
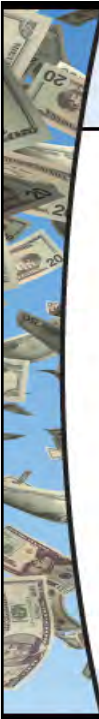


# Lessons Learned: Internal Controls

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## 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/>



### What Did John Do Wrong?


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





### Learning Objectives

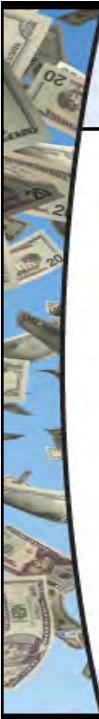
- Discern the signs that fraud, embezzlement, or theft are occurring in your company
- Create environment reduce fraud
- Establish internal controls in each of your company functions
- Recognize the three points of the fraud triangle



## 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*

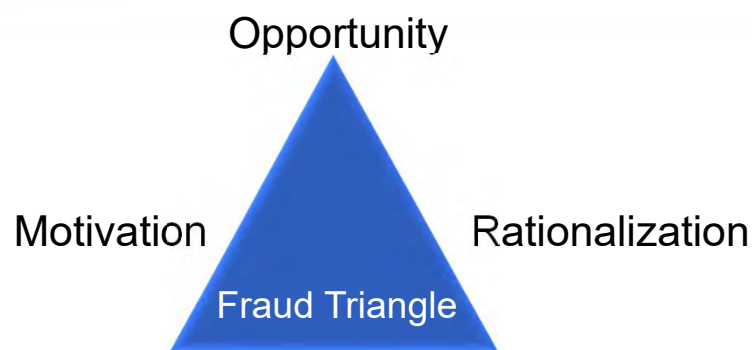
Small Businesses (<100 Employees) — 537 Cases		
Scheme	Number of Cases	Percent of Cases <sup>10</sup>
Billing	154	28.7%
Check Tampering	140	26.1%
Corruption	137	25.5%
Skimming	116	21.6%
Expense Reimbursements	90	16.8%
Non-Cash	80	14.9%
Cash on Hand	79	14.7%
Payroll	72	13.4%
Larceny	66	12.3%
Financial Statement Fraud	30	5.6%

