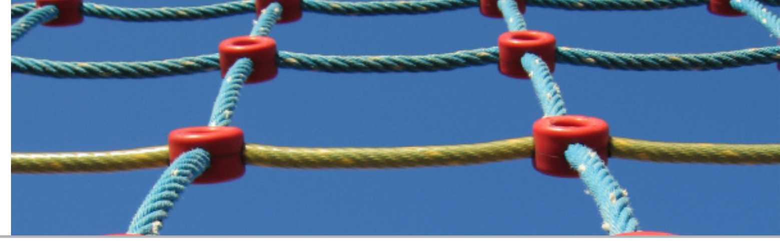
Mueller Prost
CPAs + Business Advisors



BUSINESS OWNER'S PERSPECTIVES

BUSINESS BASICS

What Are You Doing to Prevent Occupational Fraud?

According to the Association of Certified Fraud Examiners (ACFE), the typical business loses 5 percent of its revenues to fraud each year. That's a disturbing number for owners who pour their souls into their businesses. It's especially heartbreaking for family business owners who are scammed by relatives they thought they could trust.

What the Stats Say

Consider these statistics from the ACFE:

- The median loss caused by occupational fraud is $140,000, but more than one-fifth of cases caused losses of at least $1 million.
- The vast majority of frauds are committed by individuals working in one of six departments: accounting, operations, sales, executive/upper management, customer service and purchasing.
- Most fraudsters are first-time offenders with clean employment histories.
- In almost all cases, the fraudster displayed at least one behavioral "red flag" — living beyond his or her means, financial difficulties, unusually close associations with vendors or customers, or excessive control issues, for example.
- Occupational fraud is more likely to be detected by a tip than any other method, and the majority of tips come from employees.
- Nearly half of victimized companies don't recover any losses suffered due to fraud.

Minimize Your Risk

Has your business implemented a fraud-deterrent plan? The ACFE reports that anti-fraud measures directly correlate to significant decreases in the cost and duration of fraud schemes. Here are five tips for minimizing the risk of fraud in your business:

1. Disrupt the fraud triangle. The ACFE describes three factors that must be present simultaneously for employees to commit fraud: opportunity, rationalization and perceived pressure. While you may not be able to influence a fraudster's ability to rationalize his or her crime, your fraud prevention plan should include tactics designed to diminish opportunity and relieve pressure.

2. Review your policies. Your company's ethics and fraud policies should spell out the behavior you expect of employees. These policies should also detail how suspected irregularities will be investigated, and to whom and how suspected fraud should be reported. The fraud and ethics policies should be presented and reviewed annually, and officially signed off on by all employees every year.

3. Monitor internal controls. Segregation of duties, surprise audits, limited authorizations for financial transactions, and strictly controlled account access are all "must dos," even for small companies. Other fraud-deterrent ideas include having the owner sign all checks over a certain amount, and having bank statements sent to the owner's home address for review.

4. Be diligent in your awareness. Look for employees who are exhibiting any of the "red flag" behaviors mentioned above. Implement an employee assistance, ombudsman, or open door program to give employees a way to express grievances, reduce hardships and relieve stress.

   Also, beware of employees who are "too busy" to take time off. Fraudsters don't like to be away from their jobs for too long because it's more likely that their fraud will be discovered while they're gone. Requiring time off by all employees is smart business.

5. Be a role model. A zero-tolerance attitude starts at the top. This means that as an owner, you must follow all the rules and run a tight operation down to the smallest details. This includes doing everything by the book, including filling out your own expense reports accurately. The attitude you exhibit toward your company's assets will be reflected back in your employees' behavior.

Look for Weak Spots

Fraudsters are clever, so staying ahead of them is imperative. Discuss fraud prevention best practices with your banker, and ask your accountant about a regular review of your internal controls. A third party can often identify weak spots more readily than someone within the company.

Mueller Prost wants to help you protect your assets. Let us help you with a fraud risk assessment. Call Adam Herman at 314.862.2070.

WORD TO THE WISE:
Compensation Issues in Family Businesses

Most accountants and family business advisors agree that compensation in family business is one of the most common and complex problems they face with their clients. Money, emotion and family dynamics all get mixed up in this highly sensitive area, and it's no surprise that parents and grandparents have a tough time discerning what's "fair" when it comes to paying their beloved family members for their services.

In many companies, the result is a haphazard compensation arrangement, with various family members being paid too much (or sometimes, too little) relative to their services and contribution to the success of the company. Not only does this type of treatment build animosity among family members, but it also creates ill will among non-family employees, who resent what is perceived as preferential treatment for family employees.

By creating strict employment and compensation policies, family members know exactly what to expect when it comes to their employment relationship with the company.

Because it's such a contentious issue, family compensation deserves serious attention. By creating strict employment and compensation policies, family members know exactly what to expect when it comes to their employment relationship with the company. Here are a few guidelines to consider:

- **Recognize that fair isn't the same thing as equal.** Treating family members fairly doesn't mean treating them equally. If you pay all family members the same amount, you're certainly overcompensating some and under-compensating others. Those with higher risk, responsibility and unique skills deserve higher compensation.

- **Pay market salaries.** The best compensation rule to follow is to pay family members market salaries based on performance. If you pay over market, there is no financial incentive for family members to enhance their performance or productivity. Plus, if you're paying out too much in compensation, you'll have an unrealistic picture of the company's true financial position.

  To keep salaries in line with the market, consult with industry or professional associations, or conduct an industry salary survey.

