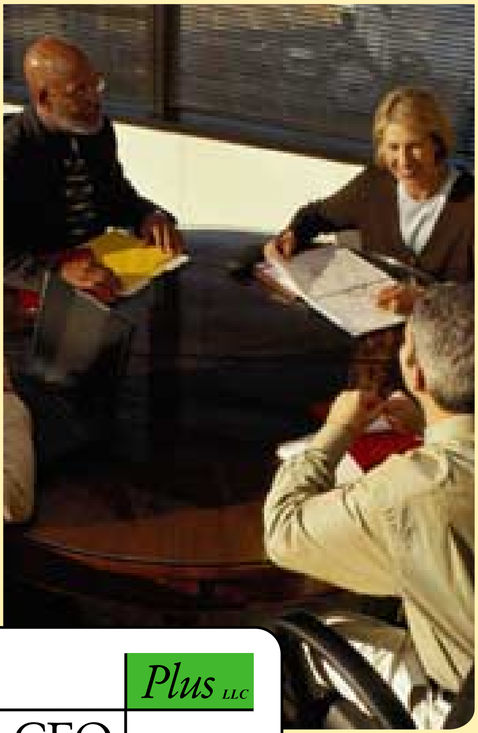
BUSINESS PERFORMANCE ADVANTAGE

Sept./Oct. 2001



Linking Company Goals to Employee Performance

In business, companies that figure out how to take products or services to market in the most efficient, profitable way,way will win. The road of business is populated with companies that, somewhere along the way, lost sight of these basic principles. Aligning employee performance to company goals is key to outperforming the competition. Given all the other matters for daily consideration, how do you do this effectively and consistently?

While the steps to link performance to the achievement of your company goals may be the same, no two companies are alike. You must take the principles of performance and craft a system with complementary programs for each employee level. A performance system describes the general policies and parameters for the administration of the company's performance programs. Before business owners and managers can set specific, measurable performance goals, they first must decide the company's overall objectives. Once this is determined, a performance system can be developed.

The core components of a performance system include:

- **Vision** – What is the company's vision for delivering its product or service?
- **Strategy/Plan to Achieve the Vision** – What is the plan for the company and individuals to help achieve the vision?
- **Organization** – What is each person's role within the organization and what accountabilities are involved?
- **Expectation of Performance** – What is the perceived level of performance f or each employee?
- **Individual Goals** – What individual goals need to be met to achieve company goals?
- **Training/Development Programs** – What training/development programs will help individuals accomplish their goals?
- **Reward/Incentives** – Which rewards/incentives will be most effective and when will these rewards be given to employees after goals are met?
- **Measurement** – Which metrics will be used to measure performance, and are those measurements tied back to goals?
- **Continuing Improvement** – In which areas can the company and/or individuals make improvements or reductions to further company goals?

The second part of the process that links employee performance to your company goals is the performance program – the specific procedures, methods and requirements for planning, monitoring and rating performance. Whether you have one employee or 10, the systematic steps to linking an employee's performance with the part s(he) plays in meeting company goals are the same.

Steps to link employee performance to goals:

1. Set specific, measurable performance goals for individuals and groups.
2. Ensure each employee knows company goals and how his/her performance affects achieving those goals.
3. Discuss the many ways goals are achieved and the performance implications of each.
4. Develop incentive systems that reward employees for positively contributing to the achievement of company goals and clearly explain how performance is measured.
5. Reward immediately and, if possible, customize rewards for employees.

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John Morre - Principal/Senior Consultant
Linda Panichelli - Principal/Senior Tax Consultant
Jim Chamberlain - Senior Consultant

1450 Grant Avenue, Suite 102
Novato, CA 94945-3142

Home Office: 415-898-7879
Toll Free 866-CFO-PLUS or 866-236-7587

Email: thofmann@cfoplus.net
jmorre@cfoplus.net
lpanichelli@cfoplus.net
jchamberlain@cfoplus.net

Web: www.cfoplus.net

Linking Company Goals to Employee Performance (cont.)

