A Performance Audit of the

Salt Lake County $50,000 Golf Course Imprest Account and Pro Shop Inventory

December 2009

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I.   Executive Summary

Background

Salt Lake County Golf Courses (golf courses) operate pro-shops where merchandise is sold to the public. These retail stores maintain stock on hand of golf balls, clubs, clothing, shoes, and other accessories for customers to purchase. Merchandise is controlled through bar-coded price tags attached to merchandise items. Cashiers scan bar codes at the time of sale, a process that automatically adjusts inventory count.

Golf courses use Active Golf Solutions software (Active Golf) for cashiering and inventory maintenance functions. Software and data reside on an Information Services (IS) server at the Salt Lake County Government Center. While the IS organizational portfolio does not include a database administrator, an IS systems administrator works with Active Golf technical support to download software updates. The Active Golf systems administrator for the County is the Mountain View Golf Course Head Golf Professional (Head Pro).

A 12-digit Stock Keeping Unit (SKU) number classifies all merchandise items. All six golf courses combined used 2,897 SKU numbers in their inventory listings during the period we examined. Identical SKU numbers are used among the six courses representing same-type merchandise items. However, wide variations exist as well in the uniform use of a defined set of SKU numbers. Golf professionals post newly purchased merchandise to one of these SKU numbers in Active Golf. Active Golf generates an instance number for each batch of items entered.

The golf courses maintain a centralized $50,000 imprest checking account to pay vendors for pro-shop merchandise purchases. The imprest checking account custodian (Custodian) is a non-golf professional, merit employee located in an office at the Parks administration building. This segregates the duties of ordering and receiving merchandise from the payment of invoices. However, we discovered that the Custodian was not determining whether invoiced items, approved for payment by Head Pros, had actually been posted to the merchandise inventory account for each course, or reconciled to the instance numbers created in Active Golf. Thus, Head Pros were ordering, receiving, and recording merchandise to the Active Golf perpetual inventory without any independent review for verification of completeness or accuracy.

The Custodian manages the account using Quicken software. From September 1, 2008 through August 31, 2009, we noted posting of 310 checks in Quicken for $382,242, and 11 imprest account reimbursements for $397,870. To replenish the fund, the Custodian completes a reimbursement request that the Director of Golf Courses (DGC) reviews before transmittal to the Auditor's Office. A separate Parks and Recreation fiscal employee performs the monthly bank reconciliation.

Findings and Analysis

The Custodian did not determine whether invoice item counts were entered into the Active Golf prior to issuing payment to the vendor. (§1.1 of report) No review occurred due to implicit trust in the golf professional's ability and integrity to completely and accurately

enter purchases into inventory. However, without second party verification, theft could more easily occur undetected. Since Head Pros alone often order and enter inventory items, they could easily divert items to personal use and conceal this action by not entering them into inventory.

> *RECOMMENDATION:*
> *The Custodian should review each instance number in Active Golf on which a check is being issued to verify that items paid for have been entered into the inventory system.*

Negative inventory counts, or item counts less than -0-, occurred frequently and indicated lack of precision in inventory control. (§2.1 of Report). The logical incongruity of negative item counts is explained by coding items to the wrong SKU number at the time of sale. Cashiers often do not or cannot scan the bar code and instead refer to an on-line inventory price list. The wrong item SKU number may then be selected from the list. A sale posted to an existing -0- count SKU number creates a negative count. This action results in an over-count in the correct SKU number and a negative count in the incorrect SKU number. The problem is compounded when the golf professional removes negative counts from the system. The net overall system count may then exceed actual count of items on hand.

> *RECOMMENDATIONS:*
> 1. *Readable bar-code price tags should be placed on all items to the greatest extent possible.*
> 2. *Price tags should be electronically scanned at the time of sale, and if they cannot be scanned, the SKU number from the price tag should be keyed in first before referring to the on-line inventory directory.*

Differences were found between expected ending inventory and actual system ending inventory, based on our understanding of the flow and affect on inventory of purchases, sales, and adjustments. (§2.2 of Report) Our ending inventory calculation of beginning inventory + purchases - sales did not always equal system ending inventory for all items. We performed this calculation for 2,897 categories or SKU numbers in the data set from September 1, 2008 through November 20, 2009 and found 80% agreement, but differences in the remaining 20% of SKU numbers.

To perform our calculation, we imported relevant Active Golf reports and database records into Audit Command Language (ACL), a data-mining tool. Differences between calculated and Active Golf ending inventory indicate lack of system flow understanding. Without this understanding, accurate and complete posting of all transactions is not assured.

> **RECOMMENDATIONS:**
> 1. *Golf course management, in collaboration with the software vendor, should develop and implement staff training on how transactions and adjustments flow through the system, including whether purchases and sales data are accurately adjusting their merchandise inventory.*
> 2. *If purchases and sales transactions do not correctly post, then adjustments should be made accordingly.*

Several SKU numbers were not on the inventory list even though purchases and sales were still posted to them. (§2.3 of Report) We found 168 purchase or adjustment-related and 124 sales-related SKUs that did not exist in the Active Golf beginning or ending inventory listing. SKU numbers represented by these purchases, adjustments, or sales did not match to the beginning or ending inventory listings. Sometimes golf professionals delete or de-activate SKU numbers with negative counts. However, this process masks the true count and value of inventory if dollar balances remain in the deleted SKU numbers in the beginning or ending inventory listings.

> **RECOMMENDATIONS:**
> 1. *Golf course employees should not de-activate SKU numbers from inventory if merchandise items for the SKU remain on the sales floor or if count values, either positive or negative, remain.*
> 2. *Golf Course management should use the less active time of the year to review and standardize the assignment and use of SKU numbers.*

Half of instance numbers initiated to record "purchases" were actually inventory count adjustments, not purchases. (§3.1 of Report) For the period examined, we found inventory count adjustments, both negative and positive, in 1,897 out of 3,801 total purchasing instance numbers. We determined their status as adjustments because of the following annotation: "balances out Unaccounted QTY due to Update via PDA/Scanner or Manually." ("balances out"). However, the generic "balances out" description does not adequately explain why the adjustment occurred. This lack of clarity in the description could conceal, for example, merchandise theft, because of the "balance out" explanation of the adjustment. Using the same description for any kind of adjustment would make a theft indistinguishable from a legitimate transaction, such as the transfer of merchandise to another pro-shop.

There was no uniform procedure for completing the "Purchase Request" form. (§4.4 of Report). The Purchase Request form is used by the Head Pros for authorizing payment to vendors by the Custodian. This document was completed differently and inconsistently. Three golf courses typically entered a generic description "merch for resale" in the "Description of Items" field. The other golf courses entered brief item descriptions such as, "clubs." Generic terms like "merch for resale" make it difficult to trace purchases from the Purchase Request back to the invoice.

The form is actually a payment *authorization* and not a purchase *request,* as this term is typically used. In fact, there is no Purchase Request (PR) or Purchase Order (PO) completed in the golf-operations purchasing process. These purchases of inventory for resale fall outside of the County Contracts and Procurement oversight.

In addition, the Purchase Request includes blank lines for a "PR#," and a "PO#." The fields are not used to actually record a "PR#" or a "PO#." Generally, one or the other of these fields is used to describe the sequence number of a particular purchase for the current month.

Refer to Section IV for more details about these findings, as well as additional findings regarding the $50,000 Golf Imprest Fund.

II.   Introduction

We recently completed a performance audit of the $50,000 Golf Imprest Fund used exclusively for pro-shop merchandise purchases. The County operates six golf courses, each with its own pro-shop – Mountain View, Meadowbrook, Old Mill, Riverbend, South Mountain, and Mick Riley. Each Head Pro orders his own merchandise. Also, each golf course receives its own goods. Typically, delivery is by United Parcel Service (UPS). There is no central receiving location for all courses.

Once received, goods are marked-up to retail price, some mark-ups constituting a greater percentage of purchase cost than others, depending on pricing strategy. Typically, all goods are immediately placed on the selling floor, though some items, such as gloves, tees, or markers are stored in a back room for a time because of large quantities.

Goods are displayed in a way to promote customer appeal and prevent theft. Golf ball sleeves are displayed in a glass-enclosed case at the cashiering area or stacked as a display close by. Golf balls, because of their small size but relatively large value, are particularly vulnerable to theft. The popular Titleist ProV1 ball, for example, retails at over $10 a 3-ball sleeve. One high-value item, sunglasses, which typically retail at over $100, remain locked in a glass display case for customers to view.

Clubs are displayed close to the cashiering counter. Past experience of having golf clubs displayed near outside windows resulted in afterhours smash-and-grab thefts. Theft of golf clubs is attractive because some retail at over $400 each.

As one marketing strategy, mannequins are dressed to promote appealing shirt styles or combinations of shirts, vests, and hats on top of clothes racks. We commend the golf courses for their display creativity, particularly at some golf courses.

Each golf course is allocated an annual budget to stock their pro-shops. Once the budget is depleted, no more merchandise items can be purchased for the year.

Each golf course is allocated an annual budget to stock their pro-shops. Once the budget is depleted, no more merchandise items can be purchased for the year. Some golf courses, such as Old Mill, receive larger allocations than others due to customer traffic and sales potential. Each golf course also works to meet yearly sales goals or projections set for them.

The recent economic downturn impacted both sales projections and ability to meet those projections, though at least one golf course countered this trend to some extent. Also, the established limit for the imprest fund of $50,000 is at its lowest ceiling in several years. Recently, the ceiling has been as high as $80,000.

III.   Scope and Objectives

This audit examined the golf course imprest checking account covering the period from September 1, 2008 through August 31, 2009. It also examined certain transactions within the inventory tracking system extending from September 1, 2008 through November 20, 2009. The period for these transactions was extended to cover those that occurred later in the audit. We also examined account management and operation, and supporting vendor invoices. Finally, we examined the systems and procedures to track and account for merchandise items.

