Implementing Checks and Balances in Accounting with Applied TAM

SESSION HANDOUT
Implementing Checks and Balances in Accounting with Applied TAM

Class Description: Yes you balance your receivables and payables every month and you write checks but do you have a system of checks and balances in accounting for your organization? Having a solid system of checks and balances in any accounting department can help a business in many ways. For an independent insurance agency/broker, a prudent well thought out system of checks and balances can bring benefits in some key ways including but not limited to: ensuring your trust account is “in trust”, bring greater accuracy in terms of commissions being paid to your producers, ensure your organization is getting the amount of commission it should from the carriers and probably most importantly, a proper system of checks and balances can protect you and your business from dishonest employees. During this session we will discuss what various checks and balances for accounting are and can be and provide you with actionable thoughts on how to set several of them up. This session assumes attendees have an understanding of Applied TAM and are currently using it in their offices for accounting.

Learning Outcomes: By attending this session you will be able to:

- Discuss the different types of checks and balances that should be in place in your accounting department.
- Implement different methods and capabilities Applied TAM has to help ensure your producers are paid the correct commission rate throughout the life of a policy.
- Identify different points where there should be a segregation of duties and where Applied TAM’s security can help force that segregation.
- Setup reports you can run in Applied TAM to provide the insight into a given check or balance.
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Assumptions: This seminar is based on the following
Applied TAM Version 12.X
Microsoft ® Word Version 2007

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Agency Embezzlement in the News:

- ...accepted cash premium payments...did not apply the payments to the customers’ accounts. The funds were never located and the agency owner had to pay the missing premiums so that neither customer experienced a lapse in coverage.
- ...was depositing insurance premium checks into his personal account. The investigation found 16 occasions where... diverted...premiums into his personal account...

Accuracy of Producer Commission

Correct Rates per Commission Agreement

- Close-Day Transaction Report
  - Daily Transactions (general transactions)
  - Future Transactions (general transactions)
  - Changes to Transactions (updates and deletions)
- Verify the billing screen!
- Book of Business Report
- Producer Report

Auditor separate from CSR/Producer

- Accounting personnel
  - If you would have the CSRs review the daily transaction register instead of accounting for auditing purposes, make sure you are reviewing the producer commission reports for accuracy as well for segregation of duties purpose and to ensure employee integrity. These would then be presented to management along with the check or along with payroll information to be reviewed by management as needed. There should be someone outside of the producer/CSR team to review the commissions that are scheduled to be paid to a producer. This would help the CSR because he/she could not be pressured into changing a commission to a producer that is outside the parameters of the producer commission agreement. This would also help ensure that you do not have a CSR/Producer team in cahoots with each other inflating commission payments. The accounting team should be responsible for ensuring that the commissions are accurate to help protect the agency.

- Management/Owner
  - You need to know what to look for. Are their Renewal policies being paid at the NEW rate? Are there cancellations or negative endorsements that are not charging back commission from the producer? Are there a lot of adjustments regularly? Are there deleted transactions? Deleted transactions could be due to entering transactions, running producer reports to show that they should be paid, and then deleting them and not rerunning.
Segregation of Duties

Employee Dishonesty- Securing Employee Integrity

- Creating an atmosphere to ensure that employees will not be tempted to become dishonest, this is done through segregation of duties.

Manage with Security Manager when possible

- You can grant right to employees as well as deny them rights to areas that they will not need for their job duties. Example of that would be that a Producer may need rights to view their clients’ policies, but not have the right to transact on the policy. Or a CSR may have the rights to enter a transaction, but not have the rights to adjust the producer commission. So granting rights to proper personnel within Applied TAM will begin to ensure employee integrity.
- The more control a person has over all of the check processing, entering invoices, writing checks, signing checks, bank reconciling, the easier it is to hide embezzlement. This should be segregated

Collecting payments/Depositing funds

- The person collecting the money should not the one depositing it. This is likely the case for smaller agencies, therefore, if this is the case; there should be another person ensuring the payment amount being deposited is accurate. You can run a Production report for the transaction type of PAY for the day. That report will list the clients’ payments. The amount should then be the same amount as the receipt entered that day at the bank level.

