

IN BOX

Before and after an audit

By KAREN E. KLEIN
Special to The Times

Dear Karen: My firm is undergoing an audit. How can we prepare?

Answer: Start by appointing a team leader who will direct an audit prep team and act as liaison to the auditors, said Ken Jones, a certified public accountant and founder of the Lyndon Group in Newport Beach. "One contact person should assure that appropriate information flows to your audit firm, that adequate resources are available and that both the internal team and the public auditors are accountable for meeting deadlines," he said.

Meet early with the auditing firm and ask what it needs and when. Next, test your transactions and processes to make sure they reflect good controls and are being followed, he said. After the audit is completed, reconcile your accounts. "Once financial statements are closed, it is important to go back and validate that your account balances are properly stated," Jones said.

Insulation from the credit crunch

Dear Karen: What can we do to protect our company from the credit crunch?

Answer: Make sure you have business interruption and disability insurance. "Very few entrepreneurs have coverage that is large enough to keep their companies running if there's a natural disaster or they get too sick to work," said Mark A. Sunshine, president of Los Angeles-based First Capital, a financial services firm.

If you have a commercial loan, verify your lender's financial health. "If that lender went out of business, you could face the inability to make your next payroll," Sunshine said. If your lender's prospects look shaky, replace the loan or get a back-up line of credit, despite the possible cost.

Buy accounts receivable insurance or get commercial credit protection that will cover you if your largest customers default. "Very often, a small company's largest asset is their accounts receivable, yet most of them haven't got the accounts receivable insurance that would prevent [a] catastrophic loss," Sunshine said.

Cash to get you off the ground

Dear Karen: We've developed an online product for six months and can demonstrate its functionality. Where do we look for the right person or entity that could partner with us to obtain capital?

Answer: You're in what investors call the seed stage of raising capital. You need to raise enough money to carry you through to product launch and signing your first customers.

If you'll need more than \$250,000, focus your energies on venture capitalists, who look for early-stage companies seeking their first round of financing, said Mitch Jacobs, chief executive of On Deck Capital in New York. He suggested firms such as First Round Capital, Village Ventures and Contour Venture Partners.

If you need between \$50,000 and \$250,000, look for regional "angel" networks, Jacobs said. These are groups of wealthy people who invest in new companies.

"If the amount is below \$50,000, then consider alternative financing channels, such as peer-to-peer lenders like Prosper.com or family and friend lending solutions like Virgin Money," Jacobs said. "Keep in mind that if you have a great product and have begun to demonstrate the opportunity, the right sources will compete to invest in your business. If investors are hesitant, you're either talking to the wrong investors or your product is not as investment-ready as you thought."

Got a question about running or starting a small enterprise? E-mail it to karen.e.klein@latimes.com or mail it to In Box, Los Angeles Times, 202 W. 1st St., Los Angeles, CA 90012