney granted pro hac vice status for the matter. Thus, if a taxpayer desires to pursue its appeal at the BTA through the various stages of the proceeding, such as discovery, hearing, and submission of legal arguments, the taxpayer must retain an Ohio-licensed attorney or an out-of-state attorney granted pro hac vice status for the matter.

Debora Dardinger McGraw CPA, JD, LLM and Richard Farrin are with Zaino Hall and Farrin LLC.

FAST FACTS

1. Important procedural rules must be followed to be successful at the BTA.
2. If the ODT Refund Group or the ODT Audit Division denies a refund claim, a letter must be sent denying the refund claim and notifying the taxpayer he or she has 60 days to provide additional information and/or to request a hearing.
3. When a taxpayer does not request a hearing at the ODT Appeals Division, the hearing officer can resolve the matter based on the information already provided and is not obligated to request additional information.
4. A taxpayer is not required to follow the Rules of Evidence during an ODT Appeals Division hearing and, therefore, it is much easier to provide evidence in support of a refund claim.



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A man with a beard, wearing a dark patterned blazer over a light-colored shirt, is looking down at a smartphone he is holding in both hands. He is standing in front of a background that features a large, stylized, glowing letter 'A' on the right and a complex, glowing circuit board pattern on the left. The overall color scheme is blue and white.

FEATURE

Meeting the challenge of
**ARTIFICIAL
INTELLIGENCE:**
What CPAs need to know

By Paul Lin, PhD and Tom Hazelbaker, CPA

The rapid advance of technology has resulted in CPA firms hiring more nonaccounting graduates to integrate new tools into their practice.

For example, one national firm leader reported that more than 25% of its new entry-level hires are science, technology, engineering and math (STEM) majors (Allan Koltin, opening remarks at Advisory Board's Winning is Everything Conference, Dec. 13, 2017, bit.ly/2wrh091). Specifically for the accounting profession, the integration of artificial intelligence (AI) with robotic process automation (RPA) can create intelligent virtual workers to improve productivity. On facing the challenge of AI, Barry Melancon, AICPA CEO and president, has said, "With AI the whole ramification of jobs in society is a huge issue, and those that embrace it will be the most successful" (Michelle Perry, "AICPAs Barry Melancon on the Challenge of Change in Accountancy," ICAS website, Oct. 6, 2017, bit.ly/2Wajgkm).

While AI is still an evolving technology, many applications have recently made impressive leaps. For example, computers can defeat chess champions, help drive cars, instruct drones to return automatically, provide medical diagnoses, perform as virtual assistants and navigate vacuum cleaners through a furnished house. The AI applications for business involve training computers to do tasks employees can perform, learning from experiences and adjusting to new data, if needed. Currently, CPA firms can use intelligent robots to count inventories, inspect fixed assets, handle bank audit confirmations and read contracts or other documents to generate meaningful insights.

Some CPAs may assume that, like big data or blockchain, AI is a relatively recent development. To the contrary, AI research started even before the creation of the Accounting Principles Board, FASB's predecessor, in 1959. Subsequently, several subfields of AI have emerged, including robotics, perception (vision and speech), machine learning (ML) and expert systems (ES).

AI Projects by CPA Firms

CPA firms often develop and use cutting-edge tools to stay competitive, and adopting AI is

no exception. By integrating AI with RPA, CPA firms can increase productivity and improve job performance. AI is, however, an evolving technology, and not every firm is willing to commit the required resources to adopt AI into its practice. Nonetheless, the Big Four have already invested in AI, as illustrated by the sample projects in Exhibit 2. While the Big Four are at the forefront in developing AI-enabled tools, smaller firms should not preclude themselves from reaping the benefits. For example, Gurseley Schneider LLP used AI-enabled audit tools to process a massive amount of client

