



SALT LAKE COUNTY AUDITOR'S OFFICE

SEAN THOMAS

Auditor

December 8, 2004

Glen Lu, Director
Parks and Recreation Division
2001 South State Street #S4400
Salt Lake City, Utah 84190

RE: OLD MILL GOLF COURSE AUDIT

Dear Glen:

We have completed an audit of cash receipting, depositing, fixed and controlled assets and merchandise inventory at the Old Mill golf course. We also reviewed concessionaire payments to determine whether the percentage of concessions revenue remitted to the County complied with contract terms.

We found serious problems in the cashiering system at Old Mill where overs and shorts in receipts were occurring daily, generally in amounts from \$20 to over \$100. Golf course personnel blamed these persistent outages on the cashiering software, and possibly the system configuration itself where two different Windows operating platforms were used on different PCs. Daily outages make a cash management system unreliable and incapable of providing assurance that all collections are deposited and that theft is not occurring. A cashiering system should be implemented that establishes the integrity, reliability and accuracy of the receipting and depositing processes at the golf course. Further discussion of this topic is provided later in the report.

Financed through an MBA bond and opened to the public in 1998, Old Mill has been the leader among the other five County golf courses in yearly revenues and number of holes played. Old Mill reported revenues of \$1.5 million in 2003, and 88,695 nine-hole rounds of golf played. Striking vistas of the Salt Lake Valley provide unique marketing opportunities in attracting not only golfers but also companies, organizations and individuals interested in renting the club house for meetings, wedding receptions, socials and other events.

Management at the golf course exhibited good customer service, marketing creativity and concern for the overall well-being of the golf course, including the accurate reporting of revenues. Their friendliness and eagerness to assist us in our needs as auditors was helpful as our work progressed. However, a lack of management oversight

in the cash management area creates a need for additional training in sound cash handling techniques that ensure the safeguarding of County assets and the conformity of procedures to Countywide policy.

The findings and recommendations in this report are intended to provide direction to personnel in their continuing efforts to protect County assets and increase golf course revenue. Our letter is divided into the following sections according to the principal areas examined during our audit: Cash Handling and Depositing, Merchandise Inventory, Fixed and Controlled Assets, Concessions Contract Revenue, and Alleged Fraud in the Misuse of Punch Cards.

CASH HANDLING AND DEPOSITING

The magnitude of collections each year of over \$1.5 million, and the continuing commitment, together with the other golf courses, in servicing the debt from the MBA bond, emphasize the need for sound cash management techniques and procedures at the Old Mill golf course. Without effective procedures in place, revenues suffer, and theft may occur because employees are in an environment conducive to theft. Effective cash management procedures help prevent dishonesty among employees and provide assurance that all receipts are deposited.

Since 2001, Old Mill has used the "Fore Reservation" software package to manage golf course cashiering, reservations and merchandise inventory control. This on-line management system records collections, prints customer receipts, and compiles data into a number of collections and sales reports. The two "cash registers" in use are a point-of-sale link and an integral part of the Fore Reservation system.

Though the occurrence of daily overs and shorts of unacceptable magnitude might be tied to the Fore-Reservation software, personnel training deficiencies, and even theft, must be considered in the current environment of unreliable cash handling controls. Our findings below, reflect the problems we encountered in the areas of cash receipting and depositing, and are intended to give direction to golf course personnel in establishing a reliable and accurate receipting and depositing process.

- **Collections never balanced to cash register report totals, creating daily overs and shorts of significant amounts.**
- **Proper documentation and review of the deposit process was not in place to ensure that all receipts were being deposited.**
- **Cash/check composition was not accurately entered into the cash register for golf course and pro shop fees, sales and other transactions.**
- **Credit card refunds were improperly executed by sending a check for the refund amount to the client instead of reversing charges on the credit card.**

- **Credit card receipts were not balanced to the daily credit card summary report.**
- **Men's and women's golf league checking accounts maintained on-site by Old Mill were not managed to ensure that County funds were not co-mingled.**
- **Voids were not always signed by a supervisor to indicate his review and approval.**
- **An over/short log was not used to track cashier balancing trends as required by Countywide policy.**

Collections never balanced to cash register report totals, creating daily overs and shorts of significant amounts. During our surprise count of collections at the Old Mill golf course, we found a \$57 overage when we compared our count to the cash register sales report. Golf course personnel were not surprised by the overage, stating that outages (overages and shortages) were a normal part of everyday operations. The balancing report prepared at the end of the day by golf course personnel showed that the \$57 overage had reduced to a lesser though still significant amount of \$38.

During our count, we also found that the change fund balanced to its authorized limit of \$1,200, but the \$900 petty cash fund was over by \$7.47, an amount that should be turned in to Auditor's Office cashier, Jill Andersen, to bring the fund into balance with its authorized limit. Countywide Policy #1203, "Petty Cash and Other Imprest Funds," Section 3.10, states, "*Any overages would normally represent just an administrative error and shall be investigated and resolved immediately. Any amount of unresolved overage shall be brought to the Auditor's Office and will be recorded as miscellaneous revenue using a cash receipt.*"

The \$57 overage was not unusual since overages and shortages in receipt totals were a daily occurrence at the golf course. We made this discovery when reviewing balance sheets and copies of deposit slips whose totals were consistently different from one another. Initially, we examined a sample of deposits during the first eight months of 2004, but subsequently decided to examine every deposit from May 1 through August 31, 2004, when we consistently found overs and shorts on each of the days drawn from our sample. Obviously, summer months are the busy period at the golf course, when collections are at their highest, as opposed to winter months when several days may elapse without a deposit being prepared due to a lack of business.

During the 123 days we examined from May 1 through August 31, we found overages and shortages on every day, but mostly overages. Dollar amounts of these outages were significant—over \$10 on 96, or 78 percent, of the days examined, and over \$50 on 66 of these days. Finally, on 35 of the days reviewed, the difference in cashier counts to the daily sales report balance was over \$100. For nine days we found problems

with adequate documentation on hand, either a missing balance sheet or other summary detail, thereby preventing any further analysis.

The total of all cash overages during his period, not including checks or credit card payments, was \$7,103, and for shortages it was \$1,765, a lesser, though still significant amount. Overages occurred on 80 of the days examined (65%), and shortages occurred on 43 of these days (35%). Though outages are normal events in any cash handling operation, frequency and especially magnitude are the two important factors when judging the severity of these occurrences. Table 1 below shows the unacceptable magnitude of outages where amounts exceeded \$100, when comparing the balance sheet to the amount deposited. Shortages are shown in parentheses.

Outages over \$100 (Shortages are shown in parentheses)							
Date	Amount	Date	Amount	Date	Amount	Date	Amount
May 21	\$(203)	Aug 11	\$113	Jul 29	\$149	Aug 14	\$220
Aug 22	\$(190)	Aug 13	\$117	Jul 12	\$150	May 9	\$222
Jul 30	\$(184)	Jun 18	\$125	Jul 24	\$151	Jun 24	\$234
May 28	\$(131)	May 30	\$126	Aug 24	\$157	Aug 5	\$248
Jun 17	\$108	May 7	\$129	May 6	\$173	Jun 22	\$293
Jul 27	\$112	Jul 5	\$136	Jun 8	\$190	Jun 21	\$299
Jul 11	\$113	May 25	\$145	Jun 26	\$216	Jul 21	\$356

Table 1. *Overages far outpace shortages in this comparison of balance sheet totals, cash plus checks, to actual amounts deposited, though shortages may be the most serious concern.*

According to Old Mill golf course personnel, these outages resulted from failure of the Fore Reservation system to record all receipts entered by cashiers. The failure of some transactions to be recorded thereby leads to an inaccurate sales report that does not agree to daily cash drawer counts. Old Mill personnel told us that system failures are most likely to occur when lines of customers keep both cash registers occupied at once. This creates a problem in the communications link between the two registers that prevents one or more transactions from being recorded.

