



SALT LAKE COUNTY AUDITOR'S OFFICE

JEFF HATCH
Auditor

June 29, 2009

Michele K. Nekota, Interim Director
Parks and Recreation Division
2001 South State Street, #S4400
Salt Lake City, UT 84190

Re: South Mountain Golf Course Audit

Dear Michele:

Recently we completed an audit of the South Mountain Golf Course. Our scope was limited to a review of internal controls over cash handling and depositing, change and petty cash funds, capital and controlled assets, and pro-shop merchandise inventory. It did not include issues of operational performance. Reference to any such issues is incidental to the scope just described. The objectives of our audit were to determine whether:

- Collections were handled securely and accurately to ensure complete and timely deposit into the bank.
- Credit card numbers were securely stored and accessed only by authorized individuals.
- Petty cash and change funds were maintained at authorized limits, and handled and secured to prevent theft or loss.
- Capital and controlled assets were located on the property and managed in a way to prevent loss.
- Pro-shop merchandise inventory was tracked at point of sale, available for sale, and periodically reconciled to help prevent theft from occurring.
- Concessionaire remittances to South Mountain Golf Course were made on time and according to contract terms.

The lead auditor was Larry Decker with assistance from Scott Tingley on the merchandise and golf cart inventory counts and reconciliation. Jim Wightman had administrative oversight of the audit.

In general, we were pleased with overall operations and management's concern that funds and County assets be managed to prevent theft, promote growth, and foster good customer relations. Our work at the golf course was designed to provide reasonable, but not absolute, assurance that the system of internal controls was adequate, records current, and daily transactions valid. Because we did not review all

transactions, any compromise of County asset integrity by individual employees may have remained undiscovered. Nevertheless, our objective was to exercise due professional care in reviewing controls in place designed to prevent theft, and in reviewing the substance and accuracy of selected transactions.

ACCEPTANCE OF CREDIT CARDS

South Mountain Golf Course experiences heavy credit card usage due to its frequent corporate-based clientele. Credit and debit card transaction processing is integrated within the golf course management system software, thus eliminating the need for a separate card-swipe terminal. A “cherry board” built within the cash register allows cards to be swiped, read, authorized, and charged in a single-step process. Our findings in this area were as follows:

- ***Full credit card numbers were stored in the server database and accessible by certain, authorized golf course managers.***

- ***A secure mode of data transmission, HTTPS, was implemented, but another unsecure data transmission connection, HTTP, could still be selected.***

- ***The system was not designed to enable credit card refunds, except during the current day’s business.***

Full credit card numbers were stored in the database and accessible by certain, authorized golf course managers. In last year’s Riverbend golf course audit, the Auditor’s Office found that full credit card numbers were stored on the server in County Information Services (I/S). These numbers are recorded at each golf course through a card swipe at point-of-sale terminals and transmitted to a server in I/S where they are stored. We confirmed during golf staff interviews and teleconferences with the software vendor that credit card numbers are encrypted on the database when stored in static state.

In our current audit, we also confirmed that the head professional and his first and second assistants at each of the six County golf courses have administrative rights to access a report containing full customer personal identifiers, including credit card numbers and expiration dates. If a request is made to print this report, the data is unencrypted prior to transmission. However, as a matter of routine, this report is not requested or printed at the golf courses. We found no hard copies of the report on file or otherwise at South Mountain Golf Course. In fact, the South Mountain Golf Course head professional was not aware he could access the report containing full credit card numbers, and he was not aware that any of his staff could do so either.

After consultation with I/S personnel and reference to Payment Card Industry (PCI) standards, we determined that storing full credit card numbers on the server was allowable as long as access was limited to authorized employees who had a need to view data and if encryption prevented access by unauthorized or malicious parties. If the server were stolen, or otherwise compromised, proper encryption would prevent viewing of account numbers.

We also noted that only truncated account numbers (the last four digits) were recorded on merchant hard copy and customers' receipts. Only the last four account numbers are printed, a practice that complies with PCI Standards of allowing the first six and last four digits to be visible, but masking the rest.

Access to and use of credit card numbers is a significant risk to the County because of liability incurred if they are exploited by unauthorized parties. However, the golf system administrator, who is also head professional at Mountain View Golf Course, felt that limited, authorized access was necessary in the event transactions are questioned and need to be researched by account number, or credit/debit card refunds are made after the date of sale and charges reversed related to a specific credit card number.

The software vendor's representative assured us that the current software version does encrypt individual account numbers on the database, and can transmit payment data to the County's third-party processor using Secure Socket Layer (SSL) encryption over Hypertext Transfer Protocol Secure (HTTPS).

A new, just-released, software version, 9.1, will provide further enhanced security features including:

- Restricted viewing of credit card numbers while still allowing for the report in which they are contained to be accessed, viewed, and printed.
- Encrypted passwords with encryption keys that can be regenerated or updated, and old keys discarded. In the current version, encryption cannot be changed.
- In addition, the new version, or version that follows, will provide for triple data encryption standard (3DES) protection.

In a version expected to be released later this year, all credit card numbers will be masked when they appear on screen. Full numbers will only be accessed by clicking on the customer's name. Names of employees who access these numbers will be logged.

RECOMMENDATIONS:

1. ***The new 9.1 version of the Active Golf software should be installed with assistance and direction from I/S personnel. With its new capabilities, viewing of credit card numbers should be restricted to the head professional and others whose access is deemed necessary for business purposes.***

- 2. If the new 9.1 version is implemented, authorization to view credit card numbers will be a lesser security risk and may be extended to the two assistant professionals once version 9.3 is released that masks these numbers.**

- 3. Any printed reports containing full credit card numbers and/or other personal identifiers should not be left unattended in full view and should be stored in a locked cabinet, drawer, or storage area.**

A secure mode of data transmission, HTTPS, was implemented, but another unsecure data transmission connection, HTTP, could still be selected. Also in last year's Riverbend Golf Course audit, our office found that transmission of data from the point-of-sale cashiering system to the server in the Internet-based management system and to the third-party payment processor was made over an unsecured socket layer using an HTTP address. Since that time, the transmissions have been made over a Secure Socket Layer (SSL) using HTTPS protocol, with standard 128-bit encryption.

