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Wealth Management.

Can We Sign This? Third Party Verification Requests



Third Party Verification Requests

- Common requests include:
 - Loan application verifications
 - Self-employment status
 - Regulatory or contractual compliance
 - State licensing
 - State or vendor prequalification
 - Controlled group verifications for health insurance
 - Certain cost certification forms
 - Requests related to solvency





What's the risk?

- Providing assurance must be done in a form allowed by professional standards
- Attest standards prohibit us from giving any assurance related to solvency
- Information was not actually verified (or may not be verifiable)
- GAAP information is requested in a non-GAAP compliant format / presentation
- 3rd party request is for non-GAAP basis but our services are GAAP basis



What's the big deal?

#1 Providing assurance must be done in a form allowed by professional standards:

- Audit
- Review or compilation
- Attestation – AUP or Examination



What kind of assurance engagement is this?

Attention: Bidders

Subject: Request for Proposal (RFP) Number: 101314-VA

Dear Bidders,

Lockheed Martin Corporation, acting by and through its, Information Systems & Global Services VA offices (LM IS&GS) requests your company to submit a Labor Hour quotation for the procurement of the services listed in the Attachment 2 - SOW. The Lockheed Martin Terms and Conditions are in

As a part of our due diligence, all subcontractors must verify that it has an approved accounting/billing system. Please provide verification of your accounting/billing system by providing one of the acceptable documents listed below:

Acceptable documentation of accounting system and billing system adequacy:

1. [A copy of the DCAA/ Customer accounting and billing systems adequacy letter.](#)
2. A letter from a Certified Public Accountant certifying that your company's accounting and billing systems can track and account for costs and billings in accordance with FAR Parts 30 and 31.
3. A letter on your company letterhead explaining that your company's accounting and billing systems and certifying the adequacy of your company's accounting and billing systems to track and account for costs and billings in accordance with FAR Parts 30 and 31.
4. A letter on your company letterhead explaining that your company's accounting and billing systems and certifying that your company's accounting and billing systems can adequately track costs and billings.



What kind of assurance engagement is this?

From: "Gordon, Janice S" <Janice.S.Gordon@hud.gov>

Date: October 24, 2014 at 7:50:10 AM EDT

To: Mark I

Subject: RE: Jacksonville HUD Centralized Accounting Request

Thank you for your recent email regarding the use of a Centralized Accounting system for the Florida properties. After a review of your submission we have found that you have not submitted required supporting information.

What you have submitted is a list of statements numbered 1 thru 9, that address the questions that must be addressed on the check sheet that we use. The statements are not on letterhead and do not indicate who is making the statements.

What we need is documentation that support your statements which could include a letter from your independent auditing firm that certifies each of the specific requirements have been met, for each of the properties involved. The auditing firm statement must be signed by a representative of the firm and on their letterhead.

Also, address the procedures that will be taken if there is ever insufficient funds available to the property to pay its bills.

If you have any further questions regarding this matter, please do not hesitate to contact me.

Janice S. Gordon, Senior Project Manager
U. S. Department of Housing and Urban Development



What's the big deal?

#2 Attest standards prohibit us from giving any assurance related to solvency





Common Requests Related to Solvency

- Verify that fair value of assets exceeds liabilities
- Confirm that funds withdrawn from a business will not effect the financial health of the business
- Provide statement that client is not insolvent at the time debt is incurred
- Confirm that the client has ability to pay debts
- Verify that capital is sufficient



Have you ever been in this scenario?

From: John Anderson [<mailto:JohnA@ABCDevelopment.com>]

Sent: Thursday, June 29, 2017 1:15 PM

To: James Partner

Subject: Pinnacle Plaza

Hey Jimmy,

Wondering if you would provide something on Plante & Moran letterhead, which we need for a grant we are seeking. The attached is a page in the application which is asking for a copy of the owner's personal financial statements (which we are not going to give) or a statement from our CPA that states she is "good" for the \$500,000 in cash equity shown in the Development Sources. I included her PFS from y/e as a reference.

Here's what I was thinking, subject to whatever other edits/disclaimers you have to put in there: "Plante Moran has been involved in tax preparation for Jane Owner personally and all related pass-through entities, including Pinnacle Plaza for many years. We are familiar with Jane Owner's personal financial situation as well as the financial strength of her entire real estate portfolio. The cash equity from owner in the attached Development Budget is well within the capacity of Jane Owner personally and/or all other entities as a whole." Let me know ASAP – we need to submit tomorrow morning.

Thanks,

John Anderson, CFO

ABC Development



Have you ever been in this scenario?

From: betty.cfo@clientcompany.com
Sent: Monday, December 2, 2014 2:18 PM
To: jim.allstarclientserver@plantemoran.com
Subject: CPA certification - URGENT!

Importance: High

Jim –

We're getting ready to submit a bid for a very large important job. The team just told me that we need to submit some financial info, and it needs to be certified by our CPA.

