

## Securing Your Future

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We've all heard these stories before. A well-trusted employee has been caught embezzling funds from a local business. We ponder the mere thought of it happening in our own enterprise, convince ourselves that we're okay, and go about our business. This same string of events happened to me recently when a long-time friend called to say that he needed some help in setting up an accounting control system. His bookkeeper of fifteen years, whom I had conversed with on numerous occasions, had effectively embezzled almost \$250,000 from my friend's plumbing business over a four or five year period. Her husband also worked at the company as a licensed plumber and trusted employee of my friend. When I first heard the news, my reaction was, "That simply can't be possible. She's too nice, too trustworthy..." I had to catch myself on that last statement. The rest of the story is even more disappointing. As it turns out, she had a gambling problem and was using my friend's business to finance her growing addiction. As such, there was nothing left for recovery except a few small assets and a heavily leveraged house.

So what's the moral of the story? Well, for starters, trust is not a word we can use carelessly in our society today. As my father-in-law oftens says, "in God we trust, all others pay cash". But unless you're prepared to work 100 hours per week, you'll have to place your trust in someone or something. The key is to determine which is better.

As a former commercial banker by trade, I have spent a disproportionate amount of my life focused on all attributes of our financial system, from money handling to investments. When I hear stories such as the one my friend shared with me this past Fall, I immediately wonder where the system broke down - or whether there even WAS a system. In most cases, it's the lack of a system that typically leads the wrongdoers to stray off the path of reason. Every business needs an iron clad checks and balances system if it plans to survive. Generating revenues is a tough enough problem, so hanging on to every dollar should be a business' primary focus.

What can we do to minimize the risk of financial loss in entertainment facilities? Here are some recommendations:

### **Understand Accounting Procedures**

Have you ever commented to a friend or business associate that, "I have someone that handles the books. He or she can tell you (rather than me) how we do that." Granted, not everyone is a born accountant, nor does everyone achieve great excitement from analyzing financial information. Just like some of the other unpleasant jobs often found in a business, this one must be done, and done well. Take the time to understand how the accounting process works, from the paying of invoices to the ordering of goods and services. Examine the process of booking entries and compare entries between different periods (months, quarters, years), to spot unusual changes or events. It's this comparative analysis that typically uncovers discrepancies, such as mis-directed deposits or checks made out to vendors that are unfamiliar to you. If you don't currently have an accounting software package, now's the time to purchase one. Even a low cost program, such as QuickBooks, can be a good start.

### **Establish An Internal Audit Schedule**

Okay, so you're not a CPA or IRS auditor, but you've got a solid handle on the day-to-day operations of your entertainment business. It makes reasonable sense that a busy Saturday should produce significantly greater revenues than a slow Monday. Your books should reflect this. Furthermore, all accounts payable should be backed up with legitimate purchase orders and invoices for products/services that you've authorized. Just because you're the only authorized "check signer" doesn't eliminate the risk of fraud - it happens every day. In light of this condition, all operating bank accounts should be reconciled to your accounting system. In particular, confirm the check series numbers to insure that all checks are accounted for. One of the easiest ways for embezzlement to occur is through forgery of the authorized signature followed by destruction of the cleared check.

### **Study Employee Work Habits**

In the past, some of the most significant embezzlers also appeared to be the hardest working employees. Staying late and arriving early were part of their normal routine. They also tended to be self-sufficient, relying on almost no one to complete the duties of their job. In fact, many were probably lauded as "star" employees for handling the workload of two employees, but as it turned out, at the pay rate of ten.

With the rigors of everyday business, it's often easy to let someone else run with the ball. We justify this by telling ourselves it's "one less thing to worry about". Unfortunately, this creates a safe haven for wrongdoers, who mistakenly believe that they are in complete control of the company's funds. To reduce the likelihood of this condition, make a point to review your employees regularly and get involved in day-to-day accounting operations, if only to review the work that's been done for the day or week. After all, as a facility manager, you are ultimately responsible for all facets of the facility's operations, including the accounting component. As with most banks today, require that your accounting staff take a mandatory one or two-week vacation, and utilize this time to "jump in" and perform their accounting duties during the period. This is also your opportunity to experience day-to-day events and peruse accounting files. Even if there's been no wrongdoing, you'll be amazed at what you do find, which in turn can only improve the efficiency and profitability of the operation.

### **Obtain Work Histories and Background Checks**

As is true in most professions, your work history says a lot about who you are and what you're capable of. While it's much easier to quickly review a resume, have an interview, and say, "you're hired!", the process of locating an accounting professional (finance manager, bookkeeper, payables clerk, etc.) demands much more attention than many other positions. By speaking directly to former employers, references, and even credit bureaus, you can learn a great deal about an individual's composure, capabilities, and T-R-U-S-T-W-O-R-T-H-I-N-E-S-S. Pointed questions with regard to currency handling, ethics, and stability almost always elicit a response that is either positive or negative. If you sense an uncomfortable trend among prior employer responses, pass on the candidate and look for an alternate choice.

### **Better Safe Than....**

There's nothing more disheartening than finding out that you've been "taken". Affected individuals that I have known over the years indicated that they didn't want to even go on, but just wanted to give up. My good friend the plumber has since had to mortgage his beautiful 4-bedroom house, further collateralize his bank loans, and pull the kids out of private school - all to keep the business afloat. It's not like he did anything wrong, Unfortunately, the punishment for lack of control can change your entire life permanently. At least he's a fighter. One good thing that has come from this whole event is that now he looks at every dollar as his last - and therefore treats it with the respect it deserves. If this month's column has sent a chill up your spine, I've done my job. From here, it's your turn.

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