The objectives of our audit were to determine whether:

- Review of ordering, receiving, and paying for goods is proper and adequate.

- Monthly account reconciliations are performed by someone other than the Custodian.

- Checks are issued to vendors for whom supporting documentation and invoices are on hand.

- Inventory tracking systems and procedures produce accurate data and are applied accurately and consistently.

- Changes to system totals are documented, reasonable, and necessary.

Our work was designed to provide reasonable, but not absolute, assurance that the system of internal controls was adequate, records current, and daily transactions valid. We examined certain aspects of all purchases and a summary of sales from September 1, 2008 through November 20, 2009. Theft may have occurred in areas we did not examine and therefore would not be reported here. Nevertheless, our objective was to exercise due professional care in reviewing controls designed to prevent theft, and to review the substance and accuracy of each selected transaction. As with any operation where merchandise is sold, some retail theft is likely to have occurred.

IV. Summary of Findings and Recommendations

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1.2	Instance numbers assigned to purchases were not cross-referenced to checks issued, either in the running balance detail or in a separate spreadsheet.	The Custodian should cross-reference instance numbers to the check being issued, either in Quicken, or some other medium such as an Excel spreadsheet, and the cross-referencing should be performed in a way to provide for easy reference and sorting of numbers in chronological order.	15
2.0	Use of the Management System for Tracking Inventory		16
2.1	Negative inventory counts or item counts less than -0- occurred frequently and indicated lack of precision in inventory control.	1. Readable bar-code price tags should be placed on all items to the greatest extent possible. 2. Price tags should be electronically scanned at the time of sale, and if they cannot be scanned, the SKU number from the price tag should be keyed in first before referring to the on-line inventory directory.	16
2.2	Differences were found between expected ending inventory and actual system ending inventory, based on our understanding of the flow and affect on inventory of purchases, sales, and adjustments.	1. Golf course management, in collaboration with the software vendor, should develop and implement staff training on how transactions and adjustments flow through the system, including whether purchases and sales data are accurately adjusting their merchandise inventory. 2. If purchases and sales transactions do not correctly post, then adjustments should be made accordingly.	20

#	Finding	Recommendation	Main Report Reference Page
2.3	Several SKU numbers were not on the inventory list even though purchases and sales were still posted to them.	1. Golf course employees should not de-activate SKU numbers from inventory if merchandise items for the SKU remain on the sales floor or if count values, either positive or negative, remain. 2. Golf Course management should use the less active time of the year to review and standardize the assignment and use of SKU numbers.	25
2.4	The Inventory Valuation Report did not assign costs to negative-count items and some positive-count items.	1. Golf course management should work with Active Golf technicians to allow for all items in the Inventory Valuation Report, even those with negative counts, to have a value assigned instead of being valued at -0-. 2. Inactive SKU numbers, or those where no purchases or sales are occurring or expected to occur and where there is no count value, either positive or negative, should be periodically reviewed, de-activated, and removed from the inventory listing. 3. All SKU numbering in Active Golf should follow the standard protocol of 12 digits in length.	27
3.0	Tracking of Purchases and Sales		29
3.1	Half of instance numbers initiated to record "purchases" were actually inventory count adjustments, not purchases.	1. Notations should be made in each adjustment instance number to describe the transaction, for example, "transferred," "missing or stolen," or "damaged," and the action taken when items can't be accounted for. 2. Golf course management should work with Active Golf technicians to change the automatic default notation, "balances out Unaccounted QTY due to Update via PDA/Scanner or Manually" to the more descriptive explanation suggested in number 1 above. 3. All adjustments to the inventory count should be reviewed and signed-off by a Golf Course management or a Parks and Recreation administrator.	30
3.2	Sales price multiplied by quantity did not always equal the extended amount in the Item Sales Summary Report.	1. Golf course management should consult with Active Golf personnel to determine why sales price multiplied by quantity does not always equal the extended amount and a resolution to this issue or further explanation should be obtained. 2. The possibility of adding a "quantity returned" column to the Item Sales Summary report should be explored so that counts for returns and voided items are separate from and not netted against the count of items sold.	34

#	Finding	Recommendation	Main Report Reference Page
3.3	Documentation was not available to explain why two different sales prices were sometimes charged for the same article.	Documented explanations for "alternate" pricing on the same item should be on file and reviewed by Golf Course Management.	36
4.0	Inventory Management, Tracking, and Verification		37
4.1	Golf clubs were missing from inventory at three of the courses where we conducted golf club inventory counts.	1. Golf course employees should be continually vigilant and aware of customer activities within the pro-shop to help prevent theft. 2. Golf club rental sets should not be charged to the SKU number assigned to the equipment each time the set is rented, but charged to a separate rental SKU set up for this purpose. 3. High-dollar items, particularly golf clubs, should receive added attention to prevent theft, including locating them away from the pro-shop exit doors, making regular spot counts, and comparing them to system inventory lists. 4. A bar-coded price tag should be attached to all golf clubs as soon as possible after they are received from the vendor.	39
4.2	Some golf courses did not post their inventory counts in Active Golf.	Additional training should be provided to golf professionals in the conducting and posting of inventories within Active Golf to ensure that inventory counts are posted as system functionality provides.	40
4.3	Explanations were not documented for differences between the invoice count and the count entered into Active Golf.	1. Parks and Recreation and Golf Course Management should provide time and focus on adequate training of employees on the correct procedures for accounting for purchases, sales, adjustments, and reconciliations of merchandise inventory. 2. Explanations should be included in the notes section of the Purchase Request and/or the invoice copy to explain any invoice counts that differ from counts entered into Active Golf. 3. The complete instance number should be clearly, entered on the Purchase Request as a four-digit number. 4. Invoices that show credits should not be netted against separate purchase invoices in the purchasing database.	41

#	Finding	Recommendation	Main Report Reference Page
4.4	There was no uniform procedure for completing the "Purchase Request" form.	1. Use of the term "merch for resale" as the description on the Purchase Request form should be discontinued and a description of the items, such as "Adidas shirts," should be entered. 2. The Purchase Request form should be renamed to "Authorization for Payment" form, or something similar, to reflect actual usage. 3. The terms "PR" and "PO" should be discontinued on the Purchase Request form and replaced with a title or titles to describe actual information being entered.	43
4.5	The Custodian did not review receipt of promotional items from vendors to determine whether these were entered into Active Golf.	1. The Custodian should be given notification of receipt of all items free of charge from the vendor, and the Custodian should review whether these items were entered into Active Golf. 2. A notation should be made in the purchase instance number within Active Golf to state the number of any items received free of charge from the vendor.	44

V.   Findings and Analysis

We were pleased to find that monthly bank reconciliations were performed. A Parks and Recreation fiscal employee other than the imprest checking account custodian (Custodian) performed these reconciliations, indicating proper segregation of duties. As part of our audit, we reconciled this account each month for the period from September 1, 2008 through August 31, 2009. We found no unusual reconciling items. The running balance was accurately tracked and calculated. As an additional positive finding, we noted organized hard-copy invoice files to support checks issued from the account.

Once goods are purchased and paid for, they must be tracked and accounted for until sold. Merchandise inventory management is an intricate and time-consuming task of entering new items into the inventory count, guarding against retail theft, taking periodic inventories, and ensuring that the correct items are removed from inventory at the time of sale. In our report, we note areas of concern related to inventory management, including tracking and review of purchases and accounting for sales and inventory on hand.

Our findings and analysis are divided into the following sections:

  - ➤ Checking Account Management and Review of Invoices
  - ➤ Use of the Management System for Tracking Inventory
  - ➤ Tracking of Purchases and Sales
  - ➤ Inventory Management, Tracking, and Verification

1.0   Checking Account Management and Review of Invoices

Quicken software is the application used in recording checks and maintaining the checking account's running balance. With this software, checks can be automatically printed instead of manually written, and the running balance is updated to reflect the amount of each check issued. The running balance detailed 310 checks totaling $382,242 issued between September 1, 2008 through August 31, 2009, and 11 reimbursements totaling $397,870.

Active Golf Solutions (Active Golf) is a third-party software that is used to track inventory from purchase and receipt to sale of merchandise.

Also, the Active Golf Solutions software (Active Golf) is used to track inventory from purchase and receipt to sale of merchandise. The software administrator is the Mountain View Head Golf Professional (Head Pro). Active Golf is third-party software that resides on a SQL server administered by County Information Services (IS). IS acts as a systems administrator only. There is no dedicated database administrator.

The Custodian, alone, issues checks to vendors to pay for merchandise ordered. She does so upon authorization from the Head Pro, at the course where the order was placed. The document that authorizes her to do so is a "Purchase Request." The Head Pro electronically signs this form, and includes on it a brief summary of goods purchased and their purchase cost. The form is then posted on the common "G: drive" for the Custodian to reference when preparing to pay the invoice.

This electronic process eliminates paperwork and saves gas otherwise consumed in personally delivering authorization forms to the Custodian, a procedure in effect before electronic system implementation. The Purchase Request is an Excel document that is not linked electronically to Active Golf.

The Head Pro reviews the invoice prior to completing the Purchase Request. The vendor sends the invoice to the Custodian who then posts it on the "G: drive" for the Head Pro to review. If he concurs that goods were received as stated and that they were correctly priced, he authorizes payment through the Purchase Request.

Active Golf generates an instance number each time an item or batch of items is entered into or adjusted in the inventory module. The Head Pro manually enters this number on the space provided in the Purchase Request.

Our two findings in the area of Checking Account Management and Review of Invoices were as follows:

> ➤ ***The Custodian did not determine whether invoice item counts were entered into Active Golf prior to issuing payment to the vendor.***

> ➤ ***Instance numbers assigned to purchases were not cross-referenced to checks issued, either in the running balance detail or in a separate spreadsheet.***

1.1   The Custodian did not determine whether invoice item counts were entered into Active Golf prior to issuing payment to the vendor.

The Custodian did not see a need to perform this review since the Head Pro had reviewed and approved the invoice and presumably entered the items of merchandise into the system.

