Best Practices in the Club Accounting Department

Presented by:
Geoffrey Benedict, CPA, CGMA

BIOGRAPHY

Geoff is a partner at Benedict Audit & Tax Group and has been practicing since 1998 after graduation from Towson University with a Bachelor of Science Degree in Accounting. He is a CPA and member of the AICPA, MACPA, HFTP, and MSA. The firm is a proud member of the Club Tax Network. He leads and directs the Assurance and Tax practices for Private Clubs within the firm.

Geoff’s areas of specialization include financial reporting, audit and review engagements, tax services and consulting for private clubs, not-for-profits, closely held businesses, and individuals.

Geoff has been working with private clubs for 20 years. He is currently President of the Maryland HFTP Chapter. He also received the 2017 Big Cheese award from Mitchell Stump of the Club Tax Network for “taking care of his slice of the Club industry with distinction.”
AGENDA

- Why internal controls are essential
- Actual Club frauds & difficulties
- Best practices for each balance sheet category
- Sample segregation of duties for cash
- Sample checklists/documentation
- Discussion & Questions

Report to the Nations

2018 Global Study on Occupational Fraud and Abuse

Association of Certified Fraud Examiners

**KEY FINDINGS FROM REPORT:**

- $7 Billion in total losses
- Small businesses lost almost twice as much as large business ($200k)
- Asset misappropriation schemes are the most common

**KEY FINDINGS FROM REPORT (Cont.):**

- Internal control weaknesses were responsible for nearly half of the frauds
- Fraudsters who had been with their company longer stole twice as much
- 85% of fraudsters displayed at least one behavioral red flag
- Median duration of fraud scheme: 16 months
KEY FINDINGS FROM REPORT (Cont.):

- Cash Fraud
  - Theft of cash, unrecorded sales, write-off of receivables, refunds, fraudulent disbursements

- Other Assets Fraud
  - Larceny, asset requisitions and transfers, improper reporting, improper valuation, over and understatement

Most common anti-fraud controls:

- Code of conduct
- External audit of financial statements
- Internal audit department
- Management certification of financial statements
- External audit of internal controls over financial reporting
- Management review
- Hotline
How the presence of anti-fraud controls relate to median loss:

- Code of conduct – 56% reduction
- External audit of financial statements – 50% reduction
- Internal audit department – 46% reduction
- Management certification of financial statements – 43% reduction
- External audit of internal controls over financial reporting – 50% reduction
- Management review – 50% reduction
- Hotline – 50% reduction

Internal controls are a system of policies, procedures, reviews, segregation of duties, and other activities that are used to minimize the risk of asset loss, produce accurate financial statements, and conduct operations in an efficient and orderly manner.
### EXAMPLES OF REAL FRAUD CASES

**The Fraud**
- Creating fake employees in payroll
- Falsified inventory records
- Improper bank transfers
- Falsifying bank statements
- Pulling funds from LOC for personal use
- Forging signatures on checks
- Personal charges on Club credit cards
- Taking cash before it is entered into the system
- Theft of inventory

**Actual Consequences**
- Termination
- Paying back the stolen funds
- Criminal charges and imprisonment
- Termination of the employee who did not catch the fraud
- Tarnished reputation

---

**Internal Control Process**
- Monitoring
- Control Activities
- Risk Assessment
- Control Environment

---
DIFFICULTIES IN THE CLUB ENVIRONMENT

• Only 2 or 3 staff dedicated to accounting which complicates segregation of duties

• Accounting is not a profit center; not many resources allocated to it

• Controller/CFO typically the only employee with a comprehensive knowledge of accounting

BEST PRACTICE EXAMPLES: CASH

• Person preparing bank reconciliations should not be a check signer
• One person writes checks, another person signs the checks
• Someone other than the person preparing the bank rec reviews the reconciliation and statement in detail, then signs off on it
• Board member directly receives and opens the bank statement on a random basis
• Employees with access to write-off bad debt should not be permitted to collect cash
• Blank checks should be locked up at all times
• Use a separate bank account, such as a ZBA, for payroll
• Limit access to petty cash
• Record automatic/ACH payments as they occur, rather than during the bank reconciliation
BEST PRACTICE EXAMPLES: ACCTS. RECEIVABLE

• One employee should receive payments and make a list of the payments for a different employee to post to A/R
• Employees with access to write-off bad debt should not be permitted to receive payments
• Credit memos should be periodically reviewed by someone without permissions to post in A/R
• The A/R Aging should be reviewed periodically by someone other than the employee doing the A/R postings for unusual balances or customers and significant late balances
• Prior to allowing employees to make purchases at the Club on account, an agreement (reviewed by an attorney) should be signed
• Employee A/R should be monitored at least twice a month
• Suspend membership privileges for late payers

