



INTERNAL AUDIT REPORT

DATE: June 26, 2019

TO: Linda Gorton, Mayor

CC: Sally Hamilton, Chief Administrative Officer
Glenn Brown, Deputy Chief Administrative Officer
Aldona Valicenti, Chief Information Officer
William O'Mara, Commissioner of Finance & Administration
Geoff Reed, Commissioner of General Services
Monica Conrad, Director of Parks and Recreation
Phyllis Cooper, Director of Accounting
Susan Straub, Communications Director
Urban County Council
Internal Audit Board

FROM: Bruce Sahli, CIA, CFE, Director of Internal Audit
Matthew Reid, CPA, Internal Auditor

RE: Golf Course Collections and Pro Shop Inventory Audit

Background

The LFUCG Division of Parks and Recreation currently operates five public golf courses (Kearney Hills, Lakeside, Tates Creek, Picadome, and Meadowbrook) all of which are staffed by LFUCG employees. All of the golf courses have LFUCG staffed Pro Shops that provide items for sale to customers (Golf Clubs, Golf Balls, Gloves, Clothing, etc.) although the merchandise offered at Meadowbrook is limited. Various green fees are charged at the Golf Courses depending on the course, type of play



(eighteen hole vs. nine hole), day of the week (weekday or weekend), age (seniors receive a discount), and other considerations. Each course will accept cash, check, or credit card as acceptable forms of payment. Gift Certificates can also be purchased and utilized at any LFUCG golf course. For the FY 2018 season (July 2017 through June 2018), revenues from golf operations as reported by PeopleSoft Financials totaled \$2,517,285.

Scope and Objectives

The general control objectives for the audit were to provide reasonable assurance that:

- Adequate collection controls are in place and cash is being safeguarded
- Collections are accurately recorded and reported in a timely manner
- Daily cash collections are deposited timely
- Pro Shop inventory is properly safeguarded and inventory activity is accurately reported
- Inventory Turnover Rate of Pro Shop merchandise indicates that inventory is properly managed
- Voids and product returns are properly managed

All golf courses except Meadowbrook have their own concession operation; however, inventories of concessions were not included in the scope of this audit.

Audit results are based on observations, inquiries, transaction examinations, and the examination of other audit evidence and provide reasonable, but not absolute, assurance controls are in place and are effective. In addition, effective controls in place during an audit may subsequently become ineffective as a result of technology changes or reduced standards of performance on the part of management.

The scope of the audit included activity for the period July 1, 2017 through November 30, 2018.

Statement of Auditing Standards

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. Those standards require that we plan and



perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

Audit Opinion

In our opinion, the controls and procedures provided reasonable assurance that some of the general control objectives were being met. Opportunities to improve controls are included in the Summary of Audit Findings.

Priority Rating Process

To assist management in its evaluation, the findings have been assigned a qualitative assessment of the need for corrective action. Each item is assessed a high, moderate, or low priority as follows:

High - Represents a finding requiring immediate action by management to mitigate risks and/or costs associated with the process being audited.

Moderate – Represents a finding requiring timely action by management to mitigate risks and/or costs associated with the process being audited.

Low - Represents a finding for consideration by management for correction or implementation associated with the process being audited.

SUMMARY OF AUDIT FINDINGS

Finding #1: Inventory Count Not Performed Monthly & Missing Monthly Inventory Reports **Priority Rating: High**

Condition:

Golf management currently manages Pro Shop merchandise using the Periodic Inventory Method in which physical counts of inventory are performed at the end of



each month and differences between End of Month and Beginning of Month inventory levels are reported as Cost of Goods Sold. According to Golf Policy and Procedure, “Inventory is to be taken at the end of each month using a simple excel spread sheet form MIF (Merchandise Inventory Form). Inventory should include product added, sales by gross and net to determine a profit for the month and a margin.”

However, during the audit we were unable to obtain copies of these monthly inventory spreadsheets (the current equivalent of the Merchandise Inventory Form) for several months for several golf courses. Therefore, we could not confirm that these physical counts were being performed on a monthly basis. We also verified there were some months in which the physical count was not performed, as the activity reported on the monthly inventory spreadsheets covered multiple months. For example, at Tates Creek, merchandise activity for the months of July 2018 through September 2018 were reported in one spreadsheet rather than being reported separately each month. The months of May 2018 through June 2018 and October 2018 through November 2018 were also combined in one spreadsheet. This provided substantive evidence that inventory counts are not being performed each and every month as policy requires.