The Director of Golf Courses (DGC) reported that the Custodian had been performing some kind of item input review several years ago when a prior system was in the use. However, this review process was discontinued once Active Golf was implemented, and verification and review was not deemed as important because of automated features in

Active Golf. However, the Purchase Request, which triggers the vendor payment, is not linked to Active Golf to even enable such an automated crosscheck.

Merchandise theft could easily be concealed by failing to enter newly received items into the Active Golf inventory management module. Failure to enter these items would go unnoticed since no one else conducts a review. Only the golf professional charged with performing this step would know whether items were actually posted. The looseness of this control became more evident as we examined the procedures for inventory counts and adjustments in subsequent sections of this report

> *RECOMMENDATION:*
> *The Custodian should review each instance number in Active Golf on which a check is being issued to verify that items paid for have been entered into the inventory system.*

1.2   Instance numbers assigned to purchases were not cross-referenced to checks issued, either in the running balance detail or in a separate spreadsheet.

The instance number generated for merchandise items entered into Active Golf inventory is not cross-referenced to the check issued for payment of these goods. Issued check numbers are listed chronologically in Quicken and cross-referenced to supporting invoices but not to instance numbers.

Lack of instance number cross-referencing creates opportunity for unauthorized payments.

Lack of instance number cross-referencing creates opportunity for unauthorized payments. Issuing a check to a phantom vendor account could easily be concealed because the lack of a cross-reference to instances entered into Active Golf provides no verification that goods paid for are entered into inventory.

Under current procedure, the check copy is matched and stapled to hard copies of the supporting invoice and Purchase Request containing the instance number and a short description. Management felt this process provided sufficient matching and verification. However, documents are filed by vendor name and not instance number. Therefore, validating a vendor payment requires sorting through files to chronologically list instance numbers and the check number match ups. Currently, no chronological listing of instance numbers with cross-referenced check numbers exists.

Cross-referencing gains added importance when considering that many instance numbers are used to adjust inventory counts, an issue discussed later in this report. Positively distinguishing purchases from adjustments was somewhat difficult because instance numbers were not cross-referenced to check numbers.

> *RECOMMENDATIONS:*
> *The Custodian should cross-reference instance numbers to the check being issued, either in Quicken, or some other medium such as an Excel spreadsheet, and the cross-referencing should be performed in a way to provide for easy reference and sorting of numbers in chronological order.*

2.0 Use of the Management System for Tracking Inventory

Inventory counts are automatically updated in Active Golf to record each sale and each newly-acquired item of merchandise, allowing for greater accuracy and precision.

The on-hand or in-stock inventory item count is available at any time through Active Golf. Inventory counts are automatically updated to record each sale and each newly-acquired item of merchandise. This "perpetual" inventory system allows for greater accuracy and precision in determining inventory that should be on the sales floor. Complete merchandise listings of inventory counts and dollar values are available in Active Golf as a standard report query.

Our findings in the area of Use of the Management System for Tracking Inventory are as follows:

➢ *Negative inventory counts, or item counts less than -0-, occurred frequently and indicated lack of precision in inventory control.*

➢ *Differences were found between expected ending inventory and actual system ending inventory, based on our understanding of the flow and affect on inventory of purchases, sales, and adjustments.*

➢ *Several SKU numbers were not on the inventory list even though purchases and sales were still posted to them.*

➢ *The Inventory Valuation Report did not assign costs to negative-count items and some positive-count items.*

2.1 Negative inventory counts, or item counts less than -0-, occurred frequently and indicated lack of precision in inventory control.

These negative counts resulted from cashiers ringing sales under wrong Stock Keeping Unit (SKU) numbers. For example, a SKU number with a system's count of -0- would become (-1) if a sale was subsequently posted to it.

As routine procedure, pricing and inventory information is electronically scanned from the merchandise price tag at the time of sale. However, if the bar code cannot be read, the information is entered manually, either by keypad or touch screen. This is done by keying in the SKU number either from the price tag, or by an on-line search of inventory items listed in the database. Either of these procedures is subject to error and often results in the wrong item selected. This is especially true when the cashier is busy with customers.

Negative counts result from cashiers ringing in sales under wrong SKU numbers.

Researching on-line for pricing information is required when bar codes are not tagged on new merchandise, if bar codes rub off, or otherwise cannot be read by the scanner. For example, at Old Mill, the bar codes were often not properly centered on the price tag when printed, and therefore could not be read electronically at the time of sale.

Also, golf ball sleeves are not tagged at some courses, due to differing Head Pro management priorities. When sleeves are sold, a price list with SKU numbers and item descriptions is kept at the cash register and referred to at the time of sale. Referral to this list can easily lead to wrong selection as one golf ball brand/type may be confused with another.

In addition, some cashiers avoid scanning the price tag altogether and refer to the on-line pricing directory in Active Golf. They assert that this option is faster than scanning the bar code, which is sometimes difficult for the optical scanner to pick up.

In our analysis, we examined the number of negative-count inventory items as of November 20, 2009. We extracted inventory descriptions, counts, and values as of that date from an Active Golf inventory report. We used Excel and Audit Command Language (ACL), a data mining and analysis tool, to isolate negative-count items.

Table 1, on page 18, summarizes the total number of SKUs used in inventory at each golf course as of November 20, 2009. The table also shows total item counts within those SKUs, the value of the ending inventory, the number of SKUs, and number of items within those SKUs with a negative count. Also shown is the percentage of SKU numbers with a negative count compared to total SKU numbers used at each course, and the percentage of negative item counts to total ending inventory count at each course.

Analysis of Ending Inventory and Negative Counts at November 20, 2009						
Golf Course	Total SKUs Used in End Inv	Total End Inv Item Count	Total End Inv Value	# of SKUs with Negative Count	% to Total SKUs	Total Negative Inv Count	% to Total Item Count
Old Mill	237	4,395	$50,503	1	0%	-740	16.80%
So Mountain	530	7,988	$45,131	26	4.90%	-141	1.80%
Mountain View	835	16,712	$29,715	34	4.10%	-109	0.60%
Meadowbrook	383	2,985	$21,719	45	11.70%	-791	26.50%
Riverbend	616	12,702	$51,075	2	0.30%	-2	0%
Mick Riley	296	17,888	$21,844	16	5.40%	-354	2%
TOTALS	2,897	62,670	$219,987	124	100%	-2,137	100%

Table 1. Negative inventory counts were over 100 at all courses except one.

Meadowbrook posted the highest negative item count in its inventory, (-791), followed by Old Mill with (-740). Meadowbrook also posted the highest number of SKUs with a negative count, 45. Old Mill's negative item count of (-740) is wholly contained in one SKU number.

Fewer negative-count items do not necessarily indicate better inventory control or attention to detail, since negative numbers can be removed from the inventory system to bring the count to zero. A consequence of negative SKU removal is system inventory overage.

> *Fewer negative-count items do not necessarily indicate better inventory control or attention to detail, since negative numbers can be removed from the inventory system to bring the count to zero.*

For example, if an SKU number has two shirts assigned to it, and one of these shirts, at the time of sale, is removed in error from another SKU category with a zero count, the zero-count SKU will then show an inventory of (-1). If the (-1) count is subsequently adjusted and brought to zero the original two shirts, with their SKUs, remain in inventory even though the one sold is no longer on the sales floor. In the end, the system count exceeds actual count by one.

Also, Table 1 shows fewer SKU numbers used at some golf courses than others, indicating a lack of standardized approach to inventory acquisition and management. At courses where a larger numbers of SKUs are used, there is greater differentiation by size, style, and other characteristics. Conversely, fewer SKUs indicate less differentiation. For example, shirts of one style may be grouped under a single SKU number, regardless of size. Some Head Pros assert that fewer SKU numbers create a less confusing inventory control system and eliminate time and effort required for extensive differentiation of merchandise. Other Head Pros find using more SKUs helpful in tracking merchandise sales trends.

We noted that the Active Golf Systems Administrator has developed and implemented a standard, 12-digit SKU numbering system. This approach establishes a consistent numbering format for the category of merchandise (clubs, balls, shirts), the vendor (Nike, Callaway, Taylor

Made), and the specific item (Titleist Pro V1). However, Head Pros have the latitude to enter or modify these numbers as they wish.

In addition, Table 1 shows wide disparity in the number of items on hand. Meadowbrook had 2,895 items compared to Mick Riley's 17,888. Significantly higher item counts are due to large numbers of small items, each costing under $1, such as tees and spikes.

Table 2 below assigns values to negative count inventory items, providing a clearer understanding of their significance. The percentage of values at each course to overall value is shown. The last two columns show ending inventory count and value adjusted for negative amounts.

Values Assigned to Negative Counts and Extended to Total Inventory				
Golf Course	Negative Inventory Value	% of Total Negative Value	Adjusted Ending Inventory Count	Adjusted Ending Inventory Value
Old Mill	($74)	0.05%	3,655	$50,429
South Mountain	($1,707)	13.50%	7,847	$43,424
Mountain View	($1,290)	10.20%	16,603	$28,425
Meadowbrook	($5,095)	40.30%	2,194	$16,624
Riverbend	($39)	0.03%	12,700	$51,036
Mick Riley	($4,435)	35.10%	17,534	$17,409
TOTALS	**($12,640)**	**100%**	**60,533**	**$207,347**

Table 2. *Negative inventory values were greatest at Meadowbrook and Mick Riley.*

Table 2 shows that Old Mill's negative inventory count (-740) had a relatively small value of $ -74. This was because these items were used golf balls that sell for only a few cents each. Other golf courses show values more indicative of larger-valued inventory items.

The overall negative-count dollar value of $ -12,640 approximates 6% of ending inventory value ($12,640 / $219,987). Negative-count items and subsequent corrections to bring them to zero indicate insufficient inventory control. Lack of precision creates an environment where theft of goods could more easily occur without being detected because theft would not be distinguished from sales input errors. Therefore, attaching readable bar codes to merchandise and scanning these for pricing and inventory information helps prevent theft.

