

OFFICE OF THE CITY CONTROLLER



**PARKS AND RECREATION DEPARTMENT
GOLF AND TENNIS OPERATIONS DIVISION**

PERFORMANCE AUDIT OF CITY-OPERATED GOLF COURSES

Ronald C. Green, City Controller

David A. Schroeder, City Auditor



**OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS**

RONALD C. GREEN

June 15, 2011

The Honorable Annise D. Parker, Mayor
City of Houston, Texas

**SUBJECT: 2011-05 PARKS AND RECREATION DEPARTMENT, GOLF AND TENNIS
OPERATIONS DIVISION – PERFORMANCE AUDIT OF CITY-OPERATED GOLF
COURSES**

Mayor Parker:

The Controller's Office has completed a Performance Audit of the Houston Parks and Recreation Department, Golf and Tennis Operations Division, City-Operated Golf Courses. As you know, they are accounted for as Special Revenue Funds which are intended to sustain and promote the services provided. Therefore, our audit focused on the management controls in place to ensure that the revenues generated to cover the associated costs were maximized and safeguarded. With that in mind, the objectives of this audit were to determine that:

- Primary revenue activities exist and provide reasonable assurance that all revenue is received, recorded, and reported.
- Fixed assets are working effectively and provide reasonable assurance that they are safeguarded and properly accounted for.
- Pro Shop inventory exists and provide reasonable assurance that it is safeguarded and properly accounted for.

In summarizing the results, I realize that golf courses function similar to a business and are not generally considered core services to the City; however, they are an important part of PARD and the quality of life that the Citizens of Houston have come to appreciate. As such, we recognize PARD on the overall conditions and quality provided. Related to the specific audit objectives, we note the following issues:

- Auditors could not determine if all revenue was recorded or had occurred due to *lack* of properly supported revenue transactions.
- Golf lesson revenue was not being reconciled with gross receipts to ensure contract compliance and receipt of all revenue. Gross receipts are self-reported by the contracted Golf Pros but not verified. Unverified gross receipts reported for FY10 equate to approximately \$240,000
- Promotional programs (Redemption of 'Smart' Cards, Coupons, Gift Certificates, etc) did not have controls in place to monitor compliance, effectiveness or profitability;
- A contract for product and service (Smart Cards) was not properly approved by Mayor and City Controller;
- Complimentary Golf was excessive (13% for Gus Wortham, 12% Brock, 6% Sharpstown, and 4% for Memorial)¹

¹ This was based on the amount recorded in the point-of-sale system. Based on walk-through and observation of internal controls, un-recorded comps were also noted, but were not reflected in the percentages shown above.



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We appreciate the overall cooperation we received from PARD throughout the project and note their proactive responses to several of the issues as they were discussed and identified. Most of their comments reflect immediate progress towards resolution or a firm commitment with relevant timelines to implement corrective actions in a reasonable manner.

Respectfully submitted,

Ronald C. Green
City Controller
Houston, Texas

xc: City Council Members
Waynette Chan, Chief of Staff, Mayor's Office
Joe Turner, Director, Houston Parks and Recreation Department
Chris Brown, Chief Deputy City Controller
David Schroeder, City Auditor, Office of the City Controller

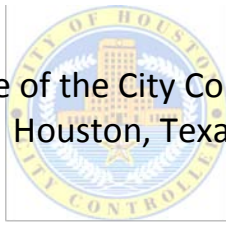
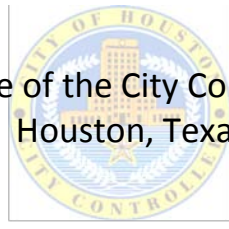


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EXECUTIVE SUMMARY

BACKGROUND

Office of the City Controller's Audit Division has completed a performance audit of the Parks and Recreation Department (PARC), Golf and Tennis Operations Division (the Division), City-Owned and Operated (City-Operated) golf courses. The City of Houston (City) owns seven (7) golf courses: four (4) parks are managed by PARC (Brock, Gus Wortham, Memorial, and Sharpstown), while the remaining three (3) parks are managed by independent entities (Privatized) that include Glenbrook, Hermann, and Melrose.

The 2010 Golf Guide survey conducted by the Houston Chronicle ranked Memorial Park first in the category of "Course with Best Value." Four other City-Owned golf courses ranked in the top 10 of the same category: Hermann fourth, Glenbrook seventh, Brock eighth and Sharpstown ninth.

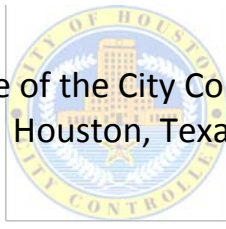
However, for the past five fiscal years, City-Operated golf courses have experienced net losses totaling approximately \$1.9 million. Brock, Gus Wortham, and Sharpstown showed \$3.3 million in losses, while Memorial earned a net margin of \$1.4 million. The primary revenue sources for the golf courses are: rounds of golf (green fees), driving range fees, cart rentals, and retail concessions.¹ See Tables 1 and 2 below.²

Table 1 City-Operated Golf Courses 5-Year Profit/Loss Information		
Course	Total Profit/Loss	AVG Profit/(Loss) per Year
Brock Park	(2,309,661)	(461,932)
Gus Wortham Park	(135,613)	(27,123)
Memorial Park	1,407,258	281,452
Sharpstown Park	(832,615)	(166,523)
Totals	(\$1,870,632)	(\$374,126)
5-Year Average Profit/(Loss) per ye	(\$374,126)	

Table 2 City Operated Golf Courses 5-Year Profit/Loss per Round of Golf		
	AVG Rounds per Year	AVG Profit/(Cost) per Round
Brock Park	23,403	(19.74)
Gus Wortham Park	28,683	(0.95)
Memorial Park	60,465	4.65
Sharpstown Park	54,344	(3.06)
Totals	166,895	(\$2.24)
5 Year Average Profit/(Cost) per Round of Golf		(\$2.24)

¹ Financial information was provided by PARC and agreed to the City's ERP Financial system of record (SAP). Memorial Park is open to the public six (6) days a week, sometimes offering tournaments on the off day, while the other locations are open seven (7) days per week.

² The "AVG Profit/Loss per Year" and the AVG Profit/(Cost) per Round" include Long-Term costs for capital improvements that are recognized in the year expended.



AUDIT OBJECTIVES

The audit was focused on golf course revenue and operations. The initial Audit Notification letter was distributed to the Mayor, Department Director, and City Council Members. The initial audit objectives were broadly defined and meant as a starting point for the engagement.

After consideration of risk and a preliminary review of golf course financial data, the audit objectives were refined. They were designed to ensure that internal controls over:

1. Primary revenue activities exist and provide reasonable assurance that all revenue is received, recorded, and reported.
2. Fixed assets are working effectively and provide reasonable assurance that they are safeguarded and properly accounted for.
3. Pro Shop inventory exists and provide reasonable assurance that it is safeguarded and properly accounted for.