BEST PRACTICE EXAMPLES: INVENTORY

• Keep storage locked as often as possible
• Prior to making the inventory adjustment, the controller should review the extended inventory for any unusual quantities/costs.
• Provide keys to as few employees as possible
• Use cages with separate locks inside of the walk-ins and store rooms for high-dollar products
• Perform inventory counts in pairs
• Install security cameras
• Have the controller do random, periodic inventory spot checks
• Involve employees from outside of the department in the count
• Determine the maximum storage capacity of each area, and compare it to the total quantity of items on the count sheet each month
• Implement policies for employee bags being brought inside of the Club
• Evaluate if bonus structures that consider COGS could provide incentive to falsify inventory
BEST PRACTICE EXAMPLES: FIXED ASSETS

• Perform a physical fixed asset inventory
• Install security cameras in areas with high-dollar assets that are easy to move (such as in the mower storage area)
• Develop a policy on the personal use of Club assets
• Agree on and enforce a capitalization policy to avoid “working” the departmental budgets
• Obtain multiple quotes for large purchases

BEST PRACTICE EXAMPLES: PREPAID EXPENSES

• Utilize Excel spreadsheets to help organize data and avoid miscalculations
• A clear and concise schedule of what is making up the balances of prepaid accounts should be available for inspection by the GM or Treasurer
• The schedule should be reviewed for misstatements made to intentionally impact net income, covenants, and ratios
• The schedule should also be reviewed for transactions entered to cover up theft of cash or other assets
BEST PRACTICE EXAMPLES: ACCOUNTS PAYABLE

- Require approval & a sign off on all invoices
- Create and enforce a policy where the GM and/or Board must approve purchases over a certain amount
- Reconcile the A/P aging to the general ledger on at least a monthly basis
- Mark invoices as “Paid” once they are paid to avoid duplicate payments
- Do not accept monthly statements in place of actual invoices
- Maintain Excel schedules for all accrual accounts and reconcile them to the general ledger at least monthly
- Someone other than the employee preparing checks should periodically review the entire vendor listing
- Require a second approval before a new vendor can be entered into the system and paid

BEST PRACTICE EXAMPLES: CREDIT CARDS

- Have employees sign a Company Credit Card policy, reviewed by an attorney
- Require receipts to be submitted to accounting for every credit card purchase
- Enforce this policy by setting the “tone at the top”
- Consider a policy of employees paying for purchases with no receipts provided
- Plan the timing of large purchases to enable the Club to be able to pay the entire statement balance each month
BEST PRACTICE EXAMPLES: DEBT

- Track financial covenants throughout the year
- The GM and/or Treasurer should approve all draws on the LOC and other revolving debt
- Calculate interest rates and potential buyout costs prior to signing any leases
- Board member directly receives and opens the debt statements on a random basis
- Occasional correspondence with the bank from the GM/Treasurer to verify what accounts are open in the Club’s name

SAMPLE SEGREGATION OF DUTIES

CASH: 2 PERSON ACCOUNTING OFFICE

<table>
<thead>
<tr>
<th>Controller/CFO</th>
<th>Accounting Clerk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Record A/R entries</td>
<td>Prepare deposit slips</td>
</tr>
<tr>
<td>Write &amp; mail checks</td>
<td>Perform interbank transfers</td>
</tr>
<tr>
<td>Reconcile bank statements</td>
<td>Reconcile petty cash</td>
</tr>
<tr>
<td>Record adjusting entries</td>
<td>Process vendor invoices</td>
</tr>
<tr>
<td>Authorize invoices for payment</td>
<td>Review bank reconciliations</td>
</tr>
<tr>
<td>Disburse petty cash</td>
<td></td>
</tr>
<tr>
<td>Receive cash</td>
<td></td>
</tr>
<tr>
<td>Review deposit slips</td>
<td></td>
</tr>
<tr>
<td>Approve interbank transfers</td>
<td></td>
</tr>
</tbody>
</table>

Pull in the GM or Treasurer to sign checks
SAMPLE SEGREGATION OF DUTIES

CASH: 3 PERSON ACCOUNTING OFFICE

<table>
<thead>
<tr>
<th>Controller/CFO</th>
<th>Accounting Clerk</th>
<th>Accounting Clerk #2</th>
</tr>
</thead>
<tbody>
<tr>
<td>➢ Write checks</td>
<td>➢ Sign checks</td>
<td>➢ Process vendor invoices</td>
</tr>
<tr>
<td>➢ Reconcile bank statements</td>
<td>➢ Complete deposit slips</td>
<td>➢ Receive cash</td>
</tr>
<tr>
<td>➢ Record adjusting entries</td>
<td>➢ Perform interbank transfers</td>
<td>➢ Mail checks</td>
</tr>
<tr>
<td>➢ Reconcile petty cash</td>
<td>➢ Review bank reconciliations</td>
<td>➢ Authorize invoices for payment</td>
</tr>
<tr>
<td>➢ Approve interbank transfers</td>
<td></td>
<td>➢ Disburse petty cash</td>
</tr>
</tbody>
</table>

