



A newsletter dedicated to increasing your profitability



Wayne S. Sanders, CPA

## What Can All Businesses Learn from Lean Manufacturing Principles?

by Wayne S. Sanders, CPA

Lean manufacturing is a systematic approach to eliminating wastes in the production process. Wastes can be anything that does not add value to a finished product, including processes, materials and people (i.e., not using employees to their full potential). Lean manufacturing is a continuous improvement process with the end objective of delivering products in the quickest, most efficient and cost effective manner.

Lean principles are based on a production system developed in the 1940s. The system demonstrated that even though processes differ among factories, common wastes and inefficiencies could be found in all types of production environments. It was groundbreaking; and over the years, its principles have been applied to a number of other non-manufacturing industries such as information services and health care delivery.

Lean manufacturing focuses on identifying seven forms of wastes:

1. **Waiting:** Waste occurs whenever materials are not moving through a process.
2. **Overproduction:** Waste occurs in "Just in Case" operations in which goods are produced in anticipation of possible demand, which can result in excessive lead times, high storage costs and more defects.
3. **Overprocessing:** Waste occurs when using equipment in processes where cheaper, less complex tools can be more efficient. This activity is commonly referred to as "using a sledgehammer to crack a nut."
4. **Work in Progress:** Excessive inventory is a result of overproduction and waiting and results in longer lead times and higher storage costs.

(Continued on page 2)

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### INSIDE

- What Makes a Good Password?
- IRS Began Tax Study
- To Borrow or Not to Borrow

## What Can All Businesses Learn *(Continued from page 1)*

5. **Transportation:** It is wasteful to transport a product between processes. Production should be a smooth flow between one process and another.
6. **Motion:** Unnecessary ergonomic activities such as walking, bending, searching and reaching can add up to delays and longer lead times.
7. **Defects:** Defects resulting in rework and scrap that negatively impacts the bottom line.

These wastes are often symptoms of deeper problems. Companies that fail at lean manufacturing often treat the symptoms rather than take further steps to identify and resolve root

causes, which are often "invisible" on the surface.

In a true lean environment,

- Production is "just in time" – created as needed
- Materials flow through a smooth process in which unnecessary waiting and transporting are eliminated
- Equipment is right-sized to specific production tasks and processes
- Inventory levels are reduced
- Quality and accuracy are improved and defects minimized
- Lean manufacturing leads to higher profits, cost-efficient production, improved quality, greater throughput, improved

employee morale and increased time to market.

While the terms in this article may be somewhat specific to the manufacturing industry, many of the principles can be utilized by companies outside of that industry. Service companies who do not fully utilize their employees, for example, may be able to find better ways to utilize their staffs by fixing the roots of the problems instead of treating the symptoms. Also, nearly every business has to contend with defects or mistakes in their work; and while fixing each defect on a case-by-case basis is definitely good customer service, fixing the root cause of the defects is good business.

Our professionals can help your business become more efficient. Please contact us today.

## What Makes a Good Password?

*by Laurie Copeland, CPA*

Creating passwords for your computer and online accounts is obviously important. When choosing a password, though, you are seldom given tips and hints on what makes a strong password versus a weak one. With the ever-increasing online presences of you, your company and your employees, strong passwords are more vital than ever before.

passwords posted, the most shocking aspect of this post were the sheer numbers of weak passwords. Weak passwords are easier to crack; a fact that is not new but seems to be ignored regularly. Weak passwords lead to security vulnerabilities for your company.

The most common password in the list of 32 million was: 123456. Second place went to 12345. Creative and complex passwords seem to be in short supply these days. Choosing a strong password is not difficult in itself; but it seems that unless users are forced to adhere to rules about passwords, the threat of hacking alone will not prompt them to take necessary precautions. Generally, strong passwords are at least eight characters in length and will include uppercase, lowercase, symbol and numerical characters. This will help to ramp up the complexity of the password, making it more difficult to hack. Also, by following these guidelines, you will eliminate every word in the dictionary. Hackers oftentimes use databases that contain dictionary words, common first names and other information as a starting point in their hacking efforts.



Recently, a hacker posted to a website more than 32 million passwords that he or she hacked from individual, personal accounts. Aside from the alarmingly high number of

Password risks do not stop at the complexity of the password, however. Many users, and indeed your employees, could use the same password for multiple accounts. Therefore, if a hacker compromises one account, he or she may have access to several other accounts. An employee uses the same password for his or her personal e-mail account and their log-on for their work-related remote network access. If someone compromises the personal e-mail account, your remote network may be compromised as well.