AUDIT SCOPE

Based on our assessment of risk and initial understanding of internal controls, three courses were originally selected for review: Two City-Operated (Memorial Park and Brock Park), and one privately managed (Hermann Park). The scope period for the audit was July 1, 2009 to September 30, 2010. **NOTE: An audit of the Privatized location(s) was done apart from this engagement and a report will be issued separately.**

The scope of our work did not constitute an evaluation of the overall internal control structure of the department. Department management is responsible for establishing and maintaining a system of internal controls to ensure City assets are safeguarded, financial activity is accurately reported and reliable, and management and their employees are in compliance with laws, regulations, and policies and procedures. The objectives are to provide management with reasonable, but not absolute, assurance that the controls are in place and effective.

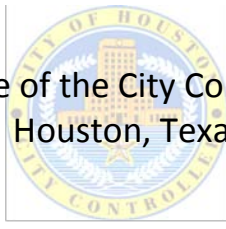
SCOPE MODIFICATION

Risk was continuously evaluated during the audit to determine if additional test steps were necessary or if the audit scope needed to be modified. As part of this continuous process and in conjunction with the results of interim work, we increased our review of revenue data from the Point-Of-Sale system (POS) to include Sharpstown and Gus Wortham Parks³.

AUDIT METHODOLOGY

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Government Accountability Office (GAO) and The International Standards for the Practice of Internal Auditing as promulgated by The Institute of Internal Auditors. Those standards require that we plan and perform the audit 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 meets these standards to support our findings and conclusions based on our audit objectives.

³ We also expanded our scope in the Audit of Privatized courses to include Glenbrook Park. For results and conclusions related to Privatized courses, see separate report.



PROCEDURES PERFORMED

Audit procedures performed to meet the audit objectives and provide a basis for our conclusions were as follows:

- Obtained and reviewed policies and procedures, relevant City Ordinances and Charter Articles, financial data, and organizational charts;
- Performed interviews with golf management to get an understanding of the requirements of the golf courses and the relevant control environment;
- Performed physical counts of retail inventory and fixed assets;
- Performed analysis of detail transactional data from the POS; and
- Monitored and observed golf course activity.

CONCLUSIONS, SIGNIFICANT ISSUES, AND RECOMMENDATIONS

SUMMARY CONCLUSION 1

Based on the results of the procedures performed, there were inadequate and/or ineffective internal controls over revenue, which in aggregate does not provide a reasonable assurance that all revenue is being received and/or recognized for City-Operated golf courses (**Audit Objective #1**).

Along with this conclusion, PARD golf management should be recognized for their concern in ensuring customer's satisfaction with service and maintaining playable condition of the facilities, while also attempting to increase revenue through coupons and other management initiatives. However, sound internal controls related to these activities are not suitably designed nor are they operating efficiently. (**Audit Objective #1**)

The most significant issues noted are:

- Golf Lesson revenue is not reconciled with gross receipts to ensure contract compliance and receipt of all revenue. Gross receipts are self-reported by the contracted Golf Pros but are not verified. Unverified gross receipts reported for FY10 equate to approximately \$240,000 (**See Finding 2 and Table 3**);
- Contract documents supporting the arrangements between the City and Golf professionals providing lessons are not maintained and were not available for review (**See Finding 2**);
- PARD Golf Division Management entered into a contract with a vendor for a sales generating program (Smart Cards) that is estimated to create approximately \$1.4 million in additional revenue over the life of the contract⁴. The agreement also provides the City 10% of an unverified sales amount of the Smart Cards whose price is controlled by the vendor. Additionally, the contract does not contain the required Mayoral or Controller's approval signatures (**See Finding 3**);
- Procedures for Complimentary golf (Comps) have inadequate controls. If Comp rates continue at the current overall rate of 7% of total rounds of golf played, the cost to PARD is an estimated \$315,000 annually. In contrast, one of the Privatized golf courses averaged a Comp rate of approximately 1.7%. (**See Finding 4 and Table 4**);

⁴ This is based on the volume of activity eligible for redemption on the SMART Cards multiplied by an average revenue per activity type (e.g. average golf fees, cart fees, etc.) as calculated by the Audit Team.

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- Gift Certificate process lacks adequate controls to accurately monitor and record the activity (*See Finding 5*); and
- Coupons and rain checks lack controls to verify the sale, redemption, estimated circulation, or business benefit, for example, Return on Investment (ROI) of the program or activity. Redeemed coupons and rain checks are not retained (*See Finding 6 & 7*).

SUMMARY RECOMMENDATION 1

PARD management should implement stronger internal controls at all locations to parallel a for-profit business approach. While revenues are down for most golf courses currently, Privatized courses typically manage the operations with tighter controls. (See Detailed Findings, Recommendations, and Management Responses section of this report)

SUMMARY CONCLUSION 2

Based on the review of fixed assets and retail inventory, the internal controls are working effectively, except as noted in the Detailed Findings, Recommendations, and Management Responses section of this report (**Audit Objectives #2 and #3**).

ACKNOWLEDGEMENT

The Audit Team would like to express appreciation to the Houston Parks and Recreation Department for their cooperation in the requests for information and responses to issues and recommendations. We would also like to commend them on their proactive approach in wanting to implement resolutions in timely manner.

Handwritten signature of Camille Jones in blue ink.

Camille Jones, CPA, CIA
Auditor-in-charge

Handwritten signature of David A. Schroeder in blue ink.

David A. Schroeder, CPA, CISA
City Auditor



DETAILED FINDINGS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

1. GREEN FEES AND CART REVENUE

BACKGROUND:

Proper internal controls over revenue are important to ensure strong financial and operational management practice. Internal controls provide a level of assurance as to the presence of a system of maintaining records that fairly and accurately reflect a company's transactions. Lack of an adequate internal control structure can contribute to loss of revenue. Management is responsible for establishing and maintaining adequate internal controls and assessing their effectiveness.

Common criterion for internal controls includes the following:

- A 'Starter' at the first hole ensuring all golfers have tickets to play.
- A 'Tee sheet' noting all golfers and their tee time for each day. The best method would be a Tee sheet at the Pro Shop and one created by the Starter, which are then reconciled to each other and the POS.
- A 'Marshall' that routinely travels the course ensuring golf play moves at a reasonable rate. They can also document players on the course creating their own Tee sheet or use a copy of another document to verify the correct players are on the course.
- All documentation used in the reconciliation process should be retained for future reference.

Auditors performed several procedures in an attempt to verify revenue at the golf courses. One procedure was to review detail transactions from the POS system from all four (4) courses for a period of 13 days, September 1 – 13, 2010. Another procedure was to physically monitor Brock and Memorial golf courses requesting to see customer's paid tickets. Brock was monitored for 10 days; between August 18 and 31, 2010. Memorial was monitored on September 29 and October 1, 2010. Memorial was monitored less than Brock because our initial assessment revealed that Memorial appeared to have a more efficient control structure than Brock.

FINDING:

- Auditors could not determine if all revenue was valid due to lack of properly supported revenue transactions. Tee sheets were not retained at Brock while Memorial stated they retained their documentation for approximately two months before discarding. This practice does not allow proper review of the validity and reliability of historical financial data and is not consistent with Texas Statute Chapter 441, Subchapter J as adopted by City Ordinance 91-88 and PARD Record Control Schedule (policies and procedures related to record retention).
- Starters and Marshalls at Brock golf course were all volunteers. In exchange for volunteering their time they are allowed to play golf for free. Through auditor observation and inquiry, Starters and Marshalls are not always present on the course. One control over revenue is ensuring golfers playing have a legitimate ticket and this is the responsibility of the Starter. By not having the course fully manned, a key internal control is missing.

