Financial Reporting Evaluation

Gap Analysis:

POS identifies the following Best Practices as efficient and effective control processes for the above risk. Listed for comparison are the controls currently in place, if applicable.

Best Practices:	Existing Control:	Control Gap:
▪ The company monitors loan agreements and other contracts where restrictions over cash may exist.		
▪ The perpetual inventory system segregates consigned, bill and hold, and other non-company owned inventory and tracks inventory pledged as collateral for debt agreements.		
▪ Scrap amounts and variances are tracked and compared between periods to determine whether scrap levels are normal with respect to the manufacturing process.		
▪ Inventory related reserves are developed and evaluated by supervisory personnel who meet the following criteria 1) is experienced with respect to the particular industry, type of inventory and the company, 2) has appropriate and reliable data to perform the required assessment, 3) has an established method for evaluating inventory and related reserves and the method is performed regularly, 4) demonstrates no unreasonable bias with respect to valuation decisions, and 5) performs a comparison of past assessments to actual results and modifies the estimation process accordingly.		
▪ Significant open purchase commitments at prices exceeding current market prices or sales prices are analyzed to determine their impact on the realization of the committed inventory costs.		
▪ Personnel analyzing the adequacy of inventory reserves discuss purchasing, production and sales plans with appropriate members of the purchasing, manufacturing and sales functions to identify inventory valuation issues. External information regarding customers, competition and economic/industry trends is also analyzed to identify potential impact on inventory valuation.		

▪ Unrealized losses on work-in-process are periodically determined by comparing total costs-to-date and estimated costs-to-complete with net sales values. Significant losses are reported to appropriate management and, after approval is obtained, a valuation reserve is recorded.		
▪ The inventory management system segregates inventory items into their respective stages of completion so that inventory is properly classified in management reports and financial statements.		
▪ The accounts receivable system identifies receivables that have been factored, sold or otherwise assigned to third parties and receivables which are collateral for loan agreements.		
▪ Side agreements allowing the return of merchandise or that contain conditions where invoices might not be paid are not allowed by management and are expressly prohibited by company policy.		
▪ Sales returns, allowances and adjustments are authorized / approved by a person with no access to cash or returned goods and who is not associated with sales or shipping activities.		
▪ C00-00091 - Established credit limits, the age of outstanding invoices, and prior purchasing activity are considered before accepting orders from or entering into contracts with customers. Either management or the computer system verifies that credit is available on all customer orders before they are accepted into the accounts receivable system. If an order is rejected, company personnel receive immediate feedback at the point of customer contact.		
▪ The credit department is independent of the sales department.		
▪ Written-off receivables are segregated from active receivables. Individuals who have access to customer payments do not have access to written-off accounts.		
▪ The credit department actively follows up on past-due accounts and collection efforts are documented in a chronological record of each contact.		

▪ Significant past due accounts are periodically reviewed by appropriate senior financial and credit management.		
▪ Write-offs of uncollectible receivables are approved in writing by management in accordance with the company's policies and procedures. Customer accounts receivable write-offs are periodically analyzed to evaluate the effectiveness of credit policies.		
▪ All customer orders that contain deviations from standard terms or conditions or are for inventory that is not regularly stocked are approved by appropriate management personnel.		
▪ Exception reports of inventory sold at a negative gross margin are used to establish net realizable value reserves.		
▪ Allowances for sales returns, credits and doubtful accounts are developed by an employee who 1) is experienced with respect to the particular industry, type of receivables and company, 2) has appropriate and reliable data to developing the necessary estimates, 3) has an established method for developing estimates and the calculation is performed regularly, 4) demonstrates no unreasonable bias with respect to valuation decisions, and 5) performs a comparison of past estimates to actual results and modifies the estimation process accordingly. A supervisor who is knowledgeable about financial reporting requirements reviews and approves the estimates.		
▪ Personnel analyzing the adequacy of allowances for sales returns, credits and doubtful accounts evaluate the reasonableness of current provisions and valuation allowances based on historical and budgeted information (e.g., sales trends, write off trends and days sales in receivable trends).		
▪ For customers billed in advance, billings are recorded as deferred revenue and the components of deferred revenue are reconciled and / or analyzed on a monthly basis. Unusual items are investigated.		

