

City of
Gainesville

Inter-Office Communication

October 2, 2012

TO: Audit, Finance and Legislative Committee
Mayor Craig Lowe, Chair
Mayor-Commissioner Pro Tem Lauren Poe, Member

FROM: Brent Godshalk, City Auditor

SUBJECT: Review of Ironwood Golf Course Revenues

Recommendation

The Audit, Finance and Legislative Committee recommend the City Commission:

- 1) Accept the City Auditor's report and the response from the City Manager, and
- 2) Instruct the City Auditor to conduct a follow-up review on recommendations made and report the results to the Audit, Finance and Legislative Committee.

Explanation

In accordance with our Annual Audit Plan, the City Auditor's Office has completed a Review of Ironwood Golf Course Revenues. The primary objective of our audit was to evaluate the system of management control over revenues collected at Ironwood Golf Course. During our review, we interviewed key personnel, analyzed operating data and evaluated management controls.

Based on the results of our review, we believe opportunities exist for the Parks and Recreation Department to strengthen management controls at the Ironwood Golf Course. Our report, which includes a response from the City Manager, is attached for your review. The report provides several recommendations related to strengthening internal controls over receipting and recording Ironwood revenues, improving the timeliness of cash reports and deposits, strengthening green fee surcharge collections, improving internal controls over gift cards and complimentary rounds, as well as updating operating policies and procedures.

We request that the Committee recommend the City Commission accept our report and the City Manager's response. Also, in accordance with City Commission Resolution 970187, Section 10, Responsibilities for Follow-up on Audits, we request that the Committee recommend the City Commission instruct the City Auditor to conduct a follow-up review on recommendations made and report the results to the Audit, Finance and Legislative Committee.

City of
Gainesville

Inter-Office Communication

September 18, 2012

TO: Russ Blackburn, City Manager
FROM: Brent Godshalk, City Auditor
SUBJECT: Review of Ironwood Golf Course Revenues

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Based on the results of our review, we believe opportunities exist for the Parks and Recreation Department to strengthen management controls at the Ironwood Golf Course. Our report, which includes a response from the City Manager, is attached for your review. The attached report provides several recommendations related to strengthening internal controls over receipting and recording Ironwood revenues, improving the timeliness of cash reports and deposits, strengthening green fee surcharge collections, improving internal controls over gift cards and complimentary rounds, as well as updating operating policies and procedures.

Our recommendations for improvement were reviewed with Michelle Park, Assistant Parks and Recreation Director and Jeff Cardozo, Recreation Supervisor, during our exit conference on July 24th. Since that time, Michelle has worked with Assistant City Auditor Michelle Torma to finalize any necessary edits to our report and to provide written management responses to our recommendations. I would like to acknowledge Michelle Park, Parks and Recreation Director Steve Phillips and the staff of the Ironwood Golf Course for their professional courtesy and cooperation during our review.

Please review the attached written report, which documents our audit recommendations and the responses from the Parks and Recreation Department, and let me know if you have any questions. Our report, including the management responses, will then be submitted to the City Commission's Audit, Finance and Legislative Committee for review and approval. The next meeting is currently scheduled for October 2, 2012. Until that time, this draft report and your draft response are exempt from Florida's public records law.

Thank you to you and your staff for making this a productive process. Feel free to call me if you have any questions.

cc: Paul Folkers, Assistant City Manager
Steve Phillips, Parks and Recreation Director
Michelle Park, Assistant Parks and Recreation Director
Michelle Torma, Assistant City Auditor

OBJECTIVES, SCOPE AND METHODOLOGY

In accordance with our Annual Audit Plan, the City Auditor's Office completed a Review of Ironwood Golf Course Revenues. The primary objective of this audit was to evaluate the system of management control over revenues generated through operation of the Ironwood Golf Course. Our procedures included interviewing key staff from the Department of Parks and Recreation and the Finance Department, observing operations, reviewing management controls and testing selected samples of Daily Cash Reports and supporting documentation. The scope of our review was generally for the period January 1, 2011 through December 31, 2011.

As for all of our audits, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

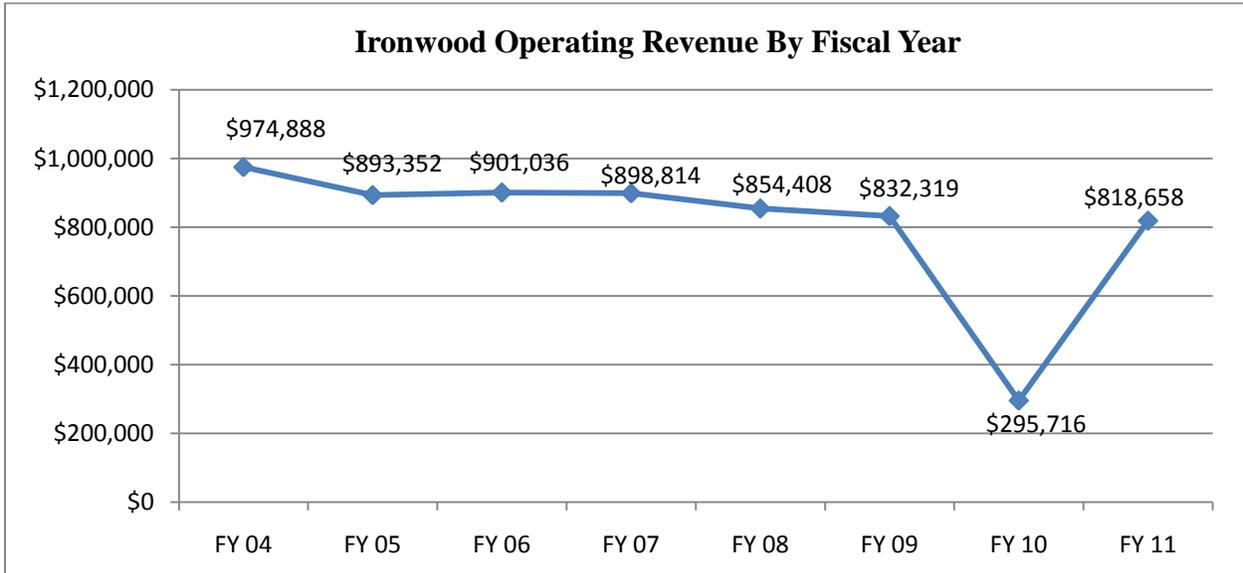
Based on the results of our review, we believe opportunities exist for strengthening management controls at the Ironwood Golf Course. The attached report provides several recommendations related to improving internal controls over cash receipting and recording. Specific recommendations include a focus on improving the timeliness of preparing cash reports and deposits, strengthening greens fee surcharge collections, maintenance of gift card records and controls over complimentary rounds, as well as updating operating policies and procedures. Each of our recommendations has been discussed with management. These recommendations, as well as management's written response, can be found in the following sections of this report.

