

LBA Advisor

SUMMER 2008



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Dear Clients & Friends:



Richard D. Brock, CPA
Chairman of the Board



Neal J. Von Stein, CPA
Managing Partner

It's hard to believe we are approaching the 4th quarter of the year. And what a rollercoaster year it is turning out to be. While the economy continues to concern all of us, the Summer Olympics were a welcome and exciting distraction, and all focus now turns to the presidential election. Both the current economy and the election have potential to strongly impact all of us. Be assured that we are carefully watching and staying keenly aware of significant tax changes that could affect you and will keep you informed of any such changes as soon as they occur.

As you may have ascertained from the cover of this issue of the LBA Advisor, we have launched a new and very different website. Those of you who work with us know that we are not your typical "bean counters" and we wanted our presence on the Internet to reflect just that. If you have not already done so, please visit us at www.TheLBAGroup.com.

Client service is always at the forefront of our relationships with you and in order to be sure we continue to provide excellent service that exceeds your expectations, we recently conducted a client satisfaction survey. A random sampling of 125 of our clients was selected and the survey was conducted by an outside third party. We were overwhelmed with a 77.5% response rate and want to thank those of you who so graciously participated. We were pleased with our results overall, but there are always areas that have room for improvement and we have already begun to address those areas.

The *Jacksonville Business Journal* once again listed LBA as one of Northeast Florida's fastest growing private companies in 2008. LBA was number 35 on the list of the area's 50 fastest growing companies and we would like to express our appreciation and gratitude for your continued trust in us. It is this trust that helps us continue to grow which, in turn, allows us to add some of the most experienced professionals in the region to the LBA team. The newest member of our leadership team, Craig Phillips, joined us earlier this year as a Principal on the Audit Services Team (see related story on page 13) and we are excited to have him on board.

Finally, in other exciting news, LBA has been approved by the Public Companies Accounting Oversight Board (PCAOB) to provide audit services to publicly traded businesses. We are looking forward to expanding our range of services to these companies throughout the State of Florida.

Enjoy this issue of the LBA Advisor and, as always, thank you for being such a valued part of our extended LBA team.

Sincerely,

Two handwritten signatures in white ink. The first signature is "Richard" and the second is "Neal".

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On the Cover: LBA invites you to visit our new (cyber) world at www.TheLBAGroup.com.

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Rob Hinckley, CPA
Tax Partner

Tax Law Changes for 2008

Are you taking advantage of them?

With a number of changes that will affect the 2008 tax year, taxpayers should be aware of some of the more important opportunities and pitfalls.

IRA Limits.

A number of years ago Congress set in place a series of gradual increases in the IRA contribution limits. The final increase occurs in 2008. The annual IRA funding limit, whether for a traditional deductible IRA or a Roth IRA, is now \$5,000 per year. For individuals age 50 or over by the end of 2008, the limit is \$6,000. (For 2007, both of those amounts were \$1,000 less.)

Caution: A full Roth IRA contribution can be made only if the taxpayer's modified adjusted gross income is under \$95,000 for single filers and \$150,000 for joint filers. With respect to traditional deductible IRAs, there are income-sensitive limits only if the individual (or spouse) is a participant in another retirement plan.

Mileage Rates.

The business mileage rate changed mid-year when the IRS announced that effective July 1, 2008, the rate increased to 58.5¢ per mile, up from 50.5¢ that was in effect for the first half of the year. The allowance for mileage for medical or moving expenses remains at 19¢ per mile and the rate for charitable driving remains at 14¢ per mile.

0% Capital Gain and Dividend Rates.

There is something about a tax rate of zero percent that really grabs one's attention. For the first time ever, lower-income filers will be able to report capital gains and dividends at no federal tax cost.

While this might seem to be a tax rate that should be avidly pursued, significant restrictions apply:

- The 0% rate is not dramatically different than in previous years, during which dividends and capital gains have been taxed at 5%.
- To qualify, the capital gain or dividend must fall into the lower tax brackets. Roughly, that means less



than \$32,000 of taxable income for a single filer and \$65,000 for a joint filer.

- Finally, any capital gain or dividend is considered the top portion of an individual's income. The ordinary income is considered to fill up the lower brackets first, followed by the capital gain or dividend income as the top tier.

In most cases, lower-bracket returns are those of either retirees or children/young adults. But both groups have problems in receiving the full benefit of this new 0% rate.

For the elderly, the big issue is the complicated formula that increases the taxability of Social Security benefits as income increases.

Example. Fred and Ethel are retirees collecting Social Security benefits and have read about the new 0% capital gain rate. They check their tax return and learn that they can absorb about \$10,000 of capital gain at 0%. Accordingly, they sell a few stocks and recognize \$10,000 of capital gains in 2008. While the \$10,000 capital gain has a 0% cost, the extra \$10,000 of income causes about \$8,000 of additional Social Security benefits to become taxable as ordinary income. This cost Fred and Ethel about \$2,000 of additional federal income tax!

