



Improving Your Financial Knowledge in Today's Economy For Non-Financial Managers

Michael E. Criscione, Principal

April 22, 2009

*Lefkowitz, Garfinkel, Champi & DeRienzo P.C.
Certified Public Accountants/Business Consultants*

Introduction

More than 20 years experience working with For-Profit small business and Not-For-Profit organizations.

Providing attest and consulting services to:

- Skilled Nursing and Assisted Living Facilities
- Home Health and Hospices Agencies
- Voluntary Health and Welfare Agencies

Goals

- Understand your business
- What does theft/fraud mean to my business
- Better understanding of some “Basic” financial steps you can do to reduce theft/fraud
- Awareness of financial reports and analyses that can help you understand your business operations
- What you can do to prevent/deter theft/fraud



Understand your business

- **What services do you provide?**
 - Basic services (room & board)
 - A la cart options (house cleaning, homemaker, transportation)

- **Who are your payors?**
 - Private pay
 - Medicaid & other

Understand your business

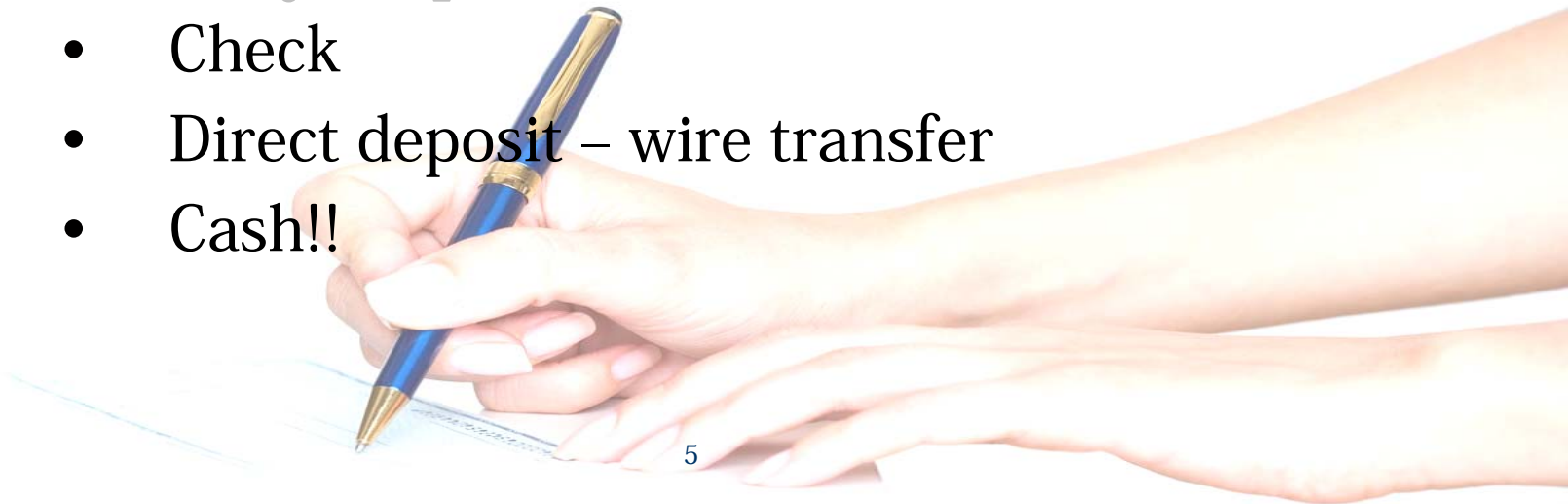
(continued)

How are your services recorded?

- Daily census (room & board)
- Hourly or specific charge (day care, homemaker)

How are you paid for these services?

- Check
- Direct deposit – wire transfer
- Cash!!



Understand your business

(continued)

How do you make money?