BACKGROUND INFORMATION

Ironwood Golf Course was purchased in March 1992 by the City of Gainesville. Since that time, several course improvements have been completed with the most recent occurring in 2010. In September 2009, the National Golf Foundation (NGF) Consultants performed an Operational Review and provided recommendations for City of Gainesville Golf Operations. In a detailed report, the NGF provided recommendations expected to help increase Ironwood Golf Course revenue and usage. The most significant recommendation was redesigning, rebuilding and improving the drainage of the greens. The City issued \$1.2 million in bonds to utilize for the reconstruction and instituted a five dollar surcharge to be collected for each greens fee to cover the debt service on the bonds. In FY 2011, the surcharges collected totaled approximately \$132,000.

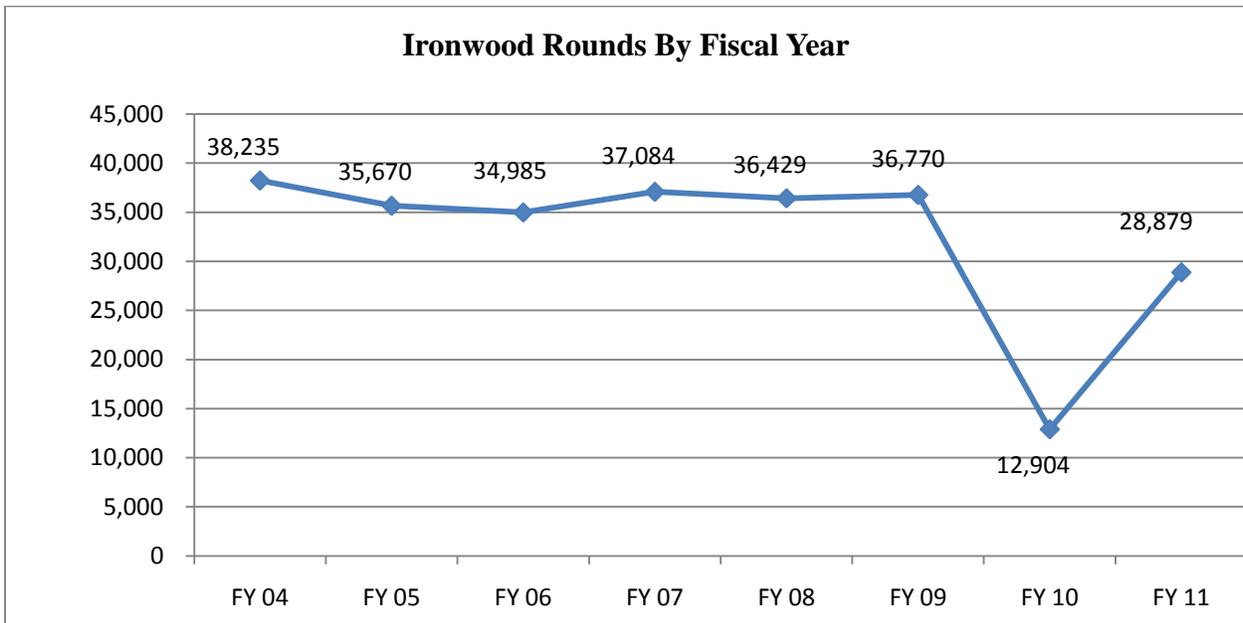
Ironwood Golf Course was closed for renovations from April through November 2010. Chart A on the following page shows the operating revenue activity from 2004 to 2011, with the significant decrease in revenue during the months in which the golf course was closed.

Chart A



The number of rounds played upon reopening did not return to the levels played prior to the golf course closure. The chart below includes the total rounds played from FY 2004 to FY 2011. The number of rounds included both paid and complimentary rounds.

Chart B



Note: FY 10 includes revenue and rounds for the first half of the fiscal year before closing for renovations. FY 2011 includes 11 months revenue and rounds after Ironwood reopened November 2010.

FY 2010 has significant revenue and rounds decline due to the closure of Ironwood for approximately six months. Ironwood reopened November 2010, the second month into the fiscal year. NGF had estimated total rounds for FY 2011 would be 39,500 with a reopening of October 1. Since Ironwood reopened one month later than anticipated, the extrapolated estimated rounds NGF would have potentially reached 36,000. Ironwood fell short of these rounds by approximately 20%. Ironwood management believes that revenue and rounds were not reached in part due to an economic downturn.

