

NAPEO PEO Year-End Issues

2 PM (EST)

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PEO Year End Issues

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Introduction & Welcome

- Introduction and welcome.
- Antitrust statement
 - <http://bit.ly/napeo-anti-trust>

Topics:

- New states with audit requirements.
- Overview of attestation engagements.
- Preparing for an audit.
- Technical issues.
- Footnote disclosures.



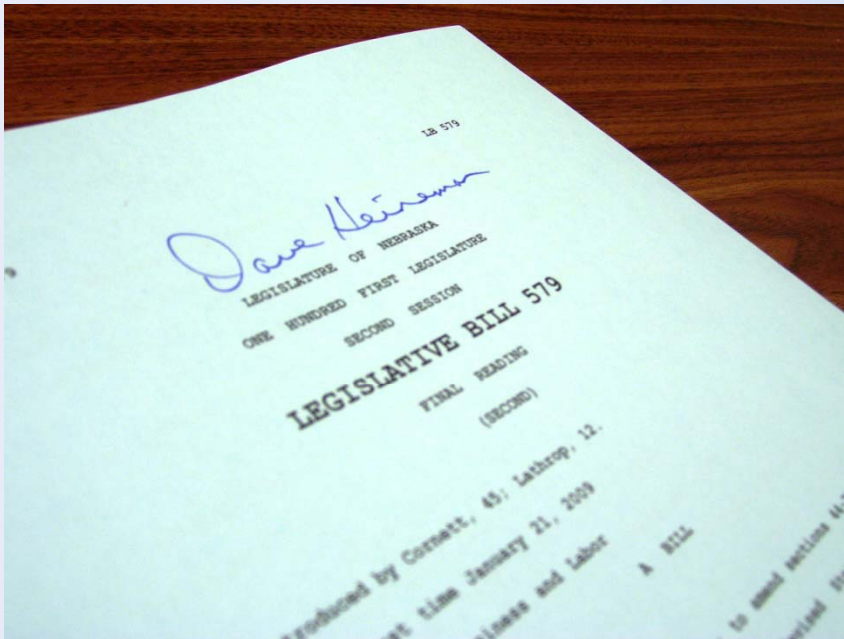


NEW AUDIT REQUIREMENTS



NAPEO's PEO Year End Accounting Update

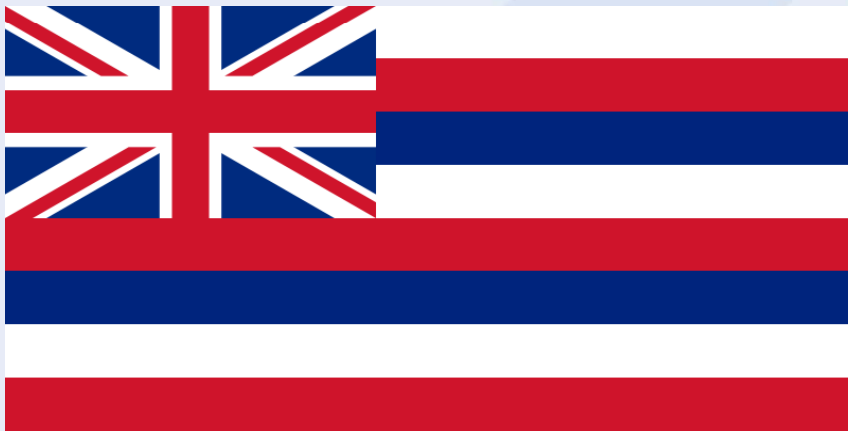
State of Nebraska



- NE PEO Registration Act signed into law March 17, 2010, generally effective January 1, 2012.
 - Product, tort liability.
 - Healthcare
 - Workers' compensation, follows NAIC guidelines.
- **Audited financial statements required.**



State of Hawaii



- 2010 Act 129 creates PEO chapter effective July 1, 2011.
- Must certify compliance with:
 - workers' compensation,
 - temporary disability,
 - prepaid healthcare act,
 - unemployment compensation
- Requires \$250,000 bond.
- **Audited financial statements required.**



State of New Hampshire



Senate Bill 167

- **Audited financial statements.**
- Working capital.
- Two-year license, if qualified.
- Chaptered 308, effective September 29, 2009.