Effect:

Failure to conduct monthly physical counts and retain the results of the inventory counts reduces the ability to properly manage inventory levels, violates Golf Policy and Procedure, and could result in failure to identify inventory theft.

Recommendation:

The month-end count should be performed and the monthly inventory spreadsheet should be completed every month as policy requires. Even if Golf transitions to a perpetual inventory management system (as recommended in Finding #10), a monthly count should still be conducted to identify inventory shrinkage. The documented results of the monthly inventory counts should be retained on a consistent basis for management review.

Director of Parks and Recreation Response:

Parks has identified the discrepancies and addressed them with an updated perpetual inventory procedure that requires all golf shops to turn in monthly inventory reports within the first ten (10) days of each month. The new perpetual inventory system has been implemented, outlining specific procedures for each shop to follow.

Commissioner of General Services Response:

I concur with the Director’s response.



Finding #2: Missing Collection Documents**Priority Rating: High****Condition:**

Golf Management retains collection documents such as Daily Cash Journal Reports, Bank Deposit Slips, Credit Card “Batch” Reports, Return Verification Sheets, etc. for each golf course which provide documentation of historical sales and collections as well as verification that these collections have been deposited. Daily Cash Journal Reports detail all sales transactions for the day including total collections received, shortage or overage, and the amount of cash collected that should be deposited. Credit Card “Batch” Reports detail the total amount of credit card sales processed during the day, and the Return Verification Sheets document management review of returns and voided items. These documents are currently stored at the Picadome location, and we inspected many of these documents as part of test work performed during this audit.

However, we were unable to locate these records for the month of September 2017 for Kearney Hill and Meadowbrook golf courses. The Golf Services Manager stated he was unable to locate these records and advised since they preceded his employment as Golf Manager he was unsure where the files were located. The Golf Services Manager also advised these files were recently moved from Tates Creek to Picadome and they may have been misplaced during the transition. After obtaining the LFUCG Records Retention Schedule, it appears that these records should be stored for a period of five years.

Effect:

Source records (Cash Journals, Credit Card Batch Reports, Return Verification Sheets, etc.) provide important information that support historical transactions. Failure to properly maintain records limits management’s ability to review historical transactions, as well as reducing the transaction audit trail.

Recommendation:

These collection documents should be retained for a period of five years as required by the LFUCG Records Retention Schedule.

Director of Parks and Recreation Response:

The missing documents in question were unable to be found. We believe the box was misplaced during a move of all golf documents from Tates Creek Golf Course to Picadome Golf Course. All documents are now stored at Picadome Golf Course for the foreseeable future.



Commissioner of General Services Response:

I concur with the Director's response.

Finding #3: Control Weaknesses Identified in RecTrac**Priority Rating: High****Condition:**

We noted two control weaknesses in RecTrac that should be addressed. First, the RecTrac System does not have an activated No Sale button. If cashiers need to access the till on occasions when no transaction occurred (e.g. to make change for a customer), they simply open the till using the till key. There is no mechanism within RecTrac to track how many times this occurs.

Secondly, cashiers can change the price of an item when it is scanned or rang up. A Lakeside cashier demonstrated this control weakness to us when he rang up a golf club at \$139.99 then used "Update Fees From Cart" to change the price of the club to \$20. We noted that the cashier could apparently enter any price in RecTrac when an item is sold.

Effect:

These two control weaknesses significantly increase the risk of cash and/or inventory theft.

Recommendation:

Parks management should determine whether a No Sale feature can be activated in RecTrac. Parks management should also determine if it is possible to program RecTrac so that only select individuals (e.g., the Pro Shop Manager) can change prices at the point of sale.

Director of Parks and Recreation Response:

Parks will activate a No Sale button. We will add permissions to change prices for only managers at each facility.

Commissioner of General Services Response:

I concur with the Director's response.



Finding #4: Improvements Needed in Reporting Shortage/Overage of Cash
Priority Rating: High

Condition:

At the end of each business day, golf personnel run a Daily Cash Journal Report which reports the total amount of collections recorded during the day allocated by payment type (cash, check, credit card, etc.). Near the bottom of this Cash Journal Report is a section in which actual cash collected and prepared for deposit can be documented. Any difference (shortage/overage) between cash collected and cash recorded should be documented here as it provides management information regarding the effectiveness of daily cash handling procedures.