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- During the 13-day review of all courses, many transactions occurred that could be signs of inappropriate actions but due to lack of further documentation they could not fully be explained:
 - Twenty-three transactions were entered as a cash receipt and an equal amount for change. The amount was usually \$18. This occurred at all locations except Sharpstown. Management stated they did not know why or how this transaction occurred and they assumed it was a computer glitch.
 - Fifty-five transactions were entered in which there was a negative cash or credit card amount which totaled <\$1,951.00>. The credit card machine is separate from the POS requiring the cashier to enter the sales amount twice, which can result in errors. It is possible that some of the negative credit card amounts were for this reason, but there was no documentation to verify why it had occurred.
 - Seventy-nine transactions in which there was a cart rental fee charged with no correlated green fee. In the cases of Brock, Gus Wortham, and Sharpstown, it is possible that a coupon was redeemed and not entered properly in the POS. Because redeemed coupons were not retained, it is impossible to say if this was or was not the case. Memorial had 13 of these transactions, yet coupons are not given for this location. Management stated that discounts are given to disgruntled customers.
 - The POS systems were opened as “No Sales” 289 times. POS should only be opened when a transaction is entered and minimally for any other reason such as giving change. Opening POS when there is no transaction can be a sign that inappropriate activity is occurring.
- During the original 13-day period tested, the auditors noted the same amount of <\$56.00> was being reversed in the POS on a regular basis at Brock. The time period tested was then expanded to July 1, 2009 – September 23, 2010. The results noted the following:
 - There were 94 transactions in a 12-month period.
 - 89 of 94 transactions were entered on Saturdays and Sundays. Five transactions were entered on Fridays.
 - Transactions were generally entered between 11:00 am and 12:00 pm.
 - Transactions stopped after a number of Brock staff were moved to other golf courses.
 - A total of \$5,264 was reversed during the 12-month period.
 - The revenue reversal consisted of two (2) weekend twilight fees for \$17.00 (\$34.00), two (2) cart rentals of \$10.16 (\$20.32), and \$1.68 in sales tax.
 - Management’s review of POS detail on a routine basis would have discovered these transactions.
- The POS is not covered by cameras. Cameras in conjunction with management reviewing detail transactions could help either reduce the unexplained transactions noted above or help management determine why some transactions are occurring.

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- Memorial sells rechargeable debit cards to golfers to be used with their automated range ball machine. They are activated with a value of \$100 and sold at a discounted rate of \$85 from the Pro Shop. The cards are activated and recharged by Pros in a locked room located behind the machines. Management requests that golfers return the cards when they are finished but this does not always happen. The range ball machine is not interfaced with the POS in the Pro Shop and thus, debit card usage, activation, and recharge activity are not monitored to ensure only cards paid for at the Pro Shop are being used.

RECOMMENDATION:

- Management should keep all documentation used to reconcile the POS each day. This should include at least the Tee sheets from the Pro Shop, all redeemed coupons, gift certificates, rain checks, and a log of individuals playing comps. This process should be documented in written policies and procedures.
- Any credits, refunds, corrections, or reversals that are needed must require the approval of a Manager. Management should review POS transaction detail on a regular basis to ensure they are aware of all negative amounts and notation should be made and retained for why negative amounts are entered into the POS.
- Management should contact the POS vendor to determine if there is a glitch in the system that results in an invoice of \$18.00 being randomly entered by the system without the assistance of the cashier and request an enhancement to correct the problem.
- Cameras should be installed over the POS at all locations. Cameras can be used as an internal control in deterring possible mishandling of cash.
- Key access to the room containing the range ball computer should be limited to two individuals, preferably the Manager and Assistant Manager. The POS and range ball computer should be interfaced so that management can monitor and verify the revenue collected. Since controlled by the Pros, differences could be considered retainage to be reconciled by the responsible Pro.

MANAGEMENT

RESPONSE:

“Since these concerns were called to our attention we are now keeping all back documentation for all transactions which will be outlined in the revised policies and procedures. On-site management is now reviewing transaction reports and charges. Cashiers have been instructed to enter notes on transactions (such as credits, refunds, reversals, etc.); management will review transactions on a regular basis to ensure policies and procedures are being followed.

After some research, it was discovered the “no sale transactions” were all simply opening the cash drawer. The receipt would generate that \$18 was received and \$18 change was given back which zeroed out the transaction. This problem has not occurred since the new server boxes were installed at all four courses.

Cameras have been in use for years at Sharpstown, and have been purchased and are in process of being install at remaining golf facilities to ensure registers and staff are monitored. The cameras will be installed no later than June 24, 2011.

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We now have the ability to address the range machine operations with the new additions to POS system. The driving range will be interfaced with the POS system to allow better control of range fees entered and will entail a new range card system that will be monitored from the pro shop as well as credit cards will be accepted at the range which will greatly enhance customer service which is our primary goal. This new process should be in place no later than June 15, 2011."

2. GOLF LESSON REVENUE

BACKGROUND:

City Ordinance, Chapter 32, Article III Public Gatherings, Section 32-69 Park User Fees mandates that, *"In the event a participation or admission fee is charged by any person for any activity using park grounds or facilities, then the user fee applicable thereto shall be ten percent of the gross revenue derived from participation and admission fees, plus the park user fee established by the city council, if any."*

Consistent with the City Ordinance, PARD has an agreement with the Pro golfers (Pros) requiring them to submit 10% of their lesson fees to the City and purchase one large basket of balls for each 30 minute lesson at \$7.00 a basket. The agreement also requires the Pros to give golf course management copies of participant's registration forms.

A golf teaching facility, *Dave Marr Learning Center (Center)* is located at Memorial. It is situated next to the driving range and is used by the Pros to video their students golf swing and provide visual feedback for improvement. The equipment inside the Center was reported as the property of the Pros, such as a computer, video, and other golf items that have been donated to them from various golf equipment vendors.

Because the Controller's Office Audit Division was also in the process of auditing the City's Hermann Park golf course, we compared some of the activity between City-Operated vs. Privatized for best practices, efficiencies and reasonableness. **(See Table 3 below)**

Table 3 – Golf Lesson Revenue Comparison (City-Operated vs. Privatized)		
Item	Memorial (City-Operated)⁵	Hermann (Privatized)
Method of Revenue Collection	Self-Reported (10% of Gross Revenue - Collected by the pros)	Directly into the POS
Number of Pros	(6) Non-City Employees that are Pros paid directly by students. (5) City Employees that are Pros and also provide golf lessons. They are paid by wage/City payroll and directly by students for lessons.	(1) Pro employed by the management company (paid via wages)
Rates	\$40-\$70 per ½ hour \$60-\$120 per hour	\$50 per hour \$45 per hour for purchases of at least (3) hours \$25 – Adult (per Clinic) \$20 – Junior (per Clinic)
Gross Revenue per Pro	\$22,087 gross revenue for golf lessons per Pro. NOTE: This is a recalculated average based on the original amount paid to the City.	\$45,307 Gross Sales in POS

⁵ Lesson Revenue paid to the City from Memorial Park Golf Pros for FY 2010 was \$24,295.65

