

Firewheel Internal Control Audit

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Authorization

We have conducted an audit of the Firewheel Golf Course. This audit was conducted under the authority of Article VII, Section 5 of the Garland City Charter and in accordance with the Annual Audit Plan approved by the Garland City Council.

Objectives

To adequately address the audit objectives and to describe the scope of our work on internal controls, specific audit objectives were established that included the following:

- 1. Determine if Firewheel Golf Course is in compliance with its policy and procedures.
- 2. Identify Club Profit access rights and determine if they are appropriate.
- 3. Evaluate the revenue and inventory cycles to ensure that appropriate internal controls are in place.
- 4. Follow-up of carding practices.

Scope and Methodology

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. 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 provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of the audit is February and March, 2013 and in some cases an extended scope through July, 2013. Internal Audit (IA) audited compliance, internal controls, follow-up of carding, and Club Prophet access rights. (See Exhibit A for reliability of computer generated data and sampling methodology.)

In order to meet the audit objectives and to describe the scope of our work on internal controls, we performed the following:

- Obtained and reviewed current policies and procedures (Obj. #1)
- Obtained and reviewed employee access rights (Obj. #2)
- Inquiry of employees duties and responsibilities (Obj. #3)
- Performed walk-throughs to identify all elements of the revenue and inventory cycles and controls (Obj. #3)
- Developed flow charts (Obj. #3)
- Examined transactions (Obj. #3)
- Performed a surprise alcohol physical inventory (Obj. #3)
- Determined if alcohol is purchased from approved vendors (Obj. #1)

- Verified if alcohol received is verified for accuracy and inspected for damage and updated into the Point of Sale (POS) system. (Obj. #1)
- Verified if alcohol transfers between restaurants is accompanied by a Transfer Form which is signed by both receiving and delivery staff. (Obj. #1)
- Verified if physical inventory of alcohol on hand reflects what is in the system. (Obj. #1)
- Verified there is proper monitoring of inventory for special events and tournaments. (Obj. #1)
- Verified a reconciliation of Daily Tips is performed and is performed timely.
- Verified the (Business Office Coordinator (BOC) reconciles gratuity pay-outs to the POS. (Obj. #1)
- Determined if complimentary employee food and beverage are given in excess of policy and pre-packaged food was excluded from employee discounts. (Obj. #1)
- Confirmed all pertinent forms are completed and drug tests cleared before an employee starts work. (Obj. #1)
- Verified Golf Pro Shop merchandise is ordered by authorized personnel.
 (Obj. #1)
- Verified Golf Pro Shop merchandise received is counted and verified to the packing slip. (Obj. #1)
- Verified Golf Pro Shop merchandise inventory is input into the POS system upon receipt of merchandise to up-date the perpetual inventory and is performed timely. (Obj. #1)
- Confirmed discounted merchandise purchased from the Golf Pro Shop by employees is not more than 10% above whole sale plus shipping and sales tax discount. (Obj. #1)
- Proved non-management merchandise discounting in the Golf Pro Shop over 15% is not performed. (Obj. #1)
- Proved promotional discounting is not given for less than \$10 for a green fee and cart without permission of the Executive Director. (Obj. #1)
- Tested a sample of checks to ensure the check was signed by the Executive Director. (Obj. #1)
- Determined if an Incident Log Book was maintained. (Obj. #1)
- Verified if Club Prophet access rights were set up in the system by employee type and duties were properly segregated. (Obj. #2)
- Confirmed Club Prophet's password policy has been configured appropriately. (Obj. #2)
- Verified administrative rights were granted to proper personnel. (Obj. #2)
- Verified the screensaver session timeout has been enabled. (Obj. #2)
- Confirmed the Senior Superintendent reviews the original invoice to what was input into the Cayenta system for payment prior to approval for City invoices. (Obj. #3)
- Verified appropriate segregation of duties is in place for the inventory and revenue cycles. (Obj. #3)
- Ensured checks are restrictively endorsed. (Obj. #3)

- Confirmed adjustments to the POS system are reviewed for appropriateness.
 (Obj. #3)
- Verified funds are deposited timely. (Obj. #3)
- Verified payroll is authorized the by the preparer. (Obj. #3)
- Verified sales are recorded in the Cayenta and Quick Books systems timely and completely. (Obj. #3)
- Verified there is to the funds in the safe and there is an up-to-date listing of authorized personnel maintained. (Obj. #3)
- Ensured there is a policy and procedure outlining the person authorized to sign legal or binding documents. (Obj. #3)
- Confirmed alcohol is secured. (Obj. #3)
- Verified promotional green fees are captured by the system correctly. (Obj. #3)
- Determined a report of COGS to sales ratios is performed monthly and reviewed by management to detect trends. (Obj. #3)
- Verified Sales Tax is reported correctly on the Comptroller's Sales and Use Tax Report. (Obj. #3)
- Tested to ensure customers who appear to be 40 years of age or younger are carded. (Obj. #4)
- Verified Club Prophet was PCI compliant to ensure that the customers' payment card data is kept safe and protected according to the PCI Data Security Standards. (Obj. #3)

Any deficiencies in internal control that are significant within the context of the audit objectives and based upon the audit work performed are stated in the Opportunities for Improvement section starting on page 6.

