

Viewpoint

Forget the Ides of March. Beware your contractor's accounting.

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You would think that when a company has grown to be a public, international, multi-billion dollar giant, its accounting and financial reporting systems would be pretty good, if not perfect.

If you were thinking about the giants of food service contracting, you'd be wrong, at least about accounting at the level that's important to you, their client.

Operating statements submitted to clients by the "big three" food service contractors are as likely to contain errors as a third grader's arithmetic homework. The third grader has a teacher who will correct the errors and help the child do better.

Operating statements go straight to clients as they come out of the computer. There's no teacher checking for accuracy.

I regularly review major companies' operating statements for six clients and occasionally for several others. When I question the on-site manager, district manager or even the accounting manager, I find I'm the first person to notice an error, although the statement had passed through all those other hands first.

Contractor accounting departments need a third grade teacher in the room.

There are two kinds of errors. Accidental – someone hit the wrong key or forgot to add something in. Most commonly, you'll find inaccurate or missing operational statistics, like customer counts.

At one client, the vacation accrual charge on the operating statement nearly doubled. The accountant had forgotten to add the prior year's expense to that year's statement, and so just stuck it into the next year's statement; no notice, no explanation and of course, no apology – until asked.

The other kind of error can only be found by digging. We review the general ledger, the document that lists all the transaction that make up each line on the statement. We sometimes find interesting entries.

- A "dry" company was being charged for liquor liability insurance.
- A college's "free" signing bonus was charged back to the client in the meal plan board rate.
- More than once, charges for staff specialists supposedly covered by the management fee were buried in places like temporary labor or employee benefits.

Even if yours is a P&L contract (contractor has all financial risk), it's worthwhile to review the operating statement and the supporting GL document. Whenever you see something odd, ask – and confirm the answer. It'll pay off.

Tom Mac Dermott

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