

## FEATURE ARTICLE

# EU SAFE HARBOR RULING - IMPACT ON U.S. COMPANIES

## IN THIS ISSUE

- 2 Affordable Care Act: 2015 New Reporting Requirement -  
Forms 1094 and 1095, What You Need to Know Now!  
  
Key Tax Dates  
  
Social Security Update
- 3 Internal Audit's Critical Role in Company Governance
- 4 EU Safe Harbor Ruling - Impact on U.S. Companies
- 6 Trash or Treasure?  
  
What You Need to Know About Money Market Reform
- 7 Around Schneider Downs
- 8 Professional News

## KEY TAX DATES

**12.15.2015**

**ESTIMATED TAX.** Payment of last installment of 2015 estimated tax by calendar-year corporations.

**1.15.2016**

**ESTIMATED TAX.** Final installment of 2015 estimated tax by individuals, trusts and estates and certain residuary trusts in existence more than two years.

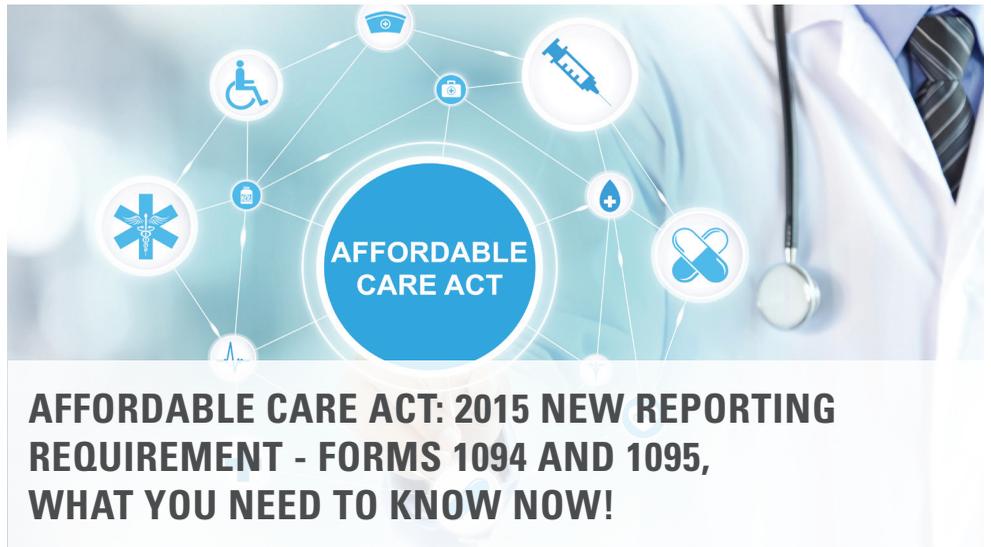
*Continued on Page 7*

## SOCIAL SECURITY UPDATE

The federal government recently announced that Social Security beneficiaries will not receive a cost-of-living increase in 2016. Over the past several decades, Social Security benefits have been automatically adjusted for inflation. The Bureau of Labor Statistics (BLS) recently confirmed that prices for goods and services have actually decreased over the 12-month period ended September 2015, and accordingly, no cost of living adjustment will be made for the approximately 70 million recipients. While prices for food, housing and medical care have increased, they have been offset by drops in energy, clothing and airfare prices. The net impact resulted in about a 0.5% drop in costs in September 2015 from a year earlier.

As a result of no cost-of-living adjustment for Social Security beneficiaries, the methodology that BLS uses to calculate price index has been again called into question. An experimental index for elderly (CPI-E), introduced in 1982, is specifically designed to assess the spending patterns of Americans over the age of 62. This index is more heavily weighted on health care and housing, while lighter on items such as transportation and tuition. Interestingly, this index experienced a rise over the past year, of about a half a percent. Looking at a longer period of time, the BLS states that this experimental price index rose 142.8% (3.1% annual rate) from December 1982 to December 2011, compared with increases of 131.2% and 126.7% for the CPI-U and CPI-W, respectively (about a 2.9% annual rate). The BLS contends it needs to conduct additional research before it could consider using the CPI-E index to adjust Social Security benefits.

*-Tom Harvey, Human Resources Director*



## AFFORDABLE CARE ACT: 2015 NEW REPORTING REQUIREMENT - FORMS 1094 AND 1095, WHAT YOU NEED TO KNOW NOW!

The month of January 2016 will be a very significant month for employers as they tackle the compliance of the Affordable Care Act's (ACA's) new reporting requirement and Forms 1094 and 1095.



