

# Construction Industry Update

MSP Construction Update 03/2006: "Equipment Theft"

March, 2006

## Equipment Theft

By James P. Schabarum II, CPCU, AFSB, CWCA of Cavnac & Associates  
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Equipment theft is on the rise. The estimated total value of equipment stolen annually in the United States exceeds **\$1 billion**, not including indirect costs from business interruption



such as loss of productivity, wasted workforce and management time, extended overhead, project delay penalties, and short-term rentals. Unfortunately, less than 10% of stolen equipment is recovered.

Recently the National Equipment Register (NER) published a report about the problem of equipment theft in the U.S. In order to help insurers and equipment owners focus risk management efforts most effectively, the report analyzed thousands of thefts reported to the NER. The report also used past years' loss reports and data from the Insurance Services Office, Inc. (ISO) to establish trends. Here is what was learned.

### Equipment Is Stolen from Everywhere

The most frequently requested and quoted equipment theft statistic is the list of the "Top Ten States" for theft. The report reflects the commonly held view that the top ten states account for much of the equipment stolen in the United States. In fact, the top five states (Texas, North Carolina, Florida, California, and Georgia) account for 33% of thefts reported to the NER. While the states with high levels of construction may attract professional

theft rings, the NER did receive theft reports from every state. Equipment theft levels closely follow the amount of equipment in a particular area.

**Lesson:** Wherever there is equipment, there is a possibility of equipment theft. Think before you leave it.

### Protect Your Equipment as Well as Your Worksite

Losses reported to the ISO by insurers since 1995 show that the majority of thefts occur not from the premises of the policyholder but from someone else's premises. This largely reflects where equip-

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#### **EQ Theft** (continued from page 1)

ment spends most of its time. This also underlines the limited control that an equipment owner sometimes has over the security of a worksite in addition to the fact that some worksites are impossible to secure completely.

**Lesson:** Take measures to protect and secure your equipment as well as your worksites.

### Most Popular Items for Thieves: Skid Steer Loaders

While an electric drill saw may be easy to steal and a large wheel loader may be the most desirable, the equipment most often reported stolen to NER is equipment that is both valuable and easy to transport, most notably **skid steer loaders**. A new skid steer loader can sell from as much as \$45,000 and may be transported on the back of a small truck or even the bed of a pickup.



**Lesson:** When securing equipment, do not just protect the most valuable pieces. Take care to position less mobile equipment to immobilize smaller pieces.

### Help Law Enforcement Help You

Law enforcement officers are unlikely to be equipment experts and are increasingly being asked to do "more with less." The least that a theft victim can do is to report a theft correctly, using the correct Product Identification Number (PIN) and/or the serial number that uniquely identifies a machine. There is now clear evidence that too often these numbers are inaccurate or missing when thefts are reported. Of the recoveries that NER helped law enforcement make in 2000, over 35% either had no PIN or an inaccurate PIN associated with the theft report. Recoveries were made because the equipment had been previously registered on the NER ownership database. The use of global positioning system (GPS) devices can significantly improve the possibility of recovery.

**Lesson:** Help law enforcement help you. Keep a complete record of fleet identification numbers, and ensure that the correct PIN for each vehicle is provided in any theft report reported to the police and your insurer. Use technology.

### Conclusion

The use of equipment theft technology is one of risk assessment. Consider the likelihood and possible severity of a theft, including the costs of business interruption and how many devices could be bought for the cost of deterring or detecting one theft. Weigh the increased cost of insurance, all the indirect costs and the invariable difficulty of obtaining insurance coverage in the future along with the benefit of controlling and limiting your exposure to risk. Focus risk management efforts on high value equipment that can be easily transported with an emphasis on equipment and worksite security. ✨

Information for this article was obtained from David J. Shilling from the **National Equipment Register**. A full copy of the annual report can be obtained from <http://www.nerusa.com/stats.asp> and link to **2003 Report**.

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**Disclaimer:** This article is written from an insurance perspective and is meant to be used for informational purposes only. It is not the intent of this article to provide legal advice, or advice for any specific fact, situation or circumstance. Contact legal counsel for specific advice.