Nevertheless, in the current version of Active Golf software, HTTP transmission is still available and cannot be disabled. However, as a compensating control, a shortcut icon is used to sign on to the system through the secure HTTPS connection and a cashier would have to manually enter the HTTP address to sign on using the unsecured transmission protocol. Both HTTP and HTTPS connections transmit data via the Intranet, thus, packet sniffing by a malicious party could occur in a HTTP transmission that would reveal credit card numbers.

County I/S personnel explained that efforts made a year ago to disable the http connection caused system inoperability, including cash registering functions, resulting in the need to again enable the HTTP connection. However, the vendor's representative explained that the 9.1 software upgrade has a box that can be checked during the installation configuration to disable HTTP connection capability.

RECOMMENDATION:

Once the new 9.1 software version is installed, the box should be checked that disables HTTP system connection and transmission capability.

The system was not designed to enable credit card refunds, except during the current day's business. Reversal of credit card charges, or refunds with the simple swipe of the card, cannot be made at the point-of-sale terminal except on the day of original purchase. For credit card refunds requested after the day of sale, the South Mountain Golf Course sends a request to the system administrator at the Mountain View Golf Course who then performs this task. South Mountain Golf Course personnel expressed frustration over this process, a task that requires several days and inconveniences the customer.

The system administrator at Mountain View Golf Course felt that if post-date-of-sale credit card refund processing was enabled or used, reports from the day of original purchase would be altered. However, the software vendor stated that original-day sales reports are not altered because of a refund on a later date. The amount of the original sale is preserved, and the refund is reflected only on the day it occurs. Moreover, to actually reverse the charge, the system administrator accesses the third-party payment processor's site, and not the Active Golf database. Only he and his first assistant have access to the third-party site.

In some cases, the System Administrator reverses credit card transactions by entering a negative amount in the cash register sale "amount" field. By doing this, the refund appears as a transaction that same day without reversing the charge from the original day of purchase. While this may effectively reverse charges in the cashiering system, it would not activate the refund process with the third-party payment processor, nor use the system in the way it is designed for accounting for credit card refunds.

In addition to the time required in this process, confusion could result in a check being issued instead of the charge being reversed on the card.

Countywide Policy #1210, "Refund of Payments through Debit or Credit Cards," Section 1.1 states:

"The refund of debit and credit card payments shall be accomplished by reversing charges on the same card on which payment was originally incurred."

Though refunds are infrequent and customers are encouraged to alternatively select another item from merchandise, the inability of cashiers to make credit card refunds at point-of-sale terminals not only creates confusion and loss of customer goodwill but also reinforces the need to have controlled access to credit card numbers in the Active Golf database for reference.

RECOMMENDATION:

Golf course administration should become familiar with and train golf course employees to use Active Golf software capabilities for processing refunds. A consistent, uniform refund process should be implemented to allow all golf courses to perform refunds, thereby eliminating the current procedure of processing these through only one or two employees at Mountain View Golf Course.

CASH HANDLING AND DEPOSITING

The point-of-sale terminal features "touch-screen" access to various menus and options, including existing golf course reservations. Green fees are pre-programmed into the system and automatically appear on-screen, based on options selected, thus eliminating the need to enter an amount for each payment. Bar-code tags attached to pro-shop merchandise are scanned to retrieve pricing information at the time of sale.

A “cherry-board” card-swiping device is located on top of the pop-out cash drawer. The device reads and transmits information from the card. There is no separate card-swipe terminal or phone line connection. The system also loads pre-paid credits onto gift cards and scans them when they are used for purchases. Our findings in the area of cash handling and depositing are as follows:

- ***The golf course management system produced inaccurate or unintended transaction totals and differing daily summary totals between different reports.***
- ***One employee, alone, balanced cash drawers and prepared the deposit without review from a second employee or supervisor.***
- ***Cashier overages and shortages were not recorded in an over/short log.***
- ***Deposits did not reflect actual collection counts.***
- ***Excessive overages and shortages occurred on two days without an explanation being documented.***
- ***Deposits were sometimes not timely in the off-season and deposit slip copies were not always included in documentation.***
- ***Transaction listings were not included in deposit documentation.***
- ***VOIDS were not properly documented, the system did not produce a receipt for “no cash” transactions, and deposit documentation was not stored in a locked area.***
- ***Credit card merchant copies in some cases differed from daily summary totals.***

The golf course management system produced inaccurate or unintended transaction totals and differing daily summary totals between different reports. The Auditor’s Office has known of this ongoing problem since software implementation. Nevertheless, it bears repeating and needs continued searching for a solution.

The cash register randomly produces transaction receipt totals that are a cent or two, more or less, than intended. For example, green fees of \$40 each for a foursome, including tax, might produce a total of \$159.99, instead of \$160. Reportedly, it always

totals \$40 if a single player pays. In the foursome example, if the \$160 is paid by cash or check, the cash register receipt totals only \$159.99, resulting in a one cent overage.

System errors flow through to the balancing and depositing process. "Total tendered" and "grand total," summary totals should match, but they differ by a few cents. On one day we examined, "total tendered" was \$1,573.39, but the "grand total" was \$1,573.48 or \$.09 over. Based on the "total" that golf course administrators have determined to be the most correct, golf course personnel have been instructed to use "total tendered" when balancing.

Reports generated for "total tendered" do not include a breakdown of receipts by cash and credit card totals, refunds, rain checks, and gift card redemptions, as the report generated on "grand total" does. However, to arrive at total collections for the daily balancing form, refunds, rain checks, and gift redemptions are first subtracted from the "total tendered," even though they are a component in the daily receipts breakdown for the "grand total" report, but not part of the "total tendered" report.