For those under age 24, who generally will be in the lower tax brackets to which the 0% rate applies, the new "kiddie tax" may rear its ugly head. Starting in 2008, in a corresponding law change (discussed in later paragraphs), many under age 24 will find their parents' top tax rate applied to their income rather than their own lower rates. Accordingly, the 0% normally applicable to the capital gains and dividend income of a child or young adult will

be taxed at mom and dad's 15% rate.

In summary, while the 0% rate is intriguing, its limits are more severe than advertised. Please check with us if you have family members who may benefit from the 0% capital gain and dividend rate, and we will assist in determining applicability. In some cases, it may be possible to make gifts of appreciated stocks or other securities to these family members, allowing them to subsequently recognize the gain at a 0% rate.

Expanded Kiddie Tax Rules.

In an earlier issue, we explained that Congress has expanded the "kiddie tax" beginning in 2008. For the last several years, the kiddie tax, which taxes a child at the parents' top tax rate, has applied only to taxpayers under age 18. In its simplest form, the kiddie tax imposes the parent tax rate on the investment income of the child that is in excess of \$1,700.

Beginning with the 2008 tax year, the kiddie tax is expanded in a complicated manner to potentially reach children through age 23. The kiddie tax applies to those who have their 18th birthday during the year and to those who are in full-time student status (defined as in full-time enrollment at least five months of the year) and who have attained their 19th through 23rd birthday during the particular tax year. The kiddie tax applies to this age 18-23 group if the wages and self-employment income of the individual exceed half of the amounts expended for the individual's support for the year.

Example. Bart is a full-time college student, age 20, whose items of support for 2008 total \$30,000. This support includes Bart's room, board, tuition, health care and recreational expenditures for the year, less any scholarships that reduce the outlay for his tuition. His W-2s from summer employment and part-time work at school during the year total \$7,000 for 2008. As a result, Bart is subject to the kiddie tax, because his wage income of \$7,000 does not exceed 50% of his \$30,000 of support for 2008. Accordingly, if Bart has interest, dividends, capital gains and other unearned income in excess of \$1,700, that excess will be taxed at his parents' top tax rate.

Strategies. For parents of 18- to 23-year-olds who will face the expanded kiddie tax in 2008 and after, there are some actions that can help. New investments that are

intended as savings for college might be directed toward state-sponsored 529 plans. These investments can be liquidated during college years without any taxation if the funds are expended for higher education, thus avoiding the reach of the new kiddie tax.

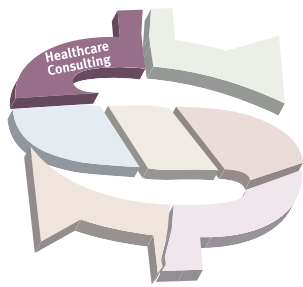
For those who are liquidating investments already in the student's name, the kiddie tax may now be inevitable. But recognize that a child will likely qualify for a Hope or Lifetime Learning tax credit based on the higher education tuition expenditures. This tax credit can be as large as \$2,000 and may offset some or all of the additional kiddie tax imposed in the child's return. In some cases, there is a special election that we can make to decline the student's dependency exemption in the parent return, in order to qualify the child's tax return for one of these college credits.

Finally, as a practical matter, recognize that where the kiddie tax applies, parent taxable income will now be disclosed within the child's return! In this situation, most parents will want to control access to that child's tax return to assure confidentiality with respect to their personal income.

To ensure you are taking advantage of all tax benefits for which you are eligible, please contact your LBA professional at 904.396.4015.

Estate Tax – To Be or Not to Be

The federal estate tax for 2008 is based on a \$2,000,000 exemption per taxpayer and has a top rate of 45%. Under current law the exemption increases to \$3,500,000 in 2009 and the tax is then eliminated for 2010 only. It returns in 2011 with an exemption equal to \$1,000,000 and a 55% maximum tax rate. Obviously such a structure has led to a lot of debate on whether or not these scheduled changes will come to fruition. The feeling of most estate planning professionals is that Congress will not let the tax be eliminated and they will have to pass estate tax legislation by the end of next year. Obama has spoken in favor of an exemption of \$3,500,000 and top rate of 45%, while McCain favors an exemption of \$5,000,000 and top rate of 15%. First, since Democrats will control Congress, we should assume the rate will be higher than 15% and most likely will be at least 25% and probably closer to the 45%. A positive note is that currently both candidates support making the exemption portable for spouses which means that any unused exemption at the death of the first spouse could be utilized by the surviving spouse. That portability could simplify planning in that spouses wouldn't need to re-title assets solely to ensure that a portion of the exemption of the first spouse to die isn't wasted.



Practice Scheduling: Chaos Versus Cohesion

A perfectly orchestrated schedule *can* make a difference.



LeeAnn Brust

RN, MBA, CCP, CPC, CMPE
Partner, LBA Healthcare
Consulting Services, LLC

A good daily schedule can make all the difference in your practice – to the staff, to the providers and to your patients. It can mean the difference between a stressful, un-enjoyable day versus a smooth, pleasant one. Scheduling is the key to your patient's access to the medical care they need and this makes it one of, if not the most important factor, in how you run your practice.

