

Best Practices For Tax Document Management

It takes more than hardware and software to build an effective Document Management System. Best Practices are a place to start.

Tax preparation firms have firmly embraced document management as a critical part of their workflow. By implementing technology and procedural improvements, firms are able to automate and streamline the workflow in order to realize significant benefits. The most obvious of these is a reduction in use of paper, storage of paper, retrieval of client records, and forms for future reference.

But over the past decade, a more extensive list of benefits has evolved that offer greater efficiencies and costs savings throughout the firm's processes. These include a reduction in data-entry errors; consistently organized tax workpapers; better utilization of both support and professional staffs; and enhanced system security.

These benefits are derived in part from the technologies used – high-end scanners, SaaS solutions for primary tax software; and storage of client data in secure, cloud-based facilities that offer instant, universal access. But to a much larger degree, the benefits derived from tax document management are the result of careful planning and the creation of best practices suited to the needs of each firm.

Enhancing the tax preparation firm's client service and profitability begins with these ten best practices for document management.

Best Practice #1 – Establish File and Folder Naming Policies

In the days before computers, folders and files were created after developing a Master File List – a single document that was the reference table to find any kind of document in the firm's file cabinets. With the advent of the personal computer, the Master File List was replaced by a hodge-podge of file names, as each staff member created their own system to find their own files. Fortunately, as the PC-based tax preparation industry evolved, so did the move back to more uniform folder and file naming and organization.

Today, most firms establish folders on a central server for storage of differing kinds of files – client tax files in one folder, for example, and the firm's HR files in another. Within each folder, files have a consistent naming structure so that each staff member does not have to create his or her own. The file names typically include three pieces of information – the client identifier, the document identifier, and a date. For example, a tax engagement letter for a client might be called "222161-tax engagement letter-2013."

While the client identifier and date are generally numerical, the document identifier is usually a text description of the document, such as "Client Engagement Letter" or "1040 Tax Return." These document identifiers, where possible, are standardized throughout the firm.

Best Practice #2 – Select a Scanner

Choosing an appropriate scanner for the firm is critical to an effective tax workflow, but may be less important than the choice of an appropriate scanning process.

As for the hardware itself, the firm should invest in a sheet-fed scanner that can handle 30-40 pages of input per minute, duplex (scanning both sides of a document at the same time). The scanner should have a daily duty cycle of at least 1,000 pages.

The scanning process is a little more complicated, as it must handle input documents that range from data on forms to hand-written scraps of information. For most firms, this is done by implementing a front-end scanning process in which all client documents are scanned in by a staff member as the first step in tax workflow. The client interview is then used to validate information and establish the files that will comprise the client folder. This front-end, staff-managed process offers lower time demands on professional preparers and a more effective means to track potential data entry errors.

Best Practice #3 – Implement a SaaS-Based Workflow System

The days of paper routing slips and sign-off sheets are gone – and with them, the requirement to spend as much as 50 percent of the tax preparation process on collecting, organizing, and entering data. Today's workflow solutions are web-based software systems that output a bookmarked PDF containing all source documents – making easy work of finding and reviewing any tax document.

“The combination of a front-end scanning process and a SaaS-based workflow solution saved us about 45 minutes per return,” says Matt Patrick, CPA and managing partner of Patrick Accounting and Tax Service. “The workflow solution identified, organized, and bookmarked each set of client tax documents and returned them in a single, organized PDF file that was uploaded to our electronic file cabinet.”

Best Practice #4 – Store and Archive Files “In the Cloud”

There are any number of reasons to use cloud-based file storage rather than a central server located at the tax preparer's office. But the top three cited by preparers are that their files are more secure, have a lower total storage cost to the firm, and offer better collaboration than in-house storage solutions. Before investing in an external cloud and archiving storage solution, check to see what is available from existing vendors of tax preparation and workflow solutions – these often offer a low-cost storage solution as part of their services.

Best Practice #5 – Establish File Security and Permissions

The amount of confidential data that must be collected from and stored for clients is increasing exponentially, and will see an even faster growth rate with the continuing implementation of the Affordable Care Act. This, in turn, will lead to an increasing number of threats to such confidential information from both external and internal sources.