Overall Conclusion

- The audit was performed at the request of the Assistant City Manager. Policy and procedures are in the initial stages, therefore, there are numerous comments concerning issues which should be considered and/or added to policy. Firewheel was not in compliance with many policies and procedures. (Obj. #1)
- 2. There are various IT access issues relating to the Club Prophet system. (Obj. #2)
- 3. There is segregation of duty issues because of the small number of employees which can be monitored by compensating controls. (Obj. #3)
- 4. Carding had significantly improved but still needs improvement. (Obj. #4)

Background

"The Firewheel Golf Course is a premier facility that originally offered two 18-hole courses. In September 2001, 27 additional holes were added along with a second clubhouse, pro shop, driving range, and practice facility. Currently the facility offers 63 holes of golf consisting of the Old Course (18 holes), the Lakes Course (18 holes), Bridges Traditions (9 holes), Champions (9 holes), and Bridges Masters (9 holes). Up until 2011, operation of Firewheel was overseen through a contract with a Golf Professional who received the revenue, and paid the expenses, related to golf cart rentals, pro shop sales, range fees, and food and beverage service. The City received Green Fees and provided for the maintenance of the courses.

Prior to the 2001 expansion, Firewheel was generally self-supporting through green fees and other revenues generated at the complex. Since the expansion, however, the course has incurred an operating deficit primarily due to a dramatic increase in the number of competing courses in the area. To address the growing deficit in the Firewheel Fund, the Debt Service related to the facility was absorbed within the Debt Service Tax rate, and Intra-City Utility and Support Service charges were reduced or eliminated.

In 2011 the City assumed complete financial and operational responsibility of all aspects of the Golf Park, including the Branding Iron restaurant and Grill 64 snack bar which serve alcoholic beverages. To provide liability protection to the City, the mixed beverage permits from the Texas Alcoholic Beverage Commission (TABC) were acquired by the Garland Foundation for Development Corporation (GFDC). To meet the TABC's permit requirements, all food and beverage services at the Golf Park must be provided under the GFDC.

Since taking full responsibility for operations at Firewheel in July 2011, there have been aggressive efforts to improve the Course's financial results. The efforts have included improvements in general playing conditions, the refurbishment of the Bridges Traditions course, the reconstruction and elimination of bunkers, the hiring of an additional Superintendent to enhance maintenance oversight, and the creation of a management position to oversee food and beverage operations, thereby reducing food and labor costs. Additional significant maintenance costs, and changes to employee shifts to improve labor cost-effectiveness. Furthermore, Green Fees and promotional programs were reviewed and brought into line with the market, thereby increasing revenue.

It should be noted that while the Firewheel Golf Course has struggled to fully fund its operating costs and Debt Service, the development of the golf complex has been the catalyst for bringing high-end residential development to North Garland. It is conservatively estimated that the courses are responsible for adding over \$400 million to the City's residential tax base, equating to approximately \$2.8 million in annual tax revenues."*

* City of Garland 2012-13 Annual Operating Budget

Opportunities for Improvement

During our audit we identified certain areas for improvement. Our audit was not designed or intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, the Opportunities for Improvement section presented in this report may not be all-inclusive of areas where improvement might be needed.

POLICY AND PROCEDURE

Finding # 1 (Obj. #2)

Condition (The way it is)

The following findings are related to IT access controls for the Club Prophet POS system, Firewheel desktop computers and the decommissioned IBS system.

- 1. Four out of five desktop computer users at Firewheel share the same password. With the exception of one user, the rest use the same known password.
- 2. Office computers for Club Prophet POS systems do not have a screensaver session timeout enabled.
- 3. User access activity for the Club Prophet system is not being reviewed for appropriateness.
- 4. The decommissioned IBS server does not have a known good back-up of the data prior to the data conversion to the new Club Prophet POS system. TABC requirements may not be able to be fulfilled if the server and data becomes unavailable.

Criteria (The way it should be)

- 1. Desktop computer users should periodically change their password.
- 2. As a best business practice, a screensaver session timeout should be enabled to guard against unauthorized access.
- 3. Policies and procedures should be followed to ensure that user activity is monitored for appropriateness.
- 4. A backup and recovery procedure is needed to back-up the IBS server data. A solution is also needed to ensure the data is available to the TABC for four years from the date that the GFDC was formed.

Effect (So what?)

- Using a shared password provides access to any of the four computers by any user that knows the shared password. Unauthorized access to computers without individual accountability could occur on any of the four desktop computers.
- As the Firewheel Golf Park offices are easily accessible by employees and visitors, unauthorized users could gain access to the staff offices and computers.

- 3. Lack of monitoring for unauthorized transactions may go undetected. Loss of revenue may occur as a result of unauthorized transactions by users in the Club Prophet system.
- The unavailability of IBS data could put Firewheel Golf Park at risk for noncompliance if TABC inquiries cannot be fulfilled by running reports in the IBS system.

Cause (Difference between condition & criteria)

- 1. A procedure does not exist for user password management.
- 2. The screensaver timeout feature was not requested by users at Firewheel Golf Park for ITS to enable.
- 3. Reports are not being generated and reviewed for user activity.
- 4. The IBS server was backed up by the vendor when the application was active. It is unknown of the date of the last backup or the location and media where the last backup may be stored. ITS has not been involved in the backup of the IBS application.

Recommendation

- 1. Users should have unique passwords to access desktop computer resources.
- 2. Screensaver session timeout should be configured to match ITS policies.
- 3. Reports should be scheduled, generated and reviewed on a regular basis to ensure authorized user activity.
- 4. The current IBS server should be configured into a virtual server environment. Access to reports should be made available to provide to the TABC when requested.

Management Response

We concur with these findings and have taken steps to resolve each of the IT issues.