- How is revenue generated?
 - # on units times rates
 - Security deposits
 - Vacancies
 - Bad debts and concessions
- What are your expenses?
 - Fixed (mortgage interest, insurance, management)
 - Variable - controllable (payroll and benefits, food, supplies, advertising)
 - Variable - non-controllable (snow removal, utilities)



Theft & Fraud

- *Theft/fraud – represents pilfering, larceny and embezzlement.*
 - is an intentional deception made for personal gain or to damage another individual.
 - is the crime or offense of deliberately *deceiving* another in order to damage them – usually, to obtain property or services unjustly
- Potential causes:
 - Misplaced trust (actual and perceived) with employer
 - Lax hiring and supervision of employees
 - Failure to implement basic financial controls (policies and procedures) and segregation of duties

Theft & Fraud



Association of Certified Fraud Examiners – Estimates that the typical small business will lose an average of 6% of revenues from employee theft.

Attard Communications – On average, it takes 18 months for an employer to catch an employee who is stealing. Most employee theft comes to the attention of the employer either by another employee or is revealed by accident.

Home Health Line – Fewer than 40% of Home Health executive directors ranked themselves as “strong” in areas of accounting, budgeting and financial planning.

Thoughts

- Are you concerned of the possibility of theft or fraud within your business?
- Do you feel you have the financial attributes to discover theft or fraud in your business?





“Basic” Financial Steps to Reduce Theft/Fraud

**Read and review monthly bank statements.
Do you:**

- Receive copies of cancelled checks or have access to on-line banking
- Know your vendors and the amounts paid
- Know your employees and their payroll
- Understand when cash is received (i.e., beginning of a month versus the end)

Preventive steps:

- Have the bank statements mailed directly to your home address
- Make sure the bank statement cuts off as of the end of a month

“Basic” Financial Steps to Reduce Theft/Fraud

(continued)

Read and review monthly payroll reports/journals.

Do you:

- Know your employees names, average pay check amount and hours worked
- Know total hours worked each payroll cycle, including overtime

Preventive steps:

- Cross-train staff to handle vacations
- Policy and procedures for payroll rate changes and set up of new employees



PAYMENT RECORD

“Basic” Financial Steps to Reduce Theft/Fraud

(continued)

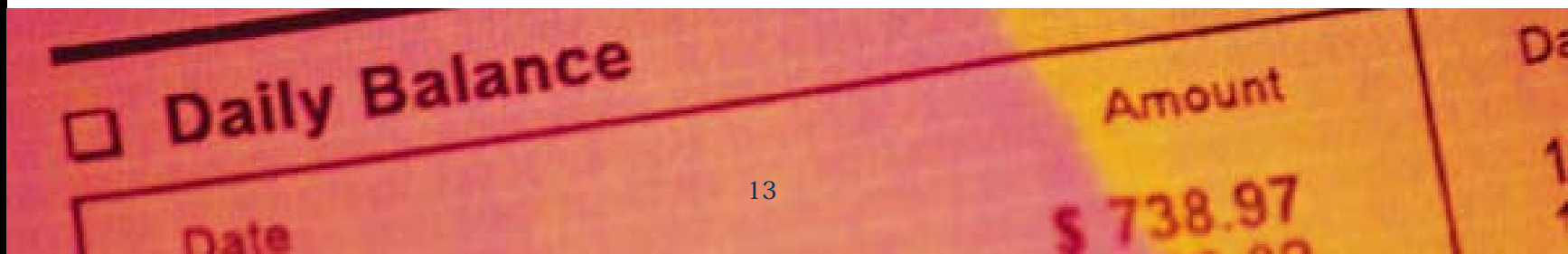
Read and review all mail – checks received.

