

# Top Five Business Practices for Turning Good to Great

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## Session Description

Business owners are often too busy working in their business that they neglect to work on their business.

They are so focused on the day-to-day operations of their business that they don't see what they could be doing differently to create success.

Business practices should not be confused with required processes.

In this powerful session, you explore the 5 business practices that turn “good companies” into “great ones” and how you can apply them to your business immediately.

## Learning Outcomes

- Effectively evaluate business advisors, including CPAs, attorneys, insurance providers and I.T. vendors, to know what to expect and demand from these professionals.
- Learn how systems and processes for internal controls can protect your company and make it.
- Understand how to use financial information such as business plans, projections and benchmarking to define your financial future.
- Learn how to develop a business plan for the next year and use it as a road map for success.
- Utilize benchmarking to help compare yourself to others, enabling you to operate better.

## THE ADVISORS

*“The best companies work with the best advisors, period.”*

Make sure that the advisors selected have strong industry experience and excellent references.

Best advisors...

- ✓ challenge you
- ✓ add more value than costs with each interface
- ✓ generally are not friends but can become friends
- ✓ act like a business partner (CPA=CFO)
- ✓ are not afraid to say the right thing

## THE ADVISORS

*“The best companies work with  
the best advisors, period.”*

Best advisors (cont.)...

- ✓ are not afraid to meet as a group with other key advisors and do so annually
- ✓ see through and advise independently with complex family relationships
- ✓ will recommend specialists in complex areas beyond their skill or experience
- ✓ challenge, evaluate and teach your financial staff continuously
- ✓ best advisors remain independent and do not sell products

# THE ADVISORS

*“The best companies work with  
the best advisors, period.”*

Examples of advisors:

CPA: Hire a CPA who understands your industry

- ✓ Assurance (Audit, Review, Compilation)
- ✓ Tax
- ✓ Consulting
- ✓ Systems

Attorney:

- ✓ Business Transactions
- ✓ Estate Planning
- ✓ ERISA/Labor Attorney
- ✓ Litigation
- ✓ Real Estate

## THE ADVISORS

*“The best companies work with  
the best advisors, period.”*

Examples of advisors (cont.):

- ✓ Banker (*who understands your company and industry*)
- ✓ Insurance Agent
- ✓ Investment Advisor
- ✓ Retirement Plan Administrator

# INTERNAL CONTROLS

*“If you cheat, they will cheat.”*

30% of you *have* or *will* experience fraud.

Best companies have strong system of internal controls.

As the business owner you should review and understand your system of internal controls:

- ✓ Payroll
- ✓ Journal entries
- ✓ Software
- ✓ Banking
- ✓ Cash receipts and disbursements
- ✓ Billing
- ✓ Purchases

## INTERNAL CONTROLS

*“If you cheat, they will cheat.”*

Owners of the “best companies” review the bank and credit card statements before submitting them to the controller.

Best companies bond all employees who have access to cash.

Best companies review the internal control system with your CPA to identify weaknesses and develop and implement solutions to correct them.

- ✓ Owners should test the system regularly.
- ✓ Review provided memo (Small Business Internal Control)

## INTERNAL CONTROLS

*“If you cheat, they will cheat.”*

### Examples of Small Business Internal Controls:

- ✓ Segregation of duties
- ✓ Reconcile and review bank statements every month
- ✓ Signing checks
- ✓ Protection of assets (inventory/fixed assets)
- ✓ Prepare and use budgets
- ✓ Watch out for changes in employee behavior
- ✓ Don't abuse your company (benefits, family, expenses)

# INTERNAL CONTROLS

## Note:

There is no assurance that any fraud will be discovered or eliminated by the use of an outside accountant.

## FINANCIAL INFORMATION

*“Understand your financial condition  
not just the financial statement.”*

Best companies have strong accounting departments that provide accurate and timely financial and management information.

## FINANCIAL INFORMATION

*“Understand your financial condition  
not just the financial statement.”*

Best companies use relevant and easy to understand financial information:

- ✓ Trend data (five years)
- ✓ Ratio analysis
- ✓ Graphs
- ✓ Daily Operating Control (DOC) sheets/Dashboards
- ✓ Summarized key data
- ✓ Budget to actual results
- ✓ Variance analysis
- ✓ Industry benchmarks (Examples: NAHB – Builder 20, Risk Management Association, ProfitCents/Sageworks)
- ✓ Monthly Executive Report (*the good, the bad, the ugly*)

## FINANCIAL INFORMATION

*“Understand your financial condition  
not just the financial statement.”*

Best companies' owners understand the financial statements.

Best companies' accounting managers educate non-financial managers on how to understand the financial information.

Experienced, skilled, and demanding financial professionals head the best companies' accounting departments.

## FINANCIAL INFORMATION

*“Understand your financial condition  
not just the financial statement.”*

Best companies meet with their accounting department regularly to evaluate financial conditions and to develop plans based upon that evaluation.

Best companies hold meetings with the accounting department to review and evaluate policies, practices and reports in place; focusing on relevant information.

## BUSINESS PLAN

*“Make sure everyone knows what your goals are.”*

Best companies have a formal business plan prepared each year.

Best companies allow each department's input to be a part of the master plan.

Consider an offsite planning strategy meeting led by a paid facilitator to develop a formal business strategy for the coming year.