Entering invoice(Return Premium)/entering checks

- The person entering the transaction at the client level for Cancellations, Negative Endorsements, Credit Audits or any form of Return Premium, should not be the person entering the check. One common way for a person to embezzle money from a company is to create fake invoices or change the address of where the check to go to, so that the check is actually signed and mailed but sent to their P.O. Box where they get the check and are able to cash it.

Entering Checks/Signing Checks

- The person entering the check should not be the person signing the checks. If this is not possible, a person should not sign a check made payable to themselves. If you cannot have another person sign the checks, it is that much more important to make sure that the bank reconciliation is done by someone else (again if possible) and it should be carefully reviewed by another person.
  - Printing checks- You can ensure that the person entering the check will not be the one printing the check. Grant rights within Applied TAM to have a person print the unprinted checks at the end of each business day.
  - Revise Rights- Under Security Manager, you can grant or deny rights to users to revise check information, i.e. amounts, payee etc.
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Reconciling Bank Accounts

- Older outstanding Deposits
  - Reconciliation Worksheet from bank reconciliation list view. Look for deposits that are getting old. It is reasonable to have a couple of deposits that were entered on the last day or two of the month that did not clear the bank but will the next month. But a deposit that is still outstanding means the deposit never made it to the bank. The balance on the bank statement on the last page of the report should match the grand total.
  - Disbursement Register Report
    - Look for checks that are payable to somebody unexpected or that you are not familiar with.
    - Look for checks made payable to the accounting staff or any other staff or family members that do not make sense
    - Look at checks that have not cleared the bank and follow up on them to see if they need to be replaced or escheated.
    - Look at voided checks and deposits.
      - Sometimes an embezzler will try to cover up by voiding a deposit that was entered by someone else.
  - Look for Unrecognized Vendors
    - Look for checks that are higher than normal, new vendors etc.

- Carrier Sweeps not entered into Applied TAM
  - Create a sweep transaction that will need to be entered on the client when the carrier sweeps the bank account. Once the client pays and the bank account is sweep, the Accounting department enters the disbursement and then should give a list to the CSR to enter the Sweep transaction. The GL account for the Sweep account should indicate if money was sweep as well as the clients that it was sweep for. This is a great audit trail for sweeps.

- Bank Fees
  - All Bank Fees should be entered into Applied TAM and seen on the reconciliation as well as the bank statement.

Accuracy of Commission paid to Agency

Consider what your tolerance is for understanding the amount of commission you may not be receiving. The industry believes that 99% of the time the company is right. However, an agency recently discovered $100,000 in missing commission over time and had to start going back and looking at every policy to see if commission was received. Obviously this dropped their comfort level drastically. Reports to consider:

Direct Bill Report

- If your Reconciliation Method is Transact and Reconcile you can run the report for Unpaid items and this report will show what items are still listing as due to be paid by the carrier.

Exclusion Report

- If you are on Record Commission/Do Not Reconcile, you will need to run the Exclusion Report. This report will list all the current Policies that have no transaction activity for a
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given month. You will want to run this report monthly. The policies that will appear will be policies you have not posted commission towards.

Comparing Book of Business and Production Reports

- If you have the CSR enter the Premium and Commission on the billing screen and not let it be affected by any invoicing, then you have a book of business that shows the expected commission that should have been received on each policy. You can then run the production report that shows the actual commissions received. You can run both reports by effective date of the policy and by carrier then compare the commission according to the book of business as compared to the actual production commission to see if it is within a tolerable accuracy level.
  - For example, if my book of business shows $100,000 in commission that should have been earned from a particular carrier and the production report shows $99,500, I probably am not going to try to find that difference. But if the difference is $15,000, I would probably want to try to figure out the difference.

Research difference found during Reconciliations

- It is important for the accounting department to not just correct a transaction to match what the company paid. The agency should understand why the error existed (difference) and not just take what the company said if their comfort level is low.
  - Sometimes a producer/CSR negotiates a special commission rate, or there is a special for 60 days where they would get a slightly higher commission. The producer/CSR will enter that commission on the policy, but then when the statement comes in it might reflect the lower commission, and if the accountant just changes it, it will never be detected.
    - There should be a rule that the accounting department not make changes to the policy billing screen.
  - CSR should be notified of the incorrect entry and then they have to fix it and this significantly reduces errors because the staff will understand what they are doing wrong and it will stop happening as often.
  - An activity should be used when there is an error/discrepancy affecting the transaction.
    - If accounting simply cannot make the changes and the CSR knows they can't, this will reduce friction between the two groups. However, a priority should be put on the accounting activities that require corrections so that the accounting department can move on with their statements quickly.

