

Who Are You Paying Anyway?

This is a cautionary note for all businesses, not just the construction-related ones, but because it happened in a high profile way with a local general contractor, it makes good reading!

In late 2018, the Crowley Independent School District was contacted by a person claiming to be the accountant for Steele & Freeman General Contractors, Inc., who had several projects going for the school district at the time. The accountant notified the school district that Steele & Freeman had "new banking information," and that future wire transfer payment should be made to the new bank.

Ever responsive, the school district's accounting people made the change immediately, and even verified that it was a valid bank account by doing a test wire of one dollar.

Immediately thereafter, the school district paid two payment applications to Steele & Freeman, aggregating just shy of \$2 million. And you know what happened next.

The accounts did not belong to Steele & Freeman; they belonged to Donald Conkright, an enterprising thief from South Florida, who immediately bought a new BMW, \$70,000 worth of Rolex watches, and withdrew virtually all of the balance within the next five days. The sticky-fingered thief has been arrested, but the money has not been recovered. And, the school district is still on the hook!

BE WARY, BE CAREFUL

We can all take several lessons from this.

First, ensure that you have appropriate accounting controls in place such that account creation and modification is administered with cross-checks, to ensure that changes like this cannot be made unilaterally. If you receive notice from somebody about an account, be sure that you independently verify it by contacting known and trusted representatives, rather than relying on inbound contacts.

Second, be judicious in what information you publish, and to whom. The scam on the Crowley Independent school District would not work if the scamster had not possessed fairly timely knowledge of the contracts between the two affected parties. There's nothing wrong with publishing project information for marketing purposes, but if you're not doing that, make sure you have private project information reasonably well protected from disclosure. This is a good idea for competitive reasons, as well, anyway.

Third, it's always a good time to review your in-house security and money-handling procedures; many construction businesses grow from being a "mom and pop" operation to being much larger, while the in-house systems never change. This writer has dealt with literally dozens of circumstances of the trusted, long-term employee stealing money from their subcontractor employer, usually by paying personal bills from company accounts, abuse of company credit cards and credit accounts, and even establishing shadow employees who collect paychecks, and don't even exist. A good CPA, and periodic independent review of your books and accounts by your CPA (maybe even a true audit every now and again) can be very useful in protecting you from fraud.

There are some very sophisticated "cyber thieves " (and plain-old thieves) out there these days – don't be a willing victim!



Sewell "Spike" Cutler
Cutler-Smith, P.C.
Park Central 7
12750 Merit Dr.
Suite 1450
Dallas, TX 75251
214.219.0800