At first glance, these steps seem simple and straightforward – and they can be. However, some managers and business owners find themselves in trouble as they develop different performance programs for various levels of employees throughout the organization. For example, in a manufacturing plant, a program for managers would be different than one for plant employees because individual objectives are different. Managers, perhaps, would focus on managing their budget, whereas plant employees may focus on decreasing safety incidents and decreasing defects. Keep in mind that group goals work so that manager and employee goals come together to achieve company objectives.

When performance programs are implemented, companies need to ensure that individual goals do not conflict with group goals. An example of a conflict could be where employees are rewarded for outputting more product than other employees, and instead of working together so that the whole group achieves more, each employee adopts a dog-eat-dog mentality. Business performance advisors rely on a methodical approach that ensures balance across individual and group goals. A strong performance program takes into consideration individual, group and company goals.

Successful implementation of a performance system starts with clear communication. Follow these guidelines to ensure communications are specific and targeted toward company goals:

Make company goals known and visible within the workplace.
From the day an employee starts to everyday interactions, company goals should be clearly communicated and displayed in some way throughout the workplace. For example, if decreasing safety incidents is the goal, a poster showing how many days have passed without incident serves as a reminder of the goal. Publishing highlights of employee successes in the company's internal newsletter or on its Intranet also spotlights goals and rewards of those who help achieve company objectives.

Relate each goal to the job.
If the company goal is to hit a certain sales number by the end of the year, for example, ask employees what they can do to increase qualified leads or what sales strategies they can think of to impact total sales. Each employee should meet with managers to develop individual goal plans and, likewise, managers should meet with company owners or executives to develop similar plans.

Link company goals to individual motivators.
Each employee has his or her own unique motivator. For some individuals, money is motivating and for others, time off is prized. The more often a company can link individual motivators to the achievement of individual and group goals, the more successful your performance processes will be. For example, some companies offer employees three choices as they reach individual goals: bonus pay, time off or points that may be used to purchase merchandise, including airline tickets.

Ensure communication flows both ways.
Managers need to meet with employees to hear feedback on the performance process and to ask if goals are understood. Employees need to provide information that will enable managers to make changes so that the program is more effective. Research indicates that employee involvement can be an indicator of how successful a performance program may be. Invite employees to contribute ideas that help achieve company goals.

Deliver rewards immediately.
The more immediate the reward, the more reinforcing it is for the behavior it is rewarding. Whether you use honorary awards (symbolic), informal recognition awards (no monetary value) or formal recognition awards (bonus, time off or other specified reward), the more immediately you can award it to the individual, the better your chances are of motivating that individual to repeat the desired behavior.

Offer training and development that helps managers and employees achieve goals.
The best of intentions can't overcome lack of knowledge or skill. On the other hand, if employees don't have the skills to achieve goals, then frustration can result. For example, if employees seek to increase telephone sales, telemarketing training may help them achieve this target. You can't measure an employee's knowledge without providing tools or training, and managers who rate employees without providing these tools are setting themselves and employees up for failure.

Linking employee performance to company goals isn't easy, but it's well worth the effort. With balanced performance processes, companies reach overall objectives as employees achieve individual and group goals. And since individuals are not rewarded until goals are met, the company's bottom line grows incrementally along with rewards. Performance programs and systems can be found in successful companies that have discovered linking employee performance to company goals is good for business. Business performance consultants can walk you step by step through the implementation of these programs. Contact your business performance advisor for more information about how your company can put performance programs to work.

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Outsourced CFOs are Smart for Business

Running a business takes many skills sets, and business owners, eager to keep costs in check, try to do it all. From hiring decisions to compiling financial statements, owners spread themselves thin running from task to task. The upside? There's no large salary tied to people holding specialized positions. The downside? Each task gets but a fraction of the time it deserves – and requires.

