

CPA Risk Management – 2015 update and beyond

Presented by:
Bill Thompson, CPA
RPLU
CPA Mutual RRG
Gainesville, FL



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“I don’t give anyone advice only my opinion”

John Wooden



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What risks/cost are we trying to manage?

- ▶ Time
 - ▶ Professional and firm reputation
 - ▶ Insurability/Money
- 

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Post Enron – Since early 1990s

- ▶ CPAs in the cross hairs – Deep Pockets
- ▶ Regulatory/Tax Environment
- ▶ Legal System
 - Increase in litigation and settlement cost
 - Fewer motions granted for summary judgment
 - Impartial juries?

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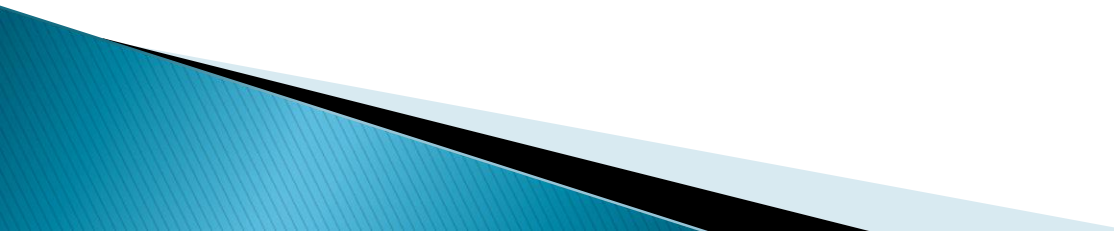


When you go into court you are putting your fate into the hands of twelve people who weren't smart enough to get out of jury duty.

- Norm Crosby

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What I worry about ?

- ▶ Electronic Discovery/Digital Files/Data Breach
 - ▶ Inexperienced Staff & PARTNERS
 - ▶ Bankruptcy Trustees
 - ▶ Estate tax returns – Trustee Engagements
 - ▶ Wealthy Clients
 - ▶ New legal theories: i.e. “Deeping Insolvency”
 - ▶ Affordable Care Act
- 

What is a Breach?*

- A breach is defined as an event in which private information is potentially put at risk as a result of unauthorized access, disclosure or use – either in electronic or paper format. The definition is being expanded in some states to include username/passwords, and email addresses.

- Private Information includes, but is not limited to:
 - Social Security Number (SSN)
 - Driver's License Number or State-issued Identification Card Number
 - Financial Account Number
 - Credit or Debit Card Number (with or without security codes)

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Highly valuable information to cyber criminals

