



## SALT LAKE COUNTY AUDITOR'S OFFICE

**JEFF HATCH**

AUDITOR

December 21, 2009

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

Re: Old Mill Golf Course Audit

Dear Michele:

In late October, we completed an audit of the Old Mill Golf Course. We were delayed in releasing this report due to overriding events. Our scope was limited to a review of internal controls over cash handling and depositing, accountability for change and petty cash funds, management of capital and controlled assets, and pro-shop merchandise inventory. It did not include issues of operational performance. Reference to any such issues is incidental to the scope just described. The objectives of our audit were to determine whether:

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

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

In general, we found internal controls over the business operations acceptable, and reflected management's concern that funds and County assets be managed to prevent theft, promote growth, and foster good customer relations. However, there were

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areas of internal control that raised concerns, which are discussed in further detail in the remainder of this report.

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 a sample of deposits from September 1, 2008 through August 31, 2009. Since we did not examine all transactions during this period, theft may have occurred without our discovering it. 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.

### **ACCEPTANCE OF CREDIT (PAYMENT) CARDS**

Credit and debit cards are commonly used at Old Mill Golf Course to pay for green fees, merchandise, and other services. Upwards of 200 payment-card transactions may be processed on a busy day. Cards are swiped through a “cherry-board” reader built into the top of the cash drawer. Information from the card is automatically transmitted to the third party payment-card processor and the Active Golf management system database. Active Golf integrates payment-card processing into the point-of-sale system, thus eliminating the need for separate credit card terminals and telephone lines.

We noted that in compliance with Payment Card Industry (PCI) Standards, full credit card numbers did not appear on customer or merchant receipt copies, only the last four digits. Our two findings in the area of payment-card processing were as follows:

- ***Newer software versions of the Active Golf management system with greater security features have not yet been downloaded for golf course use.***
- ***Active Golf system’s capability to process payment-card refunds remains a question.***

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**Newer software versions of the Active Golf management system with greater security features have not yet been downloaded for golf course use.** The current software version in use at County golf courses, version 8.4, lacks total compliance with PCI standards. Newer software versions, 9.1 and 9.3 have improved payment-card security features, and 9.3, according to Active Golf personnel, is PCI compliant. Version 9.3 has the following security features:

- ***Masking credit card numbers in transaction reports.*** In the current software version, 8.4, full payment-card numbers are recorded in transactional detail of one of the system reports. This report is not routinely printed and we did not discover any copies on file or in view at Old Mill Golf Course. These numbers will be masked in version 9.3, though access to the full card number will still be available in the application, interactively, by clicking on individual customer names. However, the system will maintain a log of employees who gain access through the application.

- **Ability to shut down the unsecured http portal.** Currently, sign-on to the Active Golf system is possible through an *http* portal, though as a matter of daily practice, sign-on is through a secure *https* line with 128-bit encryption. The sign-in icon and default setting are set to this secure connection. Access through the unsecured line requires manual entry of the URL address. The risk in transmitting over this unsecured line is that anyone with intranet access and knowhow could sniff packets as they are transmitted, thereby accessing payment-card numbers. The 9.1 and 9.3 versions will have an option in the system setup that can be checked to disable system accessibility through the *http* connection.
- **Other features.** The application upgrades provide triple data-encryption (3DES) protection and encrypted passwords with encryption keys that can be regenerated or updated, and old keys discarded. In the current version, encryption cannot be changed.

On August 17, 2009, golf course personnel together with an Information Services (I/S) systems administrator attempted to download version 9.1. However, the upgrade installation was unsuccessful and abandoned because of an unresolved glitch in processing payment-card transactions. The reason for this lack of functionality could not be determined under the time pressures of the peak golf season.

Because the download was performed after hours, technical help was not available from Active Golf to resolve the payment-card issue. County IS worked diligently with golf course management in executing the installation, providing opportunities to check functionality of the system in a test environment, with the exception of the payment-card processing. However, the failure to resolve the payment-card processing problem during installation of the production version required that the system be switched back to the current version that same night. The result was that transactional data from several hours that day were lost because of the attempted upgrade. Restoration of this data was possible from backup tapes with some manual reconstruction.

Though version 9.3 is now available, golf course management have decided to wait and download the next version, version 9.4, at its anticipated release in January 2010. January will provide a good opportunity for performing the upgrade when golf courses are closed and the installation can take place during the day when Active Golf technicians should be available to answer questions.

