

PARKS AND RECREATION DIVISION

*Internal Audit: Golf Course's Internal Controls over
Cash and Inventory*

**St. Johns County Clerk of
Court and Comptroller**



HUNTER S. CONRAD, ESQ.

Division of Inspector General
Curtis Evans Jr., CPA



St. Johns Golf Club



Table of Contents

Page

Transmittal Memo

1

Background

2, 3

Objective

4

Scope

4

Methodology

4-6

Observations and Recommendations

6-12



Hunter S. Conrad, ESQ
CLERK OF THE CIRCUIT COURT AND COMPTROLLER
SAINT JOHNS COUNTY, FLORIDA

Clerk of the County Court
Recorder of Deeds
Clerk and Accountant of the Board of County Commissioners
Custodian of County Funds
County Auditor

Division of Inspector General

4010 Lewis Speedway
Saint Augustine, FL 32084
Telephone: (904) 819-3607
Fax: (904) 819-3696
Fraud Hotline: (866) 272-4351
Clerk's website: www.stjohnsclerk.com/

Transmittal Memo

DATE: October 8, 2018

TO: Hunter S. Conrad, ESQ, Clerk of the Circuit Court and Comptroller
Michael D. Wanchick, County Administrator

CC: The Honorable Chairman and Members of the Board of County Commissioners
Billy Zeits, Assistant Director of Parks and Recreation
Wes Tucker, Director of Golf

FROM: Curtis Evans Jr., Inspector General

Pursuant to the approved Inspector General Comprehensive Audit Plan Fiscal Year Ending September 30, 2018, I hereby submit the internal audit report covering the St. Johns Golf Club of the St. Johns County Parks and Recreation Department. The objective of this audit was to determine if adequate internal controls are in place at St. Johns Golf Club to ensure revenue is properly collected, recorded and accounted for as well as to ensure that inventory is properly recorded, safeguarded, and accounted for.

This report includes background information to assist the reader in understanding St. Johns Golf Club's operations. The body of the report consists of observations, recommendations and management's responses to the recommendations.

We would like to thank St. Johns Golf Club's personnel and the St. Johns County Clerk of the Court Finance team with assisting us regarding the audit. We appreciate their time, effort, responsiveness and cooperation during the course of our audit.

Sincerely,

Curtis Evans Jr., CPA
Inspector General

Approved:

Hunter Conrad, ESQ
Clerk of the Circuit Court and Comptroller

Background

St. Johns Golf Club is located at 4900 Cypress Links Blvd. Elkton and was opened by the County in 1989. It is an 18 hole course that covers 340.87 acres and is open daily from 6:30 a.m. to 6:00 p.m. St. Johns Golf Club was recently voted as "Best Golf Course" of 2018 in St. Augustine Record's "Best of St. Augustine" readers' poll.

St. Johns Golf Club’s (hereafter referred to as “Golf Course”) has a \$2,426,681.00 adopted budget for Fiscal Year (FY) 2018 and is accounted for in a special revenue fund. *A special revenue fund is defined as a fund used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.*

Revenue is generated through green fees, driving range sales, cart rentals, Pro Shop sales, club repairs and rent from the concession area. Under the current operating structure, the County maintains the golf course and manages overall operations. A food/beverage function is provided by a third-party independent contractor, Rype & Readi Golf Bistro.