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MORE BOTS . JUST REAL USERS . : )
12:31 < [redacted] > Iam a legit drop for IItems in US , you can trust me 100 % , i also can cashout
you on any id n name just try me !
12:31 < [redacted] > Scot poste it , [redacted] , caut persoana care incarca cartele de it . Lasa un id daca
nu sunt !
12:31 < [redacted] > ^*Selling Cvv2 & Full info (US) - (FR) | Selling Mailist Virgin From Shop
Admin (UK) - (US) - (FR) | Selling Host Hacked | Webmail | Upload All Scam
Page | Upload PHP Mailer | Selling Fast VPN | Selling RDP & VPS & VNC |
Selling Account Socks All Word | ~ I ACCEPT ONLY [redacted]
12:31 < [redacted] > Spam All Banks UK / US * I Can Ship To All Adress ( Europ - USA ) *
Spam Private For Any Client * - I Accept Only [redacted] Or
12:31 < [redacted] > /\ Selling Dumps Track 1 & 2 With Pin /\ Selling Shop Admin US With Big
& Small Daily Order /\ Selling Serial Camfrog & Paltalk /\ Selling
Software Find Fresh Mailist Perfect /\ Selling Shell C99 /\ Selling Root
/>\ ~ I ACCEPT ONLY [redacted] .
12:31 * [redacted] Chkon [redacted] msr206 [redacted] msg now
12:32 < [redacted] > selling Account SMTP inbox (send to your inbox for test)...also selling US
& UK maillist...selling Host Support Cpanel+Ftp...selling SMTP scanner &
SSh Scanner POP3 Scanner SQL scanner & CVV ALL COUNTRY for serious buyer
payment [redacted] only ( RIPPER [redacted] ) !!!
12:32 < [redacted] > - Set your timers on [redacted] , using => "/timer 0 50 /msg [redacted] your message here
" Enjoy your stay!!
12:32 * [redacted] Selling Fresh Dumps, Cvv2 & Fullz. USA / CAN / UK / Europe. Spammed &
Hacked Shop Admin. Accepting [redacted] + [redacted] + [redacted] .
12:32 * [redacted] I Can CASHOUT UK Cvv With DOB, [redacted]
12:32 < [redacted] > selling Account SMTP inbox (send to your inbox for test)...also selling US
& UK maillist...selling Host Support Cpanel+Ftp...selling SMTP scanner
```

[Cyber Threat Map \(FireEye\)](#)
[Cyber Threat Map \(NORSE\)](#)

Less Hacking, More Accidents

- In 2013, Forrester Research found that 36 percent of breaches stem from inadvertent misuse of data by employees.
- 25 percent of respondents said that abuse by a malicious insider was the most common way in which a breach occurred in the past year.
- **Employee negligence is the #1 risk of data loss...opening infected email attachments, unattended and unlocked computers, stale security passwords, and unsecured mobile devices containing confidential information. (TrendMicro, 2012)**
- Business associates have been implicated in about 21 percent of the 571 breaches affecting 500 or more individuals that Dept. of Health and Human Services has tracked since September 2009.



Cyber Liability



Direct costs of a breach include familiar items such as:

- Legal Expenses
- IT Repair and Restoration
- Public Relations
- Customer Notification
- Credit Monitoring
- Call Center support
- Regulatory Fines and Penalties
- Third-party Lawsuit Defense

▲ Cyber Liability



Our results show that the cost to respond to a data breach is usually between **\$10–\$30 per record for breach response** services that include some legal expenses, customer notification letters, call center support, and credit monitoring services.

(Keep in mind this number is an average. Costs can exceed \$30 a record in some cases. IT costs, Legal fees, and government fines are additional.)

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Types of Data Breaches we are experiencing:

- ▶ Stolen laptops/PCs
- ▶ Spoofing
- ▶ Hacked Systems –
 - Stolen files
 - Ransomware

How can you protect your firm?

[Buy Insurance!](#)



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Electronic Discovery/Digital Files/Data Breach



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Electronic Discovery/Digital Files/Data Breach



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Electronic Discovery/Digital Files/Data Breach

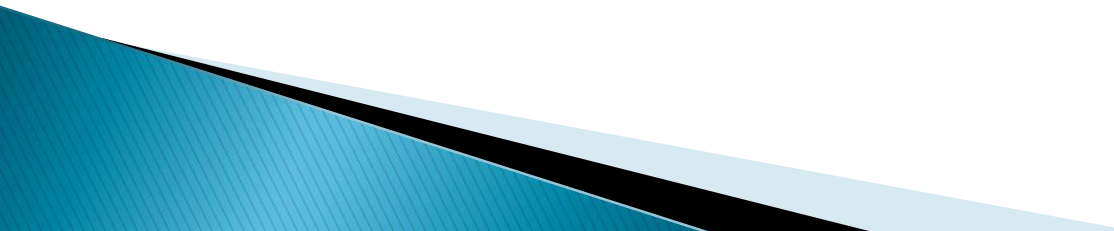
Data Storage Math (Con't)		
Device	Capacity	Boxes
Laptop Hard Drive	40 GB	5,714
DVD	4.7 GB	671
CD	700 MB	100
Camera Card	1 GB	143
Thumb Drive	2 GB	286
USB Watch	256 MB	36
USB Knife	256 MB	36
USB Pen	512 MB	72
iPod	4 GB	571
Web Storage (i.e. AOL)	<u>2 GB</u>	<u>285</u>
Total	55.424 GB	7,914

 Weiser LLP *Enterprising Minds*

3

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What I worry about?

- ▶ Inexperienced Staff & PARTNERS
 - ▶ Bankruptcy Trustees
 - ▶ Estate tax returns – Trustee Engagements