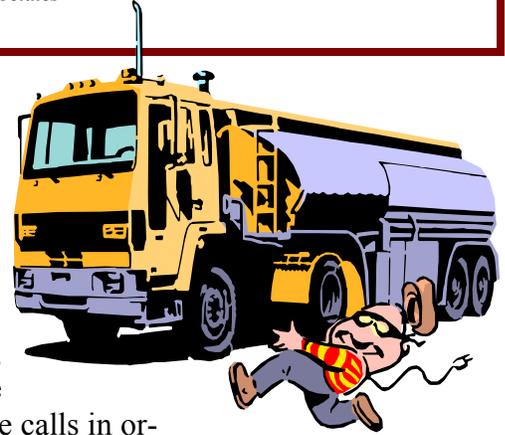
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# Risk Control Corner

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 Director of Loss Control & Claims, Cavnignac & Associates  
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## Construction Site Security Survey

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Construction sites are often unattended at night and on weekends, and police officers frequently find people on the site during these times. Quite often the police department has to make numerous phone calls in order to track down someone who can verify if a person has a legitimate reason to be on the property. Aside from tying up an officer's time, this can unnecessarily delay a person who has a right to be at the site.

A list of a builder/developer's responsible persons can expedite this process, and provide investigative leads to the officer in the event that a crime is, indeed, taking place. Should a construction site begin to experience problems, it is useful to have a "point person" who police department personnel can work with in order to try and resolve problems.

### After-Hours Job Site Responsibility

1. Has the company appointed one person in authority to be the point of contact?
2. Has the company provided the names and contact information for responsible persons during non-business hours?
3. Is there a written job site security plan in place?

Yes	No

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### Identify / Mark Equipment, Tools and Other Assets

All assets on a construction site should be identified (marked), inventoried and tracked as closely as possible. The company should develop an identification numbering system.

4. Are tools and equipment engraved or stamped with identifying **marks** in one visible and at least one obscure location?
5. Are tools and equipment **painted** a distinctive color?
6. Does company equipment have a visible company logo?
7. Are employee tools **marked** and **painted**?
8. Are **inventories** of tools and equipment current?
9. Are identifying numbers, Product Identification Numbers, and distinctive marks noted?

Yes	No


**Security** (continued on page 4)



# Construction Site Security Survey (continued)

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**Security** (continued from page 4)

## Key Control

A company should be able to account for who has any of its keys. The number of issued keys should be kept to a minimum for better accountability.



- 28. Does the company have a key control policy in place?
- 29. Are keys secured in a safe or lockable area after hours or when not in use?
- 30. Is there a key sign-out log to track the whereabouts of all keys?
- 31. Are keys removed from vehicles that are not being used, or when they are stored?

Yes	No

## Vehicle Security

Construction vehicles are often left unlocked and most are commonly keyed. Parking in a strategic way and immobilizing them serves as a visual deterrent to thieves. Visible markings also deter thieves, as they send a message that the equipment might be easily recoverable.

- 32. Are vehicles and heavy equipment parked at night in a trail or in a circle, with the smaller items in the middle of the train or circle?
- 33. Are wires or batteries removed and blades and buckets dropped in order to immobilize equipment?
- 34. Are vehicles and equipment visibly marked with a company logo or painted a distinctive color?
- 35. Are vehicles and equipment stamped or engraved with an identifying number in a visible location and at least one hidden location?
- 36. Are any methods used to disable fuel, hydraulic, or electrical systems on equipment?
- 37. Does the company record VINs on each piece of equipment?
- 38. Is the information on the VINs easily retrievable? ✖

Yes	No

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# Are You Using the Right Vertical Accounting Software?

By James P. Schabarum II, CPCU, AFSB  
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Both general contractors and subcontractors can easily start their companies using inexpensive, simple, low-level accounting software package products such as Peachtree, QuickBooks Pro or QuickBooks Contractors Edition. These products are extremely simple to operate, and can be cost effective in the short term.

However, once a contractor's business grows to a certain size and becomes more sophisticated, more complex accounting issues influence the stability and cost effectiveness of these products.

