

# INFOLETTER

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## RETIREMENT PLANS Are You Meeting Fiduciary Responsibilities?

By Danielle J. Kimmell, CPA, Senior Manager

If you offer a qualified retirement plan to your workforce, you are providing a key benefit that will not only help your employees better prepare for their financial future, but also help you compete with other companies in the hiring and retention of the best candidates.

As a retirement plan sponsor, however, there are duties and responsibilities that you must fulfill. The Employee Retirement Income Security Act (ERISA) sets very specific standards of conduct for anyone who administers, manages and/or controls an employee retirement plan and its assets. Such an entity is referred to as a fiduciary of the plan.

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## Partner's Perspective

### MANAGEMENT STRATEGIES

## How to Use Key Performance Indicators

By James E. Merklin, CPA, CFE, Partner

There's a management axiom that says "If you can measure it, you can manage it." An important part of the measuring process is developing key performance indicators (or KPIs) that can help you define and gauge your progress toward reaching goals.

KPIs are quantifiable measurements that reflect your organization's critical success factors. No two companies' or organizations' KPIs will be the same—they will vary depending on the type of organization (non-profit vs. for-profit, for example), industry and, of course, each organization's specific goals and objectives.

### Mission and Goals

Before you can identify which performance indicators are the most important ones to be monitored and measured within your organization, you must first have a well-defined mission statement and clear, measurable goals. Your KPIs will emerge from and support your mission statement and goals.

The most important characteristics of KPIs are that they be specific and measurable, and that you be able to compare them to a benchmark. A KPI simply stated as "Increase sales," for example, cannot be measured. Better: "Increase sales revenue by 10 percent each year for the next three years."

Before setting such a goal, however, you need to know whether a 10 percent increase is good or bad. To determine this, you need benchmarks to compare this number to and put it in perspective.

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## Partner's Perspective

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# How to Use Key Performance Indicators

Benchmarks can be prior years' performance or industry averages. For example, you could compare your accounts receivable collection time (or AR days — see below) to your terms of sale and industry averages to see how well you're doing against your peers and your own internal standards.

The best sources for information on industry averages and benchmarks are your industry trade association and the Risk Management Association (RMA), which publishes RMA's Annual Statement Studies each year. This is a comprehensive list of financial performance statistics for small and mid-sized businesses, derived primarily from the financial statements of business borrowers and organized by Standard Industrial Classification (SIC) code. Visit <http://www.rmahq.org> for details on how to order.

*You should have specific goals for the financial ratios and metrics that you determine are key for your business.*



### Are Your KPIs SMART?

Keep this acronym in mind when identifying Key Performance Indicators. KPIs should be:

- Specific
- Measurable
- Achievable
- Relevant
- Time-bound

### Financial KPIs

On the financial side, KPIs often include common ratios and metrics such as:

- **Current ratio** — Shows how many times current debt could be paid off with current assets. The formula:  $\text{Current Assets} / \text{Current Liabilities}$
- **Debt-to-equity ratio** — Measures debt capacity. The formula:  $\text{Total Debt} / \text{Shareholder's Equity}$
- **Accounts receivable (AR) days** — Measures how long it takes

to collect the money that's owed to you. The formula:  $\text{AR} \times 365 / \text{Annual Sales}$

- **Accounts payable (AP) days** — Measures how long you take to pay your vendor invoices. The formula:  $\text{AP} \times 365 / \text{Cost of Goods Sold}$



- **Inventory turnover** — Shows how often your inventory “turns over” in a year. The formula:  $\text{Cost of Goods Sold} / \text{Inventory}$

You should have specific goals for the financial ratios and metrics that you determine are key for your business. For example, four times a year is a common inventory turn, and 3:1 or less is generally considered an acceptable debt-to-equity ratio for companies seeking bank financing.

Again, don't just look at these ratios in isolation, but compare them from quarter to quarter or year to year to look for trends that can help you improve financial management.

