14 Finance and Accounting Best Practices to Improve Your Operations

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Best Practice #1 – Monthly Review of Operating Results

General managers should always conduct monthly reviews of operating statements with department heads.

In order to ensure that the club meets the financial objectives of its annual operating budget, it is imperative that all department heads monitor their monthly performance closely and be prepared to answer questions about their department’s performance and give reasons for any significant variance from budgeted amounts.

On a monthly basis after the final statement is prepared and distributed, the controller should set up a schedule of meetings for department heads to meet with the general manager and controller to review their department’s performance. When attending this meeting department heads must be prepared to present plans to remedy significant or ongoing shortfalls in revenue or overages in expense categories.

The general manager’s ongoing interest in meeting performance expectations and the requirement that department heads explain, and remedy significant variances or adverse trends sends a strong message regarding the importance of meeting budget. Establishing such a monthly review of operating performance is a management discipline well worth implementing (see PCPM, Insights and Ideas, Performance Management- An Essential Discipline for Success for more detail).

Best Practice #2 – Monthly Analysis of Expense Accounts

There are many expenses in a club operation, and everything changes over time. Therefore, it's a good idea to have a thorough and up-to-date understanding of the club’s cost structure.

Each month the controller should undertake a review of one expense account. This is done by analyzing the general ledger detail for that account to better understand the specific expenses that contribute to the overall expense line.

If there are any recurring expenses that contribute to the expense line, these should be looked at in detail. Recurring expenses should be analyzed over time to ensure the expenses billed are correct and in line with similar comparable services or with original quotes. In cases where the expense is significant, it may be helpful to price the service with other vendors to see if the cost can be lowered.

The controller should coordinate with the general manager to determine which expense categories should be reviewed. Generally, those expense accounts with large amounts will be the highest priority. Utility accounts should also be given high priority due to ongoing fluctuations in utility pricing – especially phone service.

When this type of in-depth analysis of expense accounts is done routinely, the club keeps a closer eye on its significant expense categories and continually strives to ensure the lowest cost for the desired quality.
Best Practice #3 – Real Time Accounting of Revenues and Expenses

If you have bottom line responsibility for your club or department, your success or failure is entirely up to you. It is your responsibility to meet your budget, made up of revenues and expenses. While the accounting department prepares monthly financials so you and your bosses can monitor your performance, why wait until the middle of next month to see how you’re doing?

The simple expediency of tracking your revenues by transferring your daily sales numbers from your point-of-sale reports to a spreadsheet will allow you to see if you are on track to meet revenue projections. Such daily monitoring allows you to intervene to promote sales now instead of when it’s too late.

The same principle applies to your expenses. Monitoring your payroll and other expenses as they are incurred, as if you were writing the checks out of your personal account, allows you to monitor your expenses now, as opposed to later when you’ve missed your budget.

The Tools to Beat Budget program is designed to do just that – track your numbers in real time! Once set up, it takes but a few moments a day – which, in the final analysis, is one of the most important things you can do to ensure your success.

For more information on tracking revenues and expenses in real time see PCPM, Insights and Ideas, Real Time Accounting - A Compelling Best Practice for Club Profitability.

Best Practice #4 – Tools to Beat Budget Improves Ease and Accuracy of Budgeting

For most bottom-line managers budgeting season is a significant pain. Every year they must forecast revenues, project their cost of goods sold and payroll, and budget their operating expenses. The process is time consuming; and it always seems to come at a time when the manager is pressed with ongoing operations and other urgent issues. The good news is that there is a better way!

Recognizing that the best predictor of the future is the recent past, the Tools to Beat Budget program establishes the discipline of:

- tracking daily revenues on a week-by-week basis,
- benchmarking and analyzing cost of goods sold on a monthly basis for departments with retail sales,
- recording the details of payroll cost on a pay period basis, and
- detailing other operating expenses monthly.

The beauty of this discipline is that at the end of the year, all this information is in a three-ringed binder – available to the manager at his or her fingertips to create next year’s budget.

There are even some managers who take their operating results month by month and build their future budget as they progress through the year. Come budget time, their budgets are pretty much done – and they breeze through budget season without breaking a sweat.

See PCPM, Insights and Ideas, Zero-Based Budgeting - Tools to Beat Budget.
Best Practice #5 – Who’s Sandbagging Their Budgets?

