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Leading EDGE

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contents

features

4 Information Overload

How to get the most from your business data

14 SBA loans set record in 2011: What's next?

Plus tips on how to secure one in 2012

16 Top 6 things to know about doing business in Brazil

departments

9 News and information from our firm

13 Bits & Pieces

18 On the Bookshelf







INFORMATION *overload*

How to get the most from your business data

BY DANIELLE TOTH

Data keeps piling up at your business—client names, emails, purchase information, industry research, etc. They fill up seldom-used spreadsheets, stuff filing cabinets and sit on servers in cold, dark rooms with nary a query. “There is a big accumulation of data that’s taken place over the last decade that has accelerated over the last few years because of the development and implementation of inexpensive data storage,” says Larry Miller, CEO of Activate Networks, a Massachusetts-based social network analytics company. “Ten terabytes of data was a big deal 10 years ago, whereas now it’s not a big deal at all. The sheer pervasiveness of data is astounding.”

While amassing data is cheaper, tapping into that data is where the true value for your organization comes. Chances are your data isn’t living up to its full potential and wasting time and resources. Turn data collection into a data strategy for innumerable benefits.

Step 1: Evaluate existing data.

To use data effectively, it first needs to be organized and managed correctly, says Daniel Teachey, senior director of marketing at DataFlux, a North Carolina-based data management company.

“Companies collect data on just about everything,” Teachey says. “They’ve generated literally gigabytes and terabytes of information, but that information needs to be categorized and managed in a uniform way so companies can then use it properly.”



“Information systems should be used more to develop business strategy rather than just housing data.”

– Kendra Von Achen,
president, DB Pros

To organize its data, a company should first remove invalid data. Take phone numbers as an example. If your database has numbers in the “phone” field with fewer than 10 digits, remove or update the invalid number, Teachey advises.

He says validation is also based on common sense. For example, a health care provider most likely keeps patient records that include both the patient’s gender and health conditions. A female patient cannot have a prostate condition, and a male patient cannot be pregnant. If the data review indicates incongruent information, it should be removed or reviewed, he says.

Cleaning up and organizing data translates to a more immediate ROI. As an example, Teachey says, clean data reduces the spoilage rate in a direct mail marketing campaign. A company that sends a catalog to 15,000 customers could reduce its spoil rate to less than 1 percent, thus saving on needless postage, printing and related costs for catalogs that no one receives. That translates to a better return on investment.

“When you reduce costs, you increase your profit,” Teachey explains. “A smart

company will measure itself from a beginning baseline and monitor their data improvement program to see how it has improved the company, both in time and revenue. The company can then continue to make adjustments and improvements to increase its efficiency.”

Step 2: Make data easily accessible.

No matter how good the information is, access to the information is a must for success. A standard information-retrieval system can vary based on a company’s and possibly departments’ needs, says Kendra Von Achen, president of DB Pros, a New Jersey-based data consulting firm for entrepreneurs and small businesses.

While a new information system can be costly, the ROI is substantial, she explains. Implementing a more effective system can save the company money in terms of number of personnel and improved time management, including reducing the amount of hours needed to manually enter, re-enter or retrieve information.

One of the biggest benefits is improved marketing capabilities, Von Achen explains.

An interdepartmental database of customers can help management keep track of which customers have made purchases or contact with the company and which haven’t, giving the company a better idea of whom it should target in its marketing campaigns, she says.

With better access to better data, the company is spending its money in a smarter, more efficient way, Von Achen says.

She says companies can decide whether to start anew or import old data (from a specific date, not all the data ever collected) into the new information system.

Data Flux’s Teachey says the system itself isn’t as important as the need to standardize a business’ practices so data is entered in the same way throughout the company for easy organization and retrieval.

Customer data, which is typically the most frequently collected and used information, should be entered following a standard format for items such as addresses (write the full word or abbreviate street names?) and names (last name or first name first?)

Standardizing information about products and materials is a little more complex, Teachey admits. “If you go to the store and buy a package of 20 hex nuts, that purchase can be represented many ways in a database,” he explains. “For example, you can use 20 count, ct or cnt. Or you can identify the item by an item code. Generally we recommend identifying items by an item code because they are normally standard throughout the industry.”

Information system evaluation also should take into account security access measures because not everyone in the company may be privy to the data, although DB Pros’ Von Achen recommends against privatizing too much. “Information systems should be used more to develop business strategy rather than just housing data,” she says. “Having an open database is an important value for the company.”

Step 3: Use data to the maximum.

Don’t overlook non-traditional uses for your data. Customer data, for example, can be used in more ways than checking to see if an order was delivered or finding addresses for a key mailing. The information can identify customer

continued on page 8

MANAGE THE OVERLOAD

We are constantly bombarded with an alarming amount of information every minute of every day—some we request, some we don't. Whether it's beeping email notification messages, constant TV advertisements or millions of Google search results, you cannot escape data.

