



The AI Audit Era

How Increased IRS Scrutiny is Changing Financial Reporting For Professional Service Firms

What firms, consultancies, agencies, and
professional practices need to understand now?



Get Started



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About Me

- Brandon Underwood, CPA, MAcc is the Founder of Lucerna Financial Solutions, where he helps small and mid-sized businesses improve cash flow, financial reporting, profitability, and tax strategy.
- Brandon has experience in public accounting, corporate accounting, and financial analysis, including prior roles supporting large organizations such as Target and JOANN Fabrics.
- Today, he works closely with professional service businesses to provide the strategic financial insight and guidance many growing companies need to scale confidently.



Who This Is For?

This session is designed for firms that:

- ✓ • Generate \$300,000+ in annual revenue
- ✓ • Operate as professional service businesses
- ✓ • Have payroll, contractors, or owner compensation structures
- ✓ • Depend on bookkeeping software and outsourced accounting support
- ✓ • Want to reduce tax exposure proactively—not reactively



Why This Matters in 2026

The audit environment has changed.

What's different:

- More automated data review
- Faster discrepancy identification
- Broader cross-platform matching
- Increased anomaly flagging
- Less dependence on random manual review

Key statement:

The issue is not more audits. The issue is better detection.



How the IRS Is Changing

From Manual Review to Automated Detection



Old model

- Human-led review
- Reactive audits
- Sampling-based scrutiny

NEW!

Current model

- Pattern recognition
- AI-assisted anomaly detection
- Automated risk scoring
- Cross-system validation



Data Matching Is No Longer Basic

The IRS sees more connected data than most business owners realize.

Examples:

- W-2 filings
- 1099 submissions
- K-1 distributions
- Payroll filings (941s)
- Business returns
- Owner compensation records
- Vendor reporting
- State payroll/tax filings

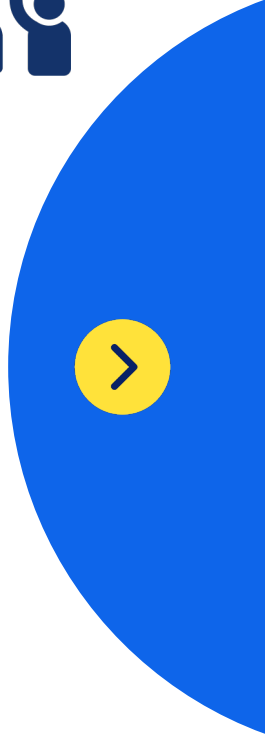


POLL QUESTION

How confident are you that your current bookkeeping and tax reporting are fully aligned?

Options:

- Very confident
- Somewhat confident
- Not very confident
- Unsure / haven't reviewed recently



Ratio Analysis

AI doesn't only look for missing filings.
It looks for patterns.

Common monitored ratios

- Payroll as % of revenue
- Contractor spend vs employee wages
- Deductions relative to income
- Officer compensation consistency
- Margin fluctuations
- Recurring expense behavior



**Your numbers tell a story—
even when no single line
item looks problematic.**

State-Level Cross Referencing

Detection is broader than federal returns.

Potential comparisons:

- Payroll reporting
- Sales tax filings
- State withholding
- Unemployment filings
- Contractor classifications

Key insight:

Mismatch across jurisdictions creates visibility.



Common Triggers I've Seen

Trigger #1: Payroll vs Revenue Mismatch

Examples



High contractor reliance without clear structure



Growing revenue with stagnant payroll



Very low compensation for owner-operated firms

Trigger #2: Expense Spikes Without Revenue Movement

Red flags:

- Sudden deduction increases
- Marketing spikes without revenue impact
- Equipment expense jumps
- Travel or entertainment growth without operational logic

Message:

- Changes without narrative create questions.



Trigger #3: Officer Loan Problems

Common issues:

- Repeated shareholder draws labeled as loans
- No repayment structure
- Unclear documentation
- Inconsistent balance sheet treatment



**Loans without discipline
often look like disguised
distributions.**

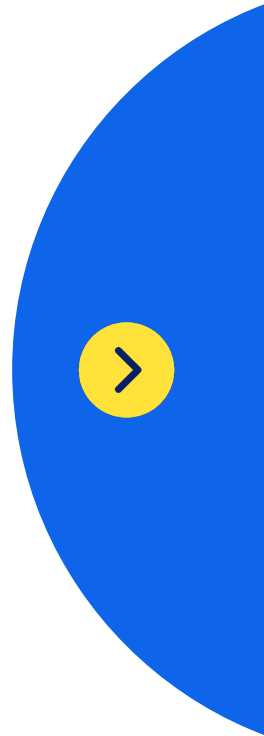


POLL QUESTION

Which area feels like the biggest audit-risk blind spot in your business?

