



Golf Course Pro Shop Internal Control Audit

January 2015

CITY OF KILLEEN

A Report to the City
of Killeen Audit
Committee

Committee Chair
Scott Cosper

Committee Members
Wayne Gilmore
Juan Rivera

Internal Audit
Department

City Auditor
Amanda R. Wallace
CPA

Report Summary

The Golf Course Pro Shop reported an incident involving questionable activity, and requested an audit be performed to detect any wrongdoing. The audit found multiple internal control weaknesses to include possible manipulation of transactions.

TABLE OF CONTENTS

BACKGROUND..... 1

OBJECTIVE, SCOPE, AND METHODOLOGY..... 2

AUDIT RESULTS..... 3

RECOMMENDATIONS..... 6

APPENDICES

Appendix A: Management’s Response..... 7

GOVERNMENT AUDITING STANDARDS COMPLIANCE

This performance audit was conducted in accordance with Generally Accepted Government Auditing Standards. Those standards require that the audit be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. I believe that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

AUDIT STAFF

Amanda R. Wallace, CPA, City Auditor

January 2015



AUDIT REPORT HIGHLIGHTS

Why This Audit Was Conducted

This audit was conducted in response to a concern by management of possible questionable activity at the Golf Course Pro Shop.

What Was Recommended

It was recommended that proper internal controls be implemented to deter manipulation and questionable activity in the future. Management should more diligently review negative and non-cash transactions and consider upgrading software and surveillance equipment.

Golf Course Pro Shop Internal Control Audit

Mayor and Council,

I am pleased to present this audit of the Golf Course Pro Shop internal controls.

BACKGROUND

- Community Services management reported an incident involving questionable activity.
- The incident was reviewed and an expanded audit was deemed necessary to determine the extent of the potential wrongdoing.

OBJECTIVE AND SCOPE

The objective of the audit was to determine the extent of the potential wrongdoing and to recommend the proper internal controls to deter potential future instances of wrongdoing.

WHAT WAS FOUND

The audit findings are summarized as follows:

The pattern of activity noted in the audit suggests that the daily activity has been manipulated regularly using refunds; however, due to the lack of internal controls currently in place it cannot be determined which employee(s) are at fault.

The lack of controls includes sharing log-ins and cash registers, and no supervisory review of refund transactions.

I appreciate the cooperation and assistance I received from the Golf Course staff during this audit.

Amanda R. Wallace

Amanda R. Wallace, City Auditor

BACKGROUND

The Stonetree Golf Club, owned and operated by the City of Killeen, offers a Pro Shop that is kept fully stocked with the latest in golf equipment and apparel. This is also where customers pay all usage fees associated with playing golf on the course, including cart rental fees, green fees, 12 or 6-month pass fees, etc. As a reference for the magnitude of funds flowing through the Golf Course each year, total Golf Course revenues reported during FY2014 were \$1,078,735.

Community Services management, the department in charge of the Golf Course, reported in early January 2015 an incident involving questionable activity at the Pro Shop. The instance in question was reviewed and determined to be the result of poor internal controls; therefore, an audit was deemed necessary to determine the extent of the potential questionable activity as well as to identify any internal control weaknesses.

OBJECTIVE, SCOPE, AND METHODOLOGY

The Golf Course Pro Shop Internal Control Audit was conducted in response to a concern by management that questionable activity had possibly occurred in the Pro Shop. This audit was not explicitly included in the FY2015 Audit Plan, as presented to the City Council and the Audit Committee; however, it is considered a Special Project, which is included.

Objective

The objective of the audit was to determine the extent of wrongdoing and identify any internal control weaknesses.

Scope

The audit scope included Pro Shop activity from 2/10/14 through 1/5/15.

Methodology

To accomplish the audit objective, the following steps were performed:

- Conducted interviews with Golf Course staff and obtained information on policies and procedures as well as staff responsibilities.
- Obtained and tested data from Golf Course staff relating to the management of the Pro Shop.
- Analyzed supporting documentation to determine whether the policies and procedures were adhered to.
- Analyzed policies to determine effectiveness.
- Considered fraud, waste, and abuse as related to the audit objective.

AUDIT RESULTS

The procedures in place were reviewed with Golf Course staff and an overall understanding of the policies and procedures was obtained in order to perform the audit. After reviewing the procedures, the focus of the audit was determined to be negative and non-cash transactions, particularly refunds/returns.

A sample of refunds/returns was selected during the period 2/10/14 through 1/5/15. Each of the sampled transactions was reviewed for reasonableness, proper supporting documentation, and supervisory approval. An analysis was also completed for this time frame to determine the total number of refunds as well as the total dollar amount of refunds for each employee. These figures were then compared to the same time frame for the previous year to determine whether there were any significant changes in refund activity between the two years.