*BY KATHY D. PETRUCCI  
TAX SHAREHOLDER*

Effective for the year 2015, the ACA requires large employers that sponsor fully insured or self-insured group health plans, and small employers that sponsor self-insured group health plans, to report to the IRS whether they offer their full-time employees (and their qualified dependents) the opportunity to enroll in health care coverage. The reporting is meant to assist the federal government in enforcing compliance with the employer-shared responsibility and individual mandate provisions under the ACA.

The new reporting requirements are very complex, and the compliance burden associated with preparing the new forms may be overwhelming to many employers. This may be true for all employers, regardless of whether forms are prepared in-house or outsourced. Significant penalties apply for noncompliance, so it is extremely important that employers understand the new forms and ensure they have collected all of the data necessary to accurately file.

In recognition of the many details associated with the new shared responsibility and reporting requirements, Schneider Downs has prepared an electronic whitepaper highlighting the most important details. We invite you to download this whitepaper by visiting <http://www.schneiderdowns.com/employers-guide-new-aca-reporting-requirements>.

Schneider Downs also has a dedicated team of specialists who can provide a wide array of technical services to assist employers with ACA compliance. Schneider Downs ACA services include, but are not limited to:

- Applicable Large Employer (ALE) status determination
- Common ownership/control group analysis
- Consulting on reporting processes and methods
- Consulting on Forms 1094 and 1095 preparation

Our firm understands the compliance burden the ACA has created for employers. Please do not hesitate to contact our professionals for assistance with any of your organization's ACA needs. ■

# TOP STORY

## INTERNAL AUDIT'S CRITICAL ROLE IN COMPANY GOVERNANCE

by Nicole D. Saldamarco



BY  
NICOLE D. SALDAMARCO  
INTERNAL AUDIT AND RISK  
ADVISORY SENIOR MANAGER

Recent demands on business have been shifting more and more toward a three-lines-of-defense model for good governance. Leading risk authorities, regulatory bodies and standard-setters are also recommending and/or mandating three-lines-of-defense methodology for governance and risk management. The three lines of defense are as follows:



These three lines separate the management and/or oversight of risk within several areas of the organization:

- management controls (identify and manage risk),
- various risk control and compliance oversight functions (oversee risks), and
- internal audit (provides independent assurance).

In addition to the internal lines of defense, there are outside or external bodies: external auditors and regulators, who can also be considered a line of defense, however, with a less-extensive scope than the lines addressed above.

Each of these lines of defense plays a distinct role within the overall governance framework. The model also shows that each of the three lines serves the primary stakeholders—senior management and the governing body/board/audit committee. These governing bodies are responsible for setting the organization's objectives and strategies and establishing governance structures to manage the risks associated with objectives of the company.

### Lines of defense

The first line of defense is responsible for maintaining effective internal controls. In the current fast-paced business environment and with lean departments and/or turnover, effective internal controls may not always be followed, and previously established controls may no longer be performed and/or are performed inconsistently.

The second line of defense includes, but is not limited to, a risk management function, a compliance function and a controllership

function. Most organizations will inherently maintain a controllership function; however, not all organizations have the resources for a risk management and/or compliance function.

The third line of defense is an independent and objective function. Internal audit reports to the governing body of the organization and provides the governing body with assurance of various areas within the organization.

### How can this model work in our organization?

People opposed to this model have asserted that internal auditors can be utilized within the second line of defense, in addition to the third line of defense. The opposition comes, primarily, from organizations that do not have the resources to implement this model completely. How do these organizations maintain independence between the second and third lines of defense? Internal audit can take a role in the risk management process by facilitating management's identification and documentation of the organization's risks. This process must be owned by management; however, internal audit can provide insight and knowledge regarding emerging risks and risks in other organizations. If the organization is highly regulated, regulatory audits can be outsourced, allowing internal audit to then ensure that the regulatory requirements are met via review of the applicable regulatory compliance reports.

If your organization does not maintain a second or third line of defense, now is the time to consider it. Internal audit can assist management with identifying known and emerging risks, facilitate the development of a risk management framework and perform audits of internal controls within, not only financial controls, but operational, compliance and other controls as well.