Exhibit 2
Examples of AI Applications in Accounting

Firm	AI Projects	Benefits/Goals
Deloitte	Deloitte developed an AI-enabled document-reviewing process in 2014. The system automates the process of reviewing and extracting relevant information from various documents.	Deloitte claims that this technology has helped reduce the time spent reviewing legal contract documents, invoices, financial statements, and board minutes by up to 50%.
	Working with IBM Watson, Deloitte is developing cognitive-technology-enhanced business solutions for its clients.	LeasePoint is powered by IBM Tririga and utilizes Deloitte's industry knowledge to develop an end-to-end leasing portfolio. Automated Cognitive Asset Inspection uses IBM's Maximo technology to improve the efficiency of asset inspection.
EY	EY Applied AI to the analysis of lease contracts.	EY claims that the use of AI has made it easier to capture relevant information, including lease commencement date, amounts to be paid, and renewal or termination options.
	EY (Australia) has adopted AI-enabled auditing technology.	50% of its bank audit confirmations were lodged using an AI-enabled system that can accept and confirm audit requests, process them, and provide auditors with relevant documentation for final analysis and judgement.
	EY has launched an AI project using computer vision to enable drones to monitor inventory during the auditing process.	Drones can count the number of vehicles in a production plant and communicate data directly into the global audit digital platform, EY Canvas.
	EY is using deep learning to analyze unstructured data such as emails, social media posts, and conference call audio files.	EY claims this system reduces the administrative time spent of reviewing audit documents, giving employees more time for judgement and analysis.
PwC	Collaborating with H2O.ai, PwC developed an AI-enabled system (GL.ai) capable of analyzing documents and preparing reports.	PwC claims that GL.ai learns and becomes more capable with every audit and has already been trained on audit data from Canada, Germany, Sweden, and the United Kingdom.
	PwC claims to have made a significant investment in natural language processing (NLP), an AI-enabled technology to process unstructured data efficiently.	PwC claims that NLP can make sense of complex lease agreements, revenue contracts, and board meeting minutes to generate meaningful insights.
KPMG	KPMG built a portfolio of AI tools, KPMG Ignite, to enhance business decisions and processes.	Call Center Analytics Engine uses NLP to convert customer calls to unstructured text, which is then streamlined to identify keywords, gauge customer sentiment, and predict future trends. AI Anomalous Event Predicting Tool predicts future business events. Document Compliance Assessment Engine reads documents to generate relevant information.
	Working with Microsoft and IBM Watson, KPMG is developing tools to integrate AI, data analytics, cognitive technologies, and RPA.	KPMG's goal is to consistently deliver high-quality audit services.

Source: Daniel Faggella, "AI in the Accounting Big Four—Comparing Deloitte, PwC, KPMG, and EY," Emerj website, May 17, 2019, bit.ly/2Qwzqyf.

data and compile enough evidence to move forward with a \$2.8 million criminal fraud case (Solon Angel, "How AI Could Protect Your Business from Financial Fraud," Forbes.com, Feb. 14, 2019, bit.ly/2KaYoIS). According to the Accounting Today 2019 Regional Leaders Report, Gursej Schneider is a "small" firm in California with 16 partners and 192 total employees (bit.ly/2HL6iAR).

To help CPAs learn more about developing AI-enabled tools, the authors present the following excerpt from a post on the Association of Certified Fraud Examiners (ACFE) website written by Gary Krausz of Gursej Schneider and John Colthart of MindBridge Ai, explaining how and why they used AI to enhance the fraud audit (bit.ly/2HN45F7):

The client had \$120 million in annual sales. ... They had suspected fraud to have occurred across three years and requested an examination of their general ledger for the period between 2014 and Q2 2018, to the tune of 6.2 million transactions. ... AI gave us the ability to take very big data sets and make them manageable, as it took all the data and knew how to put different thoughts together and infer relationships between items. Unlike the traditional methods in our industry of relying on hunches and instinct to pick an account and start digging, AI offered up its own "intuition" based on the current data set and the learnings from prior analysis. In this case, without any tuning by us, the AI analyzed the entire data set from the client's general ledger and flagged the fraudulent transactions in a very short amount of time, including identifying items of large amounts posted into unusual accounts and items posted by the same person multiple times. ...

