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## INTERNAL CONTROLS ARE A MUST FOR CONTRACTORS

Internal controls are critical for the financial health of your construction firm. An effective system of internal controls helps ensure that your company's financial reporting is accurate and its resources are being protected.

A regular review of your internal controls can help you identify any shortcomings or weaknesses. You may find the following checklists useful in assessing your procedures.

### MATERIALS AND PURCHASING

Loose controls on materials and purchasing can be an invitation to theft and fraud. You can limit the potential for losses if you:

- ▶ Insist that estimators obtain more than a single quote.
- ▶ Require management authorization of job site material purchases.
- ▶ Set limits on the amounts site managers can spend without an additional, higher level of management authorization.
- ▶ Make sure that delivery receipts are being checked to ensure that all ordered items have been received.
- ▶ Document usage of materials through written requests and receipts for returned items.

### EQUIPMENT

Each piece of field equipment over a certain value should be protected through controls.

- ▶ Document when items are assigned to employees and have employees sign for the equipment.
- ▶ Hold employees responsible for returning the items they have checked out.
- ▶ Monitor the condition of the equipment at the time of assignment and on return.

You'll be better able to track whether you are properly charging equipment use to

the correct contract if you:

- ▶ Employ an internal rental rate for allocating equipment costs.
- ▶ Maintain weekly equipment use reports.

### REVENUES

Your company could face serious cash flow difficulties if it's unable to track amounts owed and when accounts are due. To maintain good control over revenues and billing:

- ▶ Have procedures that ensure bills are prepared promptly.
- ▶ Prepare percentage-of-completion schedules so that you can compare progress billings to earned revenues.
- ▶ Make revisions to contract values when you receive signed change orders.
- ▶ Update estimated costs-to-complete.
- ▶ Follow up on accounts receivable on a standardized schedule.
- ▶ Record and deposit all income.

### FINANCING

If you're planning to expand your business or buy new equipment, you may choose to borrow the money. If you do, be sure to implement accounting controls. A good system will:

- ▶ Assign borrowing authority to a very limited number of people.
- ▶ Limit borrowing authority to a maximum amount that you approve.

If you feel that your contracting firm could benefit from a more rigorous system of internal controls, please call us.

# NEW INSPECTION PRIORITIES FOR OSHA

The Occupational Safety and Health Administration (OSHA), a division of the U.S. Department of Labor, works to assure safe and healthful working conditions for workers by setting and enforcing standards and by providing training, education, and assistance. Beginning in fiscal year 2016, OSHA has transitioned to a new system of counting inspections that allows it to give greater weight to — and therefore incentivize — those inspections that require more time and resources but may reveal more significant violations.

## WHAT OSHA LOOKS FOR

Generally, OSHA seeks to focus its inspection resources on the most hazardous workplaces in the following order of priority:

- ▶ Sites that present an imminent danger to workers
- ▶ Sites of severe injuries and illnesses
- ▶ Where employees have complained about conditions
- ▶ Where there have been referrals from other agencies, individuals, organizations, or the media
- ▶ Targeted inspections aimed at specific high-hazard industries or workplaces with high rates of injuries and illnesses
- ▶ Follow-up inspections

## HANDLING AN INSPECTION

Knowing ahead of time what will typically occur during an inspection can help your company respond to OSHA's presence on your worksite in an appropriate manner. Typically, an OSHA inspection consists of three elements. First, there will be a conference in which the OSHA inspector explains the purpose of the inspection. Next, the OSHA official will tour your site or facility in order to see firsthand the working conditions and to identify violations. Finally, a closing conference will take place after the inspection is complete. It is at this point that the inspector will discuss his or her findings and any possible courses of action an employer may take following an inspection. These could include an informal conference with OSHA or the contesting of any citations and/or proposed penalties.

If the OSHA inspection identified any hazards or violations in any of your

worksites, it is critical that you take steps to fix them as soon as possible.

## CONTRACTORS SHOULD PRIORITIZE WORKPLACE SAFETY

Contractors can minimize the potential for a rigorous OSHA audit by taking the initiative themselves and by prioritizing an aggressive workplace safety program. If you don't have a rigorous safety program in place, now is the time to implement one. Your safety program should incorporate regular safety inspections at every site that your company is active as well as at the storage, maintenance, and office facilities you operate.

Moreover, an effective safety program needs to include written safety policies and procedures, job hazard analysis, and training programs, as well as accident and incident investigation.

You should also designate an individual, preferably one with experience and background in safety training, to act as a resource for any concerns or issues related to safety training. By proactively addressing safety and health issues in the workplace, you can save money, add value to your business, and send a clear message that employee safety is a priority.

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## TIPS FOR MANAGING CASH FLOW

Inadequate cash flow is one of the main reasons businesses fail. Developing an effective cash management program can help you manage your contracting firm's cash flow and position it for future growth. Here are some suggestions that can improve cash flow.

### MANAGE PAYABLES

Minimizing expenses can reduce the flow of cash out of your business. Pay bills only when they are due and take advantage of discounts for prompt or early payment.