Action Plan

- 1. Each user will have a unique password.
- 2. Screen savers will be activated and set to time out after five minutes of inactivity.
- 3. User activity reports will be reviewed by management on a monthly basis.
- 4. IBS server has been removed by City IT department and setup as requested.

Implementation Date

Completed.

Finding # 2 (Obj. #3)

Condition (The way it is)

- Segregation of duties does not exist because the Food and Beverage Manager is performing all functions of alcohol inventory cycle. The Food and Beverage Manager:
 - Orders and receives shipments of alcohol
 - Inputs the physical counts into POS system,
 - Inputs broken, spilled or wasted alcohol into the POS system,
 - Inputs transfers made between facilities
 - Performs monthly alcohol inventory count and compares it to the perpetual in the POS system, reconciles inventory and reviews cost of sales.
 - Inputs discrepancies of the physical count into the POS to adjust the perpetual.
- 2. A reconciliation/review of alcohol is not performed by an independent party.

Criteria (The way it should be)

No one person should have control of a process from beginning to end.

Per policy for Inventory of Alcohol:

"Physical counts of all alcoholic beverages should be made daily at opening and at closing by the restaurant staff and entered on the "Daily Inventory Worksheet" and given to the Business Operations Coordinator every Sunday night at close.

Logs of all broken, spilled or wasted alcoholic beverages will be made by restaurant staff and given to the Business Operations Coordinator Sunday night at closing. The log should state what type and brand of alcohol was wasted, date it was disposed of, and why it was wasted (for example - Coors light bottle was broken on 7/17/2011).

The Business Operations Coordinator will do weekly physical counts of alcohol inventory and compare this to the inventory computer system. Any discrepancies will be updated in the inventory system and logged in the "Weekly Alcohol Report". The "Weekly Alcohol Report" will be submitted to the City of Garland Budget office each week.

Monthly reports will be compiled for management based on inventory counts to provide information on possible shrinkage issues and cost of goods sold.

The Business Operations Coordinator will perform weekly physical inventory counts and compare it to the inventory maintained in the POS."

Effect (So what?)

Misappropriation/inconsistences could go undetected because the Food and Beverage Manager is performing all functions of alcohol inventory cycle.

Cause (Difference between condition & criteria)

Lack of compliance with policy.

Recommendation

- 1. In order to follow policy:
 - a) Physical counts of all alcoholic beverages should be made daily at opening and at closing by the restaurant staff and entered on the "Daily Inventory Worksheet" and given to the **Business Operations Coordinator** every Sunday night at close.
 - b) Logs of all broken, spilled or wasted alcoholic beverages will be made by restaurant staff and given to the **Business Operations Coordinator** Sunday night at closing. The log should state what type and brand of alcohol was wasted, date it was disposed of, and why it was wasted (for example Coors light bottle was broken on 7/17/2011).
 - c) The **Business Operations Coordinator** will do weekly physical counts of alcohol inventory and compare this to the inventory computer system. Any discrepancies will be updated in the inventory system and logged in the "Weekly Alcohol Report". The "Weekly Alcohol Report" will be submitted to the City of Garland Budget office each week.
 - d) Monthly reports will be compiled for management by the Food and Beverage Manager based on inventory counts to provide information on possible shrinkage issues and cost of goods sold.
 - e) The **Business Operations Coordinator** will perform weekly physical inventory counts and compare it to the inventory maintained in the POS."
- 2. A copy of the alcohol reconciliation should be sent to management for review weekly as a compensating control.

Management Response

We concur that the current written policy has not being followed.

Action Plan

Procedure to be as follows:

- 1. F&B Manager Place alcohol orders.
- 2. Any F&B employee will be able to receive an alcohol delivery.

- 3. F&B employees will inspect the order, sign the invoice, and give it to F&B manager.
- 4. F&B Manager will input the counts into POS and print an Alcohol Received Report.
- 5. F&B Manager will give the Alcohol Received Report and the invoice to BOC.
- 6. F&B Manager will input spilled or wasted alcohol into the POS.
- 7. F&B Manager will input transfers between the two restaurant locations.
- 8. <u>A designated employee outside of F&B</u> will conduct a monthly physical inventory and provide the inventory to the BOC.
- 9. F&B Manager will input discrepancies of the physical count into the POS to adjust the perpetual.
- 10. F&B Manager will give a copy of the discrepancy report to BOC for review on a weekly basis.

Implementation Date

Finding # 3 (Obj. #3)

Condition (The way it is)

A review of the merchandise Inventory Adjustment Report and the Added Inventory Report from the POS system are not performed by an independent party.

Criteria (The way it should be)

Monitoring of Golf Pro Shop merchandise Inventory Adjustment Report and Added Inventory Report should be performed as a compensating control for segregation of duties.

Effect (So what?)

Inconsistences/misappropriations could go undetected because a compensating control for segregation of duties is not performed.

Cause (Difference between condition & criteria)

Management did not consider the significance of performing the review.

Recommendation

To strengthen controls, the Merchandise Inventory Adjustment Report and Added Inventory Report should be reviewed by management on a monthly basis as compensating controls for segregation of duties.

Management Response

We concur.

Action Plan

These reports will be added to our monthly "Reports for Review" that will be reviewed and signed off on by the Assistant City Manager.

Implementation Date

Finding # 4 (Obj. #3)

Condition (The way it is)

There are no policies and procedures in existence on legal and binding documents for GFDC.

Criteria (The way it should be)

Policy and procedures should exist concerning who is authorized to sign legal and binding documents for GFDC.

Effect (So what?)