AI offers the opportunity to ingest and inspect 100% of a client's accounting transactions and go beyond simple rules reporting (sorting and filtering). It allows examiners to dig deeper into insights based on the behavior of the data and to augment professional judgment with insights that replicate what an army of the world's best experts can do.

This case illustrates how an AI-enabled tool can significantly improve audit efficiency with effective analytics and auditing of the entire transaction dataset. In the end, Krausz and Colthart concluded that firms are advised to start planning their AI adoption strategies now.

How to embrace AI

In its 2018 report on the annual Rosenberg Survey, the CPA Journal noted that "the CPA profession is on the cusp of arguably its greatest transformation" due to technological innovations such as blockchain and AI. The survey also concluded that this change "will dramatically transform how a CPA firm is managed and staffed, and what it will mean to be a CPA" (CPA Journal, December 2018, bit.ly/2MiAyHz).

For accountants

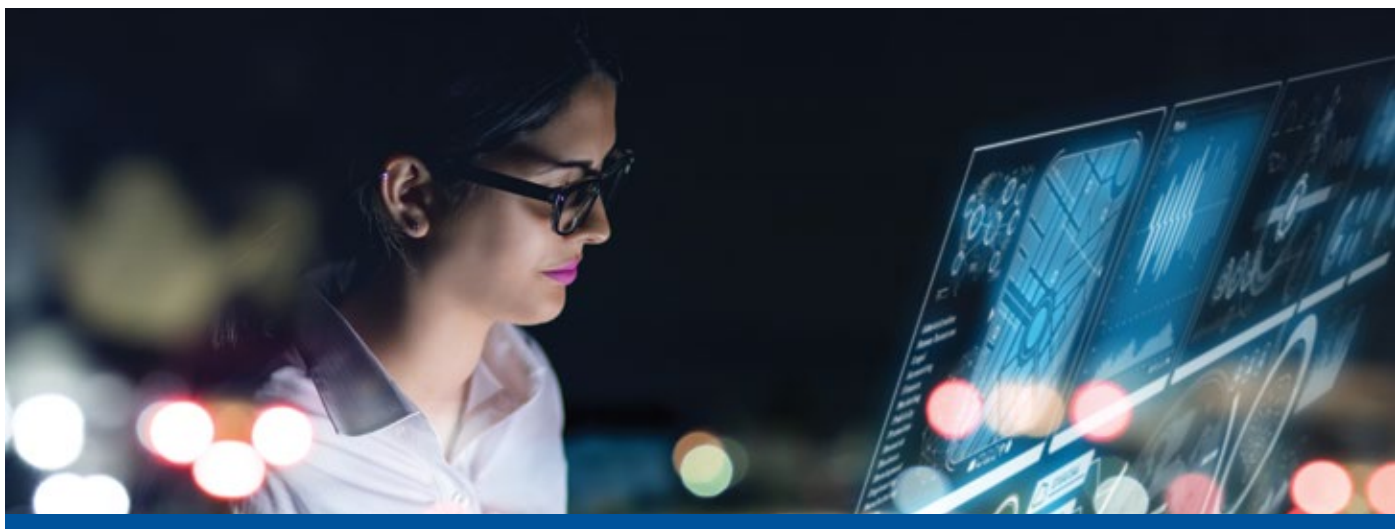
The modern technology-driven business approach drives accountants to evolve from information providers to business enhancers. AI opens the door for business enhancement, and CPAs can contribute to AI projects with their extensive knowledge in business operations and data. Accountants who are willing to embrace AI-enabled tools can develop advanced skills for career development. For example, to prepare the training samples for AI projects, CPAs need to have data management skills to collate the data and prepare it in a format that can be used for ML. The authors suggest accountants learn and use a database management system (e.g., MS Access) or generalized audit software (e.g., ACL, IDEA) to slice, join and merge the data coming from various platforms.