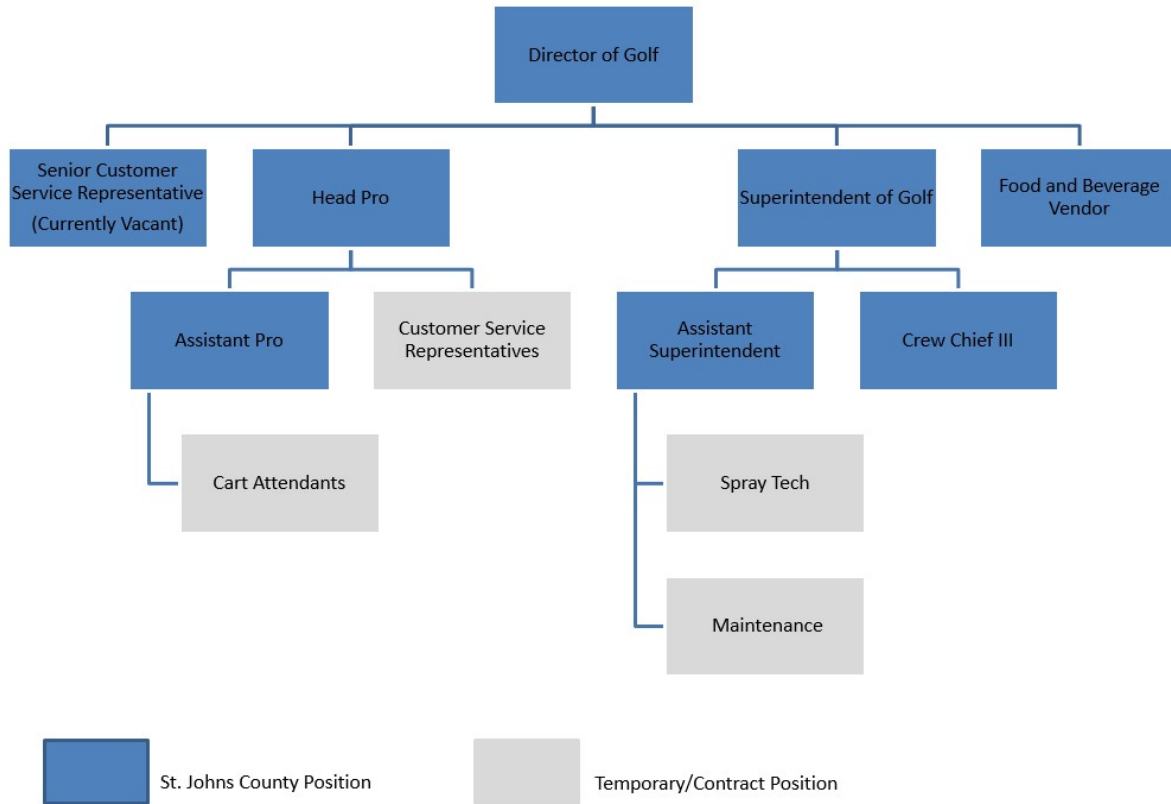
The following table summarizes the rounds, total revenues, and revenue per round at the County’s golf course for the past ten Fiscal Years:

Rounds		Total Revenues		Average Revenue per Round	
Fiscal Year	St. Johns Golf Club	Fiscal Year	St. Johns Golf Club	Fiscal Year	St. Johns Golf Club
2017	51,207	2017	\$1,412,801	2017	\$27.59
2016	50,583	2016	\$1,360,655	2016	\$26.90
2015	47,578	2015	\$1,342,237	2015	\$28.21
2014	44,741	2014	\$1,185,941	2014	\$26.51
2013	43,324	2013	\$1,215,323	2013	\$28.05
2012	43,697	2012	\$1,274,259	2012	\$29.16
2011	51,978	2011	\$1,446,125	2011	\$27.82
2010	53,014	2010	\$1,582,979	2010	\$29.86
2009	63,152	2009	\$1,886,973	2009	\$29.88
2008	72,246	2008	\$2,116,807	2008	\$29.30

The County’s golf course collects money for rounds of golf and merchandise sold in the Pro Shop. All sales are run through a point of sales (POS) terminal. *GolfNow Reservations* is the POS software package that is used to record sales, track Multi Play Passes, Prepaid Passes and Gift Certificates as well as manage inventory. Physical inventories are conducted at the end of each month to verify perpetual inventory records. The golf course accepts cash, check, and all major credit cards. Credit card transactions are processed through a separate terminal (Clover) that are first run through the POS and then processed through the card terminal. Merchant services are provided by Bank of America.



Golf Course operations, which are under the direction and supervision of the Director of Golf that is on-site, are divided into two main sections: Golf Course/Pro Shop Operations and Golf Course Maintenance. Three full time staff and fourteen contract employees manage the day-to-day operations of the Golf Course and Pro Shop; three full-time staff and six contract employees perform golf course maintenance.



Financial operations for the Golf Course are handled by the St. Johns County Clerk of Court Comptroller’s Office. Once a daily deposit is completed, the Golf Course submits a daily bank deposit report to the Comptroller’s Office along with a copy of the bank deposit ticket and credit card report from the credit card terminal. The Comptroller’s Office then records the daily activity through a journal entry.

