

Section 9: Financial Controls: 43 Must-Have Financial Controls to Protect Your Company from Theft, Embezzlement, and Simply Dumb Mistakes

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2010 Fraud Statistics

1. In 2010 42% of all fraud cases happened in private companies
2. The majority of these cases were in companies with less than 100 employees
3. The average fraud continues 18 months before detection
4. The median loss in these cases was \$231,000

Source Association of Fraud Examiners

6 Key Classifications of Internal Controls

1. Organizational Controls
2. Physical Control / Custody of Assets
3. Segregation of Duties
4. Authorization and Approval
5. Management and Supervision
6. Accounting

6 Must Have Internal Controls for Your Business's Cash

1. Bank statements should be mailed to the business owner's house. The business owner should open and review the bank statement.
2. Perform monthly bank reconciliations
3. Use a lock box or separate PO Box for accounts receivable
4. Keep blank checks under lock & key, and use a check log to account for check number sequence
5. Do not keep signed blank checks for future use
6. Consider using a "positive pay" system

5 Must Have Financial Controls to Protect Your Accounts Receivable

1. A/R write-off should be approved in writing by the owner
2. When possible use pre-numbered invoices and/or maintain an invoice log
3. Consider having the project managers handle accounts receivable (but not deposits)
4. A/R reports should be reviewed at minimum monthly by management
5. Owner should periodically review master client list for potential fake customers

4 Must Have Controls to Protect Your Accounts Payable

1. Use pre-numbered purchase orders
2. All vendor invoices should be approved with the PO by the owner or estimator
3. Restrict access to corporate credit card and require receipt and detailed invoices for all credit card charges, have cards issued with employee names on them, and have a policy that any charges without a receipt are deducted from the employee's paycheck
4. Owner should periodically review master vendor list for fake vendors

28 Additional Financial Controls to Consider:

Payroll

1. Consider background checks, drug testing and credit reports for employees
2. All overtime should be approved by management
3. Payroll journals should be approved by the owner or upper-level management
4. Hand-out paychecks at jobsite to discover fictitious employees
5. Enforce mandatory vacations

Subcontractors (if in construction)

1. Require proof of insurance and monitor expiration
2. Consider the subcontractor's capacity to handle job(s)
3. Perform credit checks on subcontractors and require financials if appropriate

Job Costing (if in construction)

1. Establish and maintain procedures for bidding and estimating a job
2. Compare actual results to estimates
3. Change orders should be approved by appropriate personnel
4. Perform surprise jobsite visits
5. Secure all jobsite equipment and materials to protect from theft

Insurance

1. Consider bonding employees
2. Maintain adequate business property insurance
3. Consider an IT/data insurance policy

Information Technology

1. Have a firewall and install windows updates
2. Maintain antivirus and spyware software
3. Use an offsite data backup
4. Use network logins and passwords
5. Require that employees logoff every night
6. Use passwords on any sensitive data files
7. Regularly change passwords to any online banking and credit card accounts

QuickBooks Data Security

1. Set-up QuickBooks users and passwords
Company -> Set-up Users and Passwords
2. Restrict user permissions
3. Use the audit trail
Reports -> Accountant & Taxes -> Audit Trail
4. Close prior periods with a password
Company -> Set Closing Date
5. Restrict access from integrated applications
Edit -> Preferences -> Integrated Applications

*"I'm a surgeon with a thriving pain management and anti-aging practice. I'm also a serial entrepreneur with a dozen other businesses from restaurants, to medical billing services, to commercial real estate projects... the results speak for themselves-**the program helped me to radically upgrade my use of time and make an additional \$1 million of net income. I still use these same strategies and principles to this day and find them just as useful and profitable.** I don't see how any serious business owner can miss the opportunity to work with the Maui team and learn these and their other Level Three strategies. I've made the time to be at six of their workshops over the past several years, and this October I'll be returning for my 4th Maui Mastermind Wealth Summit." – **Dr. Gurpreet Padda**, 4-time Wealth Summit Graduate*

***"It was worth every penny and we have gained and given in ways we never imagined."** -- **Christy Dutilly**, Business Owner and 3-Time Maui Mastermind Wealth Summit Graduate*

ABOUT THE AUTHORS



DAVID FINKEL

Ex-Olympic-level athlete turned business multimillionaire, David Finkel is one of the nation's most respected business thinkers.