To start learning AI, accountants and accounting students are encouraged to take advantage of free online courses available at edX, MIT OpenCourseWare, Coursera, Udacity, Codecademy, Youtube, or numerous universities; these courses often offer self-paced lessons directed at varying levels of personal experience, existing knowledge and needs.

For accounting professors

To help accounting students adapt to new technology, the Association to Advance Collegiate Schools of Business adopted Accounting Standard A7 in 2013 and called for adding "the development of skills and knowledge related to data creation, data sharing, data analytics, data mining, data reporting and storage within and across organizations" to the curriculum. Although the AACSB aims to ensure that students are well prepared for career development, the applications of AI and RPA, not yet included in A7, have become increasingly important for businesses. Critics still claim that "our education system is doing a dismal job of preparing accountants to work deeply with technology" (Daniel Hood, "The Profession's Biggest Challenges," Accounting Today, Oct. 1, 2018, bit.ly/2KkAnZl).

Having dealt with financial data, accountants can play an important role in transforming unique insights into competitive advantages. In addition to structured transaction data, big data projects often include unstructured and external data to generate analytical insights. Consequently, the authors suggest integrating data management, AI and RPA within accounting curricula to prepare the next generation of accountants. Furthermore, accountants need to know computer programming because coding requires performing tasks in proper sequence and creating a clear roadmap for problem solving ("Should Accounting Students Learn to Code," AICPA website, Jul. 14, 2015, bit.ly/2RyYVyi). Taking even one semester of computer programming would allow accounting students to evolve from knowing how to use computers to understanding how to make computers solve problems. Knowledge of coding would also help accountants collaborate with IT professionals to develop AI-enabled tools.



For accounting firms

Scott Showalter, chair of the Federal Accounting Standards Advisory Board, has stated that the impact of new technology is the greatest change to the profession since the passage of the Securities Exchange Act of 1934, and that “no matter the discipline, whether audit, accounting, tax or advisory, all will be affected by these innovations” (Hood 2018). Thus, after assessing the impact of AI on their practice and identifying the potential niche of new technology, CPA firm leaders should keep staff informed regarding their vision and implementation plans; firms can then acquire or develop the new skills to use intelligent tools.

Many CPA firms’ entry into the AI field may be accelerated by focusing their hiring to include recent college graduates who have been exposed to some level of AI knowledge through coursework or internship. It generally takes longer for existing staff to develop and learn new skills, and they require adequate support to complete the transformation to an AI-enabled workplace. Furthermore, in addition to online courses, CPA firms can take advantage of seminars, workshops, and CPE training — already required as part of annual CPE requirements — to facilitate additional knowledge-based training in AI.

Generally, large firms tend to discern the economic benefits of utilizing new technologies first, and smaller firms follow suit. This wait-and-see approach, however, is no longer an option due to AI’s disruptive potential. CPA firms that embrace AI will likely continue to prosper, but those who do not may end up being left behind. Consequently, a firm’s management teams—including IT, audit, tax, advisory, and HR—need to work together to identify where AI can be best utilized to build on their existing strengths, create new ones, and develop strategies for deploying AI-enabled tools in the workplace.

*This article has been condensed and edited for length.
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Paul Lin, PhD is an associate professor of accountancy at the Raj Soin College of Business, Wright State University, Dayton, Ohio.

Tom Hazelbaker, CPA is an instructor of accountancy, at Wright State, as well as a past president/chairman of Clark Schaefer Hackett, based in Ohio.

FAST FACTS

1. Subsequently, several subfields of AI have emerged, including robotics, perception (vision and speech), machine learning (ML) and expert systems (ES).
2. AI opens the door for business enhancement, and CPAs can contribute to AI projects with their extensive knowledge in business operations and data.
3. CPA firms that embrace AI will likely continue to prosper, but those who do not may end up being left behind.



Protect your business with better billing and collection practices

By Randy R. Werner, J.D., LL.M./Tax, CPA

There are basic steps that can be taken to avoid or manage almost all billing and collection problems. Even better: those same steps will help improve the quality of your practice, attract a better client base, generate more fees, and improve collection and cash flow.