In 2009, the City Commission decided Ironwood would be transitioned to the general fund over a ten year period, once the pool cash deficit is paid, rather than remain as an enterprise fund. This is scheduled to occur in 2019. At that point, Ironwood Golf Course would be treated like other Parks and Recreation programs in which all revenues and expenditures are run through the general fund.

Ironwood Golf Course utilizes several types of rates in order to attract players to the course. Senior rates are \$31 and student rates are \$30 for all days and times compared to \$39 at peak time rates, including powered golf carts. Chart C below shows the total greens fees by type played during calendar year 2011, totaling a little over 30,000 rounds. Approximately 40% of the rounds played at Ironwood are at the normal rate, while the remainder are either at a discounted rate or complimentary. Approximately 12% of the total rounds played in 2011 were by volunteer golf rangers, who receive playing privileges for their services but are required to pay the \$5 surcharge.

Chart C

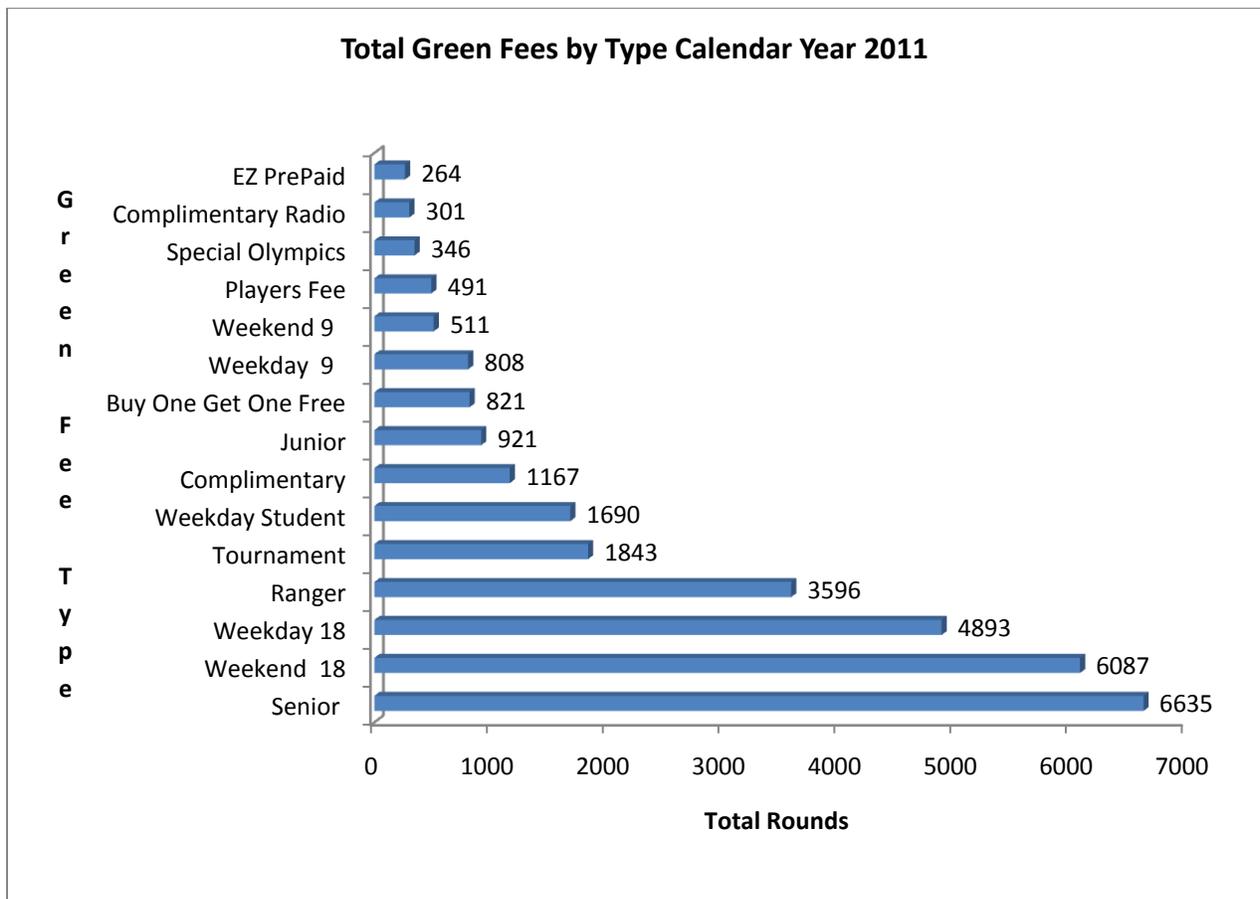


Table 1 shows the total percentage of greens fees by type that were discounted or eligible for complimentary greens fees from January 1, 2011 through December 31, 2011.

Table 1

| Greens Fee Type | Percentage Breakdown of Greens Fees |
|----------------------------|--|
| Regular Greens Fee | 40.5 |
| Senior | 21.8 |
| Ranger | 11.8 |
| Tournament | 6.1 |
| Student | 5.6 |
| Complimentary | 3.8 |
| Junior | 3.0 |
| Buy One, Get One Discounts | 2.7 |
| Players Fee | 1.6 |
| Special Olympics | 1.1 |
| Comp Radio | 1.0 |
| EZ Links Prepaid | 0.9 |

ISSUE #1

Strengthening Internal Controls Over Ironwood Cash Receipting and Recording

Discussion

Ironwood Golf Course purchased a new point-of-sale software system in December 2010, shortly after the course reopened. Sales transactions are recorded by cashiers through the EZ Links point-of-sale (POS) software system. Cashiers log into the system at the beginning of each shift and enter the total cash within their change drawer. At the conclusion of the shift, the cashier counts all monies received (including cash, checks and credit card purchases) during the day less the initial change for the cash drawer and records this manually on a cashier's revenue report. The cashier then enters the data into the EZ Links POS system and signs out. The EZ Links POS system produces a report with the total sales rung through the register versus the total counted by the cashier. Any differences are recorded as an overage or shortage. Once closed out, the cashier is unable to make any adjustments. The cashier may include notes for management regarding cash differences that might be attributed to tips, cash miscounts noted after close out or keying errors. The Parks and Recreation Department requires documentation for total overages/shortages exceeding \$5. Depending on the size of the overage/shortage, the Ironwood Golf Course Policies and Procedures state whether any disciplinary action will be taken.