During our audit, the confusion created by this process became apparent when it was discovered that a South Mountain Golf Course professional used the "wrong" number (meaning the "grand total" rather than the "total tendered,") when he balanced. In reality, though, all summary totals should be the same, both "total tendered" and "grand total." His using the "wrong" number should not have made a difference. This discrepancy in totaling also confuses customers when they discover that their receipt is a few cents off the amount they paid. Customers curiously and even light-heartedly view their receipt and wonder about it being off by a penny or two more or less than they paid.

Cashiers are not likely to perfect or improve balancing if overages and shortages always occur because of system errors. Golf course administrators state that software programming inaccuracies are to blame. Sales tax is inconsistently calculated, thus creating these few cent differences.

RECOMMENDATIONS:

- 1. Golf course management should work with the software developers to achieve consistency between the customer receipt totals and the actual amount tendered.**
- 2. The software should generate reports that provide summary totals for use on the daily balancing sheet broken down by cash (currency), check, and credit card totals. The need to manually subtract refunds, rain checks, and other items to arrive at a balance sheet collection total should be eliminated.**

One employee, alone, balanced cash drawers and prepared the deposit without review from a second employee or supervisor. Either the South Mountain Golf Course head professional or his second assistant prepares the deposit. No one else verifies the deposit amount, or whether it agrees to the collection count. Dual

controls, with a second employee observing the deposit preparation, or a secondary review by a supervisor or other employee is a recognized best practice that ensures that deposits reconcile to daily receipts and prevents embezzlement or misuse of funds.

The South Mountain Golf Course has a relatively small staff that on many days is consumed with attention to customer needs. Therefore, they feel that another person cannot be spared for deposit preparation. Also, golf course personnel were not aware of the importance of an independent deposit reconciliation by a second employee.

Verification and reconciliation by another employee gains added importance when considering that the person preparing the deposit also balances each cash drawer. Each cashier counts their cash, places it in an envelope, writes the amount on the envelope, and "blind drops" it in the safe. However, they do not balance to system summary totals. The person preparing the deposit performs this reconciliation function. He opens the envelopes, counts the money, and enters the count for each cashier into the pre-formatted management system balance sheet. The head professional believes this "blind drop" helps preserve cashier integrity. However, the blind drop procedure does not allow each cashier the exercise of balancing out their own cash drawer each day, so they get little immediate feedback on how well they are performing their cashiering function.

Though we discovered no evidence of mismanagement of public funds, we note that one person, alone, preparing the deposit places him or herself at risk by performing this process without a secondary control. In the worst case, this could provide the opportunity for embezzlement or misuse of funds to go undetected.

RECOMMENDATIONS:

- 1. A second golf course employee should either directly observe the deposit preparation, or independently count the deposit, and compare this amount to the daily collection count. In either case, the second employee should sign the daily balancing documentation as evidence of his/her review.**
- 2. Pre-printed envelopes with amount and signature lines should be available for cashiers to enclose and drop the day's collections, and these envelopes should be attached to and filed with the daily deposit documentation.**
- 3. Deposit documentation should include a pre-printed form to compare each cashier's drawer count to that of the deposit preparer, indicating any differences.**

Cashier overages and shortages were not recorded in an over/short log. The County's standard over/short log, MPF Form 11, mentioned in Countywide Policy #1062, "Management of Public Funds," has long been an established practice at the County.

Countywide Policy #1062, Section 2.5.3 states:

“All overages and shortages, regardless of the amount, must be recorded and reported daily by the agency on MPF Form 11, CASH OVER/SHORT LOG.”

Golf course administrators felt that balance sheet detail of overages and shortages by the person preparing the deposit provided sufficient documentation. Also, the “blind drop” in use under the current cashiering procedure precludes the use of over/short logs by individual cashiers. However, without the over/short log, cashiers and managers do not have important and timely feedback of balancing outage trends that can help pinpoint needed corrections and/or additional training.

RECOMMENDATION:

Each cashier should maintain his/her own over/short log, either a MPF Form 11 or similar form, to provide a balancing record of each day the cashier opened a drawer.

Deposits did not reflect actual collection counts. South Mountain Golf Course deposited the amount recorded (total tendered with adjustments) not the amount counted. This allows for accounting categories, such as merchandise sales, to maintain the recorded amount without the need to adjust them for overages or shortages.

Currently, shortages are removed from the next day’s collections, or change fund, while overages are placed in the next day’s collections. An over or short transaction is rung into the cash register to document transfer of funds, and the receipt is included with deposit documentation.

Countywide Policy #1062, Section 2.5.5 states:

“Any overage in the accounts of an Agency Cashier will be deposited in the appropriate fund through the normal process of regular depositing.”

Countywide Policy #1062, Section 5.2 states:

“Shortages will be withheld from the deposit to maintain the change fund at the authorized level.”

While overages and shortages are accounted for in the next day’s collections, this practice falls short of the benefit derived in recognizing and tracking overages and shortages in the same day’s deposit.

RECOMMENDATION:

The amount deposited should reflect the count of daily collections. Funds should not be added to or taken away from the next day's cash drawer to make the deposit equal the recorded system summary totals.

Excessive overages and shortages occurred on two days without an explanation being documented. We noted the following excessive overages and shortages in our testing of a sample of 30 deposit days from April 22, 2008 through April 21, 2009:

- 5/8/08 - Overage of \$90
- 5/8/08 - Shortage of \$32
- 7/5/08 - Shortage of \$80
- 7/7/08 - Shortage of \$42

Countywide Policy #1062, Section, 2.5.3 states:

"When a significant shortage or a pattern of shortages occurs in the accounts of any cashier, the agency shall conduct an investigation."

Overages are typically the result of cash register input errors. Shortages in these cases were due to temporary employees not understanding cash register functionality.

In particular, the head professional explained the \$80 shortage as a difference in the number of players presenting themselves to play than originally scheduled. In this case, two fewer players than originally scheduled were present and paid. The system placed the two no-shows in a suspense account. The cashier then closed out the account improperly at the end of the day, causing the no-shows to be shown as paid.

