Fraud Awareness and Prevention

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Fraud

- Every year business owners discover that their assets are not as well protected as they thought when they become victims of employee theft.
- This is particularly true in small-business environments where a single employee manages all accounting and financial matters.
- When one employee records all data there are no “checks and balances” to verify that transactions as recorded by that employee are accurate and properly recorded.
- Most employee thefts are perpetuated by highly trusted employees in key positions.
Fraud

- The best way to safeguard your company’s assets is to recognize and improve on weaknesses in your internal procedures and develop strong internal controls.
- Defalcations are most likely to be discovered if there is an appropriate separation of duties between access to assets and recording of financial transactions.
- It is also critical that you exercise management oversight.
- But it’s just not in the financial area…Most common fraud in construction:
  - Theft of physical assets/materials
  - Vendor or Procurement

Fraud

- Jobsite/project management related fraud is common.
- Jobsite/project management fraud occurs in the following areas:
  - Labor
  - Small tools
  - Construction materials
  - Subcontractor/supplier (kickbacks)
Fraud

- A good system of internal controls starts with the control environment.
- Management:
  - Sets the tone through actions and attitudes
  - Lead by example
  - Participates in the control process

Fraud

- What system of internal controls does the Company have in place to minimize fraud?
- Segregation of duties serves as a check and balance. For example:
  - One person opens the mail; another makes the deposit
  - One person prepares the checks; another reconciles cash
  - Owner should receive and open bank statements
Fraud

• What system of internal controls does the Company have in place to minimize fraud?
  – Obtain bonding for employees who have access to cash, debit cards, PayPal, and electronic transfers
  – Review bank reconciliations
  – Cross train employees and require job exchange for vacations

Cash Disbursements

• Check signing privileges
  – Dual signatures on larger checks over a certain amount ($5,000)
  – Do not use a signature stamp
  – Review check sequence
  – Personnel who process cash disbursements (print checks) should not be authorized to sign checks
**Cash Disbursements**

- Supporting documentation
  - Approved invoices
  - Person signing check should cancel invoices upon payment (use of “paid” stamp) include date and initial
    - Prevents duplicate payment of invoice
  - Payment cycle (every month, every two weeks, the 10th and 20th)

**Cash Receipts**

- Personnel opening mail makes prelist of cash receipts
- Personnel who processes cash receipts (billings/draws) should not make deposit or be an authorized signatory on bank account.
Bank Statement/Reconciliation

- Owner should receive unopened bank statement
- Review cancelled checks for:
  - Altered checks (payee or amount)
  - Unapproved vendors
  - Unauthorized signatures
  - Duplicate checks (same vendor and amount)
  - Positive Pay

Bank Statement/Reconciliation

Prepare bank reconciliations timely
- Reviewed by management
- Review all electronic transfers/payments
- Investigate unusual items
Jobsite/Project Management

Purchase orders:
- Is there a purchase order system in place (2% to 3% savings)?
- Who can initiate purchases?
- Who reviews and approves?
- Utilize vendor discounts
- VPO’s

Job Site/Project Management

- Compare job material quantities and cost to original bid regularly. Investigate significant differences.
- Reconcile P.O.’s to receiving reports and invoices.
- Report job labor daily.
  - Use employee timesheets approved by project manager/superintendent.
Job Site/Project Management

• Prepare job schedules monthly
  – Work in process
  – Completed contracts
• Scrutinize loss jobs

Payroll

• Payroll processing:
  – Outside payroll service
  – Online payroll service
  – In-House
• Report time daily
• Use direct deposit
Payroll

• Payroll bank statements and cancelled checks should be reviewed by personnel independent of payroll processing.

• Credit Cards
  – Limit credit card use
  – Require receipts
  – Management should review and approve

Fraud

• Reconcile all general ledger accounts (balance sheet)
  – Monthly

• Journal entries
  – Management should review and approve all non-standard entries

• Write-offs
  – Review and approval
Fraud

- PayPal
  - E-Remittance debit cards
  - EFT wires
- Software
  - QuickBooks, Peachtree, Buildsoft, Master Builder, other
  - Do not allow previously closed months to accept journal entries from subsequent months
  - Security

Fraud

Business Insurance – Do you conduct an annual risk assessment and does your agent prepare a master summary and review it with you?

- Do you really understand the policy and coverage
- Replacement cost vs. cost vs. fair market value
- Software – loss of data backup
- Business interruption
- General umbrella
- Autos – What are your business policies (commuting, personal use, family members)
Questions

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