According to the Harvard Business Review, outsourcing is one of the most important management ideas and practices of the last 75 years. Companies using outsourcing cite innovation as their number one reason for bringing in a fresh perspective to key company functions. Business owners and executives say they derive these four benefits from outsourcing:

1. Outsourcing allows companies to focus on what they do best – their own core competencies.
2. Companies achieve greater efficiencies without adding people or technological resources.
3. Outside expertise helps companies become more profitable, thereby increasing company or shareholder value.
4. Outsourcing offers increased service levels within company functions.

One of the most critical functions in a company – especially one transitioning through one of the growth phases – is that of the financial officer. A Chief Financial Officer (CFO) typically focuses on how efficiently a business is operating. While some business owners view this function as a reporting function – one where the CFO merely is a score keeper of how well the business already has performed, that's just where CFO duties begin.

A CFO takes the historical financial data (also known as financial statements and other typical recording reports), combines that information with operating practices, and analyzes areas where the company could – and should – make changes that affect profitability, productivity and efficiency. The CFO with top-notch business sense can dramatically impact a company's bottom line.

Companies nearing the half million up to the $5 million revenue mark often find they can benefit from the services of a seasoned CFO, but can't – or don't want to – afford the $125,000+ these professionals typically demand for a salary. Some business owners, realizing that they do not have the resources to hire a full-time CFO, simply accept this and vow to grow their businesses so they can hire a CFO in the future. Smart business owners recognize that if they want to reap the benefits of an experienced, results-producing CFO, they must look for a more creative way to do it.

These smart entrepreneurs regularly make outsourcing work for them. They understand the importance of leveraging their money while obtaining critical tools for success. Many times, the cost savings accompanying qualified CFOs makes the decision that much easier.

Outsourced CFOs sell their time by the hour or on a monthly basis –four to eight hours a month, for example, at an agreed-upon fee. CFOs can isolate areas of concern that the business's accountant wouldn't (and possibly couldn't) detect until tax time. Even the closest accounting advisor isn't privy to day-to-day business practices.

CFOs can have a positive affect on the outcome of major business decisions. For instance, companies facing reorganizations or mergers need to have access to real numbers associated with these events. They also need to know how to leverage available resources with company debt. Skilled CFOs handle these issues regularly and can bring much-needed expertise to company owners and executives as they make short- and long-term decisions.

Other areas offer opportunities as well. Purchasing agreements sometimes can hurt the well-intentioned company manager. If a company makes larger purchases because of negotiated lower prices on products and the trade off is a shorter pay schedule, CFOs can isolate this scenario as the key reason why a company could constantly be in a cash crunch.

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lpanichelli@cfoplus.net
jchamberlain@cfoplus.net

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Outsourced CFOs are Smart for Business (cont.)

Finding a qualified CFO may be as far away as a phone call to your CPA or accountant who offers outsourcing as a credible service component for companies like yours. Today, some firms offer the services of experienced CFOs who have retired and now work as temporary workers – much like you would hire a secretary on an as needed basis. Whichever route you take, financial matters aren't the only areas where an outsourced CFO can lend advice. CFOs can help your business in several critical areas including:

- choosing appropriate accounting software,
- deciding whether leasing or buying equipment is best,
- how to compensate company officers,
- how to handle company collections,
- how to handle cash flow and how to balance company debt with receivables, and
- how systems can be improved to improve productivity.

While hiring a CFO for a short amount of time may get you past a cash flow crunch, help secure a much-needed loan or initiate systems that increase productivity, experts agree that to get the most out of your investment, you should commit to your outsourced CFO arrangement for at least a year. An experienced CFO often can impact your business in less time than an average work day or approximately eight hours.

If you are a business owner currently functioning as CFO, think of all the things you can do with your leveraged time.

- Spend time with valued customers to ensure their continued business.
- Attract and win new business.
- Develop new products or services.
- Work on operational or financial projects to make your business more profitable or accelerate its progress toward your growth goals

Bottom line: the choice to outsource comes down to dollars and sense. When companies add a CFO's salary to a benefits package complete with annual bonuses, the price tag is high. And, not all CFOs are equal- navigating the maze of available CFOs can leave you dazed and confused. Keep in mind that CFOs possessing business performance management knowledge add an extra dimension that positively affects other areas of your company, including productivity, operating efficiencies and internal systems.