"Information overload is a very big topic, and the impact is universal," says Jonathan Spira, chief analyst at research firm Basex and author of the new book *Overload! How Too Much Information is Hazardous to Your Organization*. "In fact, our research demonstrates knowledge workers lose 20 to 25 percent of the day due to information overload. It's staggering."

Spira says information was limited a few hundred years ago in part because many more people couldn't read and few books were published. However, as information democratized, everyone regardless of social class could understand and access a wealth of information.

"Whether you're a university professor, a member of Congress or a day laborer, if you go to Google and type in the same search information, you're going to get the same results," Spira says.

To dial down information overload and gain valuable lost time, he offers a few strategies:

Manage your email. For every interruption, it takes the mind 10 to 20 times the length of the interruption to get back to the task, Spira says. So a 30-second interruption requires at least five minutes to recover. To save on interruption time, Spira recommends copying recipients on emails only when they absolutely need to see the information.

He also advises to quickly reread your words before hitting "send" to make sure all the necessary information and attachments are incorporated to minimize or eliminate replies with additional questions.

Don't mix topics in one email because it can become confusing and harder to remember. Also, most people won't read the entire email if it has too much information. If you do need to send a long email, summarize what the email is about in the first sentence so your readers know what it covers.

Optimize search engines. Most people don't know how to construct search arguments using Boolean logic, Spira says. Even simple terms such as AND, OR and NEAR can tremendously narrow down a search (ex: Java NOT coffee for information on the island). Don't forget to use quote marks around phrases to narrow down the results. Many search engines also offer an advanced search option that allows you to search by file format, website, date, etc.

Delete old or obsolete information. Saving all data forever is not the best course of action. Identify a record-keeping policy so employees know when they can delete—and then remind them to delete information they no longer need from their inbox and their file drawers.

"Information overload can be controlled with some basic tweaks that have a dramatic impact," Spira says. "But the worst thing a company can do is bury its head in the sand and say it has bigger fish to fry. The problem will only come back to haunt them later."

demographic makeup, so you better understand who your customers are and how to better meet their needs, Von Achen says.

“By looking at your customer data, you can learn who your top 10 clients are,” she explains. “This is invaluable because of the 80/20 rule: 80 percent of a company’s business comes from 20 percent of its clients. If you know who these top clients are, you can better understand what they want and how to give it to them.”

Information from Twitter and Facebook pages may not be considered business data but it should be. “If companies can match a Twitter handle to a customer’s account, they could capture a whole new understanding of their customer base,” Von Achen says.

Consider what other data your company collects. Finance files can be a great wealth of information that may not be linked together to gain the biggest advantages. For example, what if your company did more than pay its account payables and update corresponding budgets to reflect year-to-date actual? By reviewing the compensation to all vendors in a particular category, the business could identify potential for savings through aggregation. Or

perhaps the company would realize the need to identify a back-up vendor because it relies on a single provider for a critical service.

Businesses can access significant information from publicly available databases, but many don’t because they aren’t aware of the potential. A nonprofit, with which Teachey worked, used U.S. Census information to determine areas of the community that were underserved by commercial services. The nonprofit used that free, professionally collected information to reach out to sought-after retailers to locate in the underserved neighborhood.

Similar data could be used to determine a company’s new office locations and areas in which the company’s key demographics live or work, enabling concentrated marketing campaigns and deeper customer understanding.

Companies also can turn information created for one-time use or purpose into multiple outlets. Social network analytics company Activate Networks uses data to map social networks—but not just the online kind. It goes deeper to map out all sorts of relationships based on virtual and real-world data.

For example, Activate Networks turns health insurance claims into a network map. Pharmaceutical companies and health care plan administrators can see how patients move through the system, how they are treated and what they are prescribed. The information can be segregated based on region, therapeutic area or specialty.

“Understanding who is connected to whom opens up a whole variety of business possibilities,” Miller explains.

In the corporate world, Activate Networks has evaluated email traffic to map employee relationships. Employees who email each other every day and respond quickly to each other’s messages most likely have a strong relationship, Miller explains. On the other hand, employees who only email each other once a quarter have a weak connection. This data can help companies view the flow of information in their workplace and improve their corporate communication structure.

“We hope to help people realize they should take more inventory in the data they have for whatever reason and understand the value that might be in it,” Miller says. **LE**

“Understanding who is connected to whom opens up a whole variety of business possibilities.”

– Larry Miller, CEO,
Activate Networks





INSIDE:

- IRS issues new rules for grantmakers, donors

The honest truth about fraud: Controlling your internal controls, Part 1

By **Neely D. Duncan**, Principal
Lane Gorman Trubitt, PLLC

Difficult economic times have almost always lead to an increase in fraud, and according to the 2010 Report to the Nation compiled and released by the Association of Certified Fraud Examiners (ACEF), our current recession is no exception. In today's economic climate it's more important than ever that the leadership of companies, both big and (especially) small educate themselves on the dangers of employee theft.

In this first of a two-part article on how companies and other organizations can protect themselves from fraud, we will examine some of the motives and warning signs of internal fraud, as well as some tips for controls organizations can put into place to protect themselves.