Deposit materials did not include explanations for these excessive overages and shortages. Moreover, golf course staff had difficulty bringing them to mind because of the time that had elapsed. However, after recalling these instances, personnel did state that shortages were investigated, and the cashier, a temporary worker, was instructed in proper cash register usage and particularly the handling of situations where fewer than the number scheduled to play actually present themselves and pay.

RECOMMENDATIONS:

- 1. Seasonal cashiers should receive adequate training in cash register operations, particularly transactions that may not be routine or straightforward.***
 - 2. A note should be included in deposit documentation to explain significant overages and shortages.***
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Deposits were sometimes not timely in the off-season and deposit slip copies were not always included in documentation. An armored car service used from April through October delivers deposits to the bank. Otherwise, golf course personnel perform this task. In the off-season, collections are very low or not made at all on many days. Therefore, delivery to the bank may not be timely as required by County policy. Despite this situation in the off-season, we noted a deposit slip in high season dated July 7th that the bank posted July 14th.

Countywide Policy #1062, Section 3.7.2, states:

“As required by Section 51-4-2, Utah Code Annotated, all public funds shall be deposited daily whenever practicable but not later than three days after receipt.”

Also, 10 of 30 deposit days tested did not include a copy of the deposit slip in documentation.

Countywide Policy #1062, Section 3.7.7, states:

“Each deposit should include [a]... duplicate copy of the deposit slip.”

The golf professional who prepared these deposits included an armored car service receipt, felt this was sufficient, and was unaware that the duplicate deposit slip should be included.

RECOMMENDATIONS:

- 1. Deposits should be made no later than three days after collections are received. There should be greater awareness of timeliness issues in the off-season when the armored car service is not operating and collections are low.**
- 2. A deposit slip copy should be included with all deposit documentation.**

Transaction listings were not included in deposit documentation. A listing of each transaction for the day to support recorded totals in the balancing and depositing process is standard accounting best practice. A detailed transaction listing can be used to research errors or questions about summary totals. Throughout the County, offices and divisions, including recreation centers, place transaction listings in their deposit documentation. In standard practice, these are referred to as Z-tapes.

When asked about the absence of a daily transaction listing, South Mountain Golf Course personnel challenged the necessity of retaining hard copy listings. They reasoned that all transactions are saved in the Active Golf database and can be viewed on-line. However, a printed list provides a snapshot at the point of deposit preparation and an auditable record if on-line data is lost or altered. Moreover, a detailed transaction list provides a backup source for reconciling the daily summary total.

None of the golf courses include detail transaction reports in deposit documentation. One reason is their extraordinary length, as long as 40 pages on any single day, representing about 500 transactions, each transaction requiring 3 lines of data. Also, they contain complete customers credit card numbers, which from our perspective should preclude their being printed at this point. However, a transaction report with fewer fields, and without complete credit card numbers, should be developed to cut down on paper usage, while at the same time providing backup for summary totals.

Currently, golf course personnel pull their system totals from an inventory summary report titled the "Item Sales Summary." This report shows the amount paid in different accounting categories, such as "Adult 9 Holes," but does not list each transaction. As mentioned in a previous finding, this report includes the "total tendered" and "grand total." The totaled tendered, less various non-cash items, is the amount transferred to the daily cash-balancing sheet.

RECOMMENDATIONS:

1. ***An abbreviated, less-lengthy daily transaction listing should be developed with assistance from County IS and the vendor and included with documentation to support summary totals used on the balance sheet.***

2. ***A less-lengthy transaction listing excluding or masking credit card numbers, should be produced that includes:***
 - a. ***Transaction number***
 - b. ***Date***
 - c. ***Brief description of item sold***
 - d. ***Amount of transaction***
 - e. ***Cashier name or ID***
 - f. ***Type of transaction, cash, check, or credit card***

VOIDS WERE NOT PROPERLY DOCUMENTED, THE SYSTEM DID NOT PRODUCE A RECEIPT FOR "NO CASH" TRANSACTIONS, AND DEPOSIT DOCUMENTATION WAS NOT STORED IN A LOCKED AREA. Void slips were not signed by the cashier, reviewed or signed by a supervisor, nor was an explanation for the void included.

Countywide Policy #1062, Section 3.5.2.2, states:

"When it is necessary to void a receipt...the cashier who initiated the void will document on the front of the voided receipt the cause of the voided transaction and its resolution. A supervisor not involved with the transaction will review and sign the voided receipt."

The cashier should document the reason for the void on the front of the receipt and sign the receipt.

The head professional at South Mountain Golf Course was aware of this finding from last year's Riverbend Golf Course audit and has been taking action to ensure required documentation.

In addition, "no cash" transactions were not documented, reviewed, or signed. In fact, the system does not produce a receipt to document these transactions. A "no cash" transaction occurs when the cash drawer is opened but no sale or transaction takes place. Funds could easily be stolen and would not be easily discovered barring a printed receipt for these "no cash" occurrences.

In addition, deposit packets, meaning one envelope for each day's deposit documents, were stored in an unlocked closet that is hidden, yet accessible to the public. While there is no apparent risk of credit card numbers being compromised, because they are not printed, deposit documentation is sensitive enough that it should be locked up.

RECOMMENDATIONS:

- 1. Cashiers should sign and mark their void slips as "void," supervisors should review and sign the void, and an explanation should be written on the voided receipt.**
- 2. Software should be programmed to enable a receipt to be printed for "no sales" transactions, in the situation where the register drawer is opened and closed, but no sale takes place.**
- 3. The closet for storing deposit documentation should be locked at all times.**

Credit card merchant copies in some cases differed from daily summary totals. The sum of merchant credit card receipts on file for August 26, 2008, did not match daily summary totals. Of four cashiers who worked that day, receipts for two of them did not match summary totals. One cashier's receipts were \$107.76 less than his summary total, and the other cashier's receipt totals were \$48.99 more. The shortage could have indicated missing receipt copies, and the overage an undocumented voided transaction. On a busy day, approximately 150 credit card receipts could be processed and on file.