**RECOMMENDATIONS:**

1. **Active Golf version 9.4 should be downloaded when it is released to provide for added payment card processing, data security features, and compliance with PCI standards.**
2. **The transaction report with its complete payment-card numbers should not be printed, and if printed, these reports should be destroyed by shredding immediately after use.**

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**Active Golf system's capability to process payment-card refunds remains unresolved.** In a relatively few instances golf course personnel are asked by a

customer to refund a payment-card charge. These refund requests are sent to the application administrator, the Mountain View Golf Course head professional.

Refunds can be processed through Active Golf either on the day of the original transaction or on any day thereafter. However, in the 8.4 version of Active Golf, a payment-card refund, even though processed at the point-of-sale terminal, does not reverse the transaction through the third-party processor. Thus, to complete the refund, access to the third-party processor's site is required and the transaction must be reversed by administrative intervention. Only the Mountain View Golf Course head professional and his assistant have access to this site. Therefore, all refunds are referred to them, creating unexpected delays for customers accustomed to immediate refunds. This inconvenience may put pressure on golf course cashiers to provide cash or request a check be issued for the refund. However, County policy allows only for a reversal of the charge on payment-card sales.

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

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

Paradoxically, a *payment* will post to a customer's card by entering it into the point-of-sale terminal, but a *refund* will not. A resolution to this problem and the ability of all personnel to process a refund at the point-of-sale terminal will make operations more efficient and improve customer goodwill.

**RECOMMENDATION:**

***Active Golf personnel should be tasked to resolve the payment-card refund issue so that all golf course personnel can process refunds through the Active Golf system without the need for administrative intervention in the payment-card processor's system.***

**CASH HANDLING AND DEPOSITING**

The Active Golf management system has been in use at the golf courses since 2007. It features point-of-sale terminals with touch screen menus for selecting the type of transaction desired. In most instances, pre-programmed prices eliminate the need to manually key in the price at the time of sale. The software also features a reservations system that patrons can access via the internet. The reservation is already priced when the cashier retrieves it to the point-of-sale terminal at the time of payment.

Two point-of-sale terminals are in operation at Old Mill Golf Course. The two assistants to the head professional, additional seasonal employees, and sometimes the head professional himself, fill the cashiering role. The bank deposit is prepared almost exclusively by the head professional, and moreover, the deposit accuracy is not reviewed or verified by another on-site employee. An assistant head professional prepares the bank deposit when he is absent or not available.

Until July 2009, an armored car service picked up daily deposits for delivery to the bank, but due to County budget constraints, this service was discontinued. Since then, golf professionals have personally delivered these to the bank in zipper-type bank bags.

A Parks office administrator, who is also the imprest fund custodian for purchase of pro-shop merchandise, recalculates each day's balance by comparing system totals to drawer count totals. Her objective is to determine whether the deposit matches system totals. From her computer terminal, she has access to the Active Golf system and the balance sheet in Excel. The balance sheet is posted on a shared golf course computer drive. She draws her totals and makes recalculations from these databases. Any differences or overages and shortages are brought to the attention of personnel at Old Mill Golf Course. Her totals are available for view to another administrator in the Recreation Division who reconciles them to bank statements.

Our findings in the area of cash handling and depositing are as follows:

- ***Overages and shortages were excessive in both frequency and magnitude.***
- ***Documentation was not available for comparison between cashier drawer counts and re-counts at the time of deposit preparation.***
- ***The amount deposited represented system totals and not actual drawer counts.***
- ***Totals generated on customer receipts often differ by a cent or two from the amount intended.***
- ***Hard copy deposit documentation was not maintained on file.***

**Overages and shortages were excessive in both frequency and magnitude.**

We examined a sample of deposits on 30 different days and noted the magnitude and frequency of overages and shortages in balancing. A summary of our results is shown in Table 1 below:

<b>Summary of Overages and Shortages</b>				
	<b>Overages</b>	<b>Shortages</b>	<b>Total</b>	<b>Percent</b>
>\$50 but <\$100	4	2	6	20%
>\$20 but <\$50	2	4	6	20%
>\$10 but <\$20	5	3	8	27%
<\$10	6	4	10	33%
<b>TOTALS</b>	<b>17</b>	<b>12</b>	<b>30</b>	

**Table 1.** 2/3 of deposit days had balancing outages greater than \$10.

Differences noted above are for the golf course as a whole and not for individual cashiers. Daily results of individual cashiers were netted to arrive at the total golf course overage or shortage. Anywhere from one to four cashiers open a drawer on any given day. As noted above, 40% of the deposit days we examined had net overages or shortages greater than \$20. Balancing outages could be a result of insufficient training and familiarity with Active Golf application, compounded by the complexity of processing

of various types of transactions in a pro-shop setting. However, the more disturbing cause, in the absence of controls, would be theft of funds.