> *RECOMMENDATIONS:*
> 1. *Readable bar-code price tags should be placed on all items to the greatest extent possible.*
>
> 2. *Price tags should be electronically scanned at the time of sale, and if they cannot be scanned, the SKU number from the price tag should be keyed in first before referring to the on-line inventory directory.*

2.2   Differences were found between expected ending inventory and actual system ending inventory, based on our understanding of the flow and affect on inventory of purchases, sales, and adjustments.

In our analysis, we calculated an ending inventory amount based on the sum of beginning inventory, at September 1, 2008, plus purchases, minus sales through November 20, 2009, the ending inventory date used in our analysis. Our purpose was to determine whether the system inventory was updated correctly and completely for all sales and other transactions.

In making this determination, we compared our calculated amount described above to the Active Golf ending inventory for November 20, 2009. Our calculated ending inventories, by SKU for all items, did not match Active Golf in many cases. Some item counts were greater and others less.

We arrived at these differences by subtracting their Active Golf ending inventories by SKU from our ending inventories by SKU. We performed this comparison for all 2,897 SKU numbers. Therefore, if the Active Golf count was less than our calculation, a negative difference resulted.

Our calculated ending inventory captured more SKU numbers with negative item counts than Active Golf system.

We noted that our calculated ending inventory captured more SKU numbers with negative item counts than Active Golf. We found 309 SKUs with negative counts totaling 5,474 items, with a calculated dollar value of $32,146. This amount exceeded Active Golf ending inventory negative count values, as discussed in the previous section, by more than $19,000.

We used data from reports and databases within Active Golf to arrive at our calculated item counts as follows:

- We derived beginning inventory counts and values from the Active Golf "Inventory Valuation Report," which included item counts for 2,879 individual SKU numbers

- We derived sales from the "Item Sales Summary Report" for the period, which summarizes counts and sales prices of items sold by SKU for the period specified, but does not show each individual occurrence of a sale.

- An IS Internet Network Specialist extracted purchasing data for us from the Active Golf database. Item counts for purchases were summarized by the instance number that was entered into Active Golf.
  - We noted from the data extracted that an instance number usually has more than one item assigned to it.
  - Purchasing data also included inventory count adjustments, which did both increase and decrease inventory counts.

We imported inventory, sales, and purchasing data into ACL for further analysis, and joined them into a single file to provide for calculation of ending inventory and comparison to Active Golf ending inventory. Table 3 below summarizes the results of this process at all six golf courses.

This table shows differences in item count between our calculation and the Active Golf ending inventory. As previously discussed, our "computed" ending inventory, shown below, is the result of adding purchases to beginning inventory and subtracting sales.

The second tier shows dollar values assigned to item counts. The computed Cost of Goods Sold (COGS) column is a number derived from Beginning Inventory Value + Purchases – Computed Ending Inventory Value. Computed COGS of $410,661 compared to Active Golf average costs of $449,000 for the period. These two numbers differ because 233 SKU numbers included in our computed ending inventory value had no values assigned in Active Golf. We assigned values based on our own cost estimates. Also, Active Golf's computational routine in arriving at average costs was not known, preventing further isolation of differences.

Analysis of Computed Ending Inventory Compared to Active Golf Ending Inventory					
Beg Inventory Item Count	Purchases Item Count	Sales Item Count	Computed Ending Inv Count	Active Golf End Inv Count	Difference
67,954	55,358	66,479	56,833	60,533	3,700
Beg Inv $ Value	Purchases at Cost	Computed COGS	Computed Ending Inv $ Value	Active Golf End Inv $	Difference
$266,470	$368,176	$410,661	$223,985	$219,987	($3,998)

Table 3. Ending inventory decreased over beginning inventory counts and quantities.

Item counts in Table 3 are the net of both positive and negative count values for the 2,897 SKUs numbers in the data set. However, dollar values represent positive counts only because the Inventory Valuation

Report does not assign a value to negative-count items. However, in the previous section of the report, we estimated a dollar value for Active Golf negative counts, the methodology of which will be discussed in a subsequent section of the report.

As noted in Table 3, the Active Golf totals exceeded our computed ending inventory by 3,700 items. However, the dollar value of positive-count items in our computed ending inventory exceeded Active Golf by $3,998.

Table 4 below shows a breakdown of differences between our "computed" and the Active Golf ending inventory for each of the six golf courses. It shows the total number of SKU numbers used at each golf course during the period examined; the difference between "computed" and Active Golf ending inventory by item count; and the number of SKUs where negative ending counts occurred, or where the "computed" count was greater than Active Golf ending inventory. (Typically, more than one item is included in each SKU, which explains why the item count is greater than the count of SKU numbers.) The total number of negative-count items is also shown.

		Analysis of Computed Ending Inventory to Active Golf Ending Inventory with Negative Differences					
Golf Course	**SKU #s Used**	**Auditor's Computed Ending Item Count**	**Active Golf Ending Item Count**	**Net Difference**	**# SKUs with Negative Count**	**% to Total SKUs**	**Negative Item Count**
Old Mill	237	836	3,655	2,819	53	22.40%	-710
So Mountain	530	7,551	7,847	296	30	5.70%	-132
Mt. View	835	16,904	16,603	-301	46	5.50%	-367
Meadowbrook	383	2,839	2,194	-645	53	13.80%	-1,020
Riverbend	616	12,878	12,700	-178	40	6.50%	-314
Mick Riley	296	15,825	17,534	1,709	57	19.30%	-398
TOTALS	**2,897**	**56,833**	**60,533**	**3,700**	**279**	**9.63%**	**-2,941**

Table 4. *The 2,819-item count difference at Old Mill between calculated and Active Golf ending inventory was the largest among the golf courses.*

This analysis continues in Table 5, on page 23, where positive differences between our count and Active Golf ending inventory are shown. A positive difference occurred when our "computed' amount was less than Active Golf ending inventory. Also shown is the number of SKUs where no differences occurred between "computed" and Active Golf ending inventories.

Analysis of Computed Ending Inventory to Active Golf Inventory With Positive or -0- Differences					
Golf Course	**# SKUs with Positive Count**	**% of Total SKUs**	**Positive Difference Item Count**	**# SKUs with No Differences**	**% to Total SKUs**
Old Mill	120	50.60%	3,529	64	27%
South Mountain	34	6.42%	428	466	88%
Mountain View	31	3.71%	66	758	91%
Meadowbrook	34	8.90%	375	296	77%
Riverbend	6	0.97%	136	570	93%
Mick Riley	88	30.00%	2,107	151	51%
TOTALS	**313**	**10.80%**	**6,641**	**2,305**	**80%**

Table 5. *In most cases, there were no differences between calculated and system ending inventory.*

Table 5 shows that most positive differences occurred at Old Mill and Mick Riley. 51% of Old Mill's SKU numbers and 30% of Mick Riley's SKU numbers revealed system item counts greater than our "computed" count. This occurrence rate was less than 7% at the other courses. High occurrences at Old Mill and Mick Riley indicate a greater rate of adjustments to item counts within the inventory database.

Table 5 also indicates that a combined average 80% of SKU numbers showed no difference between Active Golf item counts and our calculation. Individually, by golf course, the percentage of agreement ranged from a high of 93% at Riverbend to a low of 27% at Old Mill, an amount that significantly impacted the overall percentage.

Dollar values are assigned to these item count differences in Table 6, on page 24. Dollar values allow for clearer understanding of the significance of differences. Table 6 shows dollar values assigned to both positive and negative item count differences. Negative item count differences were referenced in Table 4, and positive item count differences were referenced in Table 5. The net value of these differences is a positive $12,905 ($60,047 - $47,142).

Value of (-) & (+) Differences between Computed & Active Golf Ending Inventories				
Golf Course	**Negative Difference Value**	**% of Total Negative Difference**	**Positive Difference Value**	**% of Total Positive Difference**
Old Mill	($14,305)	30.30%	$33,104	55.10%
South Mountain	($4,756)	10.10%	$9,360	15.60%
Mountain View	($4,799)	10.20%	$1,730	2.90%
Meadowbrook	($9,118)	19.30%	$3,429	5.70%
Riverbend	($8,168)	17.30%	$687	1.10%
Mick Riley	($5,996)	12.70%	$11,737	19.60%
TOTALS	**($47,142)**	**100.00%**	**$60,047**	**100.00%**

Table 6. The greatest differences by dollar value between our calculation and Active Golf ending inventory were at Old Mill.

While the analysis presented thus far provides a generalized view of the data, Table 7 below provides six specific examples of differences between our "computed" and Active Golf ending inventory. These examples represent six SKU numbers out of 2,897 in total from the database. Each line represents one SKU number out of many in the same category. For example, the glove item in Table 7 is one of 354 glove SKUs that golf courses used during the time period we examined.

Six Examples of SKUs Where Calculated and Active Golf Ending Inventories Did Not Match						
Location	**Description**	**Beg Inventory Count**	**Items Purchased Count**	**Items Sold Count**	**Computed Ending Inventory**	**Active Golf Ending Inventory**	**Diff**
Old Mill	Gloves	111	131	95	147	38	-109
Old Mill	Tees	412	3,003	2,824	591	2,166	1,575
Mick Riley	Shirts	-3	67	49	15	22	7
Mick Riley	Clubs	0	9	4	5	1	-4
South Mountain	Caps	32	30	19	43	11	-32
Riverbend	Sunglasses	13	0	6	7	3	-4

Table 7. The five SKU categories shown here are taken from the 2,897 in total.

To determine if differences could be explained by inventory count adjustments, we referred to Active Golf purchasing data obtained for our analysis. We noticed that the glove-item count was adjusted upward by 107, approximating the 109-item count difference noted. The 107-item count adjustment was the sum of two adjusting entries, one for 34 items, and the other for 73 items. The SKU number was 020012600001.

