## Introductions

**Leslie Shiner**
- Owner of The ShinerGroup
  - Financial & management consultant for over 25 years
  - MBA in Accounting and Finance from U.C. Berkeley
- Certifications
  - QuickBooks Advanced ProAdvisor
  - Sage Certified Consultant
- Author:
  - *A Simple Guide to Turning a Profit as a Contractor*

**Annie Kendrick**
- Owner of Kendrick Business Services
  - Over 20 years experience in construction accounting
  - B.S. University of Utah
- Certifications & Software
  - QuickBooks Advanced ProAdvisor
  - Developer Method CRM for Solar
- Business Development Programs
  - Port of Portland Mentor Protégé Program contracted trainer since 2012 for Estimating and Construction Accounting

## From the Blog: Lessons Learned – Internal Controls

- **Sun Always Shines Solar**
  - John opened *his business and kept control over everything*
  - Growth exceeded *his ability to keep up with financials*
  - Hired Susie to help – she seemed *competent and helpful*
  - Susie took over *everything*
  - By accident, John discovered *notice of IRS levy*
  - John started digging and found many other irregularities
  - Research uncovered that Susie had embezzled over $300,000

Read the blog at: [https://blog.energytrust.org/](https://blog.energytrust.org/)
What Did John Do Wrong?

When you make a profit, shouldn’t you get to keep it?

Learning Objectives

• Discern the signs that fraud, embezzlement, or theft are occurring in your company
• Create environment reduce fraud
• Establish internal controls in each of your company functions
• Recognize the three points of the fraud triangle
Overview of Fraud Statistics

- Occupational fraud and abuse adds up to more than $600 billion per year or $4,500 per employee
- Typical business will lose an average of 5-7% of revenues from employee theft alone
- Small businesses (<100 employees):
  - Greater frequency of fraud
  - Higher median loss ($140,000)

Association of Certified Fraud Examiners (ACFE): Report to the Nation on Occupational Fraud & Abuse

Fraud Statistics for Small Businesses

- The average scheme lasted 18 months before it was detected
- 3 types of fraud
  - Corruption
  - Asset Misappropriation
  - Fraudulent Statements
- Asset Misappropriation is the most frequent type of fraud
  - Most frequent types for small businesses surround cash disbursement and cash receipts
Why Should a Small Business Care?

- Best business practices
  - High risk of fraud for small businesses
- Implement now to address and prevent future or potential problems
- Recommendation from an outside party

The Fraud Triangle

The Fraud Triangle was developed by noted criminologist Donald R. Cressey
It’s Not Just Cash That’s Stolen!

Other Types of Fraud

- Moonlighting
- Bartering with your clients for extras
- Misreporting time card hours
- Unapproved vehicle and tool use
- Fueling up personal vehicles
- Expense reimbursement abuse
Red Flags – In the Office

The hard worker – after hours and no vacation

Management’s lack of commitment to controls

Unusual interest in mail or other activities that are not part of their job description

Inconsistency: sometimes tidy and sometimes messy

Red Flags – Working Situations

• Working situations that can contribute to fraud:
  – No attention paid to details
  – Little or no review of employees work
  – Inadequate employee training
  – Poor employee compensation
  – Unreachable goals or deadlines
  – Lack of info system access controls
  – Close association with key employees, customers or vendors
### Red Flags – Behavior

- Employees who will not let anyone else help with job
- Significant behavior changes
  - *Suddenly disorganized or withdrawn*
  - *Increased defensiveness, irritability*
  - *Use of drugs or alcohol*
- Lifestyle beyond income level
- Increase in personal calls/texts
- Personal debt or financial pressures (medical bills, spouse lost job, etc.)
- Complaints by other employees

### More Red Flags – Financial

- Checking accounts not reconciled
- Excessive voids or large receivable write-offs
- Missing documentation
- Numerous adjustments to payables and receivables
- Payment from invoices, no statement reconciliation
  - *Duplicate payments*
- Ghost employees
  - *Old employees still being paid*
More Red Flags – **Field**

- Excessive purchase orders
- Inventory shortages or missing material
- Suspicious workers’ compensation claims
- Missing tools and equipment
- Increased scrap or waste
- Excessive overtime
- Inaccurate time cards

---

**Be Prepared**

- It’s not a question of “if?”
- It’s a question of “when?” and “**how much?**”
What’s an Owner to Do?