Golf reservations are viewed on the computer monitor as rectangular boxes, one box for each individual in a group scheduled to play. Boxes are aligned four to a row—representing each foursome in play—and contain the name of the group or individual who made the reservation. When a member of the group presents himself at the golf course and pays his fee, the cashier clicks on one of the boxes with his cursor to access a screen where payment is entered. Then the box becomes highlighted in a shade of green to indicate that one of the numbers within the reservations group is paid and present at the golf course. Failure of a box to become highlighted indicates that payment was not recorded in Fore Reservation. The failure seems to occur when the two cash registers are in heavy use. Despite these problems with the Fore Reservation system, a customer receipt is always printed.

As a way to test this apparent system failure, golf course personnel manually recorded transactions during a busy period when several people were lined up at both cash registers to pay for tournament play. When it was found that the total of manually recorded transactions exceeded the collections amount from Fore Reservation, golf course personnel felt that their theory of system failure had been validated.

We also discovered that the system sometimes skips the recording of a transaction forward to a future date, an inconsistency that, if true, would explain the occurrence of shortages. If a transaction entered into the cash register is recorded on a subsequent day, then the current day's actual receipts would be over the recorded receipts, and receipts on the day the transaction was actually recorded would be short.

Due to time constraints and lack of systems expertise, we were not able to independently verify these claims of system failures leading to daily cash outages. The staff at Old Mill did not document the results of their testing of customer receipts to sales report totals, nor did they document the occurrences of transactions skipping ahead and being recorded on a subsequent date. However, the persistent occurrence of these outages does indicate a software inadequacy that produces these problems in balancing daily receipts. The head professional also stated that the system frequently crashes or shuts down. Despite repeated phone calls to the Fore Reservation support line, support personnel had been unable to present a viable solution.

A technician from the County Information Systems (IS) Division has visited the golf course several times in an attempt to resolve the system failure in recording selected receipts. The cash registers operate from the same server, but each register is operated from a separate PC, each running on a different platform—Window XP on one, and Windows 2000 on the other.

Golf course personnel thought that different operating platforms might be causing the system failure, a claim that the IS technician refutes, stating that the configuration is sufficiently stable under two operating platforms and that the problem lies in the Fore Reservation software. The hardware operates well, he said, but a sub-database within the software crashed and subsequently was not re-indexing correctly. He stated that the sub-database needed to be emailed to Fore Reservation for them to correct, an action that so far the golf course has not taken.

Implementation of the Fore Reservation management system at County golf courses in 2001 improved scheduling capability for tee times which previously involved manual entries on a calendar or log. A system failure in late 2003 and a subsequent software update in early 2004, exacerbated already-existing balancing problems where overs and shorts were occurring, according to the head pro at Old Mill.

Indeed, our own review of 2003 cash collections showed that outages, though recurring, were not as frequent or of as great a magnitude as those in 2004. We examined a balancing report for the 92 day span from June 1 to August 31, 2003, and found perfect

balancing, without any over or short, on 11 days, and overs and shorts on the rest of these days, typically in the \$20 to \$30 range, but none over \$100. Even though the balancing record in 2003 was more favorable, the frequency and magnitude of overs and shorts, nevertheless, raised concerns about the integrity, accuracy and reliability of cash management at the Old Mill golf course.

Golf course administrators have been examining a new cashiering, scheduling and inventory management system to replace Fore Reservation. An RFP was issued on this project, and a contract was subsequently awarded to TEGA Golf. The contract was later withdrawn because of protests and threat of lawsuit from one of the competing bidders who pointed out the conflict of interest involving the director of County golf, who also held a management position at TEGA. Together with two former employees of IOMEGA Corporation, he formed a consortium called "The Jungle Group" to develop and write the TEGA software, a project which took them two years to complete.

A conflict of interest statement filed by the director of County golf was not sufficient to stave off criticism from some County officials and the competing bidder for awarding the contract to TEGA. In the intervening months, the District Attorney's Office has re-examined the situation and may now again grant contract approval to TEGA. Under the new contract, the County is considered part owner in the software due to the golf director's involvement in its development and management. Regardless of which software is ultimately purchased and implemented, the cashiering function should have sufficient capability to adequately and accurately record receipts and produce a report of daily collections.

In the meantime, the director of County golf has had discussions with the president of Fore Reservation who has committed to providing programming updates intended to resolve software problems leading to the consistent overages and shortages. The president also stated that two cash registers operating from the same hub, on different versions of Windows, was indeed causing the system failure, a seeming contradiction of the statement from the IS technician. A meeting with IS, golf course and Fore Reservation personnel should be convened to discuss the issues surrounding the software and the solutions that can be found to resolve balancing problems.

While we understand the reported system failures in recording receipts—or recording them on the wrong day—we did note that the software recorded invoice numbers in perfect sequence on transaction reports. Since the system always prints a customer receipt, the receipt number, and also amount, should match each item on the "Sales Detail by Invoice" transaction report. We printed this report on seven of the days we examined in the summer of 2004 where outages exceeded \$100, and found a perfect invoice numbering sequence without gaps or skips that would indicate system failure.

As an exercise to prove or disprove the viability of the system, Old Mill personnel should save individual printed receipts for one day, and compare them to the Sales Detail by Invoice report. If the printed customer receipts match the report total and numbering

sequence, then an explanation other than computer failure will have to be found for recurring overages and shortages. Countywide Policy #1062, "Management of Public Funds," 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 of the circumstances and report its findings to the Auditor.*"

RECOMMENDATIONS:

1. ***We recommend that the corrupted sub-databases be provided to Fore Reservation to correct the re-indexing problem identified by the County IS technician.***
2. ***We recommend that golf personnel conduct an exercise of saving all printed customer receipts for one day, and if the total of these receipts does not match the Sales Detail by Invoice report, that additional investigation be made into the reason for daily overs and shorts in cash drawer collections.***
3. ***We recommend that the TEGA system, or whatever other new management system is implemented at the Old Mill golf course, be adequately reviewed for its capability to record receipts and produce a daily summary report of all transactions entered into the cash register.***

Proper documentation and review of the deposit process was not in place to verify that all receipts were being deposited. We noted several deficiencies in the balancing and deposit preparation process, including the absence of a Z-tape to show daily totals by cash, check and credit card composition, and also the detail of each individual transaction entered into the cash registers during the day. Z-tapes are standard forms in any cash balancing process and are used by agencies and divisions throughout the County to determine the true total of daily cash register receipts.

Instead of a Z-tape, Old Mill personnel compared a sales report total to the cash drawer count when balancing each day. Though this report provided a daily total of sales, it did not break out collections by cash, check or credit card composition, nor did it provide detail of each transaction entered into the cash register. Moreover, it did not include sales tax, an amount that had to be derived from another report and then added to the sales report total. Though this process is well-intentioned, it is not a correct procedure and does not provide management with the necessary tools in analyzing daily cash totals.