The Comptroller’s Office also records inventory activity for the golf course. At the end of each month, the Golf Course submits an Items Received report from the POS, which includes inventory received, quantity ordered and order cost information, to the Comptroller’s Office. Along with the Items Received report, the Golf Course also sends the Comptroller’s Office a copy the Golf Course Receiving Log, which is used to record items as they are received, and the Sales Detail report showing sales for the month. Additionally, the Golf Course sends an Inventory Variance Report from the POS that shows variances identified during the month end physical inventory count. The Comptroller’s Office uses this information to record inventory activity for the month.



The Golf Course experienced a decline in total rounds of golf played as a result of the most recent recession, and although there has been improvement, total rounds played for FY 2017 were 51,000 compared to over 72,000 rounds in FY 2008 when it was a 27 hole facility. In FY 2011, in response to financial challenges experienced as a result of the recession, an administrative decision was made to close 9 holes and convert back to a 18 hole course. In addition, existing staff for golf course maintenance were shifted primarily to contract positions to minimize costs while still improving efficiency and course quality through improved supervision. While operating expenses have been reduced, operating revenue has continued to decline due to area competition. The County is striving to seek ways to enhance revenues and provide services more cost effectively as the need for significant additional golf course maintenance and renovation puts pressure on the General Fund for funding. The General Fund has provided funding transfers for FY 2016 (\$830,741), FY 2015 (\$686,551) and FY 2014 (\$835,162). During FY 2015, the Board of County Commissioners approved the \$1.25 million defeasance of remaining debt of the County golf course to allow for the possible future sale of excess golf course land to help address future course improvements. During FY 2015, the Golf Course fund was also converted from an enterprise fund back to a governmental/special revenue fund. During FY 2018, the County Commission approved Phase III of a golf course Master Plan and Architectural redesign project for the Golf Course. It will soon consider final recommendations regarding drainage, irrigation, an updated golf course design, and a land plan for potential infill residential units. The golf course Master Plan involves potentially selling excess land relating to the 9-hole closure that has now been disencumbered because of the debt payoff and acquiring a potential public private partnership with a developer.

Objective

In accordance with the Inspector General Comprehensive Audit Plan for the Fiscal Year Ending September 30, 2018, we have conducted an audit of the Parks and Recreation Division's Golf Course to assist the County in meeting its stewardship responsibilities by evaluating the Golf Course's cash handling process and internal controls over inventory.

The objective of this audit was to gain a thorough understanding of the Golf Course's operations in order to evaluate its control structure and determine if adequate internal controls are in place to ensure revenue is properly collected, recorded and accounted for as well as inventory is properly recorded, safeguarded, and accounted for.

Scope

The scope of this audit included Golf Course operations for Fiscal Year 2018 through August 2018

Methodology

Our audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS "Yellow Book"). Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions regarding the organization, program, activity or function under audit. The scope of our work did not constitute an evaluation of the overall internal control structure of the Golf Course. Management is responsible for establishing and maintaining a system of internal controls to ensure that County assets are safeguarded; financial activity is accurately



Hunter S. Conrad, ESQ.

St. Johns County Clerk of Court and Comptroller

DEDICATED TO EXCELLENCE • COMMITTED TO IMPROVEMENT • SERVING WITH KINDNESS

reported and reliable; and management and employees are in compliance with laws, regulations, policies, and procedures. The objective is to provide management with reasonable, but not absolute assurance that the controls are in place and effective. Additionally, there are inherent limitations that should be recognized considering the potential effectiveness of any system of internal controls. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes on judgment, carelessness and other factors.

In order to meet our objective, we followed an approach that consisted of three phases:

1. Understanding the Process:

During Phase One, we contacted the Director of Golf to coordinate the audit. We emailed the Director of Golf an audit notification letter (entrance conference memo), discussed the objectives of the audit work, obtained preliminary data, and informed the Director of Golf on the audit plan.

We reviewed the St. Johns Clerk of Court & Comptroller's Office Clerk Cashiering & Customer Service Financial Procedures (policy numbers 350 through 352)(Updated 4/18/18), and the St. Johns County Purchasing Procedure Manual (policy number 302 through 309)(revised July 2013).

We then conducted interviews on-site with the Director of Golf and Head Golf Professional to gain an understanding of their roles and responsibilities, the staff's roles and responsibilities, Golf Course operations, revenue collection process, inventory purchasing and receiving process, and physical inventory process. We also observed operations and physical controls for cash and Pro Shop inventory while on-site.

