



ROBYN STOWELL



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Sticker Shock

Employee Fraud and Theft

Fifty billion dollars per year! That's the amount employees steal from U.S. businesses annually. The fraudsters are not your typical bad guy – roughly 87 percent are first-time offenders with clean employment histories.

They are your good employees! They have often been with the company for years and are hard workers. In many cases, the employee repeatedly diverts small sums of money over a period of time, making the theft extremely difficult to detect. In over a quarter of these cases, the employee theft continues over a period of more than five years. Wow!

What have we seen? Club employees use club credit cards for personal expenses – and the (former – fired) GM told them they could because it was part of their “bonus.”

And employee stole from the pro shop and resold equipment on eBay and Craigslist. The catering manager approved invoices for more food than delivered and accepted a kickback from the vendor.

The manager “hired” fictional employees and collected their pay. An F&B manager ran a catering business supplied with food from the club's kitchen.

How does this happen? Why do first time offenders steal from their employer?

It's estimated that 10 percent of employees will always steal, another 10 percent will never steal and, for the remaining 80 percent, it's a matter of risk and opportunity. So, what is a club to do?

Be as unappealing a target as possible! How? Have good policies, processes and training in place so that employees know the risk outweighs the opportunity!

Many clubs find background checks beneficial during the hiring process. This is particularly important for managers and many accounting and IT roles.

It's not a panacea, however, because fraudsters terminated by a previous employer were often not prosecuted.

These bad actors aren't prosecuted because typically there are no funds left to recover and, frankly, embar-

rassment. We have yet to see an embezzler stash the money in a bank account, and board members don't want it known that it happened on their watch.

A good path forward starts with the board of directors. Each director owes the club a duty of due care.

The board should ensure that the club has well-defined (and documented) policies, training and processes in place.

Some work environments allow bad employee habits to continue, with a variety of ways to use or take club resources. There is a mentality of “everyone does it.” Do not allow this type of environment to continue.

Well-managed clubs often have a policy of mandatory vacations for all management positions. During this time away, someone else should perform all that manager's duties. If anything is amiss, it can be discovered during this time. This policy's other added benefit: it requires and promotes cross training so that more than one person knows how to do a job.

Strict policies for every employee with purchasing authority or invoice approval can help. These can include a “conflict” policy (they cannot purchase from family and friends), a no-kick-back policy, and a second-signor requirement.

This applies to catering, pro shop, etc. Another option is to limit purchases to a management-approved vendor listing. This can help eliminate fraudulent invoices and vendor kickbacks.

Cash handling and accounting policies are important. Restricting cash access and member credit approvals to those who do not post to accounting records precludes an individual employee from having the required access to perpetrate certain frauds using accounting entries.

Consider your physical plant. Do employees have a designated entrance with their parcels and bags restricted to their locker room? Do you use clear trash bags and security cameras?

family-first activities and farm-to-table food sourcing.

As with past generations, certain truths will be borne out for Millennials. Private clubs will be most important to Millennials as they reach the child-rearing years when they want personalized instruction and safe havens for those dear to them.

Joining fees will be difficult so clubs must find reasonable solutions for inviting new members – Millennials – to join. Like generations before them, Millennials are still young enough that they often have invested most heavily in education, housing and career-launching. Funds for initiation fees are limited and clubs must find tactics that resonate with this new demographic.

Brand and brand management will be new tasks for board members and club managers.

Private clubs are often among the most brand reliant businesses in town. And, they are often the least brand savvy businesses. Club leaders and managers have sometimes overlooked the power of a club’s brand. Clubs that become brand experts will enjoy new-found competitive advantage in 2018.

Superior standards of operation, energetic and accessible family activities and innovative programs will give outdated brands new life. Since 2011 a flight to quality has become a primary point of importance for new club members.

When asked to invest substantial joining fees, new members look for quality as an indicator of value. This trend has rewarded top-performing clubs and managers while punishing those mired in mediocrity.

For private clubs, 2018 can be a good year filled with increased engagement, relevance and new members when new communications, member recruitment and brand management are implemented. **BR**

These changes can help stop merchandise and food from walking out the back door. Pay special attention to liquor storage and access.

Underage drinking issues can result in significant problems and liabilities for your club.

Consider all operating areas where policies can help protect the club. Potential areas of focus include segregation of duties (dual review or approval bank and account records, approving check runs), electronic banking (how wires are approved and how they are not), physical plant (restricting employee entrances, bags and lockers), inventory (tracking, double counting), and ordering and contracting policies (management approved vendors or dual approval of invoices).

The club should have thorough and recurrent employee training, in which employees are reminded of the club’s zero tolerance policies. Make these policies clear in the employee training and handbook.

There are many policies that the club can put in place to avoid employee fraud and theft. Each club should regularly review its policies to ensure the club is protected. **BR**

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