## BUSINESS PLAN

*“Make sure everyone knows what your goals are.”*

For a business plan to be most effective:

- ✓ Put it in writing
- ✓ Utilize it as a management tool
- ✓ Review major goals with key employees monthly:
  - Sales
  - Gross profit
  - Job profitability
  - Key ratios

## BUSINESS PLAN

*“Make sure everyone knows what your goals are.”*

For a business plan to be most effective (cont.):

- ✓ Have employees help in the creation of the plan:
  - Vice Presidents
  - Superintendents
  - Sales staff
  - Controller/CFO
  - Estimators
- ✓ Make employees responsible for the plan
- ✓ Pay bonuses to those who make the plan a reality (based on quantitative data)

## BENCHMARKING

*“What are your peers doing better than you?”*

- ✓ Do you have established benchmarks?
  - ✓ Analysis of your business results against a standard result
    - Risk Management Association (RMA)
    - Benchmarking Survey
    - NAHB – Builder 20
    - ProfitCents/Sageworks
- ✓ The metrics used to evaluate your company are critical to your success

## BENCHMARKING

*“What are your peers doing better than you?”*

Do you have well defined benchmarks? What are they? Are they different by each company?

- ✓ Sales volume
- ✓ Gross margin
- ✓ Completion deadlines
- ✓ Customer satisfaction
- ✓ Profitability and other financial ratios
- ✓ Salaries per sales dollar
- ✓ Sales per full time superintendent

## BENCHMARKING

*“What are your peers doing better than you?”*

Are all benchmarks established quantitatively?

Are benchmarks compared to actual results?

Are ratios included?

- Debt to Equity
- Current Ratio
- Gross Margin
- Net Worth

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## **Memo: Internal Controls**

Each year many business owners discover that their assets are not as well protected as they thought when they become victims to employee theft. This is particularly true in small-business environments where a single employee manages all the finances. Often, there are no “checks and balances” to verify the transactions are accurate. Most employee thefts are perpetrated by highly trusted employees in key positions, involving substantial sums of money.

When proper, consistent policies and procedures are not in place, employees can learn to manipulate the accounting system to their benefit. Whether they take money from the company or their mistakes are undiscovered, the end result can greatly impact your company’s management decisions, financial reports, and tax filings.

Unfortunately, once your financial records have been altered, discovering problems is extremely difficult. Most standard accounting practices are not designed to uncover internal problems, such as embezzlement.

Depending on your accountant to protect against acts of one employee is a dependence that is a false comfort. *A review, compilation, or tax engagement is not designed nor intended to uncover or search for defalcations.* In conducting a review, compilation, or tax engagement, the accountant does not gather evidence that may be necessary to uncover a defalcation. However, you and/or your accountant will most likely focus on large transactions and major accounts that, if in error, could have a material effect on the company’s financial statements. *For this reason, an employee who tampers with a number of small accounts over an extended period of time will usually escape detection.*

Many people holding key financial positions may have gained an understanding of the review, compilation, or tax engagement process and their inherent limitations. Therefore, they are in a position to access the company’s assets by methods not subject to detection.

The odds are that you will probably never experience a major defalcation. Yet, statistics are high that at least one of our clients will be victimized every few years.

Therefore, the best way to safeguard your company’s assets is to recognize and improve weaknesses in your internal procedures. Defalcations are most likely to be discovered if there is an appropriate separation of duties between asset handling and recording functions. It is also critical that you exercise managerial oversight.

The following business practices can help you minimize potential internal control problems:

1. *Related duties should be assigned to different people.* Certain accounting functions are designed to cross-reference each other for accuracy; writing/signing checks, ordering/paying/receiving materials, handling cash/recording cash, etc. These procedures can reveal inconsistencies in your records in a timely manner.

2. *Reconcile and scrutinize your bank statements every month.* A bank statement can tell you a lot about your business if you review the information in a timely manner. Actions you should do on a monthly basis include the following:
  - a. Receive the unopened bank statement directly and open it personally.
  - b. Scan the front and back of all canceled checks.
  - c. Question the purpose of all transfers.
  - d. Compare payroll checks with employee records, and ask questions.
  - e. Have the bank statement reconciled by someone other than the bookkeeper/controller, if possible.
3. *Signing checks:*
  - a. Never sign a check without inspecting original supporting documentation including the invoice, shipping documents, and the purchase order.
  - b. Cancel all supporting documentation after signing a check. Consider use of a voucher type stamp with approvals from key people.
  - c. Never sign a check that is not completely filled in.
  - d. Do not pay from vendor statements.
  - e. Verify names of your vendors.
4. *Protection of valuables:*
  - a. Keep blank checks and signature stamp secure.
  - b. Deposit all cash and checks daily.
  - c. Get fidelity bond insurance for all accounting and key employees.
  - d. Backup all computer files on a regular basis and store the backup in a secure, remote location.
  - e. Periodically change computer system passwords.
5. *Prepare and use budgets.* Read your monthly financial statements and investigate significant variances from the budget.
6. *Watch out for changes in employee behavior:*
  - a. Always verify employee references before hiring.
  - b. Be aware of substance abuse, changes in lifestyle, living beyond means, possessiveness of work.
  - c. Require all employees to take vacations.
7. *Even though you are the owner, don't abuse the company.* If you take cash, stamps, inventory, etc., others might just think they can too.
8. *Purchase Employee Dishonesty Insurance.* Bond all employees who have access to cash.
9. *Review all payroll and personnel records regularly to ensure accuracy of payroll disbursements.*

These are some of the internal controls that can help you reveal and minimize many discrepancies. *However, there is no assurance that all fraud will be discovered or totally eliminated.*