South Mountain Golf Course personnel do not add individual receipt copies because it is onerous, and they feel the current software with its credit card system integration capabilities renders any reconciliation unnecessary. However, receipt copies that do not match summary totals could indicate improper accounting or noncompliance with Countywide cash handling policies.

RECOMMENDATION:

Individual credit card merchant copies on file should be verified against credit card summary totals.

IMPREST FUNDS

Both change and petty cash funds were at authorized limits when we counted them, and both had the same custodian as shown on Auditor's Office records. The change fund is divided into various bags to accommodate different shifts of employees and more than one operating cash register. The custodian and cash recipient signed all petty cash vouchers and no sales tax was paid on purchases. Our finding in this area is as follows:

- ***The petty cash fund was maintained in an unlocked box.***

The petty cash fund was maintained in an unlocked box. While the box is secured inside a locked safe when not in use, employees other than the petty cash custodian, who do not have authorization to access the petty cash box, could gain access to it. These employees have a key to allow them entry into the safe.

Common practice throughout the County is to maintain petty cash in a combination-lock box.

RECOMMENDATION:

A combination lock box should be acquired for securing petty cash, and should still be locked in the safe when not in use.

CAPITAL AND CONTROLLED ASSETS

The South Mountain Golf Course has two property managers, one for the clubhouse area and the other for grounds maintenance. The second assistant golf professional has been designated the clubhouse property manager. The grounds maintenance property manager reports administratively to the Parks Department, directly. Previously, golf carts were considered capital assets, but are now controlled assets since the capital asset threshold increased to \$5,000 in 2002.

Appropriately, 84 new golf carts, purchased for about \$4,300, each were entered into the controlled asset inventory in February 2009. To the golf course's credit, we noted that controlled assets lists were in place and ready for our review, and care had been taken to tag items listed. Our findings in the capital and controlled assets area are as follows:

- ***A few capital and controlled assets were not on the premises at the time of our count, including a lawn mower considered stolen, and some assets that were on the premises but not listed or tagged.***
- ***Controlled asset inventories were not documented.***

- **The property manager for grounds maintenance did not have a copy of the capital or controlled assets list in his possession.**
- **The “Controlled Assets Form – Employee” was not being used to account for equipment or assets use by specific employees.**
- **Serial numbers were not always included on the controlled assets list.**

A few capital and controlled assets were not on the premises at the time of our count, including a lawn mower considered stolen, and some assets were on the premises but not listed or tagged. We searched for all 66 capital assets assigned to the South Mountain Golf Course as listed on the AFIN 0801 Capital Assets report maintained and generated by the Auditor’s Office Accounting and Operations Division. Table 1, below, shows items from the list that were not on site:

County Tag #	Description	Comments
98382	2003 Kubota Utility Tractor	Being used by Old Mill
98402	Riding Greens Aerator	PM-2 on file for transfer to Old Mill
98404	Riding Greens Aerator	PM-2 on file for transfer to Old Mill
97955	Push type Greens Mower	Being used by Meadowbrook
18704	Ford DRW cab-chassis truck	Located at Parks Office
18704	Knapheide Platform flat bed	Located at Parks Office
97292	Cushman Sand Pro	Being used by Old Mill
97303	Gas operated golf cart	Location/existence not confirmed
95062	Cushman Truckster Utility Vehicle	Location Unknown Location/existence not confirmed

Table 1. Capital assets not on-site.

The property manager could not recall the gas-operated golf cart and Cushman Truckster utility vehicle ever being on site. He felt these items could be at another golf course and listed in error at South Mountain. Regarding equipment being used at other golf courses, no Form PM-3 was on file to document their loaned status. The property manager had knowledge of their whereabouts, which was confirmed. However, without completion of the Form PM-3, this equipment could be lost or stolen, especially if the property manager no longer worked at South Mountain Golf Course. Also, we noted some equipment where the tag was worn or faded due to use.

We did search for and locate all 84 golf carts listed. However, instead of including all other 243 controlled assets in our count, we took a sample, and from this sample found the following items, in Table 2, on page 16, were missing from the premises or not tagged.

Parks & Rec Tag #	Description	Comments
KR5506	Jacobsen B40 Blower	Being used at Meadowbrook
KR5576	Tru Cut 21" Lawn Mower	Considered stolen
KR0037	Garland Charbroiler	Found in kitchen but no tag

Table 2. *Controlled assets missing or not tagged.*

Grounds maintenance personnel told us they suspected the Tru Cut 21" Lawn Mower was stolen by someone outside the County, though this theft was not reported.

Countywide Policy #1304, "Discovery and Reporting of Thefts," Section 1.1 and 1.1.1 states:

"Any employee having knowledge or reasonable suspicion of the loss of property, funds, or services through criminal activity shall take the following steps as quickly as possible...the employee's division administrator or designee should be notified immediately...The division administrator notified by the employee shall then notify the appropriate law enforcement jurisdiction, District Attorney's Office, and the Auditor's Office."

The following items in Table 3, below, were found on the premises, but not included on the controlled assets list or tagged.

Tag #	Description	Comments
None	John Deere 2500B Precision Cut Greens Mower	Newly purchased. Not on list.
None	Orange Mower	Old Crowne property equipment.
None	Golf Cart – Serial # 513520	Old Crowne property equipment.
97286	Intermediate Reel Mower	In the "bone yard"
97309	Gas operated golf cart	Located in golf cart barn
97305	Gas operated golf cart	Located in golf cart barn
None	Golf ball dispenser (green)	Located outside golf cart barn

Table 3. *Items that need to be included on the controlled assets list and/or tagged.*

The "bone yard" referred to in Table 3, above, was an area on the property where worn and rusted equipment, much of it overgrown with weeds, was intended for transfer to County surplus. The Crowne equipment and intermediate reel mower were located there. Because of inattentiveness and neglect, this equipment could be stolen and the County would lose what little salvage value is left. Therefore, the benefit of sending this equipment to surplus, which the property manager stated he is already planning, is apparent. The property manager stated that Crowne equipment, transferred to the County in the golf course acquisition over 10 years ago, has not yet been sent to surplus because it does not appear on any County assets list. This is indicative of a lack of understanding of Countywide policy.