In the club category, we found a positive adjusting entry of four, which exactly matched the difference indicated. The SKU represented by this class of clubs was number 060003801002.

However, the actual correlation between these adjusting entries and differences shown above is difficult to establish and could be coincidental. Adjusting entries made for all other categories did not match or approximate the differences indicated in Table 7.

This analysis points to the need for better training of golf course staff to more clearly understand the transactional flow within Active Golf. Understanding this process would provide better assurance that all transactions, including inventory adjustments are properly posted within the system and the inventory counts are accurate. Without improved training and mastery of Active Golf, the reliability of sales data and inventory counts is not assured.

> *RECOMMENDATIONS:*
> 1. ***Golf course management, in collaboration with the software vendor, should develop and implement staff training on how transactions and adjustments flow through the system, including whether purchases and sales data are accurately adjusting their merchandise inventory.***
>
> 2. ***If purchases and sales transactions do not correctly post, then adjustments should be made accordingly.***

2.3 Several SKU numbers were not on the inventory list even though purchases and sales were still posted to them.

SKU numbers for these purchases and sales did not match SKU numbers in either beginning inventory of September 1, 2008 or ending inventory of November 20, 2009, as found on the "Inventory Valuation Report." In essence, these were non-matching SKU numbers when compared to the inventory reports.

We extracted non-matching items from the same data sets mentioned in the previous section, though they were excluded in our calculation of beginning inventory plus purchases minus sales.

From our ACL analysis, we noted that 168 purchase-related and 124 sales-related SKU numbers were not found in either beginning or ending inventory listings for the dates we specified. Table 8, on page 26, summarizes these non-matching numbers for purchases and adjustments. Many non-matching items represented adjustments to inventory counts.

Analysis of the 168 SKUs Representing Purchases Not Matching Active Golf Beginning or Ending Inventory						
Golf Course	Non-Match SKU Count	% of Total Non-Matching SKUs	Positive Item Count	Negative Item Count	$ Value of Positive Count	$ Value of Negative Count
Mick Riley	76	45.20%	252	-221	$2,583	($2,485)
Mountain View	18	10.70%	188	-56	$1,683	($555)
Old Mill	66	39.30%	152	-794	$2,102	($5,923)
Riverbend	6	3.60%	260	-113	$1,334	($203)
South Mountain	2	1.20%	102		$841	
TOTALS	168	100.00%	954	-1,184	$8,543	($9,167)

Table 8. *Most non-matching SKU numbers occurred at two golf courses.*

As noted in Table 8, 84.5% of non-matching, purchase-related SKU numbers occurred at Mick Riley and Old Mill (45.2% + 39.3%). These two golf courses also accounted for over 90% of negative item counts within these SKUs, and 55% of the positive count. When dollar values are applied to counts, these percentages stay nearly the same. Non-matching SKU numbers were indicated for five of the six golf courses, Meadowbrook being the exception. No non-matching SKU numbers appeared in their data.

Table 9 below summarizes the 124 sales-related SKU numbers that did not match those in either beginning or ending Active Golf inventory for our specified dates. The data itself referenced the fact that these SKU numbers were not found in existing inventory detail. Normally the description field of the Item Sales Summary Report states the name of the product corresponding to the SKU number, such as, "Odyssey Crimson Putter." However, the statement, "no sku ref" appears in the description field for these 124 numbers.

Analysis of the 124 SKUs Representing Sales Not Matching Active Golf Beginning or Ending Inventory				
Golf Course	Non-Matching SKU Count	% of Total Non-Matching SKUs	Sales Quantity	Sales Net Value
Meadowbrook	1	0.01%	2	$20
Mick Riley	58	14.00%	132	$4,277
Mountain View	15	19.10%	180	$2,658
Old Mill	44	42.20%	398	$4,990
Riverbend	4	20.30%	192	$2,045
South Mountain	2	4.20%	40	$526
TOTALS	124	100.00%	944	$14,516

Table 9. *Most of non-matching sales occurred at four golf courses.*

While these SKU numbers did not match inventory listings, we did note that some sales-related SKU numbers matched purchases. Using ACL, we found 74 SKU numbers from Table 9 that matched purchase-related SKU numbers in Table 8. Once these sales were applied to purchases, we found that item counts in 33 of the 168 SKU numbers noted in Table 8 were reduced to zero. The other 135 SKU numbers showed revised positive counts of 412 items and negative counts of 1,355 items.

Non-matching SKU numbers resulted from de-activation, i.e., the SKUs were deleted from the listing so as not to appear on the on the Inventory Valuation Report.

We concluded that non-matching SKU numbers resulted from "de-activation," i.e., the SKUs were deleted from the listing so as not to appear on the Inventory Valuation Report. De-activated SKU numbers were most-frequently indicated at Old Mill, where 42% of sales-related SKU numbers, in addition to 39.3% non-matching purchase-related SKU numbers mentioned previously, were non-matching.

Head Pros de-activate SKU numbers to delete negative item counts or to delete inventory items no longer thought to be present on the sales floor, and for which future purchases are not anticipated. The problem with this deletion process is that corresponding inventory items may remain on the sales floor.

Though these numbers are de-activated, they remain in the system for posting sales or purchases of merchandise occurring after de-activation. Any sales or purchasing-related data would require access to the database itself to be deleted. There was no indication of this having taken place.

RECOMMENDATIONS:

1. *Golf course employees should not de-activate SKU numbers from inventory if merchandise items for the SKU remain on the sales floor or if count values, either positive or negative, remain.*

2. *Golf Course management should use the less active time of the year to review and standardize the assignment and use of SKU numbers.*

2.4   The Inventory Valuation Report did not assign costs to negative-count items and some positive-count items.

In our analysis, we highlighted negative-count items and assigned item costs based on computed "average" cost in each category.

This report was our source for the beginning and ending inventories in our analysis. However, it did not assign costs to 19 SKU numbers whose item counts were positive; or to any of 124 SKU numbers showing negative counts. Total SKU numbers in the data set, as noted previously, were 2,897. Without assigning costs to all items, the report does not accurately reflect inventory value.

We previously highlighted these negative-count items and assigned item costs based on computed "average" cost in each item category. We arrived at the "average" cost by dividing the total category costs by the total number of items in that category to which a cost was assigned.

Our average cost calculations are shown in Table 10 below. In our calculation for category 13, Gift Accessories, we excluded some items that would otherwise skew the average downward. Within this category are items that range from 8-cent shoelaces and 74-cent logo balls, to $80 watches, $100 sunglasses, and $125 golf picture prints. Therefore, we excluded small-value items, which had large item counts, to contain the skewing effect.

However, when valuing negative-count items in the earlier section of this letter, we paid special attention to lower-cost items to ensure proper valuation. Instead of using the average cost of $11.34 shown in category 13 of Table 10, we used the cost that more approximated their actual value. Also, removal of these items creates a total inventory cost in Table 10 that approximates but does not equal Active Golf ending inventory value.

"Average" Cost Calculation Applied to Negative-Count Inventory Items				
Beginning Two Numbers of SKU	Item Description	Item Count	Total Cost	Average Cost Calculation
01	Balls	3,731	$23,968.12	$6.42
02	Gloves	1,542	$10,786.43	$7.00
03	Bags	92	$8,161.72	$88.71
04	Shoes	353	$19,918.70	$56.43
05	Headwear	2,112	$24,034.12	$11.38
06	Clubs	292	$40,061.26	$137.20
07	Men's Tops	671	$18,846.92	$28.09
08	Men's Bottoms	100	$3,155.99	$31.56
09	Men's Outerwear	323	$14,076.87	$43.58
10	Ladies Tops	183	$5,275.22	$28.83
11	Ladies Bottoms	37	$1,143.21	$30.90
12	Ladies Outerwear	59	$4,890.90	$32.05
13	Gift Accessories	2,560	$29,023.39	$11.34

Table 10. *The count is taken from Active Golf ending inventory at November 20, 2009*

In addition to costs not being assigned to some items, we found 1,764 SKU numbers in the Inventory Valuation Report that were no longer used. No activity occurred in these accounts during the period we examined, September 1, 2008 through November 20, 2009. There was no beginning or ending inventory and no purchases or sales activity reflected in these items.

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When unused SKU numbers are not purged periodically, sales of non-bar-coded items are more likely to erroneously post to them. If these errors are not discovered and adjusted, a negative-count inventory item is created. Also, unused SKU numbers may unduly complicate both the purchasing and point-of-sale process and cause improper accounting for in-stock items. Head Pros understand the importance of reviewing and purging these SKU numbers, but some have been more proactive than others have. Periodic review and deletion activities should be carefully done to avoid deleting valid, in-use SKU numbers as previously noted.

When unused SKU numbers are not purged periodically, sales of non-bar-coded items are more likely to erroneously post to them.

Finally, we found 10 to 20 SKU numbers that were less than the standard 12-digits in length. Most of these non-standard numbers were entered into the system by Riverbend. These shortened versions became evident in our review of the Item Sales Summary Report. For example, a Cleveland "Camo" golf bag was posted to an 11-digit SKU number, 03000038001, and Dermatone Chapstick was posted to a 10-digit number, 1300011002. This failure to follow correct protocol potentially creates confusion with golf-course staff as they refer to the inventory list, and could be a cause of input and tracking errors.

RECOMMENDATIONS:
1. *Golf course management should work with Active Golf technicians to allow for all items in the Inventory Valuation Report, even those with negative counts, to have a value assigned instead of being valued at -0-.*
2. *Inactive SKU numbers, or those where no purchases or sales are occurring or expected to occur and where there is no count value, either positive or negative, should be periodically reviewed, de-activated, and removed from the inventory listing.*
3. *All SKU numbering in Active Golf should follow the standard protocol of 12 digits in length.*

3.0   Tracking of Purchases and Sales

We received and merged two Active Golf purchasing data files. The IS Network Specialist exported this Active Golf data to Excel for our use and analysis.