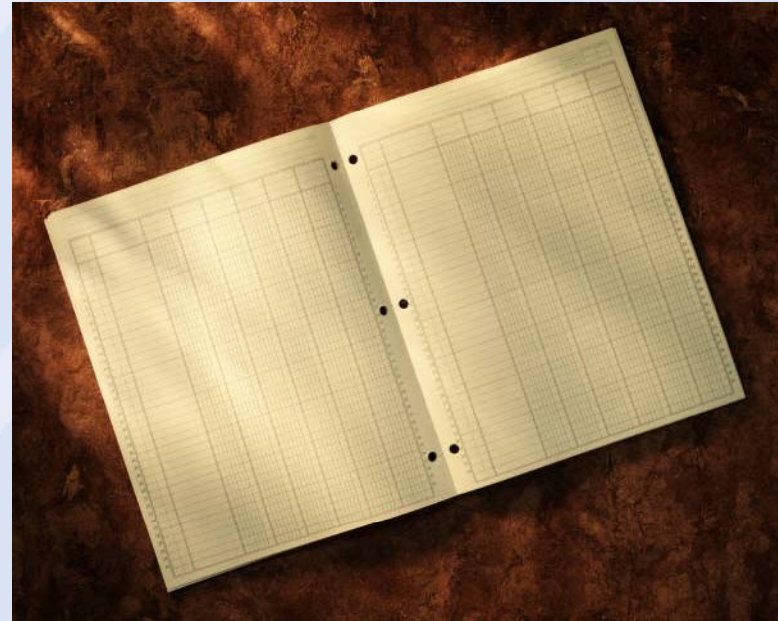


NAPEO's PEO Year End Accounting Update

Commonwealth of Pennsylvania



- Discussions largely concluded, HB 2450 introduced, heard, **will be reintroduced in 2011:**
 - NAPEO model act.
 - NAIC guidelines.
 - Other state laws.
- Near final language includes **audited financial statement** requirement.
- Law effective 180 days after enactment.



Audit, reviewed, compiled, agreed-on procedures SAS 70, SOX.

LEVELS OF ENGAGEMENTS



NAPEO's PEO Year End Accounting Update

Attestation Engagements: Overview

CPA prepared compilations:

- CPA must comply with SSARS (Accounting and Review Services Standards)
- Not a “deep dive” – no assurance expressed

Agreed-on procedures:

Testing management’s assertion on specified elements including:

- Payroll tax accuracy
- Insurance compliance
- 401(k) Compliance



Attestation Engagements: Overview

Internal control assessment:

- Identify areas of exposure or concern
 - Vendor additions
 - Cash cycle
 - Internal payroll process
- CPA to maintain high level of professional skepticism
- Determine risk tolerance of owners and investors

Reviewed financial statements:

- Full disclosure, including statements of equity and cash flows, and footnotes
- Inquiry and analytical procedures generally applied
- Cutoff inquiries required for cash, receivables, and payables
- Documentation of fraud required
- Limited assurance provided



Attestation Engagements: Overview

SSAE 16 (formerly SAS 70):

- SSAE 16 is new standard as of June 15, 2011
- Biggest area of opportunity for PEOs
- Often required by larger companies that engage a PEO
- Attestation of controls defined by the service organization (PEO)
- Can be a marketing advantage



SSAE 16 (formerly SAS 70)

What is a SSAE 16 Audit?

- A highly specialized audit conducted in accordance with the AICPA Statement on Standards for Attestation Engagements (SSAE) No. 16, “*Reporting on Controls at a Service Organization*”
- Used for assessing the internal controls of a **service organization** for the purpose of issuing an audit report.
- The report represents that a service organization has been through an in-depth audit of their control activities, which *generally* include controls over information technology and related processes.



