Burt & Company CPAs, LLC

Accounting, Tax, & Financial Advisors

## Introduction

Welcome back to the Burt & Company CPAs, LLC Audit & Accounting (A&A) Update. 2010 has been a year full of changes (some good, some questionable) and cautious optimism about the future. Although we are very slowly coming out of an economic slowdown that no one could have ever imagined, it has forced us to re-evaluate what the new "normal" is.

We look forward to hearing from you, our clients and community partners, on what you think the future holds for you and your business. We also want to know what A&A topics you would find interesting and relevant to your business. Join us on Facebook to share your ideas.

We encourage you to visit our website regularly for up-to-date tax information, hundreds of financial calculators, and other important tools and information for your business. You can also register on our client portal "File Share" to exchange documents with us in a secure environment.

Thank you for your business and your support!

Ronald Schranz, CPA
Audit & Accounting Partner

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## FRAUD UPDATE

### Developing a Strategy to Fight Fraud

If an organization has never been a victim of fraud, or doesn't know it's been a victim of fraud, it may be hard to convince that organization's owners or management of the need for a strategy to detect and prevent fraud. However, it is important to realize the direct financial costs associated with loss: consequential loss, legal and investigative costs, regulatory fines, management time, increased insurance premiums, loss of key staff and customers, and increased cost of/inability to raise new finance.

Although fraud can never be completely eliminated from a business, it can be combated by following some of these components: establish the right culture, establish a whistle-blowing policy, identify risks, implement effective controls, increase awareness of the risks, plan for the worst, recruit the right people, and search for suspicious transactions.

Sounds overwhelming? It can be, but as your organization goes into the beginning of year strategic planning sessions, fraud prevention should be right at the top of the discussion board. If you need help with either strategic planning or developing an internal control strategy, or just want more information regarding this topic, please contact Burt & Company.

*Call us at 505-265-6604 and talk to Ron Schranz or Cheryl Silcox.*

## AUDIT

### How Will the New IRS Audit Program Affect Your Business?

BY RIEVA LESONSKY
NOVEMBER 22, 2010

Has your business ever been audited by the IRS? Just hearing those words can send a shiver of fear down any entrepreneur's spine. Unfortunately, small business owners have more reason than usual to be nervous about opening their mail for the next few years thanks to the IRS's Employment Tax National Research Project (NRP).

The NRP is a comprehensive audit that will hit 2,000 small companies each year at random in 2010, 2011 and 2012. The goal is to see how well businesses are complying with employment tax regulations. The last NRP was conducted 25 years ago, and with the federal government seeking all possible sources of revenue it can, the IRS is looking to make sure it's getting all the money it's owed by small business taxpayers.

An article in *CFO Zone* reports that the NRP is honing in on four areas:

1. **Worker Classification:** Classification of workers as employees or independent contractors
2. **Executive compensation:** Salary and non-salary compensation, such as loans, deferred compensation and stock
3. **Fringe benefits:** This includes both executive and employee perks
4. **Payroll taxes:** Forms 941 and Form 1099/W-2 will be examined regarding withholding and next-day deposit requirements.

The IRS has stated these audits will be "comprehensive" and if you are hit with one, be ready to open all your records. However, you don't have to get audited to be affected by the NRP: The results of the completed study will be used to adjust tax regulations and tighten up compliance in these four areas above.

Don't wait to get audited—make sure your company is in compliance. Have your accountant take a look at your finances and ensure any problems are corrected sooner, not later.
(http://growsmartbusiness.com/2010/11/)

*Not sure if this will affect your business? Call us at 505-265-6604 and talk to Ron Schranz or Cheryl Silcox.*

### Top Banks Face $100 Billion Basel Shortfall, But Hope Remains with New Small Business Loans

According to ABC News, the new Basel III banking rules will leave the biggest U.S. banks short of between $100 billion and $150 billion in equity capital, with 90% of the shortfall concentrated in the top six banks.