See the form attached. I completed the balance sheet info based on our most recent audit report. Please sign and send this back to me ASAP (by end of the day at the latest).

Thanks –

Betty

CFO, Client Company, Inc.



What's the big deal?

- Information was not actually verified (or may not be verifiable)
 - Tax clients
 - Nonfinancial information
 - Information from a subsequent period
 - GAAP information is requested in a non-GAAP compliant format / presentation
- or-
- 3rd party request is for non-GAAP basis but our services are GAAP basis



Does it comply with GAAP and GAAS?

We have audited the accompanying Contractor's Financial Statement [page 3] of _____ at _____. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion



Does it comply with GAAP and GAAS?

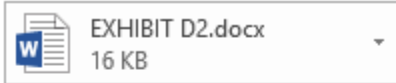
In our opinion, the Contractor's Financial Statement [page 3] referred to above presents fairly, in all material respects, the financial position of _____ at _____ in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purposes of forming an opinion on the financial statement taken as a whole. The schedules on pages 4 through 13 are presented for the purposes of additional analysis and are not a required part of the financial statement. Such information has not been subjected to the auditing procedures applied to the financial statement, and, we express no opinion on it.



Cost Certification State Form Example

Have you ever been in this scenario?



CPA - Not sure if you helped on the 10% Carryover Allocation for Project. Could you help with getting the attachment signed? Thanks.

Thanks,
Client

EXHIBIT D, Page 2 COST BASIS CERTIFICATION	
I certify that I have examined all eligible costs incurred, as listed on the Cost Basis Document, with respect to Project. Based on this examination, it is my belief that Partnership has incurred more than 10 percent of its reasonably expected basis in Project pursuant to Section 42(h)(1)(E)(ii) of the Internal Revenue Code.	
Signature _____	Date _____
Print or Type Name of Certified Public Accountant or Attorney	
Address	
Telephone Number	



Cost Certification State Form Example

- Potential Issues – GAAS
 - Performed an audit, not an examination
 - “Examined **all** costs” – an assurance engagement includes testing a sample of costs, not all costs
- Potential Solutions
 - Adjust the wording of the certification for services provided



Hey Betty. Sorry to have to tell you this, but we're not going to be able to sign that.

Jim, that's a big problem. This job is really important to us. And the customer told us all the other subs have submitted their CPA certifications. You better figure this out!





How can we get to YES?

- Consider type of information
- Assess risk considerations
- Determine type of engagement





How can we get to YES?

- Explore alternatives
 - Is assurance really necessary?
 - Could client just provide the requesting party with supporting documentation to satisfy need for “verification”?
 - What would we need to do to verify – how could we mold into an allowable assurance engagement?
 - May require the requesting party to be flexible on format of information they receive
- Factual statements vs. broad assertions



How can we get to YES?

- AICPA has Third-Party Verification Toolkit for CPAs (online... you can google it)
 - Our entire profession is dealing with this issue
 - AICPA has done some advocacy to help resolve the conflict, particularly with banking regulations



Cost Certification State Form Example

- Concluded to adjust the wording to allow us to sign
 - Removed "all"
 - Changed "examination" to "audit"
Original request

Acceptable

EXHIBIT D, Page 2 COST BASIS CERTIFICATION	
I certify that I have examined all eligible costs incurred, as listed on the Cost Basis Document, with respect to Project. Based on this examination, it is my belief that Partnership has incurred more than 10 percent of its reasonably expected basis in Project pursuant to Section 42(h)(1)(E)(ii) of the Internal Revenue Code.	
Signature _____	Date _____
Print or Type Name of Certified Public Accountant or Attorney	
Address	
Telephone Number _____	

EXHIBIT D, Page 2 COST BASIS CERTIFICATION	
I certify that I have audited eligible costs incurred, as listed on the Cost Basis Document, with respect to Project. Based on this audit, it is my belief that Partnership has incurred more than 10 percent of its reasonably expected basis in Project pursuant to Section 42(h)(1)(E)(ii) of the Internal Revenue Code.	
Signature _____	Date _____
Print or Type Name of Certified Public Accountant or Attorney	
Address	
Telephone Number _____	



Cost Certification State Form Example

- Another potential solution when we are unable to sign a particular certification
 - We can reference to the audit opinion in the report letter rather than signing

Certification of the Auditor: Auditor hereby certifies, to the best of his/her knowledge, that the development met the rehabilitation expenditure threshold defined by the Department in the QAP applicable to the year of original award. Auditor further certifies that the expenditure threshold as of the elected placed in service dates reflected herein and in Exhibit 9A fall within the parameters outlined in Internal Revenue Code §42(e).

Plante & Moran, PLLC
Auditor Firm Name

See Audit Opinion on Pages 1-2.
Signature

Title

Date



Sometimes, we just can't sign it

- Timing may be a factor
- Information may not be verifiable
- The requesting party may not accept what we deem is an acceptable alternative
- Cannot give assurance on matters related to solvency

