

TRENDLINES

YEAR END 2008

PRIME TIME

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PRIME TIME

TIGHTEN INTERNAL CONTROLS WITH A YEAR END FRAUD REVIEW

Strategically speaking, year end is typically a busy time for business owners. Among the many things on your mind may be (or, at least, should be) tax planning. After all, you don't want to give Uncle Sam any more than you absolutely need to.

But do you know who you should make sure doesn't get any of your money? Fraudsters. Yes, year end is also a prime time to review your operations for ways that unscrupulous employees or external criminals might be able to exploit weaknesses in your internal controls and steal your hard-earned dollars.

Look for clues

First and foremost, don't think you have to undertake a year end fraud review alone. Enlist the help of a CPA to perform an internal control or forensic audit of bookkeeping records, invoices, bank statements, payments, journal entries, financial reports and other records with an eye toward identifying doctored, forged or missing documents.

Together, you can examine some of the key areas of your company to look for wrongdoing. Your books, for instance, are a major information source. When stolen assets aren't covered by a fictitious entry, the books may be out of balance. An end-of-year inventory of merchandise can bring missing assets to light. And monthly cash reconciliations are highly informative as well.

In addition, be wary of unusual numbers of journal entries posted near the end of any accounting period (monthly or quarterly). They could be adjustments made to cover theft or misappropriation.

Accounts receivable and payable will need a thorough going-over, too. When customer payments are misappropriated, fraudsters may adjust receivables to cover the shortage. Similarly, adjustments to payables may signal phony billing schemes.

Dig deeper

After reviewing these key areas (and others), isolate any items or circumstances that seem suspicious. Then start digging deeper. Don't assume, for example, that the first employee you find cooking the books is the only one



exploiting the gaps. Fraud schemes often involve more than one person and can be committed by people outside the company or by a combination of employees and outsiders.

Of course, you want to be discreet and cautious. Genuine errors or an ill-designed process may be at fault for accounting irregularities. And by catching such mistakes, and correcting them with training or procedural improvements, you can not only deter fraud, but also improve your operational efficiency.

Think about next year

As your fraud review winds down, look for ways to make this process a little easier next year end. Start by assessing the effectiveness of your internal controls and looking for ways to tighten them. A control that may have been effective two years ago or that was appropriate for one job may not meet your organization's changing needs or address the risks associated with other jobs.

For example, the monthly bank reconciliation should be performed by a person who has no responsibilities

concerning the writing or issuing of checks or for depositing cash. If one person has been performing this task for a long time (perhaps more than two years), it may be time to give the job to a different employee.

Additionally, determine whether you're gathering enough data about fraud during the year. If you haven't already established a system for employees, vendors, customers and the public to report suspicious activities, think about doing so. Confidential hotlines can cut fraud losses substantially.

Don't expect a refund

If, come tax time, you overpay Uncle Sam, you'll likely get your money back eventually. Not so with fraudsters: Once they get ahold of your money, those dollars are usually gone for good.

That's why taking some time now, at year end, to look back — and look ahead — for ways to catch and prevent fraud can really pay off. Of course, fraud detection should be a year round activity as well. □

DON'T LET YOUR 401(k) GET LOST IN THE SHUFFLE

PAY HEED TO YOUR RETIREMENT PLAN FOLLOWING A JOB CHANGE

Even under the best of circumstances, changing employers involves a lot of details and stress. Amongst all the challenges, one of the things that can get lost in the shuffle is your 401(k) plan account.

When it comes to your 401(k), your best bet is usually to roll over your plan into either a 401(k) at your new employer or your IRA. Why? Because keeping the number of retirement accounts you have to a minimum makes it easier to keep track of and invest your money, and you may be ready to cut ties with your former employer.

New 401(k) vs. IRA

Which is better — a new 401(k) or an IRA — depends on your particular needs. If you don't have an IRA and intend to participate in your new employer's 401(k) anyway, rolling over your account into the new 401(k) is the more streamlined option because you'll have only one account to keep track of.

But an IRA offers an important advantage: It provides you with more flexibility. If you want to own a specific mutual fund or security in your retirement account, you can find an IRA custodian that will allow you to do so.

Unlike an IRA, a 401(k) limits you to the options your employer chooses to make available to you. Some plans offer a broadly diversified collection of strong-performing



Can I do nothing?

Let's say that, in the hustle and bustle to settle into a new job, you do forget to roll over your 401(k). And when you finally get around to thinking about that old account, you just can't summon the energy to do anything with it. Can you do nothing? Yes — as long as your account has at least \$5,000 in it, by law you can't be forced out of the plan.

There may even be some good reasons to leave your account where it is. For instance, your old plan may offer a particularly good lineup of investment choices, and mutual fund fees may be less than you could do on your own. Or perhaps your new employer's plan is significantly inferior to your current one, or restricts eligibility for participation to employees with at least one year of service.