 - ▶ Wealthy Clients
 - ▶ New legal theories or court decisions: i.e. “Deeping Insolvency”
 - ▶ Affordable Care Act
- 

POLL

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KEYS TO REDUCE RISK EXPOSURE

- CLIENT SELECTION
- CLIENT RETENTION
- COMMUNICATION

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What can you do to help reduce problem clients?

➤ Screen all Clients

- Background checks
- Credit reports
- Criminal reports and DMV reports
- Prior auditor inquiries

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What can you do to help reduce problem clients?

- Identify problem clients early:
 - Ask careful thorough questions
 - Be wary of fee resistance
 - Be wary of advice resistance
 - Trust Your Gut
 - Trust Your Staff

POLL

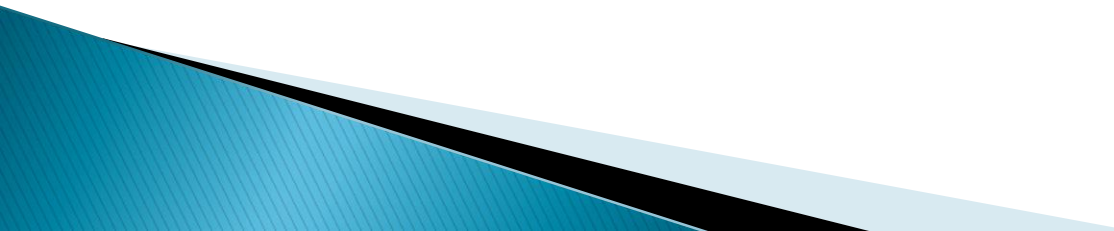
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What can you do to help reduce problem clients?

- Adopt client retention and acceptance policies and test your compliance – Rank your Clients
- Receive adequate fees for the risk assumed!
- Monitor client specific industries and be aware of changes in economic cycle
- Provide for easy access to legal counsel – assign “gate keeper”
- INDEPENDENCE/do not become an advocate
- Avoid complacency

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Other Risk factors to consider relating to operating characteristics and financial stability –
Identify Problem Clients

- Significant capital requirements
 - Financials contain significant estimates involving highly subjective judgments or are subject to change in near term
 - High vulnerability to rapidly changing technology
 - High dependency on debt
 - Unusually rapid growth
 - Executive Compensation tied directly to operating results
- 

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Case Study: Piece of Cake

- Claim Report Date – 09/20/1995 Claim Closed Date – 10/01/1998
- Policy Limit - \$2,000,000 Paid: \$1,947,720
- Deductible - \$25,000
- Audit - Fraud
- Lesson Learned:
 Perform adequate due diligence prior to accepting new client.
 Do not become so complacent you lose your professional skepticism.

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What Else can you Do?

- Communication:
 - Internal
 - External

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Internal Communications:

Q. And can you tell the jury what the boulder and three pebbles are?

A. The boulder and three pebbles is a somewhat humorous was a lot of partners in our firm refer to what the firm calls the four cornerstones which are used to measure our performance.

Q. And the four cornerstones are – Well, which one's the boulder?

A. The boulder is earnings

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Q. Boulder means profitability, how much money can be made, correct?

A. The boulder in this jargon refers to the profitability of the operating unit in question, yes.

Q. ...to put it in your terms, that's the boulder. The other items are pebbles in terms of what a partner is expected to focus on, correct?

A. Well, it's meant to convey that while the four cornerstones are portrayed as four equal measures, the general belief is that the profitability cornerstone carries more weight than the others.

Trial Testimony of Big Four Partner.



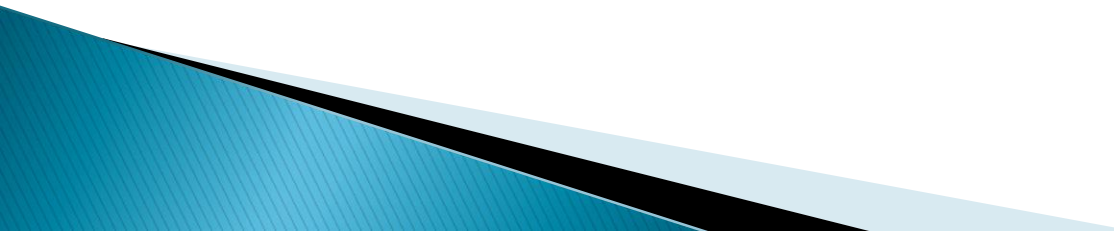
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What Else can you Do?

- Communication:
 - External

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3rd Party Communication

- Best policy is to refuse to provide them
 - Request client send directly to 3rd party
 - Obtain written permission from client before disclosure
- 

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Gentlemen:

The purpose of this letter is to specifically advise you that, as part of our standard underwriting process, we have and continue to rely upon the complete professional accounting services which you provide to our mutual client, XYZ Construction [REDACTED] and the opinions you have expressed and may hereafter express in your annual reports.

As respects to these annual reports, we are advising you that as part of our underwriting process to assist us in our decisions to provide bonding support to the account, we continue to place material reliance on these statements, including, but not limited to, the audit reports such as the 12/31/14 report attached and will continue to rely upon your professional accounting services provided to [REDACTED]