Scheduling for a medical practice is an "Art Form". Whether it's an urgent call from a patient, who has been feeling badly for many days on a day when your schedule is already overbooked, or a late patient or a no-show on a slow day when you could have booked several follow-up exams. How does your practice deal with all of this unpredictability?

Problems with your practice schedule can reduce the quality of care you give to your patients and in a problematic scheduling environment, your receptionists will spend a lot of their time on the phone with irate patients trying to explain why your practice cannot meet

their needs. Poor appointment scheduling also leads to a higher no-show rate, which inevitably leads to reduced practice profitability.

The goal of your schedule should be that your practice will and can see patients as soon as possible for urgent visits and within a week – no more than two for non-emergent issues. Another goal should be to see your patients in a timely manner to avoid having them go to an urgent care center for non-emergencies or the local emergency room because you could not "fit them in" on your schedule.

The key is to find a balance between the services you can provide and the needs of your patients. Here are a few ideas you might explore to make your office schedule more compatible for your patients and your staff:

Improve your efficiency.

This is a great place to start, not only will increasing efficiency improve the way your practice handles its workload; it should improve profitability as well. Make sure your entire staff is working as efficiently as possible. Training in time management, teamwork and multi-tasking may be a good investment for your staff.

Analyze appointment availability.

Study your schedule to identify how long a patient has to wait for the next available new or return patient appointment.

Analyze your no-show rate.

Measuring your new patient to total patient ratios can be important as well, especially for physicians who perform procedures.

Identify trends in patient needs, requests and schedules.

After you gather this information, it is important that you make the proper allowances to your scheduling template as needed based on your findings.

Increase your practice's availability.

Adding a few more hours to your day or week can provide extra, needed appointment time for your patients. Consider adding "walk-in" hours for sick



patients in the morning and then again at the end of the day during flu/cold season outside your normal business hours. Definitely block some time each day for urgent/same day patient visits. For those of you whose time is stretched too thin as it is, you may want to look at hiring another doctor, a Nurse Practitioner or a Physician's Assistant.

Same day appointments all day, every day.

Some practices have moved to a same day appointment schedule all together. Phones open at 8:00 am every morning and patients are scheduled for appointments that day. Once the schedule is full you start triaging and/or scheduling patients for early appointments the next morning as soon as the office opens while the phone operators are scheduling same day appointments for that day.

Practices who have moved to this say it is actually easier, the patients

love it, and the profitability of the practice has increased dramatically. You might want to poll your patients in advance to see if this method would be accepted and welcomed.

You could also try this method two days per week (Mondays and Fridays) to see how it goes before you move to this scheduling method full time.

Unfortunately, managing a medical practice is much more difficult than most other businesses. Your patients require more than the typical 9 to 5 service hours. Your scheduling template can either cause chaos or allow for great patient service. Any steps that you take to improve your accessibility, will improve your patients overall satisfaction with your practice. Please give us a call if you would like us to help you perform an analysis to see if your practice would benefit from some major changes to your scheduling template.

Lease vs. Purchase Dilemma (How to Win in Medical Real Estate)

With the interest rates continuing to remain steady along with ongoing uncertainty in the stock market, many physicians are electing to diversify their investments. One of the most viable investment opportunities is the office space used by a medical practice. From office condominiums to freestanding office buildings, there are real estate opportunities in the Jacksonville medical market to consider. However there are both pros and cons to consider based on your type of practice and the investment strategies of the practice principals.

The major advantage of a purchase option is that it gives physicians the ability to sell their practice but maintain residual real estate income. It is important when buying real estate to be used by your practice that you set that investment up in a separate real estate partnership. Buying real estate provides the physician(s) a secure place to practice for years to come, as well as a downstream of retirement income in the future.

Accordingly, the leasing option provides flexibility in medical practice location and size with a much lower initial cash outlay. Depending on the actual business situation, a physician may want multiple locations to practice in several days a week in order to attract a diverse patient population. Leasing allows physicians to do this with possibly less expense.

Consider all the factors before you buy or sign your next lease or lease renewal. You should start by creating a list of the pros and cons and then do a side-by-side lease vs. purchase financial analysis on the specific opportunities identified.

Weigh the positive aspects:

Purchase Positives

Building equity
Control occupancy cost
Tax savings
Cannot be forced to move

Lease Positives

Lower cash requirements
More maneuverability & versatility
Easier to relocate

Then weigh the negative aspects:

Purchase Negatives

Cash investment usually required
Some management responsibilities
Must sell or lease space to move practice

Lease Negatives

No equity or wealth building
Possible increasing rents
Could be forced to relocate

When conducting the financial comparison, consider the impact on the medical practice.

- Will locating your practice in a large medical building bring more referrals or increase patient census?
- Will the free parking and signage possible with ownership attract more patients?
- How might each possible location increase or decrease the practice's patient volume?

With a defined time period in mind on your analysis, do the math. First compare any moving costs as well as the occupancy costs of each identified opportunity over a 10-year period. After that conduct a side-by-side financial comparison of the lease versus purchased space.

On the purchase options, compute the negatives like the lost benefits of the cash outlay and any management cost or time lost. Once this is completed then compute the positive aspects of appreciation, loan principal reduction and tax benefits. Your lease vs. purchase decision will be much easier once the bottom line of each choice is clearly denoted.