It takes time to make the decision to outsource a critical management position. Aligning company growth goals with the operating budget, and comparing that to the benefits an outsourced CFO can bring to the picture, enables you to determine if outsourcing is right for your company. If you still aren't sure, call your accounting business advisor to discuss the pros and cons of this type of arrangement.

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Winning the Cash Flow Battle

– a Simple, Effective Strategy

Think back to the time when you were young. Remember when you saved your allowance, did odd jobs or relied on Grandma to give you the money to buy that really special baseball card or polka-dot hair bow? Your parents probably were supportive, yet benevolently instructive when they stressed, again and again, the benefits of income and savings.

What they may have failed to mention were two words that complement the entire scenario – cash flow. If you had proper cash flow, you would have enough money ready to go and ready to spend, instead of reacting to a potential purchase by trying to come up with the pocket change.

Today, the way we manage our businesses really isn't any different than this somewhat dated scenario, yet companies sometimes forget about cash flow. The results can often be disastrous.

Think, for example, of the dozens of failed dot.coms in 2001. So many businesses banked on venture capital funds, spent the money on inventory, assets, employee salaries and had nothing left in reserves. It wasn't uncommon to walk into a hip and happening Internet retailer on the west coast only to find three people doing the job of one.

With so many rainy days dampening the sunny ones, these companies were forced to lay off staff and eventually close their doors, resulting in thousands of unemployed workers.

If these companies had relied, instead, on the cash flow process, they may have been able to survive, albeit without that extra espresso machine or rock climbing wall..

Increase the Speed

Cash flow refers to the movement of cash in and out of your business. Whether you sell widgets or windows – and are General Electric or a small- to medium-sized business – money comes into your business in the form of cash received from customers at the time of the sale. It also includes cash received from accounts receivable and income from other activities, including sales commissions.

If cash flows in, it's got to flow out. Cash flows out of your business to finance everything you purchase to actually run the company: inventory, raw materials, payroll, expenses, rent, utilities, interest on loans, equipment lease payments and accounts payable on trade credit that other businesses have extended to your company.

The key to improving cash flow is an economic concept we all learned, but perhaps ignore: simply improve the speed of money flowing into your company while decreasing the rate at which money flows out. For the entrepreneur or small business, this may mean pre-billing for any work incurred, or delaying expenses until necessary. Larger businesses with employees may want to undertake similar tasks ... only on a larger scale.

Paint by Numbers

The missing link, therefore, is timing. Mark Deion, president of Deion Associates & Strategies, Inc in Warwick, R.I., says you could go out of business waiting to get paid.

"For example, it costs you $100,000 to produce something and a customer is willing to pay you $1 million," he says. "We would agree that $900,000 is a great profit margin, but what if you have to pay the $100,000 in December and your customer isn't going to pay you until April?"

While there are many theories on how to achieve cash flow success, most financial advisors agree on a multi-step approach that encompasses a variety of simultaneous techniques. Here are six steps for consideration.

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jchamberlain@cfoplus.net

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Winning the Cash Flow Battle – a Simple, Effective Strategy (cont.)

1. **Establish a receivable process**
   You can improve your chances of receiving timely payments from your customers by setting up an A/R process to record sales, generate invoices and monthly statements, and track your customers' current and past-due balances

2. **Forecast cash flow.**
   Study your customers' paying habits so you can begin to predict when and how much they'll pay. Analysts say the amount you forecast should be within five percent of your monthly receivables. If your predictions are dramatically off schedule, a cash flow problem could be looming.

3. **Track expenses.**
   Each month, compare projected expenses to actual expenses. This will help you anticipate the need for more cash and react immediately. For example, if you unexpectedly have to repair broken machinery, you can cut expenses elsewhere or take an advance on a credit line.