Options:

- Payroll/contractor classification
- Expense documentation
- Owner compensation/loans
- Bookkeeping and tax alignment
- Tax credits/deductions



Trigger #4: Rounded Numbers

Patterns that stand out:



\$10,000

\$25,000

\$50,000

repeated estimates

Trigger #5: Payroll vs 1099 Misalignment

Risk areas:

- Worker classification inconsistency
- Same roles split between W-2 and contractor
- Reporting mismatches
- Compensation structure confusion



Trigger #6: Aggressive Credits Without Support

Examples:

- R&D claims
- Deductions lacking substantiation
- Unsupported allocations

Message:

- Tax positions require documentation—not assumptions.



Why DIY Risk Has Increased

AI Sees What DIY Bookkeeping Misses

DIY bookkeeping risks:

- coding inconsistencies
- duplicate logic errors
- unreconciled balances
- unsupported classifications
- inconsistent narratives

Message:

- Clean-looking books are not always defensible books.



The Tax Hack Problem

Online misinformation creates risk.

Examples:

- “Write off everything.”
- “Just classify it as business.”
- “Put family on payroll.”
- “Everyone qualifies for credits.”



**Loans without discipline
often look like disguised
distributions.**

Software Is Not Strategy



Narrative Logic Matters

Question:

- Does your reporting tell a coherent business story?

Examples:

- Expense allocation logic
- Compensation structure
- Growth patterns
- Contractor usage
- Balance sheet consistency



Protecting Your Firm Strategically

Clean Books ≠ Aligned Reporting



Important distinction:

Bookkeeping answers:

“What happened?”

Tax strategy answers:

“How should this be reported?”



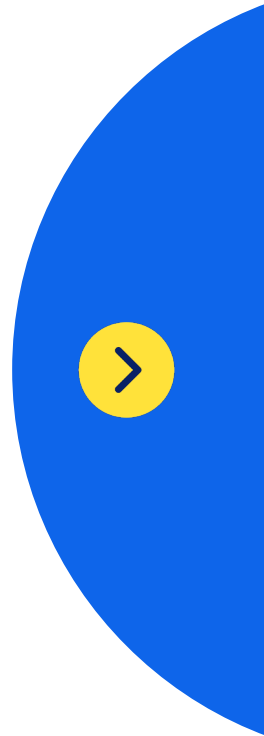


POLL QUESTION

How often does your business strategically review financial reports for both accuracy and tax risk?

Options:

- Monthly
- Quarterly
- Annually
- Mostly during tax filing season
- Rarely / never



Quarterly Tax Alignment Reviews

Best practice:

- review financial ratios
- Assess compensation structure
- Reconcile payroll logic
- Verify deductions
- Identify inconsistencies early



**A quarterly correction is
cheaper than an annual repair.**



Balance Sheet Integrity

Watch:

- Officer loans
- Unreconciled liabilities
- Stale receivables
- Unexplained retained earnings shifts
- Unusual equity movement



Documentation Discipline

Documentation protects:

- Deductions
- Credits
- Compensation decisions
- Contractor classifications
- Reimbursements

If challenged, an explanation without documentation is weak evidence.



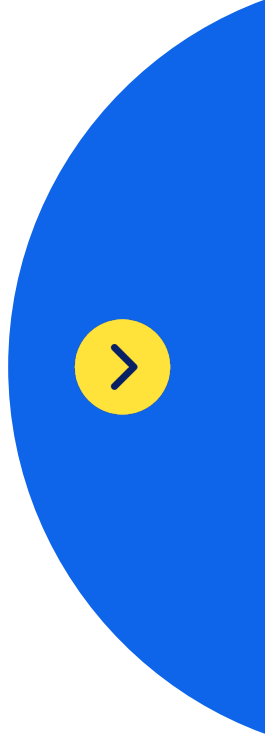


POLL QUESTION

If the IRS reviewed your documentation today, how prepared would you feel?

Options:

- Fully prepared
- Mostly prepared
- Some gaps exist
- Not prepared



Monitor Payroll Economics

Track:

- Payroll-to-revenue ratios
- Owner compensation logic
- Contractor dependency
- Payroll tax consistency



Case Example

Technology and software development

Before:

- Uncategorized transactions and inconsistent financial reporting
- Lack of documentation to support tax credits
- Rounded figures and estimated costs

Actions:

- Bookkeeping cleanup
- Improved tax credit support documentation
- Quarterly tax planning reviews

After:

- Clearer reporting alignment
- Stronger defensibility
- Lower exposure
- Significant tax savings



CFO Diagnostic & Financial Visibility Review



01

Financial System Review

02

Cash Flow Analysis

03

KPI & Profitability Insights

04

Strategic Action Plan



Special Webinar Offer

Book your CFO Diagnostic for **\$197** (regularly \$500) through June 26th.

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**Better tax strategy is not about fear. It's about
visibility, structure, and informed decision-making.**



Open Q&A

What risk patterns are you unsure about in your own firm?





Thank You



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