“Trust the Controls, Not the People!”

Internal Controls

- Segregation of duties
- Layers of responsibility
- Layers of authority
  - Limited signatory authority
- Extra set of eyes

Creating controls does not mean lack of faith but good business practices!
Separating Duties in Small Company with Limited Staff

- Outsource one portion or handle yourself if you only have one employee to provide checks and balance
  - Outsource bank reconciliation
- Use electronic bill payment with built-in workflow and manager approvals
- Limit the signatory authority
- Use PO’s or enact separate approval for vendor payments

Tone at the Top

- What message does this send to your employees?
Key Components for Good Internal Controls

• Tone at the Top
  – Take an interest in the books
  – Provide oversight and review
  – Written ethics policy
  – Random spot checking

Key Components for Good Internal Controls

• Create accounting system procedures and controls

• Review financial statement accuracy for fraud prevention

• Require field employee documentation
Controls – Banking

• Bank statement to be sent to/reviewed by the owner/manager before the bookkeeper
• Review regularly online
  – Look for large ticket items
  – Look at all debit transactions
• Utilize outside reconciliation
  – Make it loud and obvious
• Never leave signed checks in the drawer ‘for emergencies’

Controls – Accounts Payable & Disbursements

• Never use signature stamp
  – If you do, the banks will not reimburse!
• Pay from statements, not invoices
  – Match all bills with statements
• Verify checks with backup before signing checks
• Have approved vendor list
  – Have approved purchaser list
• Use online bill payment – owner approves payments
**Controls – Credit/Debit Cards**

- Require receipts for all transactions
  - *No backup means no credit cards*
  - *Use 3rd party expense tracking software*
- Each user has their own card
  - *Limit maximums*
  - *Banks will not reimburse abuse up to limit*
- Review and reconcile accounts monthly
  - *Verify online balance – often!*
- Never give employees debit cards!
  - *Unless using prepaid debit cards*

**Controls – Payroll**

- Review all payroll checks
  - *Monitor payroll amounts for reasonableness*
- Require time cards
  - *Use daily time cards*
  - *Management to approve time cards and all overtime*
  - *Verify payrates – approve and document any increases*
  - *Review bonuses, reimbursables, sick and vacation time*
  - *Use 3rd party mobile time tracking app*
- Control employee advances
### Controls – Field

- Utilize Purchase Order system  
  - *Not “Purchased Order” system*
- Limit purchasing ability
- Track equipment in and out
- Investigate a GPS tracking system that integrates with timecards
- Track vehicle expenses by each vehicle  
  - *Look for one vehicle that uses more fuel and/or repairs*
- Keep trucks in warehouse/office during weekends

### Controls – Inventory

- Require proper documentation for inventory requisitions
- Only buy in bulk if it saves time and money
- Track inventory in as well as out  
  - *Including returns*
- Conduct periodic physical inventories
- Restrict access
- Track product sales on eBay
### Controls – Fixed Assets

- Maintain a list (not just the accountant)
  - *Vehicles*
  - *Tools*
  - *Equipment – including all equipment*
    - Field and office
- Conduct physical inspection periodically

### Controls – User Names and Passwords

- Each user of your accounting system should have a separate, private user name and password known only to them
- Set up separate users for Owner and Office manager
- Limit access to sensitive data if possible
- Having different users allows you to see who did what
Controls – QuickBooks Specific

- Never let an employee log in as “Administrator”
- Add password to prior period and do not give to employees
  - *Changes to prior periods may be used to conceal fraudulent transactions*
  - *Close each month*
- Make use of the QuickBooks Audit Trail

Controls – More Tips

- Lock doors, offices, file cabinets, blank checks and more
- Restrict software access wherever possible
- Passwords and firewalls on computers
- Security cameras
- Require vacations or job rotation
- Background checks for all employees
  - *Drug testing as well*
- Create a hot-line
Detection

- Employee tips account for more than 25% of detection
- Almost 20% are discovered by accident
- But 34% detected by Internal Controls and/or Internal Audit

Personal Experience – Annie

- Bank accounts had not been reconciled for 2 years
- PR quarterly reports were not filed for over a year and were delinquent
- Employee was paying herself unauthorized overtime and bonuses
- Customer payments were not applied against invoice and not documented
- She wrote checks to herself, posted to a draw account, cashed them and then delete the checks
  – Found this in the audit trail
- She ordered personal items through Staples account
- 401K funds were not deposited into employee accounts
Case Studies – Summary

• Hiding theft in job costing
• Duplicate payroll checks or inactive (ghost) employees
• Missing Accounts Payable invoices compared to statements
• Accounts Receivable entered, received and deleted
• Credit card activity not displayed in detail

• Your experiences?