During our audit we discovered that Fore Reservation does indeed produce a Z-tape, a report titled "Sales Detail by Invoice," referred to in the previous section, that shows collection totals by cash, check and credit card composition and lists all transaction invoice numbers and amounts entered into the cash register during the day. This report should be the basis for balancing cash drawer collections, and it should be

filed with other deposit preparation materials to provide a record of daily transactions and transaction totals.

Old Mill personnel were reluctant to use this report because of its average length of 25 pages per day during the busy summer season—compared to 2 or 3 pages for the sales report—and its bulkiness and space requirements when filed. While its length is formidable, our suggestion is that the first and last pages be printed and filed with deposit preparation materials. The last page contains the daily collection totals, broken out by cash, check and credit card designation. The full report that is on-line should be available upon request and used by management to monitor any negative, or reversed, transactions for signs of theft. Transactions that have been reversed would ordinarily be explained as voids that were necessary because of a mistake by the cashier or customer.

Besides the lack of a Z-tape, collection totals could not be produced for each individual cash register. While receipt totals are produced and generated for both cash registers combined, the Fore Reservation system did not provide a per-register total, a report that may require additional updating and programming to produce. Therefore, our surprise count, mentioned in the previous section, included both drawers together. Instead of a Z-tape, we compared our count to a sales report to arrive at an overage of \$57. Management should determine with Fore Reservation technical staff whether the system has the capability to produce individualized per-register totals, and if so, implement a change.

We also noted that a second employee did not review, verify, and sign off on the daily deposit prior to the courier retrieving it for delivery to the bank. While one person may have the capability to perform this task alone, verification by a second individual provides assurance that all funds collected are deposited. The deposit report or balance sheet should contain not only the signature of the person who prepared the deposit, but also the signature of the person who verified it. Verification should include a count of the funds being deposited and a comparison of this count to Z-tape totals, recognizing any over or short that may have occurred.

In addition, we found other problems in the deposit preparation process that needed improvement, including the accuracy of cashier till counts due to frequent differences between the amount deposited and the till count. As a rule, the amount collected is the amount deposited, and therefore any inconsistencies indicate deficiencies in the deposit preparation process.

The balancing and depositing process starts with cashiers counting and recording collections in their tills on a count sheet—including credit card receipts—a separate sheet being completed for each till. Cashiers do not balance their tills, they only count the money contained therein. To balance their tills, they would have to compare their drawer count to Z-tape totals to arrive at an over, short, or no difference calculation in daily collections, a process normally assigned to a second employee who prepares the deposit. This employee retrieves and counts money from the safe that cashiers placed there the

night before, often arriving at different collection totals from the cashier. The deposit preparer records the sum total of collections from both cash drawers onto a single balance sheet where daily sales report totals are also entered and compared to arrive at the difference. The cashier and the person preparing the deposit differed in their counts on 35 of the 123 days we examined from May 1 through August 31, 2004.

Table 2 below shows that cashier till count totals were reduced during the deposit preparation process by more than \$50 in 10 instances. In other words, the amount the cashier counted and reported was less than the amount deposited. Often, the cashier included the \$300 change fund from one drawer, or \$600 from both drawers, in his count, but other instances for reducing cashier till count totals could not be explained.

Instances where cash totals were reduced by more than \$50 on recount					
Date	Amount	Date	Amount	Date	Amount
May 2	\$600	Jun 6	\$56	Aug 10	\$165
May 6	\$100	Jun 15	\$275	Aug 19	\$100
May 11	\$140	Jul 2	\$200		
May 15	\$640	Jul 5	\$300		

Table 2. Cash totals that were reduced by \$300 or \$600 were likely the result of the cashier's inadvertently including the change fund in the count of daily receipts.

Not only were cashier till counts reduced during the deposit preparation process, sometimes they were increased to a deposit amount that exceeded the original cashier drawer count. Increases in cash totals ranged from \$10 to \$40, but in two instances exceeded \$100—one for \$144 on June 7th, and another one for \$450 on August 24th. Also, check totals were occasionally adjusted up or down from cashier counts, and in two cases were increased from a low of \$395, in one instance, to a high of \$6,400 in the other. Golf course personnel did not have a ready explanation for these differences.

The likelihood of human error in these differing till counts nevertheless points to the need for greater care and accuracy when counting daily collections. The deposit documentation on file did not provide an explanation for these differences. However, proper cash management requires that an explanation be provided to ensure that differences do not result from a manipulation of funds. Cashiers should be instructed to accurately count their drawers at the end of the night, even though it is late and they may be anxious to leave.

The process of requiring cashiers to count their tills is of little use if it is assumed that they will later be corrected. One factor contributing to cashier inaccuracy is that they are not required to balance their tills, only to perform a count. If cashiers had the instant feedback of balancing their count to the Z-tape, they might attach greater importance to accuracy in performing their count. We also noted that the pre-printed cash drawer count sheet is outdated and looks messy, with spots and jagged lines, as though copy upon copy had been made dozens of times. A new, clean, balancing form should be produced and

maintained for cashiers as a way to instill greater importance in the closing out and balancing process.

Finally, deposit documentation was filed haphazardly. We found most daily deposit documentation for 2004 stuffed into a narrow, four-foot long box. For 2003, these materials were not even on-site at Old Mill. The head pro told us that someone, of whom he was not aware, took them from the golf course. We were unable to locate these materials at the Government Center. Therefore, our discussion here of cash management trends in 2003 was based on a spreadsheet of daily balancing records prepared by Parks and Recreation administration, and did not include a review of original records. We recognize that space is limited at the golf course, but suggest that large filing cabinets be purchased and used for storage of deposit materials on-site, and that materials be stored for a minimum of three years.

In summary, the deposit process can be improved by using a Z-tape instead of a sales report when balancing receipts, printing a Z-tape for each cash register, if possible, and requiring that another person review and sign for the deposit. Cashier counts should be improved by emphasizing accurate counts, requiring cashiers to balance their own drawers, and formulating and distributing a new balance sheet. Also, daily deposit materials should be kept on file for at least the previous three years, and a system should be implemented to better organize these files.

RECOMMENDATIONS:

- 1. We recommend that the "Sales Detail by Invoice" report be used as a Z-tape when preparing the deposit, instead of the report currently being used, and that only the first and last pages be printed to conserve on paper and storage space.*
- 2. We recommend that a report of collections be produced for each cash register, if possible, and that collections in each cash register be balanced to a Z-tape report, if possible.*
- 3. We recommend that a second employee, preferably a supervisor, review the deposit by counting cash and checks, and comparing the count to the Z-tape as a way to note any overs or shorts, and that both individuals preparing and reviewing the deposit sign deposit documentation kept on file at the Old Mill golf course.*
- 4. We recommend that cashiers accurately count their tills at the end of the day and that this process also include balancing collection totals to the Z-tape report.*
- 5. We recommend that a newly-formatted balance sheet be produced for use by cashiers and that daily deposit documentation for at least the past three years be kept on file in an orderly and secure storage file.*

Cash/check composition was not accurately entered into the cash register for golf course and pro shop fees, sales and other transactions. Cash/check composition, an important component of the cashiering process, is largely ignored by golf course personnel because it is considered too time consuming. If several customers are waiting in line, cashiers feel it is easier and faster to enter every transaction as cash, rather than spend the time to think about the transaction and select the correct payment key.