We received Active Golf purchasing data in two files, one file with instance numbers, vendor names, and names of golf courses where data originated; and the other file with instance and SKU numbers, item descriptions, and costs. The IS Network Specialist exported this Active Golf data to Excel spreadsheets for our use and analysis.

The first file had 2,035 lines, one line for each separate instance number. The second file had 3,818 lines, one line for each batch of items entered. The second file was

larger because multiple batches were often posted to a single instance number. Each batch entered represented a separate line.

We merged both files into one using the instance number as the common key. Our previous analysis also required item count summarization on unique SKU numbers, since a SKU number repeated for each time a batch of goods posted to it. Without this summarization, our calculation of the ending of inventory (Beginning Inventory + Purchases - Sales) for each unique SKU, could not be performed. In this section, we further review statistics and findings related to purchasing data.

We extracted sales data for each golf course from the Active Golf "Item Sales Summary Report," for the period from September 1, 2008 through November 20, 2009. The report contained the number of items sold in each SKU number, the unit sales-price, the extended amount (sales price × quantity sold), returned items, net adjustments, and sales tax. We exported these files into Excel spreadsheets.

We noted 2,327 lines, each line representing a unique SKU number to which sales were posted. Among all six golf courses, many SKU numbers in the data set repeated because of same-type items at different locations, but for each individual golf course, all SKU numbers were unique.

Our findings in the area of Tracking Purchases and Sales are as follows:

> *Half of instance numbers initiated to record "purchases" were actually inventory count adjustments, not purchases.*

> *Sales price multiplied by quantity did not always equal the extended amount shown in the Item Sales Summary Report.*

> *Documentation was not available to explain why two different sales prices were sometimes charged for the same article.*

3.1   Half of instance numbers initiated to record "purchases" were actually inventory count adjustments, not purchases.

Our data set of purchases for the period examined included 3,801 purchase instance numbers, of which 1,897, or 50%, were annotated as

50% of the 3,801 purchase instance numbers were annotated as "adjustments" to inventory count.

representing adjustments to inventory count not related to new purchases. Typically, orders received from a vendor, with several items per order, are entered under one instance number. For example, Active Golf database instance number 4474 was used to post receipt of 52 shoes, 144 shoelaces, and 18 men's socks from the vendor Acushnet.

The on-line form used to enter newly acquired merchandise and adjustments includes a useful field for making notations. However, while a standard system-generated message populates this field for adjustments, Head Pros leave it blank, either because they were not aware of the field or because they saw no need to enter information into it. We assumed blank notation fields represented actual purchases.

We found 1,886 or 50% of the 3,801 instance numbers with these blank notation fields, which we deemed to represent purchases. Most of the other 50% included the following system-generated notation: "balances out Unaccounted QTY due to InvMainForm.asp." The adjustment notation may alternatively state: "balances out Unaccounted QTY due to Update via PDA/Scanner or Manually." ("balances out") For example, one such notation is found in instance number 5269 where sleeves of Titleist ProV1 balls in stock were reduced by 28. These balls were valued at $250.

Reasons for adjustments to item counts were not explained or provided in the data. Head Pros explained that automatic adjustments occur when inventory counts are entered that differ from existing system counts. Adjustments change the existing count to match the most recent inventory count. The automatically-generated instance number, therefore, would reflect the number of items that either increase or decrease the count.

However, Golf Course management may not regularly track changes because a time-consuming process of accessing each individual instance number in the database would be involved to determine where and when adjustments took place. As auditors, we had the advantage of viewing the entire database as a single unit as IS provided it to us. The instance numbers that identify count differences and make an adjustment should, more importantly, be used to further investigate and report on the causes of count differences. Golf Course management readily admits that they do not investigate these differences on any formal, consistent basis.

> *In addition to system-generated adjustments, manual-override adjustments are possible through an Active Golf's system's routine titled "balances out."*

In addition to system-generated adjustments, manual-override adjustments are possible through an Active Golf system's routine accessed through a menu item titled "balances out." However, the extent to which Head Pros accessed the system and adjusted inventory this way was not evident in the data we examined. We did not make individual inquiries of the Head Pros on this issue.

Table 11 on page 32 summarizes data tagged with the "balances out" notation, showing total instance numbers so annotated and the percentage of these to each golf course's total instance numbers used. The table also shows total instance numbers with positive adjustments and the percentage of these at each course to positive adjustments in total. Finally, the count of items with positive adjustments and their value are shown.

Summary of "Balances Out" Adjustments to Inventory Counts with Separate Summary of Positive Adjustments						
Golf Course	Total SKUs Used During Period Tested	"Balance Out" Instances	% "Balance Out" to Total Instances	Positive Adjustment Instances	Relative % Pos. Adj. Instances by Course	Items in Positive Adjustment Instances (Net)	Purchase Cost of Positive Adjustment Instances
Old Mill	636	427	67.10%	158	20.70%	1,320	$15,456
So. Mountain	500	183	36.60%	65	8.50%	533	$4,603
Mtn View	1,125	506	50.00%	234	30.70%	1,478	$14,871
Meadowbrook	374	181	48.40%	72	9.40%	1,208	$2,870
Riverbend	621	334	53.80%	127	16.60%	996	$8,259
Mick Riley	543	264	48.60%	106	13.90%	734	$7,692
Cent Stores	2	2		1		12	$0
TOTAL	3,801	1,897	50%	763	100.00%	6,281	$53,751

Table 11. *"Balance out" adjustments at each golf course represented at least 35% of their total instance numbers.*

Old Mill posted the highest percentage of instance numbers with "balances out" notations at 67.1%, but Mountain View posted the highest absolute number at 506. When examining positive adjustments only, or adjustments that increased the count total, Old Mill and Mountain View posted the highest item counts within their positive adjustments of 1,320 and 1,478, respectively, with dollar value of these counts of $15,456 and $14,871. Positive adjustment instance numbers were less than $9,000 at the other golf courses.

Table 12, on page 33, continues this same analysis but for instance numbers with negative inventory count adjustments. Following the same format as the previous table, the number of instance numbers with negative adjustments is shown as well as the percentage of these at each course to total negative instance numbers at all courses. The item count and value of items within these instance numbers are also shown.

Summary of Negative "Balances Out" Adjustments				
Golf Course	"Balance Out" Negative Adjustment Instances	Relative % Neg. Adj. Instances by Course Neg. Adj.	Items in Negative Adjustment Instances (Net)	Purchase Cost of Negative Adj
Old Mill	269	23.70%	-4,231	-$33,131.00
South Mountain	118	10.40%	-808	-$5,440.00
Mountain View	272	24.00%	-1,431	-$15,424.00
Meadowbrook	109	9.60%	-692	-$4,105.00
Riverbend	207	18.30%	-1,693	-$14,159.00
Mick Riley	158	13.90%	-1,431	-$11,553.00
Cent Stores	1		-12	$0.00
TOTAL	1,134	100.00%	-10,298	-$83,812.00

Table 12. Negative adjustments represent about 42% of ending inventory.

The highest-occurring rates of negative-count instance numbers were at Old Mill, with 269, and Mountain View, with 272. Likewise, by item count

Negative adjustments of $83,812 exceeded positive adjustments of $53,751 by a net negative difference of $30,061.

and value, Old Mill's negative count of 4,231 items, valued at $33,131, exceeded that of any other course. The dollar value was nearly twice the next highest negative dollar value. By contrast, South Mountain and Meadowbrook posted the lowest negative adjustment item count and dollar value. Overall, negative adjustments of $83,812 exceeded positive adjustments of $53,751, a net negative difference of $30,061. As a side note, we also found 18 instance numbers annotated as "credits" from vendors.

High inventory-count adjustment rates and lack of documentation explaining their occurrence creates an environment where theft, either external or internal, could easily be concealed. A theft, for example, could not be distinguished from a transfer of merchandise to another pro shop. The lack of supervisory oversight of these adjustments creates an environment of opportunity and rationalization, two legs of the stool that facilitate fraud and theft. Any form of personal or financial pressure on an employee or golf customer provides the perfect "third leg" of what is known as the fraud triangle: "**Opportunity, Rationalization, and Financial Pressure**."

The notation "balances out Unaccounted QTY due to Update via PDA/Scanner or Manually" provides insufficient explanation for adjustments to inventory counts. Better wording might be the following: "Adjusted for inventory counts that differed from existing totals" or "Item count adjustments due to transfer of goods to another pro shop." These phrases would more sufficiently describe the transaction occurring and allow for verification through review of invoices and other documents to which they relate.

Any common-sense review of the golf course inventory controls would question why so many inventory adjustments are tolerated without explanation and management investigation. Precise and descriptive explanations of follow up efforts would send a signal to golf course employees that inventory control is taken seriously. A tightening of controls would improve the work environment and establish a sense of accountability with golf course employees.

RECOMMENDATIONS:

1. **Notations should be made in each adjustment instance number to describe the transaction, for example, "transferred," "missing or stolen," or "damaged," and the action taken when items can't be accounted for .**

2. **Golf course management should work with Active Golf technicians to change the automatic default notation, "balances out Unaccounted QTY due to Update via PDA/Scanner or Manually" to the more descriptive explanation suggested in number 1 above.**

3. **All adjustments to the inventory count should be reviewed and signed-off by a Golf Course management or a Parks and Recreation administrator.**

3.2   Sales price multiplied by quantity did not always equal the extended amount in the Item Sales Summary Report.

Our recalculation of Unit Sales Price × Quantity (P × Q) reconciled to system-generated calculations in most instance numbers for the period examined, but variances were noted.

For example, at South Mountain the extended P × Q amounts did not match our recalculations in 52 out of 503, or 10%, of SKU numbers to which sales were posted. Of these 52, 14 were negative differences, meaning our recalculated amounts were greater than the extended amount on the Sales Summary Report, and 38 were positive. The greatest negative difference in value was $20; the greatest positive difference was $399.95.

We noted that positive differences often equaled amounts in the "refund" column. This observation indicates that return items are subtracted from item counts, but not the extended dollar value.