SSAE 16 (formerly SAS 70)

What is a Service Organization?

Service organizations provide outsourcing services that impact the control environment of their customers.

Examples are:

- insurance and medical claims processors
- trust companies, hosted data centers
- application service providers (ASPs)
- Professional Employer Organizations (PEO)
- managed security providers
- credit processors and clearinghouses



SSAE 16 (formerly SAS 70)

Factors affecting Fees:

- Do you already have an accurate description of your control environment?
- Do you have control objectives and supporting control activities defined?
- How large and complex is your service organization?
- How many control activities are defined that must be tested?
- How difficult will it be to perform the testing?



Attestation Engagements: Audit

- Highest level of assurance.
- Reasonable assurance provided.
- Snapshot in time.
- Not necessarily a tool to gauge caliber of PEO.



Levels of Attestation Engagements

Sarbanes-Oxley:

- Publicly-traded companies are required to comply.
- Can be costly and time consuming.



Audit Basics

Financial examination

- Independent examination by a CPA
- Test basis, material.
- Assessing accounting principles, significant estimates, and overall statement presentation.

Financial statement

- Express an opinion on the financial statements.
- Recommendations to management.
- Reasonable assurance provided.



Slide 19

BD1

I would move this up in the order to perhaps slide 9??

Barton, David, 11/11/2010

Why have an audit:

Compliance

- Required by law.
- Required by bank.
- Internal controls.
- Fraud.

Added Benefits

- “Peace of mind” for owners and clients
- Strengthens faith in financial statements:
 - Lenders, creditors.
 - Third-party investors.
 - Bonds, letters of credit.





PREPARING FOR AN AUDIT



NAPEO's PEO Year End Accounting Update

Audit: Auditor Selection

- Experience with the industry.
- Reputation.
- Seek references from other companies in the industry.
- Consider firm-size.
- Fees – lowest not necessarily the best.



Audit: Before an Audit

- Work with you auditor before your audit.
- Records:
 - Understandable to third-party; include calculations.
 - Understandable filing system.
 - Portable format.
- Auditor time spent on auditing – not deciphering or waiting for records.
- Prepare for management communications.



Audit: Records and Procedures

Financial records

- Completed and current.
- Revenue and expenses properly allocated.
- Proper documentation.
- Pending legal issues.

Policies and procedures

- Company policies; handbook.
- Workflow procedures.



Audit: Reconciliations, Other

Reconciliation

- Checking account and bank statement.
- Worker benefits.
- 401(k) and retirement benefits.
- Taxes.
- Workers' compensation.

Other

- Chart of accounts.
- Financial statements.



Audit: Top Ten Ways NOT to Prepare

10. “Accidentally” drop the file of old, unapproved invoices into the paper shredder.
9. One month before fieldwork, hide tuna fish sandwich in temporary auditors office.
8. Prepare a memo on the company Expense Policy and backdate it to the beginning of the year.
7. In anticipation of IT Computer assessment, DELETE your home American Idol audition.
6. Review personnel files so you can blame “The New Guy” for any identified problems.
5. Remove the picture from your office of you shaking hands with Bernie Madoff.



Slide 26

BD2

Cute but are we adding value in limited time?

Barton, David, 11/11/2010

Audit: Top Ten Ways NOT to Prepare

4. Make plans for the audit review luncheon to be held on Black Friday.
3. Crop the picture of you at the Christmas Party.
2. Adjust the temperature in the Auditors Temporary Office to “UNBEARABLE”.



