City of Ocala

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To: The Honorable Suzy Heinbockel, President of the Council
The Honorable Mary Sue Rich, President Pro Tem
The Honorable Daniel Owen
The Honorable John McLeod
The Honorable R. Kent Guinn, Mayor
Matthew Brower, City Manager

Date: December 20, 2011

Re: Recreation and Parks – Ocala Municipal Golf Course

Please find attached the Recreation and Parks – Ocala Municipal Golf Course Audit Report. Management requested Internal Audit's assistance with investigating a theft at the Course and review procedures and controls over revenue recognition and cash processes.

Based upon the review, transaction irregularities of $11,826.62 processed by two employees were forwarded to the Ocala Police Department for further investigation and prosecution of grand theft.

During the review, Management has proactively strengthened controls and continues to improve operating procedures over revenue recognition and cash transactions.

We appreciate the assistance of all personnel involved in the review, especially Kathy Crile, Kandace Clatterbaugh, and Angela "Dani" Melancon.

Management and Audit continue to assist the police and the Florida State Attorney's Office with the investigation.

Generally Accepted Government Auditing Standards and the Institute of Internal Auditors Standards require that we plan and perform our audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. The evidence obtained provides a reasonable basis for our observations and conclusions.

Jeanne Covington 12/20/11

Jeanne Covington, Internal Auditor

c: Catherine Cameron, Assistant City Manager – Public Services
Sandra Wilson, Chief of Staff, Support Services
John Lege, Chief Financial Officer
Kathy Crile, Director, Public Services – Recreation and Parks
Kandace Clatterbaugh, Director, Golf

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Recreation and Parks – Ocala Municipal Golf Course

Exit Conference: December 9, 2011 **Participants**: Kathy Crile, Kandace Clatterbaugh, and Jeanne Covington

Management asked Audit to assist with investigating a theft at the Ocala Municipal Golf Course. Audit thanked staff and management for their courtesy and cooperation during the investigation.

The Fiscal Year 2012 Budget for Golf projects revenues of $1.2 million. Revenue is generated through course memberships, green fees, cart rentals, Ocala Golf Club Banquet Hall rentals, and snack bar proceeds.

Purpose: To investigate sales return transaction irregularities first identified by the Director of Golf and review procedures and controls over the revenue and cash control process at the Golf Course as requested by management.

Scope: Ocala Municipal Golf Course revenue transactions for the period of January 1, 2010 – September 30, 2011, procedures in place during the period and procedures implemented since the irregularities were identified. Transactions generated from the Snack Bar register were included in the review as deemed necessary to understand selected customer account activity and to provide assurance that transactions were processed correctly.

Approach: Reviewed procedures, interviewed key personnel, performed detailed testing on all sale return transactions generated through the Pro-Shop registers and assessed internal controls over operational processes for revenue and cash transactions. Additional detailed testing was performed on sale transactions as necessary to understand customer account balances and transactions related to the returns. Testing was designed to:

- Identify irregularities that occurred during the period of review,
- Prepare documentation for Ocala Police Department, and
- Identify opportunities to enhance controls over cash and revenue recognition

Conclusion: Based upon the review, transaction irregularities totaling $11,826.62 processed by two employees were forwarded to the Ocala Police Department for further investigation and prosecution. Both individuals have been charged with grand theft.

We conclude that internal controls over cash transactions in place at the time that the irregularities occurred did not address proper segregation of duties. Monitoring was not sufficient to detect irregularities appropriately. Management has proactively strengthened controls since the irregularities were identified and is implementing additional operational procedures to further enhance controls going forward.

Generally Accepted Government Auditing Standards and the Institute of Internal Auditors Standards require that we plan and perform our audits 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 observations and conclusions.

The following summarizes opportunities identified during the investigation to further strengthen controls, streamline operational procedures and enhance revenue opportunities.

Observations, Recommendations, and Management's Response

Management's response should include a brief description of an action plan that will mitigate risk and indicate an expected implementation date.

