

FERRON CITY Millsite Golf Course

Findings and Recommendations
For the Period March 1, 2015 through June 30, 2015

Report No. 15-FERO-3L



**OFFICE OF THE
UTAH STATE AUDITOR**

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AUDIT LEADERSHIP:

John Dougall, Utah State Auditor
Van Christensen, CPA, CFE, Audit Director
Leslie Larsen, CPA, CFE, Audit Supervisor



OFFICE OF THE
UTAH STATE AUDITOR

REPORT NO. 15-FERO-3L

June 13, 2016

Mayor Trent Jackson and Ferron City Council
Ferron City
PO Box 820
Ferron, UT 84523

Dear Mayor Jackson and Council Members:

We have performed the procedures described below to certain aspects of Ferron City's (City's) internal control over the Millsite Golf Course (Golf Course) for the period March 1, 2015 through June 30, 2015. The purpose of these procedures was to investigate allegations of improprieties at the Golf Course. We performed the following procedures at the Golf Course:

1. We reviewed the cash receipting, recording, and reconciling duties for adequacy of separation of duties for internal control purposes.
2. We reviewed the internal control over cash receipting procedures at the Golf Course. We also tested samples of cash receipts transactions at the Golf Course.
3. We reviewed compliance with certain laws and policies and procedures regarding conflicts of interest and personnel/payroll issues.
4. We reviewed the City's controls over free or discounted passes to the Golf Course, as well as the processes and controls over marketing and advertising efforts.

Our procedures were more limited than would be necessary to express an audit opinion on compliance or on the effectiveness of the City's internal control over the Golf Course or any part thereof. Accordingly, we do not express such opinions. Alternatively, we have identified the procedures we performed and the findings resulting from those procedures. Had we performed additional procedures or had we made an audit of the effectiveness of the City's internal control over the Golf Course, other matters might have come to our attention that would have been reported to you.

Our findings resulting from the above procedures are included in the attached findings and recommendations section of this report.

If you have any questions, please contact one of the following individuals:

Tyson Plastow, Senior Special Projects Auditor, at 801-234-0544 or tplastow@utah.gov
Leslie Larsen, Audit Supervisor, at 801-538-1348 or leslielarsen@utah.gov

Sincerely,

A handwritten signature in cursive script that reads "Van Christensen".

Van Christensen, Audit Director
801-538-1394
vchristensen@utah.gov

FERRON CITY
Millsite Golf Course
FOR THE PERIOD MARCH 1, 2015 THROUGH JUNE 30, 2015

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FERRON CITY
Millsite Golf Course

FINDINGS AND RECOMMENDATIONS
FOR THE PERIOD MARCH 1, 2015 THROUGH JUNE 30, 2015

BACKGROUND

Ferron City (City) hires a golf pro to manage and promote the Millsite Golf Course (Golf Course) which is owned by the City. An agreement between the City and the golf pro specifies that the City will receive revenue for things such as green fees and cart rentals and that the golf pro will receive an annual salary as well as profits generated from a pro shop at the Golf Course. The golf pro is responsible for paying for and providing adequate inventory for the pro shop, and the City is responsible for all other costs of operating the course. Money received from green fees, cart rentals, and the pro shop are all received in the same cash register and are then to be divided between the City and the golf pro according to the agreement, but are ultimately divided in accordance with how sales are recorded in the cash register.

FINDINGS AND RECOMMENDATIONS

1. **FAILURE TO ENSURE THAT ALL CASH AND CHECKS RECEIVED ARE PROPERLY RECORDED**

The City does not have adequate internal controls to ensure that cash and checks received by Golf Course employees are properly receipted and recorded. Golf Course employees, including the golf pro, have the ability to accept payments for items, such as green fees and cart rentals, and either not record the sale or manually adjust the sale, thus allowing them to take the money without detection. We randomly selected Golf Course receipt records from eight days between March 1, 2015 and June 30, 2015 and found that there were 58 more 9-hole cart rentals than 9-hole green fees purchased. Similarly, there were 26 more 18-hole cart rentals than 18-hole green fees purchased. These discrepancies could be caused by the use of free passes, but could also indicate a potential misappropriation of green fee payments.

The Golf Course uses a cash register to record sales, but free passes are not recorded in the register and discounted passes are recorded by manually overriding and adjusting the price. At the end of each day, total cash register sales are reconciled to actual payments received (cash, checks, and credit card). However, because of the opportunity for employees to accept full payments without accurately recording them, the reconciliation would not detect errors or misappropriated funds.

The Golf Course also uses a registration sheet on which employees record the name of each golfer, which is then periodically used by the golf pro to check whether golfers on the course have paid. The registration sheet indicates when an annual pass or punch pass was used, thus indicating that payment would not be expected in the register. However, the registration sheet does *not* indicate whether a free or discounted pass was used, which would also indicate that a payment would not be expected in the register.

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The registration sheet is reconciled to sales receipts recorded in the cash register which, as previously noted, is reconciled to actual payments received; however, without knowing whether individuals on the registration sheet used a free or discounted pass, this reconciliation would not detect errors or misappropriated funds.