In gaining an understanding of the current procedures, the access levels granted to employees was reviewed. It was determined that all staff has the capability to issue refunds without supervisory approval. Additionally, all staff with the exception of one, has the capability to view the total receipts for the day's activity. The combination of these accesses without proper supervisory control, could allow for easy manipulation of the daily activity. The pattern of activity that was noted in the audited transactions suggests that manipulation has occurred frequently; however, it cannot be determined which employee(s) were at fault because they regularly accessed each other log-ins.

Finding 1: Staff regularly accesses each other's log-ins.

At the beginning of a shift, a staff member logs into the Pro Shop software to ready the cash register for the day's activity; however, staff members do not consistently log off when they are away from their terminal/cash register or when their shift ends, leaving the software available for use by the succeeding staff member. Staff admittedly uses each other's log-ins regularly. This makes it difficult, if not impossible, to determine which staff member is responsible for any given transaction. Furthermore, it causes difficulty in determining fault in the case of wrongdoing. In order to provide for a more accurate and meaningful audit trail, staff must log off when they are away from their terminal or when their shift ends. It is not acceptable for staff to conduct business under a log-in other than their own.

Finding 2: Staff shares a cash register.

The Pro Shop has two terminals/cash registers available for use, but only opens one terminal each day regardless of the number of staff members on shift. One cashier logs in to the terminal, and then both cashiers operate out of the single cash register. At the end of each shift, the departing staff member removes all cash from the register except for the start-up cash and deposits it in the safe. This process is necessary and important, but the benefit of it

is negated by the fact that multiple staff members access the cash during each shift. As noted above, this makes it difficult, if not impossible, to determine fault in the case of a shortage or overage. It is imperative that staff use separate cash registers for their daily activity in order to accomplish the important concept of accountability.

Finding 3: All staff has access to process refunds.

There are infrequent, but reasonable circumstances that occur that necessitate the processing of a refund to a customer; however, there should be proper controls in place to limit manipulation in these circumstances. Currently all staff has software access to process refunds (negative transactions) without supervisory approval. Management does not review the refunds that occur each day. This allows staff to “issue” false refunds and misappropriate City funds. The pattern of activity noted in the audit suggests that manipulation has occurred, but fault cannot be determined because of the regular practice of sharing log-ins and cash registers.

The options associated with mitigating this risk are discussed in the following paragraphs. One option involves removing all refund access from non-supervisory staff members, and only allowing supervisors to issue refunds. The draw-back to this option is that the Pro Shop is not sufficiently staffed to ensure that a supervisor is on duty at all times, which would mean a legitimate refund cannot occur until a supervisor is on duty. This option limits the customer service that can be offered to patrons.

The second option would be to discontinue the practice of issuing refunds completely, and only offer store credit to patrons in the reasonable circumstances when a refund would be necessary. This option holds similar risk to allowing staff to issue refunds in that it is still a non-cash transaction and could easily be manipulated by staff without supervisory approval.

The third option would be to allow staff members to continue issuing refunds when necessary, but ensure that management reviews each refund daily for reasonableness and the proper supporting documentation. This will force staff to be accountable for their actions and the transactions they process.

Finding 4: Notes are not consistently recorded when refunds are issued.

There is an option when processing a refund to include an explanation with justification in a note format; however with the exception of one staff member, notes are rarely recorded. The notes are an integral part of issuing a refund as they can help management determine reasonableness of the transaction. If notes are not included with a refund, reasonableness cannot be determined and the refund should be considered unreasonable. Staff should be held accountable for any deviation to the internal controls that are implemented as a result of this audit.

Finding 5: Staff has access to view daily total activity.

With the exception of one employee, all staff members have access under their log-ins to view the daily total activity. This level of access allows manipulation of cash registers, especially coupled with the fact that all employees can issue refunds. Only supervisory staff should have this level of access.

Finding 6: Cameras are not functional.

There are cameras in the Pro Shop; however they have not been functional in several years. When the cameras were last functional, they were obsolete and had poor resolution. Additionally, they are not positioned ideally in order to ensure that the cash registers are monitored at all times. Proper monitoring of the cash registers is essential in ensuring staff is honest and operating with integrity and accuracy. The cameras should be replaced and repositioned for optimal effectiveness.

Finding 7: Software is extremely outdated.

The version of Fore! (the software used by the Pro Shop) that is currently in use is 2007, which is eight years old. Updates are available, but the computers that are in place at the golf course likely cannot support the newer versions. The 2007 version is limited in its reporting and access capabilities, and has other limitations noted by Golf Course staff. Software should be kept current in order to ensure that functionality remains a priority and to ensure that maintenance can continue. This recommendation could be costly as implementation could require new computer hardware and possibly new software if management decides to switch to another software provider. The cost of this improvement should be weighed against its potential benefits in the decision-making process. The benefits would be exponential, and it is strongly recommended that this investment be considered.

