

# RENEW. RECHARGE. REFOCUS.

## Internal Control Strategies in a Down Economy

In a recession, internal controls should be implemented and monitored to:

### A. Control Spending

1. Avoid/limit equipment purchases. Hold purchases below 50% of annual depreciation amounts.
2. Limit discretionary repairs and control shop costs.
3. Re-examine administrative and overhead budgets – expenditures tend to get lax during good times (cell phones, credit cards, travel, vehicles, etc.)
4. Focus on insurance costs – review deductibles and coverage. Consider obtaining competitive quotes.
5. Hold employee raises and bonuses down – communicate situation to key employees. Be sensitive to impact on morale. Look at benefits and 401k contributions for possible reductions.
6. Suppliers need business – make them be competitive.
7. Management must set a good example – don't ask employees to cut back while management buys a new airplane or vehicle.

### B. Manage Fuel Consumption

1. Install electronic tank monitors.
2. Install digital cameras at fuel tanks.
3. Purchase fuel card management system.
4. Require odometer input and calculate miles per gallon.
5. Implement equipment run/idle/start procedures.
6. Reward employees for fuel efficiency.

### C. Maximize Cash Flow

1. Focus on prompt billing – especially private customers. Billing practices get lax during good times.
2. Front end load jobs – get ahead and avoid getting burned.
3. Consider positive cash flow billing bonus to project managers.
4. Billing clerk calls and visit customers who are paying slow. Offer discount to collect old receivables.
5. Remember, receivables over 90 days indicate a problem. Review aging schedule monthly.

### D. Prequalify Contract Owners

1. Run a credit report – even if you have worked with them before. Things change and some are doing poorly, especially residential. GC's do not save money, when bad times hit they are not prepared.
2. Home and residential (condos, apartments) construction is in a DEPRESSION – avoid these jobs without very favorable terms. Famous words: "Our part of the country is not affected."
3. Obtain certificate of financing on significant private jobs.
4. Read your contract. Who is signing?

#### E. Manage Subcontractors and Suppliers

1. Some of your best subs will not survive – don't let them take you down.
2. Email your subcontractor's large suppliers each month and verify payment of invoices on your job. Don't rely on lien release signature from sub.
3. Run credit report on major subcontractors and suppliers.
4. Bonding subcontractors is more important than ever. Verify validity of surety bond – send a copy to your agent. Consider supplier bonds.
5. Scrutinize subcontractor and supplier quotes that are significantly lower than other quotes. Are they desperate for cash flow?
6. Verify that estimators are soliciting quotes from at least 3 subs and suppliers – they need work and will be competitive.

#### F. Stay Alert for Opportunities

1. Some competitors won't survive.
2. It may be a buyer's market for bottom feeders.
3. The best acquisitions are made during recessions.

#### G. Other Recession Strategies

1. Avoid significant investments in stocks and bonds – construction is enough risk without assuming significant market exposure.
2. Discontinue loans to others. Don't sign bonds for other contractors!
3. Meet with Banker – banks are reducing LOC loan amounts.
4. Sell excess equipment (assuming good price) – holding equipment costs about 10% per year (insurance, taxes, depreciation, etc.).
5. Sell scrap materials and junk.
6. Perform post-completion jobs audits – compare bid to actual quantities.

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