

Summer 2009



Occupational Fraud: Why You *Should* Be Concerned

Incidents of fraud, which are organized by all levels of employees and management, are found in every industry. In relations to small businesses as a whole, the Association of Certified Fraud Examiners (ACFE), in their “2008 Report to the Nation on Occupational Fraud and Abuse”, reports the following information on fraud. Their report was based on material compiled from 959 cases of occupational fraud, investigated between January 2006 and February 2008.

- ◇ **Fraud schemes tend to continue for years before they are detected.** The typical fraud issue lasts two years from the time it begins until the time it is detected by the organization. Check tampering and fraudulent financial statement schemes had the longest median duration at 30 months, while schemes involving theft of cash on-hand had a median length of 17 months.
- ◇ **Fraudulent statements were the least common reported type of occupational fraud, but they caused considerably more damage.** The median loss by fraudulent schemes in the study was \$2 million. Corruption occurred in over one quarter of the cases reviewed, with a median loss of \$375,000. Asset misappropriation schemes were both the most commonly reported and least costly.
- ◇ **The implementation of anti-fraud controls appeared to have a measurable impact on an organization’s exposure to fraud.** For example, organizations that conducted surprise audits suffered a median loss of \$70,000, while those who did not had a median loss of \$207,000. Additional reductions in fraud losses came from organizations who had fraud hotlines, offered employee support programs, provided fraud training for managers, and had internal audit or fraud examination departments.
- ◇ **Lack of adequate internal controls was most commonly cited as the factor that allowed fraud to occur.** The greatest percentage of tips concerning fraud issues came from employees of the victim organization. This was followed by clients, vendors, shareholders/owners, anonymous sources, and competitors.
- ◇ **Fraud impacts organizations in a number of different industries.** The industries most commonly victimized by fraud were banking and financial services (15% of cases), government (12%) and healthcare (8%). Among industries with at least 50 cases of reported fraud, the largest median losses occurred in manufacturing (\$441,000), banking (\$250,000), and insurance (\$216,000).

Small businesses are especially vulnerable to occupational fraud.

The median loss suffered by organizations with fewer than 100 employees was \$200,000. This was higher than the median loss in any other category, including the largest organizations. Check tampering and fraudulent billings were the most common small business fraud schemes.

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- ◇ **In nearly two-thirds of fraud schemes the perpetrator acted alone.** Schemes that involved two or more individuals resulted in a median loss of over four times higher than the amount lost in schemes committed by a single perpetrator.

According to ACFE small businesses are typically thought to have fewer or weaker controls in place than their larger counterparts, primarily due to a lack of financial resources. The key is to discover fraud before it plays havoc on your organization. Along with setting up internal controls, consider conducting an annual audit and working with an organization who employs an individual certified in examining potential fraud issues. Also, consider how employees can notify you of suspicious activity. All employees should know about and be dedicated toward preventing fraud.



The ARC Program:

What it means to small business

At the end of June small business owners began applying for financial relief through the America's Recovery Capital (ARC) program. The act includes tax breaks and financial assistance with the goal of supporting small business, allowing for job creation. The direct benefit to small businesses includes tax benefits and access to funding. Some loan fees have also been temporarily eliminated. Additional highlights include:

- » Higher loan guarantees
- » Secondary market liquidity for Section 7(a) loans
- » New small business loan program (ARC Stabilization Loans)
- » Increased availability of micro-loans
- » Surety bond program expansion

Businesses that had been profitable in one of the last two years, but had also been affected by the recession, are eligible to apply for a loan worth up to \$35,000. ARC loans are interest-free to the business owner, who has up to a year to make the first payment and an additional five years to repay the principal. Within its first week the Small Business Administration reported lenders approved 72 loans totaling \$2.4 million.

The SBA anticipates the loan opportunity will reach at least 10,000 businesses by the time the program ends on September 30, 2010. Funds, which are administered by banks with a 100% guarantee by the SBA, could run out sooner than the projected program deadline. For more information about this program please visit <http://www.sba.gov/recovery> and contact your accountant.

SURFING SECURELY WHILE ON THE ROAD

The advancements in technology have made the mobile office a thing of the present. Individuals can surf the Net, check email, and log-in to an organization's network from virtually anywhere – airports, coffee shops, etc. Technology has made things easier, but it also has created an environment where doing “simple” on-line tasks can allow for invasion of your information. Installing a firewall and antivirus software may no longer protect you.



- **INSTALL E-MAIL AND HARD DRIVE ENCRYPTION SOFTWARE.**

Along with backing up your materials before you travel, this should be a part of your travel checklist. Also, when you are logged on-line be even more cautious about the sites you visit and send data only through encrypted pages. Items like a lock-shaped icon and https: at the beginning of the site's URL indicate the site is secure.

- **CONSIDER SETTING UP A VIRTUAL PRIVATE NETWORK (VPN).**

A VPN allows you to use your network and security applications from remote locations. If you are not using a VPN think twice before sending sensitive information like credit-card numbers.