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FINDING(S):

- There are no internal controls over the monitoring and revenue collection of golf lesson revenue. Management does not require the Pros to log in or record when teaching a lesson nor do they require the Pros to submit the required registration forms for each participant.
- Five (5) City employees at Memorial teach lessons (employees classified as Pros) and earn additional money separate from their normal wages. Due to the lack of internal controls over monitoring the lessons, it could be possible for an employee to teach while on City time. NOTE: We did not see this occur during the onsite portion of our review.
- Employees classified as Pros are also collecting payment on behalf of the City from contracted Pros, but are not recording the individual transactions in the POS.
- While monitoring Memorial over a two day period, we noted four (4) Pros on the course in golf carts with their students. None of the Pros had either a paid ticket for their student or a Pro comp ticket for themselves. Three of the Pros stated that they were “chipping” (practice that should take place in a specified area designed for that activity).
- Golf course management at Memorial did not keep signed copies of the Agreements for the 11 Pros. PARD Management at 2999 South Wayside did not have copies of the Agreements nor were they aware of them. The Audit team was given a copy of an unsigned Agreement.
- Some of the Pros use the Center to video and analyze their customer’s golf swings. There is no evidence they are paying rent on the utilization of the facility. The building is used solely by the Pros and their customers. The equipment in the Center is not the City’s property but is housed in City property and is exposed to the outside during the day. There is no Agreement between PARD and the Pros, who owned the equipment, which states the City is not liable for the equipment if it were to be damaged, lost, or stolen. In addition, the equipment is not marked to indicate the proper owner.

RECOMMENDATION:

- In providing recommendation(s) to address the issues identified above, there are a few different approaches in utilizing Golf Pros to generate Lesson Revenue (employees classified as Pros, contracted Pros or a combination of both). Regardless of the option selected, all monies received for lessons should be collected at the Pro Shop and entered into PARD’s POS. Pros should submit the required registration forms at the time of payment. All golf students should sign-in before each lesson. This sign-in log can be used to reconcile to the registration forms. Options include:

(1) Employees Classified as Pros –

If management used only the five City employees that are classified as Pros to teach lessons at Memorial, PARD could see an immediate net increase in Lesson Revenue ranging from about \$90,000 – \$200,000 a year. NOTE: This is calculated based on the information obtained from SAP as reported by the Golf Pros at Memorial and data received from Hermann Park, respectively.

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(2) Combination of: Employees Classified as Pros and Contracted Golf Pros –

- a) If Management decides to follow their current process as employed at Memorial, they should implement internal controls to ensure they are receiving all revenues. Collecting all Lesson Revenue at the Pro Shop would allow PARD to pay the money due the Pros and retain the 10% due PARD. For segregation of duties, the reconciliation process should be performed by someone other than a person who teaches lessons and submits 10% of their revenue to the City.
 - b) All Pros teaching lessons must comply with the City Ordinance in regards to user fees established by City Council for green fees. When a Pro and their student are “chipping” on a hole instead of the designated area, it is causing wear and tear on the course that is supposed to be covered by the green fee.
 - c) The Agreements with the Pros should be reevaluated and signed copies should be obtained. A process should be developed in which PARD senior management is made aware of all Agreements that are being administered by the golf course Management.
- Management should determine if a rental fee should be charged for usage of a public facility.
 - The City Legal Department should be consulted to determine what documentation is needed to ensure PARD will not be liable for any damage or theft of the Pro’s property. All equipment located in the Center should be marked to indicate the owner. An asset listing that documents all equipment and ownership should be kept at both Memorial golf course and PARD Main office.

MANAGEMENT

RESPONSE:

“Following your recommendation of monitoring and revenue collection of golf lesson revenues, each professional now fills out a daily log of the lesson income they made and turns this in to a non-instructor in golf management who collects their money and has a cashier who is a non-instructor enter the money into the POS system. Each instructor is now rung up in the POS system individually.

To ensure the City Pros are not teaching on city time; a weekly schedule is submitted to assure they are only teaching lessons other than their scheduled city work hours. With the new Kronos time clocks being implemented this year, more backup documentation as to work schedules for the city Pros will be available.

The pros are on the course on a space-available basis, and for no more than 30 minutes. Revenue is collected from the pro for the lesson. The pro is generating interest in the game, is on the course for 30 minutes, and we are paid a percentage of the lesson revenue. Pros and their students pay green and golf car fees in the event of a full 9 or 18 hole playing lesson. The department agrees with this concept to allow the students to experience playing on a golf course.

We are in the process of revising the agreement between the Pros and the department. This revised agreement will detail all aspects of the Pro teaching lessons; which will include: collection payment process, services provided, use of equipment, identification of ownership; and a outline of what the rental fees consist of. The department will also make sure an asset list of all equipment owned by the pros is on file. We are expecting all agreements to be revised and signed no later than June 10, 2011.”



3. PRE-PAID CUSTOMER DISCOUNT CARDS

BACKGROUND:

In an effort to increase usage and revenue at Brock, Sharpstown, and Gus Wortham golf courses, management entered into an Agreement with Smart Circle International, Inc. (Smart Circle) for the sale of Smart Cards. Each Smart Card entitles the purchaser a total of 18 rounds of free golf based on two (2) tiers. The Agreement stipulates that 3,000 cards will be produced and sold, resulting in the possibility of 54,000 rounds of free golf being played.

Tier one:

- Six (6) rounds of free golf with the rental of a golf cart. Golfers are limited to two (2) rounds at each course.

Tier two – Buy one get one free:

- Sharpstown - Three (3) rounds of free golf, cart included, with the purchase of a round of golf and cart rental.
- Gus Wortham – Four (4) rounds of free golf, cart included, with the purchase of a round of golf and cart rental.
- Brock – Five (5) rounds of free golf, cart included, with the purchase of a round of golf and cart rental.

There is no specific expiration date, rather the Agreement expires “*upon completion of sale of all Smart Cards, Advertiser (PARD) obligation would not extend beyond the 12-month period from date of sale of last Smart Card.*” Smart Circle has total control over the sale of the Smart Cards. Either party can terminate the Agreement with a 30-day written notice. However, if Smart Circle waives the 30-day notice, PARD has agreed to pay Smart Circle for the “*actual design, production, printing, and shipping cost associated with the remaining unsold certificates.*”

FINDING(S):

- At the time of the audit, September 2010, PARD did not have a process in place to track the number of Smart Cards sold, redeemed, and outstanding. The auditors estimate that if all 3,000 Smart Cards are properly redeemed, using average revenue prices for each tier, this advertisement could help PARD realize estimated revenue of approximately \$1,276,665.
- From September 1 – September 13, 2010, Smart Cards were recorded as being redeemed 30 times between the three (3) golf courses. Redemptions were entered using a specific key in the POS titled “Smart Card.” However, since there are different criterion for each tier but only one key and no tracking mechanism in place, the auditors could not accurately determine if the Smart Card was being redeemed in compliance with the criteria.
- Based on inquiry with golf-course management, the auditors were told that sometimes Smart Cards were incorrectly entered as comps, skewing the analysis. Based on this additional information and lack of a tracking mechanism, management will have a difficult time in controlling the usage and being able measure the success of the Smart Cards.
- Management does not perform an analysis to determine if Smart Cards are achieving their goal of increasing course usage and revenue.