RECOMMENDATIONS

The recommendations listed below are a result of the audit effort and are subject to the limitation of the scope of the audit. I believe that these recommendations provide reasonable approaches to help resolve the issues identified. I also believe that operational management is in a unique position to best understand their operations and may be able to identify more efficient and effective approaches, and I encourage them to do so when providing their responses to the recommendations. As such, I strongly recommend the following:

1. **Staff must log off when they are away from their terminal or when their shift ends. Staff should never process transactions under another staff member's log in.**
2. **Staff should be assigned separate registers during each shift. The key to the register should remain with the cashier at all times while on shift, and should not be left in the register. The goal is to limit the access to each register to only the individual assigned to the register.**
3. **Management must evaluate the options discussed in the finding and implement the option that will best help achieve the golf course's mission. From an audit perspective, best practice says that only supervisors should have access to process refunds; however, the next best alternative is to allow staff members to process refunds with management review following shortly thereafter.**
4. **Notes should be entered for each refund that is processed. The notes should be detailed and should include the patron's name and the reason for the refund.**
5. **Access to view daily total activity should be limited to supervisors.**
6. **The cameras should be replaced and repositioned to effectively and regularly monitor the Pro Shop activity.**
7. **The software should either be updated to the current version or replaced with a more effective software that meets all the needs of the Golf Course.**

See Appendix A for Management's Response to each recommendation.

MANAGEMENT'S RESPONSE



MEMORANDUM

TO: Glenn Morrison, City Manager *gm*
VIA: John Sutton, Assistant City Manager – External Services *js*
FROM: Brett Williams, Executive Director of Community Services
DATE: FEBRUARY 24, 2015
SUBJECT: STONETREE GOLF COURSE AUDIT

Stonetree Golf Course, a division of Community Services was audited by city auditor, Amanda Wallace, during the month of January 2015. The audit revealed areas that Stonetree Golf Course needed to address related to monetary controls to insure all assets of the City are protected from any fraudulent activity. The following responses are provided to address the issues identified by Ms. Wallace's audit.

Staff must log off when they are away from their terminal or when their shift ends. Staff should never process transactions under another staff member's log in. All employees of the golf course have been informed that failure to log off from their terminal when their shift ends or when they are away from the terminal will result in disciplinary action. All employees were informed that conducting transactions under another employee's log in is a violation of policy and will result in disciplinary action. Golf course management has conducted training with all staff members on the proper way to log in and log out. Routine checks will be conducted to confirm that employees are adhering to this policy.

Staff should be assigned separate registers during each shift. The key to the register should remain with the cashier at all times while on shift, and should not be left in the register. The goal is to limit the access to each register to only the individual assigned to the register. All employees of the golf course have received training on cash handling procedures related to start up cash, counting down their respective drawer at the conclusion of a shift, register assignment and securing their cash drawer properly during their shift. Employees have received training on their assignment to a register and the accountability that goes along with this assignment.

Management must evaluate the options discussed in the finding and implement the option that will best help achieve the golf course's mission. From an audit perspective, best practice says that only supervisors should have access to process refunds; however, the next best alternative is to allow staff members to process refunds with management review following shortly thereafter. The immediate adjustment made by staff is for all refunds to be authorized by management. In order for a refund to be conducted, a member of management must be on site and authorize the refund. Golf Course management will review the refund process and make recommendations to either continue refunds or discontinue the process.

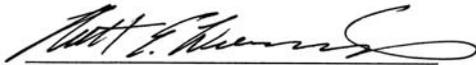
Notes should be entered for each refund that is processed. The notes should be detailed and should include the patron's name and the reason for the refund. All refunds require a note to be entered into the system to justify the transaction. In addition, the note will feature the

initials of the management staff person that authorized the transaction. All employees of the golf course have received training on how to properly enter the notes into the system.

Access to view daily total activity should be limited to supervisors. The 'rights' granted to all members of staff have been reviewed to determine who needs access and at what level. Cashier personnel no longer have the ability to view their daily transactions and financial totals.

The cameras should be replaced and repositioned to effectively and regularly monitor the Pro Shop Activity. Stonetree management will work with Information Technology to create a security plan for the golf course that involves camera replacement and the proper location for the cameras. Once the plan has been drafted, it will be presented to Community Services management for review. The plan will be featured as part of the 15-16 budget proposals for Stonetree Golf Course.

The software should either be updated to the current version or replaced with a more effective software that meets all the needs of the Golf Course. Stonetree management will work with Information Technology to identify the most effective software to manage the day to day operations of the golf course. The plan will include a holistic approach to all aspects of information technology at the golf course ranging from computers, software, network access, and various web based services.



Brett Williams
Executive Director of Community Services