We noted that positive differences often equaled amounts in the "refund" column. For example, at Riverbend, three FootJoy Jackets were sold at a retail price of $134.95 each, or $404.85 ($134.95 × 3) total. However, the reported amount was $539.40, a difference of $134.95 ($529.40-$404.85), the same amount found in the refund column. These observations indicate that returned items are subtracted from item counts, but not the extended dollar value. This extended value remains as it was prior to the refund and the refund is then subtracted to arrive at a net dollar figure.

Despite this recurring trend, positive differences did not always equal refund amounts. For example, at South Mountain, the $399.95 positive difference mentioned previously related to a SKU number where two Titleist drivers sold at $399.95 each, for a total of $799.90. The reported amount was $1,199.85, a difference of $399.95. Presumably, this difference would represent the return or refund of one driver, but instead of the refund being $399.95 it was $135.98.

Also, in some cases, the refund column was blank despite differences between our recalculation and the extended amount shown in the report. In one SKU number at South Mountain, four Taylor Made clubs were sold at $159.95 each, totaling $639.80 ($159.95 × 4), but the extended amount in the report was $759.80, a difference of $120. The return column was blank. Therefore, refunds may explain differences in some but not all cases. No trends were apparent to explain negative differences such as trends just described for positive differences.

By golf course, recalculation errors ranged from a low of 11 at Mick Riley to a high, just noted, of 52 at South Mountain. Among all six golf courses, the extended amount did not recalculate in 189 out of 2,566 total SKU numbers to which sales were posted.

Recalculation inconsistencies raise questions as to report reliability, though nothing from our recent deposit testing indicates this is currently the case.

Recalculation inconsistencies raise questions as to report reliability, though nothing from our recent deposit testing at golf courses indicated unreliable sales data, and golf course professionals never raised this possibility with us. Any collections outages we encountered in our other audits were deemed the result of cashier and not system error.

Nevertheless, when the extended amount does not recalculate to P × Q, transactional flow cannot be adequately followed and understood. Because transactional flow is not easily followed, assurance that all transactions are correctly and completely posted is not readily attainable. The software administrator, who is the Mountain View Head Pro, was surprised to learn of recalculation differences, and stated that as far as he knew sales price multiplied by quantity sold equaled the extended amount.

RECOMMENDATIONS:
1. *Golf course management should consult with Active Golf personnel to determine why sales price multiplied by quantity does not always equal the extended amount and a resolution to this issue or further explanation should be obtained.*

2. *The possibility of adding a "quantity returned" column to the Item Sales Summary report should be explored so that counts for returns and voided items are separate from and not netted against the count of items sold.*

3.3   Documentation was not available to explain why two different sales prices were sometimes charged for the same article.

A good illustration of this finding was an occasion where 10 Titleist Vokey Wedges at Mick Riley were sold for $119.95 each, while one was sold for $85. As another example, one pair of Callaway brand shoes at South Mountain sold for $109.95, while another pair sold for $61, a difference of $48.95.

Head Pros have wide discretion in inventory pricing. Without adequate oversight and explanation this could lead to special pricing for employees their families, or friends.

Head Pros have wide discretion in inventory pricing. When we asked the software administrator why pricing differences occurred, he stated it was due to items being placed on sale. However, explanations for pricing decisions were not apparent to us from existing documentation and no pricing policies or guidelines were available or in existence. While "items placed on sale" is a plausible explanation, managerial discretion in pricing inventory items without adequate oversight and explanation could lead to special pricing for employees, their families, or friends.

The Item Sales Summary Report can display two different item prices on separate lines for the same SKU number. The word "alternate" appears by the secondary price. We did notice, however, a few cases where the descriptor "alternate" was recorded, even though only one line was generated for the SKU number instead of two.

Table 13, on page 37, shows the number of item-pricing lines generated by each golf course in the Item Sales Summary Report for the period examined. Also shown are the number of times a secondary item-pricing line with the descriptor "alternate" appeared. Typically, each line in the report represents a separate SKU number, unless a secondary price appears for the same SKU number. Also shown is the relative percentage of "alternative" line occurrences to total lines in the report.

Occurrences of Secondary Pricing in the Item Sales Summary Report			
Golf Course	Total Item - Pricing Lines in Sales Report	Times "Alternate" Item-Pricing Also Recorded	Relative Percentage of Alternate Item Pricing
South Mountain	503	114	22.70%
Meadowbrook	386	90	23.30%
Mick Riley	317	61	19.20%
Mountain View	619	13	2.10%
Old Mill	243	1	<.1%
Riverbend	498	1	<.1%
TOTAL	2,566	280	10.90%

Table 13. *Three of the golf courses show the most alternate pricing.*

Differing marketing strategies among the Head Pros is the most prevalent explanation for the use of secondary pricing.

As indicated above, Old Mill and Riverbend essentially had no secondary item pricing, while South Mountain, Meadowbrook, and Mick Riley had many.

Differing marketing strategies among the Head Pros is the most prevalent explanation for to the use of secondary pricing. Some Head Pros feel that placing items on sale is an effective inventory management tool, while others feel it is not. For example, the Old Mill Head Pro stated that he prefers not to place items on sale. In the long run, he feels he is able to sell inventory items, recoup their costs, and realize a profit. The alternate item-pricing instance numbers for Old Mill (1), shown in Table 13, tend to validate his assertion.

RECOMMENDATION:
Documented explanations for "alternate" pricing on the same item should be on file and reviewed by Golf Course Management.

4.0   Inventory Management, Tracking, and Verification

The Head Pro at each course orders merchandise directly from the vendor. He has independence and wide discretion in this process and with regard to the types of items to stock op and the vendor. The same vendor is typically used for repeat purchases of the same item. There has never been oversight of this process by the County's Contracts and Procurement Division.

The Head Pro's purchasing decisions are based on past experience, including knowledge of which items sell best, or which he feels may sell best. Decisions also involve conversations with vendors, review of vendor websites, and attendance at trade shows.

Market trends are difficult to predict because of trendy product loyalty and the continual introduction of new or upgraded equipment.

Market trends are difficult to predict because of trendy product loyalty and the continual introduction of new or upgraded equipment. A top-selling item one year may be difficult to sell the next. Items that are loss leaders, in addition to golf balls, are standard pro-shop merchandise. Loss leaders are designed to entice customers into more expensive purchases.

At some golf courses, the Head Pro retains all control over both ordering merchandise and recording items into the Active Golf inventory system. At other golf courses, receiving and entering merchandise inventory is delegated to one of the assistant professionals.

Once the calendar year is completed, the Assistant Director of Parks and Recreation receives an inventory report from each golf course. He summarizes their dollar values on a spreadsheet and forwards it to the Auditor's Office where an adjusting entry is made to update each golf course's ending inventory value. There is no crosscheck or reconciliation of ending inventories at this year-end cutoff and reporting time.

Security and shoplifting prevention is of primary concern. Though cameras are installed at pro-shops to view customer and employee activities, golf courses experienced several after-hours break-ins and thefts during 2009.

Our findings in the area of Inventory Management, Tracking, and Verification are as follows:

➢ *Golf clubs were missing from inventory at three of the courses where we conducted golf club inventory counts.*

➢ *Some golf courses did not post their inventory counts in Active Golf.*

➢ *Explanations were not documented for differences between the invoice count and the count entered into Active Golf.*

➢ *There was no uniform procedure for completing the "Purchase Request" form.*

➢ *The Custodian did not review receipt of promotional items from vendors to determine whether these were entered into Active Golf.*

4.1 Golf clubs were missing from inventory at three of the courses where we conducted golf club inventory counts.

We conducted inventories of golf clubs at Meadowbrook, Riverbend, and Mick Riley golf courses. We selected these courses because they were the three where we did not conduct regular cash and inventory audits in 2009. We selected only golf clubs because of their high value. Also, our time constraints prohibited us from counting and reviewing the entire inventory. Our procedure was to arrive on-site and request a copy of the Inventory Valuation Report.

Based on our comparison of items in this report to items actually observed, we found golf clubs missing at all three sites. A summary of our findings is provided in Table 14 below.

Summary of Golf Clubs Missing from 3 Courses Where Inventory Counts Were Conducted				
Golf Course	Clubs per Inventory Report	Clubs Not Located	Percent Not Located	Approx. Value of Missing Clubs
Meadowbrook	37	21	56.70%	$3,923
Riverbend	35	6	17.10%	$1,247
Mick Riley	16	7	43.80%	$571
TOTALS	88	34	38.60%	$5,741

Table 14. *39% of golf clubs were missing from courses where we conducted inventories.*

Most missing golf clubs at Meadowbrook were attributed to a "smash and grab" theft after hours earlier in 2009. Employees thought the stolen clubs had been removed from the inventory listing and were surprised to find them still listed. They questioned whether the system was operating correctly.

Mick Riley also experienced a break-in during 2009, which partially or completely explains the low total inventory count of 16 on hand. Not included in their missing club count of seven, noted in Table 14, was a negative 10 count for a Mizuno golf club rental set. This negative count resulted from rentals being posted to the golf club set in the inventory report. A negative one accrued for each rental processed through the point-of-sale terminal. However, posting the rental to the equipment itself instead of a separate rental account creates an inaccurate inventory count. An uninformed observer would believe that several golf club sales were posted to this SKU number in error.

Also at Mick Riley, we noted a particular club where beginning inventory was negative one (-1). Three clubs were then purchased and two were sold during period we examined. On the inventory list, the count was shown as -0- as it logically would have been by adding purchases and

subtracting sales. However, one club still should have been on hand since three were purchased and two were sold. An existing negative count cannot reduce the count of new purchases, or be used in computing actual inventory on hand for that item.

Also, we noted about 20 clubs stacked in a Mick Riley office that were not included in inventory, and two clubs that were included in inventory but not tagged. Untagged items create an environment where theft is more likely to occur. One of the untagged items was stored in an office because of fear it would be stolen if it were placed on the sales floor.