Before we can learn how to combat fraud, it's vital that we learn more about internal theft, its warning signs and root causes.

Some terrifying facts brought to light through the report include:

- The typical organization loses 5 percent of its annual revenue to fraud. When you apply this to the estimated 2009 gross world product that translates to a potential fraud loss of a staggering \$2.9 trillion.
- The median loss was \$160,000.
- The frauds lasted a median of 18 months before being detected.
- Small organizations are particularly vulnerable, accounting for more than 30 percent of the fraud reported.

(Small organizations are described as having fewer than 100 employees.)

So who are the perpetrators stealing from their companies?

The answers may surprise you:

- Most perpetrators were between the ages of 31 and 45. (The median losses tended to rise with the age.)
- Losses tended to rise with the perpetrators' tenure. (Employees with more than five years of tenure with the victim organization caused a median loss of more than \$200,000.)
- 52 percent of all perpetrators had a college degree.
- Perpetrators are more likely to be male.
- 85 percent of perpetrators have never been previously charged or convicted of a fraud-related offense.

If you suspect your organization may already be a victim of fraud, there are some warning signs may help you identify the culprit.

Be on the lookout for employees who:

- live beyond their means.
- are experiencing financial difficulties.
- have control issues and are unwilling to share duties.
- experiencing divorce/family problems.
- refuse to take vacation.
- have struggled with addiction.

Despite the information above, there are very effective steps all organizations can take, regardless of size, to protect themselves from falling victim to occupational fraud.



Set the control environment

Setting the control environment is more than just establishing the rules—it also means following them. You can have the best controls in the world in place, but they don't do your company any good if you make exceptions. It's vital that the controls you implement are mandatory, from the top of your organization to the bottom.

Some common management exceptions that need to be eliminated include:

- employee reimbursements for expenses without receipts,
- no approval over credit card expenses,
- no approval over travel expenses or
- lack of time entry or approval of timesheets for upper management.

In order to properly set the control environment, the message must be sent from the top that both personal ethics and the implemented internal controls are

important and will be followed by everyone in the organization, including management and ownership. It's also imperative that you have clearly defined responsibilities and you hold people accountable for their assigned tasks.

Payroll controls

Timesheet approval

At smaller organizations it's more difficult for someone to create and pay a fictitious employee, however, even small organizations should require the approval of timesheets for people who work on an hourly basis. Everyone's timesheets should be reviewed and approved by someone in a position to know exactly how many hours they worked.

Use a third-party administrator and encourage a direct-deposit requirement

Many payroll services offer direct deposit, and requiring employees

Continued on page 10

The honest truth about fraud: Controlling your internal controls, Part 1

Continued from page 9

to have direct deposit has several benefits for organizations. A direct deposit eliminates the need for a second signature on payroll checks and it also keeps management personnel from having to sign their own checks. For employees who do not have a checking account, many banks will allow them to set one up and maintain it at no charge if their paycheck is deposited directly.

Maintain a separate payroll bank account

Setting up a dedicated bank account solely for payroll can be an excellent and inexpensive way to identify any mistakes or potential fraud early. By transferring only the funds required to cover the current paychecks, frauds or errors on the part of the bank or third party payroll can be quickly identified and corrected. Sometimes overpayment in the form of a paycheck or reimbursement can actually lead to additional fraud if the overpayment makes it through your accounting system and into the pocket of an employee. There is a danger that the employee may believe that future overpayments may go undetected as well.

Disbursement controls

Two signatures on checks or large checks

This can be a good policy as long as you keep in mind that banks do not enforce the policy and cannot be held liable for a check that is processed with just one signature. The true benefit of the policy is the impression it gives. It can help organizations set the tone for the control environment, but is less effective in actually preventing theft. In fact, this policy can be quite dangerous if an organization

has a difficult time getting hold of one of the signers, and so has him/her sign a series of blank checks. If your organization does this, you've eliminated any potential effectiveness the policy may have had.

The person handling the money does not sign the checks

The simple truth of the matter is that bookkeepers should not sign checks. However, in a really small organization this may not be practical. One approach you may consider is to allow the bookkeeper (or the person who handles the money) to sign small emergency checks, for no more than \$100 or \$200. Having an established limit helps to set a tone of accountability, and having a separate signer for larger checks ensures any errors or potential theft will be caught by the person doing the bank reconciliation.

Check signing and check processing

Many organizations use check signing as a way to get the treasurer or another board member involved in the disbursement of money, but this is not the only way. You may request to have bank statements or cancelled checks sent directly to the treasurer who can then review all checks and the endorsements. All check signers should double check that the amount of the check, the vendor name and the address on the invoice matches the amount, vendor name and the address on the check. With today's reliance on computerization, the auto-fill option will occasionally insert the wrong amount or payee.

It's also a good idea for your organization to establish two separate bank accounts, one for deposits and the other, a



subsidiary account that all checks are written against. Only a board member or specifically appointed person should be authorized to make transfers from one account to the other. Using this system ensures that if embezzlement or any other type of potential fraud is taking place it will trigger an overdraft. Ask your bank to notify you immediately if an overdraft happens, it's easier to resolve an internal fraud issue after a few days rather than a few weeks or months.