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- Management has entered into an agreement that restricts the City in the following manner:
 - There is no definitive expiration date of the current Agreement. The terms state that it will expire 12-months after the final sale of 3,000 cards, for which there is no specified time limit;
 - Restricts PARD from engaging in or participating in any program similar to this one while the Agreement is in effect and for one year thereafter;
 - *“Failure of Parks to comply with the terms of the Smart Card will cause serious damage to Smart Circle including, irreparable harm to its goodwill and reputation for which an award of monetary damages will not in itself be adequate remedy”*
 - *“The agreement is governed by and construed in accordance with the laws of the state of California.”*

Per the City Charter Article II, Section 19, “no contract shall be binding upon the city unless it has been signed by the mayor and countersigned by the controller.”

RECOMMENDATION:

- PARD Management should develop policy and procedures instructing golf staff on the protocol for administering the Smart card program. A tracking system should be created to track and reconcile the cards sales and redemptions. The reconciliation will help monitor the staff’s adherence to policy.
- PARD Management should perform periodic analyses to determine the effectiveness of the Smart Cards in achieving the desired goal of increased usage and revenue.

MANAGEMENT

RESPONSE:

“When brought to our attention, we devised additional training for smart card use and tracking. Also, a hot key has been established for the card on the POS system.

Management has instituted spot surveys to determine the effectiveness of the program. Currently at Brock, 70% of the respondents are new customers, and 75% of those plan to return. At Sharpstown, 60% of the respondents are new customers, and 67% of those plan to return. The Sharpstown respondents therefore are seen to be more in the rate shopper class than the Brock respondents. The Brock respondents have an awareness that they have found one of the best rates around anyway.

This was a one-time shot from our perspective and we do not anticipate doing it again.”

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4. COMPLIMENTARY (COMP) GOLF ROUNDS

BACKGROUND:

Complimentary golf rounds (comps) for Pro golfers (LPGA and PGA), golf course employees, and volunteers are allowed at all four of the City-Operated courses. Employees can play at any course that is available.

Each course's POS system has a series of special keys to record the various comps allowed. The five (5) keys used during our audit were: PGA/LPGA, Marshall, Employee, Park Dir Round, and Director of Golf. Volunteers are generally recorded as employee comps. The POS system is used to track and report the number of comps given at any period.

We reviewed POS transaction detail for all four City-Operated golf courses for the period of September 1 through September 13, 2010. A total of 6,243 rounds of golf were recorded during this period. A comparison was made between City-Operated courses (within the POS), and one of the Privatized courses (Hermann Park) for the same period in September, 2010 to determine if comp usage was similar at all locations.

FINDING:

PARD does not have written policies and procedures for who is eligible for a comp. Also, they lack adequate controls over rounds of golf given as comps to ensure; they are accurately tracked, are reasonable to industry benchmarks, and the system is not being abused.

- 440 of 6,243 (7%) rounds of golf were recorded as comps during the period of September 1 through September 13, 2010 (See Table 4 below).⁶

Table 4 – City-Operated Comp Golf Data			
Location	Comps (in Rounds)	Avg. Green/Cart Fees	Estimated Value of Golf Comps
Gus Wortham	152 of 1,169 (13%)	\$24.56	\$3,733.12
Brock	72 of 572 (12.6%)	\$24.56	\$1,768.32
Sharpstown	91 of 1,495 (6.1%)	\$26.30	\$2,393.30
Memorial	125 of 3,007 (4.2%)	\$33.80	\$4,225.00
Total Estimated Value of Comp Golf			\$12,119.74

- In contrast, Hermann Park, allowed 22 comps out of 1,495 rounds of golf (1.47%), for the period of September 1 through September 13, 2010. NOTE: This comparison was based on reported comps from Hermann and the City-Operated courses and did not include what was noted during the 12-hours of monitoring identified in **Finding 1** and listed below.

⁶ If comps are allowed to continue at the current rate, the associated value would be approximately \$315,113.00 in revenue for the 12 month period ending September 2011. NOTE: This is not a statistical extrapolation.

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- Memorial's monitoring noted 12 comps in an approximately 2-hour period. Three of the comps were for individuals other than Pros but were recorded as Pro comps.
 - One was the son of an employee; and
 - Two were college students who stated Memorial had an agreement with their school that allowed golf team members to play for free.
- Brock's monitoring noted 62 comps in approximately a 10-hour period. Eighteen (18) of these comps were either incorrectly coded in the POS or not recorded at all.
 - Three golfers stated they had redeemed gift certificates, but they had POS tickets for Pro comps.
 - One golfer stated they had redeemed a 2-for-1 coupon, but had a POS ticket for an Employee comp.
 - One retired City golf course employee had an Employee comp ticket.
 - Two golfers were playing off a duplicate employee comp ticket number.
 - Eleven golfers did not have a POS ticket, but stated that they were either employees/volunteers. The majority of golfers without a POS ticket occurred during the first few days of our course monitoring. At the end of our 10-day monitoring, behavior had changed and everyone playing golf had a ticket.

NOTE: While monitoring Brock and Memorial golf courses, (due to no supporting documentation noted in **Finding 1**), we observed comp activity that should have been recorded but was not. They are not part of the calculation shown in the Table above.

RECOMMENDATION:

Management should establish criteria for who is eligible to receive comps and document this in a policy and procedure. This will provide guidance to Pro Shop staff on the proper recording of comps. Comp usage should be monitored for reasonableness to ensure it is not being abused.

MANAGEMENT

RESPONSE:

"The department is in the process of revising the policies and procedures. The revisions will include updated information in reference to comps. Criteria will be set for comp golf rounds and will be monitored by Division Manager of Golf Operations and Deputy Director of Recreation and Wellness for reasonableness. Where volunteers are used, we are now tracking volunteer hours worked in order to better determine value of work versus value of comp golf.

We do not believe comparing the information at the city and privatized courses are a fair assessment of the comp time. For example, as noted above, some city run golf courses give comp time to volunteers for their services at the courses, privatized courses do not.

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5. GIFT CERTIFICATES

BACKGROUND:

Gift certificates are sold by the golf courses for the future redemption of an equal value intended for the use of green fees, cart rentals, and Pro Shop merchandise. All City-Operated golf courses are required to follow the "*Sharpstown Park Golf Course Policies and Procedures*." Gift certificates are issued by each course and can only be used at the course in which they were purchased. The initial gift certificate sales should be recorded as Deferred Revenue (Account 250190).

