Dopkins & Company, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

RISK ADVISORY SERVICES NEWS

AN UPDATE ON THE CURRENT STATE OF AFFAIRS

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FRAUD: Risk Check-Up for Your Business

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Just like going to the doctor to ensure good physical health, a business should also go through a periodic checkup for fraud prevention. The Association for Certified Fraud Examiners estimates that organizations lose 5% of annual revenues due to fraud. Every business should be proactive in protecting their assets and businesses. We recommend a periodic review of your business to identify fraud risks and to identify preventative measures to put in place to control those risks. Here are some of the key concepts to consider:

Second Set of Eyes

Often times people that work day to day in a business may not notice something that is right in front of them. A fresh perspective from someone outside the organization can help identify risks and process weaknesses that were previously overlooked.

Cost vs. Benefit

Adding controls to a process to reduce fraud risk may not make economic sense. It is important to consider the estimated cost of a control with the fraud risk you are managing.

Manual vs. Automated

Manual processes are susceptible to human error and potential manipulation. Consider using automated controls from your systems to strengthen process controls to reduce fraud risk. However, automated controls do not mean “auto-pilot”. You still need to consider what review or system controls might need to be implemented to verify that the automated controls are working properly. Often times, automated controls can be more efficient and cost effective.

Changes in the Business

How does a company react to change? Change can be good for a business, but are controls compromised? Businesses constantly change. This includes the technology utilized and the personnel employed. As a result, new risks are continuously emerging. It’s important to periodically have a “check-up” for your business to ensure your “treatment plan” is effectively managing your risks.

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TAX REFORM: Are You Asking the Right Questions for Your Business?

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The Tax Cuts and Jobs Act ("TCJA") results in significant modifications to the tax code that impact every business, regardless of size. Business owners and management teams need to gain an understanding of how these rules impact their businesses and ensure that they implement strategies that result in the best tax position for the Owners and Company.

Provided below are a few high-level questions that all business owners and management teams should be discussing with their trusted advisors:

What new rules within the TCJA will impact me and my business the most?

- Enhanced depreciation
- "Small business" exception
- Business loss limitations
- Pass-through deduction
- Changes to credits
- Interest limitations
- Elimination of DPAD
- Lower individual rates
- Meals & entertainment
- NOL limitations
- Lower corporate rates
- New foreign regime

Should I consider changing my business entity selection? Do I understand the implications?

- Lower C-corporation tax rate
- Elimination of C-corp AMT
- Compensation restrictions
- Pass-thru deduction
- Distributions
- Cost of changing
- State tax deduction
- Ownership restrictions
- Stage of businesses' life

What is the state impact of TCJA? What is the foreign impact?

- Bonus depreciation
- Pass-through deduction
- Deemed repatriation
- Section 179 election
- NOL limitations
- FDII, GILTI, and BEAT
- Business interest
- Entity selection impact
- Dividend exclusions

Does TCJA impact my succession planning or exit strategy?

- Current plan and timing
- Enhanced estate exemption
- Entity type

While there are still many uncertainties related to Tax Reform, it is imperative that businesses owners and management teams consider all the known implications, analyze the impact on their businesses, and start planning to take advantage of or minimize the impact of the new provisions contained within the Act.

WEALTH MANAGEMENT: 2019 Changes to the Hardship Withdrawal Rules

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There have been several recent legislative changes, most notably the Tax Cuts and Jobs Act of 2017 ("Tax Cuts Act") and the Bipartisan Budget Act of 2018 ("Budget Act"). These changes can impact certain elements of 401(k), 403(b) and other retirement plans, as well as numerous health & welfare benefits. The changes to 401(k) and 403(b) plan hardship withdrawal requirements under the Budget Act will have the most significant impact.

WHAT IS CHANGING?

The Budget Act made several changes to the hardship withdrawal rules that will become effective on the first day of the plan year that begins in 2019. The legislation:

- Amends Section 401(k) of the Internal Revenue Code to allow distributions of qualified nonelective contributions (QNECs), qualified matching contributions (QMACs), and earnings on elective deferral contributions, QNECs and QMACs (these changes will not apply to 403(b) plans unless corrective legislation is enacted) as a hardship withdrawal.
- Directs the Treasury to update its 401(k) safe harbor regulations to remove the required six month suspension of deferral and employee contributions after receipt of a hardship withdrawal.
- Amends Section 401(k) of the Internal Revenue Code to allow hardship withdrawals without regard to whether participants have first obtained available plan loans.

The second and third changes will also impact 403(b) plans using the 401(k) plan safe harbor test. None of these changes impact the rules for unforeseeable emergency withdrawals from 457(b) plans.