It's important to know the option to leave your 401(k) behind does exist. Just bear in mind that, more often than not, you're probably better off rolling over your retirement funds — or at least strongly considering it.

funds. Others are limited to only a few funds with middling track records of performance. If you're not sure about the quality of the investments offered by your new plan, your financial advisor can help you evaluate it.

Of course, IRAs have their downsides as well. For one, they typically charge investors modest administrative fees, while employers typically pick up the costs involved with a 401(k) plan — though more employers are starting to pass some fees along to employees. Also, IRAs can't allow loans, while 401(k) plans can (and some do). On the other hand, IRAs offer more opportunities for penalty-free withdrawals before age 59½ under certain circumstances.

How to do it

Whether you decide to roll over your account into your new employer's 401(k) or an IRA, a "direct" rollover is almost always best.

Under this method, you never take formal possession of your funds. The administrator of your old 401(k) plan transfers your assets directly to your new 401(k) administrator or IRA custodian. In some cases, the check will first be sent to you to hand over to your new administrator. As long as the check isn't made out to you personally, this is still considered a direct rollover.

By contrast, an "indirect" rollover entails your taking personal possession of your assets before ultimately rolling them over. In this case, if you don't redeposit

the funds in your new employer's 401(k) or your IRA within 60 days, it's considered a distribution, and you'll owe income taxes and, generally, an additional 10% early withdrawal penalty if you haven't reached the age of 59½.

What's more, your old employer will be required to withhold 20% of the distributed amount for federal income taxes, even if you're doing a tax-free rollover within the 60-day time limit. If you wind up having withholding, don't forget to replace this amount when you roll over the funds within 60 days to avoid additional taxes and penalties. You can then receive a refund for the withholding when you file your tax return.

Why not to cash out

There may be a few instances when you need to consider cashing out your 401(k) instead of rolling it over. A dire medical or financial emergency could warrant such a move. But cashing out should be avoided if at all possible.

For starters, tapping your retirement funds too early accelerates tax liability and can subject you to stiff penalties. You'll owe federal income taxes — and, depending on where you live, maybe state and local income taxes as well — on the withdrawal, as well as an additional federal penalty of 10% if you're younger than age 59½ and don't meet any of the exceptions. (One key exception: If you're older than age 55 when you leave your job, you may be exempt from this penalty. Ask your tax advisor.)

Tapping your retirement funds too early accelerates tax liability and can subject you to stiff penalties.

Moreover, your employer also is generally required to withhold 20% of your distribution as a down payment on your federal income tax bill. In addition, by withdrawing funds you'll not only reduce the size of your nest egg, but also lose its tax-deferred growth potential. The combined effect of significant taxes and penalties and lost appreciation potential going forward can be enormous.

Your new present

When moving on to greener pastures, it's easy to lose sight of things. But your 401(k) probably shouldn't be one of them. As you settle into your new present, be sure to spend a little time thinking about your future retirement. □

3 BUSINESS FINANCING OPTIONS IN A TIGHT CREDIT MARKET

In any economy, cash is king. But when the economy makes life a little more difficult, as it has been doing recently, cash's regality only increases. For this reason, many small to midsize companies are looking to outside financing — in a decidedly tight credit market — for an infusion of dollars. Here are three options to consider:

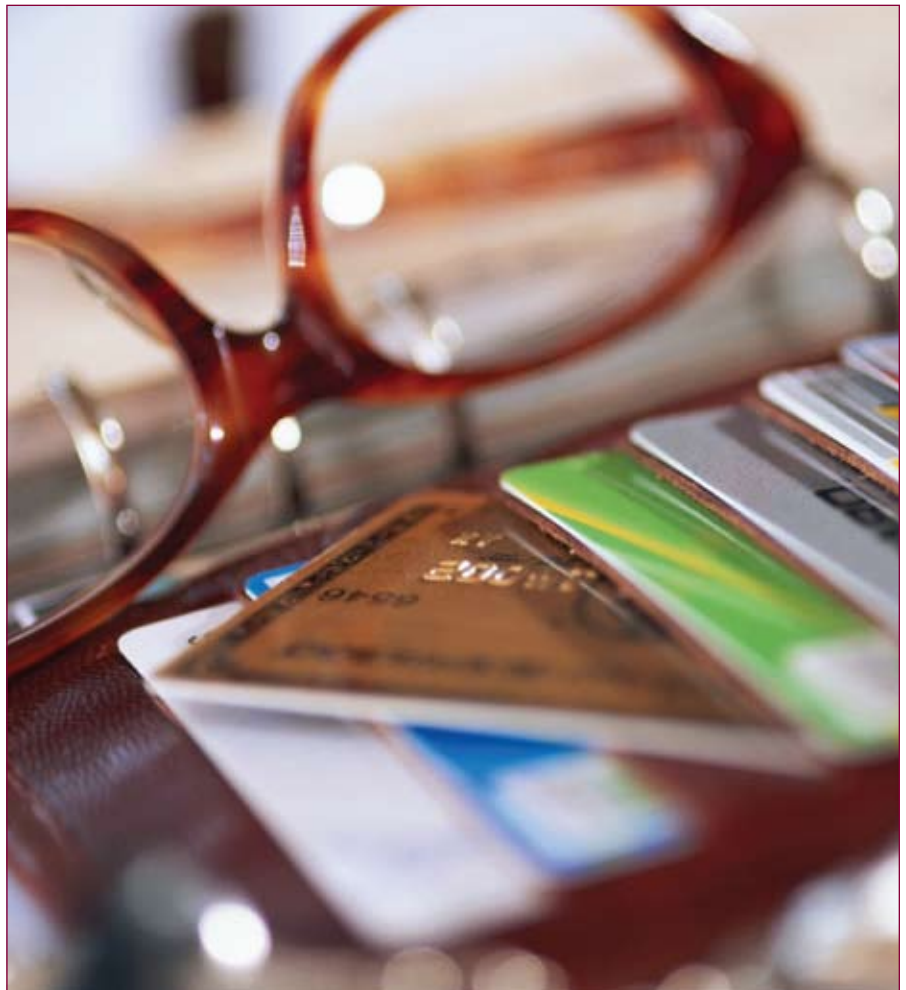
1. Asset-based financing (ABF). Under these arrangements, a company's assets, such as current assets (for example, accounts receivable and inventory) or fixed assets (for instance, plant and machinery), are used as collateral. Typically, this is done to meet either short-term (generally offered as revolving or factoring loans), medium-term (typically leasing, selling or leasing back facility and equipment) or long-term needs (usually based on real estate).

On the plus side, ABF loans can be easier to obtain than traditional loans because ABF lenders will look at hidden values on the balance sheet rather than the financial ratios typically used by traditional lenders. But ABF does have service fees and higher interest since many lenders spend time monitoring the collateral, primarily receivables and inventory.

2. Mezzanine financing. These arrangements combine the concepts of debt and equity financing designed to satisfy short-term or interim financing needs for the expansion of existing companies. For example, you can use mezzanine financing for new growth opportunities, mergers and acquisitions, a management or other leveraged buy-out, corporate restructuring or recapitalization, or debt refinancing. But if you fail to pay back a mezzanine loan according to the terms, the lender may have the option to exchange its stake for an equity interest in your company, assuming this was part of the deal.

Mezzanine financing generally is easily obtainable and doesn't require collateral. But your business needs to demonstrate a solid industry track record, reputation and financial performance and present a business plan for expanding. Keep in mind that mezzanine financing is a high risk for the lender. In return for bearing the risk, lenders expect an equally high return — typically in the range of 20% to 30%.

3. Credit cards. When looking for financing, many business owners may not seriously consider the credit cards in their wallets — and that's probably a good thing. The potential interest rate charges can be overwhelming. Nonetheless, 15 years ago the percentage of companies surveyed by the National Small Business Association using credit cards for financing was 16%. As of this year, that percentage had risen to 44%.



The percentage of companies using credit cards for financing has risen from 16% to 44% in the last 15 years.

The primary advantage of credit cards is that they're easy to obtain. The risks, however, are extreme. Unlike traditional loan contracts, credit card contracts allow the issuer/lender to change the terms of the agreement at any time. That means it could elevate your interest charges or reduce your available credit at any time. And, obviously, if you maintain a high balance or fall behind on your payments, your interest rate could skyrocket to an unmanageable level. □



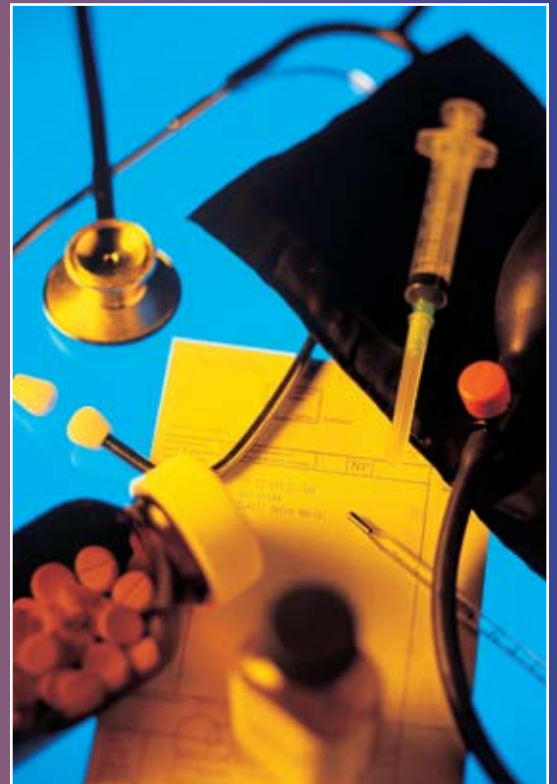
MONEYLINES: NEWS BRIEFS FOR BUSINESSES AND INDIVIDUALS