For example, if accounts receivable days is improving from quarter to quarter, this likely reflects an overall improvement in your collections efforts. By monitoring your cash flow cycle — the cycle of cash conversion from inventory to sales to receivables and back to cash again — you can benchmark everything from a slowdown in receivables collections to an increase in inventory turnover.

## Non-financial KPIs

While KPIs are often thought of within the financial realm, non-financial indicators can be just as useful — and often more so, depending on the organization. Here are a few common non-financial business indicators expressed as KPIs:

- **Customer service:** Percentage of calls answered within the first three rings, or e-mails returned within 24 hours.

**Example KPI:** We will answer 90 percent of calls to the customer service department within the first three rings, and return 90 percent of e-mails within 24 hours.

- **Human resources:** Level of employee turnover.

**Example KPI:** We will maintain an employee retention rate of at least 90 percent.

- **Manufacturing:** Number of units rejected by quality control.

**Example KPI:** The reject rate for units on the assembly line will not exceed 1 percent.

- **Management:** Percentage of clients retained in one year.

**Example KPI:** We will maintain a client retention rate of at least 90 percent during the upcoming year.

- **Marketing:** Number of new customers acquired.

**Example KPI:** We will acquire five new customers each month for the next year, or a total of 60 new customers over the next year.

## Get Everyone On Board

KPIs should be clearly communicated to everyone in your organization so that all stakeholders have a clear picture of what indicators you have deemed to be most important, but especially to anyone who may have a direct hand in making them happen. Explain them in company and department meetings, mount them on the walls in your hallways or lunchroom, and post them on your intranet or even your Web site.

## Check Your KPI Gauges

To get a better picture of what Key Performance Indicators might look like, think about your automobile's dashboard. It probably includes a number of different gauges and lights designed to alert you to potential problems with your engine.

There are also gauges you can monitor to help you keep an eye out for potential problems with your business. For example:

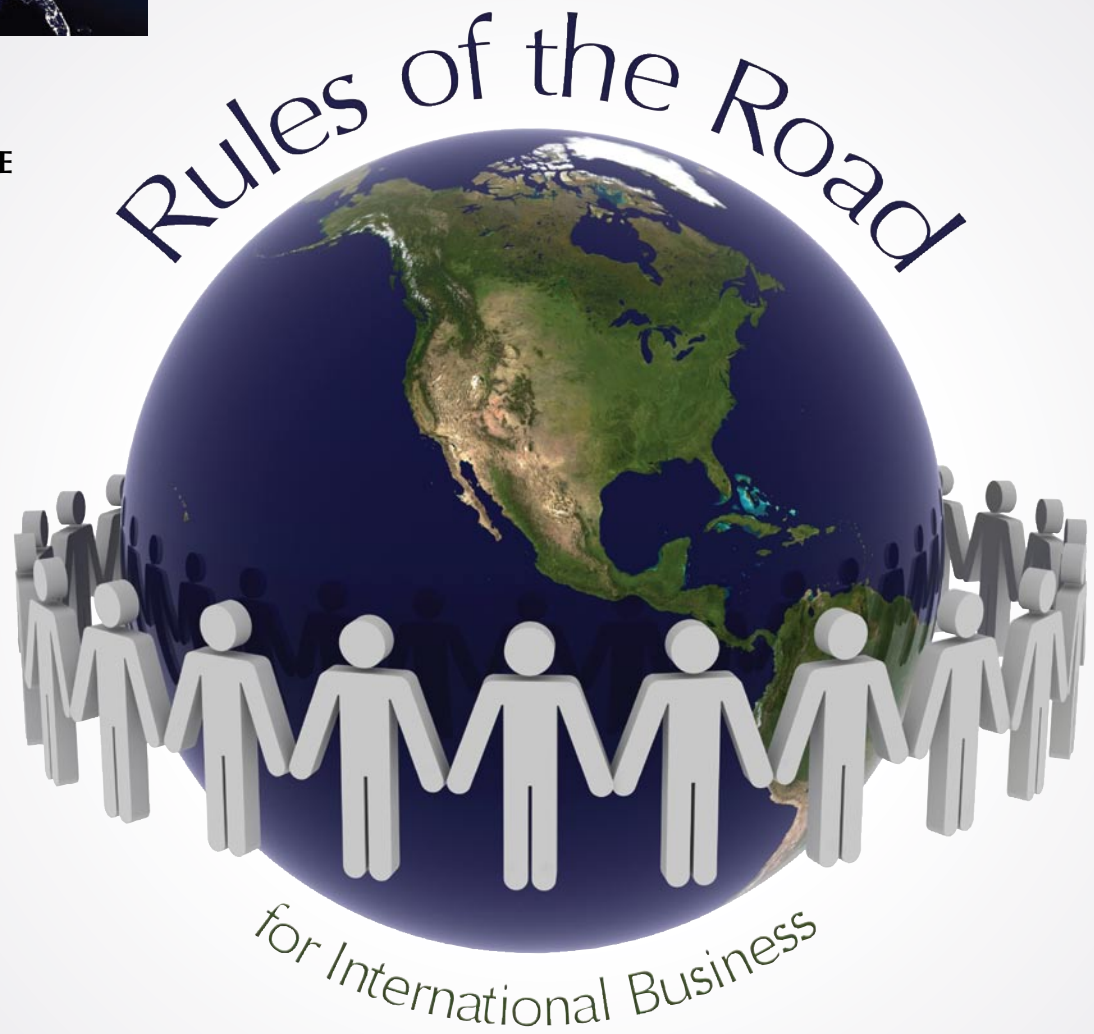
- **Inventory**—By regularly monitoring your inventory levels and turns, you'll have early warnings if valuable cash is sitting idle on your shelves in the form of items not moving as fast as they should.
- **Cash Flow**—Keep a close eye on accounts receivable agings to determine if receivables are creeping up, which could lead to an unexpected cash flow crunch in the near future.
- **Growth**—Most small and mid-sized companies need to be careful not to grow too quickly, as growth can put a serious strain on resources. Debt-to-equity and debt-to-tangible net worth are two financial ratios you should monitor to keep growth in check — in general, neither should exceed 3:1.