	Observation	*Discussion of Criteria, Cause and Effect*	Recommendations	Management Response with Expected Implementation Date
Building Security System	Each employee is issued a key (which is collected upon the employee's last day of work) and provided the pass code to the security system to gain entry to the building. The security system uses a single pass code which has not been changed since the 2009 golf course renovation.	Benefits of a security system include assigning unique pass codes for each employee to allow management to identify who and when the building is accessed.	During the review, Management has initiated changes to the security system. Each employee has been assigned a unique pass code for the security system. Management should periodically monitor the security reports to identify instances of inappropriate access and inactivate employee pass codes upon termination of employment with the Golf Course.	Staff concurs with all recommendations made in regard to facility access. Stricter controls will allow us to monitor facility access and ensure that employees are removed from the system when terminated. Facility access times will be reviewed on a monthly basis by the golf course managers as standard operation procedure.
Sales Returns	Sales returns are processed in the Point of Sale system for return of customer purchases and for correction of sales transaction errors (such as recording a sale as cash when a customer is paying with a credit card). Sales returns were processed without retaining the original sales receipt or obtaining documented evidence from the customer for the return. The daily cash balancing report does not report sales returns made for the day. Management was not aware that returns were being processed. Of the 1120 sales returns reviewed, 235 returns, processed by 2 employees, were not legitimate.	Strong controls over sales returns should require the return to be documented by retaining the original sales receipt and signature by the customer to validate the receipt of cash/credit for the return. Daily reports generated through the point of sale system should detail any returns made for the day and monitored by management. Insufficient controls over sales returns allowed invalid returns to be processed and not detected which resulted in a loss to the Golf Course of $11,683.92.	Upon identifying inappropriate returns processed by an employee, management immediately implemented additional procedures for returns. A sales return report is generated each day and all returns are documented with a sales return form that is signed by the customer, if the return is a return to the customer. If it is a correction of an error by the clerk, the clerk documents the error and signs the form. The sales receipt is retained with the sales return form. Management reviews the sales return report and supporting documentation during the review of the daily deposit. In addition to the above procedures, we recommend that management generate the Sales Transaction Detail By Customer Report, including all terminals, all clerks, and including the cash account that will detail all transactions in sale number order by terminal, including returns that are processed. Management should review the report electronically to identify irregularities or inconsistencies with all daily transactions.	Staff concurs that better management oversight is required to prevent the likelihood of this happening again. In addition to the listed recommendations, which includes changes to procedure already put into place, staff has or will be implementing all of the below listed operating procedures no later than 1/15/12. 1. All sales returns must be processed in the POS system using the return by original sale number option. 2. All range ball returns must be verified by management to ensure that the pin code was not used. (This validates the legitimacy of the return). 3. All credit card sales shall be returned to the same card on which it was originally purchased. If a customer gives "push back" on this, then management must process the return. 4. No returns are allowed against the "Cash Account" for golf. 5. Management is currently preparing a listing of reports that must be run at designated intervals (daily, monthly and annually) as appropriate to adequately provide oversight of daily transactions.