Most of in the club business are familiar with the term “sandbagging.” Wikipedia gives the following definition:

“Sandbagging (golfing), a player deliberately plays poorly until establishing a handicap and then raises his money bets, using the established handicap to unfairly win.”

But the term also has a budgeting connotation, no doubt lifted from the golfing world, as can be seen from an alternative definition:

“Sandbagging (budgeting), a manager deliberately overstates financial requirements with the intent of coming in under-budget, thus being praised (or rewarded).”

It is certainly natural for any manager to “pad” his or her budget to allow some wiggle room in a process that is fraught with uncertainty. I’ve done it and I’m sure everyone else has as well.

But it’s important that we try to create as “honest” budgets as we can. One way to promote this honesty is to benchmark actual-to-budget performance by department on an annual basis. The controller simply needs to track annual variances line by line and compare them year-to-year. When this is done it’s easy to spot the sandbaggers.

Benchmarking budgets and using Tools to Beat Budget are two ways to improve the honesty and accuracy of budgeting. Instead of paying out incentives to managers who beat budget, it may be better to reward a combination of beating budget and budget accuracy. This will go a long way toward taking the sandbagging out of the game.

See PCPM, Insights and Ideas, Annual Budgeting Disciplines - An Essential Element of Performance Management for an easier and more accurate way to budget.

Best Practice #6 – Controller Outreach

John was the longstanding controller at an exclusive private club. When the new general manager made the rounds of department heads to assess the state of the operation, John had a long list of complaints about the other department heads and their failure to meet accounting deadlines for payroll, inventories, and accounts payable. In particular, he said that invoices were not coded correctly requiring an inordinate amount of his time to research and correct before he could pay them. Lastly, he said that some department heads and supervisors seemed to have no understanding of basic accounting and financial management … and trying to get them to prepare proper budgets was a nightmare!

The new general manager listened patiently to this litany of problems and then responded, “So what are you going to do about it?”

Taken aback by this response, John mumbled, “What do you mean?”

“You’re the controller – the club’s subject matter expert on all matters of financial accounting and management – so stop complaining and do something about it. For starters, do you have written standards, policies, and procedures for accounting?”

“Uh . . . no.”
“Well then get busy writing them and don’t forget to include detailed instructions of how to properly code invoices and develop an expense dictionary. And it wouldn’t hurt to start holding classes to teach the other managers how to do things and what your expectations and deadlines are. You’ve got my complete support, so let’s get to it. Just keep me informed of any issues and problems … and oh … make sure you invite me to all your classes. I need to learn too.”

At first John was offended and irritated that the entire burden for straightening out this mess fell on him. But the more he got into it, the more he realized that he could either complain or fix the problem. So, over the course of the next six months John outlined and wrote a comprehensive series of accounting standards, policies, and procedures; met with department heads to better understand their concerns and issues; and taught a series of 15-minute classes on accounting at the weekly staff meeting. Eventually, he incorporated all the class materials into a workbook entitled Basic Accounting and Financial Management for Managers, which was used to train new managers and supervisors.

By year’s end most of John’s issues were resolved, and the entire accounting flow was smoother and more efficient. During his performance review for John, the general manager commended him for his initiative, hard work, and execution of the project. Not only did John get a major pat on the back, but he received an unexpected bonus for the improvements in all areas of the club’s accounting function.

John’s lesson learned: Never complain; always occupy yourself with solutions.

Check out the PCPM Marketplace store for these helpful resources:

- Club Accounting Standards, Policies, and Procedures
- Basic Accounting and Financial Management for Managers
- Accounting on the Go

**Best Practice #7 – Invoice Coding Standards**

Correct and accurate coding of invoices by all purchasing managers would greatly reduce the workload of controllers thereby permitting them to focus on other pressing issues and assisting department heads and the general manager with accounting outreach programs.

Coding Standards for all invoices include:

- Using a coding stamp ordered by the controller.
- Entering the month to which the expenses will be charged.
- Entering the general ledger account code from the club’s chart of accounts.
- Entering the corresponding total dollar amount to charge to each account code.
- A detail notation indicating what the charge(s) are for.
- The coding manager’s signature or initials.
- The date the coding takes place.
Best Practice #8 – Improve Expense Coding Consistency

In order to maintain consistency in the classification of expenses, responsible managers must ensure that they code consistently. While most expenses are self-evident and easily classified, some unusual or one-time expenses require careful consideration. For example, poster board and magic markers purchased to make posters advertising upcoming events – should they be expensed to office supplies or marketing expense?