The newspaper that ABC News cited, *Financial Times,* said that a study by the investment banking arm of Barclays Plc assumes the banks will have to hold top quality capital equal to 8% of their total assets – a one point cushion against falling below the effective global minimum of 7% set by the Basel Committee on Banking Supervision. The regulations mean banks may need to increase their capital through retained earnings, by issuing equity, or they can cut their risk-weighted assets by selling assets and cutting back riskier business.

In a separate article, CNNMoney.com reports that the Small Business Administration announced two new lending initiatives aimed at getting relatively modest loans to small businesses quickly.

The idea is to get loans under $250,000 into the hands of small businesses efficiently: Applications are only 2 pages long and can be approved in anywhere from "minutes" to 10 days, according to the SBA. Greater access to credit should help spur firms to grow and hire, giving the economy a boost.

"Many entrepreneurs and small business owners across the country have enormous potential to drive economic growth and create good-paying jobs in their local communities, but too often they face barriers in fulfilling that potential," said Catherine Hughes, chairperson of the SBA's new Advisory Council on Underserved Communities, in a written statement.

Banks have been slow to lend to small businesses, even as credit availability has eased since the global financial crisis hit. More than three-quarters of small businesses that applied for a loan during the first half of 2010 received only "some" or "none" of the credit they desired, according to a New York Federal Reserve report released in October.

Unlike big corporations, which can issue stock, sell bonds or take other measures to raise cash, small businesses are largely at the mercy of banks for financing. But big banks have complained that it often doesn't pay for them to spend time and resources administering a small loan.

The SBA's new Small Loan Advantage incentive cuts the paperwork burden. Larger banks that are already so-called "preferred" lenders can make loans through its flagship 7(a) lending program up to $250,000, and get them approved quickly by submitting a single-page credit memo, according to Jonathan Swain, assistant administrator for the SBA.

Loans submitted electronically "will be approved in minutes," according to the SBA. Other applications will be approved within one business day.

Some 630 banks are preferred lenders and have the authority to approve loans independently. As with a normal 7(a) program, the loans are guaranteed at 85% up to $150,000 and 75% over $150,000.

A second initiative, called Community Advantage, aims to get SBA-backed loans to underserved communities, such as minority-, women-, and veteran-owned businesses, as well as firms in lower-income or rural areas. The program encourages borrowers to develop a business plan and work with advisors. Applications should be approved within 5 to 10 days.

Instead of banks, the three-year pilot program operates via alternative, community-minded lenders like Community Development Fund Institutions**,** nonprofit Certified Development companies and approved micro-lending intermediaries. These organizations haven't previously been able to access government loans through the 7(a) program.

Both programs are expected to be up and running by March 15.

*As you make your way through the funding process, keep in mind that your CPA, as your professional business adviser, can be an important ally in evaluating all the avail-able options and helping you choose the one that best meets your needs.*

## FASB to Negotiate on Fair-Value, New IASB Head Tells Les Echos

By: Heather Smith

The U.S. Financial Accounting Standards Board "is ready to move towards a more balanced approach" on whether to apply fair-value accounting to all financial assets, a position that has threatened convergence with the London-based International Accounting Standards Board, Les Echos said, citing IASB incoming president Hans Hoogervorst.

The two groups should have finished harmonizing international accounting standards to be applied worldwide when Hoogervorst takes office on July 1, 2011, he told the newspaper.

"IASB governance needs to be strengthened" and accounting standards should be kept clear and consistent to avoid confusion for investors and the general public, Hoogervorst said, according to the newspaper.
*(http://www.bloomberg.com/news/2010-12-02/fasb-to-negotiate-on-fair-value-new-iasb-head-tells-les-echos.html)*

## Business Interruption & Continuity Planning

By: Ivona McCrary, CPA
Burt & Company CPAs, LLC

While there are some things you can control there are many more that you cannot. The real issue is not what you can or cannot control, but how you react to those unexpected circumstances and how well your company carries out its "contingency plan" (If it has one). The difference may mean the company's survival and retention of its asset value.