The lack of importance attached to entering the correct payment type was underscored by the fact that Old Mill personnel balanced to a sales report, as mentioned previously, that did not differentiate collection totals by cash, check or credit card designation. Thus, an inadequate report prevented any review of cash/check composition in daily receipts.

Without adequate monitoring of cash/check composition, and entering the correct type of payment into the cash register, a cash/check swapping scheme used to cover the theft of funds would remain undetected. The first section of this report already stated that the golf course should now use the "Sales Detail by Invoice" report when balancing daily receipts because it breaks down collection totals by check, cash and credit card composition.

RECOMMENDATION:

We recommend that golf course personnel enter the correct type of payment into the cash register, whether it is cash, check or credit card, and that cash/check composition become an integral part of the balancing process through use of the "Sales Detail by Invoice" report.

Credit card refunds were improperly executed by issuing a check for the refund amount to the client instead of reversing charges on the credit card. Credit card payments at the Old Mill golf course totaled \$645,000 during the three month period of our examination, and represented 62 percent of total revenue. According to golf course personnel, refunds, though occurring rarely, are executed by issuing a check to the client through a request to Parks and Recreation administration.

Countywide Policy #1210, "Refund of Payments Made 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 made.*" Further, Section 1.1.1, states, "*Cash or checks shall not be issued to refund credit card payments.*"

Moreover, paragraph 16(a) of the credit card merchant agreement states the following, "*When you accept any merchandise for return, when any services are terminated or cancelled, or when you allow any price adjustment, you shall not make any cash refund, but shall...complete and present to us a Credit Voucher...*"

Nevertheless, cash refunds are permitted if the purchase was made using a debit (*not credit*) card. Policy #1210, Section 1.1.2, states, “*Cardholders may request a cash refund where a debit card was used, but payment will be similar to ordinary cash refunds as outlined in Countywide Policies 1062 and 1202.*” The merchant agreement also allows for a cash refund when a debit card was used. Paragraph 16(d) of this agreement states, “*If returned merchandise was purchased using a Debit Card, you have the option of providing the Cardholder with cash or an in-store credit.*”

Both Countywide policy and contract terms in the merchant’s agreement are clear in prohibiting the issuance of cash or a check to refund a credit card purchase. The only viable way to issue a refund is through reversal of charges on the credit card itself.

RECOMMENDATIONS:

- 1. We recommend that all refunds of payments made with a credit card be executed by reversing the charges on the card, and that no cash or check for the refund amount be issued.*
- 2. We recommend that refunds of payments made with a debit card be executed by reversing the charges on the card, or, at the option of the customer, issuing a check for the refund, in accordance with guidelines established in Countywide Policies #1062 and #1202.*

Credit card receipts were not balanced to the daily credit card summary report. Credit card receipts were not totaled at the end of the day and compared to the credit card summary report as part of the balancing and deposit preparation process. Policy #1062, Section 3.14.4, states, “*At the end of the day the cashier preparing the deposit will balance credit card receipts against the daily summary report of electronically transmitted activity and against the register tender total for credit card activity...*” The credit card summary report is the small piece of paper printed out on the credit card machine when transactions are closed out for the day, showing daily credit card totals.

Old Mill golf course personnel should perform this reconciliation to ensure that individual, signed credit card slips agree to the total collected as shown on the summary report, and that all signed credit card slips are safely accounted for and filed.

RECOMMENDATION:

We recommend that signed credit card receipts be summed each day and compared to the credit card summary report, and also the cash register report of sales, as part of the deposit preparation process to ensure that signed receipts are accounted for and secure, and that credit card payment totals are reliable and accurate.

Men's and women's golf league checking accounts maintained on-site by Old Mill personnel were not managed to ensure that County funds were not co-mingled.

A men's and women's golf league operates out of and uses the Old Mill golf course for tournament play. The two leagues each have separate checking accounts at Wells Fargo Bank, maintain their checkbooks in the safe at Old Mill, and include as account signers both the Old Mill head pro and his first assistant.

In our review of these checking accounts we found almost no record of deposits and disbursements, no bank reconciliations, and one or two bank statements on file. A men's league statement, dated August, 2004, showed an account balance of \$1,945. Since the checkbooks are on County property, and the signers include two County employees, a complete and accurate record of account transactions is necessary to provide assurance that the County was not funding these organizations.

Among the little documentation available for review, there was no evidence that the County did in fact fund either of these organizations, a statement with which the first assistant golf pro concurred. He stated that the leagues were funded through annual membership dues of \$40 for men and \$20 for women, in addition to payments at the time of tournament play. These payments are deposited directly into the checking account and are not processed through the Old Mill cash register.

According to the first assistant golf pro, checks are written on the account to pay for tournament prizes. The only record of checks being written occurred in the men's league checkbook where 12 checks totaling \$2,505 were recorded from July 21 through September 14, 2004, all but one of them payable to the Old Mill golf course. We asked the first assistant why they were payable to Old Mill, and he responded that tournament winners receive gift certificates and merchandise from the pro shop, and checks were written to Old Mill to cover these costs.

We found no prohibition in Countywide policy that would limit an outside league using the golf course from maintaining their checkbook on County property, and including golf course employees as account signers. The leagues benefit Old Mill by producing revenue for golf course operations. However, prohibition in Countywide policy against the co-mingling of funds creates the need for complete and accurate record keeping to ensure separation of league funds from County funds. Proper account documentation requires a running total for each of the accounts, the recording in the checkbook of individual deposit and disbursement transactions, and monthly reconciliations of checkbook to bank statement totals, with these reconciliations being filed for future reference.

RECOMMENDATION:

We recommend that men's and women's league checking accounts maintained on Old Mill golf course premises have adequate documentation on file to assure against co-mingling with County funds, including documentation of account balances, deposits

and disbursements in the checkbooks, and monthly reconciliations of checkbook to bank statement balances.

VOIDS WERE NOT ALWAYS SIGNED BY A SUPERVISOR TO INDICATE HIS REVIEW AND APPROVAL. During our examination of deposits we found various voided transactions on file that were not signed by a supervisor to indicate his review and approval. We commend the golf course for using void slips as a way to alert management to the reversal of cash register transactions and to help prevent the embezzlement of funds. Just as void slips can prevent embezzlement, they can also hide the occurrence of theft if they are not reviewed by a second party, generally the supervisor. A written explanation and supervisor's signature, as well as the cashier's signature, should be found on each void slip to provide assurance that the transaction reversal was legitimate.

Policy #1062, Section 3.5.2.2, states, "*The cashier who initiated the void will document on the front of the voided receipt the cause of the voided transaction and its resolution.*" Golf course personnel should ensure that Countywide policy is followed by explaining each void in writing and requiring the review and signature of a supervisor.

RECOMMENDATION:

We recommend that a written explanation be provided on all voided receipts and that both the cashier and a second employee, usually the supervisor, sign the void as evidence of review and approval.