After cashiers complete their cash drawer count, all monies received and their completed cashier revenue reports are placed in a safe and can only be accessed afterwards by golf course management. The cashier revenue reports and cash drawer counts are accessed by golf course management to prepare the overall Ironwood Daily Cash Report. To prepare the Daily Cash Report, the Golf Course Supervisor logs into the EZ Links POS system and prepares adjustments for voided transactions, tips or keying errors based on notes provided by cashiers and then closes the cash report for that day's revenue. The Daily Cash Report should agree to the EZ Links POS system except for overages or shortages reported. The daily EZ Links POS system report is also printed, which provides total revenue collected by category for each day and includes greens fees, cart rentals, concession and pro shop merchandise sales. A deposit slip summarizing the daily revenues is then prepared and monies are placed in the safe until it is picked up by armored courier. A copy of the Daily Cash Report is forwarded to the Budget and Finance Department.

During our review, we tested a sample of Daily Cash Reports and resulting deposits processed during 2011 and noted the following weaknesses in the system of internal control over golf course revenues:

Daily Cash Reports and Cashier Revenue Reports Inaccurate or Incomplete

During our review, we noted the following weaknesses in the completion of Daily Cash Reports and cashier revenue reports:

- Forty percent (40%) of Daily Cash Reports reviewed had missing, incomplete or unsigned cashier revenue reports. Cashier revenue reports are used to report each cashier's revenue during the day. Preparing and signing a cashier revenue report provides accountability by the cashier for the revenue reported.
- Forty-three percent (43%) of Daily Cash Reports reviewed showed cashiers using different usernames to log into the EZ Links POS system. Each cashier is assigned a unique employee username and password that is not to be shared with other cashiers.
- One Daily Cash Report did not include the POS Instance Report which provides the daily cash expected and actual cash that was recorded through the EZ Links POS system.

The Ironwood Golf Course Policies and Procedures section regarding cashier procedures states:

1. *Cashier Procedures - Opening k. Never, under any circumstances, share your drawer. Do not let anyone else ring on your drawer or it may cost you both of your jobs. You and you alone are responsible for your drawer. Protect your drawer, as you will be held accountable for keeping it accurate.*
3. *Cashier's Procedures - Security j. ...Accurate cash reconciliations are part of our responsibility to the City of Gainesville.*

Management indicated that newly hired employees were allowed to use different cashiers' employee user names and passwords until the new employee could be added to the EZ Links POS system. However, we found employees with assigned user names continuing to sign in under a different employee's user name. Additionally, we noted that some cashier revenue reports were not signed by responsible cashiers, further weakening the internal control process, because it lessened the ability to identify who was accountable for the cash drawer.

Revenue Adjustments not Adequately Documented

During testing, we noted revenue adjustments made by the Golf Course Supervisor ranging from \$1 to \$146 without adequate documentation of the reason for the variance. For instance, we found one cashier's revenue report, which included a note indicating that the cashier was unaware of how they finished the day with a cash shortage of \$30. The Golf Course Supervisor adjusted the balance and zeroed out the shortage. The Supervisor did not recall the details of why this adjustment was made, but indicated he likely required the cashier to reimburse the City for the shortage.

The Ironwood Policies and Procedures manual, General Procedures 12-c states:

Overages/Shortages "although we expect our cashiers to balance, we understand you will have some variances, however, if you have up to three (3) overages/shortages in a six month period that exceed \$5 we will take disciplinary action up to and including dismissal. Any individual over/shortage which exceeds \$10 will be subject to written instruction and cautioning, a second offense is a five day suspension or dismissal. If an overage/shortage exceeds \$50, immediate five day suspension or dismissal".

The current policy indicates that shortages of this magnitude should result in written instruction and cautioning and does not provide for repayment of the shortage by the cashier. The Golf Course Supervisor indicated that adjustments made are generally based on cashiers' post-it notes left on the cashier revenue report explaining the variances that require management attention. However, we were unable to review the documentation of the reason for most adjustments as the post-it notes are typically discarded and not maintained with the Daily Cash Report. The lack of documentation does not make it possible to substantiate the purpose of adjustments. It would be preferable for the Golf Course Supervisor to document the reason for overages or shortages and monitor the accuracy of cashiers over time.

Beverage Cart Inventory Forms not Current and not Retained with the Daily Cash Report

Beverage cart servers provide snacks and drinks to golfers on the course. The beverage cart server obtains \$30 from the cashier's drawer and the cashier reviews the inventory form and records the total quantities of each item on the beverage cart prior to the beverage cart server selling the items. When the beverage cart server returns, \$30 is returned to the cashier and the cashier enters the items sold from the beverage cart server's inventory form. We were unable to review beverage cart inventory forms because these are not included in the support for the Daily Cash Report. Revenue collected from the beverage carts is entered as one transaction into the cash register once the servers have returned from the course.

Golf Course management indicated that they did not believe it was necessary to maintain the form with the Daily Cash Report.