	Observation	*Discussion of Criteria, Cause and Effect*	Recommendations	Management Response with Expected Implementation Date
Cash Segregation of Duties	ProShop employees process sale transactions on a designated register. At the end of each shift, the employee: • generates the Daily Cash Report and Remittance and Credit Card Transactions Report from the Point of Sale System (POS) • empties the register drawer • rebalances the drawer till for the next day, • balances the receipts to the daily reports, • prepares the bank deposit, and • places the drawer till and the deposit in unlocked bank bags which are stored in a safe to which all employees have access. The next day, management reviews the deposit and seals it in a bank deposit bag. The deposit is picked up by Recreation and Parks staff and delivered to the Recreation and Parks staff member that is responsible for recording the sales activity into Eden Core Cashiering which is imported into Eden general ledger. Loomis picks up the deposit from Recreation and Parks for delivery to the bank. Finance reconciles the bank account to the general ledger monthly.	Strong internal controls over cash require segregation of cash collection, deposit, recording and reconciliation. Proper segregation of these duties serves as a deterrent to concealing errors and assists with detecting intentional wrong doing and/or unintentional mistakes. Additionally, a lack of segregation places an employee in a role that gives the initial appearance he/she is the only one responsible if something should go wrong.	Each Pro-Shop employee should be assigned a locked bank bag with a drawer till to which only the employee and management has the key. This is the till that employee will use for each shift worked. At the end of each shift, each ProShop employee should separate the drawer till from the day's proceeds. The till should be placed in their respective bank bag and locked. The proceeds should be counted, documented, and placed in a second locked bag which only management has the key. Ideally, the sales proceeds should be placed in a separate drop safe that only management has access. Each day, an individual independent of processing the sales transactions should be responsible for generating the POS reports, balancing the proceeds to the reports and preparing the bank deposit. Management should consider delivering the deposit to SunTrust directly which will remove the change of custody between 3 additional individuals prior to the deposit to the bank. The daily reports and bank deposit receipts should be forwarded to Recreation and Parks staff to record sales transaction and deposit information for import into the City's general ledger by Finance. This individual should not have access to the cash deposit. As an additional oversight control to ensure all funds were deposited to the bank independently from those responsible for preparing the deposit, Recreation and Parks fiscal staff should generate the Daily Cash and Remittance Report for all terminals and clerks and reconcile the total cash deposits for that day per the POS to the bank deposit documents. Management should periodically perform unannounced counts of the till bags with each employee to ensure existence of the funds.	Staff concurs that there were inadequate controls of cash and inadequate segregation of responsibilities (some of which had no bearing on this particular issue but which need to be corrected all the same). On December 1 a new cash handling and reporting process was put into place which provides for each employee to have their own locked bank bag for which they are responsible. The POS cash collection reports will no longer be available to the employee and therefore there is no risk of employees correcting cash overages/shortages in their bags. This will aid management in identifying sloppy cash handling practices and to coach employees on needed improvements. Staff does not see any value in having golf staff run to the bank to make the deposit. Either way, someone has to take the deposit off site for deposit. The current process allows for a logging of the deposit before it is picked up by Loomis and since this person is already making the trip to golf and back to deliver/pickup mail, etc. this is the most effective process. To ensure total segregation of responsibilities, we've determined that the person performing the "cashiering" at Administration should not be also preparing the deposit for Loomis. The new procedures will segregate responsibilities as follows: Customer Service Staff – Collects funds Golf Supervisor – Prepares deposit (into a sealed deposit bag) and compares to POS reported collections, notes any overages or shortages. Courier – Delivers deposit and related paperwork to Admin. Admin Supervisor – Prepares Deposit for Loomis pickup. Admin Specialist – Cashiers daily receipts into the EDEN system. Finance – Should advise Rec and Parks Director if discrepancies are noted in the cashiered amounts compared to the deposited amounts.

	Observation	*Discussion of Criteria, Cause and Effect*	Recommendations	Management Response with Expected Implementation Date
Snack Bar	Snack Bar employees follow the same procedures as ProShop employees for closing out and preparing deposits. However, there is only one terminal and therefore, the process is completed at the end of the day rather than at the end of each employee's shift.	Each Snack Bar employee should be responsible for his/her own till and for the proceeds generated from the sales that he/she processed during his/her shift. Without separating the tills and proceeds for each shift, if irregularities do occur, the individual responsible could not be held accountable.	Snack Bar employees should follow the same close out procedures as ProShop employees. Each should be assigned a till retained in a locked bank bag. Proceeds from the sales transactions should be counted by each employee at the end of their shift and locked in a bank bag. Proceeds for the two shifts should be combined for daily reconciliation to the POS reports and deposit preparation. If a discrepancy occurs, the Sales Transaction by Customer Report can be generated for each of the two Snack Bar clerks to identify the discrepancy.	Staff concurs with the recommendations which have since been implemented.
Use of Generic Customer Account	From January 1, 2010 through September 30, 2011, a generic customer account was used to process: • 3,576 transactions for OCG member, employee, volunteer, and PGA/LPGA green fees, carts, and range ball transactions which have $0 fees or are highly discounted from regular rates. • 302 transactions for replay of golf were processed to the generic account. • 22 memberships were sold utilizing the generic customer account. Additionally, 606 green fee transactions and 9,123 range ball transactions were processed to the generic account at regular rates.	Processing transactions to the generic customer account does not identify the customer. This prohibits management from validating that $0 fee or highly discounted transactions were appropriate. Likewise, if customers that purchase golf replays are not identified, management cannot verify that the customer had initially played a round a golf previously on that day to be eligible for the discounted replay fee. Since the validity of the fees charged could not be assessed, there is a potential for a loss of revenue that exceeds $33K for the period reviewed. Processing golf transactions to the generic cash account does not identify customers for marketing opportunities.	Green fees, carts, range balls and any other transactions that are eligible for discounted or $0 charge to OCG members, employees, or volunteers should be processed through the member, employee or volunteer specific customer account. Management should review these transactions to ensure that these customers are appropriately charged. Every effort should be made to process green fees and membership fees to the specific customer account. Green fees should only be sold through the Starter Hut Tee Sheet within the point of sale system. This identifies the player on the Starter Hut Tee Sheet, appropriately records the transaction on the customer's ledger and provides necessary information for future marketing efforts.	Staff concurs with the recommendations. All sales for any discounted sale category must be input using the appropriate customer's name. Golf management staff must review daily reports and diligently question sales to "cash account." Credit book should also never be sold to a cash account. The reality is that all customers do not want to provide their personal information. To the extent they are on the tee-sheet, we can require it, but for other sales (i.e. concessions/merchandise) it's not always prudent to continue to make an issue of it with a customer that refuses to give the information. Golf management needs to diligently train and re-train customer service attendants on the value of collecting this demographic data from the customer.

