

Common Sense Management Could Save Your Business

By Thomas H. Chappell

The majority of articles that I have read concerning the analysis of risk in business are focused upon insurance. The message is do a good job developing a complete insurance program and you will eliminate the effect of loss on your business.

Since I make my living selling insurance, you may think what I say next is a bit strange. Well, here goes. No business, whether it is a single aircraft or a commercial aviation operation, can totally hang its hat on insurance as a sole remedy to the potential of loss. In fact, it is just a small portion of the solution. So what is the cure?

In an effort to offer a greater service to our clients, the risk management team at CS&A is undertaking a study of the effect of risk on business owners, whether they own an aviation-related business or a general business. Although the two business sectors are not exactly the same, the similarities are significant, and practices learned in one sector may be overlooked but applicable in the other.

As an example, accounting practices may be the Achilles' heel of all businesses. Oh sure, you can purchase "employee dishonesty insurance." But does that really solve the problem? We know the exposure to employees stealing money, inventory, records, valuable papers, trade secrets, etc., from their employer is a real problem in American business. It has been in the past and is today. With the hard economic times that we are currently experiencing, this problem may grow larger. If you purchase insurance for this exposure, what did you buy? In the event of a loss, your insurance company will investigate. The company may require that you prosecute the accused employee. The insurance company will reimburse the business only for those sums that can be proven. Every occurrence must be proven. In one case, a new tire dealer had an inventory shortage of more than 1,000 new tires. With the help of the police and private investigators, the business was only able to prove its employees stole four tires. The insurance company paid for the four tires. In this case it was tires. It could have been aircraft parts, tools, equipment, or money.

Most business owners say their accounting personnel are trustworthy and have been in their jobs for many years. "They would not steal." Of course they wouldn't. But if they did, you would have to prove each occurrence in order to be reimbursed by your insurance policy.

Feeling a little nauseous? Well, you should. Employee dishonesty is one of the most undiscovered losses to business in the United States. Undiscovered, that is, until it is too late. And it is a shame because good management practices can solve much of the problem.

How? Require that your accounting personnel take a vacation each year. I question if one week is enough. A two-week vacation will require that someone be cross-trained

well enough to do the bookkeeper's or accountant's job. Let's refer to this as a discovery period. You know, just to make sure.

No accountant or bookkeeper should have check signing authority. I don't care how indispensable they are or how badly it will hurt their feelings. You cannot allow such an exposure.

All businesses larger than a small sole proprietorship should require dual signatures. In no case should one of those signatures belong to anyone in the accounting arena.

Deposits are another problem area. The person who opens the mail should not be the same person who prepares the bank deposit. Again, I can offer several firsthand examples where duplicate bank accounts were opened by the person receiving checks. You can guess what was happening.

Most of us are honest and, as a result, we just don't think like a crook. In my wildest dreams, I could not come up with some of the plots to defraud that I have seen perpetrated on clients and friends over the years. I can tell you this: Although "employee dishonesty insurance" is important, good management practices in handling your accounting department, your product inventory, and your equipment are risk management practices that are priceless and cost you nothing.

Where to start? Call your accounting firm and request an audit of practices. At Chappell, Smith & Associates, Inc. we have taken on the task of studying and creating a variety of risk management practices that can be combined with insurance products to help you more completely avoid loss. We'll keep you informed about them in future articles. →