2. Sample Determination and Detailed Testing:

During Phase Two, we judgmentally selected March 2018 and June 2018 as periods for performing detailed testing for cash receipts and January 2018 through March 2018 for detailed testing of inventory receipts.

In order to obtain sufficient evidence to achieve our engagement objective and support our conclusions, we performed the following steps for a sample of Golf Course transactions:

- Performed a cash count and reconciled to two change bags and a cash box
- Conducted an unannounced receipt check at the Golf Course
- Performed an observation of the month end physical count of Pro Shop inventory
- Performed test counts of Pro Shop inventory during the month end physical
- Selected a sample Golf Course transactions for testing cash receipts and related deposits
- Selected a sample Golf Course transactions for testing inventory receipts
- Obtained and examined daily and monthly system generated documentation as well as manually prepared documentation for cash receipts that were tested;



Hunter S. Conrad, ESQ.

St. Johns County Clerk of Court and Comptroller

DEDICATED TO EXCELLENCE • COMMITTED TO IMPROVEMENT • SERVING WITH KINDNESS

- Obtained and examined monthly system generated documentation as well as manually prepared documentation for inventory receipts that were tested and the inventory count that was observed;
- Traced a sample of daily cash receipts and revenues to the general ledger
- Traced a sample of inventory receipts and assets to the general ledger
- Verified the cash receipts and revenues were properly recorded in the general ledger.
- Verified the inventory receipts and assets were properly recorded in the general ledger.
- Evaluated internal controls pertaining to segregation of duties, cash handling and accountability over deposited amounts
- Identified opportunities for improvements and reviewed with the Director of Golf

3. Reporting:

During Phase Three, we summarized our observations and recommendations based on detailed testing and best business practices into a report format and conducted an exit conference with management and incorporated their response into our report.

Observations and Recommendations

Management and staff were observed during this audit to be dedicated, hard-working and passionate about their occupation. We witnessed multiple instances where patrons on the golf course expressed their appreciation for the course and the staff. We applaud management’s determination to continuously improve their operation, to be financial viable, to demonstrate leadership in being environmentally conscious, and to always strive to deliver “the best product” in their service to the community.

During the course of our audit, we did note opportunities where management could strengthen internal controls over cash handling and inventory. Accordingly, our observations and recommendations are as follows:

A. Internal Controls over Cash Handling

Observation (A-1) – Review of Daily Transactions:

There is no management review of daily transactions. All cashiers can void transactions as well as refund items. Management was not aware if a report that could be used to review voided transactions or refunds existed in the POS. With no management review of these transactions, a dishonest employee could ring up a customer, give them change, hit void, and pocket the cash. This could lead to lost revenues for the County. Additionally, management is able to void their own transactions.



We Recommend Management (A-1):

Recognizing that there is limited staff, adopt a policy that daily transactions be reviewed by the Director of Golf or Head Golf Professional (in the Director of Golf's absence) for irregularities and reasonableness of amounts through an end of day report that summarizes negative transactions.

The policy should require that a note/explanation be included in the POS or on the receipts for any alteration in fee, voided transaction, credit or refund processed. If not currently in existence and if feasible, we recommend that a report be developed that tracks and displays any instances along with notes when a default fee amount is altered, a void transaction is processed or a credit or refund is issued to a customer. At a minimum, we recommend management use the negative transactions report from the POS that was provided in response to a follow up request during the audit. The report should be generated daily and management should review the report including any notes/explanations given for irregularities and reasonableness of amounts. The report should be signed and dated acknowledging its review as well as filed and retained for audit.

Additionally, we recommend that if a person of management voids a transaction, another person of management review and initial the receipt or report as evidence of review.

Management Response (A-1):

A policy will be adopted requiring all refunds/voids to be reprinted and an explanation noted on or with the receipt(s). Any receipts connected with the refund/void [e.g. original ticket or subsequent tickets involved in the correction of charge(s)] will be attached to the refund/voided receipt and left with the day's end work. As part of the Day's End Reporting, an exception report will be run daily for negative balances and kept with the receipts. The Head Professional and/or Director of Golf will review the negative transaction report, perform research, follow up as necessary, and sign and date the report. Refunds/voids made by management will be checked by a second party from management who will review and sign off on the negative transaction report.

