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Strategies for growing your construction firm

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Best Practices: Spruce up your internal controls and bring some shine to your bottom line

In many construction companies, internal controls are put in place and left to operate on their own. Owners and managers figure that they've dealt with the issue and can move on to the next priority—namely bidding and building.

But continual review and revision of internal controls are critical, and should be considered a key control policy itself. Keeping these policies and procedures up to date not only can help prevent fraud, but also can bring some shine to your bottom line.

Recognize the importance

Following the Enron debacle, and with the advent of the Sarbanes-Oxley Act, auditors are spending more time testing and inquiring about internal controls. Meanwhile, upper management is being handed more responsibility regarding these policies and procedures—particularly at public companies but at privately owned ones as well.

Internal controls used to be left to the accounting staff. But if there's one clear lesson from the corporate financial scandals, it's that owners and management must actively involve themselves in the implementation and execution of these critical processes.

Protect your projects

While the most commonly thought of, and perhaps most important, internal

controls relate to the handling of cash, these policies and procedures shouldn't apply only to writing checks, collecting payments and doing bank reconciliations. For contractors in particular, internal controls need to address the management and execution of your projects.

Many project managers are responsible for approving and coding job cost invoices. Thus, a periodic budget-to-actual review that goes deeper than the schedule of values on your billings is a valuable internal control.

Performance also can dictate the need to revisit your controls in this area. For example, if you've noticed a reduction in the profitability of a project manager's recently completed jobs, it may be beneficial to revise the oversight of that manager's future projects. Likewise, sorting projects by estimator, project manager, job type and even customer can identify trends that you haven't noticed.

Continued on page 3



IN THIS ISSUE

Best Practices: Spruce . . . 1
up your internal controls and bring some shine to your bottom line

Game, Set—No Match! . . . 2
What construction industry employers should know about I-9 compliance

CCIFP Spotlight 3


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Game, Set—No Match! What construction industry employers should know about I-9 compliance

Immigration issues are increasingly a concern for employers in the construction industry. With the Department of Homeland Security's (DHS) recent publication of a final rule regarding the specific procedures employers should follow for verifying employment eligibility, as well as the potentially increased risk of both criminal prosecution and greater fines for violators, much attention is now focused in this area.

On Oct. 10, 2007, the U.S. District Court for the Northern District of California ruled that the "Social Security No-Match Safe Harbor" regulations published by the DHS in August 2007 may have serious legal defects and, therefore, may be unenforceable. While this delays any changes to the rules for now, employers should not consider this issue resolved for good.

The following information is a quick review of what employers are currently required to do, as well as the proposed changes.

Current requirements:

- Employers or a designated representative (and no one else) are required to complete a form I-9 for ALL employees within three business days of the date employment is set to begin.
- The employer/representative must see the documents specified on page 3 of the I-9 form, but the organization cannot require the potential employee to provide specific documents from that list.
- The employer/representative must visually identify that the documentation is valid and sign the form attesting to that verification.
- I-9s should be kept in a separate file, easily accessible in the event of an audit, although the employer is not required to keep copies of the documents provided by employees. These documents must be retained by the employer for three years from the date of hire or one year from the date of termination.
- Employees with temporary work authorization must provide proof of reauthorization when the initial authorization expires.
- The Social Security Administration (SSA) and DHS provide an online service allowing employers to verify employee records.

As a result of a discrepancy between an employee's name and Social Security Number submitted to the SSA, or if a similar discrepancy is discovered during an I-9 audit, the employer could receive what is commonly known as a "no-match" letter, in which the discrepancy is noted.

It is unlawful for U.S. employers to continue to employ an alien knowing that the alien is (or has become) an unauthorized alien. Regulations and court rulings have defined the act of "knowing" to mean any constructive knowledge that the alien might not be authorized to work. The regulations recently finalized by the DHS add two more examples to the current regulation's definition of "knowing" that may lead to a finding that the employer had "constructive knowledge." They are: (1) the employer received written notice from the SSA that the combination of name and Social Security number submitted for an employee does not match agency records; or (2) the employer received written notice from DHS that the immigration status document or employment authorization document presented or referenced by the employee in completing Form I-9 was not assigned to the employee according to DHS records.