Please confirm your understanding by returning a copy of this letter with your acknowledgement below at your earliest convenience.

We thank you for your cooperation.

Sincerely,

*Acknowledgement
Poor Unsuspecting CPA's, LLC By:*

Date : _____

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Disclaimer:

Dear Loan Officer:

We have received your letter dated May 27, 2015 requesting that MY FIRM, CPA's, LLC acknowledge your reliance on the professional services provided by our firm to YOUR CLIENT, including our audit of its financial statements. We cannot provide such acknowledgement for the reasons outlined below.

The Independent Auditors Report, which was attached to your letter, was prepared for the benefit of YOUR CLIENT and its Board of Directors. Under the terms of our engagement with YOUR CLIENT, it is not prohibited from providing our audit report to third parties, such as XYZ Insurance Companies. If third parties wish to use or rely on our audit report, they may independently choose to do so. However, we do not give any opinions or assurances beyond what is contained in our audit report; and we do not acknowledge the use of our report by third parties or accept any responsibility or liability related to such use. This would exceed the scope of our engagement with YOUR CLIENT, our firm's practices, and our professional responsibility as public accountants.

We hope that you can understand our perspective on your request; and that it does not compromise your relationship with YOUR CLIENT. If you would like to discuss this matter further, please let me know.

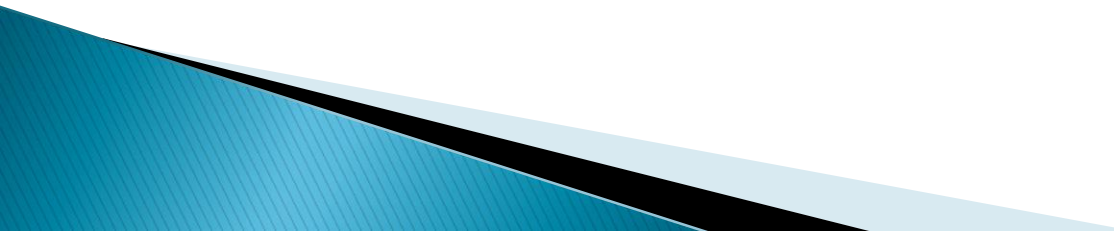
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Disclaimer:

As you know, a credit decision should be based on a lender's exercise of due diligence in obtaining and considering multiple factors and information. Any use by you of the corporate tax returns of the business owned by Mr. & Mrs.----- and this letter is solely a matter of your responsibility and judgment. This letter is not intended to establish a client relationship with you, nor is it intended to establish any obligation on my part to provide any future information to you with regard to Mr. & Mrs.-----

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Communication: The Role of the Engagement Letter:

- Describes the scope of work to be done
 - Explains limitations on the accountant's work
 - Defines the client's responsibilities
 - Describes fee arrangements and payment terms
 - Satisfies professional standards
 - Helps protect the accountant from unwarranted litigation
 - Communicates in plain English!
- 

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Engagement Letters and Lessons Learned:

- *Avoid engagement creep (or de-creep)*
- *Be very careful when coding time*
- *Familiarity breeds complacency*
- *Communicate ALL issues in writing*
- *Consider who signs the engagement letter*
- *Consider who receives the engagement letter*

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OTHER TIPS FOR DRAFTING ENGAGEMENT LETTERS

- ▶ Periodically Evaluate any Changes in the Law Governing Engagement Letters
- ▶ Involve Legal Counsel in Developing Engagement Letters
- ▶ Ask your Malpractice Carrier
 - Subpoena coverage clause
 - Limitation of liability and Indemnification agreements
 - “Stop Work” Clause
 - Choice of Venue
 - Foreign Transactions
 - ACA

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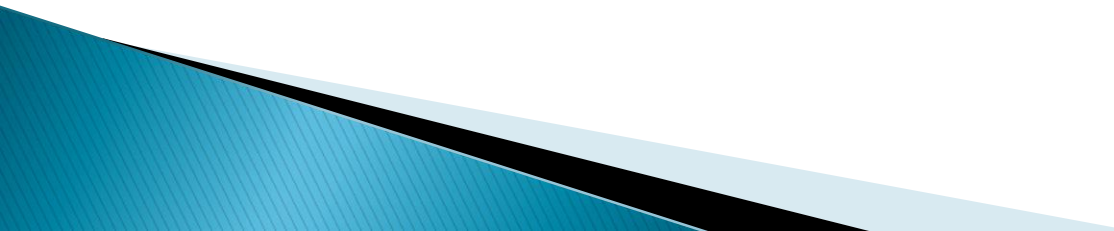
Case Study: One for the Good Guys

- Claim Report Date – 06/01/2005 Claim Closed Date – 06/29/2006
- Policy Limit - \$5,000,000 Paid: \$-0-
- Deductible - \$100,000
- Review and Tax services- Embezzlement
- Lesson Learned:
 Adding loss limiting language to your engagement letter might actually help you defend a claim.

POLL

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WRAP UP

- CLIENT SELECTION
 - CLIENT RETENTION
 - COMMUNICATION
 - BE PRO-ACTIVE
- 

QUESTIONS AND COMMENTS

Contact Information:

Bill Thompson

wthompson@cpamutual.com

800-543-3029

www.cpa-mutual.com

CPA Mutual[®]

INSURANCE COMPANY
OF AMERICA
RISK RETENTION GROUP

Providing Services to CPAs by CPAs Since 1987

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Appendices:

Sample Engagement letter Clauses

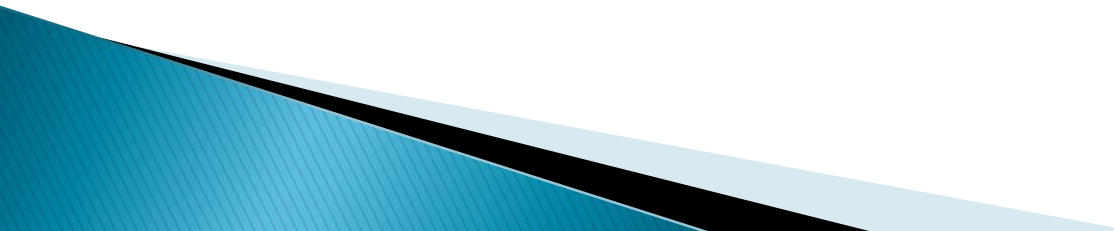
- Subpoena Coverage
- The ACA
- Foreign Bank Accounts
- Indemnification Clauses

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Engagement Letters – Sample clauses

Subpoena Coverage Clause:

In the event we are required to respond to a subpoena, court order or other legal process for the production of documents and/or testimony relative to information we obtained and/or prepared during the course of this engagement, you agree to compensate us at our hourly rates, as set forth above, for the time we expend in connection with such response, and to reimburse us for all of our out-of-pocket costs incurred in that regard.



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The ACA:

The Affordable Care Act (“ACA”) added various new health insurance related mandates, penalties and credits to the Internal Revenue Code beginning in 2014. **Client** acknowledges and agrees that the **Firm** is relying solely on the information and forms provided to it by the **Client** in connection with the preparation of the **tax returns**, in compliance with the ACA, covered by this **engagement letter**. The Firm has been retained only to prepare such tax returns, and has not been engaged to provide any additional advice regarding the eligibility for any credits, estimates of any payments, estimates of any penalties, or compliance with the ACA except in connection with preparation of the **tax returns**. Such services require a separate written engagement letter.

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Foreign Bank Accounts:

If you have derived income from a foreign country, we will use the foreign country income information, which you provide, to calculate any applicable federal or state foreign tax credit or other affected federal or state income tax items. However, you are responsible for meeting any foreign country income tax or other foreign country reporting requirements.

If you own or have authority over a foreign financial account, including a bank account, brokerage account, mutual fund, unit trust, or other types of financial accounts, you may be required to report the account yearly to the IRS (Form 8938 - Statement of Foreign Assets and Form TD F 90-22.1). Under the Bank Secrecy Act, each United States person must file a Report of Foreign Bank and Financial Accounts (FBAR), if 1.The person has a financial interest in, or signature authority (or other authority that is comparable to signature authority) over one or more accounts in a foreign country and 2.The aggregate value of all foreign financial accounts exceeds \$ 10,000 at any time during the calendar year. By way of your signature below, you hereby acknowledge that you agree to comply with these reporting requirements and that you will disclose the necessary information to our office to prepare supporting documentation accordingly. You are also notified to seek additional counsel on this matter by way of our office or the IRS web site at <http://www.irs.gov/>. The report, Form TD F 90-22.1, must be filed on or before June 30 of the year following the calendar year reported. There is no extension of time to available for filing this report and must be filed independently to your individual personal tax return to a separate service center. Account holders who do not comply with the FBAR reporting requirements may be subject to civil penalties, criminal penalties, or both.

Protect Your Firm with Indemnification Clauses

You may ask yourself, "Do I really need to get this engagement letter signed?" That answer is an emphatic, "Yes!" Read on. In case you hadn't heard, Grant Thornton won a \$700,000 settlement from a former client. It seems this client wanted to blame Grant Thornton for its own failure. The client did this after lying to the auditors about internal problems that were previously noted by regulators.

How did Thornton prevail? The firm had inserted an indemnification clause in its engagement letter. The clause stated that if the client made any false representations to Grant Thornton, the client would be responsible for paying legal fees should a suit arise. This was a great idea that now has paid off in court.

Gary H. Barnes, who has been a defense counsel for CPA Mutual since inception of the company, recommends using the following sentence in the paragraph of your engagement letter that describes client responsibilities:

[Client] hereby promises that it will make every diligent effort to maintain proper books and records that accurately reflect its business activities, that it will be completely truthful with [audit firm] and that [audit firm] may rely upon both oral and written statements and responses to questions. [Client] further promises to immediately advise [audit firm] if it becomes aware of any inaccuracy in its record-keeping or dishonesty in any of its business dealings, including its statements to [audit firm]. [Client] acknowledges that the promises are the cornerstone of its relationship with [Audit Firm], are made to induce [Audit Firm] to accept this audit engagement, and that [Audit firm] would not accept this audit engagement without such promises.

The SEC and some states forbid the use of indemnity clauses in engagement letters, but there is no prohibition about spelling out client responsibilities in a way (as above) that might allow the audit firm to later hold the client accountable for breaking its promises. In any event, laws vary from state to state, so it would be wise for you to consult with your firm's counsel in

your state. Barnes also offers the following indemnity clauses that may help limit your firm's exposure to lawsuits. However, keep in mind that the use of some indemnification clauses may be prohibited by certain federal, state and/or local regulations applicable to your engagement. Further, some indemnity language appropriate for nonattest services may not be appropriate for attest services because of the accountant's duty to remain independent or other applicable professional regulations. Before selecting which indemnification clause is right for you, we recommend you consult with your firm's counsel in your state.

Suggested Limitation of Liability Clauses for Engagement Letters:

Damages Limited to Lesser of Actual Damages for Fees Paid

By signing this Engagement Letter, you agree that our liability arising from this engagement shall be limited to the lesser of any actual damages which may have been caused by our acts or omissions, or the amount of the fees which you pay for our services.

Damages Limited to Liquidated Damages Only

By signing this Engagement Letter, you agree that our liability arising from this engagement shall be limited to no more than ___ % of the fees which you pay us for the performance of this engagement.

Limit Damages by Referral to Arbitration

By Signing this Engagement Letter, you agree to submit any dispute concerning the quality or timeliness of our services to final and binding arbitration conducted under The Rules of the American Arbitration Association which pertains to the resolution of claims against accountants. The arbitrator shall have the authority to award compensatory damages, but only for such damages as found to have been directly and solely caused by acts, errors, or omissions committed in violation of our professional duties. The arbitrator (or one of the arbitrators) shall be a certified public accountant with at least _____ years of experience in public accountancy.

Indemnity for Defense Costs In Engagement Letters:

"Loser Pays" Agreement

Should Suit be brought concerning the quality or timeliness of our performance of services in this engagement, it is agreed that the party who prevails shall be entitled to recover its attorney fees. If plaintiff is awarded judgment greater than the largest offer of settlement made within ___ days after the service of suit, plaintiff shall be deemed to have prevailed. Otherwise, defendant shall be deemed to have prevailed.

Agreement To Pay Defense Costs – Breach of Agreement Not To Sue

By signing and returning a copy of this Engagement Letter, the undersigned client agrees that any issued concerning the quality or timeliness of the work in this engagement shall not form the basis for legal action, and agrees not to bring suit. Should suit be brought in violation of this agreement, the undersigned client agrees to pay the legal fees incurred in the defense of such action.

Agreement to Pay Defense Legal Costs-No Prohibition Against Suit

In addition to the fees for services described in this Engagement Letter, the undersigned client agrees to pay an amount equal to any and all legal fees incurred by this firm in connection with this engagement, including (by way of illustration and not limitation) legal fees incurred for advice on any issued relating to this engagement; incurred in connection with any suit to recover the fees due for this engagement; incurred by this firm in responding to any subpoenas or other legal process relating to this engagement; and incurred in the defense of any action brought against this firm.

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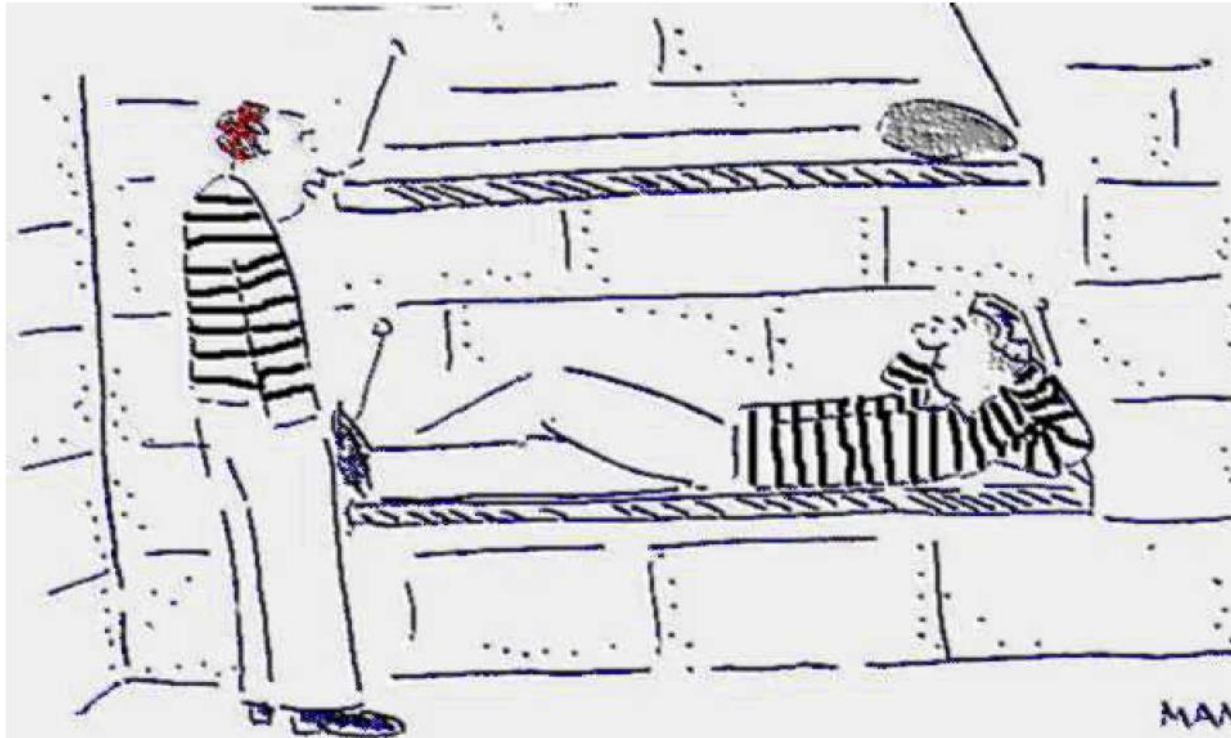