The entrepreneur, being an acknowledged risk taker, understands that risk falls into two broad categories: sudden (immediate and surprising) and longer-term (which arises from a deteriorating or evolving situation). The sudden risks occur due to an unpredictable event resulting in an immediate need to "replace" a lost person or respond immediately to an event. This includes a sudden death or disabling event (e.g., due to an accident, acute health issue, economic or material catastrophe). A longer term event occurs based on a deteriorating circumstance, which may or may not be understood and/or identified. This includes compromises to a personal, familial, health, business or market condition.

Mitigation of these risk types starts with the basics, building a business Interruption or continuation plan. The process of developing an effective contingency plan can be broken down into five key areas:

IDENTIFY YOUR NEEDS. While you won't be able to have a contingency plan for every potential disaster, you need to identify the areas of highest vulnerability-people (especially key personnel, including the owner), processes, technology, clients, quality, facility, etc.

MAKE AN IMPACT ASSESSMENT. Next, if such a disaster were to occur, what is the likely impact on the firm, clients, employees, and owners?

SELECT SUITABLE MEASURES AND CONTROLS. What specific preparedness steps should be implemented now? Think in terms of organizing critical documents such as those memorializing passwords and security codes, financial relationships and signature authorities, etc.

DEVELOP RECOVERY STRATEGIES. What will it take to recover from the disaster and what will be your firm's strategy? Recovery strategies enable operations to be rapidly recovered by key personnel and they must be fully prepared to implement their responsibilities at short notice when required. This is a vertical, top down, one process/function at a time. This is where everything gets discussed and documented. What is required to make operational the process/function, including the resource requirements?

BUILD THE PLAN. Finally, start putting the pieces together. Like wills and diets, each of us plan to start tomorrow, but continue to defer the task. Break the seemingly insurmountable task into small steps and make disciplined steps regularly. Using the check list we've assembled here, we recommend that you start building your Business Continuity Plan today.

This list is a way of getting started and is not necessarily comprehensive to your specific enterprise. It is offered as a way to help you assemble a portfolio of documents and information necessary to your successful recovery from the unexpected:

- Loss of Owner/Key Person Continuity Plan (Generally, this should has been discussed with appropriate parties before it is needed)
- Any other form of an existing plan (if available)
- Organizational Chart – showing names and positions
- Owner and staff emergency contact information
- Password and security information
- List of customers and contact numbers
- List of suppliers and contact numbers

- List of emergency services and contact numbers (police and fire department, utility companies)
- Premises addresses and maps
- Evacuation procedures and fire regulations
- Health and Safety Procedures
- Operations and Administrative procedures (job and task descriptions)
- List of professional advisors and emergency contact information (Banking, Legal, Accounting, Consulting, Insurance)
- Personnel administrative procedures
- "As built" facility floor plans
- Asset inventories (cash and cash equivalents, fixed assets, material inventories, small tools and supplies)
- Inventories of information and communication assets
- Information Technology & Communication specifications
- Copies of maintenance and service level agreements
- Copies of contracts and debt instruments
- Off -site storage procedures
- Relevant industry regulations and guidelines
- Insurance information including types and terms of policies as well as agent contact information.

*Keep in mind that your CPA, as your professional business adviser, can be an important partner is gathering this information and helping you decide where it should all be maintained. Contact us today for a consultation.*

## Debate on Reverse-Mortgage Risks Heats Up

By **MAYA JACKSON RANDALL**

A report by Consumers Union and other advocacy groups has ignited a debate about whether reverse mortgages are too risky for house-rich seniors in need of extra cash, just as the nation's new consumer agency is starting to examine the issue.

The groups are urging the new Consumer Financial Protection Bureau to boost oversight of the complex loans and to move to fight scams and deceptive marketing. Other groups, however, defend reverse mortgages.

