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Customer Newsletter

Avoid Fraud in Your Construction Company

Leaving the door open for fraud can be a costly mistake
by Leslie V. Garcia, CPA, CCIFP

With profit margins averaging around only 3.5 percent, construction companies cannot afford to waste money. It is imperative that company owners plug any leaks in their financial affairs, including any possibilities of fraudulent acts by employees or outsiders. Unfortunately, fraud has been widespread in the construction industry for a long time and can be perpetrated through a variety of schemes.
About 10 years ago, the United States Department of Justice reported that fraud was more prevalent in the construction industry than any other corner of the marketplace. Since then, partly due to a smaller number of contractors, the incidence of fraud has fallen considerably. Today, according to the Association of Certified Fraud Examiners (ACFE), 3.9 percent of fraud occurs in the construction industry.
However, the median loss per case of fraud is $259,000-the sixth highest amount among all industries. The most common forms of fraud in the construction industry include:

- **Cash schemes-Without the proper internal controls, those with access to a company's cash flow can misappropriate funds in various ways, including skimming, altering cash receipts, creating fictitious refunds and discounts and kiting. Inventing expenses is particularly common. In a study conducted by Ipsos Reid, 7 percent of respondents said they knew people who inflated expense accounts. While the study showed that employees under age 35 are most likely to commit this fraud, managers inflated their expense accounts by larger amounts.**
- **Inventory schemes-More than a few company owners have learned the hard way that unprotected inventory is a treasure trove for the larceny-minded. The two most common forms of fraud are embezzlement of scrap proceeds and the appropriation of inventory for personal use, as this type of**

inventory is often easy to use or sell outside of the jobsite.

- **Purchasing schemes-Without formal controls and safeguards, purchasing functions can be manipulated for fraudulent purposes. Acts of deception may include fictitious invoices, unapproved paychecks made out to employees, over billing and excess purchasing of property and services.**
- **Fixed assets-Many contractors do not pay close attention to fixed assets, such as trucks and equipment. Aware of that, unscrupulous employees many find it easy to steal or make personal use of company assets.**

Fraud is most prevalent among small and midsize construction companies. Companies of this size often feel they can't afford anything other than just rudimentary checks and balances. A major problem at some of these firms is that a single employee - a bookkeeper, an office manager or even an administrative assistant- is often assigned multiple responsibilities. When one of these disparate responsibilities is financial oversight, the environment is ripe for fraud.

One important step construction companies can take is to segregate banking responsibilities from accounts receivable and account payable functions. At the same time, owners should require dual signatures on all checks, including their signature. Some wise owners request to receive all bank statements before they are opened at an alternate address. Even though requiring multiple employees to handle the banking function may not be feasible, there are other ways to segregate duties that can be beneficial.

Much more good information in complete article. For complete article click on

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ABOUT THE AUTHOR
Leslie V. Garcia, CPA, CCIFP, is a partner at RSM US LLP in San Antonio, Texas. She can be reached at 210-253-1530 or leslie.guajardo@rsmus.com.