Observation (A-2) – Issuance of Customer Receipts:

On September 5, 2018, we conducted an unannounced receipt check at the golf course. We checked to see if everyone on the course had signed in or was listed on the t-sheet and if the Starter had collected a receipt for all customers that were on the golf course. We also verified if receipts included a golf cart fee, if applicable. All sixty-nine (69) individuals on the golf course were listed on the t-sheet, except for one individual that signed in after we printed the t-sheet and began the receipt check. Given that we started with the 18th hole and worked backwards around the course, the individual had just started to play as we finished the receipt check. Of the sixty-nine (69) individuals on the course, we obtained thirty-four (34) receipts from the Starter. The Starter did not have receipts for 35 individuals. We later obtained reprints of the receipts for the thirty-five (35) individuals that the Starter did not have copies of. We then performed a verification of golf cart charges. Based on review of the receipts for the sixty-nine (69) individuals on the course, all individuals that we observed as riding in a golf cart were charged for appropriately for the golf cart.

With no written policy requiring employees to provide receipts, dishonest customers could sneak onto the course and play for free since there is no fear of being asked for proof of payment.



Also, a dishonest employee could ring up a customer, give them change, hit void, and pocket the cash.

We Recommend Management (A-2):

Adopt a policy to provide receipts to customers for all transactions. A written policy should be made requiring employees to issue receipts to all customers to provide to the Starter in order to play golf. A suggestion would be that when all receipts have been collected for an entire tee time, staple them together and write the “actual” starting time and reservation name on the top receipt and keep in order of starting time.

Management Response (A-2):

A policy will be adopted requiring that receipts be provided to all individual customers making purchases. Credit card receipts are offered and provided at the customers choosing. Group/tournament tickets are rung as a single ticket and checked for accuracy with the Starter. For tee times, the time on the ticket will be checked off the Starters sheet to match for accuracy. As the Starters sheet is not integrated with the POS system some operating differences may occur; note the true starting time on the tee sheet. All customers are to surrender ticket before cart key, range balls or other services are provided by the Starter. A mark is placed next to each player’s name on the Starters sheet at the time the ticket is presented, if the customer wishes to keep the ticket, it will be marked as used by the Starter and given back to the customer. The Pro-shop can also print a duplicate copy of a ticket for the customer if needed for their records.

Observation (A-3) - Segregation of Duties for Cash Handling:

During testing of cash receipts, for two instances out of twelve (12) days tested, the same person that was responsible for inputting daily transactions into the POS and maintaining the cash drawer, performed and approved the cash close, as well as prepared the deposit slip. This segregation of duties conflict creates a risk that the cash receipts could be misappropriated from the cash drawer and misstated on the daily deposit slips.

We Recommend Management (A-3):

Adopt a policy that has at two least two separate employees involved in the cash handling process; one individual who maintains the cash register and a second responsible for the daily reconciliation of the cash drawer to the transaction log who is responsible for the preparation of the cash deposit.

The idea is to distribute these functions among different employees so that no one employee controls any two of the following duties:

- Establishes the fee amount to be charged
- Collects cash and issues a receipt
- Makes the deposit
- Reconciles the deposit amount to receipt totals



Management Response (A-3):

A policy will be adopted directing that Pro-shop personnel not be regularly scheduled for the closing shift of one day and the opening shift of the next day. If due to scheduling problems this were to happen, the opening person would not prepare or check the bank deposit. The next day's manager on hand would complete these duties upon arrival.

Observation (A-4) - Access to Safes:

The Golf Course has two safes located in a locked office. One safe is for daily operating cash and back-up cash. A second is a floor safe for securing deposits at the end of the business day. Three full-time staff and all cashiers have access to both safes, which creates some vulnerability. Risk is heightened anytime cash receipts/deposits have to be stored in the floor safe.

We Recommend Management (A-4):

Adopt a policy whereby only members of full-time staff (Director of Golf, Head Golf Professional and Assistant Golf Professional) have access to the floor safe.

Management Response (A-4):

With the current make up of staff (3 full-time staff and 3 part-time cashiers), the recommendation is not currently feasible as there are days that part-time employees open and close the Pro-shop and access to the floor safe would be required. For days in which deposits are not picked up by a courier, these days are left for change runs and only the three full-time employees are to handle this task as well as make the deposits for those days.