Seasonal employees less trained and experienced with Active Golf functionality, may be particularly prone to errors. Thus, correct procedures for processing a transaction may not have been understood, and/or mistakes in entry may have occurred. For example, in one cashier's balancing shortage of \$91, the following explanation appeared on the balance sheet: *"To the best of our ability [knowledge] it seems that we had some merchandise gift certificates from a tournament that were accidentally rung through as cash."*

If balancing outages are large and frequent, as our audit test indicates, the risk of theft becomes greater in an environment where controls are loose. Frequent, large outages appear to have become routine and are not challenged or the reasons documented.

**RECOMMENDATIONS:**

- 1. Additional cashier training in use of Active Golf should be undertaken to reduce large balancing overages and shortages and the frequency with which these occur.**
- 2. Old Mill Golf Course management should ensure that large overages or shortages are explained in deposit documentation.**

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**Documentation was not available for comparison between cashier drawer counts and re-counts at the time of deposit preparation.** Cashiers count their cash drawers at the end of their shifts, and place the money in an envelope, which is then dropped into the safe. The next morning, the head professional, or deposit preparer, retrieves the envelopes and re-counts the money. The re-count becomes the "official" count for inclusion on the balance sheet and in the deposit itself.

Hard copy documentation of cashier-drawer counts is not maintained on file. However, individual "Drawer Count Sheets" are retained in the Active Golf database, according to Old Mill Golf Course management, but our audit test experience was that they are difficult to retrieve after a certain period of time.

Comparison of cashier's "Drawer Count Sheets" to deposit preparer counts is not documented, and therefore few explanations of outages are recorded. Without this documentation, including the investigation and description of the cause, the environment created is one where controls appear to not matter. In such loosely controlled environments, the opportunity for theft becomes a significant temptation.

A documented comparison of the two counts deters theft since evidence of cashier-count totals would be a disincentive for the deposit preparer to commit theft. The absence of documented count reconciliations also makes accountability difficult to pinpoint, especially when cash drawers are consolidated at the end of the day.

**RECOMMENDATION:**

**A reconciliation showing the difference between cashier and deposit preparer counts should be included on the electronic balance sheet.**

**The amount deposited represented system totals and not actual drawer counts.** A long-established golf course procedure is to match the amount deposited to system totals. However, as pointed out previously, system totals often differ from actual drawer counts. In these instances, cash is removed from the next day's collections and included in the prior day's deposit to resolve any shortages. Conversely, cash is added to the next day's collections to remove any overages.

Typically, the deposit is prepared the morning following the cashiers' nightly counts. In some cases previous-day collections are not sufficient to make up a shortage, requiring the change fund to be shorted. However, typically the change-fund balance is restored by the end of the day as subsequent sales are made and cash is collected.

Countywide Policy #1062, Management of Public Funds, Section 2.5.5 states:

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

Countywide Policy #1062, Section 5.2 states:

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

In the current deposit preparation process, any money removed from or added to the drawer the next day is rung through the point-of-sale terminal as a shortage or overage. A receipt is generated for this transaction. Golf course personnel do this to capture overages and shortages for sales summary reports. The overage or shortage is manually entered into the Active Golf system because balancing occurs on a separate Excel spreadsheet.

The importance of accurate balancing is significantly diminished in the mind of cash handlers if overages and shortages are settled in the next day's collections. Overages and shortages should be recorded, and trends should be tracked and made available for reporting purposes without adjusting the next day's collections or the change fund. Reflecting overages and shortages within the deposit, and not the next day's collections, promotes accountability, is more straightforward, less time consuming, and therefore a more efficient and effective internal control.