As our clients consider their strategies of growth through an IPO or through acquisition, they are realizing the risks associated with such growth. If internal controls are currently not strong, then (1) as a public company, they will need to make significant changes to comply with Sarbanes-Oxley or (2) their internal control structure may not be able to handle additional transactions associated with an acquisition. The performance of process reviews by internal audit provides management with a thorough understanding of (1) risks associated with the applicable process and (2) where/if there are gaps in their internal control environment (i.e., controls do not exist to mitigate a risk). Internal audit then works with management to recommend leading practices to close these gaps. Additionally, internal audit can provide suggestions on efficiencies within the process, through more efficient manual processes or by a more effective use of automated controls. ■

# FEATURE



*BY*  
**CHRISTOPHER DEBO**  
*TECHNOLOGY ADVISORS*  
*SENIOR MANAGER*

On October 6, the European Court of Justice (ECJ) invalidated the long-standing data transfer agreement, known as Safe Harbor, between the European Union and the United States. The original agreement was necessary to enable U.S. companies to comply with Europe's much stricter data privacy standards when transferring and storing data from overseas. Safe Harbor gave U.S. companies the legal right to store European citizen data in the U.S. so long as they complied with the provisions set forth in the agreement. With the October 6 ruling, however, many U.S. companies are scrambling to make sense of it and determine their exposure to European privacy laws and potential litigation.

## **Why Was the Agreement Invalidated?**

Unlike the U.S., where data privacy is addressed at the industry (e.g. HIPAA, PCI) or state (e.g., Ohio Revised Code 1349.19) level, Europe has universal

# EU SAFE HARBOR RULING - IMPACT ON U.S. COMPANIES

by Christopher Debo

standards for data privacy. In essence, European citizens expect a certain right to privacy and must give consent for their data to be stored or processed. Following the Edward Snowden incident in 2013, where the data-gathering practices of the U.S. National Security Agency were leaked to the public, an Austrian citizen filed a complaint in the High Court of Ireland, stating that “the law and practice of the United States do not offer sufficient protection against surveillance by the public authorities.” The case was eventually referred to the ECJ, which agreed: it found that the current EU Safe Harbor framework did not require all organizations to comply with it, and therefore was insufficient.

## Is Your Company at Risk?

If you do not do business in Europe or store electronic information that must be transferred from European servers, you most likely are not impacted. However, if you previously had to comply with Safe Harbor or, perhaps, were not aware that you had to, the court’s ruling could have a significant impact on your operations. Without a binding agreement that permits the transfer of data from Europe, your organization could be in violation of European law, which could expose you to legal action if not addressed. If you are unsure about the European laws governing storing of electronic information, it is best to first start by performing an internal inventory of information trading partners. Your technology department will most likely know if data integration points exist with sources outside of the United States.

## What to Do if Impacted

If you determine that Safe Harbor was applicable to your operations, do not fret: there are alternatives to completely shutting down data-sharing with European trading partners. The European Commission (the group responsible for establishing data transfer regulations) has identified several means by which U.S. companies can continue to legally transfer and store EU data. Unlike Safe Harbor, however, these alternative means can be



complex and must be instituted on a case-by-case basis with each EU organization that data is transferred from:

1. **Contractual Solutions** – Companies can use model contractual clauses approved by the Commission.
2. **Binding Corporate Rules (BCRs) for Intra-Group Transfers** – Internal policies adopted by multinational organizations and formally approved by the European Data Protection Authorities.
3. **Derogations** – Under EU Data Protection Directive 95/46/EC, data transfers are also permitted in certain circumstances when informed consent is in place (e.g., in order to book a hotel room in the U.S.).

Currently, these stipulations are the only legal means by which a U.S. organization can comply with EU data privacy laws, and will serve as the framework for compliance until a new agreement can be reached.

## Safe Harbor 2.0

One bright spot to come out of the EU in recent weeks is that the European Commission has stepped up negotiations with the U.S. Department of Commerce on establishing a new framework for legal data transfers. A press release from the Commission on November 6 indicated that it plans to “conclude these discussions within three months.” Undoubtedly, the new framework will impose much stricter rules on U.S. companies, but it will nonetheless lift the veil of uncertainty that will continue to persist in the interim. ■

# NEWS YOU NEED



BY MARC A. BRDAR,  
BUSINESS ADVISORS  
SENIOR MANAGER

## TRASH OR TREASURE?

*Diversions of scrap to processing facilities can result in fraud losses*

You have probably heard the adage, "One man's trash is another man's treasure." Unfortunately, we have recently seen instances where a company's trash (scrap) has been converted to treasure (cash proceeds) by and on behalf of rogue employees. Due to lack of established internal controls and management oversight, some companies have, regrettably, lost hundreds of thousands of dollars due to scrap-related fraud schemes perpetrated by employees.