Where they are expensed is not nearly as important as consistently classifying them in future periods. When expenses are not consistently coded or miscoded, it misstates the performance of the department, is misleading when trying to identify problems, and will be misleading when using the misstated numbers as historical records to create the next year’s budget. To ensure that expenses are classified consistently, the coding manager should create an Expense Dictionary.

An Expense Dictionary is nothing more than an alphabetized journal (purchased from an office supply store) where the coding manager notes all expenses as classified. In short order the Expense Dictionary will include all normal and ongoing expenses. As unusual and one-time expenses are classified by account name and number, the manager will record the classification in the Expense Dictionary. Should the same or similar expense be incurred in the future, the purchasing manager will refer to the Expense Dictionary and know exactly which account to code the new expense.

In lieu of using an alphabetized journal, managers can record the same information alphabetically in a spreadsheet. In either case, the Expense Dictionary is a handy reference to assist the coding manager in consistently coding expenses.

I would also recommend that your club purchase the Uniform System of Financial Reporting for Clubs, 6th revised edition by Raymond S. Schmidgall, Ph.D., CPA, which contains an expense dictionary for common club expenses. Search the web to find where it can be purchased.

Best Practice #9 – Overtime

Some years ago, I took over a hotel operation that was failing for a host of reasons. As I began to dig deeper and deeper into its problems, I discovered that the previous year the hotel had amassed over $150,000 in overtime pay. While this was a concern, I understood that some level of overtime is necessary, and in many cases is the appropriate response to sudden spikes in work or the unexpected absence of employees.

But what I discovered next was truly appalling – that no one was questioning, or even monitoring, overtime hours. At the next staff meeting as a priority, I directed every department head to monitor, control, and report overtime hours to me on a pay period basis. Almost immediately, we cut overtime hours in half, with further improvements in subsequent pay periods as managers began to analyze and revise their staffing schedules.

Pay close attention to your overtime on an ongoing basis, question each department head on why they have overtime, and challenge them to find a better way to organize and staff their workload. Excessive overtime is a premium cost you don’t have to incur.
Best Practice #10 – Control Overtime with Pay Period Change

If ongoing high levels of overtime plague your operation, you might consider changing your pay period to bi-weekly with the workweek starting on Friday and ending on Thursday. It will almost effortlessly reduce your overtime.

Here's how:

- Given the overtime pay requirements of the Fair Labor Standards Act that stipulate non-exempt employees are paid time and one half for all hours worked over 40 in a week, start your work weeks on Friday to have your historically busiest days of the week (Friday, Saturday, and Sunday) early in the period.

- This way, if you incur employee shifts of greater than 8 hours on those days due to high business levels, you can adjust schedules or send employees home early on your traditionally slower days (Monday through Thursday), thereby avoiding overtime costs. Over the life of an operation, this could potentially save hundreds of thousands of dollars in overtime pay.

There is a further benefit in this workweek pertaining to the best practice of benchmarking your payroll costs. See PCPM, Insights and Ideas, Five Human Resource Best Practices for more information.

Best Practice #11 – Gain a Deeper Understanding of Your Operation with the Executive Metrics Report

Every month the general manager sits down with the club’s financial statements to analyze the club’s operating performance and to see if the club met its budget.

The challenge with the summary financial statements has always been trying to figure out the exact nature and cause of declining sales, as well as out-of-line expenses. While the financial statement shows revenues by department and category compared to budget, the general manager never knows for sure if the lower revenues are caused by less patronage (volume of business) or less spending (average check). Given that the solution to each of these problems is quite different, it’s important to know the actual cause or combination of causes.

Conversely, out-of-line payroll costs in each department can be the result of several factors, such as overstaffing, overcompensation, excessive amounts of overtime, or a combination of all three. Given the high cost of labor in our people-intensive business, even a small anomaly can have a significant impact on the bottom line.

While the necessary information to determine the causes of unmet budgets is available with a certain amount of digging, it is far better to present the information routinely as part of the financial reporting package and to track it over time – hence the benefit of the Executive Metrics Report. By regularly gathering the key underlying metrics of the operation during the normal course of the club’s operation, this detail is provided as part of the monthly financial statement and is compared month-to-month throughout the year.