AN OVER/SHORT LOG WAS NOT USED AS REQUIRED BY COUNTYWIDE POLICY TO TRACK CASHIER BALANCING TRENDS. Daily balancing problems discussed in previous sections only emphasize the need for implementation and use of the over/short log to adequately monitor outages and alert management to excessive balancing problems. The over/short log is shown in this letter as Attachment A. When the over/short log is not used, as in the case of the Old Mill golf course, overs and shorts become routine and ordinary, and cashiers lose sight of the ideal of balancing "to the penny." Also, the failure to monitor overages and shortages creates an atmosphere where theft is more likely to occur.

Overs and shorts are expected from time to time, but not of the frequency or magnitude sustained at the Old Mill golf course. Even though apparent software system problems prevent proper balancing from taking place, an over/short log should be maintained and daily outages should be recorded.

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.*" An over/short log should be used to record the balancing records for each of the two cash registers, and an over/short log should also be used by the employee who prepares the deposit to show any differences between collections at the golf course as a whole and the system-generated Z-tape totals of daily receipts. The use of over/short logs at each of the two cash registers may have to wait modification of the

system until a printout of daily receipt totals for each register can be produced, a process that the head pro should investigate and implement.

RECOMMENDATION:

We recommend that the use of the over/short log, Form MPF 11, be implemented to record the balancing record of cashiers at each of the two cash registers, and also at the point of deposit preparation, thereby tracking the difference between collections at the golf course as a whole, compared to daily Z-tape totals.

MERCHANDISE INVENTORY

The Old Mill pro shop offers a wide variety of golf products for sale, including balls, clubs, bags, gloves, shoes, hats, pants, and shirts, many of them monogrammed with the Old Mill logo. Besides the additional revenue it provides from the sale of goods to the public, the pro shop also plays a key role in marketing the golf course as an attractive destination for golfers, thereby serving to increase greens fee revenues. Each type of product sold at the pro shop is assigned a unique inventory number used to track the movement of goods, either through sale to the public or through the purchase of new merchandise items.

Creative displays on the sales floor and analysis of past sales trends when purchasing new merchandise items were two commendable practices at the pro shop to increase sales and enhance the marketability of the golf course. As auditors, we focused on the inventory count to determine whether purchases of new goods were placed into inventory, and whether unexplained shrinkage was greater than what would have been expected. We have two findings regarding our work in this area.

- **Merchandise inventory on hand was less than what it should have been, indicating that adequate controls were not in place.**
- **New merchandise inventory purchases could not be found, indicating theft or misclassification in the inventory database.**

Merchandise inventory on hand was less than what it should have been, indicating that adequate controls were not in place. We conducted an inventory of the pro shop, compared our count to the Fore Reservation listing of inventory items on hand, and found that several items were missing, or alternatively misclassified on the listing during sales transactions. Several other items exceeded the inventory list count, again indicating misclassification of items when sold, or failure to record new purchases.

The total cost of missing items, based on their original purchase price, was \$10,059. This shortage could be offset by the value of items whose counts exceeded the inventory listing, totaling \$8,504. This offset results in a net shortage of \$1,555. The net

shortage does not necessarily mean that \$8,504 in missing items can be explained by excess inventory counts over inventory listing totals, though in some instances this may be the case. The alternative explanation for the shortage would be the transfer of items to another pro shop, or theft.

As with any retail establishment, shoplifting is a real risk at the Old Mill pro shop. However, the amount of theft cannot be determined because inventory management deficiencies make theft indistinguishable from misclassification of inventory items on the listing.

Shoplifting at Old Mill has never been reported to law enforcement officers. This may indicate either an unwillingness to do so, or else a need for improved vigilance by managers and employees. Personnel should be aware of customer actions within the pro shop and implement a procedure for reporting shoplifters to law enforcement authorities. A commendable feature of pro shop operations is a security camera system which the head pro demonstrated to us by showing archival footage, from the day prior to our visit, of a customer stealing a golf ball from the front counter, but camera angle was such that the customer could not be identified.

Implementation of the Fore Reservation system in 2001 improved inventory control, over the previous manual system, by providing an on-line database that could be adjusted upward for new purchases, and downward for sales. However, the system does not use scannable bar codes to ensure accuracy in adjusting for sales, but instead relies on cashier accuracy in entering the correct inventory number. Most items are tagged with this number, but some, particularly golf balls, are not. Therefore, items may be deducted from the wrong category, creating a shortage where the deduction occurred, and an overage in the category that should have been deducted.

Table 3 on page 17 below shows a sample of the missing items where our count was less than Fore Reservation listing counts of what should have been in inventory. In the table, samples appear from various inventory categories, including balls, shirts, hats and sunglasses.

Sample of Missing Merchandise Inventory Items						
Item #	Description	System Count	Our Count	Shortage	Cost per Item	Extended Cost
1679	Top Flite tour ace balls	48	0	48	\$7.55	\$362
1885	Logo Balls top flight	1885	1367	518	\$.62	\$321
1965	Callaway Bag	1	0	1	\$55.89	\$56
1287	Ecco Ladies Shoes	1	0	1	\$65	\$65
1447	Titleist Hats	13	0	13	\$9.69	\$126
1025	Callaway Club-Driver	1	0	1	\$275	\$275
1792	Callaway Mens Shirt	15	3	12	\$20.13	\$242
1933	Nike Mens Windshirt	7	3	4	\$30	\$120
1824	Straight Dwn Ladies Top	4	0	4	\$29.32	\$117
1131	Divot Repair Tool	2188	1681	507	\$.48	\$243
1381	Ping Travel Cover	1	0	1	\$51	\$51
1566	Odyssey Putter	1	0	1	\$75.75	\$76
1167	Oakley Sunglasses	1	0	1	\$51.37	\$51
1690	Arden Belts	7	0	7	\$18	\$126
					TOTAL	\$2,231

Table 3. This sample of missing inventory items shows that no items were on hand during our count even though a positive count appeared in the Fore Reservation system. This is not a complete list of missing items.

As the opposite of Table 3, Table 4 below shows some of the items where our count actually exceeded totals from the Fore Reservation listing. The reason for this excess likely would have been cashier error in deducting an item from the wrong inventory category during sale, creating the illusion that items on hand exceeded what the count should have been. In addition, items may not have been entered into the Fore Reservation inventory system when they were purchased, again creating this appearance of extra inventory items.

Sample of Excess Counts over System Totals of Inventory on Hand						
Item #	Description	System Count	Our Count	Overage	Cost per Item	Extended Cost
1270	Nike Ball All Tour Accur	273	354	81	\$5.69	\$461
1855	Top Flite Balls Tour Strata	38	98	60	\$7.63	\$458
1316	Nike Womens Shirt mid	0	1	1	\$18	\$18
2083	Greg Norman Mens Shirt	0	1	1	\$28.82	\$23
1673	Callaway Mens Shirt	4	5	1	\$30.36	\$30
1273	Nike Shoes	0	1	1	\$51	\$51
1147	Womens Wind Shirt	0	4	4	\$32.92	\$132
					TOTAL	\$1,173

Table 4. This sample of excesses of Auditor's count over system inventory totals shows that some items were not entered into inventory when they were purchased, or else keyed in error when sold.

Golf balls typically are sold in three-ball, and sometimes two-ball or four-ball, “sleeves,” and are one of the most easily recognized items within a pro shop, in addition to being one of the most difficult to track. The pro shop also sells loose, individual balls from a display on the front counter. We could not account for 518 of these balls, sold under the brand name of “Nike Logo,” and which together cost \$321. Our count of 1,367 of these logo balls was short of the inventory list count of 1,885 balls. The head pro thought that they might have been misclassified upon sale as “Top Flite Logo” balls, an inventory category whose numbers he thought might have been deleted because of this error in classification.