The call for increased oversight comes as the market for reverse mortgages is poised for expansion as the baby-boom generation retires. Meanwhile, lenders are aggressively marketing reverse mortgages, tapping celebrities such as actor and former U.S. Sen. Fred Thompson as spokesmen and holding seminars at senior centers to sell the loans.

Most reverse mortgages are made under the Home Equity Conversion Mortgage program, begun in 1988 and administered by the Department of Housing and Urban Development. A borrower must be at least 62 years old and have paid off all or most of the mortgage. Instead of a monthly mortgage payment, the borrower receives payments as a lump sum, monthly cash advances or line of credit. When the homeowner dies, moves, or sells the house, the loan must be repaid.

The consumer advocates say seniors should use reverse mortgages—which allow older Americans to tap into the equity in their home—only as a last resort because fees can be high and the loans could affect eligibility for government-assistance programs such as Medicaid. Also, if borrowers deplete home equity, they won't have much to pass on to heirs and could have a harder time funding long-term care, the groups warn.

Advocates also worry that if more isn't done to help vulnerable consumers understand the risks, the expanding reverse-mortgage market could melt down just like the subprime-mortgage market did ahead of the financial crisis.

"The public, policy makers and legislators should be aware that this time, yesterday's subprime lenders are now preying on a growing elderly population who are trying to remain financially independent in their own homes during a depressed economy," says the report from Consumers Union, the California Advocates for Nursing Home Reform and the Council on Aging Silicon Valley released last week.

Defending reverse mortgages, groups such as RetireSafe and the National Reverse Mortgage Lenders Association say the report fails to acknowledge recent pro-consumer changes.

"I think they're rattling the cages here without having much concrete to offer or any evidence to back up their allegations that there are widespread problems," said Peter Bell, president of the NRMLA.

Meanwhile, the Government Accountability Office, Congress's investigative arm, has found examples of potentially misleading claims in loan-marketing materials. Also, the Federal Bureau of Investigation warned in a March 2009 bulletin that loan officers and real-estate agents have exploited reverse mortgages to defraud senior citizens.

Congress directed the new Consumer Financial Protection Bureau to study reverse mortgages. According to a bureau official who works closely on mortgage-related issues, the bureau is beginning to examine reverse mortgages and plans to build on the Federal Reserve's and GAO's efforts to improve disclosures and prevent misleading advertising.

The advocacy groups say reverse mortgages are reasonable for some seniors in foreclosure who don't plan to move into assisted living and for low-income seniors who lack other retirement assets, don't qualify for lower-cost alternatives and can't meet their current mortgage obligation.

But most seniors should consider alternatives, the groups say.

Still, Barbara Stucki, a vice president at the National Council on Aging, expects homes to become more popular sources of income for retirees, given that fewer Americans have defined-benefit pensions and more Americans are living longer after retirement.

"Today's retirement realities are daunting, and when you combine that with the economic challenges, people are going to be tapping the equity in their homes," she said. "We want to make sure that options like reverse mortgages are viable and properly regulated."

The industry itself doesn't seem opposed to new regulation.

"We understand that the demographics are in our favor. The market will grow, and the need will grow because people need to fund longevity, but it will only grow if consumers feel the products are fair and the people who offer them are trustworthy," said Mr. Bell of the National Reverse Mortgage Lenders Association. "If the regulatory regime helps get us there, that's great."

*(http://online.wsj.com/article)*

*Thank you for your business in 2010. We look forward to serving you in 2011 and into the future. Please feel free to call us anytime. We want to be your business partner!*


iPad

**Existing clients and new clients who engage Burt & Company for $500 or more of new services will automatically be put in a drawing for Apple iPad. Drawing will take place on April 15, 2011.**

***Good Luck!***

*(Clients will be entered into drawing once Burt & Company has received a signed engagement letter for said services Engagement letter must be received between January 1 and April 15, 2011.)*

Burt & Company CPAs, LLC
*Accounting, Tax, & Financial Advisors*
4101 Indian School Road, NE, Suite 440
Albuquerque, NM 87110