Legal or binding documents could be signed by unauthorized personnel.

Cause (Difference between condition & criteria)

Policy and Procedures are in the process of being written, however, this issue has not been addressed.

Recommendation

To strengthen controls, policy and procedures should be written concerning who is authorized to sign legal and binding documents.

Management Response

We concur.

Action Plan

A policy will be developed to specify signature authority.

Implementation Date

Finding # 5 (Obj. #1)

Condition (The way it is)

The policies and procedures do not state who is responsible for approving payroll.

Criteria (The way it should be)

Policy and procedures should state who is responsible for approving payroll.

Effect (So what?)

Payroll checks may be processed without an approval.

Cause (Difference between condition & criteria)

The policies and procedures do not state who is responsible for approving payroll.

Recommendation

To strengthen control, policy and procedures should be updated to require approval of payroll by the Director of Golf.

Management Response

We concur.

Action Plan

Policy will be added that states Director of Golf shall review and approve payroll before it is submitted to payroll department.

Implementation Date

Finding # 6 (Obj. #3)

Condition (The way it is)

- 1. A systematic review of sales adjustments/deletions to the POS system by an independent party is not performed for appropriateness. Additionally, spoilage is being tracked in the POS system, however, there is not a perpetual maintained in the POS for Food and Beverage.
- 2. The BOC has the ability to perform sales adjustment through the POS terminal.

Criteria (The way it should be)

- A review of adjustments/deletions to sales for appropriateness should be performed to provide adequate internal control. Adjustments/washes to the POS system for discounts made for Spoilage for Food and Beverage should not be posted to the POS system.
- 2. Segregation of duties should exist among record keeping, custody, and reconciliation functions.

Effect (So what?)

- 1. Inappropriate adjustments to sales or deletion of sales could go undetected. Food and Beverage discount numbers are not at cost.
- 2. Sales adjustments could be performed. He is acting as an independent party for various reviews; therefore, he should not have access to the system to make adjustments.

Cause (Difference between condition & criteria)

- 1. Management is in the process of writing comprehensive policies for Firewheel; however, policies for adjustments to sales have not been written. Food and Beverage discounts are forced to be carried as retail amounts in the POS system because there is no perpetual maintained.
- 2. The function which allows the BOC to make adjustments at the POS terminal was not blocked when he was set up in the system.

Recommendation

- 1. To strengthen controls, policy and procedures for adjustments to sales should be written. A review of adjustments to sales for appropriateness should be performed by independent personnel. A compensating control would be to have adjustment reports ran from the Club Prophet system and sent to independent personnel or management and have it reviewed weekly, signed and dated. Food and Beverage spoilage should never be entered in the POS system unless a POS perpetual is maintained. An Excel spreadsheet along with supporting evidence could be maintained to keep a running tab of spoilage at cost.
- 2. The POS system should be configured to disable the functionality to perform sales adjustments via the POS terminal for the BOC.

Management Response

We concur.

Action Plan

- The Deleted Sales and Deleted Sales Ticket reports will be added to the Reports for Review and reviewed by the Director of Golf, signed and dated. We will begin tracking spoilage outside of the POS.
- 2. Security settings will be configured so only management level employees can perform these functions.
- 3. BOC access will be changed to Read Only.

Implementation Date

Finding # 7 (Obj. #1)

Condition (The way it is)

A review of Golf Shop merchandise order/receiving/inventory processes revealed the following inconsistencies with Policy and Procedure:

- The Golf Pros do not put the date the merchandise was received on the packing slip; therefore, we are not able to determine if posting to the POS perpetual took place timely. Policy and Procedures do not indicate a time frame for receipt of merchandise to be input into the POS system.
- 2. There aren't any specific policies and procedures that request management to make monthly reviews of merchandise inventory adjustments. There were large inventory variances on the Inventory Variance by Category Report for 3/26/13.
- 3. Golf Pro and Assistant may only make golf pro shop merchandise orders, however, the BOC is purchasing golf tees. Policy and procedures need to be changed to reflect the BOC may make purchases which require a P Card.

Criteria (The way it should be)

- 1. Merchandise received should be entered within a week. Policy does not dictate once delivery of merchandise is received, there is a specific time frame to get the new merchandise into the POS system.
- 2. A reconciliation of merchandise inventory should take place; any large variances should be investigated, documented, and followed up on. The policies and procedures should state that the Assistant City Manager review the monthly merchandise inventory adjustments.
- 3. Policy and Procedures states, "Merchandise carried in Firewheel's Pro Shops for resale may only be ordered by the Golf Pro or Assistant Golf Pro."

Effect (So what?)

- 1. The perpetual inventory is not up-to-date and perpetual inventory numbers are not correct.
- 2. There is no review of the monthly reconciliation of merchandise inventory at Firewheel Golf Courses. Anomalies could go undetected. Large merchandise inventory shrinkage could be attributable to theft and large overages could indicate inventory had not been posted to the POS system.
- 3. Non-compliance to policy.

Cause (Difference between condition & criteria)

- 1. The Head Golf Professional is unaware of criteria because it is not stated in the policy. The Policies and Procedures are still being critiqued.
- 2. Firewheel Golf Course is still in the implementation process of their policies and procedures. The variances were undeterminable.
- 3. BOC is the only employee with a P Card and a few purchases require the purchase to be made with a credit card.