Petty cash

No organization should ever write a check to "cash" for any reason. The check needs to identify the person responsible for those funds in order to make it easier to track where the money goes. All petty cash checks should be made out in one of the following formats, either "Mary Smith, Agent for the Organization" or "John Jones, Petty Cashier".

Limit employee advances and reimbursements for supplies

One of the most effective ways to limit employee advances or reimbursements for work supplies is to set up accounts with the stores that the organization uses most and limit purchases to just those stores where there are accounts. But this kind of control requires vigilance. You must be sure to remove employees from

the list of authorized purchasers when they leave your organization and review the authorized purchaser list on a regular basis.

Invoice-approval procedures

Current technology makes now makes it possible for anyone to produce a professional-looking invoice on their home computer. The person who receives the goods should sign and write on the invoice the purpose of the expense. All invoices should be reviewed approved by a party other than the person who issues the checks or reconciles the bank statements. Having a procedure for invoice approval in place will maintain a control environment and decrease the likelihood your company will become a victim of internal fraud.

Set up an approved vendor list

Setting up an approved vendor list ensures that you know the names of all the vendors from which you buy supplies, and makes it easier to spot potential fraud.

Bank-reconciliation controls

Establish bank-reconciliation procedures

Solid bank reconciliation procedures can go a long way to helping prevent fraud. Some key controls that should be in place include:

- **Timeframe to be completed**—All bank accounts should be reconciled

within 10 days of receiving the bank statement. As always, problems are easier to fix the earlier you catch them.

- **System access**—Just as you have a separation of duties, it can also be beneficial to limit your employee's access to your system or databases. Restricting access based upon their job responsibilities ensures your employees have access to the information when they need it, while keeping it from the people who don't.
- **Reconciliation to the general ledger**—Be sure to reconcile to the General Ledger, not just the checkbook. The absence of adequate source documentation can be a red flag that an insider is defrauding your organization.
- **Who does the reconciliation**—The reconciliation should NOT be done by the person doing your bookkeeping. It's vital that you separate these responsibilities even if you have a small staff. The executive director or operations officers should review the reconciliation and bank statements periodically.
- **Approval procedures**—Reconciliations need to be done on a timely basis, reviewed by a third party and initialed by the reviewer.

Run vendor addresses through an edit check

It's hard to believe, but some fraudsters who were caught in the past actually set up fake companies and sent invoices to their place of employment, where they were paid for items that were never received. This could have been avoided if the organization periodically compared their

employees' addresses with all invoices received.

Wire-transfer procedures

Have someone independent of the request for a wire-transfer process go through and verify all wire transfers. Many organizations go to great lengths to protect written checks and forget about controls with regard to wire transfers, but frauds associated with wire transfers can be very costly and just as damaging to an organization. Banks should be instructed not to wire anything out without additional approval from an officer designated in your organization.

Mail handling

Unless they do it every day, the executive director, operations officer or accountant should periodically open a day's mail. Ensure it's a random event. If possible, make mail opening a group activity with two or more people involved. Make one person responsible for opening the mail and another for recording incoming checks. This provides a controlled environment with which to take in payments and other funds. **LE**

Part 2 coming spring 2012

This article will be concluded when the second part appears in the spring 2012 edition of the Leading Edge. In the meantime, regardless of the size of your organization, it's vital that you take steps to protect yourself from internal fraud today. If you have any questions regarding anything in this article, do not hesitate to contact your trusted LGT advisor or Neely Duncan, Assurance Services Principal at (214) 461-1437 or nduncan@lgtcpa.com.

IRS issues new rules for grantmakers, donors

IRS Revenue Procedure 2011-33 set forth new guidelines governing grantmakers and donors. The new rules requires that before making a donation to a not-for-profit entity, the taxpayer must verify the organization's eligibility to receive a charitable donation, determine if the charity is a supporting organization (and if it is, what type) and confirm that the organization is not on the OFAC list of organizations and persons linked to terrorism. In this article you will find helpful tips for what donors and grantmakers must do in order to comply with the revised IRS requirements.

Verify the organization is eligible to receive a tax-deductible charitable contribution.

Not all tax-exempt organizations are eligible to receive a tax-deductible donation and verifying a specific organization's eligibility requires three steps.

1. Determine if the organization is allowed to receive a charitable contribution.

A potential donor may use either IRS Publication 78, Cumulative List of Organizations described in Section 170(c) of the Internal Revenue Code of 1986. Rev. Proc. 2011 – 33



or the IRS Business Master File (BMF) to determine a specific organization's eligibility.

2. Confirm the organization's foundation and deductibility status.

The majority of organizations allowed to receive tax-deductible contributions are classified as 501(c)(3) charitable organizations, but some other types not-for-profits are allowed to receive tax-deductible gifts although some special rules and restrictions may apply.

