

# THE ENEMY WITHIN – *LOSS FROM THE INSIDE OUT*

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>>> They are your partners that you've know for 20 years; your life-long friends (even a Godchild) who become employees; your accountant; and/or your program director or office manager. They are trusted but end up not being trustworthy. They are the enemy within and they are robbing us blind.

After recent conversations with two gyms about their theft problems, USA Gymnastics decided to ask other gym owners, "Have you ever been a victim of fraud or embezzlement?" Twelve gyms responded and that's likely just the tip of the iceberg. Here's what we discovered after hearing their stories and some suggested steps to take.

## **Common Denominators (at the time of the thefts)**

**Gym Size** = 700–1,500 students (exception – one gym had about 300)

**Gross Income** = \$500K - \$3M – only one had \$250K - \$500K

**How many involved** = The larger thefts involved at least 2 people working together

**Red Flag/s** = Those involved had financial problems on a personal and/or professional level, i.e. they never seemed to have any money and/or they owned other businesses in financial trouble. In one instance, they seemed to live above their income, i.e. lots of private lessons for their kids in the gym, expensive vacations, etc.

**Gym Expansion** = Several of the instances occurred after a gym expanded to a larger size or a second location.

## **Variables**

### **How they did it**

- \* Cash received: some pocketed, some turned in so it wouldn't be too obvious
- \* Cash received but seemed to "disappear"
- \* Payroll funds, including tax withholding funds, diverted to personal accounts and/or multiple payroll checks issued for the Guilty Party (GP)
- \* Credit card refunds issued to the GP's personal account, but reported as refunds to clients ("Oh! I accidentally charged their card twice, so I refunded them.")
- \* Bills paid for the company owned by the GP's husband to vendors that they both used, so it wasn't obvious
- \* Personal bills paid with gym checks/credit card
- \* Checks taken and deposited into personal accounts instead of the gym account, but logged into gym's Accounts Receivable showing the client account paid
- \* Payroll records changed to increase salary by 50% and/or changed from hourly to salary
- \* Checks taken in for the gym, but deposited in the booster account (very similar names) to which the GP had full access and check writing privileges.

- \* Took a sheet of three checks from deeper in the checkbook, so the numbers would be more advanced. Wrote them as payroll checks to the GP.

- \* Checks written for legitimate bills, but never mailed

#### **How Much**

- \* Less than \$1,000 to almost \$500,000 or the gym client database

#### **How Long Lasted**

- \* Ranging from several months to 2 years

#### **Holes to Plug**

#### **Avoid...**

- \* Naming your Booster Club a similar name to your Gym Club

- \* Unnecessarily tempting honest people with weak internal controls. You owe it to them as well as to yourself to have very tight controls, particularly over cash.

#### **Steps to Take...**

- \* Keep check-signing authority to yourself if possible. If not, have different people in charge of check signing and check writing.

- \* If you allow someone else to write checks, make sure the bank statement comes to your home address.

- \* Password protect your database and/or whatever you use to track accounts receivable and payables.

- \* Run background checks on anyone who will handle money.

## **“Have you ever been a victim of fraud or embezzlement?”**

- \* Giving too much power to one person
- \* Giving money access to employees who are obviously having personal financial crises (calls from creditors at work)
- \* Keeping someone on the staff just because they “came” with it, i.e. buying a gym business and assuming the office manager or accountant that “come with it” is trustworthy
- \* Giving company credit cards to employees – have them get it from you and return it with receipts
- \* Getting sentimental about keeping someone on staff when you start to question what he/she is doing. This is the hardest. “She had kids in the gym.” “Their kids work in the gym.” “She has kids.” As gym owners we know it always comes down to the kids. But it can be used against us, too. Know when to just let go.

- \* Trust your instincts! If your gym seems as busy as (or busier than) normal but you are being told money is short for bills or payroll, don’t just wonder why, start checking why.
- \* If you get a letter from the IRS and when asking stuff about it, you get told “It’s been taken care of,” don’t just believe it. Call the IRS personally.
- \* Build in checks and balances by requiring bills to be shown for every check written; review payroll for extra checks; use a logging system for checks and cash received and then have a separate person compare them to the daily deposits AND the database of receivables.
- \* Question refunds through credit cards. Don’t hesitate to check with the client if need be.
- \* If you notice that you have very little/few cash deposits,

question it! LOTS of people pay in cash, even hundreds of dollars. The statement that “people have been only paying with checks or credit cards” just isn’t true.

- \* Be tenacious about your working culture. Don’t let someone else start dictating a different way of working that goes against your grain or your instincts. It’s YOUR gym. They work for YOU.
- \* Just because someone is the son or daughter of a gym

- \* Cross train your employees so you don’t have to stress or worry if you find it necessary to let someone go.
- \* Compare checks written (i.e., the bank statement) to your accounting system records. Question questionable payees and payments.
- \* Be unpredictable in checking your gym’s finances, i.e. decide “out of the blue” that you want to compare logs or past-paid bills to checks written, etc. When they think you aren’t

## “As gym owners we have a LOT on our plates”

owner, doesn’t mean they are trustworthy. Just because you have known someone for 10 or 20 years doesn’t mean they will make great partners or will be trustworthy. Just because someone worked for the previous owners doesn’t mean they are trustworthy. Ask questions; check references; run background checks, and if you want to enter into a partnership, insist on a credit check, which must include their other businesses.

- paying attention is when they start to figure out how to deceive you. If they don’t know when or why you may ask for a certain report or when you may share front desk duty, they may decide it would be too hard to deceive you.
- \* You should always be on the lookout for a hole in your system of checks and balances. Try to figure out what “you” would have to do to steal money and PLUG THE HOLE.
  - \* Seriously consider hiring an outside accountant or auditor to

check your books and/or do your taxes. It's liable to cost a lot less than what you could be losing and not know about. Many small accounting firms could do this well.

- \* Stay involved with your gym. You may only want to coach team and leave the paperwork to others, but that leaves you open to deception.

associated with team competitions! No wonder our brains are so fractured that our guards are down when it comes to money. We want to trust just like we have one less thing to worry about. Plus, it's human nature to trust the people we rely on just like we want parents to trust us with their children. Unfortunately, it looks like we can't.

USA Gymnastics produced a great booklet titled "Best Practices for the Gymnastics Business." There is SO much good

## **“Gym owners want to trust just so we have one less thing to worry about.”**

### **Conclusion**

As gym owners we have a LOT on our plates – constantly dealing with hiring and losing good staff; trying to retain good people; being good leaders/roll models; being good coaches ourselves; hiring properly (both legally and to find/attract the best instructors); and avoiding the unpleasantness of eliminating bad coaches or staff. And that doesn't even touch on how to attract and keep kids in the gym and the details

information about going into the business with your eyes open, how to staff, how to arrange equipment, hire and keep staff, and even Risk Management. This article supplements the booklet and could be a future chapter entitled "How Not to be Robbed Blind." ✖

*Post Script: We owe a debt to the gyms who shared their stories. They've taken the arrows in the back for us. Thanks "guys!"*