Moving Forward

• What will you do?
  – *Institute a good system of internal controls*
    • No matter the size of the company
  – *Review your own “Tone at the Top”*
  – *Look for the telltale signs of fraud and abuse*
  – *Create a tip hotline*

• Don’t be a statistic
  – *You work hard for your money, why not keep it!*
Summary

- Internal controls helps you catch fraud earlier and minimize loss
- Need to create controls – and follow them
- Let your staff know that controls do not mean a lack of trust
- Don’t think: “It won’t happen to me!”

Thank You

Leslie C. Shiner, MBA
LShiner@ShinerGroup.com
(415) 383-6255
www.ShinerGroup.com
www.facebook.com/TheShinerGroup
Twitter: @TheShinerGroup
Business Development Program

• Blog Posts and Webinars – New!
• QuickBooks Assessment or Re-assessment
• Ongoing help with QuickBooks and business questions
• Remote CFO Meetings

Lessons Learned – Blog and Webinar Program

• Project Controls webinar and blog post
  – This was the first webinar in the series of 6
• 2nd webinar and blog post: Internal Controls

• Watch for the Energy Trust newsletter for more information
  – Or check the website
  Read the blog at: https://blog.energytrust.org/
QuickBooks Assessment

- Analyze current business processes and compare to best practices for the solar industry:
  - Chart of Accounts setup and reporting
  - Project set up for tracking profitability – estimate vs actual
  - Project set up for managing projects and change orders
  - Use of cost codes for the solar industry
  - Entering of transactions associated with production and overhead
  - Best use of time tracking
  - Handling of inventory stock for job costing
  - Use of the matching principle
  - Accuracy of posting procedures
  - Many more review items summarized in 35-40 page report
  - Suggested improvements checklist
  - Follow up with meeting to discuss findings with key team members and outline for assistance

$500 after ETO match

Ongoing Help with Your Business

- Assistance with…
  - Payroll for good job costing set up
  - Forecasting and budgets
  - Labor burden calculations
  - Asset and Loan setup
  - 3rd party program integration and implementation
  - Work in Progress Reports
  - Tracking key performance indicators
  - Much more, just ask

$100 per hour after ETO match
Remote CFO Meetings

• Potential topics:  
  – Analyze trended Profit and Loss Statement  
  – Evaluate profitability, gross, net  
  – Evaluation overhead and markup  
  – Review fully burdened labor costs  
  – Review process for job costing  
  – Analyze business plan, mission statement and vision statement  
  – Perform ratio analysis  
  – Create Key Performance Indicators (KPI) metrics for your company  
  – Review internal controls  
  – Create and manage a cash flow projection  
  – Investigate productivity reports and charge-out rates  
  – Reconcile your books to the latest tax return

$300 per meeting after ETO match

Pre-requisite: file assessment and clean up

How to Get Started

• Complete the participation agreement and send to Jeni Hall at Energy Trust of Oregon. Jeni.Hall@energytrust.org

  – Once approved you will be directed to Survey Monkey to answer a few questions about your business and then you will be contacted to set up your first meeting.

  – You can also contact Annie Kendrick at Annie@AnnieKendrick.com or 541-926-6438 and she will help you navigate the start up process

© 2019 The ShinerGroup & Kendrick Business Services, LLC. All rights reserved.
Thank You

Leslie C. Shiner, MBA
LShiner@ShinerGroup.com
(415) 383-6255
www.ShinerGroup.com
www.facebook.com/TheShinerGroup
Twitter: @TheShinerGroup

Annie Kendrick
Annie@AnnieKendrick.com
(541) 926-6438
www.AnneKendrick.com