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Recent Headlines:

- “Ex-accounting executive avoids prison in Madoff fraud case” - 07/09/2015
- “Jackson County to sue former SRHS audit firm KPMG” -06/29/15
- “Tax Firm, Atty Hit With Malpractice Suit Over Divorce Advice” 06/09/15
- “SRHS files federal lawsuit against KPMG, audits 'riddled with flagrant accounting errors' (updated)” - 01/07/2015
- “Actor Edward Herrmann says accounting firm owes him \$14.5 million after they mismanaged his money: suit” – 12/11/2014
- “Judge Allows \$1B Malpractice Claim Against PwC Over MF Global Collapse” – 07/11/2014
- “Accountants to Face Malpractice Claims in Alabama’s Colonial Bancorp Failure” – 09/11/2014

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Professional and Firm reputation



The long and short of it was that generally accepted accounting principles weren't as generally accepted as I thought.

February 9, 2001

MAR

5 2001

Mr. Kent Keeling
CPA Mutual Insurance Company
2831 NW 41 Street, Suite E
Gainesville, FL 32606-6690

98077

Insured: [REDACTED] & Company, P.C.
[REDACTED], CPA
Claim No. CPA 980777
Matter: [REDACTED], Inc.

Dear Kent:

Pursuant to our conversation yesterday, please find details of costs incurred in defending [REDACTED] & Company, P.C., and J. [REDACTED], CPA, in connection with the above referenced case. As you know, [REDACTED] Company, P.C., and [REDACTED], CPA, were completely exonerated of the allegations. Obviously, to obtain such a verdict required extensive time, cooperation and preparation of the lawyers and defendants. [REDACTED], P.C., incurred expenses and lost time described below.

Lost time/trial depositions/preparation:

[REDACTED]

101.0 hrs @	110.00	\$11,110.00
236.0 hrs @	90.00	21,240.00
50.0 hrs @	65.00	3,250.00
8.0 hrs @	60.00	480.00
21.5 hrs @	23.00	494.50
15.5 hrs @	30.00	465.00
1.0 hrs @	20.00	20.00
		<u>\$37,059.50</u>

Expenses:

Federal Express charges	\$510.59
Telephone	71.63
Travel expenses	265.65
Parking	70.00
Total Expenses	<u>\$917.87</u>

Total Lost Due to Litigation - \$37, 977.37.

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Insurability and Other Considerations

- Limits
 - Per claim and aggregate
 - Noncumulation of limit provision
 - Prior Acts Date

- Deductibles
 - Per claim and aggregate
 - Defense
 - Indemnity

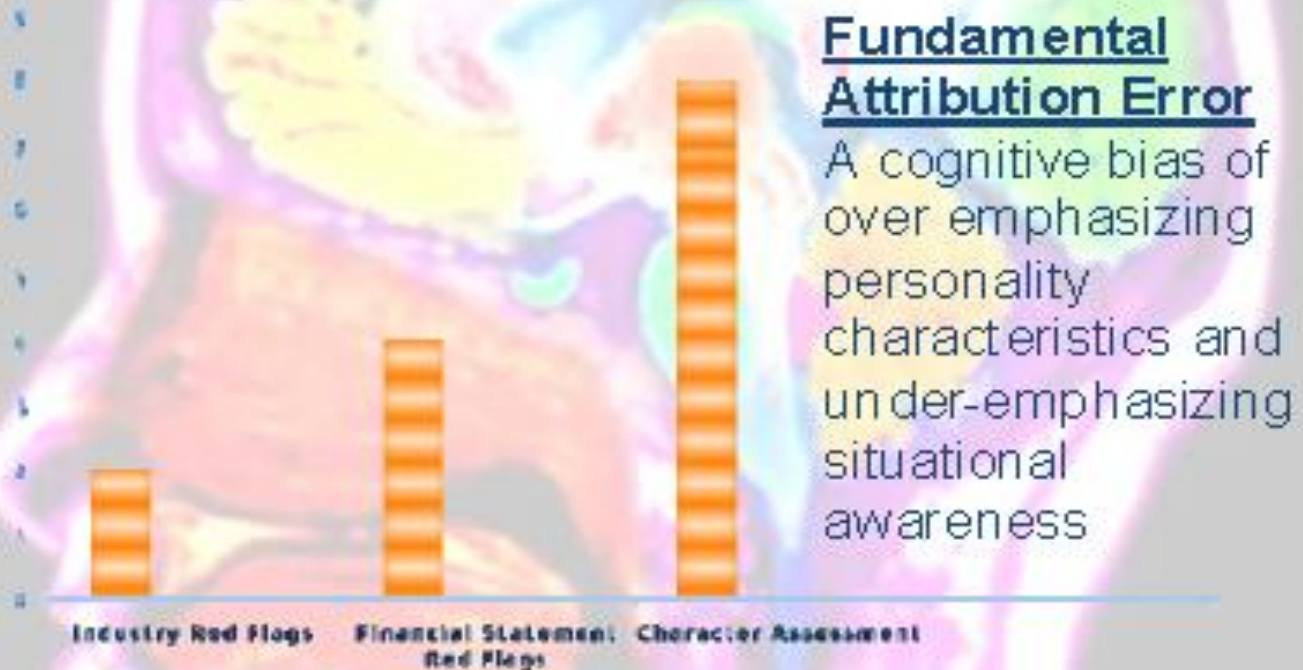
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Insurability



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Study: Auditor Prioritization



Apostelou (2001) ; Wilks and Zimbelman (2004)

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“To be independent, **the auditor must be intellectually honest**; to be *recognized* as independent, he must be **free from any obligation to or interest in the client, its management, or its owners.**

* * *

Independent auditors should not only be independent in fact, **they should avoid situations that may lead outsiders to doubt their independence.**”

AU §220 - Independence

In the Sky Box at
the Super Bowl



Golf outing
with the CEO
and CFO

DATE

December 1991

30 S. Wacker Drive • Suite 1300
Chicago Mercantile Exchange Building
Chicago, Illinois 60605
(312) 454-3027

ACCOUNT NUMBER

02129

Fed. Tax #03-0312496

COMMODITY TRADED

500 S&P Futures

Year End Statement

Scottsdale, AZ 85255

CONFIRMATION & STATEMENT

Net Results for the Year End of 1991

Net Profit/Loss	\$1,768,465.08
T. Bill Income (Acreation)	168,358.25
Other Income	2,773.56

Open Positions \$6,700,000.00 ✓ US T. Bills due March 19, 1992 — Market value —
 Year End Segregated Account Balance \$115,405.31 *higher than est*

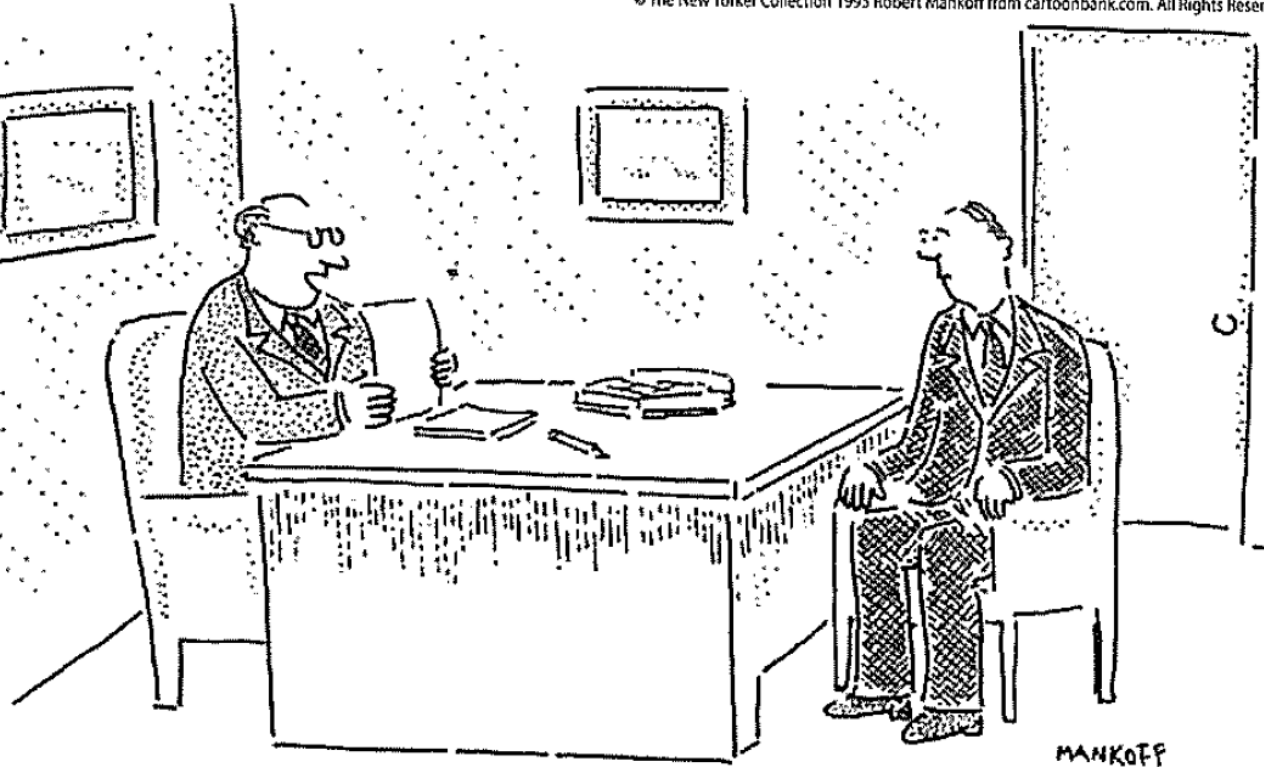
✓ confirmed with [redacted] of [redacted]

RETAIN FOR TAX RECORDS

TERMS AND CONDITIONS ON REVERSE SIDE

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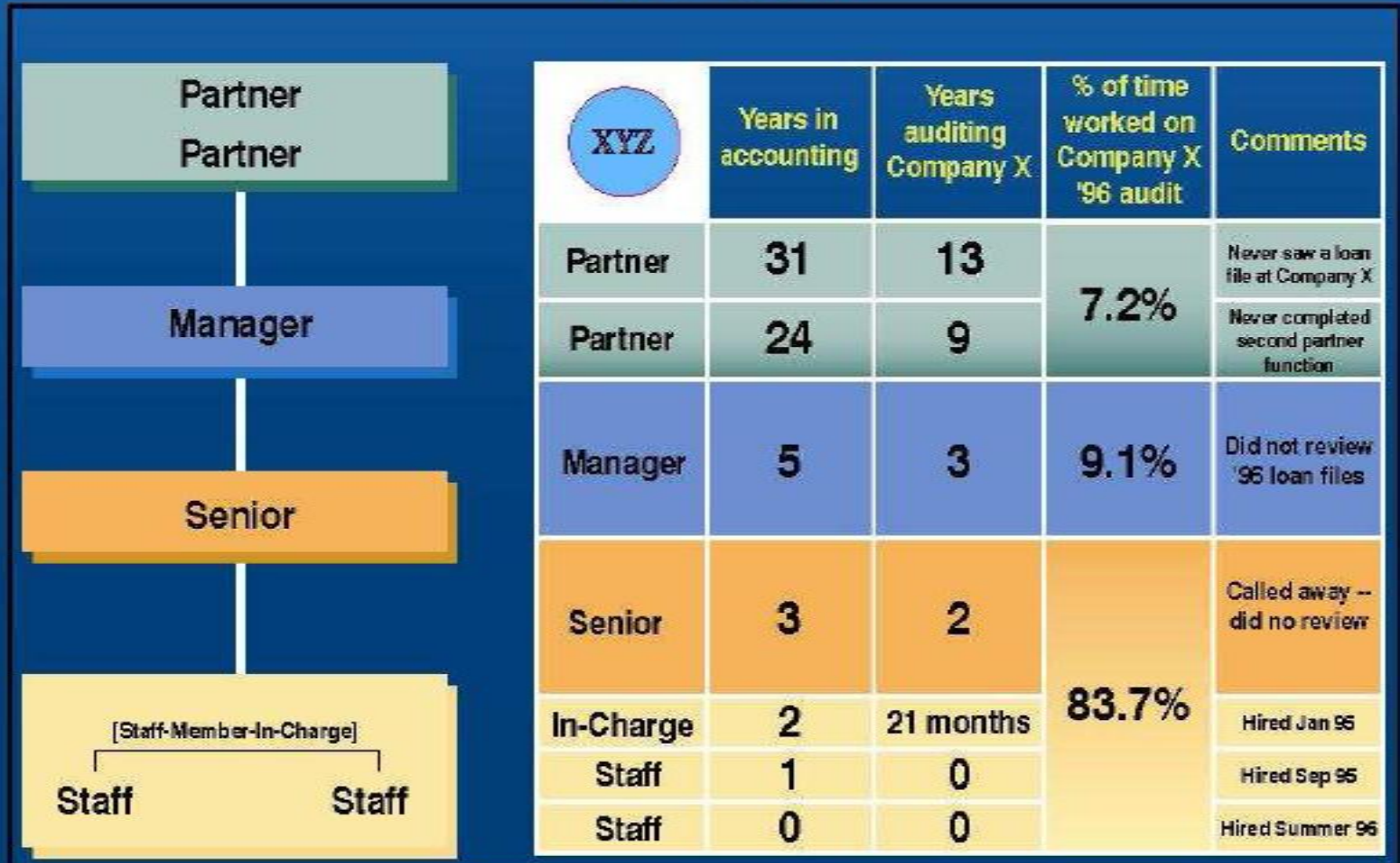
"I gotta tell ya, these embezzlement convictions raise a red flag."



VEGAS 2012

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Audit Team



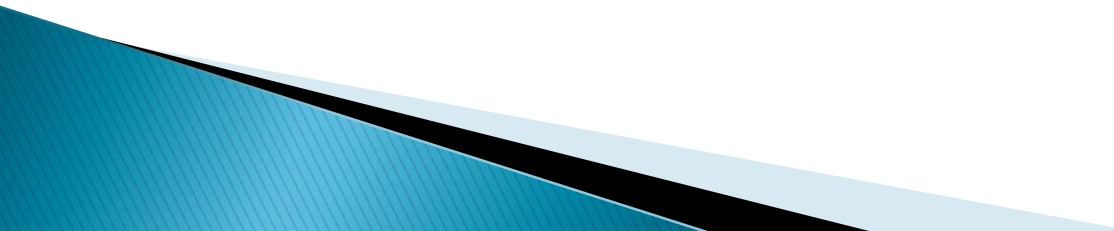
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Case Study: Throw in the Towel

- Claim Report Date – 05/26/2005 Claim Closed Date – 06/29/2007
- Policy Limit - \$1,000,000 Paid: \$86,047
- Deductible - \$5,000
- Audits – Failure to detect Embezzlement
- Lesson Learned:
 Make sure engagement is adequately staffed and supervised.

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MAJOR TAX CLAIMS

- Improper or insufficient advice regarding §1031 exchanges
