



K-Fi News

April 2008

New Clients and Other Updates

The first quarter of 2008 was very busy with the addition of many new clients including:

- Colorado Lottery—SAS 70 audit
- NexGen Technologies—financial statement audit
- Colorado Children's Trust Fund—financial statement audit
- County Insurance Pools —financial statement audits for three insurance pools
- Mortgage Cadence—SAS 70 audit

We appreciate the opportunity to work with these organizations and look forward to helping them for years to come.

The firm would like to congratulate our newest CPA, Morgan Henderson. Morgan has been studying diligently the past year and received notice at the end of 2007 that she has passed the last section of the CPA exam. Congratulations Morgan!

In other exciting news, K Financial will be welcoming two new employees in June—Brian Hoff and Ben Quinn. We're looking forward to introducing you to the newest members of our team!

Effective Internal Controls for Employee Benefit Plans

Since the passage of the Sarbanes-Oxley Act of 2002, many companies have strengthened their internal controls over financial reporting (ICOFR). Often, however, ICOFR related to 401(k) and other employee benefit plans gets overlooked. This article describes why it is important to extend ICOFR to benefit plans and also provides examples of basic control activities that all plan sponsors should consider implementing.

Most companies today sponsor one or more employee benefit plans to provide retirement or health and welfare benefits to their employees. The vast majority of companies outsource some or all of the record keeping and administration of these plans to third party administrators (TPA's). It is not uncommon for Plan Sponsors to assume that control responsibilities rest with the TPA. But in fact, all employee benefit plan sponsors have significant

responsibilities for which they should be aware. As a Plan Sponsor you assume certain responsibilities, and with these

fiduciary responsibilities come potential liability: Fiduciaries that do not follow the basic standards of conduct may be personally liable to restore any losses to the plan, or to restore any profits lost as a result of their improper use of the plan's assets. For example, Plan Sponsors may be assessed penalties and/or fines if participant contributions withheld are not remitted to the plan within 15 business days after the end of the month in which the contributions were withheld. Under ERISA, your responsibilities include plan administration functions such as maintaining the financial books and records of the plan, and filing a



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complete and accurate annual return/report for your plan. Because errors and fraud can and do occur, it is important that you establish safeguards at your plan to ensure you can adequately meet your fiduciary responsibilities. One way this can be accomplished is by implementing effective ICOFR.

Internal control protects your plan in two ways:

- By minimizing opportunities for unintentional errors or intentional fraud that may harm the plan. *Preventive controls*, which are designed to discourage errors or fraud, help accomplish this objective.
- By discovering small errors before they become big problems. *Detective controls* are designed to identify an error or fraud after it has occurred.

Internal controls will vary depending on the plan's size, type and complexity; whether the plan uses outside service providers to process transactions and manage plan investments; and the size and qualifications of the department responsible for financial reporting. Controls should be based on a systematic and risk-oriented approach, to ensure that there are adequate controls in areas with high risk, and that controls are not excessive in areas with low risk. Before making the decision to adopt a control, analyze the costs of establishing and maintaining it, and consider:

- The potential benefits the control will provide
- The possible consequences of not implementing it

The following examples are basic controls that all Plan Sponsors should have in place to prevent and detect error or fraud in their employee benefit plan.

- Reconciliation of payroll records to TPA statements.
- Procedures for determining that contributions do not exceed the annual IRS limitation.
- Procedures for determining that employee contributions withheld or received by the employer are remitted to and received by the plan on a timely basis in accordance with DOL Regulations.

2008 Employee Benefit Plan		
<u>IRS contribution and compensation limits</u>		
	<u>2008</u>	<u>2007</u>
Defined Benefit		
Maximum annual pension	\$185,000	\$180,000
Defined Contribution		
Maximum annual addition	46,000	45,000
401(k) plan		
Maximum elective deferral ¹	15,500	15,500
403(b) plan		
Maximum elective deferral ¹	15,500	15,500
457 plans	15,500	15,500
SIMPLE plans	10,500	10,500
Qualified plans		
Maximum compensation limits	230,000	225,000
Highly compensated limits	105,000	100,000
Officer limits (key employee)	150,000	145,000

¹ Catch-up contributions for individuals over age 50 increased to \$5,000 for 2007 and 2008.

Client Spotlight



Our client spotlight for Q1 2008 is Dynamic Materials Corporation (DMC), the world's leading provider of explosion-welded clad metal plates. DMC is headquartered in Boulder, Colorado with operations in Pennsylvania, Connecticut, Germany, France and Sweden. The company recently acquired DYNAenergetics, a German based company which specializes in explosion-welded clad metal plates and oil-well perforation. During 2007, DMC was ranked eighth on Business Week's Annual List of "100 Hot Growth Companies". DMC has an impressive management team that is committed to continuously improving internal controls and business processes. DMC is one of K Financial's long-term, valued clients that utilizes the full suite of the firm's capabilities, including Sarbanes-Oxley advisory services, employee benefit plan audit services and general accounting support services.