Recommendation

- The perpetual inventory should be posted timely. Golf Pro Professionals should add the date received on the packing slip along with their initial. Policy and Procedures for Golf Pro Shop merchandise inventory should be revised and a reasonable time frame should be listed to input merchandise into the POS system.
- In order to strengthen controls policy and procedures should state that management perform weekly reviews of reconciled merchandise inventory. Large merchandise inventory variances on the Inventory Variance by Category Report should be investigated, documented and followed up on by the Head Golf Professional.
- 3. The Policy and Procedures should be changed to include the BOC to make purchases which require a credit card.

Management Response

During the audit process the ordering and receiving procedure was changed to better address all these issues. Policy will be changed to reflect the changes.

Action Plan

The new procedure is as follows:

- 1. Orders are prepared by Head Golf Pro and Assistant Golf Pros.
- 2. Director of Golf approves the orders before they are placed.
- 3. When merchandise is delivered by UPS, the delivery date is noted on the
- 4. Within 7 days of delivery the Assistant Golf Pros (AGPs) will open boxes and check that merchandise matches what is on the packing slip, initial and date the packing slip.
- 5. AGPs will enter merchandise into the POS inventory system and print Received Inventory Rpt.
- 6. The packing slip and the Received Inventory Report are given to the BOC to be verified against the invoice, stapled together, and filed to be paid.
- Monthly inventory is counted and variance reports will be printed and included in the "Reports for Review".
- 8. Policy will be update to allow the BOC to make purchases via Pcard.

Implementation Date

Finding # 8 (Obj. #1)

Condition (The way it is)

- 1. A Golf Pro Shop employee merchandise Discount Report, which would include non-management and 15% discounts, is not generated and reviewed, signed and dated by management on a monthly basis for approval.
- 2. Policy and Procedures state that merchandise cannot be discounted if it has been in inventory for less than 45 days. Currently the POS system is not configured to verify how long the merchandise has been in inventory.
- The Director of Golf is not signing the Discount by Employee Report after review. The Discount by Employee Report lists all discounts given by employees.

Criteria (The way it should be)

According to the Food and Beverage Policy and Procedure:

- 1. Management should review for discount appropriateness.
- 2. The system should be configured to block employee purchases for merchandise which has been in inventory less than 45 days.
- 3. The Director of Golf should review the discount report and sign it.

Effect (So what?)

- 1. Inappropriate discounts could be given undetected.
- 2. This would cause the COGS numbers to be incorrect.
- 3. IA is unable to verify because an audit trail is not present.

Cause (Difference between condition & criteria)

- 1. It is not in policy and procedures.
- 2. POS system is not set up to produce a report on how old merchandise inventory is.
- 3. Policy and procedure does not state the Director of Golf should sign and date the report.

Recommendation

- 1. In order to strengthen controls, an employee merchandise Discount Report should be generated, reviewed, signed and dated by management on a monthly basis.
- 2. The POS system should be configured to determine the age of merchandise so proper employee discounts can be given or a manual system could be used to track the age of merchandise on the tags.
- The Director of Golf should review, sign, and date the Discount Tracking Detail Reports after review.

Management Response

Concur with review and signing of Discount Tracking Detail Reports.

Action Plan

- 1-3 The Discount Reports will also be added to the Reports for Review for monthly review and they will be signed and dated by Director of Golf.
- 2. Policy will be removed stating merchandise must be in stock 45 days before it can be purchased at a discount. There is simply no practical way of enforcing this policy.

Implementation Date

Finding # 9 (Obj. #1)

Condition (The way it is)

- 1. It was noted during our review that five employees have been receiving and inspecting delivery of alcoholic beverages instead of "a designated employee" as listed in policy.
- 2. Management has not reviewed the Alcohol Reconciliation Report in the weekly meeting.

Criteria (The way it should be)

- 1. Per Policy a designated employee should be receiving and inspecting delivery of alcoholic beverages as per policy.
- 2. Best business practice dictates upper management review alcohol reconciliations to ensure:
 - 1. They were performed.
 - 2. They monitor large variances.

Effect (So what?)

- 1. Policy is not being followed; a designated employee should be receiving and inspecting delivery of alcoholic beverages as per policy. There is no confirmation that the inventory was counted and verified before acceptance.
- 2. There is no review of variances of alcohol inventory by upper management.

Cause (Difference between condition & criteria)

- 1. Policy and procedures were not being followed because procedures have changed.
- 2. Policy and Procedures did not state management must review the Alcohol Reconciliation Report.

Recommendation

- 1. Policy and procedure should be changed from "a designated employee" to an acceptable number of personnel deemed by management.
- 2. In order to strengthen controls, Policy and Procedures could be added which state management should review the Alcohol Reconciliation Report, sign and date the report for verification of the review during the weekly meeting.

Management Response

We concur with the finding and will change the policy.

Action Plan

- 1. All F&B employees will be allowed to receive alcohol. (Change in policy)
- 2. Management will review Alcohol Reconciliation Report in the weekly management meetings.

Implementation Date

Finding # 10 (Obj. #1)

Condition (The way it is)

- 1. There are no policy and procedures for cash handling for Firewheel.
- 2. There is not an up-to-date listing of personnel who have access to the safe.
- 3. One of the safes does not have a roll top and has a combination. The combination has not been changed when personnel have left employment.
- 4. Deposits are not picked up daily via armored car service.

Criteria (The way it should be)

- 1. Policy and Procedures should contain Cash Handling procedures.
- 2. An up-to-date listing of personnel who have access to the safe should be maintained.
- 3. The combination to the safe should be changed when personnel who have access to the safe leave.
- 4. The City's Finance Directive #1 states, "Each day's receipts will be deposited intact no later than the following business day. Deposits will be picked up daily at designated points via armored car service."