4. **Project sales.**
   It's easy to assume the demand for your products and services will be high, but it's safer to base your projected sales on facts rather than assumption. When you project accurate revenues for a specified period, you can spend accordingly. It isn't magic; just common sense. For example, use past experience to project future sales, and talk to your customers or clients to determine their future needs.

5. **Track sales.**
   Even after you've projected sales, monitoring actual sales ensures you're on the right track. If sales dip below projections, the sooner you make adjustments, the better. Adjustments include cutting expenses, extending credit or borrowing money.

6. **Prepare for cash flow imbalances.**
   Nothing is ever 100 percent steady, and for many businesses, it's more than normal to experience cash flow fluctuations throughout the year. Anticipate when your sales are likely to drop, then ensure you've put cash aside to cover your expenses during the lean months.

No matter what your company's situation may be, the overriding advice from finance professionals is to seek help from those who know. If you don't think you can manage your company's cash flow yourself, hire a professional who can handle your cash flow needs. And, remember, cash flow isn't about crunching numbers, it's about managing your company so that you won't find yourself in a cash crunch.

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Harnessing the Power of Business Roundtables

As a business owner, how often do you have the opportunity to talk one-on-one with other owners or executives about ideas? Many small- and medium-sized company owners and executives frequently feel they are working in a vacuum because they rarely have the opportunity to exchange ideas with peers and other professionals. Business roundtables enable owners to cash in on the roundtable's pool of experience and the expertise of skilled facilitators.

Roundtables typically are comprised of business owners and CEOs who come together to share ideas, discuss challenges or concerns, and to learn new ways to approach old problems. They are different than advisory boards that bring a group of professionals representing different areas of business together to assist one company in making decisions and to offer advice in steering the business into the future. Executive roundtables are proactive and interactive.

Most business roundtables group similar companies together so business owners interface with others dealing with challenges and issues within their businesses. For example, small and medium companies are grouped together because they share commonality in size, while larger companies meet separately.

Some roundtables even take this process a step further, and group companies by industry -- service companies, for example, would be grouped separately from manufacturers or other product-oriented companies. Nevertheless, good facilitators possess the experience to avoid grouping companies competing in the same industries in order to spur discussion on critical business issues.

Concepts and ideas are introduced at monthly meetings where members follow a 12-month curriculum. Homework also is assigned to roundtable participants who are asked to complete it by the next meeting, along with any questions for discussion. Since adult learners must use new information for it to "stick," homework assignments are critical for the adult mind to retain new concepts.

Nothing about the way a business roundtable is conducted is left to chance. Members attend meetings offsite to hold distractions to a minimum. Each meeting follows an agenda so time is used productively and wisely. Each member is asked to commit to the group and make every attempt to attend each meeting. The presence of all members is key to the synergy that commonly accompanies business roundtables. Many owners even keep in touch long after the roundtable is over – a sign that these relationships offer much more than camaraderie.

Since there are many members to share the fee, the cost to members is a fraction of the cost that a one-on-one business performance consultant would charge. At the suggested $1,000 to $4,000 per advisory board member per meeting fee, business roundtables look like a steal at between $400 and $600 per month.

And that's only one of the many benefits ... owners and CEOs find they have a safe haven to discuss issues that weigh heavily on their minds. They soon discover and learn, from others who have experienced similar issues that they are not alone in their quest for top talent, increased productivity and decreased costs. Besides being an objective sounding board for members' ideas, the group also can be an accountability factor. If an owner says he/she intends to implement systems within his/her sales force, it is almost certain that the rest of the group will ask the next time they meet how his/her systems are coming along.

The results roundtables elicit can be spectacular! Some members have reported double-digit profit increases since implementing ideas that they always intended to put into practice, but had not done so until joining the roundtable. Others note that personal productivity has increased as a result of a more focused approach.

Family businesses have found a unique use for business roundtables. Before handing over the reins to the family business, junior members attend the one-year course to learn how a business operates. This head-start gives these soon-to-be business owners the leg up on other new entrepreneurs. According to one family business owner, "It's hard to place a value on experience."