During the audit, we were advised that when the cash deposit is prepared at the end of each night at several of the Golf Courses, the cashier does not provide documentation of any overage/shortage of cash. We also observed a small box of assorted change near the Kearney Hill cash register and were informed by Kearney Hill personnel that they use this change to “make up” the difference in the event of a cash shortage.

Effect:

Failure to document cash over/short amounts during the daily closing process prevents management from being able to identify cash handling training opportunities and can also allow cash theft to go undetected.

Recommendation:

All cash overage/shortage should be documented on the Daily Cash Journal Report. Any discrepancies should be investigated by management and the underlying cause of significant over/short issues should be corrected. Miscellaneous change should not be used to “plug” any cash overage/shortage.

Director of Parks and Recreation Response:

Adding a shortage/overage button immediately to be able to track on RecTrac, as well as adding a procedure that requires the staff to document any overage/shortage on the Daily Cash Journal Report. Regular oversight of the Daily Cash Journal Report will be performed by golf administrative staff.

Commissioner of General Services Response:

I concur with the Director’s response.



Finding #5: Improvements Needed in Tracking Gift Certificate Values
Priority Rating: High

Condition:

Customers can purchase a gift certificate from any of the five city golf courses and redeem it at any city golf course they choose. We noted that gift certificates are currently printed on paper stock that could be easily duplicated, and when issued the amount paid for the gift certificate is handwritten on the front of the paper certificate. When redeemed, the amount written on the face of the gift certificate is credited to the customer, often without verification of the amount originally paid for the gift certificate or the remaining balance. If a gift certificate is not completely redeemed when used, the amount redeemed is handwritten on the gift certificate and the remaining balance is documented on the front of the gift certificate. The cashier then initials the remaining balance along with his/her employee number. Golf Policy requires gift certificates to have a receipt attached for verification; however, we were advised receipts were not required when redeeming gift certificates. This process creates the possibility for manipulation of original or remaining gift certificate values.

While performing a walkthrough at Tates Creek and Kearney Hill, we noted there were five gift certificates that were missing from inventory and were not included on the Gift Certificate Sales Log. This indicates they were sold but not included on the Sales Log or are otherwise missing. We were also informed that the current RecTrac system is not tracking individual gift certificates that are issued to customers, which if in place could provide evidence of original value as well as an updated gift certificate balance.

Golf Management informed us that they are currently unable to run a report that would identify the total amount of outstanding liability LFUCG has associated with gift certificates sold but not yet redeemed. A system in which gift certificate values are individually verified and which provides automatic updated balances after each use would be a much better system. The Golf Services Manager advised that he recently discovered a feature in RecTrac that will allow tracking of individual gift certificates by gift certificate number, provide updated balances on each gift certificate as they are used, and will also provide reporting on the amount of the liability associated with gift certificates sold but not yet redeemed. The Golf Services Manager advised he was in the process of learning about this feature and hopes to implement it in the near future.



Effect:

Failure to adequately track individual gift certificates sold and amounts redeemed could result in their theft or misappropriation. The current system of valuing gift certificates can be easily manipulated to increase the value of the gift certificate or misstate partial redemption.

Recommendation:

Golf Management should implement the RecTrac feature identified above that will allow tracking of gift certificates sold by gift certificate number, automatically calculate updated gift certificate balances as they are redeemed, and provide documentation on the amount of overall outstanding gift certificate liability (the amount of gift certificates sold that have not yet been redeemed).

Director of Parks and Recreation Response:

We agree and are currently in the process of converting the current gift certificate system to RecTrac, utilizing 'households'. This will allow gift certificates to be numbered and tracked through reporting tools on RecTrac, instead of current (paper) method. We will also track amount of unclaimed gift certificates, where gift certificates are being used, and who used them.

Commissioner of General Services Response:

I concur with the Director's response.

