



City of Chattanooga

INTERNAL AUDIT

City Hall

Chattanooga, Tennessee 37402

Stan Sewell
Director

Ron Littlefield
Mayor

November 29, 2006

Honorable Ron Littlefield
Mayor, City of Chattanooga
City Hall
Chattanooga, TN 37402

RE: Brainerd Golf Course Inventory Process, Audit 06-07

Dear Mayor Littlefield:

Attached is the Internal Audit Division's report on the Brainerd Golf Course Inventory Process.

The director and staff of Brainerd Golf Course have already taken positive actions in response to our recommendations. We thank the management and staff of the Brainerd Golf Course and Parks & Recreation for their cooperation and assistance during this audit.

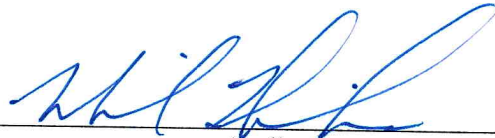
Sincerely,

Stan Sewell, CPA, CGFM
Director of Internal Audit

cc: Larry Zehnder, Administrator, Parks & Recreation
Dan Johnson, Chief of Staff
Daisy Madison, Chief Finance Officer
Eddie Taylor, Director, Golf Courses

**PARKS AND RECREATION DEPARTMENT
BRAINERD GOLF COURSE INVENTORY PROCESS
AUDIT 06-07
November 14, 2006**

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Auditor



Audit Director

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INTRODUCTION

The Chattanooga Parks and Recreation Department provides a wide variety of educational and recreational activities throughout a network of well-maintained parks and public facilities. The Chattanooga Parks and Recreation Department operates two public golf courses, Brainerd and Brown Acres, along with other centers and the Chattanooga Zoo. The golf courses are open for play all year round, weather permitting, charging a competitive fee for each round. They also provide concessions at each course for player refreshments. Cashiers and/or clerks handle all collections at the Golf Courses. These fees consist of green fees, cart charges, memberships, and sales from the Pro Shops and Concessions area. These funds are deposited directly into the bank, then they provide the Treasurer's office with the collection reports and deposit slip copies.

STATISTICS

	<u>FY04</u>	<u>FY05</u>	<u>FY06</u>
Operating Expenditures	\$369,922	\$416,210	\$452,128
Personal Services	<u>460,050</u>	<u>472,994</u>	<u>484,242</u>
Total	<u>\$823,972</u>	<u>\$889,204</u>	<u>\$936,370</u>
 Authorized Positions	 020	 020	 020

Note: Taken from the FY04 & FY05 City CAFR, using the actual figures. The FY06 data is from unaudited year-end figures in BANNER.

STATEMENT OF OBJECTIVES

This audit was conducted in accordance with the Internal Audit Division's 2006 Audit Agenda. The objectives of this audit were to ensure that:

1. The process of inventory procurement is being followed per policy,
2. Inventory adjustments made are being handled properly and authorized,
3. Inventory items are secured and safeguarded,
4. Inventory sales are properly accounted for,
5. A perpetual inventory system is being maintained properly.

STATEMENT OF SCOPE

The audit period covered inventory activity that occurred from July 01, 2005 to March 31, 2006. Source documentation was obtained from Brainerd Golf Course and the City Finance Department. Original records as well as copies were used as evidence and verified through physical examination. The scope was expanded where necessary to meet the objectives of the audit (specifically, beer sales from July 1, 2005 through June 30, 2006 were examined).

STATEMENT OF METHODOLOGY

The sample size was all of the purchases and sales of the Pro Shop, all of the purchases and sales of beer and all of the food sales of the Concessions Area. This sample gave a 100% reliability on the values of purchases made and sales made as reflected in the general ledger accounts as created by the BANNER software system for the golf course. To achieve the audit's objectives, reliance was not placed on computer-processed data contained in the golf course computerized systems, as 100% of the source data was reviewed and verified. The City's financial system was previously determined to be reliable and no additional work was necessary.

STATEMENT OF AUDITING STANDARDS

We conducted our audit in accordance with generally accepted government auditing standards. 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 CONCLUSIONS

Based upon the test work performed and the audit findings noted below, we conclude that:

1. The process of inventory procurement is being followed per policy,
2. Adjustments are made to the inventory counts without authorization or explanation,
3. Inventories are not fully secured, and they are very susceptible to misappropriation,
4. The records of sales are not reliable,
5. A perpetual inventory system is not being maintained for all inventories.