Several key controls that can significantly reduce fraud risk relative to diversion of scrap include:

- Establishment and communication of a formal scrap policy to employees (especially, line management, shop floor and transportation employees).
- Selection of reputable, single-source scrap processors (by geographic area) that have automated processes (i.e., drivers' license swipes, digital photographs and electronic storage of key load data).
- Requirement for all freight trucks to be weighed upon entry and departure to/from facilities.
- Maintenance of truck logs that summarize all inbound and outbound movements of materials, supplies and goods.
- Installation of security cameras in the shipping, receiving, entrance and exit areas (at a minimum) of processing and storage facilities.
- Installation of GPS tracking devices on all company trucks which can be monitored in real-time.

These suggested controls are not all-encompassing, but are a good starting point to help to ensure that a company is not a victim of scrap-related fraud.

Schneider Downs can assist you by assessing your enterprise's fraud exposure or investigating fraud allegations. To learn more about how Schneider Downs can help, please contact Marc Brdar, Senior Manager, at (412)-261-3644. ■

## SCHNEIDER DOWNS WEALTH MANAGEMENT ADVISORS, LP QUARTERLY COLUMN



BY  
JOHN A. ANKE, CIMA®  
INVESTMENT RELATIONSHIP  
MANAGER, SCHNEIDER DOWNS  
WEALTH MANAGEMENT ADVISORS, LP

## WHAT YOU NEED TO KNOW ABOUT MONEY MARKET REFORM

The financial crisis of 2008 continues to spur government regulation. Early in the financial crisis, it became apparent that money market reform was needed when some money market funds broke their \$1.00 net asset value. The unexpected result created losses from what had historically been viewed as one of investors' safest investments.

Money market reform started in 2010 when the SEC focused on making money market instruments less risky. The amendments adopted in 2010 were designed to reduce interest rate, credit and liquidity risks of the portfolios. The amendments stopped short of addressing the structural and operational procedures that needed reform. As announced in 2014, the SEC has now created amendments to address the structural and operational procedures to help protect investors.

The changes are related to the classification of the fund. Moving forward, the SEC will classify money market funds as retail, government or floating net asset value funds ("NAV").

- **Retail** classification is limited to "natural owners" or individuals, thus eliminating ownership by an institution or other types of organizations.
- **Government** money market funds have 99.5% or more of their total assets in cash, government securities, and/or repurchase agreements that are collateralized by cash or government securities.
- **Floating** net asset value funds

are primarily institutionally managed money market funds.

Most investors will likely use retail classified funds in their accounts, whether they are located in personal accounts or retirement plans. They will provide for a stable taxable or tax-exempt cash vehicle that should maintain the \$1.00 NAV (Net Asset Value). The regulations permit new redemption gate features to protect retail money market investment strategies in the event of a large run of investors liquidating the fund. The flexibility to use gate procedures provides stability for funds to maintain their \$1.00 NAV.

The only way to avoid redemption gates or liquidity restrictions is to use a Government classified money market fund. The Government classification does not permit the redemption gate and maintains an NAV of \$1.00. Most custodians and retirement plans will use the Government or Retail funds as a default option.

Floating NAV funds will react differently. As the name implies, the NAV of these funds will fluctuate based on pricing of the underlying investments. Typically, these funds will take a little additional risk to increase yield of the fund. Investors should

*Continued on Page 7*

**ADDITIONAL TAX DATES**

CONTINUED FROM PAGE 2

**BENEFIT PLAN DUE DATES**

Forms 5500, Annual Return/Report of Employee Benefit Plan.

Year-End	Due Date	With 5558 Extension
2/28	9/30/15	12/15/15
3/31	11/2/15	1/15/16
4/30	11/30/15	2/15/16

Processing of corrective distributions relative to failed 401(k) ADP/401(m) ACP discrimination testing, so as to avoid a 10% employer-imposed excise tax.

Year-End	Due Date
9/30	12/15/15
10/31	1/15/16
11/30	2/15/16

**MONEY MARKET REFORM**

CONTINUED FROM PAGE 6

expect the funds to appreciate or depreciate a few pennies, which will create gains or losses on the investment. The funds will also permit redemption gates to protect investors in the event of large redemptions.