To harness the power of these forums, talk to your business performance resource about how you can tap into a roundtable in your area.

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Fighting Fraud With Internal Controls

Fraud in America is big business. At almost $50 billion a year in losses, it's one of the harshest white-collar crimes against companies in today's marketplace. Companies dealing with fraud, however, lose much more than just money. Business owners and executives often find themselves trapped in a myriad of police, attorneys, bonding companies and company employees as the company tries to put the puzzle back together, piece-by-piece, to uncover how thousands, millions and even billions were taken right from under their nose.

According to experts, owners and managers commit 42 percent of employee-related fraud, and the ways thieves funnel money out of companies are as diverse as the thieves themselves. In many instances, the thief just takes the money and runs. In a larger percentage of the cases, thieves take advantage of open access to bank deposits and accounts. Others routinely fail to document various transactions and pocket the cash.

Who is at risk? All industries report some type of fraud activity. It appears that the real estate and manufacturing industries have endured a larger share than others. According to the Association of Certified Fraud Examiners, the average incident was $475,000 for real estate and $274,000 for manufacturers.

Sometimes, the simplest measures are the most effective – and it begins with internal controls. Tightening internal controls can alleviate more than 60 percent of attempted fraud. In many cases, companies have done a very good job of putting internal controls in place, but fail to ensure these measures are working. Setting anti-theft policies into action is your best bet for avoiding fraud.

Owners and executives can take these proactive actions:

- perform an internal control audit;
- review internal control policies with employees;
- redefine employee functions and developing a rotating schedule of duties;
- work closely with an insurance company to ensure the company is properly covered, just in case fraud is committed; and
- establish a rigorous hiring process where references, credit reports and background information are verified.

When it comes to internal control, the golden rule is segregation of duties. Checks and balances keep employees honest. No employee should be allowed to engage in more than one of these functions: authorizing transactions, collecting or paying cash, or maintaining accounting records. Employees with access to two or more of these functions, have an environment ripe for fraud.

Take our quiz to see if you should look more closely at your company's internal controls. A single "no" does not equate to internal control weaknesses significant enough to cause a major problem. However, multiple negative responses, combined with lacking information, can create an environment where fraud is difficult to detect or control. If you find that you may be at risk, give us a call and we'll discuss your areas of weakness.

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Fighting Fraud With Internal Controls (cont.)

Please answer YES, DON'T KNOW or NO	YES	DON'T KNOW	NO
1. Are timely bank reconciliations prepared independent of the cash function and reviewed by senior management?			
2. Is check stock independently controlled?			
3. Is payroll operated from a separate impress account with canceled checks reviewed for dual endorsement?			
4. Does management approve all overtime and occasionally act as paymaster?			
5. Are cash receipts and deposits processed independently from the accounts receivable function?			
6. Are purchase orders used for high volume or frequent purchases matched with receiving documents and approved invoices before payment?			
7. Do check signers review the voucher package before signing checks and are dual signatures utilized for significant amounts?			
8. Are processed invoices stamped paid once checks are signed?			
9. Are non-owner check signers covered by a fidelity bond?			
10. Do owners or senior management review aged A/R, periodically cross check significant outstanding balances, and purge inactive accounts?			
11. Is periodic inventory taken for items available for sale as well as other corporate assets?			
12. Are budgets prepared by cost center compared to actual expenses and reviewed by owners and senior management?			
13. Are the books and records closed accurately and timely and are resulting financial statements analyzed by management?			
14. Are accounting personnel cross-trained and are vacations mandatory?			
15. Are reference and background checks performed on new employees with accounting duties?			
16. Are social security numbers verified for all new hires?			
17. Is an accounting policy and procedure manual utilized and does it outline job descriptions and duties?			
18. Is there adequate segregation of duties within the accounting department?			
19. Are computer records secured to prevent unauthorized access and data manipulation?			
20. Is your computer data on a rotational backup with the third generation stored off-site?			