Included in the Executive Metrics Report are the number of members by category, the major elements of the profit and loss statement, specific operational detail from each department, key
departmental benchmarks, staffing metrics, labor cost and overtime by department, as well as a few significant administrative and general expenses and benchmarks.

The concept of the Executive Metrics Report was developed to provide exactly the detail I wished to monitor month by month. Since each general manager may have his or her specific information needs, the Executive Metrics Report can be customized to meet the needs of any general manager and club operation.

Preparing the monthly Executive Metrics Report is simply a matter of deciding which information you want and organizing the spreadsheet to present it. Once set up, the effort involved is but a few hours or less per month. The knowledge gained, though, is priceless and helps all interested parties – the general manager, department heads, and the club’s board – better monitor and understand the underlying realities of their business (see PCPM Insights and Ideas, Benchmarking Operations – The Key to Understanding and Improving Your Club for more details).

Best Practice #12 – Assert Your Competence and Authority with Benchmarks

There is no better way to assert your competence and authority than to be conversant with a wide range of operational data. Such information is as useful to a head golf professional, golf course superintendent, clubhouse manager, dining room supervisor, chef, and controller, as it is for the club’s general manager.

But to have such information at your fingertips, ready for all challenges, requires that every club department benchmark their operations in detail. While these details are essential to the department head, important summary benchmarks must be forwarded monthly to the controller for inclusion in the Executive Metrics Report. This report is then attached to the monthly financial statement and forwarded to various board and committee members. Ultimately this information, tracked over time, educates board members and helps the general manager establish his or her authority while advancing the vision and agenda for the club.

Knowledge is Power! And the more knowledge you have about your operation, the more power and control you will have over the club’s direction and your own destiny. So, avail yourself of Club Benchmarking Resources available on the PCPM Marketplace store and start benchmarking your operation today!

Best Practice #13 – Labor Cost Benchmarking

Payroll cost, as we have said over and over, is the single largest expense in club operations. When asked why he robbed banks, the notorious bank robber Willie Sutton responded, “Because that’s where the money is!” Club managers, when looking for ways to control costs, should always look first to payroll costs – because that’s where the money is.

To paraphrase eminent 19th century British scientist, Lord Kelvin, “If you don’t measure it, you can’t control it.” If you don’t understand the details of your payroll cost in a formal way – that is with ongoing payroll benchmarking – you have no real understanding of what is going on with your labor cost and, therefore, no real way to curb abuses, schedule more efficiently, or control overtime.
Because of its importance and impact on the bottom line, general managers should insist that their department heads monitor their payroll daily. This will foster a keener understanding of their labor cost, help spot mis-punches or employees milking the clock, eliminate unnecessary overtime, and coincidentally make it far easier to budget for future periods (see PCPM Insights and Ideas, Benchmarking Operations – The Key to Understanding and Improving Your Club for more detail).

**Best Practice #14 – Benchmark Your Utilities**

Environmentalists have long pointed out that the cheapest alternative to ever rising energy costs is that of avoidance – of conserving energy. This applies to our homes, but increasingly is being looked at by businesses as a way of reducing or stabilizing these costs. It seems at every turn we are being encouraged to change our light bulbs, better insulate, shift demand to non-peak hours, purchase more energy efficient machines, or just turn off unneeded lights and equipment.

Whether you are currently considering new investment in energy-saving technologies or will wait until it becomes a financial imperative for your club, you will not be able to adequately determine the cost/benefit of any initiative without an understanding of the energy use at your club. Without this understanding any decision you make will be based upon wishful thinking or the rosy promises of vendors.

So now is the time to start benchmarking your utilities which is easily done by tracking your consumption and cost for electricity, gas, and water. It’s a simple matter of extracting this data from your utility invoices and putting them in spreadsheets month-by-month and year-by-year for each area of your operation for which you receive a bill.

Whether you plan to act soon to control energy costs or wait to some future time, these utility benchmarks will serve you well as you determine options and costs. Recognizing that “You can’t manage what you can’t measure,” I would say that it’s also true that, “You can’t improve what you can’t measure.” Start measuring your energy use patterns and costs now so that you can make those improvements when it becomes necessary.

See Club Benchmarking Resources on the PCPM Marketplace store for more information and spreadsheet examples.
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