

Internal Controls - a key ingredient to success!

Few restaurant and franchise owners would cite internal controls among the key ingredients to success. However, restaurant internal controls are crucial to operating a self-reliant business and minimizing financial mistakes and threats.

Restaurants tend to experience higher instances of theft and fraud than many other types of businesses. This is largely due to the quick-service nature of transactions in a fast-paced industry, where theft is not immediately noticeable. Effective oversight and process controls are essential to managing these risks and mitigating the negative impacts of fraud. Although proper segregation of duties may not always be possible in smaller organizations, there are ways for restaurants and franchisors to meaningfully reduce these risks.

The number of possible internal controls for any business are many and wide-ranging. However, there are two processes that are a good start to accomplish your goals of minimizing risk and reducing the likelihood of fraudulent activities: cash and financial statement review.

Cash controls are obvious! Internal controls over cash is paramount to keeping your cash safe and properly accounted for. The best control is management's regular monitoring of the bank and investment accounts. Other controls include separation of duties, using the two-person rule to receive cash and process payments, and using a limited number of signers for the checks. When these controls are properly implemented, the restaurant / franchise owner can feel reasonably assured that cash is safe, and in the right hand.

Like proper safeguarding of cash, the financial statement review is an important and useful tool for



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identifying possible fraudulent activities. It is a prudent business practice to reconcile all financial statements at least once a month. This means digging into all subledger accounts and making certain that all numbers are correct and reconciled. It is fairly easy for an employee to conceal an accounting error if no review is taking place. Performing a monthly financial statement review will provide the restaurant or franchise owner better insight and control of the business and its financial implications.

A well-defined internal control structure will help reduce the risk of asset loss and ensure that financial information is complete and accurate. Strong controls provide additional credibility to lenders and potential investors and serve to reinforce the fact that you have a stable and well-managed business with accurate cash flows.

Staying on top of internal controls is critical when it comes to maintaining a healthy business. If you are looking to add that extra ingredient to your restaurant's success, we offer a comprehensive range of services to address business challenges and opportunities for improving efficiency and profitability. Our team of highly skilled professionals can help your business navigate these challenges and embrace emerging opportunities.

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Gordon is a Partner and the Director of Audit Services at RJJ. He has over 30 years of experience, including 20 years at a Big 4 firm. In addition to leading the audit practice at RJJ, Gordon has performed numerous internal control evaluations, Sarbanes-Oxley engagements, in addition to various forensic and litigation support projects. Gordon can be reached at (949) 852-1600 or at gmaclean@rjicpas.com.

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