Finding #6: Missing Driver from Pro Shop**Priority Rating: High****Condition:**

While performing the physical count of inventory at Tates Creek, we noted a Titleist 917D Driver included on the Monthly Excel Inventory Schedule was not present. We were informed by the Tates Creek Golf Pro that this was a Demo Club and one of his seasonal employees had possession of it. We were informed the employee wanted to try out this driver and he intended to purchase it, but after the employee tried out the club, he forgot he had it in his golf bag and took it home with him. The employee is a seasonal employee and had not returned this club as of the date we conducted a physical count of inventory. The Tates Creek Golf Pro stated the employee had possessed the club for approximately a month prior to the date of our inventory. A few weeks later,



the Tates Creek Golf Pro advised the employee returned this club to the Pro Shop. He said the employee still wants to purchase it, but has not done so.

Effect:

All inventory is the property of the LFUCG and should not be removed unless sold.

Recommendation:

Management should ensure that merchandise is never removed from the shop until it has been purchased.

Director of Parks and Recreation Response:

We agree with the finding. Golf Services Manager discussed with staff and resolved concern immediately. New merchandise should never be removed from the shop until it is purchased. This will be included in updated golf procedures.

Commissioner of General Services Response:

I concur with the Director's response.

Finding #7: New Merchandise Priced Below MAP Price

Priority Rating: High

Condition:

According to Golf Policy, new hard goods (drivers, wedges, putters, etc.) should be priced at Manufacturer's MAP (Minimum Advertised Price). During the audit, we identified several new items in inventory that were priced below MAP price. For example, at Kearney Hill we identified five new Titleist TS2 & TS3 Drivers that were priced at \$479, but the MAP price for these clubs was \$499. At Lakeside, we noted the Titleist 818H1 & H2 Hybrids (four in stock) were priced at \$229.99, but the MAP price for these clubs was \$279. We were informed that these clubs were brand new and the current year model. We also located other items priced below MAP price at Tates Creek. The Golf Services Manager advised new hard goods should not be priced below MAP.

Effect:

Pricing new hard goods below MAP price violates Golf Pricing Policy.



Recommendation:

In order to ensure compliance with the Golf Pricing Policy, we recommend all Pro Shop Managers review the pricing of all new merchandise to ensure they are priced according to policy.

Director of Parks and Recreation Response:

According to the Golf Policy, all merchandise “should” be at MAP pricing. Any merchandise listed below MAP pricing must have the approval of the Golf Services Manager and applicable golf professional. Any reduced pricing will be tracked and noted. This information will be updated in the golf procedures.

Commissioner of General Services Response:

I concur with the Director’s response.

Finding #8: Undocumented Returns/Voids

Priority Rating: High

Condition:

From time to time, it may be necessary for a cashier to refund or void a sales transaction. CAO Policy #40 states, “Voids, over-rings, refunds, etc. are to be reviewed and authorized by a supervisor and the register tape or receipt are to be initialed by the person completing the transaction as well as the supervisor reviewing the transaction.” Parks & Recreation Golf Operations Policy state that if a mistake is made and a void or refund is necessary, the Returns Verification Sheet must be completed. The Returns Verification Sheet provides documentation of the date, nature, and reason for the voided transaction as well as the name of the cashier and the manager that approved the voided item.

During test work, we were unable to locate documentation of manager approval on the Returns Verification Sheet for several items selected during testing. We were also advised by the Tates Creek Golf Pro the Returns Verification Sheet is not being completed at the Tates Creek Golf Course for any return/voided transaction. Golf Policy requires the completion of the Returns Verification Sheet for every return.

Effect:

The risk of cash and/or inventory theft is increased when voids are not documented, approved, and monitored by management.



Recommendation:

CAO Policy #40 void, over-ring, and refund control requirements should be complied with on a consistent basis. All voided transactions should be included on the Returns Verification Sheet indicating the nature of the transaction as well as the name of the cashier and the approving manager.

Director of Parks and Recreation Response:

Parks has reviewed the Policy and will be more diligent with management of the Returns Verification Sheet. All voided transactions will be included on this sheet, identifying the item and approving manager on each void/return. Regular oversight of the Daily Cash Journal Report will be performed by golf administrative staff.

Commissioner of General Services Response:

I concur with the Director's response.

Finding #9: Some Late Deposits Noted**Priority Rating: High****Condition:**

According to CAO Policy #40, deposits are to be delivered to the bank within a timely manner (on business day of receipt or next business day). During test work, we identified four late deposits from Meadowbrook Golf Course (two were one day late, one was two days late, and one was four days late).

Effect:

Failure to adhere to CAO Policy #40 creates the opportunity for lost or misappropriated funds.