At LBA Healthcare Consulting Services, LLC, we have experienced professionals who understand the business of medical practice. We can help you evaluate and negotiate your medical real estate opportunities – so you are the ultimate winner in the "lease vs. purchase dilemma." Please give us a call if we can be of assistance.



**Scott Lanigan, CPA, CFC,
Cr.FA, DABFA**
Audit Principal

New Rules Affect How Your Auditor Must Communicate Internal Controls Issues

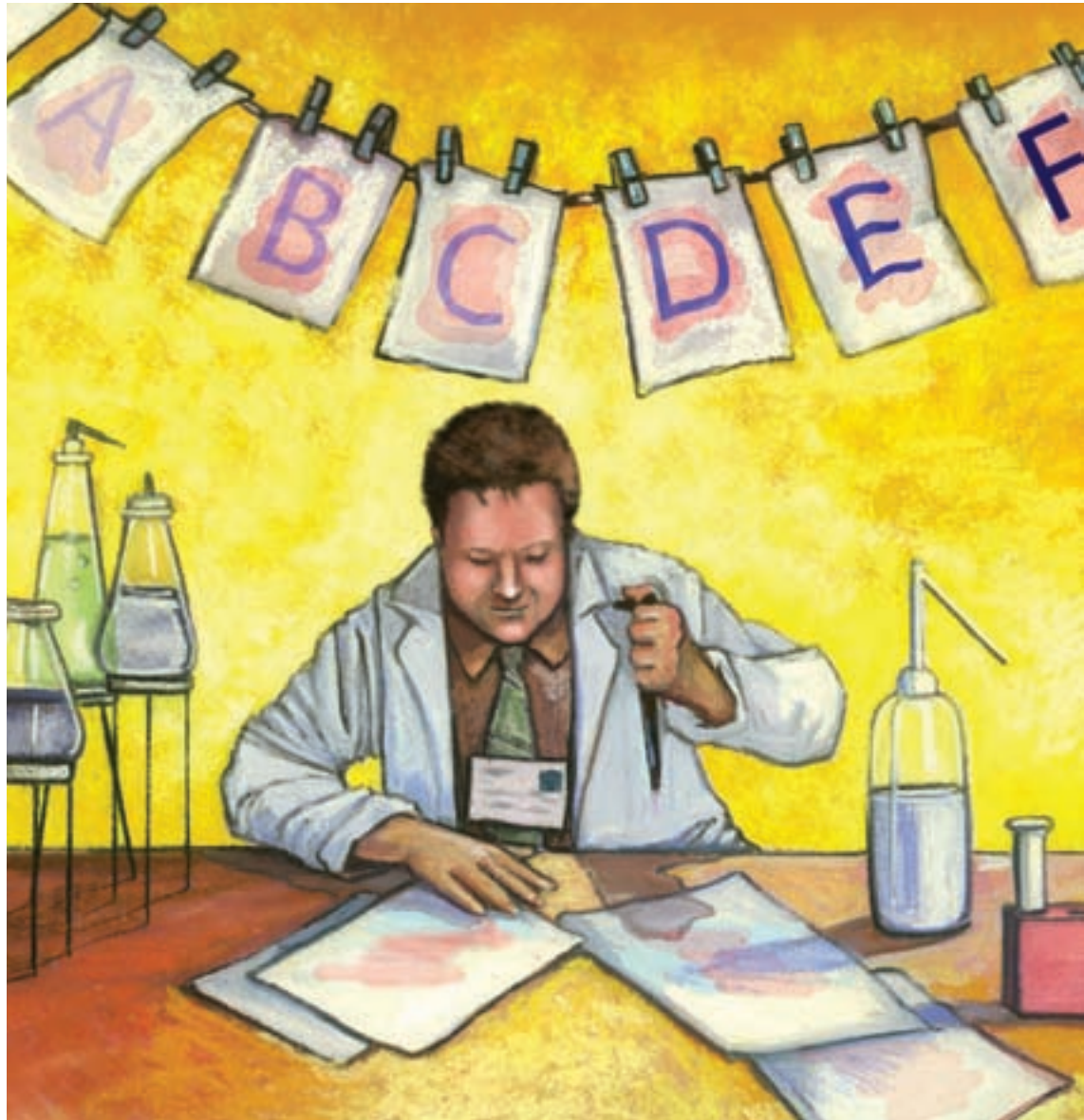
The new litmus tests and how they affect you.

Financial audits can be a complicated process, especially when new auditing standards come down the pike. Last year, the Auditing Standards Board issued Statement on Auditing Standards (SAS) No. 112, *Communicating Internal Control Related Matters Identified in an Audit*, effective for periods ending on or after Dec. 15, 2006. These most recent auditing standards affect how auditors should communicate certain issues related to internal controls over financial reporting that may be identified during a financial statement audit. As a result, you may see an increase in the number of reportable findings during your nonprofit's external financial statement audit.