CASH: 2 PERSON ACCOUNTING OFFICE PLUS GM INVOLVEMENT

<table>
<thead>
<tr>
<th>Controller/CFO</th>
<th>General Manager</th>
<th>Accounting Clerk</th>
</tr>
</thead>
<tbody>
<tr>
<td>➢ Write checks</td>
<td>➢ Sign checks &amp; approve invoices</td>
<td>➢ Process vendor invoices</td>
</tr>
<tr>
<td>➢ Reconcile bank statements</td>
<td>➢ Review deposit slips</td>
<td>➢ Receive cash</td>
</tr>
<tr>
<td>➢ Record adjusting entries</td>
<td>➢ Perform interbank transfers</td>
<td>➢ Mail checks</td>
</tr>
<tr>
<td>➢ Reconcile petty cash</td>
<td>➢ Review bank reconciliations</td>
<td>➢ Authorize invoices for payment</td>
</tr>
<tr>
<td>➢ Make deposit</td>
<td></td>
<td>➢ Disburse petty cash</td>
</tr>
<tr>
<td>➢ Review interbank transfers</td>
<td></td>
<td>➢ Prepare deposit slips</td>
</tr>
</tbody>
</table>
FINAL THOUGHTS ON BEST PRACTICES

• User event/audit log
• Sign offs
• Detailed policy and procedures manual
• Don’t rely on budget
• Trusted employees
• Ease of falsifying documents
• Automation – fully utilize the software

WHISTLEBLOWER HOTLINE

Why should we consider adopting a Club Whistleblower Hotline?

“Frauds are perpetrated on small and large businesses alike with small businesses victimized by fraud more frequently than larger organizations. Clubs would be classified as small business and statistics suggest the average theft in a small business is around $147,000 per occurrence. A Hotline gives Members and employees of the Club the vehicle to report unethical activity in a safe and anonymous way.” – Mitchell Stump
**HFTP 2019 ANNUAL CONVENTION**

**Speaker Request Form**

**Formalites**

1. Have you established a formal procedure to notify employees of any new account changes?
   - Yes
   - No

2. Do you have a policy that requires accounts to be locked after 5 minutes of inactivity?
   - Yes
   - No

3. Have you an internal review process for accounts that have been closed without notification?
   - Yes
   - No

**Use of Accounts**

4. Do you have a policy to accept and approve new accounts without prior review?
   - Yes
   - No

5. Do you have a policy to require accounts to be closed after a certain period of inactivity?
   - Yes
   - No

6. Have you a policy to notify customers of any changes to their account information?
   - Yes
   - No

7. Do you have a policy to require accounts to be reviewed annually?
   - Yes
   - No

**Accounting Practices**

8. Do you have a policy to require accounts to be reviewed quarterly?
   - Yes
   - No

9. Do you have a policy to require accounts to be reviewed bi-annually?
   - Yes
   - No

**Incidents**

10. Have you a policy to require accounts to be reviewed after a security incident?
    - Yes
    - No

**Announcement**

*All responses may be used for research and require additional evaluation.*

---

**Speaker Request Form**

**Formalites**

1. Do you have a policy to require accounts to be closed after a certain period of inactivity?
   - Yes
   - No

2. Do you have a policy to notify customers of any changes to their account information?
   - Yes
   - No

3. Do you have a policy to require accounts to be reviewed annually?
   - Yes
   - No

4. Do you have a policy to require accounts to be reviewed quarterly?
   - Yes
   - No

5. Do you have a policy to require accounts to be reviewed bi-annually?
   - Yes
   - No

6. Do you have a policy to require accounts to be reviewed after a security incident?
   - Yes
   - No

**Accounting Practices**

7. Do you have a policy to require accounts to be reviewed after a security incident?
   - Yes
   - No

8. Do you have a policy to require accounts to be reviewed bi-annually?
   - Yes
   - No

9. Do you have a policy to require accounts to be reviewed annually?
   - Yes
   - No

10. Do you have a policy to require accounts to be reviewed quarterly?
    - Yes
    - No

**Incidents**

*All responses may be used for research and require additional evaluation.*
Questions?