Recommendation:

All deposits should be made on the day of or the following day of collection as required by CAO Policy #40.

Director of Parks and Recreation Response:

We agree with the recommendation and have re-emphasized CAO Policy #40 with all golf personnel. All deposits will be made the day of or the following day of collection.

Commissioner of General Services Response:

I concur with the Director's response.



Finding #10: Transition to a Perpetual Inventory Management System Needed
Priority Rating: High

Condition:

Golf Courses are currently using the RecTrac Point-of-Sale system to record daily sales and collections. However, most golf courses still manage and report merchandise inventory using manually prepared Excel monthly inventory spreadsheets and by performing monthly inventory counts (the periodic inventory system) from which cost of goods sold and gross profit is calculated. We noted Lakeside transitioned to a perpetual inventory system (RecTrac) in August 2018. However, during the scope of this audit all other golf courses still used a periodic inventory system. The periodic inventory system relies upon a monthly physical count of inventory to determine the ending inventory balance and Cost of Goods Sold. Inventory shrinkage, the unaccounted for reduction of inventory that results from error or theft, is not calculated under this system.

In contrast, a perpetual inventory system keeps continual track of inventory balances as sales and purchases are made. RecTrac has perpetual inventory capabilities by which monthly inventory counts can be performed and compared to the inventory levels reported by RecTrac, allowing management to measure the degree of inventory shrinkage that may be occurring. We also noted that various reports are available in RecTrac to track inventory levels and report Total Sales, Cost of Goods Sold, and Gross Profit; however, they are not currently being utilized. During the audit, we were advised that Golf Management is in the process of converting all golf course inventory reporting to this perpetual system through the use of the RecTrac software.

Effect:

Use of a perpetual inventory management system would increase the ability to measure the amount of shrinkage (or theft) of inventory and improve overall inventory management.

Recommendation:

The golf courses should all transition away from using monthly excel schedules and the periodic inventory system to the RecTrac perpetual inventory system to report, monitor, and analyze inventory activity. Monthly physical counts of merchandise inventory should still be performed and compared to book inventory reported by RecTrac. Any discrepancies identified (including shrinkage) should be investigated and corrected by management.



Director of Parks and Recreation Response:

Parks started this transition before the audit took place and now have a perpetual inventory procedure in place. Procedure outlines new inventory tracking system in RecTrac step by step. We switched to this system February 2019.

Commissioner of General Services Response:

I concur with the Director's response.

Finding #11: RecTrac Inventory Needs Review/Adjustments Prior to Transitioning to Perpetual Inventory System
Priority Rating: High

Condition:

As mentioned in Finding #10, we recommend transitioning from a periodic inventory system to a perpetual inventory system using RecTrac software. However, during the audit we noted there were numerous discrepancies in the RecTrac inventory records that need to be corrected prior to making this transition. For example, at Tates Creek it appears some golf balls were not properly entered into RecTrac Inventory as "Recipe Items" which result in RecTrac misstating their inventory levels. Golf balls are purchased by the dozen, but are inventoried by the sleeve (there are 4 sleeves in a dozen) and can be sold to customers by the dozen or the sleeve. Therefore, it is important that Golf Balls are entered into RecTrac inventory as a "Recipe Item" so that when a box of one dozen balls are sold, RecTrac will remove four sleeves from inventory rather than only one.

We also noted the RecTrac "Inventory Valuation Report" reported a "negative" quantity on hand for a few items in inventory. For example, at Tates Creek RecTrac reported there were -10 hats (Item # 60-HAT-TIT-7308) in inventory. RecTrac also reported a negative quantity for several items of inventory at Picadome that included, but was not limited, to -9 hats (Item # 50-HAT-TIT-0001) on hand. At Kearney Hill it appears there were some items of inventory that were not classified as "Merchandise" when they were entered into the RecTrac inventory system. Failure to code inventory as "Merchandise" in the RecTrac system could cause RecTrac to prepare incorrect inventory reports as some reports are filtered to pull items from the "Merchandise" classification.

We also identified several differences between inventory levels reported on the Monthly Excel Inventory Listings maintained by Golf Pros and the inventory reported on



RecTrac generated reports. For example, at Kearney Hill we identified one Titleist TS Demo Driver which cost \$213.60 that was included on the Monthly Excel Inventory Listing but not included on the RecTrac Inventory Valuation Report. The Golf Pro at Kearney Hill advised this Demo Driver was mistakenly not included in RecTrac inventory and needed to be added.