Health care costs for employers not exactly dropping but may be improving. The skyrocketing expense of medical care has presented a huge challenge to employers trying to offer a competitive benefits plan. A survey released earlier this year by HR consultants The Segal Company provides a small glimmer of hope. Based on data culled from 70 health-care-related organizations, physician costs are expected to rise only 8.9% in 2009 compared with the 9.9% increase this year. And prescription drug costs are projected to rise 9.8%, a drop from the 10.7% uptick this year. It's not much, but it's something.

IRS clarifies tax treatment of dependents of divorced or separated parents. This past summer the IRS released its Revenue Procedure 2008-48, which specifies the circumstances under which a child of divorced or separated parents may be treated as a dependent of both. According to an IRS statement, "... the IRS will treat the child as a dependent of both parents for purposes of several provisions relating to medical expenses, medical coverage and employee benefits. ..." As you might imagine, a variety of rules and exceptions apply, so, if this sounds like something pertinent to your situation, ask your CPA for more information.

Electronic payments bolster accounts payable process. The IRS does it; most utility companies do it; but does your business? We're referring to the practice of allowing customers to submit payments electronically. In a survey of 300 global finance professionals conducted by Aberdeen Group, a tech research firm, companies named "best in class" processed 80% of their payments electronically. A research analyst for Aberdeen commented, "Integration of electronic payment methods with existing accounting systems not only reduces costs, but also accelerates payment processing."

Hoping for a raise next year? Here's some cause for optimism. Whether entry-level employee or corner-office exec, everyone hopes for an annual raise. So a report released this year by human capital and financial management consultants Watson Wyatt Worldwide brings good news. Based on data gathered from almost 1,400 companies, despite the struggling economy, employers intend to grant merit increases averaging 3.5% next year, which holds steady with this year's average and is just a point lower than the 3.6% average in 2007. Naturally, actual raises will vary by employer.



BUSY COUPLE CONSIDERS CASH AND CAR FOR CHARITY

Harold and Edna are a busy young couple who reached the end of the year only to realize they hadn't done anyone any good. That is, they'd talked all year about doing some charitable work but, among all their professional, familial and social obligations, they'd just never gotten around to it.

The couple had some extra cash to spare, however, and they owned a vehicle that they could probably do without now that Harold was taking the bus to work to reduce their fuel consumption. So they were considering a last-minute donation to a favorite charity. Harold and Edna paid a visit to their financial advisor to discuss the idea.

Their advisor explained that, though noncash contributions generally offer more tax advantages, giving cash to a qualified charity is still an admirable gesture. And donating a vehicle to charity is still a viable form of goodwill these days. In both cases, they'd just have to follow some rules.

Documenting the deed

The advisor began by explaining that, to avoid trouble with the IRS, Harold and Edna would need to keep a careful record of their cash donations. They must be able to document any cash contribution — regardless of the amount — with a canceled check, dated bank or credit card statement, or dated receipt from the charity. In other words, they couldn't rely on their own written records.

In addition, Harold and Edna would need to obtain a "contemporaneous written acknowledgment" from the charity, either on paper or electronically. The acknowledgment must include the organization's name, the date and the amount of their contribution.

The acknowledgment would also need to clarify whether the couple received anything in return for their contribution and, if so, describe and provide the fair market value of said benefit(s). For example, if they were to give \$300 to the charity and the organization were to send them a book in return, the acknowledgment would have to recognize the book's existence as well as its value, reducing the amount of the couple's charitable deduction.

Donating a vehicle

The donation of the couple's spare vehicle would also bring with it some rules. Any deduction they claimed on the good deed would be limited to the amount that the charity received when it sold the vehicle — regardless of the Blue Book® value. If the charity were instead to use the vehicle for its own activities, the fair market value would be allowed for the deduction.



In either case, the charity must inform Harold and Edna of how the vehicle was used or if it was sold and, within 30 days of their contribution or the vehicle's sale, provide them with Form 1098-C. In addition, the charity would need to disclose whether it provided goods or services in exchange for the vehicle, and it must make a good-faith estimate of such value given to the couple in connection with the donation.

Learning the ropes

Harold and Edna admitted that they had no idea so many rules applied to the simple donation of some cash and a car. They were glad they took the time to discuss the matter with their financial advisor and learn the ropes. And they hoped to do more charitable giving — of a more tax-advantageous variety — next year. □