

EXPERTS' CORNER

One of the benefits of NCA membership is access to our extensive network of industry-leading experts. Club Director is pleased to introduce "Experts' Corner," a new magazine department in which the National Club Association's Strategic Alliance Partners share their expertise and insights in response to our readers' most pressing questions. To submit questions you would like to have answered by these experts, please forward them to Cindy Vizza at vizza@nationalclub.org.

Q How important are separation of duties and strong internal controls in a club environment that does not handle cash and runs on a limited budget?

A Occasionally you may hear about fraud at another club. You may even hear a remark that fraud cannot happen at our club because our club does not handle or accept cash. Nothing could be further from the truth! It is an unfortunate reality that there are almost countless ways that one can steal (i.e., check forgery, theft of money, inventory theft, payroll fraud, fictitious vendors, kickbacks, etc.). You never know when or where it will occur until you actually discover it. Most people who start committing fraud will continue. As a noted accounting professor stated years ago, "there are no immaterial frauds, only ones with insufficient time to grow."

Fraud is a complex phenomenon that has been studied in various fields including accounting, psychology and criminology. These studies have concluded that fraud occurs when the following three factors (sometimes referred to as the "Fraud Triangle") are present at the same time:

1. **Motive** – usually a hidden financial need
2. **Opportunity** – commit fraud without being detected (usually in the presence of weak internal controls)
3. **Rationalization** – usually done by calling the theft something else ("borrowing").

A Fiduciary Responsibility

A question that arises from a practical and cost/benefit perspective is whether sufficient controls can be put into place so that the opportunities to commit fraud will be prevented regardless of the level of honesty of a particular employee. Short answer: No system is perfect or foolproof. However, the club's board has a fiduciary responsibility to ensure that an effective system of internal controls is in place. Such a system should safeguard the assets of the club, record transactions and produce a monthly financial statement in a timely and accurate manner.

The cornerstone of any system of internal controls is segregation of duties—an effective structuring of checks and balances. Fewer people in the accounting office may result in a potential weakening of controls because fewer tasks can be done by different people. Conversely, having more bodies in the accounting office allows for a greater degree of segregation of duties and inherently more checks and balances and improved controls. For those clubs that can't dedicate the financial resources to the accounting office to accomplish the proper segregation of duties, adequate controls can still be established and maintained using alternatives, which may entail more involvement in—and oversight of—the accounting and control processes by the general manager and/or treasurer. Another possibility would be to outsource certain accounting and control procedures (payroll processing, lock box systems for cash receipts, etc.) so that limited resources could be devoted to other tasks.

Internal Controls Manual

As a first step in the process of determining whether the club has adequate internal controls, the club should prepare an accounting and internal control procedures manual that details the major financial areas in narratives, including all applicable forms the club uses for sales, payroll, purchasing, cash disbursements and cash receipts.

Once the manual is completed, have it reviewed by persons with an accounting background to ascertain whether the controls are adequate. The controls in the various areas should then be tested to ensure that they are functioning as stated and as intended. To the extent desired and considered necessary, the club should enlist its outside accountants in this process. And, of course, management's role is critical in this effort to institute and document controls and create an environment of awareness of everyone's responsibility in carrying out the controls.



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Q How can the club president do an effective job of reviewing the general manager's performance? How do you measure success in the GM review?

A General manager reviews are often a difficult process when conducted by board presidents, most of whom are successful executives but do not have a deep understanding of the club business. These volunteers may not be aware of the many job skills, business and political nuances, and situational dynamics the general manager faces in the private club environment.

The GM review requires the club president to evaluate the GM's performance on behalf of the board and membership and generally then determine a potential pay modification and assign value to a "performance bonus." These discussions can be challenging and sometimes awkward between both parties, because they are generally rife with strong opinions—which invariably lead to disagreements and conflict.

Performance Management Plan

To effectively review the GM's performance, the club president should develop a comprehensive performance management plan with the general manager so all parties understand and agree upon performance expectations. The president should encourage and expect the general manager to align the performance expectations with the club's vision, mission, strategic plan, annual business plan and budget. With this plan in place, the general manager has clear and measurable goals, and the president has a standard against which he can evaluate and monitor the GM's performance.

It is also important that the review not be considered one meeting, but rather an ongoing process in which the president continuously assesses and gives feedback on how both the club and the general manager are performing. Communication is also critical. Formal and informal progress meetings and discussions should be held with the general manager throughout the year. These should be honest and concise conversations to ensure that both parties are in sync and stay in sync on the direction of the club and club operations. In our experience, presidents may underestimate how much the general manager appreciates and wants this feedback. Also, general managers can and should use this opportunity to communicate their thoughts regarding what is going well and what isn't, and, if necessary, recommend actions to correct the issues.

This process of providing assessment and encouragement to the GM on behalf of the board is central to building an excel-

lent flow of information and trust and demonstrates support for the GM. General managers want to feel as if they are working in partnership with the board. However, that may not always be the case, and divisions in expectations can often result in distrust between club leadership and management.

Open Communication

The true success of the GM review is measured not only by the GM's ability to achieve the results agreed upon in the performance management plan, but also by the partnership that is forged between the president and the general manager. A fundamental principle of the review process is that there should be no surprises. Open communication and clear understanding of the expectations can prevent surprises and help address issues immediately. This is also a critical time for the general manager to discuss the struggles the management team faces and their approaches to tackling problems.

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The rapport between the general manager and the president is a club's most vital relationship. It must be well managed and requires mutual trust and understanding. A disconnect between management and board direction is one of the most common reasons behind GM turnover. Planning ongoing evaluation and effective communication can not only help improve the GM's performance and longevity, but can also fuel a club's success. ■



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