Furthermore, we identified some items in RecTrac inventory that we could not locate on the shop floor (and vice-versa). For example, the RecTrac Inventory Valuation Report states there are 40 sleeves of Titleist NXTS balls on hand at Meadowbrook (Item # 40-Tit-Nxts-yellow); however, these balls do not appear to exist. The Meadowbrook Golf Pro advised he did not have this item in stock and was not sure why this was included on the RecTrac Inventory Valuation Report, and we did not locate these golf balls during the physical inventory performed during the audit.

In addition, we also noted price and/or cost differences between several items on Picadome's monthly inventory spreadsheet when compared to those same items' price and/or cost in the RecTrac system. The reason for this was undetermined.

This does not represent a complete listing of the differences noted, but should clearly demonstrate the need to review and adjust RecTrac inventory prior to transitioning to a perpetual inventory system.

The Golf Services Manager advised they were in the process of cleaning up these items in RecTrac during the audit.

Effect:

Failure to ensure RecTrac inventory levels are accurately reported will result in inventory being misstated when using RecTrac reporting tools.

Recommendation:

Management should conduct a complete count of inventory at each Pro Shop and adjust RecTrac inventory to the correct physical count prior to transitioning to RecTrac reporting of perpetual inventory.

Director of Parks and Recreation Response:

Parks started this transition before the audit took place and now have a perpetual inventory procedure in place. Procedure outlines new inventory tracking system in RecTrac step by step. We switched to this system February 2019.



Commissioner of General Services Response:

I concur with the Director's response.

Finding #12: Discrepancies Identified Among Monthly Pro Shop Inventory Reports**Priority Rating: High****Condition:**

During the entire scope of this audit, all golf courses (except Lakeside, which transitioned to the RecTrac perpetual inventory system in August 2018) managed and reported merchandise inventory using monthly inventory spreadsheets and performed monthly inventory counts (under the periodic inventory system) from which Cost of Goods Sold and Gross Profit were calculated. Under this system, Ending Inventory reported at the end of each month's inventory spreadsheet should agree to Beginning Inventory listed in the following month's inventory spreadsheet. However, we noted there were several discrepancies between Ending Inventory reported in one month and the Beginning Inventory reported the following month, creating inaccurate inventory calculations. For example, at Picadome we noted the November 2018 monthly inventory spreadsheet reported an Ending Inventory of two "Callaway Odyssey" putters (cost \$119.93 each), but the December 2018 Beginning Inventory reported only one of these putters in inventory. We also noted Picadome's November 2018 monthly inventory spreadsheet reported one "Titleist Hybrid" club (cost \$132) in Ending Inventory, but the December 2018 Beginning Inventory does not include this item in inventory. The Golf Pro at Picadome was not able to provide an explanation as to what caused these discrepancies.

As further examples, we also noted discrepancies in the monthly inventory spreadsheets prepared at Kearney Hill, Meadowbrook, and Lakeside (prior to Lakeside's transition to the RecTrac perpetual inventory system). For example, we noted the May 2018 monthly inventory spreadsheet at Kearney Hill reported 595 "Pinnacle Rush & Soft" sleeves of balls (Cost \$2.88 per sleeve) in Ending Inventory, but the June 2018 Monthly Excel Schedule reported 873 sleeves in Beginning Inventory. The Golf Pro at Kearney Hill was not able to provide an explanation as to what caused this discrepancy. At Lakeside, the September 2017 monthly inventory spreadsheet reported 607 Sleeves of Titleist NXT Balls in Ending Inventory, but the October 2017 Monthly Excel Schedule reported 994 Sleeves of Titleist NXT Balls in Beginning Inventory. The Lakeside Golf Pro was unable to provide an explanation as to what caused this difference since his



employment began after this discrepancy occurred. The examples provided above are indicative of the types of inventory variances noted during the audit, but is not all inclusive.

Effect:

Failure to properly carry forward inventory amounts from one month to the next will result in the inaccurate reporting of Cost of Goods Sold and could also be an indication of theft or misappropriation of assets.