Effect (So what?)

- 1. Failure of direction for employees in regards to cash handling.
- 2. Inappropriate personnel may have access to the safe.
- 3. The facility left an opportunity open for theft to take place.
- 4. Safety issue for personnel and loss of funds.

Cause (Difference between condition & criteria)

- 1. Failure to draft cash handling policy and procedures.
- 2. & 3 & 4 The facility was unaware of the significance.

Recommendation

- 1. Management could reduce risk by addressing Cash Handling procedures in policy which would ensure:
 - a. Daily end of the day reviews be performed by management to ensure checks are endorsed before closing the cash register.
 - b. A cash transaction should not be handled by an employee who is responsible for the record keeping of Accounts Receivable.
 - c. Each day's receipts should be deposited intact no later than the following business day.
 - d. When personnel leave, the combination to the safe should be changed.
- 2. An up-to-date listing of personnel who have access to the safe should be maintained.
- 3. The combination should be changed periodically and when personnel are transferred or terminated on the existing safe in order to strengthen controls.
- 4. Management should consider an armored car service pick-up.

Management Response

Concur with 1-3.

Action Plan

- Cash handling procedures will be added to the Policies and Procedures of GFFD.
- 2. An updated list of employees with safe combination will be kept by BOC.
- 3. The safe combination was changed on September 17, 2013, and will be any time someone on the list leaves Firewheel.
- 4. Management does not wish to move forward with an armor car service at this time.

Implementation Date

Finding #11 (Obj. #1)

Condition (The way it is)

There are no policies and procedures in existence for verifying TABC Certification on-line through TABC. We noted one employee who had a Certification in his employee file; however, his certification was listed as expired per the TABC website. Follow-up disclosed the employee's social security number had not been entered correctly when he took the TABC course; therefore, the TABC website listed his certification as expired.

Criteria (The way it should be)

Policy and procedures should exist concerning TABC Certification. TABC Certification should be verified on-line through TABC to ensure the certification given by the employee is certified by TABC.

Effect (So what?)

Counterfeit and forged seller training certificates can be issued to non-suspecting employees if they do not go through the TABC website.

Cause (Difference between condition & criteria)

Policy and Procedures are in the process of being written, however, this issue has not been addressed.

Recommendation

To strengthen controls, policy and procedures should be written concerning using TABC training sites only. Additionally, new employees with pre-existing certifications should be verified on the TABC website.

Management Response

We concur.

Action Plan

F&B Manager will verify the validity of certificates on TABC's official website and it will be added to policy.

Implementation Date

October 1, 2013

Finding #12 (Obj. #1)

Condition (The way it is)

There is no retention policy for Firewheel. An inventory count of all alcohol on hand was taken before and after an event or tournament, however, the log had not been maintained.

Criteria (The way it should be)

Texas Alcoholic Beverage Commission (TABC) Code Section 206.01 states, "All required records shall be kept available for inspection by the commission or its authorized representatives for at least four years."

Effect (So what?)

Lack of audit trail.

Cause (Difference between condition & criteria)

The facility is in the process of writing policy and this has not been addressed.

Recommendation

A retention policy should be established to recommend TABC standards of retention of records for four years.

Management Response

We concur.

Action Plan

- 1. All inventory work papers will be retained as part of the policy.
- 2. Records retention will be added to the alcohol policies.

Implementation Date

Finding # 13 (Obj. #3)

Condition (The way it is)

1. IA's review of the alcohol Inventory processes revealed significant deficiencies. Inventory was not performed from the first week in December, 2012 through February 28, 2013.

Alcohol inventory was performed beginning in March 2013. The March Inventory Variance report shows that the number of units in the POS system did not match the number of units in physical inventory. The variance for certain items exceeded 100 units.

IA then conducted a surprise physical alcohol inventory. The count was performed on July 11 and 12th, 2013 at Branding Iron and Grill 64 respectively. The alcohol perpetual system did not agree with the inventory on hand and revealed large variances between the facilities morning count, IA's afternoon count, and the inventory on hand per the perpetual in the Club Prophet system. Sales performed during the day were adjusted in order to reconcile.

- 2. The "Weekly Alcohol Report" is not submitted to the City of Garland Budget office each week.
- 3. 8 out of 29 (28%) invoices for receipt of alcohol had not been signed by the employee receiving the alcohol.

Criteria (The way it should be)

- 1. Policy and Procedure states, "The Business Operations Coordinator will do weekly physical counts of alcohol inventory and compare this to the inventory computer system. Any discrepancies will be updated in the inventory system and logged in the "Weekly Alcohol Report.
 - The Business Operations Coordinator will perform weekly physical inventory counts and compare it to the inventory maintained in the POS.
 - The Food and Beverage Manager will perform the monthly physical inventories and review cost of sales."
- 2. The "Weekly Alcohol Report" should be submitted to the City of Garland Budget office each week.
- 3. The designated restaurant staff member should sign the original invoice.

Effect (So what?)

- 1. The inventory count on hand will not reflect the inventory level in the POS system.
- 2. The Weekly Alcohol Report is not being submitted to the City of Garland Budget office each week per policy.
- 3. There is no confirmation that the inventory was counted and verified before acceptance.

