How to Best Utilize Your JATC Accountant

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Partner

Partners in Progress Conference
March 30, 2006
Las Vegas, Nevada
I. Role and Function of the JATC Auditor

- Auditor’s objective and responsibility
  - Opinion of financial statements
  - Compliance with ERISA’S provisions?
II. Conducting The Audit

• Planning
  • Information gathering
  • Consideration of fraud
  • Establishing materiality
II. Conducting the Audit (cont’d)

• JATCs Internal Control Structure
  • Understanding of controls
  • Establish tests to be performed

• Obtaining Audit Evidence
  • Extent of testing
III. Changing Role of Auditors

- Detecting Fraud
- SAS 99, Consideration of Fraud in a Financial Statement Audit
  - Discussion among audit team
  - Obtain information to identify risk of fraud
  - Inquiries of management and others
  - Consider fraud factors
III. Changing Role of Auditors (cont’d)

- Detecting prohibited transactions
  - What is the auditors role and responsibility?
IV. Auditor’s Interrelation with Other Service Providers

- Administrative Staff
- Attorney
V. Trustees and Administrators
Interaction with Auditors

• Communication is critical
  • Engagement letters

• Management representation letters
V. Trustees and Administrators
Interaction with Auditors (cont’d)

- Should an audit committee be established?
  - Composition of audit committee
  - Function of committee
    - Meetings with administrator
    - Meeting with JATC controller
    - Meetings with auditors
    - Useful inquiries/questions
V. Trustees and Administrators

Interaction with Auditors (cont’d)

• Function of committee
  • Pre-audit meeting
    • Discuss audit plan
    • Discuss audit of trustee expenses
    • Discuss procedures to be performed to identify “party in interest transactions” and “prohibited transactions”
V. Trustees and Administrators

Interaction with Auditors (cont’d)

• Function of committee
  • Post-audit meeting
  • Review financial statements
    • Review management letter and follow up on previous recommendations
      • Ask probing questions
        • Where do we need strengthening?
        • Where might we have exposure?
        • Were there deviations in your audit plan based on your tests of controls?
VI. Management Letters

• What are management letter comments?
  • Audit Standards require communication of deficiencies in the design and operation of the internal control structure.
  • Reportable Conditions – Two Types
    • Design deficiencies
    • Operation deficiencies
  • Material Weaknesses
    • Reportable conditions of greater magnitude
  • Material weaknesses do not have to be separated – apprentice committee should request auditor to identify these
• Other matters to be communicated
VII. Understanding the Annual Report

• Auditor’s Opinion
  • Unqualified opinion
  • Qualified opinion
    • Departure from GAAP
    • Scope limitation
VII. Understanding the Annual Report (cont’d)

• Financial Statements
  • Statement of Net Assets
  • Statement of Changes in Net Assets
  • Footnote Disclosures
### Sample Hawaii Health and Welfare Fund

**Statements of Net Assets Available for Benefits**

**December 31, 2004 and 2003**

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Checking</td>
<td>$475,151</td>
<td>$45,755</td>
</tr>
<tr>
<td>Money market accounts</td>
<td>897,545</td>
<td>989,555</td>
</tr>
<tr>
<td>Total cash</td>
<td>1,372,696</td>
<td>1,035,310</td>
</tr>
<tr>
<td>Receivables</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employer contributions</td>
<td>1,548,484</td>
<td>1,687,777</td>
</tr>
<tr>
<td>Accrued investment income</td>
<td>101,595</td>
<td>98,555</td>
</tr>
<tr>
<td>Total receivables</td>
<td>1,650,079</td>
<td>1,786,332</td>
</tr>
<tr>
<td>Investments</td>
<td>30,388,036</td>
<td>30,454,448</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>125,000</td>
<td>136,555</td>
</tr>
<tr>
<td>Other assets</td>
<td>3,254</td>
<td>7,854</td>
</tr>
<tr>
<td>Total assets</td>
<td>33,539,065</td>
<td>33,420,499</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>48,505</td>
<td>65,644</td>
</tr>
<tr>
<td>Due to broker</td>
<td>54,565</td>
<td>90,808</td>
</tr>
<tr>
<td>Due to Hawaii Pension Fund</td>
<td>98,050</td>
<td>45,844</td>
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<tr>
<td>Deferred income</td>
<td>42,555</td>
<td>69,888</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>243,675</td>
<td>272,184</td>
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<tr>
<td><strong>Net assets available for benefits</strong></td>
<td><strong>$33,295,390</strong></td>
<td><strong>$33,148,315</strong></td>
</tr>
</tbody>
</table>
**Sample Hawaii Health and Welfare Fund**  
**Statements of Changes in Net Assets Available for Benefits**  
**Years Ended December 31, 2004 and 2003**