Payments for green fees and cart rentals are at a higher risk for loss than many other receipts because 1) the payment is unexpected and the under recording of sales would not be identified by means such as periodic inventory count, and 2) there is an inherent risk for receipts to be misappropriated since the golf pro would not be negatively impacted by the loss.

The discrepancies noted above illustrate the importance of properly accounting for the use of free and discounted passes on the registration sheet and in the register to help ensure that the City receives revenue they are due from green fees and cart rentals. To help ensure that the sheet is complete and accurate, the City should have the golfer rather than the employee sign the sheet, and should require golfers to sign the sheet by prominently displaying a sign such as "All Golfers Must Sign the Registration Sheet" near the cash register. In addition, all annual, punch, free, and discounted passes, including those for City employees and their family members who golf without paying, should be recorded in the cash register. Certificates for free or discounted golf should be kept with the register and reconciled to register sales at the end of each day and marked "used" or have some other evidence of use. Implementing this procedure will help minimize the risk that an employee could misappropriate money by accepting payment and either not recording a golfer's name on the registration sheet or marking the sheet as an annual or discounted pass.

Recommendation:

We recommend that the Golf Course and City ensure that all cash and checks received at the Golf Course are properly recorded as follows:

- **Ensure that the registration sheet is complete and accurate by having each golfer sign the sheet and prominently displaying a sign requiring the golfers to sign the sheet.**
- **Record all annual, punch, free and discounted passes in the cash register.**
- **Mark all free and discounted passes when used, keep them with the register, and reconcile them to sales at the end of each day.**

City's Response:

- *We will get first and last name for each player outside of large corporate and scheduled events. With those large events we will include tournament summary attachments with receipts.*

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- *We are now including every punch pass and it gets submitted with payment. We are also requiring the employees to initial the received punches.*
- *Rainchecks, passes, punch cards are all now numbered. We keep the date issued and date redeemed. Any statewide promotional discounts (UGA\PGA) we record those corresponding numbers when they are being used.*

2. **INADEQUATE OVERSIGHT OF FREE AND DISCOUNTED PASSES**

The golf pro has the ability to receive green fees, issue a free pass, and misappropriate the payment. In order to minimize this risk, the number of free and discounted passes used should be reviewed by the City to ensure that certain individuals are not receiving a disproportionate number of free passes and that the purpose and frequency of issuance is appropriate.

Recommendation:

We recommend that the City review the number of free and discounted passes used to ensure that certain individuals are not receiving a disproportionate number of passes and that the purposes and frequency of issuance is appropriate.

City's Response:

We have evaluated the free passes given and will issue as we feel appropriate.

3. **FAILURE TO ACCURATELY RECORD RECEIPTS BELONGING TO THE CITY VERSUS THE GOLF PRO**

We randomly selected Golf Course receipt records from eight days between March 1, 2015 and June 30, 2015 and found that sales of goods and services were not recorded correctly. Of the 85 receipts examined, we found 24 instances where the quantity, price, and product information was either overridden by an employee or improperly programmed in the Golf Course's register. On 9 of those occurrences the final price appears to be incorrect. Examples of these errors included the following:

- When a customer purchased multiple items, employees overrode the price at the register, calculated the cost in total, and entered the sale as a single item.
- The quantity did not indicate the volume of a good or service purchased, but rather how many times it was purchased.

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- The item and product numbers were not correctly recorded. We found six instances where the same product number was used to identify six different items, each at different prices.

Because the same register is used to record sales receipts belonging to the City and those belonging to the golf pro, an accurate record is necessary to correctly reconcile register receipts to sales and accurately divide revenue between the City and the golf pro. Also, inaccurately recording sales creates the opportunity for employees or the golf pro to record green fees as a sale from the pro shop and direct the sales revenue to the golf pro. To ensure that the City receives all sales revenue from green fees and cart rentals, the City should regularly reconcile expected revenue reported on the registration sheet to money received for green fees and cart rentals.

Recommendation:

We recommend that sales be accurately recorded in the register and that the register be properly programmed to reflect accurate transaction information. Any manual overrides should be reviewed for appropriateness by someone other than the golf pro or the person who recorded the sale in the register.

City's Response:

We are recommending that our treasurer check all manual overrides and any questions are brought up to the golf pro. The staff at the pro shop have been retrained on proper entry of rounds and not to combine the names and rounds.

4. **FAILURE TO PROVIDE RECEIPT INFORMATION WITH DEPOSIT**

As noted in Finding No. 3 above, we randomly selected Golf Course receipt records for eight days between March 1, 2015 and June 30, 2015. For one of the days reviewed, the former golf pro did not deposit the receipts until two business days later, even though the agreement with the City requires deposits to be made within one business day. In addition, this deposit, which also included the next day's receipts, was submitted with only a handwritten note documenting the receipts for each day; however, the agreement with the City requires the golf pro to submit sales information from the cash register with the deposit. Submitting the sales information with the cash receipts is necessary in order for the City to accurately reconcile cash, checks, and credit card receipts to sales and to help the City determine that they have received the portion of the revenue to which they are entitled.

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Recommendation:

We recommend that the City ensure that the golf pro deposits receipts within one business day of receipt and provides all sales information from the cash register at the time of deposit.

City's Response:

This has been discussed with the golf pro and the ladies at the office down town and procedure is in place to ensure this is happening.