For individual donors, the amount of a charitable deduction is limited to a percentage of the individual's income. It's important to keep in mind that the deductible amount for donations to private foundations is actually less for private foundations than it is for public charities.

Continued on page 12

IRS issues new rules for grantmakers, donors

Continued from page 11

Private foundations and sponsors of donor-advised funds must exercise expenditure responsibility for contributions to certain organizations.

Before making a donation donors and grantmakers should double check the deductible amount allowed as well as whether a grantmaker must exercise expenditure responsibility. The IRS used to require donors and grantmakers to use Publication 78 for this research, but they are now allowed to the BMF as well thanks to Rev. Proc. 2011-33. Both sources will provide a “deductibility code.”

3. Determine the organization’s standing with the IRS.

If a not-for-profit organization fails to file an annual return (Form 990, 990-N, 990-EZ or 990-PF) for three consecutive years, then it’s tax-exempt status would be revoked under The Pension Protection Act of 2006. Under the act the IRS is required to publish a list of organizations that have lost their tax exempt status. This provision took effect on June 8, 2011, and the revocations are automatic and mandatory under the law. The IRS also revokes the not-for-profit status of organizations on a case-by-case basis for serious noncompliance with the tax code. Revocations for either situation can be found on the IRS website. (www.irs.gov)

Organizations that have

lost their tax exempt status may continue to accept contributions, but those donations are no longer tax-deductible. Also, grantmakers and donor-advised funds that match donations to such organizations are required to exercise expenditure responsibility over those grants.

It’s important to always check that an organization still has its tax-exempt status before making what you believe to be a tax-deductible donation.

Determine if the not-for-profit is a supporting organization, and if so, what kind.

The Pension Protection Act of 2006 also limits distributions to supporting organizations. Supporting organizations are defined as charities established for the purpose of providing support to another charity. There are many different types of supporting organizations, and what an organization’s type determines if grantors must exercise expenditure responsibility and whether those grants count towards a private foundation’s minimum payout.

Grantmakers are allowed to research supporting organization status (509(a)(3) status) using any of the following sources:

- A charity’s IRS Letter of Determination (The document where the IRS approves a not-for-profit organization’s application for



- tax-exempt status)
- The BMF
- A third-party source of BMF data (as long as it meets certain criteria)
- Publication 78

When making donations to a supporting organization, a grantmaker is required to determine what type of organization the recipient is. Unfortunately, Publication 78 does not identify supporting organizations at all, and the BMF contains only limited data. This necessitates additional research on the part of the grantmakers to determine the type of supporting organization a recipient may be.

Confirm the organization is not on the OFAC list of organizations and persons linked to terrorism.

Financial contributions to organizations or persons linked to terrorism are prohibited under the

USA PATRIOT (Unite and Strengthen America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism) Act. The Office of Foreign Assets Control (OFAC) and the U.S. Department of Treasury maintain a list of individuals and organizations whose assets have been frozen due to suspected terrorist ties. These individuals and organizations are known as “Specially Designated Nationals” (SDNs).

If there is any chance an organization you plan to make a donation to may be linked to terrorism, be sure to check the OFAC publications to ensure that the organization is not an SDN. **LE**

These new rules governing grantmakers and donors can be complex. If you have any questions, do not hesitate to contact Courtney Weldon, Supervising Senior at (214) 871-1536 or by email at cweldon@gt-cpa.com.

bits & pieces

REVISIT MARKETING 101

Whether your company is just rolling out a marketing plan or reviving an old one, simpler is better, according to The Maids. The residential cleaning company offers several low-cost, low-maintenance ideas for getting the word out about your company:

Network—Not only should you join local business groups and expand your contacts, but remember you are a face of your company. Talking passionately about what you do is one of the best ways to market your business. Accept and pursue offers to speak at community meetings to get your face and name out there.

Word of mouth—An extension of networking and speaking passionately about the organization is leveraging others to do the legwork for you. Offer discounts or other incentives to customers and/or employees for referrals to individuals as well as groups to which they belong.

Experiment—Every campaign does not work for every business. But if you want to try something, go for it. Test your idea with an inexpensive campaign then take the feedback and analyze to determine if it will work on a large scale and what adjustments may be necessary.

Communicate—Send periodic print or email newsletters to customers. Post on LinkedIn groups, Facebook and Twitter. They are a great way to introduce new products, special pricing or other offers and news.



BUSINESS TRAVELERS TALK

More than 3,000 business travelers talked the best and worst in a recent survey by Vitesse Worldwide, a land and air executive travel company.

Worst experiences included:

- Herd-like, impersonal treatment by travel and lodging staff
- Overly intrusive security systems
- Frequent flight cancellations and delays

Best experiences included:

- A concierge service with knowledge of their personal preferences
- Well-coordinated scheduling for all facets of their trip
- A security detail when traveling in dangerous parts of the world

“What comes through loud and clear is that an executive traveler isn’t asking for high-priced services as much as high-touch,” says Shawn Abaspour, CEO of Vitesse Worldwide.