**RECOMMENDATION:**

***The deposit should reflect the actual amount of cash drawer collections and not be adjusted to reflect system totals.***

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**Totals generated on customer receipts often differ by a cent or two from the amount intended.** This chronic error within the Active Golf system causes confusion with customers. Also, balancing “to the penny” can virtually never be achieved because of the difference between the patron's payment and the recording of the transaction within the system.

The problem only arises when payment is made for a group, never for an individual. For example, the green fee for an individual playing a round of 18-holes is \$30. A foursome would be expected to pay \$120 (4 X \$30), but the customer receipt may show \$119.99.

These minor differences on receipts are due to system problems in calculating sales tax. To facilitate and simplify golf course marketing, sales tax is built into the posted green fee. However, the system calculates the fee by starting with a base rate without sales tax and then adding the tax. The Director of Golf Courses reported that this type of problem is typical in golf software throughout the country. Attempts have been made to resolve it with the vendor, but so far, no solution has been found.

**RECOMMENDATION:**

***Golf course management should continue to work with the software developers to achieve consistency between the customer receipt totals and the actual amount tendered.***

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**Hard copy deposit documentation was not maintained on file.** Deposit documentation on file consisted of the deposit slip copy and payment-card merchant copies. There were no balance sheets or system summary totals. Both of these documents, however, are maintained on-line. Old Mill Golf Course management felt no need to print them, since they are saved and easily accessible in the database. They pointed to the expense spared by not using paper.

Nevertheless, from an audit-trail perspective, the lack of hard copy documentation prevented deposit activity on any given day from being viewed as a single unit consisting of the balance sheet, system summary totals, and deposit slip copy. Moreover, there was no original documentation at or proximate to the time of deposit preparation, to provide an additional backup source.

To complete the audit, these files had to be retrieved, a process that was not as simple as clicking on a date and having the desired data or reports appear in view. Hundreds of "instance numbers" from all golf courses had to be perused to determine which ones corresponded to drawer totals on our sample dates. Though an assistant golf professional proficiently performed this task for us, several hours were consumed in doing so. These files could otherwise have been viewed had hard copies been printed and included as deposit documentation. However, unnecessary time and expertise, were required to resolve technical issues in retrieving some of the balance sheets in Excel.

**RECOMMENDATION:**

***Hard copy deposit documentation on file should consist of at least the following:***

- ***Deposit slip copy***
- ***System summary totals (the document currently used as a source for totals is the "Item Sales Summary")***
- ***Balance sheet, which includes compilation of totals from all drawers***
- ***Individual "Drawer Count" sheets completed by cashiers***

## **CAPITAL AND CONTROLLED ASSETS**

Oversight of capital and controlled assets is divided between Golf Course and Parks administration. All but one of the 41 capital assets listed for Old Mill Golf Course by the Auditor’s Office is under authority of Parks administration.

Controlled assets are included on three separate lists – *grounds maintenance, clubhouse, and golf carts*. Parks administration has oversight of grounds maintenance equipment and golf carts. The golf course head professional has oversight of controlled assets in the clubhouse.

All higher-value assets, including mowers, are located in grounds maintenance. The assistant Parks administrator, whose office is at 3383 South 300 East, has exclusive oversight of the golf carts and general oversight of equipment in the grounds-maintenance category. He maintains and updates controlled asset lists and conducts inventories of capital and controlled assets.

The Old Mill greens superintendent on-site has day-to-day surveillance and control of grounds maintenance equipment. She has a copy of the controlled assets list on file for reference. We examined 55 of the 150 total controlled assets listed in the grounds maintenance area.

Our findings in the area of capital and controlled assets management are as follows:

- ***Three capital assets were transferred to another golf course but not removed from the capital assets list.***
- ***Some capital assets were not listed and others were not tagged.***
- ***Serial numbers were not included for items on the clubhouse controlled assets list and walkie-talkies were not listed.***
- ***The “Controlled Assets Form – Employee” was not being used to account for equipment or assets used by specific employees.***

**Three capital assets were transferred to another golf course but not removed from the capital assets list.** The three assets transferred are shown in Table 2 below:

<b>Found On Capital Assets List but Transferred to Another Location</b>				
<b>Tag</b>	<b>Name</b>	<b>Type</b>	<b>Location</b>	<b>Comments</b>
97631	Water Powered Turf Aerator	Capital	Grounds	Transfer to S. Mountain
95055	28HP Fairway Mower w/7 Blade	Capital	Grounds	Transfer to Mount View Then surplused
95096	Riding Greens Mower w/3 Reels	Capital	Grounds	Transfer to Mount View Then traded in