Do you:

- Understand when payments for services are received
- Know how many checks/direct deposits should be received each month

Preventive steps:

- Use a “for deposit only” stamp on all checks received
- Create a log of amounts received
- Do not accept cash



“Basic” Financial Steps to Reduce Theft/Fraud

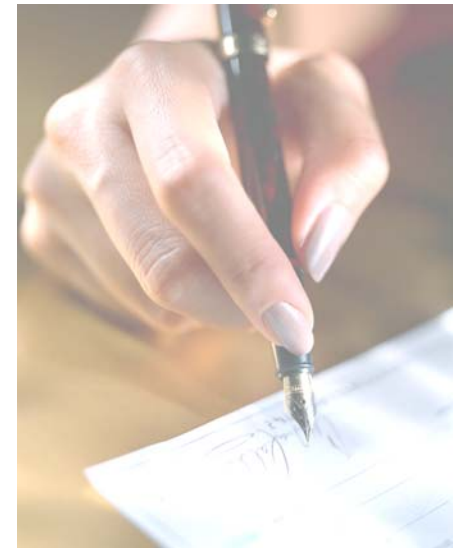
(continued)

Read and review all vendor payments and invoices.
Do you:

- Know your vendors and what goods or services they are being paid?

Preventive steps:

- Sign all checks – avoid using a signature stamp
- Make sure all checks are numbered consecutively
- Return signed checks to someone other than the individual that prepared the checks
- Require all checks over a certain \$ amount to require 2 signatures
- Never sign a blank check



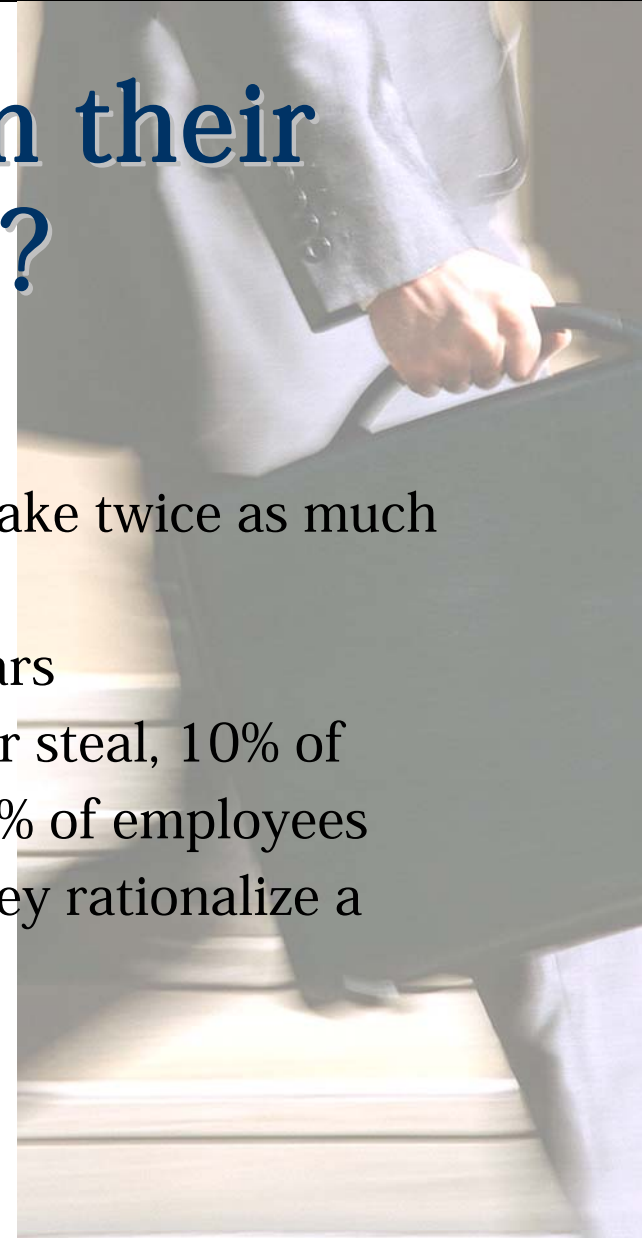
Thoughts

- Avoid at all cost having a single employee handling and controlling all the finances of the business.
- No one employee should record and process a transaction. Example – do not allow the same employee who does billing to collect the mail, prepare the bank deposits and reconcile the bank statement.
- Separation of duties is **critical**.

Who steals from their employers?