It is important to understand that the reform was created to help protect investors' interests in a turbulent market environment. We encourage you to review communication materials, or speak with your investment advisor about cash vehicles in your accounts. ▀

*Material discussed is meant for general illustration and/or informational purposes only and it is not to be construed as investment, tax or legal advice. Although the information has been gathered from sources believed to be reliable, please note that individual situations can vary. Therefore, the information should be relied upon when coordinated with individual professional advice.*

# AROUND SCHNEIDER DOWNS



Raymond W. Buehler, Jr., Chairman, was awarded the Fred Rogers Good Neighbor Award from Junior Achievement of Western Pennsylvania. The award recognizes and honors individuals who have made outstanding contributions to business, social and cultural assets of the region. Pictured left are colleagues and family of Ray at the ceremony.

On October 21, 2015, 34 members of the Schneider Downs new-hire class of 2015 met at Camp Guyasuta in Sharpsburg, PA to complete a challenge course. Activities included initiative games, trust events and the ropes course, focusing on both teamwork and individual efforts.



Fall is the time for the annual Schneider Downs employee and alumni golf outings! The Pittsburgh outing was held in September at Butler's Golf Course in Elizabeth, PA. Winners of the cup were John Null, Dave Martin and Chuck Oshurak (pictured l-r, top). The Columbus office held its first annual outing this year at Safari Golf Club in Powell, OH. The inaugural victors were Carl Scharf, Chaz Hixen (alumnus), Natalie Donovan and Zach Kramer (pictured l-r, bottom). Congrats to all the winners!

The annual Jingle Bell Run/Walk for Arthritis is held in many cities around the country. This year, employees from both Pittsburgh and Columbus participated in the charity runs in their respective cities. And yes, even though you see shorts in those pictures, it really was December.



# ON POINT

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## PROFESSIONAL NEWS

**RAYMOND W. BUEHLER, JR.**, Chairman, was awarded the Fred Rogers Good Neighbor Award by Junior Achievement of Western Pennsylvania (see Page 7 for more details).

**DANIEL J. DESKO**, IT Audit and Risk Advisory Services Senior Manager, and **WILLIAM M. DELLER**, IT Audit and Risk Advisory Services Senior, received their Certified Third-Party Risk Professional (CTPRP) certifications.

**MARY D. RICHTER**, Tax Shareholder, and **MARK E. COBETTO**, Tax Shareholder, attended PrimeGlobal's 2015 World Conference in Paris, France. Mary was also featured in the November issue of *Whirl* magazine, discussing her leadership role in the Women's Leadership Council of United Way of Allegheny County.

**EUGENE M. DEFRANK**, Audit Shareholder, attended the AGC/CFMA 19th Annual Conference in Las Vegas, NV.

**SHANE M. GASTECKI**, Audit Manager, joined the Board of Conservation Consultants, Inc. Shane also spoke at the PICPA Southwestern Chapter Practitioners Conference on October 16 regarding the Nonprofit Financial Reporting Model changes.

**DENNIS R. MOWREY**, Tax Director, was appointed to the National Board of Directors for the Arthritis Foundation.

**JAMES B. YARD**, Internal Audit and Risk Advisory Services Shareholder, and **ERIC M. WRIGHT**, Technology Advisors Shareholder, attended the Pennsylvania Association of Community Bankers (PACB) Annual Convention in Colorado Springs, CO. Eric also presented during the conference on the topic of 10 Questions Your Board Should Be Asking About Cybersecurity.

**SUSAN M. KIRSCH**, Tax Shareholder, and **EUGENE J. LOGAN**, Tax Shareholder, attended the 2015 National Association of College and University Business Officers (NACUBO) Tax Forum in Chicago, IL. Gene was also appointed to the Great Lakes Region Board of Directors for the Arthritis Foundation, where he leads the Budget and Finance Committee.

**MICHAEL J. STREZA**, ICS Manager, was elected to a two-year term as a board member of the West View Ross Athletic Association.

**CHRISTOPHER DEBO**, Technology Advisors Senior Manager, spoke to the Ohio Association of Government Accountants on the topic of Successfully Leveraging Data for Decision Making. He also spoke to the Ohio Society of CPAs on Data Warehouse Optimization Risks and the Ohio Bar Association on Adding and Conserving Value for Your Clients - Managing Cybersecurity Threats.