




**Fraud Awareness and Prevention**

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3

## 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 10<sup>th</sup> and 20<sup>th</sup>)

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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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