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San Antonio | October 2019



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A Homebuilding Industry Publication



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[savvy finance]



By Steven Bankler, CPA

HOW EMPLOYEE THEFT COULD DESTROY YOUR BUSINESS

If you're a business owner, you may feel that you've built up a sixth sense when it comes to choosing the right business partners and customers. Fraud is all around us these days, after all, and it's important to know who to trust. But it's not just strangers who find us vulnerable. Your employees could be stealing from you. The problem can be especially devastating for small business owners, who surprisingly tend to lose the most.

Your Most Likely Suspects

The Association of Certified Fraud Examiners (ACFE) conducts the foremost study in the area of employee fraud each year. In its latest report, ACFE reveals that small businesses with fewer than 100 employees are more likely to be targeted and shockingly lose twice as much per scheme as larger companies (a median loss of \$200,000 versus \$100,000).

The ACFE also found that the amount of fraud losses tends to increase based on how long the employee has worked for the victim organization. An employee who commits fraud within their first year causes a median loss of \$40,000, while those with more than 10 years at the victim organization cause a median loss that's six times higher, at \$241,000. Employees with a company less than one year also commit the fewest number of fraud cases.

So, when it comes to fraud, tenure isn't a safeguard. Your most likely suspects? Employees who have been working for you for 1-5 years—they commit 44% of occupational fraud crimes.

Builders face unique risks when it comes to employee theft. You already know how important it is to secure a construction site to prevent outside thieves and vandals from gaining access. But how vulnerable are you to worker theft? Tools, copper wiring, new appliances, and other construction equipment and inventory are often taken from job sites by under-monitored workers.



And then there's more corporate and administrative theft that can plague any successful business. Payroll, check, and billing fraud all into the category of asset misappropriation, which makes up 90% of all fraud cases. Check tampering is among the most common overall and includes forging authorized signatures, changing payee designations, and writing fraudulent checks for personal benefit. Corruption is another significant category. Some examples include bid-rigging, bribery, conflicts of interest, illegal gratuities, invoice kickbacks, and purchasing schemes.

Detection and Prevention

These types of theft that can plague builders can be reduced by a combination of better inventory control, surveillance, manager leadership, and training and HR procedures. It's essential to create a safe environment for employees to report suspected theft. Companies that provide hotlines and similar anonymous reporting methods receive the most tips and can stop fraud faster and at half the cost of those that don't.

To help prevent employee fraud in the first place, review and strengthen internal controls (checks and balances). Start with a work culture based on mutual respect and accountability. No one person should be "keeping the books" alone. Add layers of internal controls and consider adding outside controls like bookkeeping services and regular external auditing. For tough cases, forensic investigative accounting can dig deeper into the motivations and behaviors of those who work for you to uncover fraud that might otherwise be undetected.

Steven Bankler has more than 40 years of experience in the accounting industry. Steven's expertise lies in consulting, planning, tax, and asset protection as well as exit strategy services for closely held businesses. He also provides litigation support (both as a testifying expert witness and a consulting expert), business negotiations and estate planning. For past Building Savvy tax tips and to learn more about Steven Bankler, CPA, Ltd., visit www.bankler.com

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