

Surviving Your Annual ESOP Audit

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Sandy leads the ESOP practice for EKS&H - with offices in Colorado and San Francisco



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Natalie has been in public accounting for over 16 years serving privately-held companies, including ESOPs

Agenda

Audit Timeline

- What Comes First - Year-End Valuation
- What Comes Next - The Plan Administration
- THE AUDIT
- Top 5 Issues that Arise

Ideal Audit Timeline



What comes First-Valuation

Finalize Company numbers

- Company audit/review/compilation, closing of Company books
- Ideal to shoot for February/early March time frame

Finalize Company census

Reconcile ESOP accounts-Loan schedules



What comes First-Valuation (cont.)

Communicate with appraiser, coordinate time for visit (if applicable)

Set-up Trustee meeting

Review plan changes w/ auditor



What comes Next - Plan Administration

Communicate with Plan Administrator

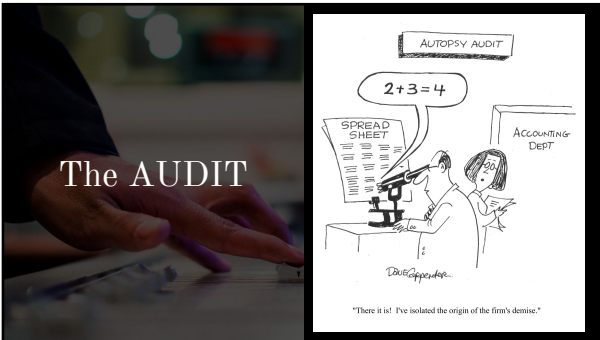
Does the census agree to payroll records

Discuss valuation timing w/ TPA

Review TPA calculations/allocations

Review draft 5500





The AUDIT

Plan Information

Investment valuation

Participant data

Distributions

Contribution

Plan Expenses

Share Allocation



The AUDIT

Schedule audit fieldwork (late May/early June)

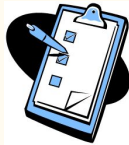
Gather documents for auditor

- Trustee/Company meeting minutes
- Distribution/diversification forms
- Selected payroll files



Plan Information

- Amendments
- Correspondence with IRS or DOL
- Minutes-Trustees, Investment Committee, Administration Committee
- 5558 Extension
- Draft 5500
- Fidelity Bond
- IRS Determination Letter
- Year End Trust Statement
- SAS 70 Reports/Internal Controls TPA



Participant Data

Plan Sponsor Prep

- Census Information
- Payroll and Personnel Files
- Participant ESOP Statements

Auditor Focus

- Sample selection of plan participants
- Review plan document for definition of eligible compensation
- Agree payroll and personnel file information to census report for hire date, birth date, compensation
- Review documents related to terminations: date of termination, years of service
- Participant interviews



Contributions

Plan Sponsor Prep

- Bank Statements
- Allocation worksheet by Employee
- TPA Calculations
- Dividends



Auditor Focus

- Review minutes for approval of contributions and dividends
- Vouch to trust statements
- Tracking if more than one loan-how trustee tracks contributions

Release of Share

Plan Sponsor Prep

- Loan Amortization Schedule and payments
- Rebalancing
- Reshuffling-segregation of terminated employees from stock in the plan



Auditor Focus

- Review terms of debt agreements
- Recalculate amortization schedule
- Tie out interest expense and agree debt balance to corporate financial statements
- Recalculate the share release
- Agree share release and activity to trust statement
- Review individual accounts for rebalancing
- Review calculations for reshuffling (segregation)

Investments and Valuation

Plan Sponsor Prep

- Statements for any investments
- Valuation from third party



Auditor Focus

- Utilize valuation expert within firm to review valuation report
 - focus should be on methods used and not individual quantitative inputs
 - proper credentials for valuation expert
- Agree fair value per report to the trust records
- Recalculate earnings on the shares for the plan year

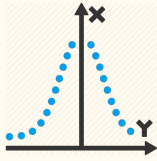
Distributions

Plan Sponsor Prep

- List of Distributions
- Distribution/Diversification Election Form
- List of Diversifications
- Proof of transfer or payment of distributions
- List of Forfeitures

Auditor Focus

- Review plan docs for terms of distributions allowed
- Select same of distributions paid
- Recalculate distribution or diversification
- Agree distributions to authorized documents



Plan Expenses

Plan Sponsor Prep

- Expenses that plan paid-TPA, audit, valuation, trustee and legal
- Expenses that sponsor paid for the plan

Auditor Focus

- Look at vendor detail
- Compare current year costs to prior year
- Legal fees-what type of items were attorney's involved in?



Top 5 Issues that Arise As Part of an ESOP Audit

- 1)Valuation
- 2)Discrimination testing failures
- 3)Determination letters
- 4)Share release calculation
- 5)Documents-transaction related



Thank You

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