	Observation	*Discussion of Criteria, Cause and Effect*	Recommendations	Management Response with Expected Implementation Date
Loyalty Points	Customers may sign up for loyalty points. Loyalty points are earned at the rate of 1 point for each $1 spent for golf fees, merchandise, food and beverage. The POS automatically calculates the points and accrues the points to the customer's account. Loyalty points can be redeemed to pay for green fees, carts, and range balls. Each loyalty point is worth 10 cents. Loyalty points do not expire. Approximately $25K in loyalty points are currently outstanding and available to be used for golfing fees. The POS system allows manual adjustments to loyalty point balances. The POS does not generate historical reports that track loyalty points earned, used, or manually adjusted. Loyalty point balances can only be validated by reviewing each transaction that appears on a customer's account ledger.	The ability to manually adjust loyalty point balances without the ability to track and reconcile loyalty point balances provides an opportunity for manipulation. During the review, 10 of the invalid sales returns turned over to OPD were due to the manual manipulation of customer loyalty points. In addition, loyalty points were erroneously added to a customer's account for gift card and credit book purchases. These transactions do not accrue loyalty points; the points are earned as sales are made with the gift card and/or credit book accounts. This resulted in the customer receiving $107 of golf for free.	Management should review the loyalty point program to determine if the program is competitive with other golf courses, if the program benefits the course, and if restrictions such as expiration dates should be implemented to control loyalty point balances. Current loyalty point balances should be reviewed against customer accounts to reasonably assess that the outstanding loyalty point balance is accurate. Management should discuss the ability to obtain a report for manual adjustments to loyalty point balances with the POS vendor. All manual adjustments should be reviewed for appropriateness.	A recent update to the POS system provided more reporting options to monitor loyalty points and any adjustments. Golf management staff will make daily reviews of sales made using loyalty points to ensure their validity. There is no question that a loyalty points program benefits a retailer and there is no question that loyal customers are the bread and butter of any business. Staff does believe that some revisions to the loyalty points program are needed. We are currently reviewing revisions that include provision of expiration of loyalty points at end of each calendar year and/or specified time frame; revisions to the amount of points earned per $1 spent. These revisions will be finalized and the new program guidelines rolled out to the customers in January 2012.
Credit Books	Customers are able to apply money to a customer account (Credit Book) that is set up in their name that can be used for subsequent purchases of green fees, cart rentals, merchandise purchases, and or food purchases. Tournament organizers often purchase credit books to distribute tournament prizes in the form of golf course credit to winning players. The POS system does not populate a customer's credit book at the time of purchase. Credit books must be manually adjusted.	The ability to manually adjust credit book balances provides an opportunity for manipulation.	Management should discuss with the POS vendor if software updates are available to allow credit book purchases to automatically populate customer credit book accounts. Management should monitor credit book transactions to assure that credit books are appropriately recorded.	The POS system does not provide an alternative to the manual adjustment of Credit book. Customer Service Attendants must adhere to the policy that Credit Book sales must be made in the customer's name. Golf management staff must run the appropriate reports daily to compare the value of credit book sold to the value added to customer accounts.

