

Travelers *1st Choice* SM for Accounting Professionals **Claim Examples for Bookkeepers and Tax Preparers**

Bank Account Reconciliation

The client maintained that he hired the insured to reconcile the client's operating account on a monthly basis in order to determine if checks paid to vendors were clearing on a timely basis. The insured understood that he was to perform the reconciliation every four months, and during one such time period a vendor's checks were outstanding for three months. The checks had been sent to a wrong address, the situation was not addressed, and the vendor terminated the business relationship. The client made a claim against the insured for reputational damages, arguing that the insured's breach of duty caused the issue to go undetected.

Risk Management Tip: It is important to make sure that professional services are fully discussed and adequately documented at the outset of the engagement, so as to prevent potential disagreements about the scope of services in the future. In addition, once the scope is agreed upon, it is very important to have a calendaring procedure or other mechanism to assure that promised services are being performed on a timely basis, and pursuant to the agreed scope of the services.

Late Tax Return Information

The insured was retained by the clients to compile information for their joint state and federal tax returns. The clients were very slow in completing the year end information form requested by the insured, and the insured had to follow up with the clients several times for information regarding deductions. Nevertheless, the clients complied with all requests by the insured for certain information and receipts by April 14th. As a result of the carelessness of the insured, however, the client's information was misplaced and the returns could not be completed by the deadline. Although the error was caught by the insured and immediately corrected, the returns were filed three weeks late. As a result, the IRS and the state taxing authority assessed penalties and the clients made a claim against the insured for same.

Risk Management Tip: Where seasonal workflows create high volumes or caseloads, it is very important to be clear with all clients at the outset of the engagement about the amount of time necessary to complete assigned work. In addition, implementing and maintaining a good calendar system is a crucial risk management technique in any type of professional service where time deadlines are involved.

Payroll Tax Returns

The insured was retained by a small business owner to prepare its payroll tax returns. The client maintained all responsibility for the filing of all payroll tax returns. After a six year professional relationship, it came to light that the client filed the payroll tax returns only sporadically, in light of cyclical cash flow problems.

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The IRS imposed heavy penalties, in addition to the outstanding back taxes. Thereafter, the client sued the insured, claiming that the insured should have seen to it that the payroll taxes and returns were timely filed. As the engagement letter between the client and the insured did not specify the precise nature of professional services to be rendered by the insured, the client was able to argue that the scope of such professional services included the filing of the returns.

Risk Management Tip: A clearly written engagement letter is important to defining your professional duties. Bookkeepers may be sued for failing to perform services or render advice that their client claims they agreed to render. For that reason, it is important to use an engagement letter to create a clear understanding of the services to be performed, and to establish your responsibilities as well as those of the client.

Accounts Receivable

The insured was retained to reconcile deposits of income from the client's customers, with the client's account receivable. One of the client's largest customers had a large outstanding receivable that was mistakenly overlooked by the insured for a period of 16 months. By the time the issue came to light, the customer had filed for bankruptcy, and the client was ultimately unable to collect the amount owed. The client brought a claim for recovery of that amount against the insured.

Risk Management Tip: Regular review and consultation with clients of overall business trends, issues and problems, as well as the overall professional relationship, may provide an important opportunity to prevent mistakes, misunderstandings or oversights that might otherwise go undetected for long periods of time, which can increase the amount of consequential damage.

Payroll Services

The client hired the insured to handle its payroll, on an outsourced basis. The insured mistakenly overpaid a sales representative of the client by a significant amount, and the sales representative terminated her employment with the client before the client detected the error. The client sought to recover the overpayment from the insureds.

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