As a first step to better security, the tax preparation firm should implement a role-based security system for its folders and files. Under this system, user groups and individual users are created with pre-set access rights designating the folders to which each has access. This role-based system also allows the professionals, support staff, and clients to have access to information they need without risking the integrity of other firm data.

Best Practice #6 – Train Now, Avoid Crises Later

The workflow solution, the document management system, and the tax preparation software all have learning curves, and each of these systems is updated one or more times per year. An important part of gaining efficiency and avoiding future crises will therefore be based on how well trained the staff is on their use.

“The most efficient paperless tax workflow requires more than just an automated process for organizing and extracting tax data,” says CPA Suzanne LoBiondo. “When we implemented our paperless process, we encouraged all tax professionals to learn how to work with the scanned documents as you would with the original paper documents. We made sure our staff became proficient with Adobe. We’ve been very focused on training our staff to learn how to work with electronic workpapers – using Adobe to add notes and tick-marks.”

Best Practice #7 – Document Retention and the Law

The core of records retention for tax preparers is found in Section 6107 of the Internal Revenue Code, but this is just the first of such laws. New requirements are being added to this basic three-year retention rule, and states are imposing their own records retention requirements, which can span from one to three years. Avoiding the penalties for non-compliance begins with learning which requirements apply to each jurisdiction – and following the requirements. As a starting point, check to see whether the firm’s workflow or document management systems have an inexpensive records retention schedule or module.

Best Practice #8 – Secure Data Transfer

Data storage is only half of the security dilemma for tax preparation firms. The other half is how to effectively communicate with the client – to receive forms and information from the client, and to deliver the finished returns and associated workpapers to the client when finished. While some of this may be accomplished through the use of paper forms delivered by FedEx, or by direct face-to-face meetings, using these communication methods can reduce the overall efficiency and time saving for preparation of a return.

Email is not safe. Neither is the use of temporary file storage devices such as a USB storage device, since these can be infected by a virus at either the tax preparer's office or the client's firm.

The most effective means of securing data sharing and transfer is the use of a web-based portal designed for this purpose. Today, the majority of tax preparation and accounting solutions also offer some form of secure client portal.

Best Practice #9 – Mind Your PDFs

When Adobe first introduced its Portable Document File (PDF) format 25 years ago, it rapidly dominated. But in the past three years, the market share for Adobe PDF has slipped markedly – by some accounts they have lost half of their share. Increasing competition, combined with a growing list of security problems, have taken their toll.

There is direct competition in the PDF format, as Adobe has configured its PDF products to be open source software solutions. It is now possible to save documents in PDF format directly from Microsoft Office applications. In addition, popular and lower-cost PDF creation applications such as Nitro PDF are gaining market share.

The problem is that while PDF files created by these applications may all be read by virtually any PDF File Reader, editing the document may require the original software. That is, a PDF file created in Nitro cannot be edited in the Adobe Acrobat application.

Until this situation is resolved, it is recommended that tax preparation firms standardize on the (still) market leader, Adobe Acrobat.

Best Practice #10 – Manage Data Entry Errors

Data entry errors are unavoidable, even using the best solutions, for three reasons:

- Clients continue to bring in unorganized information on slips of paper and in shoeboxes. While the document management system acts to minimize the impact of manual scanning or input of this information, it cannot correct for all situations.
- Support staff personnel, no matter how well trained, will make mistakes.
- Professional staff reviewing the information, no matter how well intentioned, will fail to catch all of the errors.

Two things work in favor of the firm. The first is that many document management and tax preparation systems are designed to teach themselves to recognize patterns in data entry errors. For example, if a support staff member consistently uses one type of error in data entry, the software is designed to recognize that pattern and auto-correct for it. The second is that the majority of errors can be caught through a combination of training and a good workflow system.

Documents management has become a foundation on which tax preparation firms are building higher levels of client service, efficiency, and profitability. That foundation relies heavily on technology, including the technologies of scanning, cloud computing. But to an even greater degree, that foundation relies on a set of best practices that are designed specifically to meet the needs and workflow environment of each firm.

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