

Legacy Advisor

BENEFIT PLANS

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SAS No. 115 to Supersede SAS No. 112

By now, most Plan Trustees are accustomed to receiving a “management letter” from their auditor for *material weaknesses* and/or *significant deficiencies* that were required to be communicated in writing. This was due to the implementation of Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Matters Identified in an Audit*. In fact, many of us called the communications “SAS 112 letters.” You may be interested to know that SAS No. 112 is about to get some fine-tuning.

Effective for December 2009 audit engagements, a new auditing standard will take the place of SAS No. 112. The replacement, SAS No. 115, bears the same title and retains the same basic requirements of SAS No. 112. Although some definitions have been revised which may allow more room for professional judgment, SAS No. 115 is not intended to reduce the quality of communication between you and the auditor.

One of the main changes from SAS No. 112 to 115 is the definition of what constitutes a *significant deficiency*. Under SAS No. 112, the auditor’s determination of whether a control deficiency rose to the level of a *significant deficiency* involved a mathematical process based on amounts considered to be “material” to your financial statements. Under the new standard, a *significant deficiency* is merely a matter that is *important enough to merit the attention of governance*. In the case of benefit plans, the Trustees are the ones charged with governance.

Under SAS No. 115, both *significant deficiencies* and *material weaknesses* are still required to be communicated in writing. Although you may not always welcome a SAS No. 115 letter, the communications are made with the belief that it is the auditor’s responsibility to heighten your awareness of the internal controls over the financial reporting of your benefit plan, with the hope that you can minimize the risk of financial statement misstatements, including fraud.

If you would like to discuss how SAS No. 115 affects your audit, please do not hesitate to contact us.

By Eileen Brassil, CPA, Senior Manager, Chicago office eb Brassil@legacypas.com. This issue was edited by Eileen, who can also be reached at 312-384-4207.

Legacy News

We are gearing up to attend the International Foundation of Employee Benefit Plans (IFEFP) Annual Conference November 8-11, 2009 at the Orange County Convention Center in Orlando, Florida. See page 4 for more information on our participation.

Partner Bob Cann authored an article that can be found in the IFEFP’s monthly journal, *Benefits & Compensation Digest*. Bob’s article entitled “Form 5500 Schedule R Instruction Changes” starts on page 40 of the journal.

We are very pleased to welcome several new benefit fund clients to our Firm. We are grateful for the referrals and welcome new business. In addition to the hundreds of employee benefit plans, our Firm provides audit and tax services to labor organizations, trade and professional associations, charitable organizations, villages, municipalities, school districts, and other such organizations. We also provide audits for 403(b) plans as well.

Contact Marketing Director Julie Tucek at 312-384-4292 or jtucek@legacypas.com if you would like to discuss any opportunities.

“The regulatory environment for employee benefit plans continues to be increasingly complex. Funds need expert, qualified support to deal with these challenges. Trustees need auditors who not only keep up with legislative requirements, but also anticipate what future mandates will come down on issues such as funding, investments and administration. Legacy is that kind of firm. Their professionals are right there, side by side with trustees and administrators, so they can provide the best service and protection to their participants and their families.”

- Joseph J .Burke, CEBS, Administrator,
Ironworkers’ Mid-America Pension Plan
IFEFP Past President

On the Inside...

Employee Fraud	2
New Footnote Disclosure Required	2
Form 5500, Schedule C Revised for 2009	3
IFEFP Annual Conference Orlando 2009	4

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Employee Fraud



Paul Doetsch, CPA, CMA

Transparency is a forefront issue for all organizations, including benefit plans, and everyone is keeping a close eye on finances. Implementing sound internal controls enables a fund to increase transparency and thus minimize the risk of fraud, which is all too important in the face of today's economic environment.

Sound policies and procedures will help to safeguard assets, limit liability, and make your Fund's financial information system more reliable and accurate – provided the policies and procedures are followed.

Without tight controls on payables, a person intent on committing fraud can easily slip an improper vendor invoice or other fraudulent document through the cracks. One way to minimize this risk is to increase security of your accounts payable system. Establishing strong internal control policies and practices with adequate checks and balances is the first step.

A few things you can do to stay on top of fraud prevention include:

Validate purchases and expenses. Dual signatures should be required on all checks over a predetermined amount, and authorized check signers should not have access to accounting records. Designated staff should always check that products and services have been received by comparing original vendor invoices, purchase orders, and receiving reports, if applicable. All should be marked "paid," along with a record of the check numbers. Investigate any transactions

in which the same person who authorized the purchase approves the vendor invoice and makes the payment.

Be wary of "impatient" vendors. Legitimate vendors typically won't ask you to rush a payment, since they understand your need to maintain internal procedures and controls. A vendor who pressures you to circumvent those controls may be in collusion with an employee set on misappropriating funds. Warning signs include vendors who insist on dealing with the same staff member, or whose bills are always paid by the same person. If you suspect something, verify that the vendor is legitimate.

Scrutinize canceled checks, whether paper or digital images. Legitimate vendors deposit checks into their business accounts, so make it a habit to review both sides of canceled checks. A check that appears to have been cashed rather than deposited should raise alarms. So, too, should checks that have been deposited into personal rather than business accounts, as well as checks bearing unfamiliar endorsements. A check payable to a vendor but endorsed by one of your employees is a sure sign of trouble.

Track vendor billing patterns. If you're used to receiving twelve vendor invoices per year and you now have fourteen or fifteen payment entries, find out why. An unexplained jump in the number of payments could signal not only employee fraud, but also related vendor kickbacks. If your billing records suggest that you are paying two companies for the same service, investigate immediately.