POOR SKILLS SPELL FAILURE FOR NEW HIRES

Thirty-six percent of chief financial officers say the top reason new hires don’t work out, aside from performance issues, is a poor skills match, according to a survey by Robert Half International. The survey is based on interviews with more than 1,400 CFOs of U.S. companies.

Other factors that contribute to a failed hire include unclear performance expectations (30 percent), personality conflicts (17 percent), failure to fit into corporate culture (14 percent) and don’t know (3 percent).

“Companies can’t afford hiring mistakes, which are costly and can erode staff morale,” says Max Messmer, chairman and CEO of Robert Half International. “Finding the right match requires time and attention, and it’s something even busy managers need to make time for.”

Robert Half offers these tips for better hires:

Know what you want. Don’t recycle the job description you used last time because it has most likely changed. Take a fresh look at your needs and desired skills.

Look for the intangibles. Inquire about and evaluate a potential employee’s soft skills, such as leadership and communication to determine if he or she will fit into your corporate culture.

Sell your company. People in high-demand specialties commonly have multiple job offers. Show them why they should choose your organization by communicating its benefits and offering a compensation package comparable to or above market rates.

SBA loans set record in 2011: What's next?



The U.S. Small Business Administration loaned more than \$30 billion in fiscal year 2011—\$7.8 billion more than the previous year and \$1.9 billion better than the previous record set in 2007.

A major reason for the growth is that the loan maximum rose from \$2 million to \$5 million in 2011, says Dawn DeRidder, national SBA/government lending sales manager at M&I Bank, now part of BMO Financial Group.

“This opened the door for bigger projects many companies were looking to do, whether it was purchasing equipment, capital improvements or anything, really,” DeRidder explains.

She adds, “In bad economic times, like the recession we’re coming out of, companies’

Want an SBA loan in 2012? What small businesses need to know

SBA loans are bank-financed but government-backed. The backing depends on the specific government loan program. On the standard 7(a) loans, for example, the SBA provides an 85-percent guarantee on loans \$150,000 and less, and a 75-percent guarantee for loans more than \$150,000, explains Dawn DeRidder of BMO Financial Group. In addition, the SBA-backed loans can have lower interest rates and longer terms.

SBA loans also come with eligibility requirements that differ from traditional loans. Loan applicants must meet the definition of a for-profit, small business based on either number of employees or revenue levels depending on the industry, DeRidder says.

As consultant Helena Hauk explains, “Businesses shouldn’t underestimate the SBA; there are different loan programs to meet different needs. They should take the time to pick up the phone and talk to an

expert. There are SBA district offices all across the country designed to help these businesses, and they should take advantage of it.”

Researching basic information through www.sba.gov is a first step, Hauk says. The site is filled with the latest information and updates, including forms and guidelines a business might need.

The next step is to find an expert to help guide the business through the process. Through the SBA website, businesses can search for a local SBA office by ZIP code—the offices serve as resources to answer questions and provide additional information.

Prep before meeting

Existing businesses should prepare and/or update business plans, and bring previous tax returns when meeting with the banker. New businesses should prepare a business feasibility study. (Unsure about preparing these documents? Local SBA offices have counseling, training and business

development specialists who can help.) Applying businesses also should understand its credit report as well as identify any hiccups and resolution plans, Hauk advises.

All the documentation is important, but the critical component to any application is that the applicant truly understands the nature of the business, DeRidder says.

“I can’t tell you how many times I’ve talked to a client who wants to start a business, and when I ask them about their business plan, potential projects or competition, they have no idea and the process stops,” she says. “Businesses need to be prepared when going to a lender because from a lender’s perspective, if the person sitting in front of their desk doesn’t have a plan of action, the lender is naturally going to gravitate to and approve a business that is more prepared.”

Know it takes time

Rosemary McLaughlin, who obtained an SBA loan in 2011 to open an Elements

balance sheets are stressed and liquidity is not where it needs to be. Businesses rely more on loans to meet their needs.”

Rosemary McLaughlin left her job as a health care executive in August and used an SBA loan to open an Elements Therapeutic Massage franchise with plans to open two more in the next two years. She says she sought an SBA loan because of the favorable loan terms—6.25 percent for seven years—that will help cash flow in the initial operating phase.

“I tell every small business owner or potential small business owner I meet about my success obtaining this loan,” McLaughlin says.

Many of the companies with whom consultant Helena Hauk worked in 2011

sought SBA loans to help cash flow, particularly through refinancing. She expects a similar pattern in 2012.

“I think the overall tone is cautious optimism,” says Hauk, founder of 5th Gear Consulting, a consulting firm that specializes in commercial real estate lending through SBA loan programs.

DeRidder says don’t expect 2012 to set a new SBA loan record. “This is attributed to a general lack of ‘consumer confidence’ in the economy,” she explains. “As such, companies are not looking to borrow now. While banks want to lend money, the demand just isn’t there.

“As much as we would like to see the economy turning around quickly, the majority of predictions indicate that a solid recovery

won’t be seen until potentially 2014,” she says.

