

# PREPARING FOR YOUR YEARLY AUDIT

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CERTAINTY

INGENUITY

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## What We Will Cover

- › Developing and Performing Sarbanes-Oxley (SOX) Controls
- › How to Prepare Effectively for an Audit
- › Financial Statements and Tax Audits

# Developing and Performing SOX Controls

## Why Is this Important?

### › Several reasons

- Due to ASC 718 requirements, equity compensation is a “high risk area”
- CEO/CFO certification of financials
- Demonstrates avoidance of fraud
- “Blueprint” of administration
- Reducing errors
- Promotes best practice and governance

# Developing and Performing SOX Controls

## Developing Controls

- › Review all internal processes
  - Manual vs. automation
  - Which areas have most risk
- › Determine frequency of when to perform control
- › Determine with internal auditors which is primary and secondary controls
- › Data security – who has access to database or can instruct vendor?
- › Secondary review when all possible
- › Internal controls cross-referencing vendor controls
  - SSAE 16
- › Quarterly internal certification



# Developing and Performing SOX Controls

## Examples of Controls

Area of Risk	Control	Control Activity	Frequency
Plan Review	Plans are reviewed by designated equity personnel to ensure compliance	<ul style="list-style-type: none"><li>• Review plan for expiration</li><li>• Share reserve reconciliation</li><li>• Grant Recipient eligibility</li></ul>	Annually
Grants	Grants are processed accurately by proper delegated authority	<ul style="list-style-type: none"><li>• Compare Equity system generated report to HR List</li><li>• Review Comp Committee Meeting Minutes</li></ul>	Quarterly
Exercises	Exercises are processed accurately and timely	<ul style="list-style-type: none"><li>• Secondary review of all exercises to ensure transactions are processed correctly per broker instructions</li><li>• Comparing stock prices to prices fed into in equity system</li></ul>	Quarterly

# Developing and Performing SOX Controls

## Examples of Controls

Area of Risk	Control	Control Activity	Frequency
Cancellations	Forfeiture of grants are processed accurately and timely	Compare terms from HRIS to Equity System	Quarterly
ESPP	ESPP purchases are processed accurately and timely  Only delegated authority can approve ESPP purchases	<ul style="list-style-type: none"><li>• Compare contributions from GL to Payroll to Equity System.</li><li>• Provide copies of purchase detail report and sign off sheets.</li></ul>	Quarterly
Shares Outstanding	Roll forward accurate	<ul style="list-style-type: none"><li>• Compare reconciliation to Transfer Agent</li><li>• Reconciliation of Par Value and APIC GL's</li></ul>	Quarterly
Data Security	Only Delegated personnel has read/write access to equity database	Review team members and access level of equity system database.	Annually

# How to Prepare Effectively for an Audit

## Organization is Key

- › Always be prepared
- › Create audit packages per category/transaction
  - Grants
  - Exercises
  - ESPP
- › Referencing documentation
  - Tick marks
  - Recalculation of formulas
- › Financial statement work papers
- › Roll forward
- › Forfeiture calculations
- › Establish checklists

# How to Prepare Effectively for an Audit

## Working with Auditors

- › Establish process
  - Single point of contact in department
  - Understand deadlines and what is needed
  - Work with internal group
- › Ask questions if you don't understand what is being asked
- › Be confident
  - Remember you are the SME



# Financial Statement Audit

## Review Package Testing: Grants

- › For each grant, have the following ready:
  - All approval documentation
    - › Comp committee, board meeting minutes
    - › Control list from HR
  - Grant award recap report in PDF format tied out to list received from HR
  - Establishment of grant date
    - › Communication to awardees of grant
  - Grant agreements
  - Shares granted from correct plan
  - Reserve reconciliation

# Example of Referencing

## From/To

### Provided by Compensation

Dear Stock Administrator

Please grant the following RSUs from Stock Plan XYZ *2/* to the following individuals as approved Comp Committee. Grant date is 4/1/16. *2/*

Participant Name	Employee ID	Options/Awards Granted
Employee A	1	46,494
Employee B	2	75,107
Employee C	3	7,153
Employee D	4	7,153
Employee E	5	53,648
Employee F	6	42,918
Employee G	7	7,153
<b>Total</b>		<b>239,626 rx <i>2/</i></b>

Please let me know if you have any questions

Sincerely

Judy Brown

Director of Compensation

*1/*

# Example of Referencing

## From/To

Grant Plan Number - Name (Type)	Participant Name	Employee ID	Grant Type Code	Grant ID	Grant Date	Options/Awards Granted	Grant Price	FMV at Grant	Aggregate Grant Price
1/ Stock Plan XYZ	Employee A	1	RSU	29	1/ 04/01/2016	46,494	\$0.0000	\$0.0000	\$0.00
1/ Stock Plan XYZ	Employee B	2	RSU	27	1/ 04/01/2016	75,107	\$0.0000	\$0.0000	\$0.00
1/ Stock Plan XYZ	Employee C	3	RSU	24	1/ 04/01/2016	7,153	\$0.0000	\$0.0000	\$0.00
1/ Stock Plan XYZ	Employee D	4	RSU	25	1/ 04/01/2016	7,153	\$0.0000	\$0.0000	\$0.00
1/ Stock Plan XYZ	Employee E	5	RSU	28	1/ 04/01/2016	53,648	\$0.0000	\$0.0000	\$0.00
1/ Stock Plan XYZ	Employee F	6	RSU	30	1/ 04/01/2016	42,918	\$0.0000	\$0.0000	\$0.00
1/ Stock Plan XYZ	Employee G	7	RSU	26	1/ 04/01/2016	7,153	\$0.0000	\$0.0000	\$0.00
<b>Stock Plan XYZ</b>						<b>1/ 239626 rx</b>			<b>\$0.00</b>
<b>Totals For All Grant Plans:</b>						<b>239,626</b>			<b>\$0.00</b>

**Report Last Executed:** 07/15/2016 9:22:04 PM GMT-04:00  
**Current User:** LaddonJ\_EOS4  
**Parameters:** Company 123  
 For Grant Date From 4/1/2016 to 4/1/2016

2/

# Financial Statement Audit

## Review Package Testing: Exercises

- › For each exercise, have the following ready:
  - Instructions from broker
  - Documentation of funds received
  - Confirmation from equity system tying back to broker instructions showing date of exercise
  - Tax withholding confirmation from payroll
  - Before/After reports from equity system showing options were vested and fully exercised in system
  - Test of stock prices
  - Report of all exercises for specific period

# Financial Statement Audit

## Review Package Testing: Cancellations

- › For each forfeiture, have the following ready:
  - Cancellation report from equity system for specific period
  - Completeness test: compare of report to HRIS list of terms for that same period
  - Forfeiture rate memo

# Tax Audits

## Being prepared

- › IRS more determined than ever to recover lost revenue
- › Must be prepared to provide documentation on tax reporting/withholding practices
- › Common areas for audit
  - Section 162M
  - Mobility
  - 100k Federal tax deposit rules
  - Forms 3921/3922
  - Qualifying/Disqualifying disposition



# Q&As



# Contact Information

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