**Table 2.** Two assets were transferred to Mountain View and the third to South Mountain.

Some of the property manager's duties are stated in Countywide Policy #1125, "Safeguarding Property/Assets," Section 2.2.1, which states:

*"Accounting for all fixed [capital] assets within the organization's operational and/or physical custody as listed on the LGFS0801 "Salt Lake County Fixed Asset Inventory by Organization" report."*

Countywide Policy #1125, Section 2.2.3 states:

*"Maintain records as to current physical location of all fixed [capital] assets and controlled assets within the organization's operational and/or physical custody."*

Forms PM-2 were on file at Old Mill Golf Course to document the transfer of these capital assets to the other courses. We confirmed the water-powered turf aerator (Cushman) to be at South Mountain Golf Course.

The other two assets, the Fairway Mower (Jacobsen) and Riding Greens Mower (Jacobsen), were transferred to Mountain View Golf Course and later sent to County Surplus (surplus) or traded in for other equipment. The Fairway Mower was sent to surplus, for which we viewed a Form PM-2 of this transfer, dated February 26, 2009.

The riding greens mower was subsequently traded in to the vendor for another mower, possibly a greens mower, according to the Mountain View Golf Course grounds superintendent. However, the greens superintendent was not able to positively identify this transaction on a Form PM-2. He did send a Form PM-2, dated October 29, 2004, for a similar piece of equipment to the Auditor's Capital Asset section, but it had a different asset tag #95095, and a different serial number, 2158. The serial number was 2308 for asset tag #95096 referred to above.

He explained that the Form PM-2 that listed asset tag #95095 was in error and really should have listed asset tag #95096. Further, he stated that a corrected Form PM-2 was completed but never returned to him.

Despite the Forms PM-2 on file for these assets, their location has not been changed on the 0801 (Capital Assets) report, or in the case of those sent to surplus, removed from the report. Asset tag #95096 was sent to surplus in 2004, as noted on the Form PM-2 that apparently was in error, and yet it still remains on the Capital Assets list.

**RECOMMENDATIONS:**

- 1. The water-powered aerator, asset tag #97631, should be listed by location at South Mountain Golf Course and removed as an asset at Old Mill.**
- 2. The Fairway Mower, asset tag #95055, should be removed from the Capital Assets list because it was sent to surplus in February 2009.**
- 3. The Riding Greens Mower, asset tag #95096, should be investigated to determine whether it was traded in for another mower, and a Form PM-2 completed and filed. If a Form PM-2 is on file to document this action, the Capital Assets list should be updated accordingly.**

**Some capital assets were not listed and others were not tagged.** As we examined capital assets, we noted the following items, as shown in Table 3 below that were not listed but should have been.

<b>Capital Assets That Need to be Listed</b>				
<b>Tag</b>	<b>Name</b>	<b>Type</b>	<b>Location</b>	<b>Comments</b>
95062	Cushman Truckster	Capital	Grounds	
95064	Cushman Green Spreader	Capital	Grounds	
	Kawasaki Mule 550	Capital	Grounds	Transfer from S. Mountain
	Kawasaki Mule 550	Capital	Grounds	Transfer from S. Mountain

**Table 3.** Capital assets that were on-site at Old Mill Golf Course but not listed.

The Old Mill Golf Course greens superintendent thought that a Form PM-2 had been completed for the transfer of the “mules”, noted in Table 3, from South Mountain. However, one could not be found on file.

In addition, Table 4 below shows capital assets listed but not tagged.

<b>Items Not Tagged But listed</b>				
<b>Tag #</b>	<b>Name</b>	<b>Type</b>	<b>Location</b>	<b>Comments</b>
99379	5 Deck Rough Rotary Mower	Capital	Grounds	New
99380	3 WHL Bunker Rake w/rake attch	Capital	Grounds	New
99385	John Deere Turf Utility Vehicle	Capital	Grounds	New
99386	John Deere Turf Utility Vehicle	Capital	Grounds	New
95669	Tractor w/Loader-Backhoe attch	Capital	Grounds	
97140	Curved Glass Refrig Deli Case	Capital	Kitchen	On controlled assets list

**Table 4.** Capital assets that were not tagged.

As noted above, four of these items are new, though they were reported to have been received in the spring of 2009. The curved glass-refrigerator deli case is also listed on the Clubhouse controlled assets list as asset tag #35. Dual entry of this item is not necessary.

