



BY JIM FLYNN

Become Audit-Ready with Integrated Systems

In today's tough markets, many businesses conduct audits as a way to gain an additional competitive edge. Construction companies are auditing every aspect of their operations – from their IT systems and compliance practices to their day-to-day processes, and of course, their financial systems.

Shareholders of larger companies require financial audits to ensure financial credibility. For some businesses, audits are performed annually to ensure the validity and reliability of their financial information and internal controls, even when audits are not required. For others, financial audits are a rarity.

However, given the current economic climate and the construction market's decline, all construction companies should audit their operations across the board.

For example, there are other stakeholders that may require or benefit from a financial audit. Your customers, suppliers, employees, tax organizations, banks, bonding companies, and insurance firms have the right to know that your financial statements are relevant, accurate, complete, reliable, and up-to-date.

Especially in today's economy, the validity of your financial statements is paramount. We're in a climate where sureties and banks are tightening their bonding and credit lines, where customers are more hesitant to "sign on the dotted line," and where potential employees are more cautious about the stability of their prospective employers.

Whether it's an internal or external audit, most accounting professionals view audit preparation as a time-consuming and often overwhelming task. But, with the right processes and tools in place, your company can be audit-ready with efficiency and confidence.

Easing the Pain

As a CFM, you typically have a full plate during year-end and tax time. Preparing for an audit could be another unenviable task added to your long list. But, there's no getting around it – it must be done.

The Good News: There are many ways to alleviate the pain. CFMs who work for companies with standard processes in place get their audit preparation done easily and efficiently. They find that being audit-ready enables better decision-making, and they realize time-saving and cost-reducing benefits as a result of the information they have at their fingertips.

Such practices as keeping records up-to-date and establishing standard processes can make preparing for an audit much easier. Compiling information throughout the year on an incremental basis is less daunting than having to gather everything you need all at once – especially if you're up against a deadline. This will also help catch discrepancies, inconsistencies, or errors more quickly and ensure your data's accuracy.

A strong financial discipline will help your company control costs and manage its finances – ultimately improving its profitability and cash flow.

Leveraging Technology

In addition to putting processes and internal controls in place, finding the tools to help *automate* these functions is key. It's critical to select a tool (or set of tools) that will provide relevant, timely, and accurate information in order to simplify the audit preparation process.

Technology solutions that are specifically designed for the construction industry are available with features that address your company's unique financial and accounting needs. So, you can continue to do business the way you always have without having to adapt your operations to fit the software.

During the selection process, don't forget to consider security. It's important to choose a solution that provides the right level of security for your company's information and is able to control who accesses the system.

When evaluating potential solutions, ensure that the software provides tools that enable you to establish standard accounting

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compliance policies and procedures with minimal human oversight. As a CFM, you know the obvious reasons for guaranteeing compliance and data integrity. By utilizing an IT solution that ensures such integrity, your reporting requirements are simplified and produced on a timelier basis.

Editor's Note: Before making any systems changes, you should consult your software professionals to discuss your company's needs and the software solution that is most appropriate.

The Power of Integration

There are numerous software products specific to construction that provide excellent tools for estimating, job cost accounting, project management, financial management, etc. But, very few robust solutions provide the ability to integrate the data and processes across all key business areas.

To ensure thorough and accurate information, all areas of your company should be interfaced. Leveraging an integrated construction business management solution can dramatically minimize or eliminate any disconnect among your estimators, PMs, and office administrators (see below).

For instance, your estimating, project management, financial management, workforce management, service management, procurement, and inventory and equipment management systems could all work in one seamless, integrated solution. This would allow them to share real-time data, improve communication, increase accuracy, and more.

By tying together the information from all areas in your company, you can better understand your company's costs, productivity, and profitability – from plan takeoff, to managing change orders, to completing the last punch list item, to the cash and close of each individual job.

For example, let's say your company decides to bid on a new project. Your estimator would use integrated software to perform an automated takeoff and create a bid, which streamlines project setup.

Using the information entered by the estimator, the software could create project budgets and billing schedules, help your PMs stay on budget with real-time comparisons, convert estimate data to buyout projects, and streamline proposals. And, your PMs could handle the complexities of project schedules, job costs, and performance monitoring in the same integrated solution.

As the CFM, you are then able to provide daily insight into your company's financial standing and core accounting. You will have streamlined data entry, real-time reporting, and adaptable workflows to manage your company's financial operations with efficiency and flexibility.