▪ There is a revenue recognition policy that is periodically reviewed by financial management for completeness in light of changes and trends in the company's business and industry and for compliance with generally accepted accounting principles. All revenue recognition criteria are met before revenue is recorded.		
▪ If bill and hold practices or bill or delay payment practices are permitted in the industry, clear revenue recognition criteria are defined and satisfied before revenue is recorded. This criteria includes the recognition by the customer that the revenue process is complete and the risk of inventory loss, if applicable, has passed to the customer.		
▪ Terms of new product/service offerings (i.e., payment terms, right to return, etc.) are reviewed for proper revenue recognition.		
▪ Contract obligations (i.e. mortgage or liens on property) are tracked by the property system so that information needed for footnote disclosure purposes is available.		
▪ Records supporting ownership of property (i.e. title deed, mortgage) are maintained and safeguarded.		
▪ Management assesses environmental risks and each potential environmental liability. Management quantifies the exposure in a timely manner based on consultation with competent internal safety and environmental engineers external experts and legal counsel. Exposure is reassessed on a periodic basis.		
▪ Significant purchases of assets and cost overruns on construction projects are approved by management. In addition, management approves the criteria for determining the prices, vendors, timing and terms of capital acquisitions.		
▪ Management reviews all internal costs capitalized in conjunction with development projects to ensure that only direct, incremental costs of these projects are capitalized (direct labor, interest, engineering, etc.).		
▪ Fixed assets are classified into accounts upon placement into service to ensure proper classification in financial statements.		

▪ Management reviews repairs and maintenance expense and fixed asset additions for significant items that should have been capitalized / expensed in accordance with established policies and procedures.		
▪ The company maintains an effective tracking system which segregates assets / liabilities that are the company's rights / obligations from those that are rights / obligations of / to related parties. Supervisory personnel review all transactions to ensure that related party transactions are identified and segregated.		
▪ Accruals for services received but not yet billed are estimated and recorded and reviewed by supervisory personnel.		
▪ Management periodically reviews and approves the formulas used for period end accruals.		
▪ The accounts receivable system classifies invoices as current or long-term according to date billed or date due.		
▪ For estimates of tax on income, calculations supporting these estimates are developed and evaluated by an employee who 1) is experienced with respect to the tax regulations which apply to the particular industry and company, 2) has appropriate accurate available data to perform the required calculation, and 3) has an established method for performing the calculation which is performed when required by tax regulations.		
▪ Management or a tax advisor reviews current tax statutes (including current tax rates) in order to ensure that appropriate formulas and methods have been applied in determining current and deferred tax assets / liabilities and expense.		
▪ Prior period tax estimates are reconciled to taxes actually paid. The reasons for differences are identified and recorded. The differences are corrected in future tax estimates.		
▪ A provision for deferred income taxes is made and the provision is reconciled to the change in the deferred tax asset / liability. A provision for income takes currently payable is made and the estimate is reconciled to the period-end taxes payable balance.		

▪ The recoverability or the realizability of the ending net deferred tax asset balance is evaluated. Appropriate reserves are recorded if the deferred tax asset/liability balance is not realizable.		
▪ The entity performs a comparison of recorded tax reserves to known reserve requirements plus estimated requirements for contingencies.		
▪ The investment portfolio is reviewed at the end of each period to ensure that investments are properly classified and valued according to the requirements of generally accepted accounting principles.		
▪ The age of work-in-progress inventory is evaluated to determine if old open production orders will be completed and the inventory sold.		
▪ If purchase order documents are used, they are prenumbered and the purchasing and accounting department accounts for all purchase order numbers. Copies of purchase orders are sent daily to the accounting and receiving departments. If purchase orders are electronic, purchase order numbers are assigned sequentially and the purchasing, receiving and accounting departments have on-line access to open and closed purchase orders.		
▪ There are appropriate procedures to ensure an accurate cut-off of related party transactions at period-end. These procedures include 1) the accumulation of related party activity for the period and the review by management of the reasonableness of the activity, 2) the confirmation by the related party of the balance due at the end of the period, and 3) the review of old, outstanding items to identify unprocessed transactions.		
▪ Management periodically reviews compliance with contract terms for significant outsourcing contracts (i.e., payroll, property management, etc.).		
▪ Management periodically reviews the volume and amount of transactions with key customers and vendors for potential disclosure of the concentration of risks.		

