Dopkins & Company, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

RISK ADVISORY SERVICES NEWS

AN UPDATE ON THE CURRENT STATE OF AFFAIRS

IN THIS ISSUE -

FRAUD: Can You Afford to Lose $150,000?

JAMES KRUPINSKI, CPA ▪ Director, Assurance Services Group ▪ jkrupinski@dopkins.com

Fraud has been occurring since the first days of humankind. Whether public, private or not-for-profit, every organization is at risk of fraud and no individual wants it to occur on their watch. Regulators and industry associations have continued to highlight the importance of organizations implementing on-going fraud prevention programs (Anti-fraud Program).

In 2016, the Association of Certified Fraud Examiners (ACFE) published their biennial report to the nation on occupational fraud and abuse. The report analyzes 2,400 instances of fraud to provide insights about how fraud is committed, detected and how organizations can reduce their vulnerability to fraud risk. The ACFE estimates the median loss caused by occupational fraud is $150,000, with nearly one-quarter of frauds amounting to at least $1,000,000 and lasting a median of 18 months before being detected. The data also indicates that there is no "typical" demographic for an individual who commits fraud. The report cites a lack of effective internal controls as the primary contributing factor in nearly one-third of fraud cases while noting organizations that had fraud mitigation controls in place experienced lower fraud losses than organizations without these controls. Also in 2016, The Committee of Sponsoring Organizations of the Treadway Commission (COSO) released the Fraud Risk Management Guide to assist organizations in establishing an efficient and tailored Anti-fraud Program.

The components of an on-going Anti-fraud Program include:

- Identifying and prioritizing fraud risks.
- Documenting safeguards.
- Monitoring and verifying the execution of key safeguards.
- Communicating program results to company ownership or governing body.
- Periodically updating the inventory of fraud risks in light of organizational and business environment changes.
- Establishing a fraud deterrent business environment based on: tone at the top, organizational policies, training and reporting structure.

Implementation of an Anti-fraud Program maximizes the likelihood that fraud will be prevented or timely detected along with creating a fraud deterrent environment.

CYBERSECURITY: Internal Controls are Your Best Line of Defense

WILLIAM PROHN, CISSP, CISA, CGEIT, CRISC
Managing Director, Dopkins System Consultants ▪ wprohn@dopkins.com

"Cyber" is a term that refers to computer systems, networks and information systems. The security of these systems in most businesses today is of the utmost importance.

Loss of computerized systems, even for a short period, will severely disrupt most organizations' ability to produce product, serve customers and make a profit. In addition, the loss of sensitive information about customers, employees or trade secrets can subject an organization to reputational damage, fines and lost profits.

Simply spending money on I.T. or assuming that the I.T. department is addressing these issues is not enough. There are established controls and best practices which can be implemented to ensure that only the right people have access to information, and systems are properly configured and protected from threats, both external and internal. Knowing which controls and practices are the most important, however, is a matter of individual risk. Each business has different needs and systems, and is subject to different threats. A risk assessment is the best way to identify and prioritize the important systems and information that an organization has, the most likely threats to those systems, and the best controls to reduce or eliminate those threats. Your cybersecurity risk management program effectiveness should be regularly assessed and monitored with appropriate remediation of any identified weaknesses.

Third-Party Access to Sensitive Information

Many organizations leverage third parties for support across multiple business functions. Sometimes this is done intentionally to reduce costs, increase availability or provide "better security," all common reasons for moving to "the cloud." Other times, outside parties are given access inadvertently or for a very specific reason, without proper consideration for the risks that may be incurred. While third parties may provide improved efficiencies and functionality, the risk of loss or damage always remains with the organization.

Make sure that you know who your third-party service providers are, what information or systems they have access to, and how they are able to effectively maintain and protect your data. Your relationship should contractually spell out what they are expected to do, and what recourse you have if they fail. You should also ensure that you have the ability to audit their operations and controls to see that they sufficiently meet your needs, and obtain a Service Organization Control (SOC) 2 report or similar assurances.

RISK ADVISORY SERVICES NEWS

TAX: Trump Tax Reform Update

ROBERT BAUER, CPA ▪ Director, Tax Advisory Group ▪ rbauer@dopkins.com

On April 26, 2017, the Trump administration released its proposal for tax reform. The proposal addressed many broad tax changes, but left most of the details open. The following are some of the major proposed changes that impact businesses and their owners.