Two types of deficiencies

SAS 112 concentrates on control deficiencies — when the design or operation of a control doesn't allow key staff, in day-to-day operations, to prevent or detect misstatements in a timely manner. Examples of control deficiencies include failing to review and reconcile departmental expenditures, neglecting to obtain proper approval for invoices, depositing cash and reconciling accounts in an untimely manner, and lacking an overdraft funds monitoring system. There are two types of control deficiencies:

1. Significant deficiency. This is a control deficiency, or combination of control deficiencies, that severely



affects your nonprofit's ability to "initiate, authorize, record, process, or report financial data reliably and in accordance with standard accounting principles." These deficiencies prevent you from generating financial data under generally accepted accounting principles to the extent that there's "more than a remote likelihood" that your financial statements will contain a more-than-inconsequential misstatement that won't be prevented or detected.

2. Material weakness. This is a significant deficiency, or combination of significant deficiencies, that makes it more than likely that your financial statements will contain a material misstatement that won't be prevented or detected.

Where they can occur

SAS 112 provides examples of control deficiencies, significant deficiencies and material weaknesses, which include:

- Inadequate documentation of internal controls components,
- Inadequate design of monitoring controls used to assess the design and operating effectiveness of the entity's internal controls over time, and
- The absence of an internal process to report deficiencies in internal controls to management on a timely basis.

Other instances that SAS 112 considers to be at least significant deficiencies, but that could be material weaknesses, are lack of controls over the period-end financial reporting process, including controls over procedures for the general ledger and adjustments to financial statements, and ineffective oversight of the entity's financial reporting and internal controls by those charged with its governance.

SAS 112 also offers examples of indicators of control deficiencies that typically occur when an auditor finds any restatements of previously issued financial statements that were issued to reflect the correction of a material misstatement or identifies a material misstatement that went previously unidentified by the entity's internal controls. Other indicators are when an auditor learns management, or those charged with governance, has failed to gauge the effect of a previously revealed significant deficiency and to either fix the problem or deem that it will go unfixable.

Assessment

SAS 112 directs auditors on how to evaluate the degree of deficiencies according to:

- Deviations in the design or operation of controls and whether those deviations constitute control deficiencies,
- The severity of control deficiencies based on nature, likelihood and magnitude, and
- Whether misstatements or potential misstatements are more than inconsequential.

If an auditor finds a control deficiency, significant deficiency or material weakness, he or she must notify management or those charged with governance of any significant deficiencies and material weaknesses in writing within 60 days after issuing the audit report.

The effect on your organization

SAS 112 will likely call for additional processing time, more detailed documentation and closer monitoring of your organization's compliance with internal controls, financial reporting and governance — all of which could require time and money. So be sure your key staff and auditing committee are aware of the potential changes.

On the other hand, SAS 112 could strengthen your organization's internal systems, and improve its credibility among donors, government agencies, the media and the general public.

Preparing for your next audit

The recent standards changes redefine the audit process because it now requires you and your auditor to anticipate challenges, rather than simply react to those that occur.

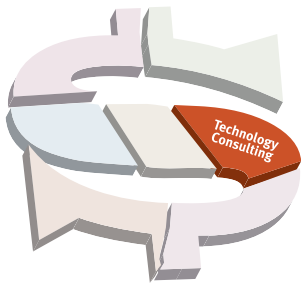
Although your auditor must remain objective throughout the auditing process, he or she can certainly help you become more familiar with the requirements of SAS 112 and its effect on your nonprofit's financial statement audits.

LBA Approved to Provide Audit Services to Publicly Traded Companies

Following the Enron scandal 6 years ago, the Public Company Accounting Oversight Board (PCAOB) was established to oversee the auditors of public companies. The mission of the PCAOB is to protect the interests of investors and further the public interest in the preparation of informative, fair and independent audit reports. They also prohibit accounting firms that are not registered with the Board from preparing or issuing audit reports on U.S. public companies and from participating in such audits.

LBA is proud to announce that the firm has been approved by the PCAOB to provide audit services to publicly traded companies. This is a new and exciting service for LBA, but as we continue to attract and retain some of the most experienced professionals in Northeast Florida, several of whom have extensive experience with serving public companies, we look forward to working with those located within the State of Florida. It is an honor to have been approved at our first request. As of August 12, 2008, only 1,856 accounting firms nationwide are registered with the Board.

For more information on the PCAOB you can visit their website at www.pcaob.com.



Billy Morrow, CPA
Partner
LBA Technology Consulting
Services

Does Your Accounting System Work For or Against You?

There are many cases where a company has been unhappy with their accounting system and finally decided to spend time and money to migrate to a new application. However, upon making that decision, and after a careful analysis, found all they really needed was an enhancement to their current application. The reasons for this can vary, but the solution could include updating the application, enabling unused features or modules, training, importing data from 3rd party systems, or the utilization of better report writing applications.

Accounting applications that are out of date are typically missing new features that can save an organization time, improve internal control and/or security or provide better information. This can happen when the application vendor issues releases with fewer enhancements or stretches its new releases over longer periods of time. This can also occur when the client has not installed the latest versions or has not utilized the new features of the recent release. In either case, the company is simply not getting the most from the application. The first situation can be

By investing money to save time and reduce errors, users can be more efficient and productive.

tougher to fix since it is outside of the user's control. However, participating in user groups, surveys and other forums can provide the feedback a vendor needs to incorporate meaningful changes in its next release. The squeaky wheel will get greased.