 - Improper or insufficient advice on estate tax planning and late 706 filing
 - Improper or insufficient advice regarding §475 elections
 - LATE FILINGS
 - Failure to advise on additional state filing obligations
 - Missed credits/deductions after statute of limitations expires
- 

CPA Risk Management – 2015

Money

Claim Stats (05/2015)	Total Pd and Incurred	%	Number of claims/Incidents	%	Average
Audits	\$ 82,462,848	48.34%	517	22.27%	\$ 159,503
Tax	\$ 38,620,666	22.64%	964	41.53%	\$ 40,063
Reviews	\$ 10,619,593	6.23%	95	4.09%	\$ 111,785
Services	\$ 9,751,905	5.72%	325	14.00%	\$ 30,006
Compilations	\$ 7,822,990	4.59%	118	5.08%	\$ 66,297
Investment Advice	\$ 6,707,251	3.93%	58	2.50%	\$ 115,642
SEC	\$ 5,654,801	3.31%	27	1.16%	\$ 209,437
Fiduciary	\$ 2,936,150	1.72%	66	2.84%	\$ 44,487
MAS	\$ 2,851,568	1.67%	21	0.90%	\$ 135,789
Advice	\$ 959,961	0.56%	56	2.41%	\$ 17,142
Support	\$ 897,922	0.53%	46	1.98%	\$ 19,520
Entertainment	\$ 785,000	0.46%	2	0.09%	\$ 392,500
Processin	\$ 394,153	0.23%	20	0.86%	\$ 19,708
Breach	\$ 126,395	0.07%	6	0.26%	\$ 21,066
Totals	\$170,591,203		2,321		\$ 73,499

CPA Risk Management – 2015

Money

Claim Stats PAIDS only (05/2015)	Total Pd and Incurred	%	Number of claims/Incidents	%	Average
Acct Services	\$ 10,846,641	6.36%	102	11.83%	\$ 106,340
Audits	\$ 82,329,256	48.26%	217	25.17%	\$ 379,397
Business Advice	\$ 954,961	0.56%	15	1.74%	\$ 63,664
Disciplinary Matters	\$ 264,204	0.15%	26	3.02%	\$ 10,162
Compilations	\$ 7,810,868	4.58%	49	5.68%	\$ 159,405
Data Processing	\$ 393,396	0.23%	4	0.46%	\$ 98,349
Data Breach	\$ 126,395	0.07%	5	0.58%	\$ 25,279
Entertainment	\$ 785,000	0.46%	2	0.23%	\$ 392,500
Fiduciary	\$ 2,935,209	1.72%	28	3.25%	\$ 104,829
Investment Advice	\$ 6,707,251	3.93%	26	3.02%	\$ 257,971
Litigation Support	\$ 880,367	0.52%	14	1.62%	\$ 62,883
MAS	\$ 2,851,568	1.67%	11	1.28%	\$ 259,233
Reviews	\$ 10,609,503	6.22%	35	4.06%	\$ 303,129
SEC	\$ 5,610,209	3.29%	13	1.51%	\$ 431,555
Tax	\$ 37,486,377	21.97%	315	36.54%	\$ 119,004
Totals	\$170,591,205		862		\$ 197,902

CPA Risk Management – 2015

Money

<u>Audit:</u>		Total Paid and Incurred	Paid Percentage	Claims/Incidents	Claim Percentage
A/R		\$ 1,216,907	1.5%	13	2.5%
GAAP Dept		\$ 876,877	1.1%	9	1.7%
GAAS Dept		\$ 4,559,876	5.5%	31	6.0%
Failure to detect going concern		\$ 25,963,862	31.5%	129	25.0%
imp inv eval		\$ 2,465,481	3.0%	13	2.5%
other		\$ 2,532,840	3.1%	21	4.1%
		\$ 23,273,697	28.3%	204	39.5%
% of Completion		\$ 88,213	0.1%	1	0.2%
Related Party		\$ 2,685,087	3.3%	8	1.5%
Und/Over Liab		\$ 18,666,718	22.7%	88	17.0%
TOTAL		\$ 82,329,558		517	

CPA Risk Management – 2015

Money

Tax	Total Paid and Incured	Paid Percentage	Claims/ Incidents	Claim Percentage
Improper advice	\$6,896,084	18.3%	105	10.9%
Business Prep Errors	\$5,904,183	15.7%	129	13.4%
Pers-Estate Tax	\$5,018,969	13.3%	90	9.3%
Pers - Imp Advice	\$4,916,645	13.1%	91	9.4%
Business Other	\$3,929,780	10.4%	170	17.7%
Pers - Other	\$3,613,367	9.6%	103	10.7%
Pers Prep Errors	\$3,507,989	9.3%	131	13.6%
Pers - Timely Filing	\$1,976,783	5.3%	64	6.6%
Timely Filing Errors	\$1,055,071	2.8%	40	4.2%
S Corp Errors	\$829,705	2.2%	40	4.2%
	\$ 37,648,576		963	

CPA Risk Management – 2015

Case Study: Should have know better

- Claim Report Date – 07/05/2006 Claim Closed Date – 11/07/2008
- Policy Limit - \$1,000,000 Paid: \$90,576
- Deductible - \$10,000
- Compilation and Tax - Embezzlement
- Lesson Learned:
 - CLIENT ACCEPTANCE
 - Have a clear engagement letter outlining terms of engagement and stick to it – get everything regarding the engagement in writing.

CPA Risk Management – 2015

CPAM – CYBER PROTECT

For questions 4-7., if the answer is “No”, coverage cannot be bound as per the terms and conditions of this program. If you desire an indication outside the program, please provide details for the “No” answers.

4. Does your company employ firewall protection? Yes No
5. If your organization stores personal information on portable devices, including laptops, cell phones, PDAs, back-up tapes, USB thumb drivers and external hard drives, is such data encrypted to industry standards? Yes No
- If your organization does not store personal information on portable devices, check here:***
6. Does your company use anti-virus software on all desktops / portable devices and mission critical servers, and is it updated in accordance with the software provider’s recommendations? Yes No
7. Does your company have a formal process to disable or restrict access to information systems upon termination of employees? Yes No