Recommendation:

Management should ensure that the monthly inventory spreadsheet ending balances for each inventory item correctly carry forward each month and correct any discrepancies. If Golf Administration transitions all golf courses to the RecTrac perpetual inventory system, inventory balances should automatically carry forward correctly each month. As mentioned above, Lakeside transitioned to the RecTrac perpetual inventory system in August 2018 and we noted that its inventory carried forward correctly in the month we tested (November 2018).

Director of Parks and Recreation Response:

Parks no longer use the old inventory system, stopping any further discrepancies on manager's individual spreadsheets. All inventory reports are maintained and tracked through RecTrac and the new perpetual inventory system, allowing less human error and making it more secure.

Commissioner of General Services Response:

I concur with the Director's response.

Finding #13: Transfer of Merchandise Between Pro Shops Needs Better Documentation

Priority Rating: High

Condition:

From time to time, merchandise may be transferred from one Pro Shop to another. When these transfers occur, it is imperative that the inventory records for each Pro Shop involved are updated and items transferred are properly documented. We noted the Kearney Hill June 2018 monthly inventory spreadsheet documented a transfer of merchandise from Kearney Hill to Meadowbrook. However, we were unable to obtain



documentation that all merchandise reported as transferred was received and added to inventory at Meadowbrook. According to the Meadowbrook monthly inventory spreadsheet, merchandise was transferred to Meadowbrook in the months of August 2017, May 2018, July 2018, and August 2018. However, the spreadsheet did not indicate which golf courses these items were transferred from, and the Meadowbrook Golf Manager could not resolve this issue.

We also identified 19 “Pete Dye” Golf Books that were located at Lakeside Golf Course but were included in the Kearney Hill Inventory Records.

Effect:

Properly documenting all transferred merchandise will help ensure all inventory is accounted for and reduce the possibility of theft or misappropriation of assets.

Recommendation:

An Inventory Transfer Sheet should be completed each time merchandise is removed from one Pro Shop and transferred to another. This documentation should include a list of all items transferred, the cost of each item, the date the transfer occurred, and the signature of both Pro Shop Managers involved. Also, each Pro Shop Manager should update their inventory records for each transfer and ensure the inventory transferred/received agrees with the addition or reduction of inventory on their monthly inventory spreadsheets. If Golf transitions to a perpetual inventory system, we recommend golf management consider using the “Transfer” Feature in RecTrac to document Pro Shop transfers. The Golf Services Manager advised this would document all merchandise transfers from one course to another.

Director of Parks and Recreation Response:

All future transfers will be made through RecTrac transfer function. This gives us access to accurate reports like Inventory Posting Report that will identify all relevant information about transfers.

Commissioner of General Services Response:

I concur with the Director’s response.



Finding #14: Gift Certificates at Picadome Should be Secured**Priority Rating: High****Condition:**

We observed that gift certificates located at the Picadome Pro Shop are stored in a three-ring binder behind the checkout counter. The binder was in plain view of customers.

Effect:

The gift certificates are not sufficiently secured.

Recommendation:

The gift certificate binder should be kept in the safe until needed.

Director of Parks and Recreation Response:

Gift Certificates are now secured behind the counter away from customer access.

Commissioner of General Services Response:

I concur with the Director's response.

Finding #15: Inventory Turnover of Pro Shop Merchandise Needs Improvement**Priority Rating: Moderate****Condition:**

Inventory Turnover is an efficiency ratio that measures the degree to which inventory is being sold and replaced during a period of time. The speed at which a business can sell inventory is a critical measure of business performance. A low turnover implies weak sales and possibly excess inventory, while a high turnover implies strong sales or insufficient inventory.

During the audit, we were provided monthly inventory spreadsheets that reported Ending Inventory levels as well as Cost of Goods Sold for each Pro Shop during Calendar Year 2018 (January 2018 through December 2018). These monthly inventory spreadsheets were prepared after month-end counts of inventory were conducted. From these monthly inventory spreadsheets we calculated Inventory Turnover for each Pro Shop. You may see the Inventory Turnover rates for each Pro Shop for Calendar Year 2018 below:



Lakeside:	1.21
Kearney Hill:	1.05
Meadowbrook:	1.03
Picadome:	0.92
Tates Creek:	0.69

We performed a limited analysis of the type of merchandise at the Pro Shops. We noted that 22% of the combined merchandise at the Pro Shops at Kearney Hills, Picadome, Tates Creek, and Lakeside consisted of golf balls, and 25% of the combined merchandise at those Pro Shops consisted of golf clubs. We also performed a more detailed analysis of golf clubs since they are typically the most expensive items in the Pro Shops, and noted that 71% of the combined golf clubs at those Pro Shops were Titleist Brand and 22% were Cleveland Brand.