Client screening is the first step toward controlling losses and enhancing your clientele, services, and fee structures. The basic process utilizes a checklist to flag problem clients. Some of the questions include:

- Is the client the kind the firm would like to have?
- Does the client demonstrate integrity?
- Is the client financially viable?
- Why did the client choose our firm over other firms?
- What does the client like about our firm that causes them to stay with us?
- Are the client and engagement still a good fit for our firm?

If the client or engagement is not a good fit, do not accept the engagement. Due diligence is also essential to client screening and should include the following steps:

- Performing background and credit history checks
- Obtaining and assessing the quality of references, and obtaining additional references to check, if necessary
- Checking with the predecessor firm after obtaining permission from client

Learn to recognize higher-risk engagements and plan your billing and collections according to the risk before you begin. Buy-sell transactions, public offerings and initial public offerings, limited partnerships, financial services, real estate and construction engagements all tend to be higher risk.

Engagement letters

Engagement letters document the firm's understanding with the client and serve as the firm's first line of defense in

the event of a dispute. The engagement letter should limit your scope of services by employing words that limit your responsibility and avoiding words that expand it.

To reduce “payment resistance,” involve your clients in the design of the engagement letter and communicate your billing and payment policies during the initial client interview. Services should be priced for their value. Underbidding or discounting rates to win work can stretch resources to their limits, increase the chances of short-cuts being taken in the work, and expand your exposure to malpractice disputes.

The engagement letter documents the expectations for the engagement, including billing and payment terms. The letter, and all other documentation, can be used later to rectify selective client memory.

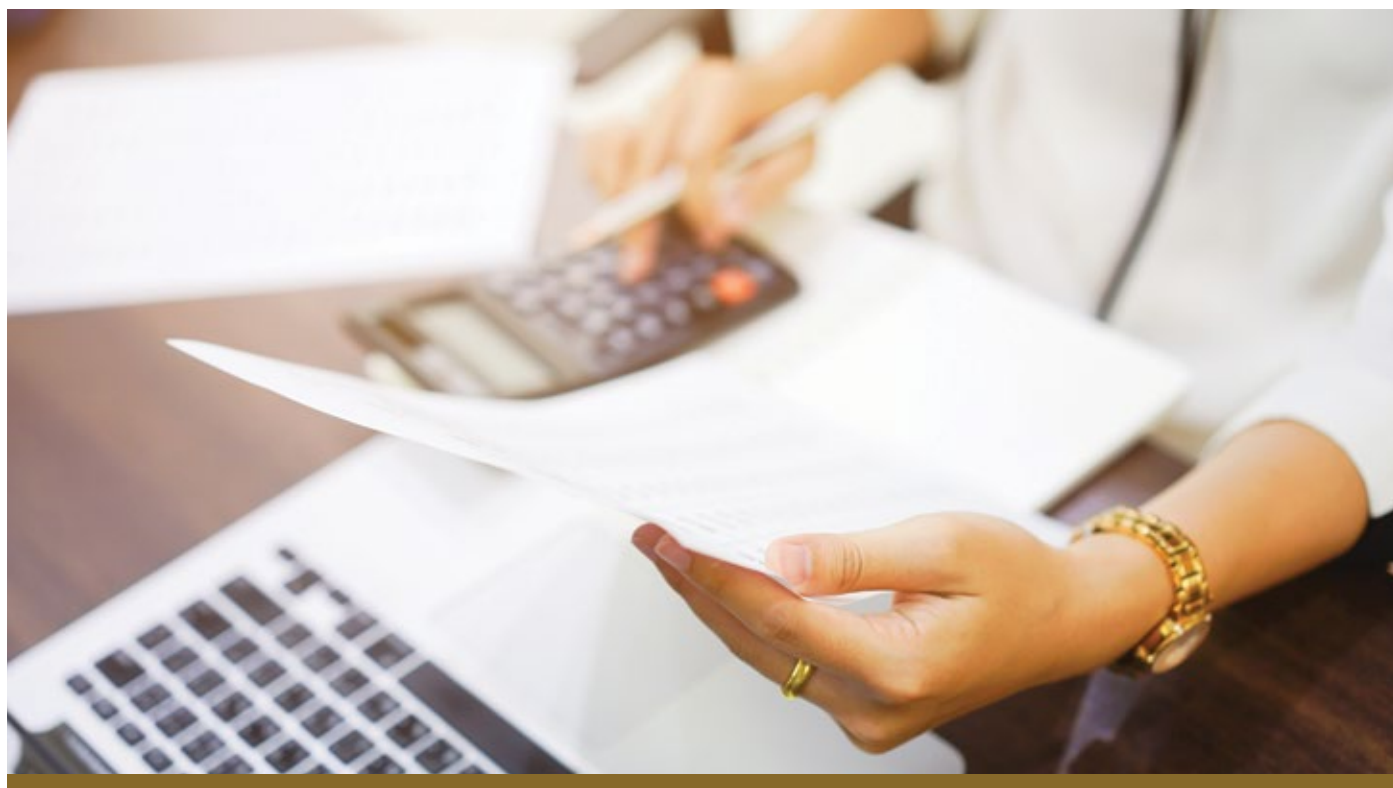
The following are some additional recommendations:

