CAMICO: 8 High-Risk Clients CPAs Should Avoid

Time after time, CAMICO claims specialists hear the same words when they first contact policyholders to discuss a new lawsuit:

“I can’t believe this client is suing me. They were always slow to pay, and I had so much trouble getting the information I needed from them. It was never worth the aggravation. I should have gotten rid of them years ago.”

CAMICO has long recommended client screening as the first step in an effective loss control program. CPAs should communicate with predecessor accountants, client management, and third parties to obtain as much information as possible about the client.

Some warning signs include:

1) **Clients who are not a good fit for the firm’s expertise and resources.** Is the engagement within the firm’s areas of expertise? Is the engagement risky? Are the rewards of the engagement worth the risk? If the firm accepts an engagement for which it is not professionally staffed or qualified, it runs the risk of disappointing the client, or a third-party, and exposing itself to litigation and ethics violations. Some CPAs make an annual habit of redefining and understanding the scope of their own practice, going as far as to write out a clear statement of what they can do and what they cannot do.

2) **Clients who won’t pay.** Does the client appropriately value CPA services and advice? Does the client pay bills on time? Is the client financially viable? What is the client’s financial track record (e.g., bankruptcies, business failures)? The answers to these questions are critical, especially in avoiding fee collection problems and disputes. Much of the information can be obtained by:
   - interviewing the client and the client’s key personnel, banker, attorney, predecessor accountants and auditors;
   - running a credit check;
   - examining the past three years of financial statements and tax returns, and the prior CPA’s management letters.

3) **Uncooperative clients.** Is the client reasonable and knowledgeable? Or is the client difficult and time-consuming? Clients who don’t provide information on a timely basis, or who don’t provide documents or information despite repeated requests, are problems.

4) **Client with poor internal controls.** Obtain a good understanding of the client’s commitment to appropriate accounting practices and to internal controls. If the client makes it easy for dishonest people to embezzle from them, the dishonest will embezzle from them. And the client will then blame CPA for not catching the embezzler.

5) **Clients who are poor financial managers/bookkeepers.** Does the client meet deadlines? Keep good records? Are the business and accounting records adequate and in order, or disorganized? Are the financial statements and tax returns for the past three years consistent? Clients who don't manage their own financial affairs well often experience problems for which they hold the CPA responsible. Poor bookkeeping can cause delays in obtaining information, causing the CPA's work product to be out of date and useless to the client. Tax returns may also be filed late, causing the client to incur interest or penalties. Poor bookkeeping causes the CPA to work harder to get a handle on financial information, and increased workloads lead to higher fees, which can lead to conflict.

6) **Clients with a history of disputes/litigation.** Are the client's expectations of CPAs reasonable? Is the client of a litigious nature, judging from conversations with prior accountants and/or attorneys? Are they often unhappy with the results of an engagement, even though there was nothing wrong with the services performed? Unreasonable clients will sometimes believe that the CPA rendered substandard services, especially when they are unhappy with the results.

7) **Clients with questionable integrity/reputation**. The client's reputation and integrity are paramount. When interviewing the client, the predecessor accountant, and third parties, look for indications of the client's integrity and reputation. What people do *not* say may be just as important as what they do say.

8) **High debt/cash poor clients.** If they are not financially responsible, clients may blame the CPA when their finances take a downturn. Some clients will end up owing so much money to creditors and to the CPA that they believe asserting malpractice will help them avoid or reduce the amount they owe.

Much of the pertinent information can be obtained at the client interview and verified later through other interviews. Background investigations are recommended for all significant engagements.

In a CPA partnership or professional corporation, it is common practice for another partner or a client committee to review the client-screening information and to pass judgment on the acceptability of a new client.

CPA firms should evaluate all potential new clients and re-evaluate all current clients at least annually. This enables the firm to better monitor clients, consider any changes that might affect the professional relationship, and avoid situations that could escalate into crises.

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