You can even use them as a “carrot” by basing employee bonuses or other incentives on the achievement of KPIs. Just be sure everyone knows what the targets are, and keep employees regularly informed about progress toward reaching them.

We can help you determine key performance indicators for your organization. For assistance, please call or email me at [jimm@bobermarkey.com](mailto:jimm@bobermarkey.com). BMF&C



## OVERSEAS ETIQUETTE



*By Paula S. DiVencenzo,  
CPA, Senior Tax  
Manager*

More and more companies today are venturing into the waters of international business. While the potential rewards of global trade are great, so are the potential risks.

One of the biggest risks lies in not understanding the distinct cultural subtleties and nuances that exist from one country to the next. An innocent faux pas that violates social mores in a particular culture can undo years of groundwork that has been laid in building relationships with customers and vendors overseas.

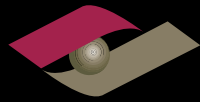
### **Do's and Taboos**

In his book *Do's and Taboos Around the World*, Roger E. Axtell, a retired worldwide marketing executive, offers a comprehensive guide to appropriate business and social behavior in countries all over the world. Following are a few interesting tidbits as they relate to some of the most popular countries and regions where U.S. companies are now doing business.

**China** — Building strong relationships with business partners in China is essential, but it takes a long-term commitment. To many Americans, this may make the decision-making process appear to move very slowly. But here's the contrast: While businesspeople in the U.S. tend to make fast decisions based on competitive issues like price or delivery schedule, in China, businesspeople will make the price and schedule work if you have taken the time to build a strong relationship.

A few other helpful notes about doing business in China:

- Never take your seat in a meeting until your client sits down first.
- When proposing a toast, make sure your glass is lower than your client's glass.
- Tipping is generally considered an insult and should be avoided.



**India** — Men should generally try to avoid touching women, even to shake hands — a slight bow, with palms placed together, may be more appropriate. Also, there is a belief that the left hand is dirty, so food should be handled and passed with your right hand. And remember that Hindus do not eat any beef and Muslims do not eat any pork (strict Muslims don't drink alcohol, either).