At the same time, the more out of the box features an application has, the more complex it can seem. This, combined with busy schedules and the lack of advanced training, can keep features or unused modules hidden in the underbrush. Every organization should have a champion, guru or system expert who keeps abreast of user problems, researches features and attends advanced training or user conferences. Also, sample companies are great environments for users to try out new features without impairing production data.

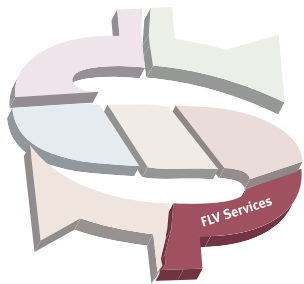
Manually inputting data from one system to another takes time and increases the potential for errors. There



are various integration tools available that could solve these problems. They can involve importing and exporting Excel files or utilize database integration software that updates databases in real time. The time and money spent to implement these integration tools that alleviate the need for recurring manual input should be seen more as an investment versus a cost. By investing money to save time and reduce errors, users can be more efficient and productive.

There are, of course, those applications whose report capabilities are mediocre at best. To avoid these limitations, users export data to Excel, then manipulate the data in order to produce the financial statements. As companies grow and data increases, the time spent on Excel financials also increases. FRx and Crystal report writing software programs are excellent and work with many applications. They are easy to learn, are feature-rich, are diverse and produce both informative and reader-friendly financials. These report writing applications will save an organization time and produce better information.

LBA can help you determine what your current business systems are capable of and what it would take to utilize them to their fullest potential. For further information on our technology consulting services, please contact Billy Morrow at 904.224.9781.



Scott A. Steadman, ASA, CFC
 Director
 LBA Forensic, Litigation and
 Valuation Services

Solving an Accounting Whodunit

Fraud costs U.S. businesses nearly \$600 billion each year. While most business owners are aware of the problem, few imagine that they will fall victim to fraud. Unfortunately, many will.

To uncover the facts when clients suspect employee fraud, attorneys often call on the services of forensic accountants, or fraud examiners. The following are some of the most common questions about the work of these specially trained fraud-fighting accountants:

How do financial statement audits differ from forensic investigations?

Many clients think that traditional financial statement audits should expose fraud. But financial statement audits aren't designed for that. They test whether a company's financial statements have been prepared in accordance with generally accepted accounting principles.

Forensic investigations, on the other hand, are focused on exposing fraud and building a case against perpetrators. Unlike traditional audits, fraud investigations don't follow a set of steps neatly laid out in advance. The fraud examiner adapts operations daily in response to developing circumstances.

What does a forensic accountant look for?

A forensic accountant's job isn't as glamorous as some other detective work. It typically involves grueling hours sifting through paperwork and preparing detailed spreadsheets.

But the expert knows where to look first, focusing attention on the most fraud-prone areas. Nearly 90% of all asset misappropriation schemes target the company's cash account. Pension plans, off-balance-sheet accounts and unconsolidated entities are also vulnerable to financial shenanigans.

To identify other high-risk areas, the examiner analyzes the customer's accounting records, looking for unusual entries or questionable changes in balances.

Strong internal checks and balances can prevent employee fraud, so the expert reviews the company's

internal controls for possible weaknesses. One effective control is segregation of duties so that no single employee is in charge of any financial transaction from start to finish.

Besides examining records, forensic accountants interview employees, not only to obtain financial data and other information about the company's operations, but also to learn about employees' personalities and behavior outside the workplace.

Individuals who live beyond their means — with lavish trips or expensive homes — are more inclined to commit fraud. Others who bear closer scrutiny are those with gambling or drug addictions and those expressing dissatisfaction with their workload or salary.

If the fraud examiner identifies employees with the opportunity and motive to commit fraud, the next step is to audit the financial status of the suspect. When the numbers don't add up — when known income and expenses don't explain a significant increase in personal net worth — it can indicate asset misappropriation.

When choosing an expert,
 look for experience
 serving as a courtroom
 witness or teaching or
 writing about fraud.

What qualifications should a forensic accountant possess?

While a general understanding of accounting is a useful starting point, forensic accountants often require an understanding of law, information systems, ethics and criminal psychology.

To acquire those skills, many professionals pursue advanced training — such as fraud seminars offered by the American Institute of Certified Public Accountants, the American College of Forensic Examiners and the Association of Certified Fraud Examiners. Experience enhances the skills acquired in study.

When choosing an expert, look for experience serving as a courtroom witness or teaching or writing about fraud. You can also request testimonials from past clients.

Other criteria to add to your checklist include creativity, good listening skills, discretion and strong communication skills. If you've never worked with a forensic accountant before, you might seek referrals from the client's CPA or from other attorneys.



Catherine M. Beaver
Director
LBA Retirement Plan
Services, LLC

403(b) Plans – New Reporting Requirements

Uncle Sam raises the bar.