Benefits

Some key benefits of a truly integrated construction management solution include the following:

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Exhibit 1: Integrated Value

Owner

- Visibility into Business Performance
- Operational Efficiencies
- Resource Planning

Project Manager

- Track Change Orders
- Complete Project Tracking
- Real-Time Job Analysis

JOB COST ACCOUNTING

PROJECT MANAGEMENT

ESTIMATING

Digital Takeoff | Estimating | Bid

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Estimator

- Pipeline Analysis
- Win/Loss Analysis
- Sales Analysis

Accountant

- Complete Reporting
- Drill-Down Detail on Projects
- Single Data Entry

A True Audit Trail

An end-to-end solution provides the ability to easily track information entered by estimators and updated by PMs, which provides real-time information that helps identify change orders on bid work. When it's time for an audit, your company's bank statements and reconciliations, tax documentation, insurance information, payroll summaries, and expenditures are all accessible in one place.

Automated processes and electronic data access will improve visibility into historical transaction details. In addition, the audit trail maintains a balance between the job ledger and general ledger, so that you can be confident and prepared.

Greater Insight

An integrated solution enables insight into your business – regardless of the type of construction your company is involved in. With all of the data in one place, you'll have complete information about each project and your company's overall performance.

You'll also be able to conduct superior business analyses from a unified system in order to easily monitor and forecast resources, cash flow, and profits.

Increased Productivity & Accuracy

Fully integrated software allows data to be entered in one area and impact other appropriate ledgers. When changes are made, they are reflected across all areas. This single-entry functionality reduces errors, eliminates redundancy, saves time, and improves accuracy.

Advanced Reporting

Strong reporting tools enable you to pull all figures, and therefore, calculate profit. Timely financial reporting allows you to check A/R, A/P, P&L, and cash on a daily basis.

An integrated IT solution also allows you to drill-down to the transaction level to check the details and know where your company stands financially at all times.

Improved Collaboration & Communication

This type of software enables more effective communication and collaboration with team members. And, you can access and share information among a job's estimator, job cost accounting department, PM, and owner – whether in the office or out in the field. Tearing down these departmental barriers and enabling team members to easily share and collaborate information will enhance your company's overall efficiency and effectiveness.



What If?

An integrated solution also helps you better prepare for the future by performing “what-if” scenarios. You’ll be able to answer such questions as: What if you are awarded a project, but don’t have enough cash flow to start it – how would this impact your business? What if you lose a bid – how would that affect your bottom line?

Also, what if you are not audit-ready – what would auditors be able to find? What if materials are stolen from a jobsite – how would that impact your company?

The ability to consider these questions with actual information and comparisons will help you to better predict possible outcomes and prepare accordingly.

Ensuring Smart Cash Flow

Managing your company’s cash flow is essential to survival in a tight economy and vital for long-term stability. In construction, this is typically a difficult task.¹

The complexity of managing a construction business makes cash flow management a critical issue for profitability in today’s economy. And, managing cash flow on a daily basis is feasible with integrated software.

If you’re using an integrated software solution, a request for the cash flow forecast at the project or company level by the owner, board of directors, or other stakeholders will not be a chore, but rather the simple task of generating a report.

Or, let’s say you need to purchase materials for a job, but don’t want to buy them until the project is ready for them. The same can be said for your field staff – you don’t want them at a jobsite with nothing to do. With an integrated software solution, you can ensure that your resource allocations are accurate.

Another critical component for cash flow and auditing purposes is your work-in-progress (WIP) report, which gives you a snapshot of where your company stands on any given project at any given time.

With an integrated solution, a report can be generated instantly. Whereas with other types of systems, information might have to be pulled from several different sources – making the process and the WIP report time-consuming and often inaccurate.

Transparency = Confidence

Integrated construction management software solutions will enable your company to have a stronger financial discipline, which can help build solid relationships with your key stakeholders – owners, bankers, subcontractors, suppliers, etc.

These solutions optimize processes across all areas and can help your company gain or maintain an increasingly important competitive edge. Integrated software also provides the tools to help your company better track its profitability and communicate efficiently.

The Bottom Line: Borrowing money, receiving financial backing, and securing new projects are more difficult now than ever. So, a CFM must run a tight ship with wide and deep visibility into accounting data, processes, and consequences.

With an end-to-end integrated construction management solution, you will no longer find preparing for audits or managing your company’s cash flow a chore. Processes will be automated, allowing you more time and energy to focus on strategic initiatives.

Such a solution can also help reduce risk, increase efficiency, increase ROI, and ultimately make your company transparent – giving all stakeholders visibility, and therefore, confidence in your company’s financial systems. **BP**

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Jim has more than 25 years’ experience in managing the growth of technology-enabled companies. He is the founder and former President & CEO of Naviant, Inc., and has held executive positions at MRJ, Inc., General Electric, and the U.S. Army, where he served as an Infantry Officer. Jim is a graduate of the U.S. Military Academy at West Point.

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Endnote:

1. For more on cash flow, see “Cash Flow Formula, Part 2: How Operations Impact Cash” by Steven D. Lords on page 10.