In general, businesspeople in India aim to please their guests, so yes/no questions should be avoided because the answer will almost always be 'yes.'

**Japan** — Never address a Japanese person by his or her first name; instead, say the last name, followed by the word san (which is roughly equivalent to Mr.). Long, lavish dinner parties lasting for hours are common.

**Central and South America** — This region features a tremendous amount of diversity from one country to the next. In general, though, Latin Americans are warm and friendly and enjoy entertaining. The main meal of the day is at noon. Wearing proper attire is important — this includes a jacket and tie, if appropriate, even in extreme heat. Punctuality is generally not stressed, as a 30-minute delay is customary.

**The Middle East** — Specific customs and protocols in the Middle East will vary from one country to the next, but proper dress and decorum between the sexes is critical throughout the region. In Islamic nations, everything stops five times each day for prayers. As a visitor, you are not expected to participate in these prayers, but you shouldn't interrupt or act impatient while your host prays.

You must also respect the holy month of Ramadan, when no work is done after noon. And remember that pork and pigs are banned, and that it's generally not a good idea to ask for alcoholic beverages.

## Be Sensitive

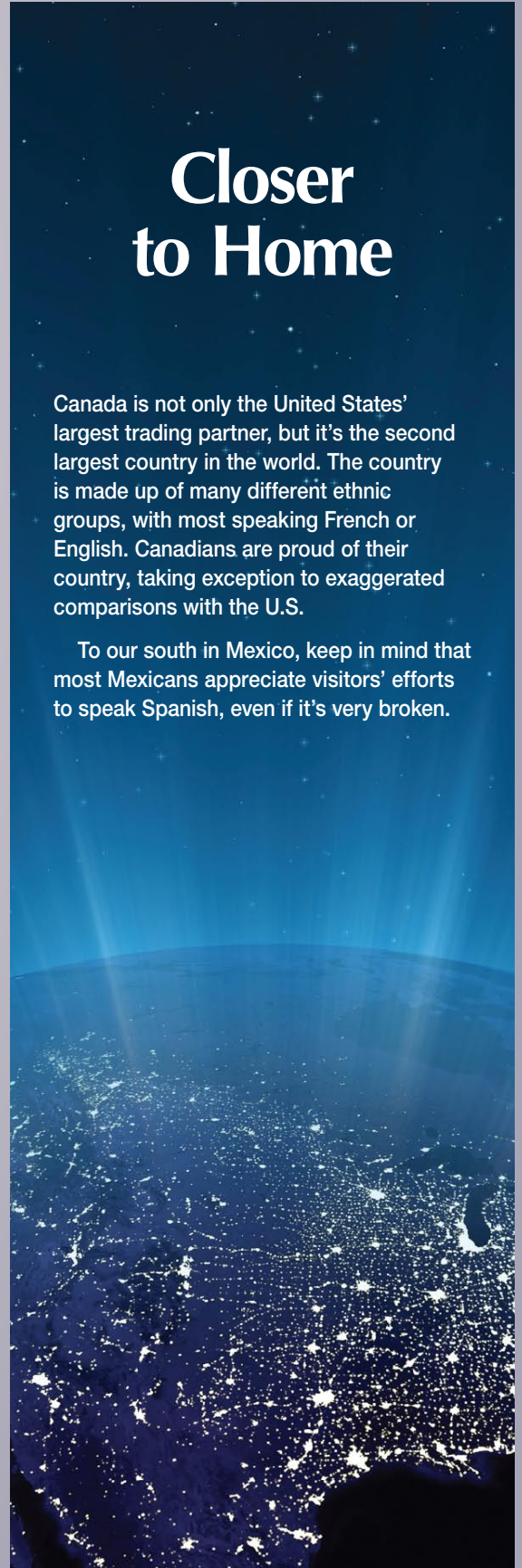
There's no question that it pays to be sensitive to these and many other cultural "do's and taboos" when doing business overseas. This will help you gain the trust and respect of your overseas business partners and, in the process, boost your company's international business efforts. **BMF&C**



## Closer to Home

Canada is not only the United States' largest trading partner, but it's the second largest country in the world. The country is made up of many different ethnic groups, with most speaking French or English. Canadians are proud of their country, taking exception to exaggerated comparisons with the U.S.