Currently, 403(b) tax-sheltered annuity plans are subject to limited or no Form 5500 annual reporting obligations. But that's about to end for ERISA-covered 403(b) plans. Starting with the 2009 plan year, these plans will be subject to the more extensive 5500 filing requirements — including annual audits — that apply to 401(k) and other qualified retirement plans. This will present a significant challenge for employers offering ERISA plans.

403(b) plans are retirement plans for employees of public schools and nonprofit organizations that are exempt from tax under Internal Revenue Code Section 501(c)(3). New regulations governing 403(b) plans have eliminated many of the operational differences between them and 401(k) plans. Consequently, the U.S. Department of Labor and the IRS have determined that 403(b) oversight and reporting requirements in line with qualified plans are needed to protect employees' benefits.

Who Will Have To File?

Those 403(b) plans that are subject to Title I of the Employee Retirement Income Security Act of 1974 (ERISA) have to meet the new filing requirements. ERISA-covered plans generally include any 403(b) plan that provides an employer contribution or employer matching contribution.

Some 403(b) plans are already filing Form 5500s. However, under the current system, they file an abbreviated version of Form 5500 without the additional schedules required of qualified retirement plans. Under the new rules, plans with 100 or more participants will have to file a full Form 5500. Smaller 403(b) plans may be able to file a shorter version of the 5500 (Form 5500-SF).

Be Prepared

Although the new reporting requirements don't go into effect until 2009, organizations that sponsor 403(b)



plans should begin preparing now. If your plan has multiple investment providers, you may want to consider consolidating vendors. The new 5500 requirements include an audit of plan assets with all plan vendors, which may prove burdensome. Also make sure that all plan vendors are identified in your plan's Summary Plan Description.

In addition, if your plan has to be audited, you will need to provide the plan auditor with complete and accurate 2008 financial information about your plan. You should contact your plan's investment custodian (typically an insurance company) for a consolidated statement of net assets and activity at the plan level. You will also need participant records showing the same information.

The audit will assess relevant internal controls. If you outsource certain plan-related functions, the review of internal controls includes functions performed by the third party service providers that affect the plan's financial statements. Providers may have their own "SAS 70" reports that the plan auditor can rely on to some extent. The employer, as plan administrator, is still responsible for monitoring the overall process, despite the fact that professionals may have been hired to handle day-to-day administrative functions. This degree of responsibility may be new to many 403(b) plan sponsors.

What is Your Ideal 401(k) Plan?

There are numerous reasons that companies consider when adopting a 401(k) plan. These primary reasons include:

1. Attract quality employees.
2. Retain quality employees to minimize the cost of attracting and training new employees.
3. Provide an alternative source of compensation, i.e., a fringe benefit that avoids social security taxes, workers compensation, and federal and state unemployment taxes on employer contributions.
4. Provide a means to move historically productive employees, who participate in the plan, from the workforce to retirement with potentially adequate finances.

In addition to the above, the ideal plan would include a risk mitigation strategy that would maximize protection for the company, its shareholders, and fiduciaries. Based on today's legislative, regulatory, and legal environment, the risk mitigation strategy might include the following objectives:

1. Reduce the risk of litigation against the company and its fiduciaries.
2. Maximize benefits to the participants within the parameters of the company's retirement budget.
3. Secure necessary service providers at the lowest possible cost to the company.
4. Minimize the amount of time and effort expended by executive management on 401(k) plan administrative oversight.
5. Protect the company (plan sponsor's) brand name and/or public image.

From an executive's perspective, retirement benefits are voluntarily offered fringe benefits. Every dollar spent on outsourced services is a dollar that is not available for the shareholders or participants. In addition, every hour an executive

spends on fringe benefit issues is a lost opportunity cost for the shareholders and participants.

Assuming the issues outlined above are the driving factors that dictate the design of the ideal 401(k) plan, general benefits and features of the plan might include:

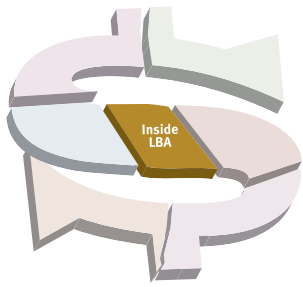
1. A Safe Harbor match to reduce the cost and burden of discrimination testing.
2. Automatic enrollment.
3. Annual re-enrollment of those not participating.
4. An auto increase feature that moves participants to a 15% deferral rate.
5. A Qualified Default Investment Arrangement (QDIA).
6. Annual re-enrollment of every participant into a QDIA unless the participant opts out.
7. Offer of limited investment menu:
 - a. Money Market or Stable Value
 - b. Total U.S. Bond Market Index
 - c. Total U.S. Stock Market Index
 - d. Five Passively Managed Target Funds
8. A rule that no investment will be used if it includes revenue sharing of any kind unless it can be credited back to the fund from which it came.
9. Implementation of an Investment Policy Statement that embraces passive investment management as the investment process.
10. Quarterly monitoring of investment performance to confirm strong correlation to each investment's benchmark index.
11. Quarterly monitoring of investments to confirm the plan is using the lowest priced index fund the plan is eligible to access.
12. Passive investment mandates that can be filled by registered investment companies, collective funds, or separate accounts.
13. Compliance with section 404(c).
14. A plan sponsor to pay all plan expenses. No expense shall be paid from plan assets except the internal investment

management fee and, if necessary, trustee and/or custodian services.