### TIGHTEN RECEIVABLES

Arrange to send invoices as soon as you have delivered goods or completed services. You may be able to speed up the payment process if you send invoices

electronically instead of by mail. Encourage customers to pay via electronic funds transfer rather than by check.

### CONTROL SPENDING

Run the numbers and if they appear attractive, look into leasing equipment and heavy machinery rather than buying. Review suppliers to see if you can obtain better terms on phone services, Internet, heat, power, and office supplies.

# DEDUCTING TRADE AND BUSINESS EXPENSES

Two months ago, you flew across the country and spent five days checking out various types of construction equipment you're thinking of buying. The month before that, you went to a construction industry convention where you attended several daily workshops dealing with industry best practices. At tax time, you deduct as business expenses all the expenses you incurred on both trips. Are you correct?

Yes, but only if you have receipts that substantiate your deductions. If you don't, the IRS may reject your deductions. Unfortunately, if the IRS rejects one of your business expense deductions, you'll not only incur a tax liability on the income resulting from the disallowed expense, but you also may be liable for penalties and interest. The following overview of business expenses may help clarify what is required.

## GENERAL RULES

Under the federal tax law, a trade or business expense won't qualify for deduction unless you are able to substantiate it. To substantiate a business deduction, you must possess proof of the amount of the payment and provide evidence establishing the character of the expense.

## PROOF OF PAYMENT

The IRS says that it will accept a canceled check as proof of payment. Also acceptable are account statements prepared by a financial institution that show:

- ▶ A check clearance if the statement also indicates the check number, the amount of the check, the date the check amount was posted to the account, and the name of the payee
- ▶ An electronic funds transfer if the statement also indicates the amount of the transfer, the date the transfer was posted to the account, and the payee
- ▶ A credit card charge if the statement also shows the amount of the charge, the date of the charge, and the payee

In cases when you are unable to prove payment by providing a canceled check or an account statement, the IRS will generally require other evidence of payment of an amount, such as the combination of an invoice marked "paid," a check register or carbon copy of the check, and an account statement showing the date, check number, and amount of the expense.

## ADDITIONAL REQUIREMENTS

You'll need more than proof of payment to establish that you're entitled to a deduction for a business expense. Receipts, charge slips, sales slips, signed invoices, payment acknowledgments, check registers, and carbon copies of checks are all examples of items to retain to help substantiate the character and deductibility of the business expense.

When it comes to travel expenses, entertainment expenses, and business gifts, the IRS has stricter substantiation requirements than for most other expenses. The IRS will allow a deduction for these expenses only if you can establish certain information (in addition to the other requirements for deductibility) by adequate records or sufficient evidence that corroborates your statement. To meet the "adequate records" requirement, you must keep records and other documents that establish each of the following elements of an expenditure:

- ▶ Amount
- ▶ Time and place
- ▶ Business purpose

- ▶ Business relationship (for an entertainment item)

Keeping a diary, account book, trip sheet, log, or similar record of these expenses is recommended.

Please don't hesitate to consult with us if you need clarification regarding the substantiation requirements or any other issue related to your contracting firm's tax and financial operations.

## PER DIEM RATES

You can potentially simplify your bookkeeping and have more control over expenses if you use per diem rates to figure reimbursement amounts. Per diem is an allowance paid to your employees for lodging, meals, and incidental expenses incurred when traveling. This allowance is in lieu of paying their actual travel expenses.

There is a federal per diem rate for combined lodging and meal costs and a per diem rate for meal costs alone. Since the cost of living varies from state to state and from city to city, the per diem rates also vary for different parts of the country. The IRS won't require your business to substantiate the amount of expenses if your business uses per diem rates that are less than or equal to the federal rates. However, employees will still have to substantiate the time, place, and business purpose of their trips.



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## DEVELOPMENTS IN TAX AND BUSINESS

### TOP FIVE CAUSES OF WORKPLACE INJURIES

According to the *Travelers Injury Impact Report*, which analyzed more than 1.5 million workers' compensation claims submitted from 2010 through 2014, the top five causes of workplace injuries are material handling (32%); slips, trips, and falls (16%); struck by or colliding with an object (10%); accidents involving tools (7%); and traumas occurring over time, such as strains (4%).

### KEY RETIREMENT PLAN LIMITS FOR 2017

The maximum dollar limit on employee contributions to 401(k) plans for 2017 remains unchanged at \$18,000, and the

catch-up contribution amount for plan participants age 50 and older is \$6,000. Not every plan permits catch-up contributions. The maximum amount that can be contributed to a plan participant's defined contribution account is the lesser of his or her earnings or \$54,000 for 2017. This amount includes employee and employer contributions (excluding catch-up contributions) as well as any forfeitures. Contribution and catch-up contribution limits for SIMPLE plans are \$12,500 and \$3,000, respectively. The maximum contribution an individual can make to a traditional or Roth individual retirement account (IRA) is the smaller of

\$5,500 or one's taxable compensation for 2017. Catch-up contributions for IRA owners age 50 or older before the end of 2017 are limited to \$1,000.

### CAN WE SERVE YOU?

Our firm provides a broad range of accounting, auditing, tax, employee benefit, and management consulting services to contractors.

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