



A Message from Ned

Tough times = Terrible temptations

Welcome to BFMM's World's Smallest Newsletter™, a quarterly communication about the Private Club industry that will be a source of useful insights and information to you. Our last edition talked about Challenging Times for Clubs. But how about the challenging times for Club employees? Economic pressures, job losses and cutback hours have all added to the financial pressure our Club employees are facing. And when this **pressure** is combined with **opportunity** and **rationalization**, the **Magic Triangle of Fraud** is created.

What can Clubs do to prevent the Magic Triangle of Fraud from occurring and possibly resulting in a significant embezzlement or other fraudulent activity? Unfortunately, the Club has little or no influence over the **Pressure** part of the Triangle.

This pressure felt by the Club employee will be out of the control of the Club. So, the Club needs to focus on the other two areas. **Rationalization** can be mitigated if the Club sets the appropriate "Tone at The Top" with a strong set of values and ethical behavior.

The most effective use of Club resources to prevent fraud and embezzlement is in the **Opportunity** part of the Triangle. If the **Opportunity** is not available, the ability to commit fraud is significantly reduced.

If I can answer any specific questions or provide additional information, please do not hesitate to call or email me.

See you at the Club,

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INTERNAL CONTROL TIPS

Reduce Opportunity with Sound Internal Controls

- Sound internal controls will include policies and procedures designed to ensure that the Club's directives are carried out and that actions are taken to minimize risks that threaten the achievement of the Club's objectives.
- Some types of internal controls are:
 - *Financial performance review of actual operating results to budgets*
 - *Comparison of actual weekly dining room hours to approved staffing*
 - *Physical control over assets that are easily misappropriated (cash, food, liquor, equipment)*
 - *Segregation of duties*



Ned McCrory and Pat Archambault of The Hope Club in Providence RI recently discussed internal control policies.

Fraud: It takes a “PRO.” Pressure. Rationalization. Opportunity.

Return Service Requested

Constantly monitor the Magic Triangle of Fraud:

- Be aware of pressures your Club employees may be under. This could be financial pressure from a job loss by a spouse, family medical bills, addiction to gambling, drugs or alcohol. Consider obtaining credit references and criminal background for management and financial positions.
- Reduce the ability to rationalize this fraudulent activity by setting the proper “Tone at The Top.” The Board and management should act with integrity in all discussions and policies. Conduct periodic risk assessment analysis to identify potential flaws in internal control.
- Insure that your Club has strong internal control policies and procedures that are being followed. These policies need to be written. If not, they're really not policies, just Club folklore.
- This will allow your Club to replace the **Magic Triangle of Fraud** with the **Triangle of Sound Internal Control of People, Policies and Monitoring.**

And remember...Trust is **not** an Internal Control!