We were able to review several recently utilized beverage cart inventory forms during our testing and found the beverage cart inventory form includes an item that is listed as 25 cents less than the actual retail selling price. Although management indicated that beverage cart servers were made aware of the pricing difference prior to selling the items, there is a potential to collect the incorrect amount if the form is relied upon by the beverage cart server. Management stated that beverage cart forms were not updated due to time constraints in preparing a new form.

Daily Starter Sheet Data not Compared to Number of Greens Fees Paid

Tee time reservations can be made online or by telephone up to 10 days in advance of scheduled play. Starter sheets are prepared each day for all starting times and all players who have made reservations or walked on the course to play during the day. After paying for a round of golf, players provide their receipt to the volunteer golf ranger at the first tee. The ranger verifies payment has been made and then checks off the player's name under the reserved tee time or records the players' names on the starter sheet with the time the group started play if the players did not have reservations. The number of carts and cart numbers are also recorded.

We attempted to verify the number of rounds played from the starter sheet to the number of rounds recorded through Daily Cash Reports selected for our sample to ensure that all players indicated on the starter sheet were processed through the EZ Links POS system. We were unable to do this since Ironwood only maintains the starter sheets for approximately a month before disposing of them. Management also does not use the starter sheets to reconcile the number of rounds played as recorded by the rangers to the number of rounds purchased on the Daily Cash Report.

During our review, we attempted to compare the number of rounds from several recent starter sheets to the number of rounds documented as paid by the EZ Links POS report. Variances were noted for each day between the number of greens fees paid and the number of players on the golf course. On two of three days reviewed, there were variances of four and nine rounds played on the starter sheet that were not recorded as greens fees through the POS system. This variance suggests golf rangers may not be adequately reviewing receipts to ensure greens fees are paid prior to playing. On the other day reviewed, there was one additional greens fee recorded through the EZ Links system that was not recorded on the starter sheet. This suggests the golf rangers are not recording all players correctly on the starter sheet. Additionally, there is not a uniform method starters use to record or check off players as play begins. Some record one player and write "guests", others will record each player's name and others will write down the total number of players. Reconciling the EZ Links POS system report to the starter sheet will improve accountability over collections and reduce the risk of potential fraudulent transactions.

Conclusion

Ironwood Golf Course internal controls need to be strengthened in order to provide reasonable assurance that revenues are properly received and recorded and the financial/operating system is accurate and reliable.

Recommendation

We recommend management:

- A. Review operating policies and procedures with cashiers and require cashiers to sign into the EZ Links System with their unique user name. Additionally, new cashiers hired should have their own user name prior to their start date. Cashiers should be retrained and current procedures

requiring cashiers to complete and sign cashier's revenue reports should be complied with. All cashier's revenue reports should be maintained with the Daily Cash Reports. Management should also ensure POS Instance Reports are included with supporting documentation for each Daily Cash Report.

- B. Ensure sufficient documentation is maintained and provided by cashiers to explain cashier overages or shortages. Ensure that all adjustments made by the Golf Course Supervisor to the POS Instance Reports are adequately documented and explained. Documentation should include tips, key stroke errors, voids, etc. If the Golf Course Supervisor is required to make adjustments based on his cash count, then the Golf Course Manager should review and initial that adjustment on the Daily Cash Report. All overages and shortages, unless found through miscounted currency, should be reported on the Daily Cash Report as an overage/shortage and not manually adjusted.
- C. Ensure that prices set forth on beverage cart inventory forms are correct and updated as necessary to ensure consistent collection of revenue. A procedure should be developed and implemented to ensure future concession pricing changes made through the POS System are reflected on the beverage cart inventory forms. Beverage cart inventory forms should also be maintained with Ironwood's copy of the Daily Cash Report to ensure that it has been reconciled through the Daily Cash Report.
- D. Utilize starter sheets to ensure rounds recorded by golf course rangers agree to the number of greens fees collected by the cashiers through the EZ Links POS Report. Discrepancies should be noted and followed up on in order to provide reasonable assurance that rangers account for all players in a uniform manner. Additionally, complimentary rounds of golf should be noted beside the player's name so golf course management can ensure the complimentary play was authorized.

Management's Response

Management has reviewed the recommendations and will develop and implement policy and procedural changes that address the recommendations as follows:

- A. All cashiers will use their designated EZ Link's User Name. Cashiers will be assigned their designated EZ Links User Name after completing 3 training shifts with other cashiers. Cashiers have been retrained and will be held accountable for completing and signing cashier revenue reports. All cashiers' revenue reports will be maintained with the Daily Cash Report. Management will ensure that POS Instance Reports are included with supporting documentation for each Daily Cash Report.
- B. Management has re-assigned the completion of Daily Cash Reports to a Staff Specialist who has been re-assigned to report to the golf course each morning, Monday through Friday, to perform this daily function. Management will ensure that all adjustments made by the Staff Specialist to the POS Instance Reports are adequately documented, explained and reviewed by the Golf Course Supervisor and noted on the Daily Cash Report. The Golf Course Manager or Supervisor will ensure that sufficient documentation is maintained and provided by cashiers to explain cashier overages or shortages.
- C. Management will ensure that prices set forth on the beverage cart inventory forms are correct and updated as needed. The Golf Cart Attendant will be responsible for updating these forms. A procedure will be developed and included in the Ironwood Golf Course Policy and Procedure Manual and the task for updating the inventory forms will be outlined in the Golf Cart Attendant job duties. Beverage cart inventory forms will be maintained with the copy of the Daily Cash Report and ensured it is reconciled through the Daily Cash Report. The procedure will be added to the Policy and Procedure Manual.