Audit: Top Ten Ways NOT to Prepare

1. Set up Camera in Auditor Office so you can later post them to YouTube and Facebook.



Audit: Best Practices

- Scrub balance sheet:
 - Cars, houses, bad debt, shareholder or member loans
- Lean Accounting - not two or three systems:
 - Reconcile with system tools
 - Produce reports from system
 - Move towards electronic work papers

Audit: Best Practices

- Avoid excessive inter-company activity:
 - Propensity for the IRS to collapse corporate structures
- Unitary tax rules may apply to multi-state activity.
- Conduct management review meetings.
- Establish exception reporting.
- Generate weekly dashboard reports.



Audit: Best Practices

- Implement speedy month-end close procedures.
- Institute bank reconciliation reviews and segregate duties.
- Develop accounting policy manual.
- Prepare system walk through.

Audit: Best Practices

- Periodic reviews during the year.
- Increase awareness of documentation.
- Job descriptions and responsibilities.
- Record keeping- Auditor's view.
- Reconcile, reconcile, reconcile.

Audit: Best Practices

- Require affirmative statements annually from key personnel – not competing or committing fraud.
- Develop job descriptions.
- Require non-solicitation agreements for key employees.



TECHNICAL ISSUES



NAPEO's PEO Year End Accounting Update

Tech: ASC 810 F/K/A FAS 167 F/K/A FIN 46(R) Variable Interest Entities

Effective date:

- First annual reporting period that begins after November 15, 2009
- For interim periods within that first annual reporting period and for interim and annual reporting periods thereafter

Consolidation required when:

- Primary beneficiary- most affected by VIE (stands to lose the most)
- VIE- unable to finance its activities without additional support from other parties
- Who has the “power”



Tech: ASC 740 F/K/A FIN 48: Uncertainty in Income Taxes

- Effective for fiscal years beginning after December 15, 2008 for non-public companies.
- Two-step process:
 - Recognition: company determines whether it is more likely than not that a tax position will be sustained
 - Measurement: measured at largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement



Tech: ASC 740 F/K/A FAS 109 – Income Taxes

Objectives:

- To recognize the amount of taxes payable or refundable for the current year
- To recognize deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an enterprise's financial statements or tax returns
- Requires asset and liability approach for financial accounting and reporting of income taxes.
- Temporary vs. permanent differences
- Expensing of prepaid items
- Net operating losses
- Charitable contribution carryovers



Tech: SAS 99: Consideration of Fraud

- CPA is required to interview members of the organization with knowledge of the business, its critical operating areas, and complex transactions
- That means you.



Tech: Combined & Consolidation

Combined

- Company election.
- Bank or third party may require.

Consolidate

- Fifty percent or more ownership.
- Exception: majority-owned subsidiary shall not be consolidated if control does not rest with majority owner.
- Presented as one entity.
- Minority interest in subsidiary will be reflected on the balance sheet.



Recommended Best Practices

Simplified Balance Sheet

- Aggregate certain volatile client-related accounts into very specific accounts.
 - WSE assets.
 - WSE liabilities.
- Potential allocation of cash.
- Constituent accounts disclosed in notes to financial statements.

Revenue Reporting

- Net revenue reporting.
- Generally, items deducted to arrive at net revenue might include:
 - Payroll-related items.
 - Taxes and other withholdings.



Tech: Exposure Drafts

- Leases
- Revenue recognition
- Contingencies





REQUIRED FOOTNOTE DISCLOSURE



NAPEO's PEO Year End Accounting Update

Footnotes: Required Disclosure

- Transactions requiring disclosure:
 - Related party activity.
 - Bank balances in excess of FDIC limits.
 - Going concern issues.
 - Significant customers.

Footnotes: Required Disclosure

- Litigation.
- Long and short-term debt.
- Lease commitments:
 - Operating and capital.
 - Facility and equipment.
 - Vehicle.
- Revenue recognition policy.

Footnotes: Required Disclosure

- Use of estimates.
- Supplementary information – not required, but useful to the reader.

Year-end Tax Items to Address

- State apportionment.
- Federal & State tax estimates/payments made during the year.
- Reconciliation of wages.
- Tax adjustments (M&E, penalties, reserves, accruals, etc.).



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