The IRS issued safe harbor hardship requirements in their 401(k) plan regulations and most plan sponsors rely on them because of the objective criteria. Plan sponsors could instead adopt the facts and circumstances test but it is more administratively burdensome and would not be available for plans using a pre-approved plan document like many providers' Volume Submitter Plan document. The second and third changes described above impact key elements of the safe harbor for determining whether a plan distribution is necessary to satisfy a participant's immediate and heavy financial need. For that reason, it is imperative that the IRS promptly communicate its views on the potential impact of the changes on the safe harbor determination.

Many questions have been raised by plan sponsors about the changes to the safe harbor hardship withdrawal requirements, including:

- Will a plan sponsor be considered as utilizing the safe harbor determination if it keeps the six month suspension of deferral contributions?
- Will any IRS guidance impose any new requirements?
- Must QMAC and QNEC sources be made available for hardship withdrawals?

Many plan document providers have brought up some of these and other similar questions to IRS officials but the IRS had indicated that they need more time to review them before they will issue any formal guidance. Additionally, industry trade groups have been working on these issues and they have submitted comments to the IRS requesting clarification. Plan sponsors should check with their document provider to determine next steps and how these changes will impact their current plan document and possible document amendments.

Dopkins Wealth Management, LLC is a registered investment advisor owned by the partners of Dopkins & Company, LLP.

OUTSOURCING ACCOUNTING & FINANCIAL MANAGEMENT

Providing Management Strategies to Mitigate Risk

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A strong system of accounting and financial management is the lifeblood of every successful business. Achieving this operational strength is directly related to the expertise of the individuals leading this function in tandem with the team performing the day-to-day duties.

Organizations of all sizes face a myriad of challenges throughout all stages of their business cycle. From small startup-ups to multi-generation family owned businesses and beyond, staffing at all levels requires a significant financial commitment and creates challenges in finding truly qualified individuals. How can a business prepare to face what's next from a financial perspective?
>> **Outsourcing Accounting & Financial Management services can be part of the solution.**

There are many benefits of outsourcing, including access to skilled personnel without the time and monetary costs associated with hiring. In addition, outsourcing also provides leadership with the opportunity to focus on core proficiencies, including building the business and ultimately generating more revenue.

But the benefits have the potential to achieve even further objectives beyond successful completion of day-to-day functions. Outsourcing critical financial services may assist with the avoidance of the typical business pitfalls related to decision making, risk and fraud.

For example, one of the most essential best practices in fraud prevention is the standard accounting practice of separation of duties. By setting up a system of accounting controls with outsourced accounting support, a company can avoid making it easy for workplace fraud to occur. Internal controls implemented with outsourcing can provide an extra layer of security in a business's operations to avoid these costly, and in some cases, very public crises.

OUTSOURCING ACCOUNTING & FINANCIAL MANAGEMENT: PUTTING THE PIECES TOGETHER

In light of these issues, business owners need to address many questions including:

- What level of expertise do we need?
- How many employees do we need?
- How much do we need to pay them?
- How much do we need to invest in technology?
- Are we effectively addressing organizational risk?

The investment in the accounting/finance function needs to be balanced against other vital needs of the business and limits to resources. Outsourcing all or part of this function is a solution that can provide value to your organization that goes beyond the numbers.

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OUTSOURCING ACCOUNTING & FINANCIAL MANAGEMENT

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Businesses of all sizes and at various stages of development can realize benefits from outsourcing. Common company profiles include: Start-up companies, Middle market and high-growth companies, companies looking to scale resources up and down as needed, businesses looking to leverage technology and businesses looking to concentrate on growing their business rather than back-office operations.

One of the key benefits of outsourcing is the flexibility to engage outside experts to assist you in areas that will provide the greatest value to your business operations, and management of risk. A hierarchy of services includes:

Business owners are constantly evaluating their organization's effectiveness at confronting challenges and seizing opportunities. Incorporating an outsourcing strategy can help on both fronts by providing:

- Access to expert advice in a broad range of areas
- Access to the latest technology
- Reduced organizational risk related to fraud, information security, internal controls, compliance, etc.
- Reduced business costs
- Improved cash management
- Improved staff productivity
- Improved quality, timing and accuracy of reporting to allow for more informed decision-making

The evaluation of outsourcing can be an important consideration during the strategic planning process. Finance and accounting outsourcing can be an all-encompassing service, or can be targeted to assist with specific areas or projects to add value to your operations, while decreasing the risk faced by your business.

