

*“Strive not to be a success,
but rather to be of value.”
~Albert Einstein*


*“Intelligence is the ability
to adapt to change.”
~Stephen Hawking*

continued from page 3


It's therefore imperative that every organization, large or small, be vigilant and pro-active about protecting data assets. Many, however, are not. Why? Consider the following:

1. During the course of an audit, where such problems can be detected, auditors found breaches only 3% of the time, and twice as often (6% of the time) by accident rather than through the audit process itself. However, this detection is not the objective of auditors, nor is it their area of expertise. Auditors should not be IT security specialists; that is not their role.
2. IT and security teams are intimately involved with the data and its security on a constant basis. As a result, companies must look beyond IT when assessing data breach risks and invest in independent, professional, proven and credentialed third parties that can analyze the data security and its environment from alternative perspectives.

The lesson here is that in order to reduce data breaches, companies must integrate security into the corporate culture and consistently evaluate the risks of every interaction with networks, devices, data, and of course, other users, including internal employees. That process begins with having a financial / technological forensics audit performed.

If you're interested in learning more, contact Lakelet Financial Forensics Group. Our certified information technology professionals as recognized by the American Institute of Certified Public Accountants are available to assist you in managing this exposure. 

What's Happening with Lakelet this Quarter?

- Lakelet Financial Forensics Group announced the promotion of Timothy B. Crino to director. In his new role, Crino will lead the firm's litigation support, financial forensics, and white-collar investigations, servicing clients in Buffalo, Rochester, New York City, Cleveland, Boston, and Toronto.
- Lakelet Advisory Group expanded its Rochester office with the addition of Senior Consultant, Jack L. Greco. Greco will assist the firm with turnarounds and taking those organizations to the “next level.”
- Dec. 1 - Michael Koeppel and Timothy Crino served as guest lecturers for a group of undergraduate students at SUNY Fredonia. The topic was financial forensics and the famous “Crazy Eddie” fraud scam.
- Dec. 9 - Michael Koeppel presented a paper entitled *Article 9 - Challenges Associated with Turnarounds* to the New York State Society of Certified Public Accountants (NYSSCPA) Restructuring and Bankruptcy Committee, of which he is a member. 

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Lakelet Advisory Group LLC

Focusing on Business Results

NEWSLETTER

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Is “Job Costing” Costing Your Company?

On a simple level, job costing is a management control process of tracking and categorizing each cost incurred in business. The costs are typically associated with a specific job or project and then further categorized by labor, materials, subcontracts, and equipment costs. In many job costing systems, the costs are also associated with tasks on a job or the types of work completed. Predominately used in construction, job costing methods are also used in the motion picture and shipping industries, in fabrication, repair, and maintenance works, and in services such as auditing.

However, for many smaller and mid-size companies, job costing isn't so simple. In fact, it's an Achilles' heel when it comes to determining profitability. Proper job costing requires projecting and determining the true economic costs of a specific job, task, or project. But the process can be a challenge to employ for a variety of reasons, including the following:

- Difficult to establish
- Requires a solid budget process
- Requires some meaningful cutoff procedures, whether it be monthly or quarterly
- Requires an understanding of the true components of the products and services
- Costs need to be captured on the “floor”
- Requires further segregation, not only by the company but also by the specific jobs and tasks
- Requires a true, proactive means of Continuous Improvement

In addition, too often a “random” allocation is calculated to a job. This process may generate an accurate picture for the project as a whole. But it does not reflect the true costs of individual tasks. Therefore, the entity may have some tasks that actually are losing money and others doing very well without any evidence as to which are which.

Another flawed approach to job costing involves the automation process. Most accounting software solutions address job costing in a very structured and accurate manner. However, the




end user corrupts the data input and flow to accommodate an internal deficiency. This is evident by the number of superfluous spreadsheets or secondary repositories of data and calculations in organizations.

How Can Your Company Overcome These Issues?

Companies should consider industry specific accounting systems that offer extensive reporting capabilities. These systems are usually designed to handle millions of records and are built on secure databases. As a result, more time can be spent analyzing data and less time gathering it.

Additionally, to ensure expenses don't slip through the cracks and remain unassigned to specific jobs, it's important to set up a simple coding system. Cost codes are used for each phase, allowing “mini-budgets” to be generated and tracked. In the construction industry, for instance, the Construction Specifications Institute (CSI) has established an industry standard cost coding system.

The bottom line is that when done properly, job costing can be a great tool. Not only can it help your business determine the profit and loss of projects, but it also serves as the foundation for Continuous Improvement, further strengthening your bottom line. 

Top Reasons Turnarounds Fail

Back in the late 1990s, Apple was on the brink of bankruptcy. Enter one Steve Jobs, who had been fired in a boardroom dispute, and he was able to transform the company into a worldwide success story. It's likely the most effective turnaround in business history.

Sadly, all don't have such happy endings. In some cases, help isn't brought in soon enough. Every day, week, or month that goes by

without action, or recognizing when outside expertise is necessary, results in a worsening situation.