- Use standardized letters that may be modified and tailored to fit each of the engagements.
- State estimates, if applicable, and clarify they are not fee quotes.
- Use retainers and retainer replenishment for clients that are slow paying, financially stressed, or new to the firm (until they have established some credit with you). Remind clients that retainers are not an estimate of the total cost of the engagement, do not earn interest and must be paid before work begins.

- Always include a stop-work clause and *enforce the clause* to prevent unpaid fees from building up. When the unpaid fees become too large, they provide an incentive for the client to sue for malpractice, especially when the CPA sues for fees. The legal fees incurred as a result of the lawsuits, and the billable time lost by the firm, almost always exceed the amount of fees owed to the firm.
- Include the terms for fee collection. Late charges are legal but should be a reasonable amount, such as 1% per month or 10% per annum. Do not use the term “interest,” which brings into play the laws and regulations governing interest charges. Consider offering discounts for early payment (e.g., if paid within 10 days).
- Include mediation and arbitration clauses, which are effective for avoiding lawsuits over fees. Mediation is effective for all disputes, and arbitration is effective for fee disputes only.

When the engagement expands beyond the terms of the engagement letter, the CPA’s exposure to liability also expands. Provide a new letter, or an addendum to the existing letter, to include additional specific services with an estimate and a confirmation that the client wants the added services at the fees estimated.

Follow-up letters are invaluable for documenting with the client any significant discussions and preventing disputes. E-mail and faxes are generally good forms of documentation, but email messages should avoid any ill-advised comments that a plaintiff’s attorney can later use to the firm’s detriment.





Billing tips

If the bill or its description of services is unclear, clients will be inclined to put it aside and to call about it later, lengthening the time it takes to pay the bill. Bills that are standardized, clear, concise and descriptive are more likely to be paid sooner.

Different services often require different billing practices. Consider alternative fee structures, such as hourly rates, fixed fees, value pricing, refundable advance retainers and replenishment, or a combination of structures. All professionals with the firm should be accountable for their timesheet and billing deadlines, but their billable time should be protected by using administrative staff with appropriate training and support to prepare bills and collect payments.

Timely billing leads to better collections. It's sometimes best to bill more frequently than monthly, as smaller bills are generally paid sooner than larger ones. If you need professional help for billing practices, don't hesitate to get it.

Collection tips

Communicate frequently with the client and speak to the person in charge of authorizing the bill payment when it's due.

If it's a large balance due, call 10 days before the due date to be sure the invoice has been received.

Collection calls are relatively effective, inexpensive, immediate, personal and informative. Staff should be trained on the rules under the "Fair Debt Collection Practices Act," which prohibits unintentional harassment of debtors. Anger management and mediation training will also help staff deal with difficult people.