\$2 billion for early stage

In 2012, the SBA is moving forward with the recently launched billion-dollar Early Stage Innovation Fund, which will provide matching capital to small business investment companies that target early-stage small businesses seeking private institutional capital.

In conjunction, the Startup America Partnership, a new nonprofit alliance of entrepreneurs, major corporations and service providers, announced another \$1 billion-plus in commitments from more than 50 private-sector entities, which will provide everything from free software to free consulting and legal services, to 100,000 startups over the next three years. **LE**

Therapeutic Massage franchise, says the SBA loan process is easy, although borrowers should be aware the loan’s timing depends on the actual closing date.

“Schedules, information requests and some detailed requirements can add time to the process,” she says. “The loan did require time, but starting a new business requires time. And the SBA website is helpful during the application process.

“Only four forms are required to start an SBA loan application, so fill those out and bring to the bank. It shows you take initiative and are serious,” McLaughlin says.

She also recommends finding a bank and or bank officer that specializes or understands the applicant’s business type. She worked with a bank officer who understood franchises and startups. “Once I found a bank that was familiar with the business model, I was able to have conversations about Elements Therapeutic Massage that were easily understood,” McLaughlin says.

Different lender types

DeRidder says SBA loans come with the misperception that the paperwork is overwhelming compared to a conventional loan. While the amount of paperwork depends on the type of loan, preferred lenders can fill out 99 percent of the paperwork.

“There are three different types of SBA lenders—infrequent participant, certified and preferred,” she explains. “Infrequent participant lenders need to send the SBA all their paperwork for independent analysis, which can take some time. Certified lenders review the loans and send them to the SBA, which then has three days to review the documents. Preferred lenders have the final say on loans. So the process will be quicker and simpler if a business chooses a preferred lender.”

Check out the SBA’s website, www.SBA.gov, to search for your local office, which can provide the certified and preferred lender list for your area.

You have an SBA loan—now what?

Managing an SBA is no different than managing a conventional loan, says Helena Hauk, founder of 5th Gear Consulting, a consulting firm that specializes in commercial real estate lending through SBA loan programs.

The borrower makes monthly payments and is required to provide the lender with at least an annual, but sometimes a quarterly or monthly, financial statement. The borrower also must notify the lender of any changes to the company, as is the case with a conventional loan, she says.

Top 6 things

to know about doing business in **Brazil**

BY GERD FOERSTER, CPA, CONFIDOR



1 What should a businessperson know about Brazil?

First of all, Brazil is a country that has an area of more than 3 million square miles situated in South America and represents approximately 50 percent of the continent's land. It borders almost all countries in South America, except Ecuador and Chile. The national language is Portuguese, and the population is about 194 million people, about 40 percent of whom are children. About 83 percent of the population lives in the cities.

Since 1994, the national currency has been the Real (BRL). Brazil has lacked the capital to supply the needs of the country and its population. Consequently, foreign investments (if not for short-term applications) typically receive tax incentives from the government. In general, foreign investments do not require prior approval of the government unless the company is interested in obtaining an incentive. However, there are some exceptions, so it is a good idea to consult advisors familiar with Brazilian law and customs before conducting business in the country.



2 What are the biggest differences compared to operating in the United States?

The biggest differences are the many bureaucratic requirements demanded by the tax and legal authorities in Brazil. In the Brazilian tax system, products are taxed throughout the chain of production. In the United States, the end consumer pays sales taxes once the sale is finalized. In Brazil, however, each person involved in the process, including the producer, wholesale dealer, retailer, etc., pays sales taxes, resulting in a higher level of tax burden. Also black markets operate in Brazil, so U.S. businesses should be aware of their effects.

3 What should business know about setting up a company in Brazil?

In 1994, the federal government implemented the "Plano Real," an economic reform plan that reduced inflation rates based on the strength of the federal government's foreign currency reserves coupled with credit restrictions that raised interest rates. Initially, income was redistributed to the lower class, generating a consumption boom. To control the resulting inflation in the following year, interest rates increased and credit was restricted. As a consequence, the economy has grown slowly since then.



During the last nine years of socialist government, social policies were adopted and minimum governmental aid boosted (bolsa-família) to help the poorest class, stimulating internal consumption. However, the government has not reduced the public deficit, which compromises the effectiveness of the economical targets and increases the risk of inflation.

Internationally, trade with other countries in South America has increased significantly in the past few years with the creation of a common market among Argentina, Paraguay and Uruguay (Mercosul) in 1991. However, all the countries involved still make protectionist decisions, making the effectiveness of the market a nightmare.

As a consequence of the improvement in the distribution of income to the poorest classes, the Brazilian public debt has increased during the last year. As a result, the Brazilian government has adopted the policy to increase the tax burden, which varies between 40 to 45 percent of the Brazilian GDP. Furthermore, there is a lack of high-level investments in public areas such as health, education, transport, social welfare, etc., which represent great business opportunities because Brazilian public services do not act or act in a very

limited manner to provide the desired products and services.

What about employment in Brazil?

