

Leo's Four-Plex Theater

Teaching Note

Purpose of Case

This case is intended as an in-class, “warm-up” case. It is particularly useful on the first day of class where students cannot be made to prepare a longer case prior to class. The case motivates the students (1) to think about the meaning of good control; (2) to consider a number of different forms of controls; (3) to think about the design vs. the implementation of the various forms of controls; and (4) to consider costs in their recommendations.

Questions

1. Where is the theater's control system lacking? Are the controls themselves weak or incomplete, or are the theatre's problems caused primarily because of lack of discipline in using the existing controls?
2. What control improvements would you suggest for Leo's Four-Plex?

Analysis

I recommend starting the discussion by asking students to list the controls discussed in the case and the purpose of each. That will lead to the preparation of the chart shown in Exhibit TN-1 below. Then the discussion can move into the analysis of the problems and possible solutions:

1. *The cashier's collect less cash than the value of the tickets sold (or missing).* The common solution is to make the cashier's pay for the shortage, or at least have shortages comprise a significant portion of the employees' performance evaluation.
2. Some refreshment stand sales seem to be lost because the attendants do not collect cash from the customers (perhaps their friends). There are several possibilities here. One is better direct supervision. Another is separation of duties between the person who rings up the sale and the person who delivers the refreshments to the customer. (The delivery would not be made unless the customer had a receipt.) A third is to hire more attendants from a different town because they would be less likely to know, and thus to collude, with the customers.

Professor Kenneth A. Merchant wrote this teaching note as an aid to instructors using the Leo's Four-Plex Theater case.

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3. *Tickets of the wrong color or wrong date are found in the stub boxes.* The ticket-takers must be reminded of the importance of looking at the colors and dates, and they must be held accountable for implementing the control properly.
4. *The manager is giving away too many passes, including some for unacceptable purposes.* The pass policy must be clarified, and the manager must be warned not to abuse the privilege. If the manager cannot be trusted, then he should probably not be the manager. The owner could get involved in approving the issuance of passes, but this is probably more costly than beneficial.
5. The ticket collectors are apparently admitting some friends who had not bought tickets. Supervision, or even better undercover surveillance, is probably the best solution. If ticket collectors are caught, they should be dealt with harshly to discourage others from engaging in the practice.

Exhibit TN-1
Leo's Four-Plex Theater
Controls Used at the Theater and their Purposes

Controls	Purpose
Color-coded and dated tickets	Ensure that the individual (4) theaters will not be oversold for any given showing
Serial numbered tickets plus cash count	Allow reconciliation between tickets sold and cash collected.
Turnstile	Controlled access to theater. Allow for ticket collection.
Locked stub box	Allow for reconciliation between tickets collected and attendance counts.