Once you have sent 30-, 60- and 90-day letters, turn the account over to a professional collection agency to avoid spending valuable time and resources on those who still haven't paid. If a client offers a reasonable partial payment, consider taking it and disengaging. This will free up more of your valuable time to pursue better clients who pay their bills on time and in full.

Randy Werner is a loss prevention executive with CAMICO (www.camico.com). She responds to CAMICO loss prevention hotline inquiries and speaks to CPA groups on various topics.

FAST FACTS

1. Client screening is the first step toward controlling losses and enhancing your clientele, services, and fee structures.
2. To reduce "payment resistance," involve your clients in the design of the engagement letter and communicate your billing and payment policies during the initial client interview.
3. Bills that are standardized, clear, concise and descriptive are more likely to be paid sooner.
4. Communicate frequently with the client and speak to the person in charge of authorizing the bill payment when it's due.

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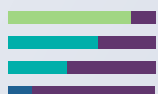
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Jordon Marsh

Former ACAP participant continues to help program

By Jessica Salerno, OSCPA senior content manager

For Jordon Marsh, attending the ACAP-Ohio program in 2011 only solidified his choice to study accounting in college.

“I was exposed to accounting professionals who were practicing at the time and got to pick their brains,” he said. “I learned about an average day for them and it gave me more of an idea of what the career would entail beyond just the actual math that’s involved.”

Marsh already planned to major in accounting at the University of Akron when his grandmother recommended The Accounting Careers Awareness Program (ACAP-Ohio). The week-long program for racially and ethnically underrepresented high school students offers them an opportunity to explore careers in accounting and business. Students attend workshops, discussions, tours, mentoring sessions, business luncheons and a college fair.

And not only did Marsh learn more about accounting and what to expect from his future career, but he also slept in The Ohio State University residence halls and had a chance to develop relationships with students, professors and working professionals. This exposure to college life and the chance to network meant Marsh felt more knowledgeable and confident by the time he attended college in the fall.

“Attending the program can definitely give you an awakening in all aspects of the business realm,” he said. “Financial statements, account balances, business management, finance decisions, HR decisions, everything.”

He enjoyed his experience so much that in 2012 he came back as a volunteer chaperone and has volunteered every year since 2015. The program’s success is in large part due to the passion of its participants and volunteers, and will celebrate its 25th year in 2020.

“I saw the value of ACAP that I received as a student,” he said. “And I want to be able to be there throughout the day and at the different events to make sure students are getting that same value out of the program.”

Marsh said he tries to be available for any questions students might have on coursework or professional life because he knows firsthand the impact of that advice.

“Now that I’m a professional, I remember hearing from the working professionals during the program who gave us some do’s and don’ts that I now put into practice,” he said.

Now at Crowe in the tax department, Marsh is also on the Young CPA Board at The Ohio Society of CPAs.

Another lasting impression he said ACAP left him is the opportunity accounting professionals have to decide what they want for their future.

“I definitely encourage students to take full advantage of what the program is offering,” he said. “If you come in and stay focused and engaged you will get an incredible experience from the program. It gives you the tools to take charge of your career.”



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How to handle virtual interviews

By Jessica Salerno, OSCPA senior content manager

In an increasingly technology savvy business world, it's common for companies to use virtual interviewing to help expedite the interview process.

According to Software Advice, 60% of hiring managers and recruiters have turned to using video technology when they need to carry out remote job interviews. Offering a more complete impression of a candidate than a phone call and with the numerous videoconferencing tools such as Skype and Zoom Meetings, virtual interviews can work well for both parties in the beginning of the interview process.

Jill Kowalski, junior at Ohio Northern University majoring in accounting, has done virtual interviews with two separate companies during her recent internship search. Both of those interviews used a video conferencing tool but didn't occur with an interviewer on the other end. Instead, Kowalski was asked a question by the platform, and then given three minutes to record her answer on video.

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If she didn't like her answer, she could record one more time. After that she moved on to the next question.