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Additions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest and dividends</td>
<td>$1,645,515</td>
<td>$1,805,004</td>
</tr>
<tr>
<td>Net appreciation (depreciation) in fair value of investments</td>
<td>(450,554)</td>
<td>682,000</td>
</tr>
<tr>
<td></td>
<td>1,194,961</td>
<td>2,487,004</td>
</tr>
<tr>
<td>Less investment expenses</td>
<td>(31,505)</td>
<td>(32,505)</td>
</tr>
<tr>
<td>Net investment income</td>
<td>1,163,456</td>
<td>2,454,499</td>
</tr>
<tr>
<td>Contributions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employers</td>
<td>18,378,876</td>
<td>16,484,555</td>
</tr>
<tr>
<td>Self-pay participants</td>
<td>705,484</td>
<td>700,454</td>
</tr>
<tr>
<td>Other income</td>
<td>544</td>
<td>3,265</td>
</tr>
<tr>
<td>Total additions</td>
<td>20,248,360</td>
<td>19,642,773</td>
</tr>
<tr>
<td><strong>Deductions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefit payments</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health claims</td>
<td>16,478,505</td>
<td>15,448,555</td>
</tr>
<tr>
<td>Prescription drugs</td>
<td>2,845,444</td>
<td>2,654,455</td>
</tr>
<tr>
<td>Life insurance premiums</td>
<td>95,878</td>
<td>104,445</td>
</tr>
<tr>
<td>Total benefit payments</td>
<td>19,419,827</td>
<td>18,207,455</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>681,458</td>
<td>651,545</td>
</tr>
<tr>
<td>Total deductions</td>
<td>20,101,285</td>
<td>18,859,000</td>
</tr>
<tr>
<td><strong>Net increase</strong></td>
<td>147,075</td>
<td>74,748</td>
</tr>
<tr>
<td><strong>Net assets available for benefits</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beginning of year</td>
<td>33,148,315</td>
<td>33,073,567</td>
</tr>
<tr>
<td>End of year</td>
<td>$33,295,390</td>
<td>$33,148,315</td>
</tr>
</tbody>
</table>
# Sample Hawaii Health and Welfare Fund
## Statements of Plan Benefit Obligations
### December 31, 2004 and 2003

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts currently payable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Claims payable, claims incurred but not reported and premiums due to insurer</td>
<td>$4,028,545</td>
<td>$4,413,999</td>
</tr>
<tr>
<td>Other obligations for current benefit coverage - at present value of estimated amounts, net of amounts currently payable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accumulated eligibility credits</td>
<td>9,497,605</td>
<td>8,713,605</td>
</tr>
<tr>
<td>Postretirement benefit obligations - net of amounts currently payable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current retirees, beneficiaries and dependents</td>
<td>25,458,404</td>
<td>21,050,444</td>
</tr>
<tr>
<td>Other participants fully eligible for benefits</td>
<td>6,526,454</td>
<td>2,540,505</td>
</tr>
<tr>
<td>Other participants not yet fully eligible for benefits</td>
<td>36,995,897</td>
<td>28,264,751</td>
</tr>
<tr>
<td>Total postretirement benefit obligations</td>
<td>68,980,755</td>
<td>51,855,700</td>
</tr>
<tr>
<td>Total plan benefit obligations</td>
<td>$82,506,905</td>
<td>$64,983,304</td>
</tr>
</tbody>
</table>
### Sample Hawaii Health and Welfare Fund

**Statements of Changes in Plan Benefit Obligations**

Years Ended December 31, 2004 and 2003

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amounts currently payable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at beginning of year</td>
<td>$4,413,999</td>
<td>$3,208,545</td>
</tr>
<tr>
<td>Increase (decrease) during the year attributable to changes in claims payable, claims incurred but not reported and insurance premiums due</td>
<td>(385,454)</td>
<td>1,205,454</td>
</tr>
<tr>
<td>Balance at end of year</td>
<td>4,028,545</td>
<td>4,413,999</td>
</tr>
<tr>
<td>Other obligations for current benefit coverage - at present value of estimated amounts, net of amounts currently payable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at beginning of year</td>
<td>8,713,605</td>
<td>6,908,555</td>
</tr>
<tr>
<td>Increase during the year attributable to changes in accumulated eligibility credits</td>
<td>784,000</td>
<td>1,805,050</td>
</tr>
<tr>
<td>Balance at end of year</td>
<td>9,497,605</td>
<td>8,713,605</td>
</tr>
<tr>
<td>Postretirement benefit obligations - net of amounts currently payable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at beginning of year</td>
<td>51,855,700</td>
<td>32,000,505</td>
</tr>
<tr>
<td>Increase during the year attributable to</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefits earned</td>
<td>3,540,505</td>
<td>7,884,595</td>
</tr>
<tr>
<td>Actuarial experience losses</td>
<td>805,000</td>
<td>125,005</td>
</tr>
<tr>
<td>Changes in actuarial assumptions</td>
<td>12,454,550</td>
<td>4,000,545</td>
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<tr>
<td>Plan amendments</td>
<td>325,000</td>
<td>7,845,050</td>
</tr>
<tr>
<td>Balance at end of year</td>
<td>68,980,755</td>
<td>51,855,700</td>
</tr>
<tr>
<td>Total plan benefit obligations</td>
<td>$82,506,905</td>
<td>$64,983,304</td>
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</table>
VIII. Evaluating Auditor Services

- Experience and qualifications of auditor
- Timeliness
- Proactive in providing advice and information
- Independence
Employee Benefit Plan Audit Quality Center

IAN MACKAY
Director