- D. Management will ensure that rounds recorded by Golf Course Rangers agree with the number of greens fees collected by the cashiers through the EZ Links POS Report. Starter sheets will be included in the analysis of the EZ Links POS Report on a daily basis. Discrepancies will be noted and followed up on in order to assure that all Rangers account for all players in a consistent manner. The Policy and Procedure Manual will be updated to reflect this change and Rangers will be retrained on this task. The Golf Course Manager or Supervisor will ensure that all comp rounds will be noted beside the player's name on the status starter sheet so management can ensure the comp play was authorized.

ISSUE #2

Timeliness of Daily Cash Reports and Deposits

Discussion

Ironwood is open 7 days a week and a Golf Course Manager and/or Golf Course Supervisor is usually onsite at Ironwood each day. The Ironwood Golf Course Policies and Procedures state that the first duty of the Golf Course Supervisor is to “perform daily cash reconciliations.” The daily cash reconciliation process includes running reports, verifying cashiers’ receipts from the previous day and making necessary adjustments for voids, rain checks or tips. As part of this process, the Golf Course Supervisor performs a total cash count, prepares cash and checks for deposit and prepares a bank deposit slip and armored courier slip. After the Daily Cash Report is prepared, monies are placed in a vault until the armored courier picks up the deposits.

The City’s Budget and Finance Department encourages Daily Cash Reports to be prepared the following business day. During our review of a sample of Daily Cash Reports, we noted the daily reconciliation of cash receipts is not performed on a timely basis. We found:

- Twenty-two of 30 (73%) Daily Cash Reports reviewed were completed from 4 to 16 days after the close of business day.
- Deposits are not made timely. The armored courier is scheduled for deposit pickup twice a week. Fifty-six percent of the completed Daily Cash Reports with deposit slips reviewed were in the vault longer than 4 days and 37% were in the vault longer than one week.
- One of the 30 Daily Cash Reports reviewed was completed and submitted to Budget and Finance with 15 additional Daily Cash Reports.
- Armored courier pickup slips did not include the daily cash dates with the respective daily deposits. The courier slip was an aggregate of all deposit slips.
- Deposit slips did not indicate the date the courier picked up the deposit.

The Golf Course Supervisor is currently the only employee who has been preparing the Daily Cash Reports since the EZ Links POS system was installed. According to management, prior to the EZ Links POS system, the Golf Course Manager would assist preparing the Daily Cash Reports when the Golf Course Supervisor was on leave. When the Golf Course Supervisor is on an extended leave, the cashier revenue reports and deposits remain in the safe until he returns to prepare the daily cash reconciliations. Daily cash and check revenue in our sample ranged from \$460 to \$7,300.

Conclusion

Daily Cash Reports and cash deposits are not prepared timely. Timely reconciliation of daily receipts and deposits is essential since the longer monies remain undeposited, the greater the risk of loss or theft.

Recommendation

We recommend management prioritize current duties of the Golf Course Supervisor with an increased emphasis on preparing Daily Cash Reports and deposits for armored car pickup on a more timely basis. We also recommend management develop a contingency for when the Golf Course Supervisor is unavailable to prepare Daily Cash Reports and deposits timely.

Management's Response

Management has shifted the responsibility for the preparation of the Daily Cash Reports and deposits to the Staff Assistant assigned to IGC Monday through Friday mornings placing the Golf Course Manager or Supervisor as the back-up when the Staff Assistant is not available. Management will hold random checks to ensure timelines of Daily Cash Reports.

ISSUE #3

Surcharge Fee Collections

Discussion

In fiscal year 2010, Ironwood Golf Course received approximately \$1.2 million dollars in course renovations. In order to pay the debt service on the bonds issued for the course upgrades, a \$5 surcharge was established in addition to established greens fees. When the course reopened in November 2010, surcharge fee exemptions were initially granted for radio promotions to attract business. This exemption was later eliminated, however surcharge exemptions remain for complimentary rounds provided to PGA professionals and occasionally their golfing party, Special Olympic players and EZ Links prepaid rounds. EZ Links is Ironwood's cashiering software contractor, who contractually reserve two tee times a day to be offered through the EZ Links website. These four surcharge exempt categories totaled 2,078 rounds in 2011, or a total of \$10,390 in exempted surcharges.

The EZ Links system assists in the collection of surcharges on non-exempted greens fees through a "Kit" key that can be set up within the system. The "Kit" is set up to include specific types of greens fees. When the cashier rings a specific "Kit," the transaction is processed through the EZ Links system, with each designated revenue component being distributed through the system. For instance, a "Kit" for Weekday 18 would record one regular priced greens fee, one cart fee and one surcharge with each dollar component separated out to the respective category.

As part of our review, we reconciled daily greens fees recorded during 2011 to total surcharges collected. After accounting for the 2,078 surcharge fee exemptions noted above, we noted 804 greens fees associated with tournaments that did not include a surcharge. Management indicated that these exclusions resulted from the "Tournament Kit" not being set up properly and that this was discovered and corrected during 2011. The uncollected surcharges for these greens fees was \$4,020. We also noted that tournament greens fees and surcharges were not properly recorded. Six of 22 tournaments recorded total rounds ranging from 1 to 5 players. Although a check was received for total greens fees, the surcharge fee would not have been included for additional rounds of golf recorded. This resulted in under-reporting rounds and potentially additional surcharge fees not collected. We also noted 130 pull cart fees being incorrectly recorded as greens fees. Management corrected this "Kit" key during our review.

Conclusion

Surcharges have not been included in all greens fees. Discrepancies noted appear to be based on several factors including not programming "Kits" to include all revenue categories, cashier errors recording tournament play within the EZ Links POS system and a lack of timely and thorough management oversight and analysis of the EZ Links reports to ensure surcharge and greens fee rounds recorded daily are reasonable.