▪ Subsidiary systems for each category of fixed assets automatically calculate monthly depreciation and amortization amounts and management periodically tests the accuracy of the calculations.		
▪ Management periodically performs a review of the utilization of fixed assets and the continued allocation of depreciation expense to future periods.		
▪ Management periodically reviews the status of taxing authority reviews and / or audits (e.g., income, sales and payroll related taxes) to ensure that an appropriate provision is made for penalties and additional assessments.		
▪ If orders are accepted that will result in a negative gross margin, an allowance for the excess of inventory and selling costs over sales price is recorded when the order is accepted.		
▪ A written policy for accepting customer orders is approved by management. The policy specifies approved sales terms (i.e., price, credit, delivery, etc.) and the authorization procedures for accepting customer orders.		
▪ Senior non-accounting personnel and executive management review the reasonableness of departmental operating statements and consolidated financial statements on a routine basis. These statements contain financial and non-financial information in sufficient detail to enable managers to evaluate the reasonableness of significant adjustments that record the results of the process of substantiating account balances, make necessary adjustments to reserves and accruals, and record journal entries required to consolidate financial statements. The accounting department responds to any questions about the reported financial results on a timely basis.		

▪ Accounting department personnel who convert business data into accounting information, manage the chart of accounts, close the books, and prepare financial statements and disclosures 1) have an adequate knowledge of generally accepted accounting principles applicable to the industry, 2) consult with experts as new transactions occur or accounting principles change, 3) are sufficiently knowledgeable about the company's business and the industry to identify changes in conditions and 4) demonstrate no undue bias in evaluating the adequacy of the financial statement presentation.		
▪ Significant adjustments that record the results of substantiating account balances, make changes in reserves and accruals and record post close journal entries, are developed and evaluated by supervisory personnel who 1) have industry and GAAP experience, 2) have accurate data to calculate the required adjustments/reclassifications, 3) have an established method for calculating the adjustments/reclassifications, 4) demonstrate no unreasonable bias with respect to the determination of the adjustments/reclassifications, and 5) compare the result to prior calculations for reasonableness.		
▪ Journal entries, account reclassifications, consolidations and financial statement presentations and disclosures are prepared or reviewed by a qualified employee(s) in the accounting department. The documentation is reviewed for completeness and accuracy by a more qualified senior accounting employee(s). Errors or changes identified in the review process are approved by both the preparer and the reviewer. The reviewer does not have so much control over the person responsible for preparation of the documentation as to cause the preparer to create a work product that is known to be in error.		
▪ Reserve levels are reviewed centrally and, if significant, by top management. Reserves are evaluated by the appropriate personnel who are knowledgeable of the related financial reporting objectives and the information required to achieve those objectives. These personnel have the necessary internal and external information to evaluate reserve levels.		

▪ The Company has written policies and procedures in place which are consistent with generally accepted accounting principles (GAAP) for proper capitalization on non-capital costs. Finance managers are responsible for determining the appropriate capitalization policy in accordance with GAAP, communicating the policy to appropriate personnel and for reviewing and monitoring compliance with the policy consistently over time.		
▪ Insurable risks are identified, the level of insurance coverage is determined and the risk transfer specifications are developed. Competitive quotes are obtained for desired insurance coverage. An up-to-date register of risks insured and the amount of insurance coverage is maintained. Risks retained are understood, communicated, monitored and financed internally through profit and loss provisions. Significant insurable risks that are left uninsured are approved by the Board.		