**RECOMMENDATIONS:**

- 1. The Old Mill Capital Assets list should be updated to include the four unlisted capital assets noted above and in addition, a Form PM-2 should be completed for the two “mules” transferred in from South Mountain Golf Course.**
- 2. Capital assets that are listed but not tagged should have tags placed on them, and the refrigerated deli case should be listed on the controlled assets list only and not the capital assets list as well.**

**Serial numbers were not included for items on the clubhouse controlled assets list and walkie-talkies were not listed.** The clubhouse controlled assets list has 68 items, many of them tables, display racks, and kitchen equipment that would not have serial numbers. However, computers, televisions, and copiers likely have serial numbers as part of equipment identification. Model types or numbers were not listed either. For example, the make and model for a “computer” was listed as “IBM” without any further description.

Including model descriptors and serial numbers allows controlled assets to more easily be identified, especially if the controlled asset tag wears off, is not attached, or is hard to find. A full description of the item also prevents confusion when a similar type item is purchased and brought on-site. By including a full description of the IBM computer, for example, confusion would not easily result if another IBM computer were purchased and used at the clubhouse.

The standard golf course form used to list controlled assets includes a column with the title: “Make/Model/Serial Number.” Therefore, golf course personnel should already be aware of the need to list this information.

As an additional issue, the Old Mill Golf Course uses walkie-talkies for communicating with personnel on the golf course.

Countywide Policy #1125, Section 1.2 states:

*“Due to the difficulty associated with centralized control of personal communication equipment, pagers, car/cellular phones, portable radio, mobile radios installed in vehicles, walkie-talkies, etc. this category of property is considered to be “controlled assets” regardless of the cost of the individual items .”*

Management had not listed walkie-talkies on the controlled assets list because the cost of an individual unit was less than \$100. However, Countywide policy, as just noted, states that these should be considered controlled assets.

**RECOMMENDATIONS:**

- 1. Serial numbers and description of the model type should be included on the controlled assets list to provide for ready identification of items listed.**
- 2. Walkie-talkies should be tagged and included on the controlled assets list since Countywide policy designates them as controlled assets.**

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**The “Controlled Assets Inventory Form – Employee” was not being used to account for equipment or assets used by specific employees.** Golf course property managers were not aware of the requirement for or use of this form. The form assists management in providing greater accountability and responsibility for assets frequently and exclusively used by individual employees. It is maintained on file and signed by individual employees to whom specific items or equipment can be assigned, such as personal and laptop computers, cell phones, PDAs, and printers. For your convenience,

a copy of the Controlled Assets Inventory Form – Employee form is attached as Appendix A

Countywide Policy #1125, Section 4.3.1, states:

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

Divisions and offices throughout the County have adopted different types of forms to comply with this requirement, but any form should include at a minimum a list of assigned assets and a signature line for the employee to whom they are assigned.

**RECOMMENDATION:**

***The “Controlled Assets Form – Employee” for assets readily assignable to an individual employee, such as PCs, laptops, PDAs, cell phones, walkie-talkies, and peripheral devices, should be on file and signed by the employee.***

**MERCHANDISE INVENTORY**

The Old Mill Golf Course Pro-shop stocks a variety of golf equipment, clothing, and shoes for sale to the public. The head golf professional decides which items will be purchased and stocked. He does this based on past sales experience, reference to catalogues and vendor internet sites, and consultation with sales representatives. To place an order, he contacts the vendor, either in person or by phone.

Goods arrive at the golf course via United Parcel Service (UPS) shipment. The head golf professional enters new goods into the Active Golf inventory management module, a process that involves entering the count of items received and assigning them to a Stock Keeping Unit (SKU) identification number. Active Golf documents each entry of an inventory item or group of items by generating an “instance number.”

The head golf professional prints a bar-coded label, which contains the item price and the SKU number. The price tag is attached to each article. An individual SKU number within the inventory system could have anywhere from one to several hundred items assigned to it. At the time of our audit, Old Mill Golf Course had 238 individual SKU numbers within Active Golf system. The largest number of items assigned to any particular SKU was 2,500, for golf tees.