Recommendation

We recommend management review and reconcile surcharges and greens fees reported by the EZ Links POS system as a part of preparing daily cash reconciliations. Any discrepancies noted should be documented and evaluated to help ensure that they do not reoccur. Additionally, cashiers should be retrained on how to accurately enter tournament greens fees so that data from the POS system is consistent and can be relied upon for utilization reporting.

Management's Response

Management will review and reconcile surcharges and green fees reported by EZ links POS System as a part of preparing Daily Cash reconciliations. All discrepancies discovered will be documented and measures taken to ensure they do not reoccur. Cashiers have been retrained on how to accurately enter tournament greens fees so data from the POS System is consistent and can be relied on for reporting purposes.

ISSUE #4

Internal Controls Over Gift Cards

Discussion

During 2011, Ironwood converted from a gift certificate program with a sequential numbering system and log requiring cashiers to manually record gift certificate purchases to a gift card program operated within the EZ Links system. Active gift certificates were entered into the EZ Links system once it went online. In December 2010, as Ironwood was awaiting the delivery of gift cards, and running out of gift certificates, management decided to reproduce an unused gift certificate, remove the control number and manually record the control number when a purchase was made. The gift certificate control number was to be left blank, however through an oversight the control number remained on a reproduced copy that was used at least 7 times. The EZ Links system was able to record these as separate gift certificate entries as the purchaser names were unique even though these were not unique numbers.

In March 2011, the gift certificate program was discontinued and replaced with gift cards, which may be purchased for any dollar value. Once the gift card is activated by the cashier, the gift card number and dollars are recorded through the EZ Links system. As the customer uses the gift card, each purchase is deducted from the total value of the gift card. The gift card records the remaining balance in the EZ Links POS system and tracks the value until it zeroes out.

Inactivated gift cards are maintained in an unsecure box in the pro shop and are available to all cashiers when a customer wants to make a purchase. The cashier will select the quantity needed for purchase from the box. These cards are not maintained in sequential order.

We reviewed the EZ Links gift card activation report and found of the 302 gift cards sold from March 2011 to December 2011, 19 were not sold in sequential order. We also found 20 gift cards that were once zeroed out by one customer and were reactivated for use by another customer. Gift cards do not have a cash value unless activated. Management considers the practice of reusing gift cards as a cost savings that was suggested by the EZ Links representative. However, this creates the potential for gift cards to be misused.

According to the National Retail Federation, gift card fraud is highest among retailers who have reloadable cards. A survey of retailers found 62% of gift card losses are attributed to dishonest employees and 13% each were for counterfeit and stolen cards. LP Innovations found that if gift cards are displayed, unorganized or not properly maintained, then it is possible for customers to take several blank cards and duplicate these for fraud purposes. Retailers also found employees posed a greater risk with gift fraud. Those concerns included employees able to switch customer gift cards with balances with those gift cards that were inactivated or had zero balances. Other methods for misuse include the ability to replicate the magnetic strips and duplicating cards or taking blank cards, cloning the cards and returning these to their location. The “customer” then uses a web system to continuously monitor the balance on the cloned card until a balance exists from someone who purchased the gift card legitimately. The cards then created by the customer can be used for the remaining balance.

There were over 300 gift cards sold in 2011 ranging in value from \$25 to \$300. Although the risk of loss may be less at Ironwood than at a major retailer, greater controls related to the gift card process would help to avert potential theft. Additionally, with the concerns outlined in Issue #2 regarding timeliness of Daily Cash Reports, potential gift card misuse may not be discovered for several days.

Conclusion

Gift certificate controls were not effective during the months just prior to the shift to gift cards, resulting in multiple gift certificates having the same control number. In addition, the gift card process has limited internal controls. The potential for gift card theft or fraud is increased by not maintaining a sequential numbering system and providing a secure location for inactivated gift cards.

Recommendation

We recommend management strengthen the internal control process over gift cards to, at a minimum, include the following:

- Maintaining inactivated gift cards in a secure location.
- Activating gift cards and developing a mechanism within the cashiers' revenue report to provide zeroed out gift card information so it may be reviewed and properly destroyed by management.
- Ensuring gift cards are sold in sequential order.
- Periodically running EZ Links gift card reports to ensure gift cards are not reactivated to new customers and ensure there is no sequential numbering break.
- Revising the Ironwood Policies and Procedures Manual to include a section for gift card processing and control.

Management's Response

Management has placed a limited number of gift cards in the Pro Shop for sale and placed the majority of cards in the main safe for security. Zeroed out gift cards will not be accepted back. The customer will be informed they are responsible for destroying the card unless however, they wish to add funds to the existing gift card. Gift cards in the Pro Shop will be stored and sold in sequential order. The Policy and Procedure Manual will be updated to include a section on Gift Card Policies and Procedures. Management has recently learned that by State Statute, gift cards do not ever expire. The policies will reflect that all gift cards purchased will not include an expiration date.

ISSUE #5

Internal Controls Over Complimentary Rounds

Discussion

Ironwood Golf Course provides several different types of complimentary rounds, including the following categories: Golf Rangers, Complimentary, Special Olympics, Complimentary Radio, PGA Professionals and Buy One Get One Free passes. Complimentary rounds for Golf Rangers and PGA Professionals are addressed in the Ironwood Policies and Procedures manual, however, the other categories listed above are not addressed. As a result, it is difficult to determine if complimentary rounds are authorized and valid.