In other instances, a turnaround professional is engaged to restructure and reposition a company as a viable, competitive entity, but

something goes awry during the process. More often than not, it comes down to a failure of execution of one or two simple keys, including the following:

- **Failure to change.** Executives or the board are not willing to make necessary and substantial changes. They will alter course at the periphery, but not at the core level, where it's truly necessary. However, when a company is in distress, it is clear that the team of the past cannot successfully address the current challenges and those coming down the pike.
- **Failure to estimate the working capital necessary to succeed.** In a turnaround, cash is a priceless commodity. Unfortunately, many executives underestimate just how much capital requirement is necessary to get their companies back on solid financial footing.
- **Failure to innovate.** Products, especially in today's technological environment, can become outdated or no longer perceived as essential. As a result, new strategies for innovation are required. Turnarounds are not all about cost cutting. To succeed, it's critical that a company aim to grow organically and increase revenue, while at the same time trimming expenses.
- **Failure to learn from others and evaluate culture.** It's strongly recommended that every executive and board member visit at least four different organizations per month. In doing so, they can view and learn from the good, bad and ugly of the marketplace. Just by walking into a facility and assessing the landscaping, the reception area, and the attitude and attire of employees, they can predict with a very high degree of precision the success for that organization.
- **Failure to communicate to stakeholders.** This includes employees, suppliers, wholesalers, customers, shareholders,

and the press. Communication should never be a secondary consideration. In fact, next to cash, it's one of the most important ingredients of a successful turnaround.

- **Failure to share bad news.** No one wants to share bad news. However, letting employees read about plant closings in the paper is a mistake. They should be told first and foremost what is happening and what to expect in the future. They will be far more likely to remain loyal when they know the facts.
- **Failure to share the pain.** Turnarounds are painful, plain and simple. That's why it's critical that executives lead by example. That means getting rid of the club memberships, first class air tickets and limo rides. Remember, in a turnover, every expense must be examined and none is too sacred to touch.

When it comes to turnarounds, there are never any guarantees for success, even when proper actions are taken. However, by avoiding the missteps above – and approaching the situation with a sense of urgency – a company can change course for the better, achieving profitability and realizing the next level.

Industries Projected for Growth and Decline in 2015

Growing Industries

It's been a slow recovery, to say the least. But according to reports from the U.S. Bureau of Economic Analysis, growth is expected to accelerate in the coming years. The nation's economy grew by only 1.8% in 2013. In 2014, however, the economy grew by 3.9% in the third quarter and in 2015, it's forecasted to grow by another 3.2%. So which industries are fueling the progress? Below is a look at the top 10:

1. Management, scientific and technical consulting services
2. Offices of physicians
3. Computer systems design and related services with an emphasis on cyber security
4. Other general merchandise stores
5. Employment services
6. Local government, excluding education and hospitals
7. Home health care services
8. Services for the elderly and persons with disabilities
9. Nursing care facilities
10. Full-service restaurants

continued on page 3

continued from page 2

Declining Industries

The news hasn't fared so well for other industries. Some simply can't bounce back from the last recession as they struggle to find customers in a global economy. For others, new technology is making them far less relevant or they face severe pressure to cut costs. Whatever the case, below offers a look at the 10 industries expected to experience the steepest declines in 2015:

1. Department stores
2. Semiconductor and other electronic component manufacturing
3. Motor vehicle parts manufacturing
4. Postal service
5. Printing and related support activities
6. Cut and sew apparel manufacturing
7. Newspaper publishers
8. Support activities for mining
9. Gasoline stations
10. Wired telecommunications carriers

Industries to Watch

As we progress into 2015, some emerging industries are showing signs of a positive outlook toward growth. A few of our projected "hot spots" in 2015 and beyond include the following:

3D Printing – According to IDTechEx, which conducts detailed examinations of emerging technologies, the total market for 3D printing surpassed \$1 billion in revenues during 2012 and growth is expected to continue throughout all target sectors to reach \$20 billion by 2025.

Cyber Security – The report "Cyber Security Market" released by MarketsandMarkets, a global market research and consulting company, estimates the cyber security market will grow from \$95.60 billion in 2014 to \$155.74 billion by 2019, at a Compound Annual Growth Rate (CAGR) of 10.3% from 2014 to 2019.

Medical Devices – A recent report from EP Vantage, the editorial arm of the London-based life science industry analysis group Evaluate, shows that most medical device companies grew in headcount last year. The report analyzed the 15 biggest companies (by market capitalization) in the world, all of which are either based in the U.S. or have a significant chunk of their employees here. The results show that 12 of the 15 companies reported a net increase in employment from 2012 to 2013.



The High Cost of Cyber Theft: Is Your Company Prepared?



"There are two types of companies in the US; those that have been hacked by the Chinese and those that don't yet know they have been hacked by the Chinese."

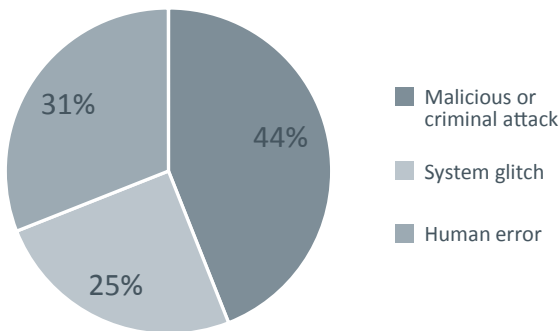
– FBI Director James Comey

Information is perhaps your most valued asset. Yet, for many companies, it remains in an environment that is susceptible to both internal and external threats.

However, in today's world, "data security" can no longer simply be a secondary consideration. In fact, data breaches are among the most common and costly security failures in organizations of any size.

According to an annual study conducted by Ponemon Institute (an independent third party that conducts research on privacy, data protection, and information security policy) in partnership with IBM, the total average cost of a data breach worldwide has increased 15% over the past year to more than \$3.5 million. The priciest data breach to resolve cost the company nearly \$31 million. Even the least expensive data breach in the study still cost the company upwards of \$750,000.

Root Cause of Data Breaches
Based on Ponemon Institute 2014 Cost of Data Breach Study



continued on back page