B. Internal Controls over Inventory

Observation (B-1) - Internal Controls around Inventory Counts

The following was noted during the inventory count that was performed on August 31, 2018:

- Written procedures were not available for the Golf Course inventory count process. Without written procedures, golf employees do not have a resource to facilitate consistency in performance of their duties, which is of greater importance in the case of the Golf Course having temporary employees where there is higher turnover.
- There was only one counter for the August 31 count. Two counters were scheduled for the count but one of the counters was unable to make it in for the count. Additionally, it was noted that due to limited staff, there are times when the Director of Golf, who oversees the month end count and records inventory adjustments in the POS, has had to support with counting inventory.
- Recounts of inventory are performed whenever a variance is identified for an item but spot checks of items with no variances are not performed



We Recommend Management (B-1):

Create written procedures for the inventory count process. Written procedures facilitate consistency in performance, establish standards for performance measurement, and allow for smoother employee transitions. The procedures should define the use of the POS, its processes, controls and abilities as well as authority granted to the various employees.

We also recommend that management identify a person that can serve as a backup should one of the regularly scheduled counters not be able to perform the count. Additionally, there should be proper segregation of duties. The Director of Golf, which oversees the monthly inventory count process and is also responsible for receiving and entering inventory into the POS system, should not be involved with conducting the count, but rather only perform a “recount” of items with variances, when necessary.

Lastly, in addition to performing any necessary “recounts” of inventory, management should also perform random spot-checks of items that do not have variances to ensure accuracy of counts.

Management Response (B-1):

Procedures for inventory counts will be written to include the following: Inventory is counted on the last day of every month. Two people will work together starting on the outer ring of the shop working left to right. One will count, one will record. Once the outer ring is finished count on the floor is begun starting from left to right again. After that is complete, the hall, counter, back office and finally back storeroom to complete the inventory count. Once complete, check sheets, highlight irregularity’s and give to the Head Professional or Director of Golf. Be available to re-check irregularities with the Head Professional or Director of Golf. After the counters have completed all counts, the Head Professional or Director of Golf will randomly select items to spot check each month. Before inputting, check sales against inventory for the day and make needed adjustments.

Observation (B-2) - Procedures for Inventory Management:

Although a narrative for the revenue process, process documentation for Pro Shop Closing and Opening Duties, and examples of documents/forms frequently used in operations were provided for review, written, standard operating procedures were not available for the Golf Course inventory purchasing, receiving, costing and recording processes.

We Recommend Management (B-2):

Create written procedures to ensure that inventory is managed appropriately. This control measure ensures consistency in the processes of purchasing, receiving, costing, tagging, safeguarding and accounting for inventory.

Management Response (B-2):

Procedures for inventory control will be written to include the following: All inventory will be purchased according to standard SJC purchasing policies including securing purchase orders prior to or paying with purchasing cards when vendors and limits provide the option. Inventory is purchased in advance taking advantage of percentage discounts and programs. Levels of inventory are monitored and adjusted for seasonal traffic. Inventory is split into two major



groups with many sub-groups: Hard Goods-clubs and balls; and Soft Goods-mens apparel, ladies apparel, shoes and miscellaneous goods. A yearly buying plan is set up with a beginning purchase for the pro-shop and the rest of the funds set aside for special orders. A budget amount is set for both purchases and sales. When inventory is received it is logged into the Receiving Log which includes information such as date received, number received, item description, wholesale cost (per item), MSRP, MAP, inventory number, entered check box for inventory, tagged check box for inventory and invoice number. This item is then put into the POS system where that item is either created or inventory is added to existing. Most of the information from the log sheet is again logged into the POS system and electronically stored and inventory tags are produced. Once tags are produced items are tagged and made available for display in the Pro-shop.

C. General

Observation (C-1) - Security Cameras:

There are no security cameras at either the public side or cashier side of the Golf Pro Shop. The installation of highly visible security cameras serves as a safety measure and crime deterrent.

We Recommend Management (C-1):

Consider installing security cameras in the Golf Pro Shop. Security cameras would help management by giving them the ability to review the tapes if they suspect theft, either from a customer or employee, as well as provide information to police if or when any criminal activity such as a robbery should occur.

Management Response (C-1):

We looked into cameras last year and determined that the cost of installing cameras was prohibitive compared to our current level of losses. The County has since changed the way they store this information and no longer require it to go to a server. It can now go to a Network Video Recorder with 4TB of storage and a system with four cameras. While lower than when we last researched, this is still cost prohibitive as it is well over our current losses.