The regulations also describe "safe harbor" steps that employers can take after receiving a no-match letter to ensure that the letter will not be used as part of any allegation that employers had constructive knowledge that an employee was not authorized to work in the United States:

- The employer should check their records within 30 days of receiving a no-match letter to determine that the problem is not due to an error in their records or in their communication to SSA or DHS. If there is such an error, the employer should correct the errors and notify the proper agencies.
- If no such error is found, the employers should ask the employee to confirm that all information in the employer's records is correct. If the records are not correct, employers should make the corrections and notify the proper agencies. If the employee confirms that the information is correct, the employer should ask the employee to pursue the matter personally with the proper agency. The above actions should be taken by employers within 30 days of receiving the no-match letter.

Continued on page 4



Best Practices: Spruce up your internal controls and bring some shine to your bottom line

Continued from page 1

Think technologically

Internal controls are also needed for the ever-changing technology issues that most companies face—construction businesses included. In light of the new systems that have become prevalent for contractors, such as wireless communications and data transmission (such as time sheets and job progress), you may need additional policies and procedures to ensure your company’s privacy and protect the integrity of your data.

These controls could include activity logs, mandatory periodic password changes, and physical controls over computers and handheld devices in company trucks or on job sites.

For cash controls, it’s important to keep up with today’s changing banking technology. The “positive pay” process allows you to approve the checks presented on your account each day or provide the bank with a list of the checks written and the intended payees to prevent unauthorized payments.

With electronic payments becoming increasingly common, consider controls to ensure that only authorized payments are made. For instance, you may want to use separate bank accounts for your electronic transactions, such as having all payroll transactions handled via one account.

Anticipate the unexpected

Another thing to keep in mind is that your internal controls are probably good at handling the routine transactions, but it’s the unusual ones that often trigger problems.

Therefore, be sure to include mechanisms for handling nonstandard transactions in your internal controls, such as obtaining proper authorizations and correctly posting them. Indeed, your auditor may ask you about nonstandard journal entries to make sure unusual transactions were properly authorized and recorded.

You may also need to occasionally change controls related to job costing and vendor and subcontractor invoices. Every so often, conduct an intermediate review process before job invoices are posted to ensure that

the costs are being coded to the proper phase of the correct project.

Purchasing controls are critical to all businesses, especially contractors. Identification of who should be authorized to purchase, individual dollar purchasing limits, use of purchase order systems and subcontracts, and the methodology of vendor approval and obtaining competitive bids are all controls and policies critical to the success of a construction company.

Get results

By regularly adjusting and streamlining your construction company’s internal controls, you’ll be able to work more efficiently and incur less risk of fraud or costly mistakes. In turn, you’ll likely see positive results on your bottom line.

For more information or assistance implementing best practices, contact your local CBIZ and MHM office or visit us online at www.cbiz.com/construction.

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- 5/15–5/17 NFSA Annual Seminar & Exhibition
- 5/17–5/21 CFMA Annual Conference
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For more information on these and other construction conferences, visit www.cbiz.com/construction.

CCIFP Spotlight



Matt Rybowicz, CPA, CCIFP
Manager, Leawood, KS

Matt values the year-round involvement he has with his wide array of construction clients, and enjoys serving as the trusted resource to help meet their needs.

The Certified Construction Industry Financial Professional (CCIFP) designation formally recognizes an individual’s level of knowledge and understanding of construction finance.

Game, Set—No Match! What construction industry employers should know about I-9 compliance

Continued from page 2

The final regulations also include a verification procedure that employers may follow if the discrepancy is not resolved within 90 days of receipt of the no-match letter. The procedure requires the employer and the employee to complete a new Form I-9, using the same procedures as if the employee was a new hire. Form I-9 must be completed by the employee (Section 1) and the employer (Section 2) within 93 days after the employer received the no-match letter.

The regulations state that if the discrepancy referred to in the no-match letter is not resolved and the employee's identity and work authorization cannot be verified using one of the regulations verification procedures, employers must either terminate the employee or risk that the DHS will determine the employer had constructive knowledge of the employee being an unauthorized alien if they continue to employ him or her. Criminal prosecution and significantly increased fines could then result from an employer's failure to comply with these requirements.

What to do now?

While the status of the new regulations is on hold, there are still some practices that employers should consider adopting to ensure compliance with the existing regulations, as well as to prepare for additional requirements that will likely be implemented at some point in the near future.

- Establish a timetable and process for conducting I-9 audits to ensure that every employee has a complete I-9 showing current work authorization.
- Train staff responsible for verifying identification and completing the employer section of the form to ensure accuracy and proper verification methods.
- Review recruitment and hiring practices. Adopt policies now to guide response to future SSA no-match letters.
- Consider implementing an online verification program for new hires.

For additional information on this topic, contact Jennifer L. Berman, JD, SPHR at 866-602-6816 or your local CBIZ office.

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