The vendor sends the invoice for purchase of goods to the imprest checking account (custodian) who is at the Parks administration office at 3383 South 300 East. The imprest account is designated exclusively for the purchase of golf course merchandise and office supplies. The custodian scans the invoice into a common golf course network drive.

The head professional can retrieve and view the invoice from the network drive, and if he approved, complete a “Purchase Request” that is sent to the custodian. The Purchase Request includes the invoice number, the amount, the description of items received, and

the instance number from Active Golf generated when the goods are received and entered into inventory.

However, based on our interviews with the custodian, there is no reconciliation performed to match items listed on the approved invoice to the items included in the “instances” as recorded in the Active Golf inventory management module, and as reflected on the Purchase Request. The Purchase Request is an Excel document separate from the Active Golf system. The custodian pays the invoice once she receives the completed Purchase Request.

Our findings in the area of merchandise inventory are as follows:

- ***Differences were found between inventory counts of some items and the system inventory of stock on hand designated in Active Golf.***
- ***SKU numbers were de-activated from the inventory system when corresponding merchandise was still present on the sales floor.***

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**Differences were found between inventory counts of some items and the system count of stock on hand designated in Active Golf.** We conducted a merchandise inventory count of all items on hand except for 352 loose Old Mill logo imprinted balls, valued at 72 cents each, and 2,502 loose golf tees, valued at 55 cents each. Our count revealed shortages in some items and overages in others. Overages occurred when our count exceeded system totals of stock on hand.

Old Mill Golf Course divides its merchandise into 13 broad categories including golf balls, clubs, shoes, various types of clothing, and other merchandise. Within each category are various types of items, each designated by a SKU number. For example, the golf ball category lists 17 different types of balls. One of these 17 has a SKU number with a count of three Maxfli Balls assigned to it and in stock.

Total inventory results, and results by individual category are summarized in Table 5 on page 15. Results include loose golf balls and tees noted previously, which by our estimate approximated their totals designated in the system.

Merchandise Inventory Count Comparisons						
Description	Recorded \$ Value	Actual Count \$ Value	Difference	Recorded Count	Actual Count	Difference
Balls	\$8,825	\$8,341	(\$485)	1,375	1,321	(54)
Gloves	\$1,963	\$1,967	(\$16)	290	288	(2)
Bags	\$2,194	\$2,380	\$187	29	31	2
Shoes	\$4,649	\$4,641	(\$8)	8	8	0
Caps	\$2,911	\$3,189	\$278	278	305	27
Clubs	\$16,404	\$17,823	\$1,419	122	126	4
Shirts	\$7,310	\$7,285	(\$25)	257	258	1
Shorts	\$1,048	\$1,081	\$33	33	34	1
Jackets	\$4,714	\$4,395	(\$319)	106	97	(9)
Lady Shirts	\$2,284	\$2,556	\$272	81	90	9
Lady Shorts	\$252	\$343	\$91	8	11	3
Lady Outerwear	\$528	\$318	(\$210)	17	11	(6)
Sundries	\$9,185	\$9,567	\$382	3,296	3,348	52
<b>TOTALS</b>	<b>\$62,288</b>	<b>\$63,888</b>	<b>\$1,600</b>	<b>5,976</b>	<b>6,004</b>	<b>28</b>

*Table 5. Merchandise inventory counts were over or short in many cases.*

Shortages in individual categories totaled \$1,061, and overages totaled \$2,661, for a net overage of \$1,600, as shown in Table 5 above. Among the shortages, we noted were 54 sleeves of balls valued at \$485.

Golf ball sleeves do not have the bar-code price tag attached. Because of this, cashiers are required to select the ball type from an inventory list within Active Golf at the time a sleeve is sold. This process is prone to error in judgment and may result in the wrong ball-type being selected.

Selecting the wrong type creates a shortage in the category of the ball actually removed from stock, and an overage in the category of the ball removed from stock on hand as recorded in the system. Subtle differences between ball-types can easily be overlooked, for example, the difference between a Titleist NXT and a Titleist ProV1 ball.

Other possible explanations for the shortage include entering more sleeves of balls into inventory than were actually received. Also, theft is a possibility, though we did not conclude this to have occurred. The glass-enclosed case in which balls are displayed makes them out-of-reach of customers, and therefore less susceptible to theft.