- Younger employees under 35
- Older employees, that do steal, tend to take twice as much as a younger employee
- Long-term employees – more than 3 years
- 10-10-80 rule – 10% of employees never steal, 10% of employees will steal at any time and 80% of employees will go either way depending on how they rationalize a particular opportunity

BE ALERT!!



Financial Reports & Analyses

Read and review monthly Profit & Loss Statement

- Represents the business operation's activity – revenue and expenses for a given period of time (month, year)
- Two types
 - Cash
 - Accrual

Financial Reports & Analyses

(continued)

Cash

Strengths: easy to capture data, less complex

Weaknesses: can distort information (i.e., a cash receipt is received late or a vendor check payment is delayed), revenue and expenses do not match

Need to Know:

- When billing is done – beginning of month, previous month or end of month for next month
- The average amount of cash received each month (know the # of units and rates) and occupancy level
- When vendor bills are paid – what bills are required to be paid every month (payroll, mortgage interest) and other bills based on payment terms
- Compare gross potential of revenue to cash collected and obtain reasons for differences



Profit & Loss Statement – Cash Basis

Room and board	\$ 2,400,000
Other (house cleaning, homemaker, transportation)	100,000
Interest income	<u>1,000</u>
	<u>2,501,000</u>
Payroll	1,600,000
Employee taxes and benefits	200,000
Food	100,000
Interest	150,000
Supplies	10,000
Insurance	50,000
Management	100,000
Maintenance/snow removal	20,000
Utilities	50,000
A&G	<u>20,000</u>
	<u>2,300,000</u>
Net Income	<u><u>\$ 201,000</u></u>

Financial Reports & Analyses

(continued)

Accrual

Strengths: better matching of revenue with expenses, less unusual patterns

Weaknesses: more complex – need to record receivables and payables, income/loss could be distorted due to the untimely recognition of uncollectable receivables

Need to Know:

- Gross potential revenue each month (# of units times rates) and occupancy level
- Expenses:
 - Payroll and related – largest - hours worked, overtime situations, average pay rates and impact of vacations
 - Food, interest, insurances and A&G
- Why there are bad debts or concessions
 - Does not represent anticipated/approved allowances (i.e., accept \$1,200 instead of \$1,500 monthly rent)



Profit & Loss Statement – Accrual Basis

Room and board	\$ 2,600,000
Other (house cleaning, homemaker, transportation)	80,000
Interest income	<u>1,000</u>
	<u>2,681,000</u>
Payroll	1,600,000
Employee taxes and benefits	150,000
Food	100,000
Interest	150,000
Supplies	10,000
Insurance	50,000
Management	100,000
Maintenance/snow removal	20,000
Utilities	50,000
Depreciation	50,000
Bad debts and concessions	100,000
A&G	<u>20,000</u>
	<u>2,400,000</u>
Net Income	<u>\$ 281,000</u>

Thoughts

	CURRENT PERIOD	YEAR-TO-DATE
INCOME		
Fee Income	\$178,231.12	\$554,397.36
Client Expense Income	\$123,556.65	\$326,953.79
Sublease Rental Income	\$1,332.00	\$5,326.00
Interest Income	\$577.05	\$2,344.35
TOTAL INCOME	\$303,726.82	\$1,069,023.49
EXPENSES		
Administrative Costs/Expenses	\$6,500.00	\$26,600.00
Communications Expenses:		
Advertising	\$1,000.00	\$4,000.00
Postage	\$8,000.00	\$31,000.00
Telephone	\$245.99	\$1,122.78
FAX	\$0.00	\$233.36
Total Communications Expenses	\$2,159.62	\$6,300.82
Employee Expenses:		
Associates Salaries	\$18,731.25	\$68,820.00
Staff Salaries	\$21,967.01	\$86,472.00
Employer's Taxes	\$4,551.72	\$24,063.54
Group Benefits	\$5,375.74	\$16,534.98
Contract Services	\$2,924.65	\$5,116.60
Travel	\$1,000.00	\$4,000.00
Professional Expenses	\$1,000.00	\$4,000.00
Insurance, Tax & Fee Expenses:		
Workers Comp	0	(\$144.67)

- What type of profit & loss statement would work better for you and your operations?
- What questions or concerns do you have?