*By Paul M. Doetsch, CPA, CMA, Partner, Chicago office
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New Footnote Disclosure Required

In May 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 165 (FAS 165), *Subsequent Events*. FAS 165 is effective for periods ending after June 15, 2009.

Subsequent events are those transactions or events that occur after the financial statement date but before the financial statements are issued. An example would be the following:

Financial statements for the year ended June 30, 2009 are available to be issued in September 2009. However, the building in which the Plan operates sustained substantial damage due to a fire in July. This event would have had a significant impact both financially and operationally on the Plan and therefore, should be described in a footnote to the financial statements.

FAS 165 emphasizes that it is management's responsibility to determine whether any events that have occurred subsequent to

the financial statement date should be recognized in the financial statements or disclosed in a footnote to the financial statements. The new disclosure explains that "subsequent events have been evaluated through MM-DD-YYYY, which is the date the financial statements were available to be issued." Financial statements are considered "available to be issued" when they are complete, in a form that complies with generally accepted accounting principles (or other basis of accounting) and all approvals for issuance have been obtained. Whether or not your Plan has experienced a subsequent event, your financial statements must still disclose the date through which subsequent events have been evaluated. We will be working closely with our clients to implement this requirement.

*By Tom Theis, CPA, Partner, Chicago office
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Form 5500, Schedule C Revised for 2009

With the new revisions, the Form 5500 Schedule C now requires a substantial amount of new disclosures. Not only will the Plan need to report compensation paid by the Plan and received directly by the service provider, but the Schedule C must now also include indirect compensation that service providers have received from others in connection with services rendered to the Plan or a person's position with the Plan.

Compensation is reportable when a person is paid or receives \$5,000 or more in direct or indirect compensation during the Plan year. Some examples of indirect compensation include a service provider receiving free attendance at a conference or seminar, meals, travel expenses, social events, or tickets to a sporting or entertainment event. Reportable compensation includes only compensation having to do with services rendered to the Plan or compensation pursuant to a business relationship that includes Plan business, on a pro rata basis for that Plan. Both monetary and non-monetary compensation are required to be reported, although non-monetary gifts are subject to a *de minimis* threshold. Furthermore, if a service provider is a fiduciary or provides contract administrator, consulting, custodial, investment advisory, investment management, broker or recordkeeping services, additional reporting is required regarding each source from whom the service provider received \$1,000 or more in indirect compensation.

Certain categories of indirect compensation, called "eligible indirect compensation," need not be reported if the service provider's compensation is limited to these categories, and the Plan receives certain required disclosures regarding that compensation. Some examples would include finder's fees, float revenue, broker's commissions, research or other products or services received from a broker dealer or other third-party in connection with securities transactions (soft dollars).

Trustees and administrators need to consider who will be responsible for tracking and reporting such fees and expenses. Also, they need to decide how the tracking will be done and where the information will be reported. Consideration of a tracking schedule is a good idea in order to capture the necessary information for the Schedule C. Identification of the individual or firm that will be responsible for accumulating the required information is important. Requesting the indirect compensation information will also be a must. In general, plans

will look to their service providers to record and report all such direct and indirect compensation received in order for the Plan to meet its annual reporting requirement. There will be a place on the form to report service providers that refuse to provide the necessary information.

Further guidance on the requirements of Form 5500's Schedule C is "forthcoming," a Department of Labor representative stated at a recent event.

As with any change, it's important to set up the processes as early as possible so you don't have to go back after the fact. All of this information is going to be reportable on the 2009 Form 5500, due July 31, 2010 for calendar year plans. The entire Form 5500 must be filed electronically for 2009 and will be subject to publication on the internet. Let us know if you have any questions or need any additional information.

By Bruce A. Pavlik, CPA, Partner, Chicago office
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IFEBCP Annual Conference | Orlando 2009



Bruce Pavlik, CPA



Eileen Brassil, CPA

be visiting with attendees and friends! Stop by and visit us in Booth #728 on the tradeshow floor. Exhibit Hall hours are Sunday: 12:00 - 4:30 p.m., Monday: 10:45 a.m - 2:45 p.m., and Tuesday: 10:30 a.m. - 2:30 p.m.

Bruce Pavlik, CPA, Partner, will be speaking at the Conference. His sessions include:

- Accountants Session P-Acct2: "Plan Fees and Expenses – New Fee Disclosures" Tuesday at 9:00-10:15 a.m.
- Session 103: "Current Fiduciary Issues in Investments" Monday at 1:30-2:45 p.m.
- Session 212: "Health Care Fraud – Funds and Participants at Risk!" Monday at 3:00-4:15 p.m. and Tuesday at 1:15-2:30 p.m.

Senior Manager Eileen Brassil, CPA will also present at the following sessions:

- Accountants Session P-Acct1: "Investment Auditing" Tuesday at 7:30-8:45 a.m.
- Session 213: "Retiree Funding and Health Care Costs" Tuesday at 2:45-4:00 p.m. and Wednesday at 9:00-10:15 a.m.
- Session 512: "The Latest in Real Estate as an Asset Class" Wednesday at 7:30-8:45 a.m.

Legacy will be attending the 55th U.S. Annual Employee Benefits Conference Sunday, November 8 - Wednesday, November 11, 2009 at the Orange County Convention Center in Orlando.

At the Legacy booth, Managing Partner Bob Tiberi and Marketing Director Julie Tucek will



Please contact us at info@legacycpas.com if you would like to receive *Legacy Advisor* via email or if you'd like to contribute to our next issue.



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