*A Wall Street Journal and Business Week best-selling author of over 40 business and investing books and courses, including the wildly successful *Build a Business Not a Job*, and co-authoring *The Maui Millionaires* and *The Maui Millionaires for Business*.*

His how-to financial articles have been reprinted in over 7,000 periodicals across the United States. He teamed up with AllBusiness.com to launch the national “BIG Business” contest with sponsors and promotional partners as diverse as Dunn and Bradstreet, Jott, Hoovers, and Comcast.

At age 35, David sold off two of his successful multi-million dollar businesses for a hefty price and retired. But he soon grew tired of the quiet life, and later the next year he started up his dream company, Maui Mastermind[®], a company dedicated to helping business owners build businesses they can sell, scale, or even own passively. He's helped his clients build successful multi-million dollar businesses and create a true Level Three lifestyle.

<http://www.MauiMastermind.com>

For close to the past decade, his sold-out annual \$30,000 per couple *Maui Mastermind[®] Wealth Summit* is arguably one of the most exclusive wealth events in the world. Participants are so thrilled by it that over 60% of the participants sign up to come back again and again and again.

In addition, he is a wealth activist who does all he can to link together some of the world's most creative and talented entrepreneurs with important causes and charities around the world. So far the Maui community has raised over \$10 million for dozens different charities around the world.

He and his wife Heather first met in San Diego, but now live in Jackson Hole, Wyoming. They have twin sons, Adam & Matthew, who continue to delight and amaze them.

Kevin J. Bassett, CPA



Kevin is the founder of Bassett & Byers P.A., a full-service public accounting firm providing innovative financial and tax strategies for entrepreneurs and investors. Most of the firm's clients are privately-held emerging and middle market companies that are seeking sustainable growth. The firm also services several venture capital and private equity groups and their portfolio companies.

Kevin spent most of his career with Ernst & Young, LLP before starting his own firm. Kevin has over 20 years of experience with a focus on business and tax planning for middle-market companies, tax audit defense and litigation support.

Kevin is the creator of the Tax Minimization Process™, The Business Deduction Finder™, The Tax Efficiency Grid™, and The Virtual CFO Advantage™. Kevin is the author of a tax strategies course, and has been a speaker at business and real estate events across the United States. He resides with his wife and three children in North Carolina.

B. Dane Byers, CPA, ABV, CFF



Dane is a partner at Bassett & Byers, P.A. and is in charge of assurance services, valuation services, and merger & acquisition services for the firm.

Dane has over 18 years of experience in assurance and merger & acquisition services, and has been a practicing valuation professional since 1998.

Dane's valuation experience includes marital dissolution and arbitration, shareholder oppression / litigation, bankruptcy, estate & gift, acquisition, and divestiture engagements. Over 100 engagements have been completed to date, with valuations ranging from \$50,000 to over \$70,000,000 for companies with revenues from \$200,000 to approximately \$1.6 billion, and has worked with companies located in the United States, Germany, and South Korea.

Dane is a frequent speaker on valuation and acquisition / divestiture topics, and has taught business valuation and other finance topics at the MBA schools at the University of North Carolina at Chapel Hill, INSEAD University at Singapore, the Robert P. Hill School of Management at the University of Maryland, and University of California – San Diego. In addition to many seminars, Dane has also presented CLE courses to attorney organizations, engineering associations, and others on valuation topics. He resides with his wife and daughter in North Carolina.