- **Maintain boundaries.** Don't let family members treat the family business like the family bank account. They should live within their means. If Junior needs a loan, he should get one from a bank. If Cousin Sally wants to work part time, she should earn a part time salary. And, Uncle Bruce should pay for his own divorce lawyer. While maintaining these rules requires discipline, clear boundaries with no exceptions are easier to enforce.

- **Get it in writing.** Work with a trusted advisor to draft family compensation policies early in the life of the company — before the next generation comes of age. For example, detail the company's requirements regarding family members' education and degrees earned, years of work outside the family business, and employment and ownership eligibility. Set clear rules about performance and pay.

With compensation decisions made and codified, there's little room for miscommunication or misunderstanding as family members join the family firm.

Some Extra Help?

There are always family members who may need a little extra financial help, and there are many ways to ensure that everyone is taken care of. In case of a financial emergency, an outright gift is almost always a better way to support a family member than adding him or her to the company payroll. Special trusts can be established for those with disabilities. Talk with your financial advisors to determine the best way to assist relatives in need.

Mueller Prost has worked with many family businesses to create compensation policies. Contact us at 314.862.2070 to discuss yours.

MANAGEMENT TOPICS:
Voluntary Audits Deliver Valuable Insights

Executives in publicly held companies often dread the yearly audit. The accountants ask a lot of questions, and their inquiries are deep and probing.

So why are so many privately held companies now asking for financial statement audits? Because all of the questions, analytics and transaction testing involved in an audit often pay off in extremely valuable findings.

An audit provides owners with a level of assurance that the company's financial statements are free of material misstatements and presented fairly and in conformity with applicable frameworks. Auditors can also offer feedback to the executive team on key elements of internal operations. For example, an audit provides:

- **Accounting scrutiny** — An audit puts the work of the internal accounting team under a microscope. Knowing their work will be scrutinized, the accounting department is much more likely to record transactions carefully, follow internal controls and maintain comprehensive documentation. This increased level of accountability has a positive impact on the company overall.

- **Input on best practices** — The nature of an audit requires that the auditors learn the business and consider business risk — it's part of the job. Auditors see the best and worst in how various companies are managed and operated, and can offer informed, neutral input on how your company can improve.

- **Risk management** — Auditors uncover "the uglies" — errors and holes that can cost you money or put your assets at risk. Because they are interviewing your staff and digging into your books, auditors can see (or foresee) problems or weaknesses that management should be aware of. These problems may range from innocent mistakes to blatant fraud.

- **Internal controls analysis** — An auditor is in the position to give management an assessment of the adequacy and effectiveness of internal controls. In fact, if significant deficiencies or material weaknesses in controls are uncovered, the auditor is required to communicate the facts surrounding such matters. This information can go a long way toward preventing fraud, errors or omissions.

- **Tax synergies** — Because of the in-depth analysis involved, it's not unusual for auditors to discover areas of tax risk, such as questionable deductions or improper treatment of compensation-related transactions. Often, auditors can also identify places where tax savings might be possible.

- **Preparation for transition** — Audited financial statements give buyers, lenders and investors a much stronger sense that management is following best practices and is serious about running a successful business. However, it's important to have reliable, audited financial data even if there are no current plans to sell the company or transition to new management.

After an audit, feel free to ask your auditor for specific feedback on whatever aspects or variables most interest you. If you have specific concerns that require deeper or different analysis, you may want to pursue an "agreed upon procedures" engagement with your auditor. This engagement would focus on particular financial or operational aspects of the company — payroll or bank reconciliations, for example — and the auditor will issue a report of his or her findings.

Contact your Mueller Prost advisor today at 314.862.2070 to set up a time to discuss the value of an audit for your business.

Unique Benefits Help Attract (and Keep) Employees

Employees, particularly younger ones, are often attracted by a company's culture. And this is often reflected in the employee benefits the company offers: flextime, tuition reimbursement, gym membership, etc.

Of course, not every workplace is suited to "bring your dog to work day," but many companies find that a unique employee benefits package adds to their appeal and competitive position. And there are often ways to provide high-value benefits at a relatively low cost.

Below are a few popular types of benefits you might consider offering:

- **Cafeteria plan:** Employees are given a set amount of dollars to spend on benefits, and can pick and choose the ones that are important to them. For example, some employees might pick a more basic healthcare plan, while others will also want vision, dental and/or disability coverage.

- **Wellness benefits:** Flu shots, mini-massages, travel clinics, and exercise and weight loss classes are a few of the popular onsite wellness benefits. These low-cost perks help keep employees at work by maintaining their health.

- **Child, senior or pet care:** Employees can't perform optimally if they're worried about their loved ones. Providing drop-in childcare, pet care, pet insurance or errand services for aging parents gives employees assurance that their most pressing personal responsibilities will be taken care of.

- **Convenience services:** Dry-cleaning pick-up, car washes or gift shopping services help employees manage — and enjoy — their time off work.

- **Financial planning services:** Some companies offer third-party assistance with personal financial planning. This shows an interest in your employees' future financial security.

Ask your employees what they value. You might be surprised at some of the no- or low-cost options that would make a difference to them.

Mueller Prost offers practical solutions and insightful advice to individuals, businesses, and non-profit organizations, providing a full range of audit, tax, accounting, and business advisory services. The experience of our more than 90 accountants, engineers, operations leaders and former business owners gives us a unique and comprehensive perspective to address the needs of growing organizations. In addition, we leverage our membership in PKF North America (an association of more than 100 legally independent accounting and consulting firms) to enhance our national and international capabilities. For more information, visit **www.muellerprost.com**.

The firm offers a full range of professional tax, audit, accounting and management advisory services and works with many closely-held, family-owned businesses.

For more information, please contact **Doug Mueller, CPA** at 314.862.2070 or dmueller@muellerprost.com.