




NECANOW
2017
EXECUTIVE LEADERSHIP CONFERENCE

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.

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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

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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)

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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

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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

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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

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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

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Cash Disbursements

- ⑩ 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)

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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.

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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

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Bank Statement/Reconciliation

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

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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

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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.

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Job Site/Project Management

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

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Payroll

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

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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

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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

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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

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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)

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Questions

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