	Observation	*Discussion of Criteria, Cause and Effect*	Recommendations	Management Response with Expected Implementation Date
Reconciliation to General Ledger	Recreation and Parks personnel enter information from the POS Daily Cash Report & Remittance into Eden Core Cashiering. Information is also entered into a spreadsheet which is sent to Finance for balancing prior to importing the information into the general ledger. Eden general ledger and Golf's POS system reports are not reconciled. As of 9/30/11, the outstanding balances per the POS system are: Gift Cards $ 36,900 Credit Books $ 15,120 $ 52,020 Rain Checks $ 4,264 The balances per the general ledger at 9/30/11: Gift Cards and Credit Books $ 54,595 Rain Checks $ 39,592 A liability has not been established in the general ledger for unredeemed customer loyalty points.	Rain checks have a one year expiration date which is recalculated by the POS system. The general ledger has not been adjusted for expired rain checks. Golf's point of sale system is the subsidiary ledger for the amounts recorded in the City's general ledger through Eden. Periodic reconciliations between the general ledger and subsidiary ledger are necessary to validate financial results reported in the City's financial statements and to identify errors and discrepancies.	Golf management, Finance, and Internal Audit and any other key personnel should meet to understand the flow of information from the Point of Sale System to the general ledger. Working together, a process to reconcile key account balances from the general ledger to the subsidiary point of sale system balance should be established. Discrepancies should be investigated and adjusted appropriately. As Management implements additional programs, Finance should be included prior to initiating the program to ensure proper recording in the general ledger.	Staff concurs with the recommendations (if not the amounts reported) and is currently working with Finance Department on a system to reconcile the forfeited balances on a regular basis. There is no easy reporting mechanism to calculate the rain check valid balance. Staff is currently working on this to try to identify a protocol for accurately reporting to Finance the forfeited rain check balances on a monthly basis. This will be complete by January 2012.

Other Miscellaneous Staff/Management Comments:

Internal Auditor Jeanne Covington's advice and input during this process was invaluable. I considered the audit to be thorough and while the process was sometimes "painful", the auditor took the time to help staff understand the purpose of recommendations and potential impacts to not complying. (Understanding is key!) I found the audit results to be fair and the recommendations to be very useful. Many of the recommendations are being implemented department-wide (not just at the golf course) therefore will result in better controls and oversight throughout the organization. There were many procedural issues discussed and subsequently modified that were not within the scope of this audit but which came to light during audit discussions and the auditor was extremely helpful in assisting staff in thinking through and in recommending procedural adjustments. A theft of this magnitude from an employee you thought you could trust is hurtful and unfortunately, all staff becomes a "suspect" which just compounds the hurt. The Ocala Golf Club staff and volunteers have been extremely helpful in answering questions and in working through solutions to issues to the end that we now have a system we all understand and can live with. Management staff has learned a great deal (albeit the hard way) about the cost of trusting too much and fully understands that proper oversight protects everyone – the employee, the customer, the taxpayer and the managers themselves. I appreciate everyone's understanding as we worked through this audit. It quickly became "bigger than life" but I can assure you that Jeanne Covington left no stone unturned.

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Audit Results and Management's Response presented to Catherine Cameron, Assistant City Manager on December 20, 2011.

Management and Internal Audit continue to assist the Ocala Police Department and the Florida State Attorney with the investigation.

Internal Audit will perform a follow-up review within ninety days from management's implementation dates.

Results will be distributed to the members of the Ocala City Council, select members of City Management, and will be discussed during the Auditor's Report to the Audit Committee.

If the expected implementation dates or the action plans change, Management will notify Audit of the revisions.

Kathy Crile — 12/30/11

Kathy Crile, Recreation and Parks Director — Date

Catherine Cameron — 12/20/11

Catherine Cameron, Assistant City Manager, Public Services — Date

Jeanne Covington — 12/20/11

Jeanne Covington, Internal Auditor — Date