"I think this way they were able to send the videos to multiple people and they could get more opinions on a candidate," Kowalski said. "It's more efficient for the company."

For larger companies looking to make a big group of similar hirings all at once, like with internships, this method allows them to review the candidates on their own time. Kowalski said if you made it past the first round you would be brought into the office for an in-person interview.

But despite not having an individual on the screen while she answered questions, Kowalski's experience still meant she had to prepare appropriately for the virtual interview.

When it comes to professional dress, be careful about being too lax. Although you probably won't show the interviewer your whole outfit, if you stand up to grab something from the other side of the room to reveal your pajama bottoms, they might think you're not taking it seriously. Kowalski put on a professional outfit that she would wear to any in-person

interview, because she said it helped put her in the right mindset.

Securing a quiet, private location is crucial. Kowalski booked a room in the business college that would ensure she could focus on her questions without being bothered. When deciding where to be interviewed, think of any potential noise or distractions that might interrupt you, like barking dogs or a barista yelling out a coffee order.

And since there wasn't another person on the other side of the screen, Kowalski said it could be tricky to not sound robotic when answering questions. Whatever your virtual interview setup, remember to emphasize your personality since you don't have the benefit of an in-person impression.

"Try to incorporate as many personal experiences into your answers as you can," she said. "It's important to be able to show your personality and show them who you are as a person."



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Jessica L. Tepus, CPA

AKRON

Joseph W. Blaha, CPA, and **Tina Puri, CPA** have been promoted to Manager, Assurance and Advisory at Bober Markey Fedorovich.

Tyler A. Chaplin, CPA, has been promoted to Manager, Tax Services at Bober Markey Fedorovich.

Heather M. D'Aurelio, CPA, has been promoted to Supervisor, Assurance and Advisory at Bober Markey Fedorovich.

Jessica L. Tepus, CPA, has been promoted to Senior Manager, Tax Services at Bober Markey Fedorovich.

BRONX, NY

Dr. Sean Stein Smith, CPA, has been named 2019 40 Under 40 Honoree.

CANFIELD

Jessie C. Wright, CPA, has been named one of CPA Practice Adviser's 40 Under 40 Honorees for 2019.

CANTON

Danielle Colby, has been hired at Hall, Kistler & Company as a Staff Accountant.

Andrew Griffin, CPA, has been promoted to Supervisor at Hall, Kistler & Company.

CLEVELAND

Matthew R. Mallinak, CPA, has been named partner at Bober Markey Fedorovich.

Michael Biehl, CPA, has been appointed Senior Vice President of Business Affairs and CFO at Cleveland State University.

Chuck Grimm, CPA, has been named Vice President, Wealth Management Advisor, at Fifth Third Private Bank.

COLUMBUS

Patty Azallion, CPA, **Damien Cassell, CPA**, **Andy Gantzer, CPA**, and **Chris Ofat, CPA**, have been named the newest partners at Tidwell Group LLC.

Chris Brinich, CPA, senior associate at Rea & Associates has completed and passed the level III CFA exam.

Maggie Gilmore, CPA, BDO Columbus Tax Managing Director Maggie Gilmore has been named BDO's 2019 Working Mother of the Year.

Lori Kaiser, CPA, CGMA, founder and CEO of Kaiser Consulting, LLC, has been recognized as one of Central Ohio's Most-Admired Executives for 2019 by Columbus Business First.

Greg Speece, CPA, has been hired as Principal at Rea & Associates.

DAYTON

Chris Brill, CPA, the President of Steck Manufacturing Company, has been elected to the CHOICES Board of Trustees.

HAMILTON

John Kirsch, CPA, CEO of Kirsch CPA Group was awarded Small Business Person of the Year by the Greater Hamilton Chamber of Commerce.

NEW PHILADELPHIA

Lukas Biglin has been hired as Government, Associate at Rea & Associates.

Rea & Associates, Ohio based CPA firm has been recognized as a "2019 100 Fastest-Growing All Growth Firm," by *INSIDE Public Accounting*.



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