While the findings discussed below may not, individually or in the aggregate, significantly impair the operations of the Brainerd Golf Course, they do present risks that can be more effectively controlled. Before we completed our audit, Brainerd Golf Course personnel implemented some of the Internal Audit Division's recommendations.

PRO SHOP INVENTORY IS NOT FULLY PERPETUAL

The Brainerd Golf Course Pro Shop does not have a fully perpetual inventory system. City Code Section 2-5 requires "Each department and agency of the city, under the supervision of the City Finance Officer, shall keep a perpetual inventory of the City property under its control..." City Code section 2-505 requires the City finance Officer to "...establish the City accounting procedure in such a way that his accounts will show...all transactions affecting the acquisition, custody, and deposition of assets." City Code section 2-504 states "The City Finance Officer shall supervise and have charge of the keeping of all accounts and financial records for every department and agency of the City..." The inventory system software used by the Golf Course is called "FAIRWAY". If used properly, it appears to be adequate for maintaining control of the inventories of the golf course. However, it is not being fully and appropriately utilized. One employee is responsible for the posting of received items into the system. The same employee is also responsible for making any adjustments to the system counts. If he is not in when a shipment is received, the items are put upstairs in an unlocked area, waiting for his return. The employee attempts to verify what is on the packing slip, but can't always do so. There are also instances where items are not put in the system at all. These are what are called "special orders". They come in, and are sold immediately. In these instances the audit trail is completely missing. At other times, items which have been posted are sold under "misc" or another unrelated code, making tracking very difficult, if not impossible. Due to these weaknesses, it is impossible to fully rely on the inventory valuation reports created by the FAIRWAY system, as there can be items not posted, items showing as being on hand that have been sold under an unrelated code, or not coded at all. The system has no feature that will allow the user to verify shipments as being received to any reports. This also requires adjustments to be made to the counts, which are done with no explanation or authorization, thereby, allowing opportunity for misappropriation of assets.

RECOMMENDATION 1

All items should be posted into the inventory system upon receipt, after verification. The items not put out on the floor should be stored in a secured area, with limited access. The "misc" code should not be used for inventory that has an inventory code number. All adjustments to counts should be documented. Any adjustment should be approved by the manager or the director. A standardized form should be signed by both the employee making the adjustment and either the manager or the director, authorizing the adjustment.

AUDITEE RESPONSE

We concur. We are currently using a standardized form for all changes to the inventory.

AUDITEE RESPONSE (FINANCE OFFICER)

We concur. We will work with the Golf Course staff to develop a standard form with dual signatures for manual adjustments to perpetual inventory records and eliminate the practice of charging items to the miscellaneous account. Inventory Adjustment Forms will be sent to Finance for review. We will explore whether it is cost effective to include the golf course inventory as part of the ERP system for better integration into the City's financial accounting records.

CONCESSIONS AREA NOT INVENTORIED

Items received for sale through the Concessions Area are not posted into the FAIRWAY inventory system, or any other system. City Code Section 2-5 requires "Each department and agency of the city, under the supervision of the City Finance Officer, shall keep a perpetual inventory of the City property under its control..." City Code section 2-505 requires the City finance Officer to "...establish the City accounting procedure in such a way that his accounts will show...all transactions affecting the acquisition, custody, and deposition of assets." City Code section 2-504 states "The City finance Officer shall supervise and have charge of the keeping of all accounts and financial records for every department and agency of the City..." The items purchased throughout the year and sold through the Concessions area are not counted at all during the year. The staff holds a count at the end of each fiscal year, and turns that count into Accounting. However, the count is not tied to any records or control reports. This weakness leaves the concession inventory items open to misappropriation.

RECOMMENDATION 2

All items purchased for the Concessions Area should be posted into the FAIRWAY system upon receipt, after verification. Sales should be registered to a specific code. We further recommend management research the inventory system software to ascertain if it could handle barcode scanning. The inventory should also be counted periodically, with all discrepancies being duly noted and investigated. Adjustments should be made based on the counts with proper written authorization.