No ready explanation was offered for the seven missing golf clubs at Riverbend. Employees there did not comment to us on these items.

RECOMMENDATIONS:

1. **Golf course employees should be continually vigilant and aware of customer activities within the pro-shop to help prevent theft.**

2. **Golf club rental sets should not be charged to the SKU number assigned to the equipment each time the set is rented, but charged to a separate rental SKU set up for this purpose.**

3. **High-dollar items, particularly golf clubs, should receive added attention to prevent theft, including locating them away from the pro-shop exit doors, making regular spot counts, and comparing them to system inventory lists.**

4. **A bar-coded price tag should be attached to all golf clubs as soon as possible after they are received from the vendor.**

4.2 Some golf courses did not post their inventory counts in Active Golf.

Inventory counts can be posted in Active Golf and viewed in the "Inventory Reconciliation Report." Generally, these counts are performed and posted annually close to December 31.

Inventory counts can be posted in Active Golf and viewed in the "Inventory Reconciliation Report." Generally, these counts are performed and posted annually close to December 31.

We accessed the Inventory Reconciliation Report site and found that no inventory counts had been posted for Old Mill, a lapse the software administrator thought may have been due to not conducting a procedure called "rolling over" the inventory. In addition, no recent inventory counts were posted for Mick Riley. Their only two inventory counts posted were from 2007. The remaining four courses did have inventories posted, most of them as recently as 2009.

Some golf professionals complained about what they viewed as the system's failure to post their inventory counts or to update the perpetual count for actual counts entered. In the previous section, we noted that

stolen golf clubs appeared on the Inventory Valuation Report that Meadowbrook personnel stated should have been deleted due to their entering of an updated count. The employees showed us the physical count sheets for this procedure from October 2009.

When inventory counts do not appear in Active Golf, the system is not utilized as intended. Either the system was not operating correctly for counts that employees stated were posted, or employees did not understand how to use it correctly. The lack of posted counts within Active Golf prevents inventory review and monitoring, and corrective action to improve inventory management and prevent shrinkage from theft is not possible.

> *RECOMMENDATION:*
> ***Additional training should be provided to golf professionals in the conducting and posting of inventories within Active Golf to ensure that inventory counts are posted as system functionality provides.***

4.3   Explanations were not documented for differences between the invoice count and the count entered into Active Golf.

We examined backup documentation for 15 checks issued from the imprest checking account to determine whether items paid for were entered into the Active Golf inventory module. To make this determination, we compared supporting invoices to item counts in Active Golf. We found three checks where invoice item counts did not match Active Golf. Table 15 below summarizes the differences found.

Inventory Counts that differ between Invoice and Active Golf					
Golf Course	**Description**	**Instance Number**	**Invoice Count**	**Active Golf Count**	**Difference**
Old Mill	Clubs	4499	-2	0	2
Mick Riley	Shirts	4324	70	82	12
Mountain View	Shoes, Gloves, and Socks	Various	18	0	-18

Table 15. *Mt. View was an under count. The other two were over counts on the invoice.*

Items ordered by Mountain View and paid for but not found in Active Golf were based on nine invoices from the vendor, FootJoy. Actual item count was 41. However, a 23-item credit from the vendor produced the net count of 18 shown in Table 15.

The nine FootJoy invoices were referenced to check number 5088 for $1,302. Two Purchase Requests from the Mountain View Head Pro were attached. One of these requests referenced three instance numbers and the other one referenced four. However, the numbers appeared to be abbreviated because of comma placement. Instead of the four-digit length issued in Active Golf, they appeared to be three digits, and therefore, we

could not match them. We later understood that commas were misplaced. Once we understood how the figures should have appeared as four-digit numbers on the Purchase Request, we were able to match most of them to Active Golf.

Most of the (-18) item count difference from Table 15 is explained by the unit breakdown reflected on the invoice compared to a different, more extensive breakdown that the Mountain View Head Pro entered into Active Golf.

Despite this explanation, we noticed one case where an invoice with a credit was netted against a purchase. When this happens, description of transactional flow is inadequate and therefore not understood. The vendor credited the golf course for 24 shoes and the golf course purchased an additional 12, for a net credit of 12. Only the 12-count purchase appeared in the database.

One instance number on the Purchase Request, number 3160, did not correctly reference to the purchasing database. Meadow Brook was shown as the golf course making the purchase and the description was for baseball caps and towels, items not found on the Purchase Request. Vendor names did not agree. The Purchase Request indicated the vendor as Foot Joy, but the database indicated Callaway.

In addition, we could not find in the database 12 boxes of gloves for $658.78 referenced on one of the nine invoices. These were paid for in the same check referenced above. Likewise, one invoice for $111.46, also included in the $1,302 payment, was not referenced on either of the two purchase requests. This invoice detailed the purchase of gloves.

Numbers that appeared abbreviated inhibited our ability to determine whether invoiced items were entered into Active Golf. This lack of clarity in cross-referencing created doubt as to whether all items were entered into inventory.

A weak inventory control environment is evidenced by a lack of documented explanations for differences between invoice counts and counts entered into Active Golf.

The negative two (-2) club count at Old Mill was due to a credit from the vendor, Taylor Made. The Purchase Request listed this credit as well as a purchase of four golf clubs. The credit and the purchase were documented separately on two invoices. We found the four golf clubs in Active Golf, but not the reduction for the two golf club credit. We scanned other instance numbers for the amount of this credit but were unsuccessful in locating it.

The Head Pro at Mick Riley stated that the 12 additional shirts recorded in Active Golf resulted from double shipment on one order from the vendor, Ashworth Golf. The vendor told him to "just keep the shirts and don't worry about sending them back." These shirts, acquired at no charge from the vendor, were not referenced on Ashworth's invoice.

Lack of documented explanations for these differences is evidence of an inventory control environment where weaknesses need to be identified and adequacy of controls reassessed. Thus, assurance that all items received from vendors were accurately entered into Active Golf is significantly weakened. Even a common-sense assessment of these processes would question whether goods purchased actually made it through the sales process.

RECOMMENDATIONS:

1. *Parks and Recreation and Golf Course Management should provide time and focus on adequate training of employees on the correct procedures for accounting for purchases, sales, adjustments, and reconciliations of merchandise inventory.*

2. *Explanations should be included in the notes section of the Purchase Request and/or the invoice copy to explain any invoice counts that differ from counts entered into Active Golf.*

3. *The complete instance number should be clearly entered on the Purchase Request as a four-digit number.*

4. *Invoices that show credits should not be netted against separate purchase invoices in the purchasing database.*

4.4   There was no uniform procedure for completing the "Purchase Request" form.

The Purchase Request form is used by the Head Pros for authorizing payment to vendors by the Custodian. This important source document was completed differently by nearly all of the golf courses. Three of the six golf courses - Mick Riley, Meadowbrook, and Riverbend - consistently entered a generic description "merch for resale" in the "Description of Items" field. The other three golf courses entered item descriptions such as, "clubs," a better, yet incomplete description. Generic terms like "merch for resale" make it difficult to trace purchases from the Purchase Request back to the invoice.

The Purchase Request Form is actually a payment authorization not a purchase request, as the term implies.

The Purchase Request Form is actually a payment *authorization* and not a purchase *request,* as this term is typically used. So, the title of the form is misleading. In fact, there is no Purchase Request (PR) or Purchase Order (PO) completed in the golf-operations purchasing process. A phone call to the vendor is used to place an order. These purchases of inventory for resale fall outside of County Contracts and Procurement oversight.

In addition, the Purchase Request includes blank lines for a "PR#," and a "PO#." The fields are not used to actually record a "PR#," or a "PO#." Neither field is consistently completed. Generally, one or the other of these fields is used to describe the sequence number of a particular purchase for the current month. For example, an entry such as "02-004"

means the fourth purchase in February from the vendor named on the Purchase Request.

RECOMMENDATIONS:
1. **Use of the term "merch for resale" as the description on the Purchase Request form should be discontinued and a description of the items, such as "Adidas shirts," should be entered.**

2. **The Purchase Request form should be renamed to "Authorization for Payment" form, or something similar, to reflect actual usage.**

3. **The terms "PR" and "PO" should be discontinued on the Purchase Request form and replaced with a title or titles to describe actual information being entered.**

4.5   The Custodian did not review receipt of promotional items from vendors to determine whether these were entered into Active Golf.

During our review of files in the Custodian's office, we found invoices from a vendor where no charge was assessed. A -0- appeared in the amount field. These invoices were not attached to any check copy or copies of other invoices.

When we inquired of the Custodian, she stated these invoices represented items delivered free of charge to golf courses as promotional items. Some of the Head Pros, stated that items received free of charge were used to reduce the average cost of the inventory. As another explanation, the software administrator told us that a vendor sometimes delivered a club to the course for test usage, but later retrieved it.

Free items from vendors present an opportunity for theft since their receipt is not clearly indicated or entered into Active Golf and monitoring of these items is not sufficient. The promotional items noted on the invoices we found were 12 gloves, 2 golf clubs, and 25 sleeves of balls, all from Callaway Golf. Golf course professionals with whom we spoke stated that receipt of promotional items was not frequent.

RECOMMENDATIONS:
1. **The Custodian should be given notification of receipt of all items free of charge from the vendor, and the Custodian should review whether these items were entered into Active Golf.**

2. **A notation should be made in the purchase instance number within Active Golf to state the number of any items received free of charge from the vendor.**

Audit Report: Golf Imprest Fund - CONFIDENTIAL

In closing, we thank the Custodian for her time in answering our questions and for being of assistance during the audit. We also thank the golf professionals for their time and assistance.

The intent of this report is not to reflect negatively on the efforts of the Custodian or golf course professionals in managing and tracking pro-shop inventories, but to make observations and provide guidance that will help reduce retail theft, ensure integrity in the checking account operation, and contribute to profitability.

We welcome any questions or comments you have regarding the content of this report.