## 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

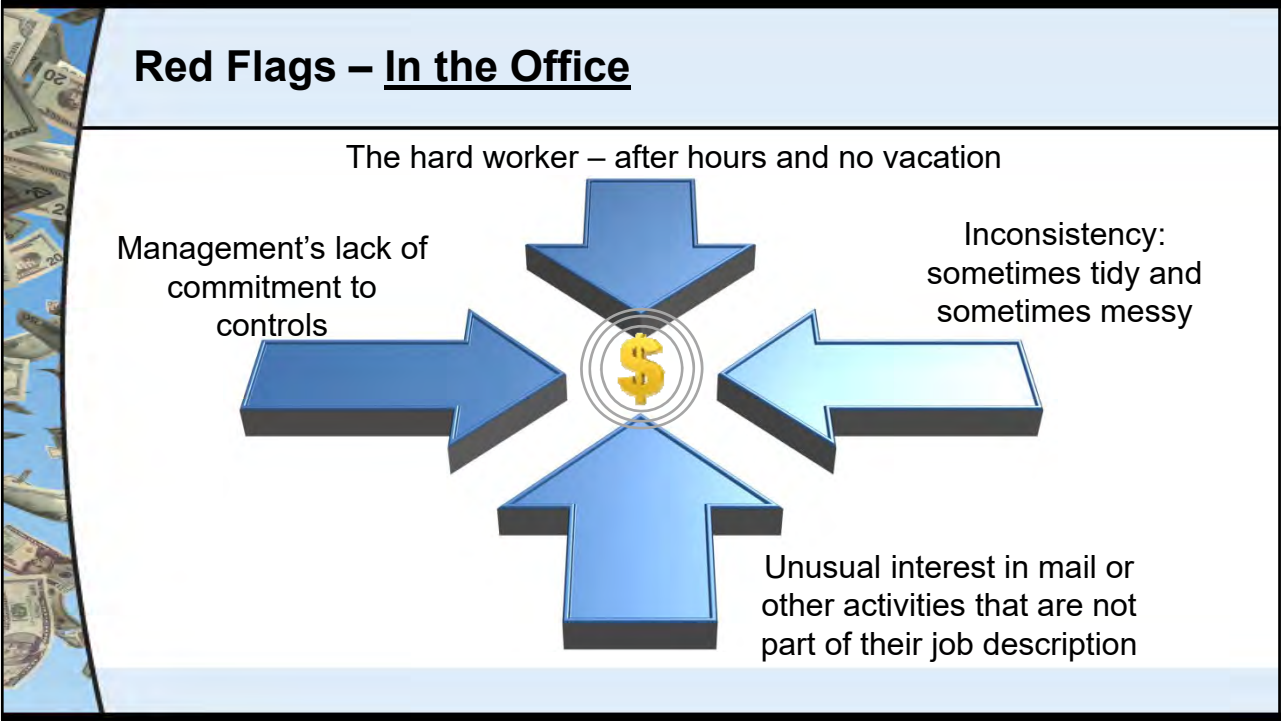




**Other Types of Fraud**

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

A photograph showing a person wearing a hat and a jacket, standing on a very tall, precarious stack of large stacks of US dollar bills. The background is a bright blue sky. The image is positioned on the right side of the slide, next to the list of fraud types. On the left side of the slide, there is a vertical strip showing a collage of US dollar bills.



### 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*

A photograph of a man in a blue shirt sleeping at a desk. He is leaning his head on his arm, and there is a very large, tall stack of papers and folders in front of him, suggesting a heavy workload or lack of attention to details.

### 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

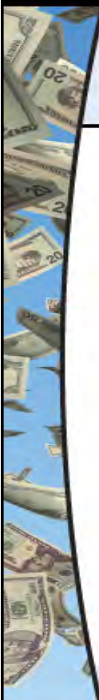
- Excessive purchase orders
- Inventory shortages or missing material
- Suspicious workers' compensation claims
- Missing tools and equipment
- Increased scrap or waste
- Excessive overtime
- Inaccurate time cards




### Be Prepared

- It's not a question of *“if?”*
- It's a question of *“when?”* and *“how much?”*

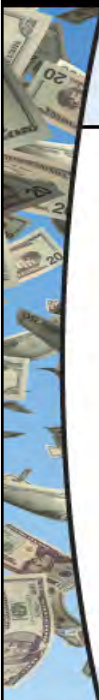




## What's an Owner to Do?



“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 3<sup>rd</sup> 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 3<sup>rd</sup> 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




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## Business Development Program



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

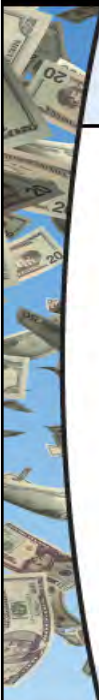


## Lessons Learned – Blog and Webinar Program




- Project Controls webinar and blog post
  - *This was the first webinar in the series of 6*
- 2<sup>nd</sup> 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/>

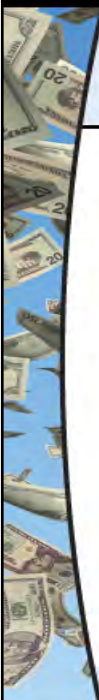


## QuickBooks Assessment




- 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

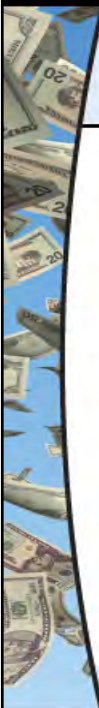


## Ongoing Help with Your Business




- 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




Pre-requisite: file assessment and clean up

- 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



## How to Get Started



- Complete the participation agreement and send to Jeni Hall at Energy Trust of Oregon. [Jeni.Hall@energytrust.org](mailto: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](mailto:Annie@AnnieKendrick.com) or 541-926-6438 and she will help you navigate the start up process*





# Thank You



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