RISK ADVISORY SERVICES NEWS

WHO SAID THIS WOULD BE EASY?

The risk of dragging your heels on the implementation of new accounting standards

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Who says that accounting standard setters don't have a heart? Faced with implementing two of the more daunting new standards that practitioners have encountered in many years, the FASB has thankfully eased off on introducing any other significant new accounting standards updates (ASUs) in the last few years. For this at least, we can be thankful. The two game changing standards to which we refer of course are ASU 2014-09, Revenue from Contracts with Customers, and 2016-02, Leases. Non-public entities with calendar year-ends must adopt ASU 2014-09 in 2019 and ASU 2016-02 in 2020.

The principal message to be delivered regarding these two ASUs is that if you have not yet started your implementation wheels turning, you may soon find yourself in some trouble. This holds especially true for ASU 2014-09 whose implementation date looms ever closer. Unfortunately, many would be implementers of this standard dismissed it as being "not applicable" or "no big deal". What the early implementers have learned, however, is that the standard, even if it yields little to no change in their accounting, still demands a process to assess its vast requirements. That process includes scoping the company's revenue into categories, obtaining customer contracts for each of these categories, assessing what revenue transactions actually look like in spite of what the written contract may otherwise state, making decisions about grouping customer contracts into portfolios and, subjecting each revenue category or portfolio to the ASU's five-step revenue recognition process. Oh yes, and the many and varied judgments and conclusions that will necessarily be made along the way must be appropriately documented. These stakes are particularly high for those companies obligated to obtain audited or reviewed financial statements. And we have not even mentioned the higher bar that will be required for disclosures about revenue!

> *"...if you have not yet started your implementation wheels turning, you may soon find yourself in some trouble."*

Our experiences thus far suggest that all of these steps have taken more time than was originally anticipated. This conclusion essentially mirrors the experiences of public company implementers who readily admit the undertaking was more significant than was originally anticipated.

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WHO SAID THIS WOULD BE EASY?
The risk of dragging your heels on the implementation of new accounting standards

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While there is still less real world experience available regarding the lease standard, intuition alone would lead us to conclude that the results will be similar. For example, taking an inventory of all of your leases (or at least those that will be in place upon adoption) will be a significant time consumer for many. Running out lease payment amortization schedules to compile the newly required balance sheet accounting will also be time consuming (not to mention tedious). In a conversation recently with an early adopter of the lease standard (yes, there are such people out there!), the writer was informed that the software tools available and necessary for this number crunching exercise was less than high end. Also, as with the new revenue standard, this standard too will involve the making of many judgments in need of documentation.

In short, companies who are taking the long view on these standards are more likely to successfully mitigate the substantial implementation risks that exist. The long view includes: planning; establishing an implementation team; preparing project management resources; communication with various internal and external stakeholders and, finally, seeking outside help where necessary. The good news is that you need only pick-up the phone and call Dopkins & Company, LLP to get back on the fast track.

ABOUT DOPKINS RISK ADVISORY SERVICES:

Whether you are subject to regulations or are looking to optimize the efficiency and effectiveness of your risk management activities, our Risk Advisory Services can be tailored to add value to your business. This is accomplished by our experienced advisors working collaboratively with you to understand your business operations, industry, regulatory environment, objectives and strategies. Our suite of services includes the following:

- Fraud Risk Management
- Internal Audit
- Internal Control Advisory Services
- IT Assurance Services
- Information Security
- Risk Assessment Services
- Sarbanes-Oxley Advisory Services
- Transaction Advisory Services

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Trends in Fraud Prevention: Keeping Up in the Digital Age

The Association of Certified Fraud Examiners estimates the average Company experiences an annual loss of 5% of revenues due to fraud. Company leaders have a duty to understand fraud trends and ensure their strategy for prevention adequately protects Company Assets.

DOPKINS CAN HELP.

Our fraud prevention services team is offering a working session to discuss the following with senior management:

Fraud Trends by the #'s

- **WHO** commits fraud?
- **WHY** does it happen?
- **HOW** do you protect your business?

Fraud Prevention

- Strategies to manage risk
- Understanding risk tolerance
- Governance best practices
- Creating the anti-fraud culture
- Policies and procedures
- Anti-fraud controls
- Leveraging data and systems

Our experts will cover best practices for prevention and will take a deep dive into digital trends to help you can gain insight to better protect your Company.

For more information, please contact:

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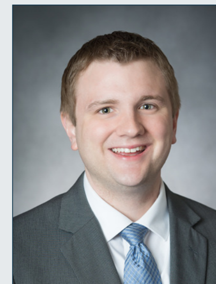

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