In general, our golf ball counts exceeded inventory list totals in some cases, while being less in other cases. For example, we could not find any Top Flite Tour Ace balls on hand, even though Fore Reservation listed 48 sleeves, and there were no Pinnacle 4-ball Exceptions, even though there should have been 47 sleeves. In other examples, we found 41 sleeves of Hogan “The Hawk” balls, compared to 52 reported on the Fore Reservation report, a difference of 11 sleeves, and we found 326 sleeves of Nike Power Distance balls, compared to 348 that should have been on hand, a difference of 22. These and many other examples created a picture of golf ball inventory that varied between excesses and shortages when compared to the inventory list. Nevertheless, out of 44 separate golf ball categories, our count matched the inventory listing in four cases.

Table 5 below shows the variability in the count of golf ball sleeves on hand. Because a listing of all 44 different golf ball categories would be too lengthy for this report, we have grouped net differences by brand name. Numbers enclosed in parentheses indicate the net total of missing sleeves within a brand name. Altogether, we found a net excess of 38 sleeves compared to the number that should have been on hand. The table does not include the individual “logo” balls mentioned previously. The wide swings in golf ball merchandise inventory overages and shortages are typical of the errors, and possibly theft, in pro shop merchandise inventory.

Golf Balls—Excess or (Shortage) of our count compared to System Inventory Totals		
Brand Name	#Types	Excess or (Shortage) of our count (Not including Nike Logos)
Callaway	8	(14)
Hogan	2	(20)
Maxfli	6	(22)
Nike	5	64
Pinnacle	3	(23)
Titleist	4	100
Top Flite	47	(47)
Difference		38

Table 5. We counted 38 more sleeves of golf balls than what was recorded in the system count. This does not include the 518 missing individual Nike “Logo” balls.

Proper inventory management is also impeded by an inventory list that has a large number of items no longer kept in stock, and also items shown to have a negative inventory count. The Fore Reservation inventory list contains 597 separate items, of which 212 were shown to have a "0" count, and 44 to have a negative count, or a count less than zero. The unexplained negative inventory counts should be adjusted either to zero or to the number of items currently on hand at the pro shop. Moreover, the excessive quantity of "0" counts on the list should be examined to determine whether corresponding items are still being purchased, and if not, whether they should be removed from the inventory list.

Despite the number of inventory accountability errors encountered, we were able to match our count to the Fore Reservation inventory listing in 137 instances. However, it exceeded listing totals on 105 items, and was less than listing totals on 156 items, creating the total dollar shortage in inventory of \$10,059, and the overage of \$8,504 mentioned previously.

Golf course management disputed some of our inventory counts, and subsequently performed their own count of many, but not all items. In some cases, their count was the same as ours, and in other cases it was different, but usually by not more than one or two items. In one case, for example, they found four sleeves of golf balls that had fallen behind a display case. The end result, though, did not extinguish the significant overages and shortages, nor the deficiencies in inventory control management that need to be addressed.

One curious and unexplainable event in the count conducted by Old Mill personnel dealt with the number of shirts in stock. In our count, we found a net total of 44 missing men's shirts. We verified some of Old Mill's subsequent counts and found shirts on the rack that would have been difficult for our team to have missed, including shirts with inventory numbers where we noted nothing in stock at the time of our count. While errors in inventory counts are likely to occur, the fact that we would have entirely missed some shirts in plain view is difficult for us to reconcile.

Table 6 on page 20 shows the total number of items we counted in our inventory, compared to the inventory conducted by Old Mill personnel. It shows that we actually counted a greater number of items, in total, than did Old Mill. We have discussed inventory issues with the head pro, including our differing counts, and have come to a reasonable understanding that improvements are needed.

Auditor's Office and Old Mill Inventory Counts Compared		
Category	Old Mill Count	Auditor Count
Golf Balls	2,640	3,115
Gloves	433	456
Bags	No count performed	28
Shoes	No count performed	51
Headwear	541	615
Clubs	39	47
Men's Tops	256	265
Men's Bottoms	52	56
Men's Outerwear	96	106
Ladies' Tops	65	67
Ladies' Bottoms	40	55
Ladies' Outerwear	22	28
Golf Accessories	No count performed	2,136

Table 6. *The Auditor's count actually exceeds Old Mill's but both counts confirm excessive overs and shorts and deficiencies in inventory recording and tracking.*

The head pro understands existing challenges in merchandise inventory control at Old Mill, including the change in management at the beginning of 2004, and apparent problems, as already noted in the area of cash management, with the Fore Reservation software which may be improperly recording the movement of inventory items in some transactions, though again, we were not able to independently verify this assertion.

Merchandise inventory requires detailed work, energy and constant monitoring. A good "feeling" that all items are properly accounted for does not ensure inventory integrity. Precise counts, using count sheets and comparing these to the Fore Reservation inventory listing, are necessary. The golf course did not have any documentation on hand to prove the veracity or completeness of merchandise inventories that Old Mill personnel stated they had completed. They had no count sheets, no inventory lists, and no count comparisons on file.

Therefore, an essential step in merchandise inventory management should be regular inventory counts of the entire pro shop. The staff performs "spot checks" on many items, but a complete inventory is necessary to provide a clear picture of pro shop operations. We suggest that this be performed twice a year, possibly at the end of the year and then again at June 30, though this could pose a problem with the time constraints of the busy summer season. In consideration of seasonal variations in work load, an alternative time frame in which to conduct these inventories might be March 31st and September 30th.

Proper procedures for inventory counts include the use of count sheets, and comparison on a spreadsheet of the items counted to Fore Reservation inventory listing totals. All of this documentation should be kept on file for future reference. Unexplained

shrinkage should be investigated as possible theft. Golf course management stated their belief that inventories are best performed when the pro shop is closed. While this may be the ideal situation, we observed that the pro shop is not that busy during opening hours, and the sale of items is not that rapid or frequent that an inventory could not be performed during regular business hours. Finally, cashiers should exercise care in entering sales into the cash register to eliminate negative item counts on the Fore Reservation listing, as well as inventory counts that are less than or exceed listing totals.

Moreover, the Fore Reservation listing should be reviewed item-by-item to expunge the \$10,059 shortage and the \$8,504 overage. Counts on the inventory listing should be adjusted to proper categories, where necessary and when justified, and a letter should be written to the Mayor to explain the shortage and the fact that it will be removed from the inventory listing. The golf course should then start their inventory control from a "clean slate," adjusting the inventory list to actual items on hand at the pro shop, and monitoring movements in inventory from that point forward.