We limited our review of this activity to Memorial and Brock golf courses. Brock only allows the certificates to be used on green fees and cart rentals. Memorial allows the certificates to be used on any transactions, including Pro Shop merchandise. Per the Policy referenced above, the process for gift certificates is as follows:

Sale of Certificate

- *The sale is entered into the POS as a green fee, cart rental, or merchandise sale.*
- *The paper certificate is completed showing the date of purchase, receipt number, appropriate codes for fee, product or service, purchase price and signature/employee number. The certificate is then entered into the Gift Certificate Book.*

Certificate Redemption

- *A redeemed certificate is not rung up in the POS since the transaction was processed at the time of purchase.*
- *If the certificate is only partially redeemed, it is recorded in the Gift Certificate Book and also on the back of the gift certificate itself, including date, fee, product or service redeemed, remaining balance and the employee's initials.*
- *When the gift certificate is redeemed for total value, it is recorded in the Gift Certificate Book and the certificate is obtained from the customer, defaced, and disposed of properly.*

FINDING:

The current process for recording and managing Gift Certificates is not consistent with applicable policy and procedures and both (process and policy/procedures) lack proper internal controls for:

- Adequate safeguarding of cash;
- Efficient monitoring of unredeemed certificates; and
- Proper accounting for Golf Revenues associated with Gift Certificate sales and redemption. As of the last fieldwork, the Deferred Revenue account has an outstanding balance of \$146,904.28 as of August 31, 2010 and is no longer used to record Gift Certificate sales.

Brock:

- Gift certificates were not pre-numbered and have a printed expiration date of December 31, 2000. The newer versions either have no expiration or the existing expiration date has been crossed out and the word "None" written on the certificate.
- A Log (Gift Certificate book) is not maintained for certificates sold or redeemed.

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- When a certificate is sold it is recorded in the POS and subsequently reported in SAP as Golf Fee revenue and/or Cart Revenue. The redemption is not recorded in the POS.
- When redeeming the Gift Certificate, the customer is either allowed to play without any proof of receipt or they are given a "Employee" or "LPGA/PGA" Comp ticket. There is no record of cart usage.
- The certificate is not properly defaced and/or destroyed when redeemed. It is reported to be thrown away.

Memorial:

- Gift certificates are not pre-numbered and have a *one-year expiration* from the date of issuance.
- The Log is not reconciled to the daily sales report from the POS.
- When the certificate is redeemed, the Log is not updated. The gift certificate is collected and maintained with the credit card receipts for a period of time and then discarded. The POS and the certificate are not reconciled to the Log.
- Revenue is recorded in SAP at the time the gift certificate is sold, rather than when it is redeemed for product or service.

RECOMMENDATION:

PARD should update the stated Policy and Procedure that defines and ensures sufficient and consistent controls are in place and operating that are related to Gift Certificate activity at all City-Operated golf courses.

Suggested controls are as follows:

- Use pre-numbered Gift Certificates that are physically controlled;
- Post and record an expiration date;
- Put a tracking mechanism in place to support the accurate recording and related accounting entries for Gift Certificate sales and redemption; and
- Properly account for the initial sale Gift Certificate activity as a Deferred Revenue and then recognizing revenue upon redemption or expiration.

Additionally, one way to address this could be to build a spreadsheet that contains the sequence number of the Gift Certificate, the expiration date, and other key business information (items purchased, etc.). This would allow recording, accounting, and tracking of Gift Certificates (sold and unredeemed) and proper timing of revenue recognition. Another possible solution is to supplement and upgrade the current system to create Gift Cards that are used like a Credit Card. This would integrate the business process with the operational and financial system used at the City-Operated golf courses.

MANAGEMENT

RESPONSE:

"Effective January 2011, HPARD purchased an upgraded POS system. By June 17, 2011, this system will create Gift Cards that will be used like a Credit Card. This would integrate the business process with the operational and financial system used at the city-run golf courses.

Also, HPARD will update the Policy and Procedures to ensure sufficient and consistent controls are in place. Balance Sheet accounts will be adjusted on or before June 30, 2011."

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6. GOLF COUPONS

BACKGROUND:

Golf management advertises the City golf courses through the use of coupons in primarily two publications: the Entertainment Book and Avid Golfer. The objective of the coupons is to increase revenue and rounds of golf played at Brock, Sharpstown, and Gus Wortham courses. Coupons for green fees are not offered for Memorial golf course because it is at maximum capacity for rounds of golf played.

Currently, there appears to be three types of coupons in circulation. Restrictions for coupon usage are printed on each as follows:

1. Entertainment Book – Buy one green fee and get one free. The rental of a golf cart is required.
2. Avid Golfer – One free round of golf with standard cart rental fee.
3. Entertainment Book – Buy one green fee and get one free. Golf cart rental for two is required.

FINDING:

- Management does not know how many magazines or booklets are published by the companies and therefore, do not know how many coupons are outstanding.
- Management is not tracking the redemption of coupons from Avid Golfer. When redeemed, the Pro Shop staff enters the coupon as either a Pro comp, or employee comps, or they record the cart rental with no green fee. Without tracking the number of coupons published, redeemed or outstanding, management cannot perform an analysis to determine if their selection of advertising is accomplishing their objectives of increasing revenue and rounds played.
- Redeemed coupons were not regularly retained. Additionally, the coupons that were available for review were not defaced in order to prevent their reuse.
- Redeemed coupons are not reconciled to the POS each day. Brock staff stated that they threw the coupons away when redeemed. These lack of internal controls leave PARD at risk of revenue loss and/or manipulation. Without the redeemed coupons the auditors were not able to verify that an actual coupon was presented for redemption. While the auditors could not verify that actual coupons were submitted for redemption, an analysis was performed on Entertainment coupon redemptions recorded in the POS at Brock from January 2010 through June 2010; 75 coupons were recorded redeemed during this period. Of the 75 transactions, 59 (79%) did not comply with the restrictions noted on the coupon.

RECOMMENDATION(S):

- Management should develop a process to properly track the number of coupons published, redeemed, and outstanding and perform an analysis to determine if the coupons are achieving their objectives of increasing course usage and revenue.
- Special keys should be created in the POS for all coupons in circulation to assist in the tracking of redemptions.
- A daily reconciliation process should be implemented to ensure the coupons are being redeemed properly.
- Management should ensure that employees are accepting redeemed coupons in accordance with the restrictions noted on the front of the coupon.
- Policy and procedures should document exactly how to redeem any coupon.

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MANAGEMENT

RESPONSE:

“The department will reach out to the vendors who have printed the coupons in their publications to try to get a possible count on how many books/magazines have been printed compared to the amount the department shows have been redeemed. With this information a projection could be reached on the amount still outstanding.

Management has reiterated to the employee when honoring the coupon to comply with the restrictions noted on the coupon. Also, all coupons will now be attached to the CR document and submitted to Management and Finance. This will be included in the revised policies and procedures. Keys on the POS system now include all keys needed for these transactions. The department will review the coupon program for the effectiveness of the program to deliver golfers during non-peak hours. ”

ASSESSMENT OF

MANAGEMENT

RESPONSE:

Management addressed all aspects of the issues identified. In our follow-up, we would expect to see Management reports that provide metrics for reasonable analysis (e.g. circulation of periodical, percentage of redemption, etc.).

7. RAIN CHECKS

BACKGROUND:

When a golf customer begins a round of golf but cannot finish the entire 18-holes because of rain, they are entitled to a rain check. PARD does not have a written policy on issuing or redeeming rain checks, but Pro Shop staff is issuing and redeeming rain checks according to internal protocol. According to interviews with management from Brock and Memorial, we noted the following criteria:

Brock

If a player has played:

- Six holes or less, they should receive a full rain check for a free round of golf.
- Seven to nine holes they receive a free cart rental on their next visit, but no free round of golf.
- Nine or more holes, their next cart rental will be pro-rated and no free round of golf.