In order to combat any password issues your company may have, we recommend that you begin by educating your employees on the importance of having strong passwords. Give them examples of how to create strong passwords, what a strong password requires and if you deal with sensitive data,

*(Continued on page 3)*

what types of files should be protected by a password. Moreover, employees should be reminded that they need to use a different password for each account they have. If they have trouble remembering multiple passwords, they may want to use mnemonic devices for their passwords and use an unabbreviated version to assist them in remembering it. Finally, remind them of perhaps the most common sense password rule: Do not share your passwords with anyone.

As an employer, you can institute some policies to ensure that your

systems are not put at unnecessary risk due to weak passwords. One of the best methods to ensure strong passwords is to eliminate employees' ability to create weak ones. Speak with your network administrator about creating password rules that enforce the provisions above. Without these rules, there is a very good chance that your employees will continue to choose weak passwords. Also, be sure that your site is run through a secure server and that your passwords are encrypted before being sent over the Internet. You could also employ anti-hacking mechanisms that require users to input text or perform mathematical computations when logging on. These mechanisms are good tools to thwart the software programs used by hackers. We also believe that you should change your passwords on a regular basis – perhaps every three to six months.

Please contact one of our professionals if you have any questions about this article.



## IRS Began Tax Study

by Christine M. Myers, CPA, CVA

In February 2010, the Internal Revenue Service began its first Employment Tax National Research Project in 25 years. Business practices regarding employment tax issues may have changed significantly since the last IRS employment tax study in the 1980s, necessitating the need for this study.

Examinations comprising the study will be conducted to collect data that will allow the IRS to understand the compliance characteristics of employment tax filers.

The results will allow the IRS to gauge more accurately the extent to which businesses properly comply

with employment tax law and related reporting requirements. When completed, this information will help the IRS select and audit future employment tax returns with the greatest compliance risk.

There are two main goals for the ET NRP:

- To secure statistically valid information for computing the Employment Tax Gap, and
- To determine compliance characteristics so IRS can focus on the most noncompliant employment tax areas.

The IRS will randomly select 2,000 taxpayers each year for the next

three years. The examinations will be comprehensive in scope. Taxpayers will receive notices describing the NRP process similar to those used in recent NRP studies for individuals and Form 1120S corporations.

Records pertaining to employment tax returns and issues will be subject to review during these examinations. Employers should have all of their records available to expedite these examinations.

If you receive a notice to participate in this study or have questions about how the results may impact your tax liability, please contact a tax professional.

## To Borrow or Not to Borrow

by Christopher E. Fogal, CPA

People use debt to finance many types of purchases, and borrowing money is not always a bad idea. However, some buys are worth financing over time and others are not. Making the correct determination is up to you.

The most important thing to remember when going into debt is that you are paying for the privilege

of borrowing that money over time. A bank, department store or finance company will charge interest, which



must be paid in addition to your repayment of the basic loan amount. And that interest charge can be pretty hefty, particularly if you only make the minimum payment each month. For example, say you buy a \$1,000 TV with a credit card that charges 18 percent interest and you pay only the minimum of \$10

*(Continued on page 4)*

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## To Borrow or Not to Borrow

*(Continued from page 3)*

on every bill. Not only will it take 10 years, or 120 payments, to get rid of that debt, it will also cost \$799 in interest. In other words, the amount of interest you pay could nearly buy you another TV. With a small discretionary purchase like a new TV—something you don't really need—always consider whether it would be better to save money for a few months and buy the item for cash.

Sometimes borrowing may be a good idea, especially with items that will appreciate. The best example, of course, is a home purchase. Although the real estate market has

been in turmoil of late, if you plan to own a home for more than five years, the property often maintains or increases in value.

There are costs to home ownership, of course, including property taxes and maintenance expenses. But what sets home ownership apart is the chance to benefit from the appreciation in the property's value over time. For these reasons, a carefully considered and affordable home purchase is likely worth incurring debt.

Financing education is also considered a valid reason for going into debt, but here it is also important to analyze the pros and cons. For example, you may be able to get a

quality education and good career prospects at a public university, and save yourself the high price of a famous private school. If you are thinking of going to graduate school, take a realistic look at how much the move will benefit your career over time before you ante up the tuition costs and lose out on potential earnings while you are in school. Education is usually a great investment and one worth borrowing to finance, but be sure you are making the best use of your money.

Our professionals are eager to assist you with any questions you have about your finances. Please contact one of them today.

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