RECOMMENDATIONS:

1. *We recommend that merchandise inventories be conducted twice a year, ensuring that count sheets are used and a spreadsheet prepared to compare counts to Fore Reservation inventory listing totals, and that all documentation of these actions be kept on file for future reference.*
2. *We recommend that all new purchases be entered accurately and timely into the Fore Reservation system, and that cashiers enter into the cash register the correct inventory number of goods being sold to prevent the appearance that items on hand are less than zero or that they exceed inventory listing totals.*
3. *We recommend that the Fore Reservation inventory listing be adjusted to the count of goods actually on hand at the pro shop, and that the \$10,059 shortage be reduced to \$0 and explained in a letter to the Mayor, together with an attached listing of the items whose counts are short, and that the \$8,504 overage be adjusted to the actual count of inventory items on hand.*
4. *We recommend that items on the Fore Reservation inventory list no longer determined to be in stock, and not contemplated for future purchase, be deleted, and also that negative count balances on the listing be investigated and adjusted to a positive or zero amount, according to the number of items on hand at the pro shop.*

New merchandise inventory purchases could not be found, indicating theft or misclassification in the inventory database. The Old Mill head pro has the sole responsibility for purchasing merchandise offered for sale at the pro shop. Based in part on his regular contacts with sales representatives, he purchases approximately \$123,000 annually in new merchandise inventory and enters these goods into the Fore Reservation

system when they are received at the golf course. The vendor sends the invoice for purchases to a Parks and Recreation administrator at the Government Center who then remits a copy to the head pro for his review and approval. After approval by the head pro, the Parks and Recreation administrator issues a check to the vendor from a County imprest checking account.

We selected a sample of invoices from 2004 for newly purchased merchandise inventory and, based on our inventory count, found several missing items and also items that had not been entered into the Fore Reservation management system, in addition to not being found in the pro shop during our count.

We extracted a sample of 65 newly purchased goods from invoices received in 2004, and found missing items in 14 of these categories. Table 7 below shows each of these 14 categories and the numbers of items missing in each, or in other words, the number of items not found at the pro shop that should have been there based on the amount ordered. If items sold were less the difference of the amount ordered and our inventory count, then these items were missing and unaccounted for.

New Merchandise Purchases in 2004 that are Missing from Inventory						
Item #	Description	Amount Ordered	Our Count	Difference	# Sold in 2004	# Missing
1982	Nike Shoes	8	1	(7)	6	(1)
1971	Nike Bag (tour air carry)	4	3	(1)	0	(1)
1995	Antigua Men's rainjacket	2	1	(1)	0	(1)
2001	Antigua Women's Shirt	9	1	(8)	7	(1)
2002	Antigua Women's Shirt	4	1	(3)	2	(1)
2003	Antigua Sweatshirt	3	0	(3)	2	(1)
2010	Antigua Men's Shirt	6	0	(6)	4	(2)
2012	Antigua Men's Shirt	9	0	(9)	8	(1)
1667	Oakley Sunglasses	1	0	(1)	0	(1)
1668	Oakley Sunglasses	1	0	(1)	0	(1)
1669	Oakley Sunglasses	1	0	(1)	0	(1)
1662	Callaway Men's Shirt	3	0	(3)	2	(1)
1663	Callaway Men's Shirt	3	0	(3)	1	(2)
1664	Callaway Men's Shirt	3	0	(3)	2	(1)
1670	Maxfli Balls	48	32	(16)	9	(7)

Table 7. All differences, number of items missing, matched our inventory count, except with Nike Shoes, #1982, where our count exactly matched the listing, suggesting possible failure to enter new purchases.

We compared merchandise goods from Table 7 to Fore Reservation item counts and found that in one category—Nike shoes, number 1982—a pair of shoes was likely not entered into the inventory system. Our inventory count in this category exactly matched Fore Reservation system totals, though, as seen in Table 7 above, one item is

missing, indicating that it possibly had not been entered into inventory. The question then becomes one of what happened to this item, and why it was not entered.

We asked the head pro if Fore Reservation produced a report of the number of new items entered and the date on which this occurred, to which he responded that it did not, adding that it would be helpful for him to have this type of information. Therefore, as an alternative, we compared invoices to sales and inventory counts, as shown in Table 7, to determine whether all newly purchased goods had been entered into inventory.

The problem with failing to enter new purchases into the Fore Reservation system is that it could be used as a cover for theft. Goods would not be considered missing, in a subsequent inventory count, if they were never entered into the Fore Reservation system when they were originally purchased. The golf course should investigate the reason for the missing pair of shoes, and as an added step to provide assurance that all newly-purchased items are entered into inventory, invoice copies should be marked with the number entered into Fore Reservation, and also the date on which they were entered.

RECOMMENDATIONS:

- 1. We recommend that Old Mill golf course management provide an explanation for the failure to enter, or misclassification of, a newly-purchased pair of Nike shoes in the Fore Reservation inventory system.*
- 2. We recommend that merchandise invoice copies at the Old Mill golf course be marked with the number of items entered into Fore Reservation system, and the date on which they were entered.*

FIXED AND CONTROLLED ASSETS

Fixed and controlled assets comprise the extensive array of equipment needed to maintain and groom the golf course, service the needs of golfers, and operate the pro shop and concessions area. Fixed assets are items whose purchase price is greater than the current capitalization rate, which at this time is \$5,000. The Auditor's Office, in addition to maintaining the fixed assets list and distributing a copy of it to County agencies, also prints and distributes tags for newly acquired fixed assets.

However, the sheer number of controlled assets County-wide, the effort required to record new purchases, conduct inventories, and otherwise exercise control over these items, would be impossible for the Auditor's Office to manage. Therefore, management for controlled assets is assigned to the individual agencies where these items are located. Countywide Policy #1125, "Safeguarding Property/Assets," Section 1.2, defines a controlled asset as "*personal property items having a cost of \$100 or greater, but less than the current capitalization rate...*"

We were pleased to find a controlled assets list on file at Old Mill, maintained by a property manager, and ready for our review upon request. The golf course has three controlled assets lists, one for maintenance-type equipment, another one for golf carts, and a third list for all other items. We reviewed 52 controlled assets from the 137 items on the maintenance-type equipment list and found all items in our sample. We also located all 80 golf carts, except for two, which personnel stated were in repair at the Parks and Recreation shop. These golf carts should be returned to Old Mill, if they are in a usable condition, or else salvaged through County surplus operations.

On the third list of controlled assets, there were 85 items, 36 of which we sampled and located in our inventory. This list contained items principally located within the clubhouse and concessions area. We also found and positively identified the 11 Old Mill fixed assets found on the Auditor's Office AFIN 0801 report, except one, a "water-powered turf aerator," which was reported to be at the South Mountain golf course.

We commend the staff at the Old Mill golf course for maintaining a list of controlled assets, and remind them to always update the list for new purchases and to conduct inventories annually. The inventories should be conducted using a controlled assets list where items are checked off with a red pencil or pen as they are reviewed. This list, and the inventory count it entails, should then be filed for future reference.

CONCESSIONS CONTRACT REVENUE

An outside contractor operates the clubhouse concessions area where hot entrees, sandwiches, hamburgers, chips and other snack food items are sold to the public. Also included is a food cart that is wheeled out to the golf course for food and beverage sales to golfers. In addition to daily concessions operations, the contractor caters wedding receptions and other events, and provides full-service banquets to groups, organizations and companies that hold meetings or parties at the clubhouse. The clubhouse has a large meeting room for these types of events.

A contract entered into between the County and the concessionaire requires that certain percentages of revenues be remitted to the County. Of the first \$20,000 in gross receipts, 8 percent must be remitted to the County, in addition to 8 percent of the second \$20,000, and 4 percent of all sales over \$40,000 to \$600,000 per year. If yearly receipts exceed \$600,000, then 16 percent of the first \$30,000 will be paid to the County, 8 percent of the second \$30,000, and 4 percent of all sales over \$60,000.