With more than 190 million citizens, the country has a significant labor force, composed of many semi-skilled or unskilled workers. There is a shortage of management, supervisory and technical staff at disposal for Brazilian or foreign companies. One of the biggest challenges, for example, is to find qualified labor in the high-technology area.

What type of work permit is necessary for non-Brazilians?

Considering the force and influence that the labor unions represent and generate in the companies and in the Brazilian government, there are many limitations for the contract of foreign labor. Brazilian companies are not allowed to hire foreign citizens who do not hold the proper visas and work permits. The type of visa depends upon how long the employee will work in Brazil. To receive the authorization for non-Brazilian workers, at least two-thirds of the company's employees must be from Brazil and at least two-thirds of total payroll must be paid to Brazilians.

Temporary visas are granted to foreign workers for two years. A foreign company that wishes to hire a foreign executive with a permanent employment visa must have a minimum investment in Brazil equivalent to \$200,000.

What else should someone know about doing business in Brazil?

Despite all the internal problems in some key public areas, such as health, education and transport, Brazil represents a secure shore in which to invest compared with other countries because of the strong political situation and the fact that the country does not have any important enemies or market barriers with other countries. There are a lot of opportunities in the chemical, real estate, transportation and food areas. Also several major international events will happen in 2014 (Soccer World Cup) and in 2016 (Olympics). For this reason, Brazil has a large, positive and prospective market to present. **LE**

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on the bookshelf

BUSINESS RESOLUTION TIME

It's time again—to set new goals or at least revisit previously set goals and long-term plans to see what's been happening and where your company needs to go. This edition of “On the Bookshelf” offers some reading suggestions to help identify what you need to do, where you need to go and how to get there.

The B2B Executive Playbook: The Ultimate Weapon for Achieving Sustainable, Predictable and Profitable Growth

Sean Geehan

Clerisy Press

192 pages

The B2B marketplace operates significantly different than the B2C marketplace. Yet, Geehan found the more publicly discussed case studies and anecdotes shared with businesses were primarily B2C (Coke, Apple, etc.) He writes about the unique challenges of B2B—in particular how a business in this marketplace tends to rely on few individuals, thus key relationships are essential to sustaining growth. Geehan explores the need for B2B companies to make engaging with customers their top goal and how that goal should drive the company's internal alignment and operations. As one reviewer on Amazon.com states, “The lessons learned here can serve as a competitive weapon for those who take the time to thoughtfully apply them to their own circumstances.”

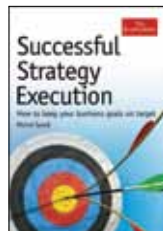


Successful Strategy Execution: How to Keep Your Business Goals on Target

Michel Syrett
The Economist;
Bloomberg Press

164 pages

Tracking performance is one thing. Tying it to long-term plans is another. Too many companies are lost in translation, failing to compare actuals to projections and adjust their plans accordingly. Syrett explores how to implement practical strategy execution and shares real-life stories of companies implementing strategies to keep their goals on target.

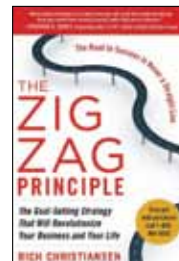


The Zigzag Principle: The Goal Setting Strategy That Will Revolutionize Your Business and Your Life

Rich Christiansen
McGraw Hill

256 pages

Following a straight line is never the best route—thus the zigzag principle created by Christiansen. As a leader of well-established and start-up businesses, he brings a unique mantra—don't bulldoze to reach your objectives; zigzag to achieve them. Well-known author Stephen Covey writes of *The Zigzag Principle*, “Rock-solid principles so simple that you will read this book wondering how you could have missed seeing truths that are so obvious.” As Christiansen explains, readers can assess their resources, use them to the fullest and keep the team motivated.



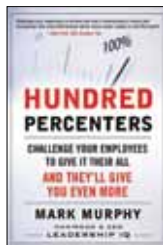
Hundred Percenters: Challenge Your Employees to Give it Their All & They'll Give You Even More

Mark Murphy

McGraw Hill

240 pages

Most leaders don't believe employees are giving 100 percent and they're right, according to what employees report. Doing fine, getting by and meeting expectations are sufficient. But what if a growing segment of your employees thought “let's push the envelope, let's be great, let's do what nobody thought could be done?” Murphy, chairman and CEO of Leadership IQ, says a key to reaching that goal is for leaders to care enough to push “Hundred Percenters” to new heights. Murphy offers practical insight into setting clear expectations, dealing swiftly with toxic employees, eliminating “de-motivators” and focusing employees on value-added work.



The Now Revolution: 7 Shifts to Make Your Business Faster, Smarter and More Social

Jay Baer & Amber Naslund

Wiley

224 pages

Customers expect a level of attention and responsiveness that most companies can't live up to. Can you? That's the question posed by the authors who then offer insight to help your business live up to what your customers expect in today's instantaneous world. They offer a seven-part plan to harness the power of the social web for your business including, stripping away silos, empowering a new type of employee, and redesigning success metrics for the instantaneous business world. **LE**



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