AUDITEE RESPONSE

We concur. The software can handle scanning. The vendor has been contacted about costs, and we have already received a quote from the vendor.

AUDITEE RESPONSE (FINANCE OFFICER)

We concur with this finding. We will work with the department to find the most cost effective method of accounting for concession inventory. The concession module of the ERP system will also be considered as a cost effective means of maintaining a perpetual inventory that is easily integrated into the City's accounting system. Department personnel will be asked to perform a semiannual physical inventory with reporting of variances/adjustments on a standard form with dual signatures. Standard adjustment forms will be sent to Finance for review.

BEER SHORTAGE

It was discovered that there was an unexplained shortage of over 3,200 beers in the Concessions area. The Concessions area is only inventoried once a year with no reconciliation of the counts, making inventory misappropriation easy and detection very difficult. The clerks and/or other employees who work in the Concessions area do not account for any items in the area. The use of a tip jar presents an easy opportunity to "skim" receipts and/or misappropriate assets and/or cash.

RECOMMENDATION 3

The Concessions Area should be inventoried periodically and reconciled to reports, using the FAIRWAY system. All received items should have a code assigned to them; the items should be posted into the system. Management should research the inventory system software to ascertain if it could handle barcode scanning for use with all receipts and sales. This would give the staff greater control over the inventory. No beer sales should be registered as "misc"; employees should be closely monitored in their duties.

AUDITEE RESPONSE

We concur. We are looking at expanding our concessions accounts to better identify items and make audits easier in the future. The scanning feature should facilitate this objective.

SEPARATE CASH DRAWERS

The clerks and other staff who are responsible for the Pro Shop sales all use one cash register. There is no separate password, or any other way to differentiate as to who is actually running the register. This presents a weakness in accountability for receipts. The control over the cash receipts is greatly compromised.

RECOMMENDATION 4

Per the Internal Control and Compliance Manual for Tennessee Municipalities, Title 3, Chapter 1, Section 6, "Each cashier should be assigned a separate cash drawer that is accessible only to that cashier."

AUDITEE RESPONSE

We concur. The quote from our vendor includes two cash drawers and two more receipt printers. We are going to attempt to put two old PC's that were recently removed from service back into the pro shop to give us better control and still try to maintain some of the flexibility that we had while operating from one drawer. We are adding separate and distinct log in for all who use the POS system.

MONEY NOT PROPERLY SAFEGUARDED

The office where the safe is and the safe itself is not locked at all times. Access is open to any employee on duty.

RECOMMENDATION 5

Monies should always have adequate physical security, including using a safe which is locked when it is not being accessed. The office where the safe is located should also be locked when not in use.

AUDITEE RESPONSE

We concur. The safe is now locked. The office is so frequently used that it's not practical to lock the door. With the safe being locked, nothing of value is really available in the office. The upstairs room that contains the inventory is now pad-locked.

TIP JARS IN THE CONCESSIONS AREA

There is a tip jar on the counter which is used to receive tips from customers and/or players who make purchases in the concessions area. The tips are received by the clerks who work the counter during regular duty hours. The tip jar and the receipt of those tips are in violation of City Code Section 2-194, which states "No city employee shall, without the consent of the city council, receive any money or gratuity or compensation in addition to his/her salary for any service he/she may render as an employee." The use of a tip jar also allows for easy opportunity to "skim" receipts and/or misappropriate assets and cash.

RECOMMENDATION 6

In accordance to City Code, the tip jars should be removed immediately, and all employees should be notified that acceptance of tips is not acceptable. Management should post conspicuous signs stating that tips/gratuities are in violation of the City Code, and are not allowed.

AUDITEE RESPONSE

The practice of tipping at concessions at golf courses is somewhat standard in the industry. Other "government courses", (Bear Trace in Tennessee and Nob North in Georgia) were contacted and they allow tipping. However, we acknowledge that our City Code forbids it and we have responded by removing the tip jars. We concur with the other items of the recommendation. Appropriate signage has been posted, and all the employees have been required to sign a statement acknowledging tips are not allowed.