15. Only services that were absolutely necessary to be retained.
16. Service fees for terminated employees to be billed against their individual account.
17. Investment advice to plan participants to not be offered.
18. Investment materials or education to be provided only to the extent necessary to meet any legislative or regulatory requirements.
19. Only service providers and advisers with appropriate credentials and experience to be retained.
20. Tri-annual bidding process for all retained services.
21. Service providers to be paid a fee by the unit, hour, or project versus by a percentage of assets.

Depending on the assumptions or objectives, the structure of your ideal plan could change from the structure outlined above. However, the challenge is to design an alternative structure to the one articulated, using the same criteria, without adding cost, time, or risk. The professionals at LBA Retirement Plan Services, LLC can help you design, implement and administer your ideal 401(k) Plan. Please contact us today at 904.396.4015 to discuss how we can be of service to you.

Source: Fiduciary Risk Assessment LLC



New Team Members

LBA continues to grow and it is with great appreciation that we thank our clients and friends for your continued trust in our team. Please join us as we welcome our newest team members.



Vanessa Borges

Senior Accountant
Tax Services Team



Sherri Elliott

Accounting Associate
General Accounting Services Team



Marilyne Faustin

Senior Accountant
Tax Services Team



Kow Gharthey

Information Technology Technician
Internal Technology Team



Andre Higgins, CPA

Manager
Audit Services Team



Rod Hofer

Staff Accountant
Tax Services Team



Valerie Mahabub

Administrative Assistant
LBA Healthcare Consulting
Services, LLC



Sara Simmons

Staff Accountant
Audit Services Team

Leadership



Jamie Trayner, LBA's Director of Marketing, has been elected to the national position of President for the Association for Accounting Marketing (AAM). She has been a member of AAM for 10 years and has served on the Board of Directors for the last 4. With over 850

members across the United States, Canada and the world, AAM is the only association specifically designed to provide support, skill building, education, and networking for accounting firm marketers. Jamie originally joined LBA in 2000 and leads the firm's vision for growth by directing its client service and marketing efforts.

LBA Named one of Northeast Florida's 50 Fastest Growing Private Companies – Again!

LBA was honored to learn that for the third year (2005, 2007 and 2008), we have been named by the *Jacksonville Business Journal* as one of the 50 Fastest Growing Private Companies in Northeast Florida. "We believe our growth is the direct result of our people and the care they take of our clients" said LBA's Managing Partner, Neal Von Stein. "We have developed a culture that allows us to attract and retain top notch individuals who, in turn, provide our clients with unmatched technical expertise and overwhelming customer service. That's the LBA way."

On behalf of the entire team at LBA, we would like to say "THANK YOU" to our clients and business associates for continuing to put your trust in us. We value the relationships we have with each and every one of you and look forward to continuing those relationships for many years to come.

Welcome



LBA is pleased to welcome Craig Phillips, CPA to our leadership team. Craig joins the firm as a Principal with our Audit Services Team and brings over 17 years of experience auditing clients ranging from large, public multi-national companies to local, privately owned middle-market businesses. During his career, Craig has provided services to clients in a variety of industries including manufacturing,

transportation and logistics, real estate, professional services, retail, telecommunications, entertainment and technology. Craig has also assisted clients in preparation for public and private offerings of debt and equity securities as well as the acquisition due diligence process. He received his Bachelors Degree from the University of Georgia and is a licensed CPA in Florida and Georgia.

LBA Named one of Northeast Florida's Best Places to Work – Again!

The *Jacksonville Business Journal* recently conducted its annual survey of hundreds of local businesses and for the 2nd year in a row, LBA was honored as one of the best places to work in Northeast Florida. “We firmly believe that our people are the key to our success and to be recognized for this award, as a result of their direct feedback, is extremely rewarding” stated LBA’s Managing Partner, Neal Von Stein. “We are so proud of the team we have at LBA. They are, by far, our most valuable asset!”



Promotions

We are extremely proud of the hard work and dedication our team members consistently give to the firm. It is this commitment that allows us to provide our clients with a premier level of service. We proudly announce these recent promotions.



Chrissy Dieterman

Senior Accountant
Business Advisory Services Team



Dave Howie, CPA

Senior Manager
Audit Services Team

New Designation



Scott Lanigan, a Principal with the firm who works with the Audit Services and Forensic, Litigation & Valuation Services Teams, recently obtained the designation of Diplomate with the American Board of Forensic Accounting, bestowed upon him by the American College of Forensic Examiners Institute

(ACFEI). The ACFEI is the world’s largest association of forensic science professionals, and part of its mission is to recognize the experience and education of professionals dedicated to the forensic sciences. Diplomate status is a high honor reserved only for those few who are able to meet the stringent requirements of the ACFEI in the areas of knowledge, skill, training, and experience in the forensic sciences. Diplomates are leaders in their forensic science disciplines. Please join us as we congratulate Scott for his achievement.



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