

Long Island Business NEWS

Accountants Take Over at Audit Time

by Gregory Zeller

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It doesn't matter if you plotted a criminal tax evasion scheme or innocently forgot to report that \$1,500 you won in Saratoga, the tax audit is one of the great equalizers.

"No matter who you are," said Jerry Sloane "when you get that letter from New York state or the IRS, the first thing you do is say 'Oh, [expletive deleted].'"

Sloane, a partner in charge of accounting giant Berdon's Jericho office, has seen it all, twice, in his four decades of professional accounting. And if there's one thing he's learned about audits it's that people of every stripe, from every tax bracket, lose it when taxing authorities come calling.

"They panic," Sloane said. "I have clients who remember that IRS audit they had 25 years ago, every detail, because it was so upsetting."

When the audit bell tolls and clients panic, professionals like Sloane become more than accountants - or maybe accountants become more than bookkeepers. They become counselors and confidants, priests and defenders, shields and shoulders to cry on. But none of this is unusual, according to Sloane, not for accounts and clients engaged in long-term relationships.

"You always are all of those things with your professional relationships," he said. "You're always an adviser to your clients, but over the years, because you're dealing with very personal things in these people's lives - marriage, divorce, death, birth - you're always holding a client's hand, however circumstances dictate."

Robert Mollenhauer Jr., a principal in financial services provider Metis Group's Plainview office, agreed that when clients hit the panic button, it's not about assuming new roles like friend or therapist.

"It's more like I have a new specific job to perform," Mollenhauer said. "Accountants and clients often become friends. It's hard not to sometimes, when you're invited to parties and other social events and you see these clients ... in that kind of atmosphere."

Of course, certain extreme circumstances sometimes push professional and personal boundaries. Mollenhauer has had clients who, unbeknownst to him, made malicious attempts to circumvent paying taxes. He's never had to advise someone against a drastic step like suicide or flight. "They don't tell me they're going to Mexico," he said, "they just go." But he has found himself in some unusual scenarios.

One longtime client, facing both an Internal Revenue Service audit and criminal embezzlement charges, was trying to escape the country when authorities grabbed him at a Key West, Fla. airport, Mollenhauer recalled. The plane was heading "to the Bahamas, and from there, who knows?" said the accountant, who soon found himself in Florida post-ing bail.

"I was his accountant, but I was also his friend," Mollenhauer said. "He was my client for 16 years."

The irony in this particular case, he added, was the client could have gotten away with his scheme to embezzle from his company, but made one critical error. "Embezzling in and of itself is not a reason to be audited - if you report the income," Mollenhauer noted. "But this person not only took the money, he didn't report the income."

The accountant said he never knew about his friend's illicit activities, though looking back, there were clues. "He invited us to a New Year's party about a year before, and the party must have cost \$50,000," Mollenhauer said. "I remember looking around and thinking, 'How did he afford this?'"

"Now, when he sits across from me, I feel like I should slide open a window," he added. "'Bless me, father, for I have sinned,' that kind of thing."

Not every audit involves embezzlement schemes and international fugitives. Sometimes honest mistakes generate tax inquiries, Mollenhauer noted, and sometimes people are just picked at random. He cited government programs that randomly select taxpayers for full audits for the purpose of setting standards for the entire population.

It's the noncriminal audit subject who often needs the most hand-holding, according to Sloane. "The person who's done everything correctly could be even more upset," the Berdon partner noted, and while he's never had a client blame him for an audit, "there's usually a lot of righteous indignation ... like, 'Why are they bothering me?'"

Whether clients have made honest mistakes, been overly aggressive in their deductions or intentionally broken the law, the accountant's roll is clear when an audit occurs. "We will represent them," Sloane said. "We will deal with the IRS. We will help them gather all the information they need. We're there."

If clients have crossed legal lines, Sloane said, he'll usually suggest they hire a tax attorney, with whom they can share privileged information. Accountants have "confidential" relationships with clients, not privileged, meaning they must share private information if subpoenaed. But whether or not an attorney is involved, Sloan said an accountant's job is to help clients through the process and that invariably involves more than crunching numbers.

"People from the outside look at accountants and see a guy sitting there with numbers and an eye shade and a calculator," he said. "But we're dealing with people and their issues all the time."

Sloane recalled that a client once said he was a good accountant, but a better shrink. "I said, 'That's good. My shrink rate is much less than my accounting rate.'"