Surety bonding companies and CPA firms are not comfortable with the validity of the information produced from low-level accounting systems, mainly due to the ease of changing and/or falsifying data. For the same reason, owners and managers should be wary of them.

Many business owners have been defrauded out of thousands, even millions of dollars from simple scams their employees devised to take money and then hide those events by simply changing payee information in low-level accounting systems. In other cases, users of such accounting systems could easily change information in their systems to skew the financial results they provide to CPAs and surety bonding companies.

In the days of manual accounting systems, anyone with accounting training knew to follow proper protocols when errors were made. For example, when using the old Safeguard manual accounting system, a line would be drawn through any mistake and the correcting entry would be entered immediately below, which generated an audit trail.

Unfortunately, in an attempt to make software applications extremely easy for anyone (not just accounting professionals) to use, less sophisticated

accounting software allows changes and deletions without generating an audit trail. Since software has become the predominant accounting mode, many business owners and managers with a limited accounting background tend to put too much faith in software to take care of the accounting process, and place more importance on the field operations than on their firms' accounting and business practices.



Vertical accounting products that specialize in a particular segment

of business can cost more on the front end, but in the long run can save a company hundreds of thousands of dollars. While these products can't prevent fraud from taking place, they make it much more difficult for users to commit fraudulent acts.

Vertical products have guidelines or protocols set within the programming to guide users who may not be highly experienced in cost accounting. Job cost accounting is only one form of accrual accounting, and it can be easily misinterpreted if cost centers are not tightly managed.

It is important for a company to understand how the general ledger and job costing functions relate to one another, and how they flow into financial statements. These functions are typically much looser in a low-end accounting product, and can quite easily produce an unbalanced general ledger to job cost result.

Vertical accounting systems can save money for a company. Built-in protocols enable all types of users, from beginning bookkeepers to highly seasoned ones, to easily use the system. Audit trails are generated so that auditors can easily see everything that has occurred. Simple routines performed

at month-end ensure that the proper items are balanced against one another.

The results produced are generated by acceptable accounting processes that are controlled and reconciled internally on a daily basis. The alternative is to employ an outside CPA firm to audit results on a quarterly or semi-annual basis, which can be extremely costly.

Many vertical accounting software package products are available for the construction industry. We recommend reading reliable trade publications, such as *CPA Technology Advisor* (formerly *CPA Software News*), to find the best current accounting software package systems on the market.

Some software programs have been around and updated regularly since the 1970s, such as Contractor III/V (Five-Star Rating by *CPA Tech Advisor* – April/May 2004), Timberline, and American Contractor, to name a few. Important factors to consider before making a purchase are support, cost, implementation, and training. Good luck! ✧

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- **OSHA 10-Hour Course—Part 2**  
Thursday, March 23, 2006—8:00 AM—1:00 PM  
**(Attendees receive Certificates of Completion for each part; OSHA will provide 10-Hour Card after ALL sessions have been completed)**
- **Sexual Harassment Training**  
**(AB1825 Compliant)**  
Friday, March 31, 2006— 9:00—11:00 AM
- **Reduce Your Total Cost of Workers Compensation Insurance**  
Friday, April 14, 2006 — 9:00 AM — 12:00 Noon
- **How to Set Up a Formal Hazard Communication Program**  
**(Per OSHA "Right to Know" Standards)**  
Thursday, April 27, 2006 — 9:00 AM — 11 AM
- **Material Handling & Industrial Ergonomics**  
Friday, May 12, 2006 — 9:00 AM — 11 AM
- **Sexual Harassment Training**  
**(AB1825 Compliant)**  
Thursday, May 25, 2006— 9:00—11:00 AM
- **How to Conduct a Formal OSHA-Type Contractors Job Site Inspection**  
Thursday, June 15, 2006 — 9:00 AM — 11 AM
- **How to Conduct OSHA-Approved Accident Investigations**  
**(for Workers Compensation, Automobile, Property and General Liability)**  
Thursday, July 20, 2006 — 9:00 AM — 11 AM

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