Memorial

If a player has paid the regular price and played:

- Five holes or less, they receive a full rain check.
- Six to nine holes, they receive twilight fee.
- After nine holes, the round is considered full.

If a player has paid the twilight price and played:

- Four holes or less, they get a full rain check.
- Five holes or more is considered a full round.

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FINDING:

The issuance and redemption of rain checks are not adequately controlled to ensure all revenue is recorded timely and accurately.

- Due to lack of supporting documentation (redeemed rain checks), auditors could not verify that rain checks recorded in the POS were accompanied by a legitimate rain check ticket.
- Adequate internal controls do not exist, which allows the possibility for individuals to receive rain checks without meeting the necessary criterion. Paid tickets are not required to be attached or shown with the rain check. In addition, blank rain checks are not pre-numbered or tracked when distributed.
- There is a lack of consistency between golf courses in applying a rain check policy.

RECOMMENDATION:

- Management should document in their policy and procedures the requirements for dispensing and redeeming rain checks. The policy should be the same for all City-Operated golf courses. The POS system should have keys pre-set for the different redemption scenarios to make the transaction easier for the staff.
- Redeemed rain checks should be retained and reconciled to the POS daily. Management may want to consider stamping the back of the original paid ticket as the rain check and require this ticket to be redeemed. This would provide proof that the rain check was dispensed against a legitimate paid ticket. An expiration of less than a year is also recommended.

MANAGEMENT

RESPONSE:

"Rain Checks will be issued and redeemed at all courses using the same policy. Rain checks will be rung up through the POS system. Each rain check will be rung up using the key coding corresponding to the appropriate value of the rain check issued. Example would be a key for a twilight rain check versus a key for a weekday green fee rain check.

Rain checks will be redeemed using the corresponding key in the POS system matching that of the issued rain check. Example would be a customer brings in a rain check for a weekday green fee and we would ring up the rain check redeemed under the key for weekday green fee redeemed. Staff will be required to note the rain check number issued into the POS system." The new process is now in effect. Division Manager of Golf will review with the staff the new process which is in effect after a rainy day for proper compliance. Proper documentation will be required for a rain check to be issued and recorded in the POS system, and will be kept with daily paperwork for verification.

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8. CREDIT CARD REVENUE TRANSACTIONS AND FEES

BACKGROUND:

Approximately \$3.3 Million or 65% of annual golf course revenue for City-Operated courses occur through credit card transactions. Fees associated with credit card sales should typically be treated and recognized as a Cost of Sales. The bank usually collects or realizes this fee by reducing cash paid for the Credit Card transactions processed as a percent of the sales amount (*per a contract/agreement*). Each golf course should record 100% of the sale as a credit to Revenue and debit a Credit Card Receivable account for the amount expected to be received based on the terms of the agreement. The difference should be recorded as a debit to an Expense account (see "RECOMMENDATION" section of this Finding). When the funds are received from the bank, the Credit Card Receivable is credited and the Cash account is debited for the amount received. An internal control for this process is to regularly perform reconciliations to agree the bank charges for credit card fees to the expense recognized as a Cost of Sales. Any discrepancies would then be resolved and the required adjustments made accordingly.

FINDING:

Credit Card Fee activities are not being recorded properly and the underlying financial statement accounts are not being reconciled.

As part of our substantive work, we obtained and reviewed a sample of the daily cash receipt packets prepared by each of the four golf courses. Specifically, we compared revenue recorded in SAP to revenue shown on the POS and noted that the revenue recorded in SAP was less. In looking further, we determined that golf course sales paid by customers using a credit card was reduced by 3% of credit card sales in estimating the associated fees charged for each transaction by the bank.⁷

The error, which doesn't separately identify the expense, was recorded as shown in the example below (assuming \$100 transaction total):

	<u>Debit</u>	<u>Credit</u>
<i>Accounts Receivable (A/R)</i>	100	
<i>Accounts Payable- Bank Fees (A/P)</i>		3
<i>Revenue</i>		97

The cumulative balances for the A/R and A/P accounts related to Credit Card transactions as of August 31, 2010 were \$374,791.23 for *Credit Card Fees Payable* and \$664,544.77 for *Credit Card Receivables*.

Additionally, reconciliations are not performed on these accounts to verify the bank charges are accurate and to adjust the balances accordingly. Based on the fact that the bank and/or credit card companies remit the funds to the City within five to seven days following the transaction and the average daily credit card sales are approximately \$10,000, we would expect the associated Accounts Receivable balance to be approximately \$50,000 - \$70,000.

⁷ There may be no cash impact, however, *without* a reconciliation process, this cannot be substantively determined.

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The difference in the Credit Card Fees Payable and Credit Card Receivable balances (\$289,753.54) reflects a combination of:

- The time lag just referred to **and**
- Either: (a) an understatement of expenses by overstating Accounts Receivable **and/or** (b) an underpayment by the Bank not detected by reconciliation.

RECOMMENDATION:

- PARD should investigate the balances in the accounts mentioned above and post the correct adjusting entries.
- Credit Card sales should be recorded as noted in the Background section represented by the following:

	<u>Debit</u>	<u>Credit</u>
Account Receivable from Credit Card Sales (Asset Account)	xxx	
Credit Card Fees (Expense Account) ⁸	xxx	
Golf Revenue – Green Fees, Carts, etc. (Revenue Account)		xxx

- Perform a periodic reconciliation of the credit card fees recognized to the charges reported/withheld by the bank.

MANAGEMENT

RESPONSE:

“HPARD made immediate changes to the CR process for all locations submitting revenue. As of September 2010 all locations discontinued allocating 3% credit card fees and recording all credit card sales in their respective revenue accounts. HPARD will prepare and post adjusting entries to the Balance Sheet accounts by June 30, 2011. HPARD will continue to work with the bank to reconcile the credit card fees. Ongoing ClientLine Training is being performed to assist with the monitoring and reconciliation of fees. We have added credit card processing to the current point of sale system effective February 2011. This also allows single entry reconciliation between credit card processing and the point of sale.”

9. POLICIES AND PROCEDURES

BACKGROUND:

Good internal controls begin with up-to-date written policies and procedures that serve as instruction/guidance to employees in the discharge of their job duties. They also support the delivery and achievement of objectives that are aligned with the department and organizational goals.

Per PARD management the four City-Operated golf courses, (Memorial, Brock, Sharpstown, and Gus Wortham) all follow the policy and procedures titled, “Sharpstown Park Golf Course Policies and Procedures,” (P&P).

FINDING:

- The P&P for City-Operated golf courses is not up-to-date and does not appear to have been revised since 1996. Some items that were noted as out-of-date:
 - The armored car service reference is no longer used by the City.
 - General Manager (GM) job duties are listed, but there is no position on staff.

⁸ This could also be recorded at the end of the month/reporting period based on actual fees paid.