Accuracy of Income Statement

How do you know if you are spending more than you are making? Some Agencies only look at the bank statement. But the income statement will should you your income and expenses.

Income Statement Report

- Compare range of months
  - Is there a difference in income from one month to the next or from one year month to the previous?
- Payroll Entered
  - Has payroll been entered and is there a significant difference amount that causes alarm.
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- Commission Received
  - Has the monthly commission been entered and a commissions entered report to reflect the amount reconciled.

- Monthly bills paid
  - Have the entire monthly billed been paid and a report to list the checks sent.

- Agency bill returns premium deposited correctly
  - Any return premium from the carrier should be entered into the payable and not the commission income account.

Cash Flow - Are we spending more than we’re making?

- Cash Balances Report
  - Will give you the current amount in your cash accounts

- Cash Journal Entry History
  - Will list all entries that were entered into your back account.

Accuracy of Balance Sheet

Accounts Receivable Balance

- Make sure your Aged- Receivables are being audited regularly. If there is an ADV listed on the client that is aging without a PAY, then it is possible that the PAY is on the wrong customer or a possibility that maybe the employee collected the cash and put it into their pocket.
- Make sure there are no odd fees listed on the clients’ accounts that are aging.

Company Payables

- Has money been sent to the company without payment from the insured?
- Are we due return premium from the company that we have not received yet?
- Are there any final audits that need to be returned to the company for collection before we become responsible for them?

Pending Payables

- Are there any unpaid vouchers?
- Is there a large balance in the pending payable account?

Transfer of funds

- If there is a balance in the transfer account?
  - it usually would mean that someone inadvertently posted something manually to this GL account. The transfer account is by Applied TAM for Transfer of Funds and should show the debit and the credit immediately making it a zero balance at any given time. Entering journal entries to oddball accounts can reflect some foul play at times.
    - For example, I am an agency that only looks at my Income Statement, and I really know those numbers, but the accountant know that and writes a
check to herself and uses the Transfer account as the GL to offset the check to. This does not reflect on my income statement at all.

**Are my cash accounts overdrawn?**
Run the cash balance report as well as your balance sheet report on a daily basis.

**Trust Account “In Trust”**
Am I out of Trust in my account and what can I do to prevent going out of Trust?

**Premium Trust Reconciliation Report**
- Reconcile in a Timely manner
- Make sure payments are applied
- Month closed

**Possible causes for being “Out of Trust”**
- Check sent to carrier without reconciling
- Premiums (including returns) deposited to Operating account
- Too much commission transferred from Trust to Operating
- Theft; cash not getting deposited

**Aged Receivables Report**
- Return premium (RET) due to insured
- Direct bill advance (ADV) sitting on account
- Insured payment (PAY) sitting on account
- Unusual fees remaining unpaid
- Money sent to company without payment from insured
  - See also Company Payables- Net Advance

**Company Payables Report**
- Money sent to company without payment from insured
  - Run the report with the report mode: Net Advance
- Return premium due from carrier
- Final audits due to/from carrier
Know Your CPA- Ask Questions

- Are you a Certified Public Accountant? For how long? Any other licenses?
- How do you keep up to date with tax implications that affect the insurance business?
- Do you have experience and expertise with insurance?
- How much experience do you have with business consulting?
- How technologically savvy are you? How well have you integrated computers and the internet into your practice? Has it enabled you to provide more at less cost? (Hours can really add up if they are still doing things by hand/manually)
- Ask for a full list of rates and fees
- Why is my income so different on my tax return?
- Are you aware of what is on your depreciation schedule? Should you be making monthly entries to represent your depreciation so that it is not all entered at year end?
- Should I be merging my multiple agencies into one to reduce my tax liability?
- Do you believe I am paying too much, too little, or just the right amount of tax?
- Will the same people service my account?
- Who are your other clients?
- Why should I use you?
- What is your advice to help me make more money?
- What services besides the usual reporting and taxes are offered?
- What kind of creative business advice can you provide me?
- How much professional education do you get annually?
- What is your policy on returning phone calls?
- What can I do to help you with work to keep my fees to a minimum?
- Do you perceive any conflicts of interest?