

## **Playing With Numbers: Vendor Accounting**

**T**he first thing to understand about your on-site service provider's accounting and financial reporting system is that, as the client, you're entitled to complete and accurate, comprehensive reports, provided in a timely manner.

Even if yours is a self-sustaining service, (the operator takes all risk of profit or loss, such as a dining service or other retail concession), you're still entitled to know how well the operation is performing and the operator's financial return. If yours is a cost-plus contract (your organization pays all costs plus a management fee), the importance of accurate, timely reports is even more important; it's essential.

### **Basis for Decisions**

Whichever type of contract you have, there are decisions to be made that affect your operations – the scope of services, operating hours, equipment, staffing levels and, not least, budgets. Good decisions require good information and you have to rely on your outsourced service vendor to provide it.

The second thing to understand is that the financial statements weren't prepared for you; they're a byproduct of the vendor's internal accounting system. Some contractors' financial statements are clear and concise. Others are opaque and may include unfamiliar or vague terms, such as "Special Services."

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As the client, you have a right to see and understand the contractor's financial statements.

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Vendors frequently omit a column of budget figures for comparison to actual revenue and costs. You'll have to look into your own budget data to see whether the service is on or off track. It will be better for you to insist that the vendor includes month and year-to-date budget figures alongside actual results.

### **Looking Deeper**

What's behind the numbers you see on the financial statement? All the detail of transactions that make up each line in a month's statement are in the general ledger.

The GL is the heart of any accounting system. If you require your vendor to provide the GL along with the operating state-ment, you can verify both the revenue (if any) and charges made to your account. The GL can appear daunting, but it need not be, although for a large operation, it can run to 15 or 20 single-spaced pages.

You can receive the GL electronically, so you don't have a stack of pages cluttering your desk. And, it's easier to store each months' GLs for future reference – such as, whether an overcharge in one month has been credited in the next month.

Typically, all the transactions that make up each line in the statement are grouped by the statement line item. For example, if you think the cleaning supplies cost seems high, you can scroll down to that section and find each item that made up the charge.

### **Beware Journal Entries**

A journal entry is a charge or credit in-serted into a GL income or cost category by the accounting department, usually to correct an error, but sometimes to insert a cost, such as an overhead charge that you may not find acceptable. It pays to ask the purpose of the entry.

If you give even a cursory scan of the GL and question your vendor's management about the operating statement, you will find the statements will be more accurate, because they know you're watching.

*The next article in this series will discuss planning and vendor accountability.*

*Clarion reviews and analyzes on-site vendor statements as a part of our dining and hospitality operations evaluations. For information, contact Tom Mac Dermott, 603/642-8011, Angela Phelan, 973/544-6223 or Ernie Wilder, 703/282-3030, or e-mail us at [info@clariongp.com](mailto:info@clariongp.com).*