Countywide Policy #1125, Section 4.3 and 4.3.2 states:

"The Property Manager shall maintain records to manage controlled assets...Controlled Assets Inventory Form - Organization" is used for property not readily assignable to an individual employee or which is shared by more than one employee."

RECOMMENDATIONS:

- 1. Equipment suspected of being stolen should be reported to the division administrator, and then he or she should make a report to law enforcement, and the Auditor's and District Attorney's offices.**
- 2. The gas-operated golf cart and Cushman Utility vehicle not found should be referred to the Parks office, and if necessary, removed from the South Mountain list, and transferred to the list at the golf course where located.**
- 3. Form PM-3 should be completed for assets loaned to another golf course over a period of time.**
- 4. Equipment overgrown with weeds in the so-called "bone yard" should be sent to surplus. Old Crowne property equipment should be added to the controlled assets list and then sent to surplus.**
- 5. Items noted in this report as not on the controlled assets list, should be added and tagged, if necessary.**
- 6. Faded, worn, missing, or unreadable control tags should be replaced with new tags.**

Controlled asset inventories were not documented. Personnel in grounds maintenance and clubhouse operations reported that they performed controlled asset inventories at least once a year, the last one in February 2009. However, these were not documented or on file. An undocumented inventory is not verifiable.

Countywide Policy #1125, Safeguarding Property/Assets, Section 2.2.11, states:

"At least annually, conduct physical inventory of...controlled assets."

RECOMMENDATION:

Controlled asset inventories should be documented and on file with the following minimum information:

- a. **Date performed.**
 - b. **Yes/No, check mark, or other indication of whether each item was located.**
 - c. **Signature of the property manager.**
-

The property manager for grounds maintenance did not have a copy of the capital or controlled assets list in his possession. These lists are maintained by his supervisor at the Parks Office who has oversight of all golf course system capital and controlled assets. While the property manager has good institutional knowledge of these assets, they are at greater risk of being lost or stolen without a list on hand to aid in monitoring. As noted in the previous finding, he was not aware that two pieces of equipment on the capital assets list were ever on-site. Therefore, no action could be taken to move them to the proper list.

RECOMMENDATION:

A capital asset and controlled asset inventory list should be provided to the South Mountain grounds maintenance property manager to help ensure that all equipment is properly safeguarded and tracked.

The “Controlled Assets Form – Employee” was not being used to account for equipment or assets use by specific employees. South Mountain Golf Course property managers were not aware of this form.

Countywide Policy #1125, Section 4.3.1, states:

“Controlled Assets Inventory Form – Employee” is used for those assets that due to their nature, are used by and therefore readily assignable to an individual.”

Personal computers, printers, and other peripheral devices, and some equipment in the kitchen could be readily assigned to an individual employee.

RECOMMENDATION:

The “Controlled Assets Form – Employee,” for assets readily assignable to an individual employee, such as PCs and peripheral devices, should be on file and signed by the employee.

Serial numbers were not always included on the controlled assets list. The South Mountain Golf Course controlled assets list included a column for serial numbers, but often these numbers were not included. However, without the serial number, identification would be difficult if the County or division tag became lost or unreadable.

RECOMMENDATION:

Serial numbers should be included on the controlled assets list where the asset has a readable serial number.

MERCHANDISE INVENTORY

The South Mountain pro-shop is stocked with retail items for sale to the public, including golf equipment and apparel. The head professional or his assistants purchase inventory from vendors. Vendor invoices are normally sent to the golf course office administrator for review and custodian of the Imprest checking account for payment. The custodian sends an invoice copy to the head professional who placed the order for approval, prior to payment.

Goods are received at the golf course through UPS shipments and entered into the inventory management system by the first assistant professional. The golf course management system includes a separate module linked to the cashiering system for inventory tracking and monitoring. Generally, inventory showed thoughtful and consistent tracking, and merchandise was attractively displayed in an orderly manner within the pro-shop. Our findings in the area of merchandise inventory are as follows:

- ***Some items were missing from merchandise inventory, indicating possible retail theft.***
- ***Merchandise inventories by South Mountain Golf Course personnel were not documented.***
- ***Pro-shop operations may not be as profitable in their current organizational structure as they would be in a privatized setting under ownership of the head professional.***

Some items were missing from merchandise inventory, indicating possible retail theft. We counted and compared merchandise items in the pro-shop to recorded system inventory totals. We counted all items except for loose golf balls, bag tags, bagged tees, and divot tools, and yardage books acquired from Crowne property during the acquisition several years ago. In total, we counted 6,556 items, compared to 6,575 items that should have been on hand according to system inventory totals. Two golf clubs and several shirts and jackets were among items missing.

In managing the inventory, the first assistant golf professional attaches bar-code tags to each item after entering the item into the on-line management system. Scanning of tags at the time of sale automatically decreases the count. Golf ball sleeves and miscellaneous small items do not have bar-code tags attached, but these are scanned,

nonetheless, from bar-code stickers attached to a form. The automatic decrease in count each time an item is sold indicates a perpetual inventory system is in place.

At the time of our count, the perpetual inventory record showed a value of \$73,470. The net value of items we counted was \$73,097, for a shortage of \$373, or .05 percent of recorded value. Some shrinkage is expected from retail theft, or shoplifting.

Net differences in counted items, by department or category are shown in Table 4, below, both by cost and individual item count.