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- The P&P is not always being followed, such as:
 - Each cashier should have a personal code to enter when completing a transaction in the POS. Cashiers were not using a personal code at either Memorial or Brock golf course.
 - Cashiers are to notify the Pro Shop Manager of discrepancies when reconciling the POS each day. On the first day of the audit, we observed the cashier perform cash close-out procedures at Memorial. The register was \$9 short and he made up the difference with his own money.
- The following issues have already been noted in this report. However, they are being mentioned again for emphasis and because written P&P are the starting point for good internal controls and the controls in these areas are weak.
 - The gift certificate process noted in the current P&P is incorrect for accounting purposes and lacks proper internal controls.
 - Redemption of rain checks and coupons has weak internal controls. The issuance and redemption processes should be documented and proper internal controls incorporated.
 - The process for tracking, monitoring, and redeeming Smart Cards should be documented with proper internal controls incorporated.
 - Comps lack written documentation on who is eligible to receive a free round of golf. In addition, each course uses the Comp key in the POS for different reasons, such as coupons or employees from other golf courses are listed as PGA Comps. An updated written P&P would help to make policy consistent between all courses.

RECOMMENDATION:

Management should ensure that the P&P is reviewed and brought up-to-date in its entirety.

MANAGEMENT

RESPONSE:

"The department agrees with this finding and is in the process of updating the policies and procedures to be consistent for all courses. Any exceptions will be noted in the revised by golf course. The timeline to have the revised Policies and Procedures completed is October 2011."

10. ACCOUNTING FOR FIXED ASSETS (IN SAP)

BACKGROUND:

The City's fixed assets processes are governed by Executive Order 1-30, Fixed Asset Management and the Finance Department's Fixed Asset Accounting and Management Procedures Manual (Manual).

Fixed asset custodial departments are required to maintain a complete and accurate accounting of fixed assets. They should also minimize stocks of surplus property. This requires that equipment no longer fit for its intended use be scraped, sold, or transferred to another department.

The Division Manager with control over the assets is required to issue a written notification to the Department Fixed Asset Coordinator (DFAC) notifying them of all surplus/salvage assets. The DFAC determines the appropriate method of disposition, obtains necessary approvals and authorizations, initiates and processes appropriate forms, and records the retirement of assets.

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Our initial sample was judgmentally selected from the SAP Fixed Asset listing (84 items) and the M5 (subsidiary listing for assets requiring maintenance) listing (172 items). A total of 20 items were selected from these two listings. We then judgmentally selected an additional ten (10) items during the site visit for a total of 30 items. While on the site visit, we noticed a number of excess/cannibalized items and judgmentally selected an additional 13 items for a total of 43 items counted and verified.

FINDING:

- Fifteen of 43 (35%) of fixed assets selected for observation at Memorial and Brock golf courses were not accurately recorded in SAPs Fixed Assets.
 - Five of the 15 (33%) could not be found in SAP. PARD's fixed asset staff researched the issue and discovered that these items were either assigned to the incorrect cost centers, the incorrect shop number was assigned to the asset in SAP, or the asset number and shop number were left blank in SAP. The errors have been corrected by PARD staff and verified by the auditors.
 - Ten of the 15 (67%) were equipment that was beyond repair and considered salvage by the custodial division but the required documents had not been submitted to PARD's DFAC notifying them of the salvage status. The equipment is still shown in SAP as active.
 - Of the ten salvaged assets, four were being cannibalized. The decision to cannibalize was made at the division level (golf course site) rather than by PARD's DFAC. There was no log that recorded which working equipment the cannibalized parts were used on. As the cannibalized equipment is picked apart for parts, it soon becomes impossible to identify the asset that may remain on the City's financial books, as shown in the picture below.



NOTE: Photo of Cannibalized equipment at Brock

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RECOMMENDATION:

Management should ensure that PARD equipment is adequately accounted for in SAP and the Manual is followed and incorporated into PARD's policy and procedure for fixed assets.

Management should also establish a tracking process for assets that are being cannibalized to ensure parts are used for other City assets or when fully used, the metal can be sold for scrap.

MANAGEMENT

RESPONSE:

"HPARD agrees with the recommendation and will ensure that all equipment is accounted for correctly in SAP and tagged before being issued to the golf courses after being purchased. Management and Finance will work directly with the golf course staff to ensure all inoperable assets beyond repair will be appropriately removed, sent to Surplus & Salvage and all required documentation will be prepared for status change in SAP. Also, the golf course staff will be required to keep a log of all surplus and salvage equipment which remains at the site to be cannibalized, but this equipment will be retired from the SAP system."

11. DATA BACK-UPS

BACKGROUND:

The City-Operated golf courses record all sales transactions in their POS. The system automatically saves all transactions to a stand-alone PC (personal computer) to be viewed at any time. Pro Shop staff prints a summary report each night for reconciliation purposes.

POS performs an auto back-up whenever a person logs into the system each day. POS also has the capability of performing a back-up to removable drives.

Industry standard best practice recommends that copies of back-ups are maintained at a remote site for safe keeping.

FINDING:

- Parks does not have a written policy and procedure for backing-up POS data.
- Data back-ups are stored on-site only. One location stored their back-up in the safe. The safe was stolen, at which time they lost the back-up.

RECOMMENDATION:

Management should document and implement policy and procedures for regular back-ups of the POS and secure off-site storage. This may entail the different golf courses securely storing each other's data at their location or some other physical location.

MANAGEMENT

RESPONSE:

"The department will make sure the policies and procedures detail how to back up the POS system daily. All employees will be trained on how to back up the system. It has been decided to continue to back up the computer on a USB drive and place in the safe; also, on a weekly basis a USB drive or CD back-up will be delivered and stored at the Recreation and Wellness Building (6200 Wheeler Drive)."

Memorandum from Responsible Official



CITY OF HOUSTON

Parks and Recreation Department
A CAPRA Accredited Agency

Interoffice

Correspondence

To: Ronald Green,
City Controller

From: Joe Turner,
Director

A handwritten signature in black ink, appearing to be "Joe Turner".

Date: June 13, 2011

Subject: **HPARD Golf Course Audit**

The Department appreciates the audit of our Golf Courses, both Privatized and City operated. The finding in the audit of City operated courses have been agreed to and addressed based on discussions with your team and HPARD.

In the "Background Section, page 1", I bring to your attention Table 1. Table 1 shows a five-year loss average of \$1,870,632. Due to these courses being operated as City owned in the course of business, Capital Improvements are made from revenues collected from these golf courses. This simply means that funds are transferred from this fund over to HPARD Capital Improvement fund to make improvement to the courses.

For example, at Memorial Park Golf Course, two projects have been completed out of the fund balance; the Memorial Driving Range structure and new lighting improvement for a cost of \$493,000; also, a new project to design improvements to the Old Club House and design expansion of additional parking in the original plan for a total cost of \$410,000 has been transferred to the capital improvement account for the completion of these projects.

Another example is the new cart barn at Sharpstown; this project involved the demo of the existing barn and slab, construction of new cart barn, new concrete paths and re-sealing of the entire existing parking lot. The cost of this project was \$626,000.

Although, there will still be some loss shown for the golf courses; I believe it is note worthy to mention these projects and the fact that funds are utilized for capital improvements as well as mower equipment / vehicle replacements for the courses out of this fund. It is imperative these business decisions are made to appropriate the funds for the improvement of the courses.

The department would like to take this time to thank you and your team for the detailed work performed on this audit. We are in agreement with the majority of the findings within the audit; and look forward to working with the Controller's Office in the follow-up of this audit.