The contract requires the concessionaire to produce a monthly income statement that is handed in with his check each month to the Old Mill head pro. In addition to the income statement, the concessionaire generates a remittance report where calculations for percentages due to Salt Lake County are shown. We examined monthly income statements from June 2003 through August 2004, recalculated the percentages of revenue due to Salt Lake County, and found that the concessionaire accurately calculated and

remitted the correct amount of his revenue to Salt Lake County in every case. The current contract became effective in October of 2003, so percentage calculations for the first few months examined appeared to be based on the old contract, a copy of which we did not have for our review. However, the percentages consistently followed a pattern similar to the current contract.

We also determined that the concessionaire was reporting accurate revenue on which he based his percentage allocations to Salt Lake County. We examined this accuracy by summing Z-tape totals each day in 7 out of the 12 months examined and found that these totals matched the income statement report of income in all cases. Revenue reported by the concessionaire from July 2003 through June 2004 totaled \$355,000, of which \$46,000 was remitted to Salt Lake County in accordance with contract terms.

A room rental fee, required from organizations and individuals renting the clubhouse tended to vary from group to group, and in some cases was waived. The concessionaire is also required to pay a portion of the clubhouse utilities bill to the County, as determined by Parks and Recreation administration. We also noted that the concessions revenue report produced by the County director of golf in some cases exceeded revenue reported by the concessionaire by as much as \$1,000. We discussed this issue with him, and he said that the overstatement was an error where he included utilities payments with concessions revenues. We determined that the significance of this misstatement was minimal because the report was used internally and likely did not flow to the County-wide AFIN report of financial data.

ALLEGED FRAUD IN THE MISUSE OF PUNCH CARDS

On July 11, 2004 a customer presented a punch card pass at the Old Mill golf course that he alleged was received from a former employee in exchange for the drug, OxyContin, a highly-addictive painkiller. We have been unable to substantiate this customer's story or allegations of a recurring scheme of punch cards being stolen by an employee and exchanged for drugs. The Old Mill head pro reported very little to us concerning this matter, stating that no one else had presented an invalid punch card at the golf course and that he had no further knowledge concerning any alleged corrupt practices involving these cards. The current head pro was not assigned to Old Mill golf course at the time this incident took place. The following finding addresses lingering concerns about this possible abuse of County assets.

- *Many questions in the alleged misuse of punch cards have not been sufficiently answered to determine whether criminal acts were indeed committed.*

Many questions in the alleged misuse of punch cards have not been sufficiently answered to determine whether criminal acts were indeed committed. Pre-numbered punch cards passes, worth ten rounds of golf and sold at \$110 each, are

recorded in a log when they are sold. Before the incident of the customer presenting his invalid card at the golf course, passes were numbered manually using a pen, but since that time sequential numbering on the cards has been pre-printed. A subsequent investigation of the alleged punch card scheme by the County director of golf revealed missing log pages comprising a sequence gap of 149 card numbers. This gap covered the period from June 16, 2003 to October 17, 2003, during which time the Fore Reservation system reported 95 punch card sales, a difference of 54 from the number recorded in the log, which could represent the number of cards stolen by one or more of the employees.

In addition to another gap of 23 card numbers in May 2003, 12 other missing numbers were spread sporadically throughout the log. Therefore, 89 cards having a total value of \$9,790 cannot be accounted for, were not distributed in exchange for payment to the County, and possibly were stolen. As auditors, we reviewed the log sheets, and concur with the findings as to the number of punch card numbers missing from the log as reported by the director of golf.

Old Mill personnel have been instructed to confiscate, invalidate, and record in the log any card from within the range of missing sequence numbers. We reviewed the current log and found one number, 1340, recorded from this sequence. The fact that more invalid cards have not appeared at the golf course and been recorded in the log, and the head pro's statement that no one else has presented an invalid card at the golf course, raises questions as to where these 89 missing cards are located, the individuals to whom they might have been distributed, and the consideration made in any possible exchange.

We could not contact or find the correct phone number or address of the golfer who presented the invalid card on July 11th. The cashier that day noticed that the card was not signed and could not be found in the log, after which the manager on duty requested the customer to relinquish the card, which he willingly did. When asked where he had obtained the punch card, the customer said, "You know," further stating that it was a "trade," with the employee in question, for the drug OxyContin. Besides the card he had relinquished, the customer stated that he had other cards at home, obtained from this employee, that he would bring in and relinquish to the golf course, but he never did.

On July 20, 2004, the director of Parks and Recreation, associate director and former head pro at Old Mill interviewed the alleged perpetrator, and by-then a former employee. Though the ex-employee admitted that he was currently working through a prescription drug abuse problem, he denied ever having traded punch cards for drugs, even with the customer who made the allegation. The former employee also denied allegations that he had sold golf equipment on eBay that had been purchased with County funds, and he denied having committed this act, or any acts where he would have purchased goods through the County, paid for them with his personal funds, and then sold them on eBay.

Our office was present when this individual was questioned by an investigator in the District Attorney's Office. He again denied all accusations that were brought before him and stated, "I never gave [the accuser] a punch card."

Several questions in this alleged punch card scheme remain unanswered, including why additional invalid punch cards have not appeared at the golf course, why the alleged perpetrator resigned his position at the golf course in February 2004, and why there were missing pages from the 2003 log of punch card sales. The nature of this incident requires the authority of the District Attorney's Office to interrogate witnesses and suspects who otherwise might not have been forthcoming to Parks and Recreation administrators or the Auditor's Office.

The District Attorney's Office is aware of this incident and is conducting an investigation. They have also reportedly worked with the former employee to refund payments to customers for golf lessons for which he had been paid. Because of the lingering questions in this matter, we will send a copy of this letter to the District Attorney's Office.

Golf course administration can help our office by continuing to investigate this matter and encouraging employees to freely discuss any information they may know or have heard about this incident in an effort to discover the facts. Old Mill personnel should also continue to look for cards from the missing number sequences, confiscate these cards from the customer, and report any such incidences to the Auditor's and District Attorney's Offices.

RECOMMENDATIONS:

- 1. We recommend that Old Mill golf course employees continue to look for an explanation to missing pages from the punch card log, and also any additional evidence of punch cards being traded for drugs, and that any findings be reported to the Auditor's and District Attorney's Offices.*
- 2. We recommend that Old Mill personnel continue to relinquish customer cards from the missing numbering sequences, and report any such incidences to the Auditor's and District Attorney's Offices.*

In closing, we express our appreciation to Old Mill golf course personnel and Parks and Recreation administration for the time and effort they expended on our behalf in completing this audit. Without their willing cooperation, the knowledge, information and access to documents we had would have been restricted, and our analysis much more limited. We felt that golf course personnel desired to be frank and honest in their communications with us, and that their vision for improved management and betterment of golf course operations was commendable.

Glen Lu
December 8, 2004
Page 28

The findings reported in this letter should not be considered all-inclusive of deficiencies in practice or failure to follow Countywide policy. While we hope that operations are conducted honestly and according to Countywide policy, we can never be assured that this is always the case in any office, division or agency. Implementation of recommendations in this letter will help to improve operations, ensure the security of County assets, and protect employees from the consequences of dishonest acts. Please feel free to discuss any of the findings within this letter with me personally, or with Larry Decker.

Sincerely,

James B. Wightman, CPA
Director, Internal Audit Division

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