Shortages also occurred in clothing counts. Nine jackets with a total value of \$319 were short of system totals. Retail theft is less easily detected in clothing categories since items are displayed on racks on the selling floor.

The largest differences were not inventory shortages, but overages. By dollar amount, overages in counts were greater than shortages. For example, our golf club count exceeded system totals by four. The total value of these four clubs, as noted in Table 5 above, was \$1,419. An over-count could indicate items purchased and placed on the floor, but not entered into the inventory system. However, whether this actually happened was beyond the time and resources of this audit. Other factors are discussed in the next section, which may have contributed to overages.

A net \$382 overage occurred in the Sundries category, as shown in Table 5 on page 15. Sundries include sunglasses, watches, umbrellas, towels, and other miscellaneous items. We noted various overages and shortages within this category, including an overage of 21 golf course logo-imprinted towels whose total value was \$196.

While inventory overages are seemingly more acceptable than shortages, because a shortage is more likely to indicate theft, overages can mask theft by making up for the shortage. Counter-balancing with overages creates the impression that all inventory designated in the system is present and on hand when it may not be.

The head golf course professional noted that sometimes a shortage of one item was made up by a similar overage in another item, providing a reasonable explanation for the difference. With a variety of retail items and seasonal staff recording sales transactions, errors are bound to occur. However, a large net overage is difficult to explain and diminishes the integrity and reliability of the inventory management system.

A reliable inventory management system will function to properly account for items so that shortages and overages are minimized. When significant swings in overages and shortages are present, a determination of any theft or explanation for unexplained shrinkage is difficult to achieve. In contrast, a sloppily managed inventory with significant count variances presents significant risks to controlling inventory shrinkage from either internal or external theft.

**RECOMMENDATIONS:**

1. ***Old Mill Golf Course employees should continue to be vigilant of customer activities within the pro-shop to detect and take action on any shoplifting that may occur.***
2. ***The cashier should scan the bar-code price tag at the time of sale to prevent errors in inventory counts that may result when items are manually selected from an inventory list and entered into the system as the item sold.***
3. ***Significant net overages in system totals of stock on hand should be minimized, and efforts should be made to accurately enter items into inventory and post the correct item at the time of sale to eliminate these overages.***

**SKU numbers were de-activated from the inventory system when corresponding merchandise was still present on the sales floor.** We noted the following SKU numbers de-activated from the system, as shown in Table 6 below, where the items were still on the sales floor.

<b>SKU Numbers De-activated from the System</b>		
SKU Number	Description	Count
120002900104	Shirt	1
070010900004	Mizuno Wind Shirt	1
090019000003	Weatherproof Jacket	5

**Table 6.** *Items in stock whose SKU was removed from system inventory.*

The head golf professional noted that he had deleted line items in the Active Golf inventory record as a way to clean up or delete categories where a negative count occurred.

Negative counts will occur when items are removed from the wrong SKU at the time of sale. For example, suppose a cashier posts a sale of three items to the wrong SKU, which only has a system count of one. Therefore, the completed sale will result in a count of negative 2 to the wrongly-posted SKU. Deleted SKU numbers in Table 6 may have resulted from an attempt to clean up negative counts within the system on these items.

Deleting negative counts within the inventory system would have contributed to over-counts in inventory already noted in the previous section. Specifically, overages in golf club inventory could have resulted from this clean-up process, though the head golf professional did not specifically indicate such to be the case. We did note that the Active Golf inventory list provided to us at Old Mill Golf Course did not contain any negative counts. Lists at other courses we audited did contain a few such counts.

**RECOMMENDATION:**

***Items or SKU numbers that appear with negative system counts should not be removed from the inventory system until a complete merchandise inventory is taken and all items are positively identified and counted.***

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We appreciate the time and effort of the Old Mill Golf Course head professional and staff in answering our questions and being of assistance during the audit. We commend their expertise in operating the golf course. We know of their concern that operations are profitable and that they comply with Countywide policy.

The intent of this letter is not to reflect negatively on those efforts. The recommendations made here are designed to improve operations and provide greater compliance with Countywide policy and best business practice. We extend our best wishes for the continued successful operation of the Old Mill Golf Course.

Sincerely,

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

Cc: Paul Ross  
Tim Fernau  
Steve Young