PRO SHOP RECEIPTS

The clerks and other staff who are responsible for the Pro Shop sales are not providing a detailed cash register receipt for purchases made with a credit card. They are providing only the credit card receipt. They are however, providing a receipt for cash purchases. TCA Section 9-2-103 states in part that "...any municipal official who receives any sum or sums in such official's capacity shall issue to the payer a receipt and shall retain a duplicate thereof in the office of such official..."

RECOMMENDATION 7

A detailed cash register receipt should be provided to any purchaser of goods or services from the Pro Shop. There should be conspicuous signs posted that state the following or something similar: "If you do not receive a receipt for your purchase (including green fees and/or concessions) please contact Internal Audit at 423-425-6202".

AUDITEE RESPONSE

We concur. Cash register receipts will be provided for all purchases beginning immediately. Signage has been posted.

CONCESSIONS AREA RECEIPTS

The clerks and other staff who are responsible for the Concessions area sales are not providing a detailed receipt for any purchases made in the area. The area is also left unattended at times, exposing the inventory to misappropriation. Customers are allowed to enter the area, get merchandise, walk away without paying and then hand money to the attendant, who may be outside. TCA Section 9-2-103 states in part that "...any municipal official who receives any sum or sums in such official's capacity shall issue to the payer a receipt and shall retain a duplicate thereof in the office of such official..."

RECOMMENDATION 8

A detailed cash register receipt should be provided to any purchaser of goods or services from the Concessions Area. There should be conspicuous signs posted that state the following or something similar: "If you do not receive a receipt for your purchase, please contact Internal Audit at 423-425-6202". The area should never be left unattended, and no one should be allowed to walk away without paying and give the attendant money outside.

AUDITEE RESPONSE

We concur. Detailed receipts will be provided for all purchases beginning immediately, and signage has been posted. We have begun distributing receipts for the concession items; however, we have been amassing a large number of undeliverable or refused receipts. We have searched the MTAS recommendations concerning maintaining financial records but have not been able to find an answer or anything applicable. We have contacted MTAS via e-mail, and feel sure we will receive an opinion this matter.

AUDITOR CLARIFICATION

Our finding and recommendation with regard to provision of a receipt to purchasers does not indicate a need or requirement to retain the *customer's copy* of the receipt if it is refused or discarded by the customer. We did not and do not recommend that staff should be "amassing a large number of undeliverable or refused receipts." However, we reaffirm our finding that a receipt must be "issued."

GRATUITY ACCEPTED BY MANAGER

The manager has received gratuities from tournament sponsors at the conclusion of events held at the golf course. The sponsor gave the manager left over cases of beer that had been provided by the sponsor. The receipt of the beer is in violation of City Code Section 2-194, which states "No city employee shall, without the consent of the city council, receive any money or gratuity or compensation in addition to his/her salary for any service he/she may render as an employee."

RECOMMENDATION 9

In accordance with City Code, the acceptance of gratuities should be halted immediately.

AUDITEE RESPONSE

When tournaments are catered with food and/or beverages, the organization usually tells the staff to get themselves something to eat and/or drink. Occasionally left over items are offered to the staff. They are offered not really as a gratuity, but because the tournament organizers don't want to pack it up and take it themselves. This does not happen frequently, but obviously it has happened. In the future, the staff will only accept items that they can consume on-site, such as lunch.

LACK OF BOARD OF DIRECTORS

There is no board of directors in place. The management of Brainerd Golf Course is reserved for a Board of Directors, as stated in City Code Section 26-91, which creates the "Board of Directors of the Brainerd Golf Course." Section 26-93 reads "The board of directors of the Brainerd Golf Course shall have complete control in the entire management of such golf course, and shall make, and by majority vote of the board, shall approve, all contracts pertaining to the maintenance, upkeep, use and operation of such golf course; provided that, any contract involving liability on the part of the city shall have the approval of the mayor".

RECOMMENDATION 10

A board of directors should be named immediately and oversight of the golf course should be handled by them, per City Code.

AUDITEE RESPONSE

It is our understanding that prior to the City purchasing Brown Acres golf course, there was a board of directors overseeing the running of Brainerd. This was prior to 1991. After 1991, when a "Golf Course Director" was hired, the City became responsible for both the maintenance and operation of Brainerd, there became no need for a Board. We anticipate a request will be made of the City Council to remove the referenced code sections and the need for a board.