1. **Repeal of Alternative Minimum Tax ("AMT") -** originally created to ensure that corporations and individuals with substantial income do not avoid tax liabilities. This tax impacts an increasing number of taxpayers and creates need to recalculate tax under a separate set of rules. The current proposal calls for abolishment of AMT.
    - This may reduce tax liability for individuals and businesses.
    - It will eliminate need for separate computations, including depreciation schedules.
    - Does not disclose how the government will offset this lost tax revenue.
2. **Reduction of Corporate Tax Rates -** C-corporations are currently taxed at a maximum rate of 35%. The proposal calls for a reduction in the top rate to 15%.
    - This is a significant reduction to the rate; however, the proposal also calls for elimination of many tax breaks which makes it likely that most profitable corporations would be subject to the maximum 15% rate.
    - Specific tax breaks were not identified in the proposal, leaving taxpayers to wonder whether current benefits such as Research & Development tax credit, reduced built-in-gains period, energy incentives and other tax breaks will continue.
3. **Reduction to Top Rates for Partnerships and S-Corporations -** the income from pass-through entities is reported on the partners or shareholders individual tax returns. Individuals have a top tax rate of 39.6%. The proposal calls for the 15% corporate tax rate to also apply to partnership and S-corporation pass-through income.
    - This is a significant reduction from the current top rate for these owners; however, original campaign materials indicated that distributions from these entities would be subject to tax as dividends. Essentially, these entities would be taxed similarly to C-corporations.
    - If this is established, administration needs to address whether future distributions related to previously taxed income should be exempt from the second layer of tax, as this income may have already been taxed at the highest individual rate.
    - Leaves taxpayers unsure of the best entity structure and whether they should make distributions out of current equity to avoid a future dividend tax rate.

Overall, the limited information provided by these tax reform proposals makes tax planning very difficult at this time for both taxpayers and their advisors. We will continue to monitor the situation and will report on future developments.

WEALTH MANAGEMENT: An Inside Look at the New Fiduciary Rule

CRAIG CIRBUS ▪ Senior Investment Advisor, Dopkins Wealth Management, LLC ▪ ccirbus@dopkins.com

You may have noticed the word "fiduciary" bouncing around the news lately. The Department of Labor (DOL) announced last April that financial advisors who provide retirement investment advice would be held to a new fiduciary rule -- that is, they would be required to put investors' interests ahead of their own. This debate has gone on for many years, and the DOL ruling resulted in applause in some corners, angst in others, and spirited dialogue and debate all across the nation.

One of the benefits of this national debate is the distinction that investors are being provided between a "fiduciary-based advisor" and a "commission-based broker". As a quick summary, brokerage firms whose compensation is in the form of commissions are generally required to meet a "suitability standard" when offering investment recommendations to their clients, thereby recommending product(s) "suitable" in meeting clients' goals. Conversely, Registered Investment

(continued next page)

RISK ADVISORY SERVICES NEWS

WEALTH MANAGEMENT: An Inside Look at the New Fiduciary Rule

(continued from previous page)

Advisory (RIA) firms are required to meet the “fiduciary standard” which requires an advisor to act solely in a client’s best interest. It is easy to understand the potential conflicts with the former: a commissioned brokerage firm may recommend a suitable product costing one price, while other suitable products may exist at significantly different prices. Conversely, an independent fiduciary-based advisor, charging an advisory fee, will provide recommendation(s) that takes into account all factors including price when recommending investment strategies that are in the best interest of the client. These DOL rule changes would require anyone serving retirement plans and IRA clients to act as fiduciaries, affecting the compensation arrangements and/or the actual recommendations offered to investors.

It is hard to imagine how such a simple concept as requiring investment advisors to act in the best interest of their investor clients could possibly receive such heated debate for so many years, but large investment firms are scrambling to cope with such a potentially dramatic change in their approach to advising clients. There are many independent firms that fall into the category of “fiduciary-based advisors” who avoid all of this debate because, as fiduciaries, they are already held to the highest legal and ethical standard in the industry -- avoiding conflicts of interest, and providing fiduciary-based guidance and services that are always in the best interest of their clients.

Granted, there are many issues in the “fine print” with the new fiduciary rule that are worth debating. No matter how things play out with the fiduciary rule, RIAs won’t require any significant changes in how they deliver advice. We’ll have to wait and see how the brokerage side of the business is impacted.

MERGERS & ACQUISITIONS: Risk Considerations

ANDREW READING, CPA ▪ Director, Assurance Services ▪ areading@dopkins.com

Growth and efficiency are at the top of the agenda for all companies regardless of their status as for-profit or not-for-profit. Merger and acquisition activity is expected to rise as companies seek to achieve growth and efficiency opportunities. Executives are tasked with evaluating all aspects of a potential transaction in determining if it is in the company’s best interest. One key component of the decision making process is to undertake a risk assessment process of the target.

A well designed and executed risk assessment process evaluates the following considerations (as applicable):

- **Quality of Earnings –** What do normalized historical earnings look like and what are potential synergies?
- **Business Valuation –** What is the value of the business being acquired and how do certain earnings or collateral adjustments impact its value?
- **Forecasts –** Are they reasonable and what are the key assumptions?
- **Tax Compliance and Planning –** What opportunities or exposures exist?
- **IT Systems –** Will the existing system remain and what risks and/or opportunities does it pose?
- **Financial internal controls -** What exposures exist with the current control structure?
- **Pre-financing collateral field exam –** What is the quality of the target’s collateral and will it support collateralized borrowings?
- **Retirement benefits –** What compliance exposures exist?

Every transaction, whether an asset or stock sale or a merger of a not-for-profit, is different and the risk assessment of that transaction should be tailored accordingly.