Description	Recorded \$ Value	Our Count \$ Value	Difference	Recorded Count	Actual Count	Difference
Balls	\$24,404	\$24,449	\$45	3,698	3,707	9
Gloves	3,232	3,276	44	474	482	8
Bags	1,471	1,471	0	18	18	0
Shoes	4,707	4,707	0	75	75	0
Caps	8,047	8,047	0	833	833	0
Clubs	11,367	11,185	(182)	92	90	(2)
Shirts	5,561	5,430	(131)	209	203	(6)
Shorts	1,488	1,488	0	48	48	0
Jackets	3,155	3,141	(14)	82	81	(1)
Lady Shirts	1,478	1,478	0	47	47	0
Lady Shorts	488	488	0	14	14	0
Lady Fleece	584	584	0	19	19	0
Sundries	7,487	7,348	(139)	966	939	(27)
TOTALS	\$73,470	\$73,097	\$(373)	6,575	6,556	(19)

Table 4. Recap of merchandise inventory count.

Out of the 27 items short in sundries, 17 were Callaway divot tools. These divot tools cost \$6.97 per unit, \$118.49 (17 X \$6.97) in total. As a further observation, we arrived at one missing jacket, shown in Table 4, by netting our counts that were greater than expected with counts that were less than expected. Four jackets were actually missing, but in two jacket categories our counts were 3 greater than the recorded amount. These excessive counts resulted either from our miscount or system input error at the time items were purchased and entered into inventory.

In addition, we noted that the point-of-sale inventory report included a few negative count values. These negative values resulted from input error at the time items were entered into the inventory system or at the time they were removed when sold.

Some or all shortages noted above were due to shoplifting, though golf course personnel did not have evidence of theft, nor did they actually catch anyone shoplifting. Four security cameras monitor activities within the pro-shop and cash register area. Constant vigilance in a retail environment helps prevent shoplifting.

As an additional finding, more than half of the 845 on-line inventory management system categories have no inventory, and purchases are no longer made for them. Their retention creates confusion and could lead to errors, such as recording more items than actually received or recording items in the wrong category.

Also, items included with the Crowne property acquisition over 10 years ago, that we did not count, as well as bagged tees and loose golf balls, are shown below. Dollar values and recorded counts are based on the perpetual inventory record, and are shown in Table 5, below.

Description	Dollar Value	Recorded Count
Bag Tags – Crowne	\$1,098	549
Divot Tools – Crowne	664	1,952
Yardage Books – Crowne	2,542	1,374
Bagged Tees	608	1,192
Loose golf balls	319	304
TOTALS	\$5,231	5,371

Table 5. Items not counted.

Estimated actual counts are less than those shown in the table above. For example, South Mountain Golf Course personnel estimate the actual count of divot tools to be 1,300.

The bag tags are metal medallions with vinyl strips for attaching to bags. The words “Crowne Properties” appear in raised lettering on the back. Golf course personnel felt uncomfortable offering these for sale because of this now-invalid insignia, but the appearance and design of the tag was of sufficient quality that they felt the need to do so. Yardage books are practically obsolete and of virtually no value given today’s use of GPS guidance systems.

Golf course personnel would like to dispose of these difficult-to-sell and obsolete items, most of which remain on a back room shelf. However, they are hesitant to realize the loss that would accrue to South Mountain Golf Course if these items were sold below cost recorded in the inventory records. Best cost accounting practice would dictate selling or disposing the outdated inventory, whatever the consequences, to more accurately reflect the real value of merchandise on hand for resale. This would also free up some funds and storage space for newer merchandise.

RECOMMENDATIONS:

- 1. South Mountain personnel should continue to monitor and take preventive steps in the pro-shop to reduce shoplifting. Seasonal workers, especially, should be trained and advised to be aware of this problem.**
- 2. Merchandise displays should be reconfigured to keep high value equipment, i.e., name-brand clubs, away from entry/exit doors.**

3. ***Unused categories within the on-line inventory management system should be removed to prevent confusion and promote efficiency.***
4. ***Bags tags containing Crowne property insignia, and divot tools and yardage books, acquired from Crowne over 10 years ago, should be given away or disposed of by providing them as corporate sponsored tournament give-aways.***

Merchandise inventories by South Mountain Golf Course personnel were not documented. Personnel reported that merchandise inventories were conducted twice annually. In addition, they performed spot checks of selected merchandise categories from time to time. However, these were not documented and on file at the golf course. Compliance with inventory count requirements cannot be verified by an outside party without documentation.

Inventories are used in retail establishments to monitor and track merchandise and to determine unexplained shrinkage. Inadequate inventory procedures allow items to more easily become lost or stolen.

RECOMMENDATION:

Merchandise inventories should be documented and on file with the following information as a minimum:

- a. ***Date inventory count was performed.***
- b. ***Comparison of the actual physical count, by item counted, to the point-of-sale inventory system record, at the time of the physical count.***
- c. ***Signature of the golf professional in charge of inventory monitoring.***

Pro-shop operations may not be as profitable in their current organizational structure as they would be in a privatized setting under ownership of the head professional. The South Mountain Golf Course head professional suggested privatization of pro-shops to promote efficiency and increase sales. In essence, each professional would own the pro-shop at his golf course. The County would be absolved of purchasing inventory and head professionals would assume this function using a line of credit. He envisioned payment of sales commissions to create greater employee incentive. Also, employees would give added attention to inventory tracking and care in a privatized structure.

In 2008, South Mountain Golf Course merchandise inventory purchases were \$72,547, and sales were \$111,712, down 11 percent over the previous year, and down 24 percent over 2006, events that were likely a result, in part, of the souring economy. The degree to which a privatized structure might improve sales is worthy of further research and discussion.

Privatization could save the County \$435,000 annually (\$72,547 X 6 courses) in merchandise inventory purchases at all courses. Several years ago, this type of privatized structure reportedly existed at County golf courses. The South Mountain Golf Course head professional is in a unique position to evaluate and even promote privatization because he has worked at both private and public golf courses.

RECOMMENDATION:

Consideration should be given to privatizing pro-shop operations under each golf course head professional. A feasibility study should be conducted to identify strengths, weaknesses, opportunities, and threats (SWOT Analysis), including projected revenue increases, improved profitability, and the financial capacity of each golf professional to incur liability for inventory purchases.