Cause (Difference between condition & criteria)

- 1. March entries posted to the POS system had numerous errors. The cause of some of the errors were:
 - a) Received alcohol was not posted.
 - b) Items were partially posted in Branding Iron but not posted in Grill 64.
 - c) Items were posted to the wrong category, example, Bud Lite was posted to Bud Bottle.
 - d) Through the first week in December, 2012, shots had been posted as 24 shots per bottle for Vodka to the POS perpetual inventory. As of March 1, 2013, the number of shots of Vodka was changed to 20 shots per bottle.
 - e) Through IA's research and management's involvement, we determined 22 shots per bottle for Vodka was appropriate.
 - f) Invoice numbers were not keyed into the POS system which did not leave an audit trail.
- 2. & 3. Failure to read and follow new Policy and Procedures.

Recommendation

- 1. To address the numerous errors posted to the POS system:
 - a) A system to determine all received alcohol is posted into the POS system correctly should be instigated. Additionally, an invoice number should be posted to the perpetual system as an audit trail.
 - b) Policy could be strengthened by stating received alcohol inventory should be recorded in the POS system upon receipt.
 - c) The number of shots per bottle should be posted as 22 shots per bottle in the POS system. This number was agreed to upon research and survey performed by IA and agreement by management.
- 2. Any large variances should be investigated and documented. The Food and Beverage Manager should sign and date the Variance Report. Additionally, a review of all Variance Reports ran should be reviewed by management, dated, and signed signifying review of the adjustment to the POS system during the weekly meetings. The Weekly Alcohol Report should be submitted to the City of Garland Budget office each week as per policy or policy should be changed.
- Management should review with personnel the Policies and Procedures related to signing invoice receipts for shipments of alcohol products. The Food & Beverage Manager should perform monthly independent reviews of invoices to ensure employees are reviewing and signing off on alcohol invoices.

Management Response

We concur.

Action Plan			
Policies will be updated to	pased on IA's recor	mmendations.	
Implementation Date December 31, 2013			
December 31, 2013			

Finding # 14 (Obj. #1)

Condition (The way it is)

Employee Meals

- 1. The employees are receiving Food and Beverage discounts on purchases above \$8 and are not paying the difference.
- 2. Employees are also receiving discounts on pre-packaged foods and snacks which is not a selected food or beverage.
- 3. Management is not monitoring to determine employees are working the 8 hours in order to receive the employee Food and Beverage discounts and reviewing for excessive comp meals given.

Comp Meals

4. There are no routine reviews of comp meals given to customers by management. We noted excessive comp meals are being given.

Criteria (The way it should be)

According to the Food and Beverage Policy and Procedure:

- 1. When an employee purchases a selected food or beverage (excluding snacks and pre-packaged foods), they should receive a 100% discount if they are working at least an 8-hour shift the day of the purchase, or a 50% discount if the employee is off-duty or worked less than an 8-hour shift the day of the purchase. If the purchase is above \$8, the employee should pay the difference after the discount is implemented.
- 2. The Food and Beverage policy states, "Pre-packaged foods and snacks are EXCLUDED from this program and must be purchased at full retail price—this includes, candy bars, chips, bottle drinks, crackers, breakfast rolls, etc."
- 3. Management should monitor weekly to determine employees are working the 8 hours in order to receive the employee Food and Beverage discounts and to determine if excessive comp meals are given.
- 4. Best business practice would dictate excessive comp meals should not be given.

Effect (So what?)

- 1. & 2. & 3. Extra discounts on food/beverage above \$8 are cutting the restaurant's profit margin, as well as discounts on snacks/pre-packed foods.
- 4. Loss of revenue.

Cause (Difference between condition & criteria)

- 1. Firewheel is not ad-hearing to policy.
- 2. The POS system allows discounts on pre-packaged foods and snacks which is not a selected food or beverage.

- Management has not reviewed employee hours to the day's employee Food and Beverage discounts were taken for each employee. Additionally, management has not monitored to determine if excessive comp meals are given.
- Policy does not have limits on the amount of comps which can be given and management is not reviewing the Discount by Employee Report which lists comp meals.

Recommendation

- To strengthen controls, the Sales Item Detail by Customer Report should be ran and reviewed on scheduled dates by the Head Golf Pro and then given to management for review during the weekly meetings. Management should sign and date after review, and the report should be maintained at the Golf Course for review.
- 2. To strengthen controls, the POS system should be restricted to not allow discounts on pre-packaged foods and snacks.
- 3. Management could monitor the Payroll Details Report and Sales Item Detail by Customer report to determine if employees who are taking Food and Beverage discounts worked 8 hours in accordance to policy, however, employees who fail to enter name in specific field when purchasing a meal cannot be tracked. An alternative method would be to use the coupon button. It would provide an audit trail for employee meals.
- 4. Management should review the Discount by Employee Report monthly, sign and date as evidence of review.

Management Response

We concur with the finding.

Action Plan

Firewheel employee discount policy will be updated.

- 1. All employees will receive 50% discount on meals the \$8.00/eight hour requirement is being removed. Employees will be required to pay their 50%.
- 2. All packaged food items will be available at menu price without any discounts.
- 3. No longer applicable.
- 4. Comp reports will be reviewed by senior management in weekly meeting.

Implementation Date

Finding # 15 (Obj. #4)

Condition (The way it is)

IA utilized undercover personnel to determine if Branding Iron and Grill 64 personnel were carding everyone who appeared to be 40 years of age or under. GFDC's Alcohol Serving Agreement states employees must check the I.D. of anyone who appears to be under age 40 with no exceptions. Both undercover personnel, who were in their twenties, ordered alcoholic beverages on four occasions and were not carded in one instance at Grill 64.