The Ironwood Policies and Procedures, General Procedures 18 - "PGA Professional Playing Privilege" states:

- a) *When taking tee times for the local professionals, make sure you ask the Golf Course Manager to make a note on the tee sheet, so whoever may be working at the time will know what to charge the golfers in question.*
- b) *Out of state professional get cart fee only for one visit only. Guests of the professional will pay full price. (All of these requests must be approved by the Golf Course Manager).*
- c) *When checking out of state or local professional, you need to have them sign the "Golf Professionals Guest Book". Ask them to please include their home course with the address and telephone number and their current PGA number.*
- d) *All professionals who are paying less than full price have to show their PGA cards and they must be current.*

During our review, we were unable to accurately determine the actual number of complimentary rounds by category because a "Kit" key named "Comp Radio" is used to record both PGA Professional complimentary passes and complimentary passes issued for radio prizes. Additionally, there is a "Kit" key entitled "Complimentary" which may have also been used by cashiers to record some PGA Professionals. Additionally, we found that no "Golf Professional Guest Book" was maintained as set forth in the policies. The total "Comp Radio" and "Complimentary" passes, along with Buy One Get One Free passes recorded during 2011 was approximately 2,300 or more than \$70,000 a year in revenue value.

In discussions with the Golf Course Manager and Supervisor regarding the number and type of complimentary rounds provided, we were informed that typical PGA practice is for PGA Professionals and golf course superintendents to receive free rounds of golf when visiting a course. This practice does not typically extend to the professional's playing partners, however we were informed that there are times when a visiting PGA Professional receives complimentary passes for his or her playing group, or there may be a discounted rate applied to the other players. Typically, such arrangements result in reciprocation whereby the Ironwood Golf Course Manager and Supervisor are provided the same opportunity at the visiting professional's course. We were informed that these reciprocations are awarded to Ironwood staff based on merit. However, there are no records maintained of how often these opportunities are awarded.

Conclusion

Ironwood management has written policies and procedures regarding complimentary greens fees, however current practice is broader than what is set forth. Additionally, adequate records are not maintained to allow an accurate breakdown of complimentary rounds provided.

Recommendation

We recommend management utilize the Ironwood Policies and Procedures Manual with regard to complimentary rounds for PGA Professionals. Additionally, management should develop separate “Kit” keys that will differentiate between PGA Professionals, members of their party, radio prizes and other forms of complimentary greens fees. Management should also maintain a log that tracks those who have received complimentary rounds and review the number of complimentary type of offers provided to ensure it is reasonable. If a reduced fee is to be offered for certain customers, this should be stated in the policies and procedures manual and noted on the starter sheets and Guest Book. This will assist in determining if adjustments need to be made in how many complimentary rounds of golf are issued annually.

Management’s Response

Management has established separate kit keys for various complimentary rounds so accurate tracking and analysis of complimentary rounds can be achieved. A PGA Pro/Guest kit key has been created and an Employee kit key has been created in addition to the Ranger kit key and Special Olympic kit. Starter Sheets will reflect accurately all complimentary rounds. Starter Sheets will be reviewed daily and included in the Daily Cash Reports.

ISSUE # 6

Golf Course Policies and Procedures Manual Should Be Updated

Discussion

Ironwood Golf Course has a comprehensive policies and procedures manual which includes the mission, objectives, goals, general operating procedures and rules to be followed. Also included in the policies and procedures are the duties for cashiers, beverage cart servers, rangers and other staff. A well written and current policies and procedures manual helps to ensure staff and volunteers are working from the same point of reference of what needs to be done in order to be successful. It also helps to ensure that the golf course is run efficiently and effectively and that employees are accountable for their activities. A well designed and utilized policies and procedures manual can save time and effort, provide detailed job descriptions, orient new members to their roles, job standards and expectations, provide continuity and consistency in decision making, provide a way to review existing programs and services to ensure needs are met, and help avoid conflict and potential for misunderstanding.

We found during our review that there are sections of the Ironwood Golf Course Policies and Procedures Manual that require updating and clarity including, but not limited to:

- Revising or reinforcing the current resolution for cashiers' individual overages and shortages. The written procedures do not match the current practice. There is no record keeping maintained by management for individual variances exceeding specific dollar thresholds as stated in the procedures. In addition, management appears to require cashiers to repay shortages based on specific thresholds, but these are not outlined in the procedures manual as noted in Issue #1.
- Beverage cart servers' actual duties regarding change drawers state that a \$30 drawer is maintained by server at the end of each shift, however the \$30 drawer is obtained from cashier's drawer.
- Greens fee surcharge description and types of greens fees that require a surcharge fee.
- Procedures for the gift card process are not included in the manual.
- PGA Professional playing privileges have specific guidelines listed in the manual to ensure the correct fee, if applicable, is charged and proper documentation is provided to ensure the PGA Professional is eligible for the greens fee discount. This was previously discussed in Issue #5.

Some procedures requiring updates are a result of changes made after the installation of the new cash register software system. However, other procedures appear to be part of institutional practices that have not been clearly documented within the policies and procedures. In addition, management and staff are not consistently complying with some of the current written policies and procedures.

Conclusion

Documented Ironwood Golf Course Policies and Procedures need to be updated to address operational changes since the course reopened with a new POS system and to more clearly address some key operating practices set forth in this report. Procedures should not be eliminated when there is merit, such as establishing cashier overage and shortage thresholds or documentation required for PGA Professional playing privileges, but rather the updates should be for purposes of improved management control.

Recommendation

We recommend management update the Ironwood Golf Course Policies and Procedures Manual to ensure it is in line with current management goals regarding the operation of the golf course and that it reflects the current practices of Ironwood Golf Course. The policies and procedures manual should be reviewed by management periodically to ensure it is consistent with current practices and updated when needed.

Management's Response

Management will update the Ironwood Golf Course Policy and Procedure Manual to reflect all changes and additions noted in this audit report and will review the manual annually for accuracy.