Financial Reports & Analyses

(continued)

Read and review Balance Sheet

- Represents the assets, liabilities and equity (net assets) of a business at a given point in time
- Two types:
 - **Cash**
 - ✓ Understand why significant balances change from month to month
 - Cash
 - Property and equipment
 - Debt – mortgage and loans
 - Excludes accounts receivables, prepaids, accounts payables and accruals
 - **Accrual**
 - ✓ Understand why significant balances change from month to month
 - Cash
 - Receivables
 - Property and equipment
 - Liabilities
 - ✓ Compare accounts receivable and payables to supporting detail reports



Balance Sheet

Cash	\$ 300,000
Receivables	200,000
Prepays	25,000
Property, plant and equipment	3,500,000
Accumulated depreciation	<u>(1,500,000)</u>
	<u>\$ 2,525,000</u>
Accounts payable	\$ (25,000)
Accrued liabilities	(100,000)
Mortgage payable	(2,000,000)
Distributions	50,000
Equity	<u>(450,000)</u>
	<u>\$ (2,525,000)</u>

Financial Reports & Analyses

(continued)

Read and review Annual Budget

- All business should have an annual working budget – anticipated revenue and expenses.
- Completed and approved before that year begins.
- Contents:
 - Expected revenue – the planned rates and occupancy levels by month for the year
 - Expected expenses – need to consider impact of changes throughout the year
 - ✓ *Payroll increases*
 - ✓ *Vendor inflation*
 - ✓ *Efficiencies and savings*
- Need to identify non-expense items
 - Purchase of equipment and furnishings
 - Distributions to shareholders
 - Principal repayment of debt – mortgage, line of credit, capital leases

Financial Reports & Analyses

(continued)

- Request the participation of managers/department heads. Have them be involved and responsible for outcomes.
- Compare budgets to actual every month/quarter.
- Request explanations of budgeted amounts to actual amounts.
- Explain how material variances will be corrected going forward. Potential change to budget.

Financial Reports & Analyses

(continued)

Buying or Leasing/Financing

- Consider
 - Purpose of purchase and plans for replacement
 - Availability of cash or borrowings
 - How long will you retain item(s)
 - Technology changes

Buying

- Advantages
 - No future interest charges
 - Fixed cost – no surprise/additional charges in the future
 - Ability to sell
- Disadvantages
 - It is yours – might be outdated over time
 - Out of pocket cash, that could be used for operations

Financial Reports & Analyses

(continued)

Leasing/Financing

- Advantages
 - New technology (computers, copiers)
 - Dependable (automobile)
 - Return item at the end – no charge

- Disadvantages
 - High interest rate
 - High buy out at end
 - Extra charges for overages (miles, copies)



What can YOU do to Prevent/Deter Theft & Fraud?

Create a “Positive” work environment
(Open lines of communication, employee recognition)

Implement controls and procedure
(Separation of duties)

Access to physical and financial assets and information
(passwords and limitations)

Hire honest employees
(Background checks)
(Be alert to disgruntled or stressed employees)

What can YOU do to Prevent/Deter Theft & Fraud?

Educate your employees on policies and procedures
(Provide operating manuals and open discussions)

Implement an anonymous reporting system
(Hot line, mailbox for ideas and suggestions)

Have an independent check of the financial records

Investigate all incidents of violations of policies and procedures
(Let employees know you value policies and procedures)

Lead by example
(Everyone is accountable for their actions)

Have the proper level of insurance coverage (crime, employee theft)



Good Luck!!



Questions and Comments

Michael E. Criscione, Principal
Certified Public Accountant

mcriscione@lgcd.com

www.lgcd.com

10 Weybosset Street · Suite 700 · Providence, RI 02903 · 401.421.4800 · 800.927.5423 · fax 401.421.0643