Prior to installing any type of additional software, especially material available via download from the Intranet, contact a network administrator to ensure (a) the software fits all of your needs, (b) your computer has enough memory to store and run the software, and (c) the software is secure.



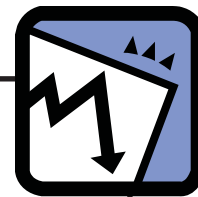
ECONOMIC SNAPSHOT

As of July 1 Florida's unemployment totaled 10.2%
(Source: Bureau of Labor Statistics)

Florida budget deficit as if June 15, 2009 - \$5.9 billion
(Source: Center on Budget and Policy Priorities)

Manufacturing activity rose in June for the sixth straight month
(Source: CNNMoney.com)

Existing home sales rose 16% in May with a total of 13,921 homes sold state-wide. This is an increase of 6.2% compared to April's sales.
(Source: Florida Association of Realtors)



American Recovery & Reinvestment Act of 2009

The American Recovery and Reinvestment Act (the Act) weighs in at nearly \$800 billion. Roughly one-third is comprised of tax incentives for individuals and businesses. Congress made many of the tax incentives retroactive to January 1, 2009. Although the business incentives in the new law are not as expansive as in some recent tax acts, they are still valuable.

Extension of Bonus Depreciation and Code Sec. 179 Expense Deduction

The Act provides several incentives for business investment in capital and equipment. These provisions extend prior law increases in the limitation on expense deductions for depreciable assets and allowable 50% bonus depreciation on new equipment for the year it is placed in service. The Act extends the available expense deduction limitation of \$250,000, and the phase-out amount of \$800,000, through tax years beginning in 2009. Bonus depreciation is also extended through 2009 (through 2010 for certain longer-lived and transportation property).

Because these extensions are temporary and generally apply only to tax years beginning in 2009, new purchases should be made and placed in service accordingly. The increased expense deduction will revert back to \$125,000 for qualifying assets after 2009. Further, the \$125,000 deduction is scheduled to revert back to \$25,000 for tax years beginning after 2011. Similarly, in 2010, the phase-out amount, which begins with every dollar spent over \$800,000, reverts back to \$500,000, as adjusted for inflation, and is scheduled to revert to \$200,000 after 2011.



Net Operating Loss (NOL) Carryback Period Extended

NOLs can generally be carried back two years and forward 20 years. The Act provides relief for small businesses (which the new law defines as businesses with average gross receipts of \$15 million or less) by extending the maximum carryback period for 2008 net operating losses (NOLs) from two years

to three, four, or five years. The number of years selected for the carryback is discretionary within these parameters, but the election must be properly executed in a timely manner and cannot be revoked.

Fiscal-year businesses can apply these rules either to NOLs generated in tax years ending in 2008, or to NOLs generated in tax years beginning in 2008. If a small business has already waived an NOL carryback for the applicable 2008 tax year, the election can be revoked in order to obtain NOL carryback relief under the Act provisions. However, the prior election must be revoked and the new election executed within 60 days of the legislation's enactment. The treatment is temporary, applying only to 2008 NOLs. If you sustained an NOL in the 2008 tax year, these provisions present an opportunity for an immediate refund of prior year taxes paid.

BALANCING ACT: Debt

As a general rule, acquiring debt makes the most sense when you need to revive cash flow or invest further in your business. However, acquiring too much debt can cause your business to implode. Determining how much debt is too much can be tricky.

You need to first find out where your business stands in the industry you are in. If the industry is growing then accruing additional debt would be offset by the growth in your business, which should follow the industry trend. However, if the industry is faltering or questionable, you may decide to halt investing at this time. To find out where your business stands you need to review your debt-to-equity ratio (business long-term debt divided by business equity). Lower ratios usually indicate a business is well within the “safe” range; by acquiring additional debt the business should be able to weather any unfortunate economic downturns. This equation is not 100% accurate, however. Additional industry-specific variables can easily affect this ratio, but it does give a snapshot of your business and, therefore, does help you determine what to do about borrowing options.

The best way to determine precisely where your business stands is by a thorough financial analysis.

Working with your accountant to ensure you are receiving accurate, timely financial statement data is key to your business’ success. These reports clearly show, for example, your assets and liabilities, broken down further into total sales, income, and earnings.

Versus reviewing these statements once a year, take the time to learn what each of these items means to your business – positive or negative. Even though there may be some trepidation because these reports can look intimidating, ask questions. There is a lot of valuable information contained within these documents and your accountant should be willing to explain the information further and help you plan for the future.



TIPS TO IMPROVE DEBTOR COLLECTIONS

- Send out invoices as soon as work is completed, not at the end of the week or month.
- Provide incentives to pay early such as discounts. (Prior to implementing review how this tactic will affect your profit margin if all of your customers take advantage.)
 - Make it easy to pay - direct credit arrangements, credit card, online payment, etc..
 - Identify slow paying customers and contact them early to discuss any potential problems.
 - Contact non-paying customers to discuss their debt. Find out the reason(s) why they are not paying and consider other payment options which work for them. Keep in regular contact with these customers.



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