

KBA VOTED MOST DYNAMIC BUSINESS IN ADDISON AND NORTH DALLAS AREA

In March of this year, KBA Group LLP was voted the Most Dynamic Business in Addison and the North Dallas Area. This distinction was voted on by readers of *Addison and North Dallas Corridor Magazine* and published in their Spring/Summer 2007 issue. Runners up included such notables as a worldwide provider of document solutions and a provider of global real estate solutions.

“We are excited to be named the Most Dynamic Business. In fact, it is not often that an accounting firm is thought of as dynamic, so we are especially pleased to be honored with this accolade,” said Larry King, Managing Partner. “We could not have earned this distinction, however, without the votes of our team members, our clients and our friends.” These relationships truly make KBA what it is today, and we greatly appreciate their loyalty.”



Left, Larry King, Managing Partner, KBA Group LLP
Right, Sharla DeFrancisco, Addison and the North Dallas Corridor Media Group

SARBANES-OXLEY SECTION 404: 10 THREATS TO COMPLIANCE FOR SMALLER COMPANIES

Smaller public companies performing their first management assessment under Sarbanes-Oxley Section 404 may find their first year of compliance particularly challenging. To help unravel the maze of uncertainty, Lord & Benoit has gathered

historical evidence of material weaknesses from companies with revenues under \$100 million. Since smaller public companies are uniquely transitioning from an entrepreneurial environment to a more controlled or structured growth, some companies may find that rather challenging.

The research was compiled aggregating the results of 148 first time companies with revenues under \$100 million (using Audit Analytics and our experience in assisting smaller public clients). Clients with clean internal controls were excluded from this study.

This list provides crucial data that you can use in developing your strategy to assess high level risks within your company. The following are the ten leading material weaknesses in Lord & Benoit's study:

1. **Accounting and Disclosure Controls.** Perhaps the biggest surprise to smaller public companies may be that they are expected to have no significant auditor adjustments. Therefore we found that of the 148 companies we reviewed with material weaknesses, nearly two thirds or 94 had issues relating to accounting and disclosure controls. Included were a number of departures from GAAP, income tax accounting and inadequate or inaccurate financial statement disclosures.
2. **Treasury.** The next level of material weakness noted was in the process level control area of Treasury. There were 92 findings noted in this category including accounting for stock, debt, investments, derivatives and cash controls. Common in the cash area were lack of separation of duties between signing checks and access to accounting records. Wire transfers with only one person involved were also noted in many instances.
3. **Competency and Training of Accounting Personnel.** The third highest number of material weaknesses were in the area of adequate training and competency of accounting personnel. The lack of management commitment to the competency and formal training program were described as the root cause for 85 instances of improper accounting and disclosures.

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4. **Control Environment.** The fourth greatest threat facing smaller companies in their first year of compliance relates to Audit Committee effectiveness, lack of effective internal audit function, ineffective monitoring of code of ethics and ineffective technical review of financial statements leading to financial restatements. Nearly half of the companies fell into this category.
5. **Design of Controls/Lack of Effective Compensating Controls.** About 60 companies reported issues with regards to proper segregation of duties. When we drilled down, we found the cause was not only segregation of duties but the breakdown in the compensating controls that were designed to mitigate the preventive control. In other words, what management thought was happening was different than what was really happening.
6. **Revenue Recognition.** About one third of the companies in the study had improper revenue recognition. The issues mainly dealt with proper cut off and timing of transactions.
7. **Financial Closing Process.** About a third of the companies struggled with weaknesses in their financial closing processes. For a number of reasons the financial closing processes did not identify non-recurring and adjusting journal entries that should have been made. Consequently material audit adjustments were necessary leading to material weaknesses in internal controls over financial reporting.
8. **Inadequate Account Reconciliations.** In addition to the closing process mentioned in item 7 above, a number of account reconciliation deficiencies were noted in our study. There were 47 instances of material inadequate account reconciliations noted.
9. **Information Technology.** Access controls, change controls, ineffective application controls, and critical spreadsheet controls were some of the points contributing to 45 companies having material IT weaknesses.
10. **Consolidations, Mergers, Intercompany Accounts.** Another 43 companies had material weaknesses in the mergers and acquisitions, intercompany accounting controls, consolidations and foreign exchange translation gains and losses.

In conclusion, our recommendation would be to use this list as a starting point for a macro level risk assessment within your company. We recommend that you review this list carefully, identify potential concerns that apply and develop an action plan to remediate these identified risks as quickly as possible. Quick action could minimize the likelihood of an adverse Section 404 report at the end of your first year of compliance.

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KBA GROUP LLP ANNOUNCES THE ADDITION OF SHERRELLE EVANS AS AUDIT SENIOR MANAGER

KBA Group LLP is pleased to announce the addition of Sherrelle V. Evans as Audit Senior Manager. A graduate of Dillard University, Sherrelle has more than 9 years of Big 4 accounting and auditing experience. She is involved in several professional organizations including her role as incoming President of the DFW Chapter of the National Association of Black Accountants (NABA).



Sherrelle has experience working with privately held and publicly traded companies and, as a result, is familiar with SEC reporting requirements. While she serves clients in a variety of industries, she has a practice concentration in financial services, real estate, transportation & logistics, wholesale distribution, healthcare and software development.

DON'T BE BLINDSIDED BY THE AMT

When it was first devised, the alternative minimum tax (AMT) was supposed to hit only the most affluent taxpayers. That's not the case anymore. In fact, this "alternative tax" may become the regular tax regime for the majority of middle-income and upper-income taxpayers, as well as a sprinkling of low-income taxpayers.

If you haven't been paying attention to the AMT thus far, it's time to pay closer attention.

How it works: The AMT runs on a separate track beside your regular tax liability. After you have figured out your regular taxable income, your AMT liability must be computed. There are four basic steps.

1. Add certain tax preference items to your taxable income and make other technical adjustments required by law.
2. Subtract from this figure a special exemption amount based on your filing status.
3. Apply the AMT rate to the net amount. For the 2007 tax year, the applicable rate is 26% on the first \$175,000 of AMT income; 28% for amounts above \$175,000.
4. Compare your AMT liability with your regular tax liability. If the AMT is higher, you are required to pay the excess in addition to your regular tax liability.

The list of preferences and technical adjustments is a long one. Suffice it to say that the AMT computation requires you to add back certain itemized deductions and personal exemptions. That is one of the reasons why more taxpayers have become unintentional victims of the AMT.