We were able to locate a golf retail operation consultant's presentation on the internet. This presentation included a 2012 Association of Golf Merchandisers survey, which indicated that in 2011 the survey respondents inventory turnover for public courses was 2.4 turns per year for soft goods (e.g., clothing, gloves) and 2.1 turns per year for hard goods (e.g., clubs, balls). This presentation also indicated that the Association of Golf Merchandisers recommends inventory turnover of three times per year for golf courses that are open year round. The Office of Internal Audit acknowledges that this is only one study on golf merchandising and that there may be different professional opinions regarding pro shop inventory turnover, but it does appear that inventory turnover at the LFUCG Pro Shops needs to be improved.

Effect:

Low inventory turnover is an indication of either slow moving inventory or overstocking of inventory.

Recommendation:

Management should perform an analysis of Pro Shop inventory to improve the merchandise product mix and increase inventory turnover.

Director of Parks and Recreation Response:

Currently in the process of developing Open to Buy plans at each course. We will be setting realistic turnover goals for each category of merchandise and tracking this data throughout the season, making changes when necessary. Currently creating categories



for each piece of merchandise, which will allow us to better understand what is selling. We are also planning on two large sales a year, allowing liquidation of any merchandise that is stale and not sold in a reasonable time.

Commissioner of General Services Response:

I concur with the Director's response.

Finding #16: Golf Course Safe Needs Improved Security

Priority Rating: Moderate

Condition:

During the audit, we noted the safe in which start-up money is stored at Lakeside Golf Course is not bolted to the floor. It could be picked up and carried fairly easily.

Effect:

Failure to properly secure the safe could result in cash theft.

Recommendation:

The safe should be bolted down to the floor to increase the security of any cash contained therein.

Director of Parks and Recreation Response:

Safe has been bolted to the floor to add security at Lakeside Golf Course.

Commissioner of General Services Response:

I concur with the Director's response.

Finding #17: Some Receipt Printers Need Repair

Priority Rating: Moderate

Condition:

Each golf course uses RecTrac software integrated with cash registers to track and report daily sales. After a sale is made, a printer attached to the cash register prints out an itemized receipt which can be provided to the customer, and these printers are also used to print the Daily Cash Journal Report at the end of each business day which reports total daily collections allocated by payment type (cash, check, credit, etc.).



During the audit, we noted the receipt printer attached to the Kearney Hill Concession cash register did not work properly. We were informed that at the end of each day's Concession cash register closing process, the Concession staff have to ask the employees downstairs in the Pro Shop to print the Daily Cash Journal Report for the concession cash register. This is a very inefficient process. We were also advised that when a customer makes a concession purchase, an itemized receipt cannot be provided unless the customer walks downstairs to the Pro Shop cash register where a receipt can be printed. We also learned the receipt printer at Meadowbrook Golf Shop is not working.

Effect:

A receipt serves as a permanent record for the vendor and provides documentation that a sale occurred. Customer receipts provide proof of transaction and are typically required if the customer wishes to return the purchased item. Also, the inability to print off Daily Cash Journal Reports from the Concession cash register affects the efficiency of the nightly closing process.

Recommendation:

The receipt printers at Kearney Hill and Meadowbrook should be repaired so that the Cashier can print the Daily Cash Journal Report each night and provide customers an itemized receipt.

Director of Parks and Recreation Response:

Currently assessing the state of all receipt printers at golf courses. Any damaged printer will be repaired or replaced.

Commissioner of General Services Response:

I concur with the Director's response.

Finding #18: Kearney Hill Change Fund May Need to be Reduced During Winter

Priority Rating: Low

Condition:

The Kearney Hill Golf Course has \$700 in opening change fund, including \$200 that is kept in the safe during the winter months when the Concession Area is closed.



Effect:

Holding unnecessary change fund during the winter increases the risk of cash loss or theft.

Recommendation:

Parks management should consider reducing the Kearney Hill change fund during the winter season.

Director of Parks and Recreation Response:

Parks will be reducing the change fund to the audit's recommendation this winter at Kearney Hill.

Commissioner of General Services Response:

I concur with the Director's response.