To our south in Mexico, keep in mind that most Mexicans appreciate visitors' efforts to speak Spanish, even if it's very broken.





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## Are You Meeting Fiduciary Responsibilities?

### What Makes a Fiduciary?

A number of different actions involved in operating a retirement plan will result in a person or entity being named as a fiduciary. In short, a fiduciary is any person or entity that exercises discretionary authority or control over the plan's management and/or disposition of its assets. It's important to note that fiduciary status is based on the functions performed for a plan, not on a person's or entity's title.

A plan's fiduciaries will usually include the trustee, investment advisors, members of a plan's administrative committee, and anyone who selects committee officials. Every qualified retirement plan must have at least one fiduciary (either a person or an entity) named in the written plan as having control over the plan's operation.

Many plan sponsors mistakenly believe that once they've hired a third party administrator (TPA) or plan trustee, they no longer have any legal responsibility for the plan's management or operations. As the plan sponsor, your company — and in most instances, yourself and your officers — can be held legally liable (and sued by plan participants) for breaches of your fiduciary responsibilities.

The primary duty of a retirement plan fiduciary is to act solely in the interest of plan participants and their beneficiaries, and with the exclusive purpose of providing benefits to them. Other specific responsibilities include:

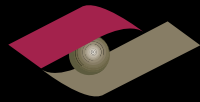
- Carrying out all fiduciary duties prudently.
- Following the regulations and terms of the governing plan documents carefully.
- Offering a diversified option of plan investment choices.

### Staying in Compliance

Here are a few pointers to help you understand and comply with your fiduciary responsibilities:

- Thoroughly read and understand all the terms of the retirement plan document.
- Select and monitor plan service providers (especially your trustee and TPA) carefully.
- Provide summary plan descriptions and summary plan reports and file form 5500s on time.
- Carefully document all processes, procedures and decisions relating to the plan.
- Regularly monitor (at least annually) the investment choices participants are offered to ensure that they are still adequate.

The Department of Labor (DOL) has published a helpful booklet titled *Meeting Your Fiduciary Responsibilities* — download it for free at <http://www.dol.gov/ebsa/pdf/fiduciaryresponsibility.pdf>.



## Profiles



- Paying only reasonable plan expenses.
- Making all necessary plan decisions.
- Investigating whether any outside help is needed to administer the plan, and then hiring these experts, if needed.

### Making Deferral Deposits

One common fiduciary mistake made by plan sponsors is failing to deposit deferral money withheld from employees' pay into their accounts in a timely manner. Sponsors of retirement plans are required to deposit participants' salary deferrals into the plan as of the earliest date on which the money can be reasonably segregated from the sponsor's general assets, but no longer than 15 business days after the deferral. Failure to do so has resulted in actions taken against employers, including significant penalties and potential legal actions.

The Department of Labor (DOL) has proposed a safe harbor regulation currently out for comment for small retirement plans (defined as those with fewer than 100 participants) that would define "reasonable time" as within seven business days of the deferral. In the meantime, it's best to err on the side of caution and not cause any delays in the deposit of deferrals into employees' accounts, as this is an area of particular concern and attention for the DOL right now.

The price of failing to fulfill your fiduciary duties can be steep. Employers who are determined to have breached their fiduciary responsibilities may be required to make the plan "whole" — that is, restore its assets to where they were before the breach, including potential lost earnings — and may also be subject to penalties and fines. This is in addition to facing potential lawsuits from participants and their beneficiaries, both jointly and severally.