CONCESSIONS CONTRACTOR

As at all County golf courses, South Mountain contracts with a third-party concessions operator. The current contractor, whose contract is set to expire at the end of 2009, sells snack foods, hot and cold sandwiches, hamburgers and hot dogs, and beverages, including beer. The County provides kitchen facilities, though the contractor provides some equipment, dishes, and utensils of his own.

Total commission revenue received from the contractor during the 12-month period April 2008 through March 2009, was \$20,016. In addition, the contractor paid \$5,260 for utility and garbage collection fees and \$1,900 in room rental fees for weddings and other events. Our findings in the concessions contracting area were as follows:

- ***The contract did not clearly define revenue for use in applying commission rates for the County.***
- ***Revenue reported to the golf course did not agree to other revenue documents in at least one month, and the contractor was late in remitting some payments.***

The contract did not clearly define revenue for use in applying commission rates for the County. The contract states that South Mountain Golf Course will receive “12 percent of all monthly net concessions when gross revenues do not exceed \$25,000” and “8 percent of all monthly net concessions when gross revenues exceed \$25,000.” The contractor and South Mountain Golf Course have interpreted this to mean 12 percent of the first \$25,000, and 8 percent of any amount thereafter. Calculations were made accordingly. Though “net concessions” is not defined, the contractor has reported his revenue to South Mountain Golf Course based on gross sales less sales tax.

Also, the contractor asked us how revenue should be determined. In the contract, the term "net concessions" is not defined, and it is not clear whether this means gross revenue less sales tax. In general, though, the revenue figure submitted should be the sum of collections for each day of the month, or the amount of each day's deposit. Any significant overages or shortages from Z-tape totals should be reported.

The contract specifies that the percentage threshold of applying 12% vs. 8% is based on "gross sales." First, the threshold is established based on gross sales, and then percentages are applied to "net concessions." The contractor was establishing the threshold and applying percentages based on net sales (gross sales less sales tax). Unclear contract terms lead to unintended interpretations and results.

RECOMMENDATIONS:

- 1. The concessionaire contract should define monthly revenue as "the sum of daily deposit amounts." Significant shortages should be reported to the South Mountain Golf Course.**
- 2. The concessionaire contract should define revenue for application of commission rates as "gross revenue, including sales tax."**
- 3. For the current term, the contractor should continue to calculate revenue for application of commission rates based on net revenue (gross revenue less sales tax), since this practice has been established and unquestioned, and contract terms are unclear or undefined.**

Revenue reported to the golf course did not agree to other revenue documents in at least one month, and the contractor was late in remitting some payments. The contractor includes a remittance form with his monthly check to South Mountain Golf Course. This document shows "total sales" followed by the calculated commission due.

We reviewed concessionaire collections for each day in July 2008 to determine how close monthly revenue approximated the amount reported on the remittance form. Sales reported on the remittance form of \$20,325.85 did not match any profit and loss statement produced by the contractor. Neither did the remittance revenue amount match daily deposits we added for the month.

Moreover, significant overages and shortages occurred. The contractor may not have been aware of this until we brought it to his attention because balancing was not performed. The largest shortage was for \$442.30 on July 6, a day on which \$.13 in cash was deposited, though much more had to be collected. We found two days where shortages were greater than \$100, and two days where overages were greater than \$100. The overall net shortage for July was \$142.66.

We were given one profit and loss statement for July, followed by another one that was updated, neither of which matched remittance from reported revenue. Table 6, below, shows various revenue presentations for July.

Document Name	July Revenue	Difference from Remittance
July Remittance Form to South Mount	\$20,325.85	
Auditor sum of deposits	\$20,051.54	\$274.31
Profit and Loss Statement (1)	\$19,086.67	\$1,239.18
Profit and Loss Statement (2)	\$24,733.58	\$(4,407.73)

Table 6. Contractor's report of revenue to South Mountain compared to other sources.

One line item on the profit and loss statement was "Total Sales." The contractor interpreted this to mean his total revenue that should be reported to South Mountain Golf Course. He had no clear understanding of the "Total Income" line item or what it represented. The \$24,733.58 shown above is from the "Total Income" line. Training in the Quick Books software application that produces these profit and loss statements would be beneficial. In short, the source of revenue in the July remittance statement, \$20,325, was unknown.

Another balancing issue was the frequent entering of credit card transactions as "cash," a practice resulting in significant cash shortages each day. This was due in part to cash-coded receipts being presented to diners at their tables. If the diner settled with a credit card, the cash register did not have the capability to change it to a credit card sale. The credit card transaction was closed out as a cash payment. The contractor owns the cash registers he uses on-site and has a separate terminal for processing credit card transactions.

As an additional finding, the contractor presented his payments late to South Mountain Golf Course. The following late payments were noted:

- For January 2009 – paid March 4
- For February 2009 – paid April 13
- For March 2009 – paid May 5

The contract states "Concessionaire will submit payment to the County within 30 days of the end of the month."

RECOMMENDATIONS:

1. **The concessionaire remittance form submitted to South Mountain Golf Course with the check should also include the contractor's profit and loss statement.**
2. **South Mountain Golf Course personnel should remind the contractor that payments are due by the end of the next month or the contract could be terminated.**

Michele K. Nekota

June 29, 2009

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- 3. The concessionaire contractor should be instructed to balance and document the balance of each day's collections, including any overages and shortages. A balancing requirement should be included in future contracts.**
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In closing, our office expresses thanks to the head professional and staff at South Mountain Golf Course for their willingness to obtain requested documents and answer questions, and for their cooperation and attentiveness throughout the process. Equal appreciation is extended to the head groundskeeper and his staff, and the concessionaire contractor.

Audit reports, by their nature, are exception reports. Their intent is not to minimize the hard work and dedication of the golf course staff, but to help improve operations and processes, create better compliance with Countywide policy, and provide greater assurance that golf course management objectives are achieved. Please feel free to call me with any further questions.

Sincerely,

James B. Wightman, C.P.A.
Director, Internal Audit Division

Cc: Paul Ross
Tim Fernau
Jerry Brewster
Brian Schramm