Criteria (The way it should be)

In review of GFDC's Alcohol Serving Agreement, it revealed that each employee who serves liquor is required to sign an Alcohol Serving Agreement indicating they read the agreement. GFDC's Alcohol Serving Agreement states that, "I will not serve alcoholic beverages to anyone under the age of 21 at any time. I will check the I.D. of anyone who appears to be under the age of forty (40) with no exceptions. A valid driver's license or photo ID issued by a government agency are the only valid proofs of age that I can accept."

Effect (So what?)

Since GFDC is not consistently carding, we could be in violation of TABC Code. TABC Code Sec. 106.3 states, "A person commits an offense if with criminal negligence he sells an alcoholic beverage to a minor." TABC Code Sec. 106.06 states selling to a minor and furnishing alcohol to a minor are both class A misdemeanors. TABC Code Sec. 521.351 states making alcohol available to a minor also includes a driver's license suspension of 180 days.

Cause (Difference between condition & criteria)

They have an Alcohol Serving Agreement, which states, "I will not serve alcoholic beverages to anyone under the age of 21 at any time. I will check the I.D. of anyone who appears to be under the age of forty (40) with no exceptions. A valid driver's license or photo ID issued by a government agency is the only valid proofs of age that I can accept." However, they do not have policy which states this fact. The employees failed to comply with the Alcohol Serving Agreement.

Recommendation

Although the employees sign an Alcohol Serving Agreement stating they will card anyone who appears to be 40 years of age or under, a policy should be written to reinforce the Alcohol Servicing Agreement to strengthen controls. To strengthen controls, policy and procedures should be written concerning carding customers. Employees who serve alcohol should be reminded that they are to card everyone who appears to be 40 years of age or under at least quarterly and it should be documented.

Management Response

We concur.

Action Plan

To ensure 100% compliance, this topic will be reinforced with F&B employees at training and in subsequent staff meetings.

Implementation Date

November 1, 2013

Finding # 16 (Obj. #1)

Condition (The way it is)

- 1. The 20% gratuity added to tables of 8 or more are not reconciled by the BOC to the POS System.
- 2. A Reconciliation of the Daily Tip Report is not performed.

Criteria (The way it should be)

- 1. The Employee Tips Reporting section of Policy and Procedures states, "The Assistant Golf Pro is responsible for providing gratuity pay-outs to the Business Coordinator who will reconcile back to the POS system. These reports will be included with the other payroll reports to the Finance Department for payroll processing."
- 2. The Employee Tips Reporting Policy #4 states, "Reconciliation of Daily Tip Reports The Food and Beverage Manager is responsible for reviewing "Cash-Out Reports" and "Tip Reporting Slips" for accuracy."

Effect (So what?)

- 1. The 20% gratuity pay-outs may not match what was in the POS system.
- 2. Unreconciled funds may lead to improprieties.

Cause (Difference between condition & criteria)

- 1. The BOC was unaware he was supposed to be performing the reconciliation.
- 2. The Food and Beverage Manager was unaware he was to perform a Reconciliation of the Daily Tip Report.

Recommendation

To comply with policy:

- The Golf Pro should provide gratuity pay-outs to the Business Coordinator. The Business Coordinator should reconcile the 20% gratuity added to tables of 8 or more to the POS system. The reconciliation should be included with the other payroll reports given to the Finance Department for payroll processing.
- 2. A Reconciliation of the Daily Tip Report should be performed monthly by the Food and Beverage Manager.

Management Response

We concur.

Action Plan

Firewheel's policies will be updated to reflect the following:

1. F&B Manager will review daily tip reports and reconcile.

- 2. The Gratuity Report from the POS will be printed and reconciled with the payroll spreadsheet.
- 3. The Director of Golf will sign the report and it will be submitted with payroll reports.

Implementation Date

Exhibit A

Reliability of Computer Generated Data and Sampling Methodology

Reliability of Computer Generated Data

The reliability of computer generated data was reviewed by:

- 1. Comparing the Cayenta system to accounts payable source documents. A judgmental sample of accounts payable invoices was selected to cover a good cross section of invoices for February and March, 2013. There was a total population of 128 accounts payable invoices for February and March, 2013 listed on the Transaction Detail Report. A sample of 20 of the 128 (16%) was performed to determine we were pulling complete and accurate payment information from the Cayenta system. We found the reliability of computer generated data to be accurate and complete.
- 2. Comparing the Club Prophet POS system to Alcohol Transfer Form source documents. All manual Alcohol Transfer Forms for June, 2013 were compared to the Club Prophet system. We found the reliability of computer generated data to be accurate and complete.
- Comparing the Club Prophet system to source documents of special events.
 An excel spreadsheet of special events was compared to the Club Prophet System. We found the reliability of computer generated data to be accurate and complete.

Sampling Methodology

- 1. IA judgmentally sampled 6 employees out of 61 (10%) of the total population who worked less hours than most employees to determine if the employees are receiving discount meals without working a full 8 hours. Three full time and three part time employees were selected. Changes had been made to the system in order to track employees who had received employee discounts meals. In all cases the employees for various days had not worked an 8 hour day, however, were given the employee discount for meals. The Payroll Details Report and Sales Item Detail by Customer Report were generated from the POS system and compared. The employee's names had not been consistently input into the system in order to track their discount purchases.
- 2. IA randomly selected 29 invoices for receipt of alcohol from February and March 2013 to determine if the receipts had been signed by the employee receiving the alcohol. The total population for February and March, 2013 was 42; therefore, 69% of the total population was reviewed. 8 out of 29 (28%) had not been signed by the employee receiving the alcohol.