For help in understanding and meeting your fiduciary responsibilities, please feel free to call or email me at [danielle@bobermarkey.com](mailto:danielle@bobermarkey.com) anytime. **BMF&C**



*In this feature of InfoLetter, each quarter we provide a profile of one of our professionals who is available to work with our clients and friends.*

### Andrea M. Gauding, CPA

*Manager – Audit & Advisory Services*

**Andrea's experience includes providing traditional audit, review and compilation services to clients in a variety of industries including service, retail, manufacturing, not for profits and employee benefit plans. Over the last several years, she has placed particular emphasis on development of her expertise in audits of employee benefit plans.**

**Andrea joined Bober, Markey, Fedorovich & Company in 1998 after working at Price Waterhouse for five years. Andrea holds a Bachelor of Science in Accounting from Kent State University where she graduated Magna Cum Laude and was a member of Beta Alpha Psi, Accounting Honorary.**

**Andrea volunteers periodically with many organizations and currently serves on the Board of Trustees of the Independence Educational Foundation. She is a member of the American Institute of Certified Public Accountants and the Ohio Society of Certified Public Accountants.**

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**"For the past 10 years, I have been fortunate to work for a company that allows me to develop professionally while respecting my need to balance work and home. Bober, Markey, Fedorovich & Company values not only the success of our clients but also the success of its people."**





# About Our Staff

On April 2, 2008, **Rick Fedorovich** was awarded the Distinguished Service Award by the United Way of Summit County for his leadership in more than doubling the number of major donors (\$10,000 or more) in the Tocqueville Society, from 67 to 130. Rick also has been elected to a third term as Chairman of Akron General Health Systems.

**Jim Merklin** has been elected Chairman of the Board of Community Support Services, Inc., the largest behavioral health organization in Summit County. Jim also has been elected First Vice-Chair of Goodwill Industries of Akron, after having served two years as Chairman.

"Tax changes for 2007 returns – know the tax code before filing" was published in the March 2008 issue of *Smart Business Cleveland*, featuring counsel from **Jim Bowen**. Additionally, effective June 1, 2008, Jim was elected the President of the University of Akron National Alumni Board of Directors.

**Dave Wehrle** and **Jim Merklin** were featured in "Help in tough times – Experts guide restructuring, bankruptcy" in *The Akron Beacon Journal* on March 31, 2008.

**Marcy Venarge** has been elected as Treasurer of Greenleaf Family Center. Marcy

also presented "Understanding Business Valuations" on June 7, 2007 at the American Society of Women Accountants Northeast Regional Conference.

In order to support the continued growth in our practice, the Partners of Bober, Markey, Fedorovich & Company are pleased to announce the following additions to our professional staff:

- **Christine Klamar** joined the Firm as a Staff Accountant in the Tax Department. Christine is currently finishing her degree work at The University of Akron and expects to graduate in August, 2008.
- **Shelly Benjamin** joined the Firm as a Staff Accountant in the Tax Department. Shelly is a 2007 graduate of The University of Akron.
- **Drew McDermitt** joined the Firm as a Staff Accountant in the Tax Department. Drew is currently in his final year at Kent State University and expects to graduate in December, 2008.
- **Diane Clark** joined the Firm as a Staff Accountant in the Tax Department. Diane is a recent graduate of The University of Akron.

- **Stefanie Wise** joined the Firm as a Staff Accountant in the Tax Department. Stefanie is a recent graduate of Kent State University.

- **Will English** joined the firm as a Staff Accountant in the Assurance & Advisory Department. Will is a 2007 graduate of Washington & Jefferson College in Washington, Pennsylvania and worked at a small company upon graduation.

**Mark Bober** has been elected President-Elect of the Jewish Community Board of Akron effective June, 2008 and will serve a two-year term as President effective June, 2009.

**Danielle Kimmell** has been elected Vice-Chairman of Project GRAD Akron effective July 1, 2008.

**Dale Ruther** was featured in *The Cleveland Plain Dealer* "Ask the Expert" column on June 2, 2008 and addressed excess deferrals into a 401(k) plan.

Congratulations to **Allan Markey**, who received the Endowment Achievement Award from the Jewish Community Board of Akron for his many decades of work in building long-term financial strength for the Akron Jewish community. **BMF&C**

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