

MANATEE COUNTY CLERK OF THE CIRCUIT COURT

INTERNAL AUDIT DEPARTMENT

PARKS AND RECREATION DEPARTMENT

GOLF COURSE DIVISION INVENTORY AUDIT

AUDIT REPORT

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GOLF COURSE DIVISION INVENTORY AUDIT

A U D I T R E P O R T

The Internal Audit Department conducted an inventory audit of the Parks and Recreation Department Golf Course Division for the audit period October 1, 1999 through March 31, 2000. The audit was performed in accordance with *Generally Accepted Governmental Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors.

BACKGROUND:

The Parks and Recreation Department Golf Course Division manages the operations of two eighteen hole golf courses for residents and visitors at the Manatee County Golf Course and the Buffalo Creek Golf Course. At each course, the Division operates a golf shop facility. Sales and purchases of inventory are processed and maintained by a point-of-sale computer system. The system also produces monthly reports on inventory, sales and profits.

PURPOSE/OBJECTIVE:

The audit purpose / objectives included, but were not limited to, the following:

- Determine whether adequate safeguards exist to control physical access over merchandise inventory.

- Determine whether adequate segregation of duties exists.

- Determine compliance with the County's purchasing procedures.

- Determine whether adequate computer controls exist within the point-of-sale system over purchases, sales, adjustments, reports and security.

- Determine whether inventory pricing and marketing strategies being used by the Golf Courses appear appropriate.

SCOPE:

The scope of the audit included examining on a test basis evidence supporting the controls implemented by the Golf Course Division in managing the merchandise inventories for the six month period ending March 31, 2000.

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METHODOLOGY:

Internal control evaluations were accomplished by flow charting the key operations of this specified area, discussions with management and staff, observations, and analytical and substantive testing of individual internal controls. Risk analysis was used to establish priorities of audit objectives.

IRREGULARITIES, ABUSE, OR ILLEGAL ACTS:

No indications of irregularities, abuse, or illegal acts were discovered for the period ending March 31, 2000 in the inventory audit of the Golf Course Division.

TEST OF COMPLIANCE:

Internal Audit tested compliance with certain laws and regulations, obtained an understanding of internal controls and assessed control risk. Tests performed were limited to the specific areas included

in the Purpose/Objective section of this report and appeared to provide sufficient evidence to support an opinion on compliance and internal controls for the areas tested.

Except as noted in our audit report, tested items were in compliance with resolutions and other policies established by the Golf Course Division.

STATEMENT ON INTERNAL CONTROL STRUCTURE:

In planning and performing the inventory audit under the Golf Course Division for the period ending March 31, 2000, the internal control structure was considered in order to determine the auditing procedures for the purpose of this report. As a result, we noted in the audit report matters involving the internal control structure and its operations that are considered reportable conditions under standards established by the U.S. General Accounting Office, *Government Auditing Standards*. Reportable conditions involve matters relating to deficiencies in the design or operation of the internal control structure, that in our judgment, could adversely affect the organization's ability to record, process, summarize and report on data consistent with management's intentions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions, as defined above. In addition, because of the inherent limitations in any internal control structure, deficiencies in the design or operation of the internal control structure may exist and not be detected. We believe the conditions identified in our audit report constitute reportable conditions as previously defined.

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MANAGEMENT TEAM AND MANAGEMENT ACTION PLAN:

A Management Action Plan will be used for each Area of Improvement reported. Management Action Plans are corrective actions with implementation dates developed in cooperation with the Department's Management Team and the Internal Audit Department. The Management Team includes the Director

and Interim Director of the Parks and Recreation Department, the Operations Manager, and the Golf Course Division Manager.

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MANAGEMENT SUMMARY:

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The Golf Course Division operates golf shop facilities that sell merchandise inventory using a point-of-sale computer system designed to record purchases and sales, and maintain inventory balances. The Division is in the process of purchasing a new point-of-sale computer system due to limitations within the current system and the lack of available upgrades. Management has requested an audit of the current computer system and the Division's operations as they relate to inventory controls. Management anticipates that any control weaknesses noted in the computer system and its operations will be evaluated and corrected prior to the purchase of the new system.

This report identifies several areas for improvement in the current computer system and its operations that can be corrected with the purchase of a new system, the implementation of additional policies and procedures over the Division's operations, and by providing access to Manatee County's finance system. Educating employees on the importance of controls and the proper use of the systems will be essential. Internal Audit believes that this report may serve as a management tool to assist with the purchase of the new system and improve controls over operations. The following are areas identified for improvement and addressed by our Management Action Plans:

- The Golf Course Division uses a point-of-sale computer system that includes a "Receipt Entry" component used to record the receipt of merchandise. Entry into the system appears to be delayed or not entered at all due to invoices not being obtained timely from which the information is extracted. When used correctly, the system will produce reliable sales and profit reports and will provide useful information during the physical inventory count process. Greater efficiencies can be gained by providing access to the finance system. Efficiency can also be enhanced by interfacing the point-of-sale computer system with the finance system. Management will begin working with the Finance Department and the Information Services Department to provide the golf courses access and interfacing with the finance system. In addition, procedures will be developed to ensure the correct use of the receipt entry component of the current computer system. **(See Area for Improvement #1 on page 6.)**

- The Golf Course Division has the ability to make adjustments to the inventory information contained in the point-of-sale system. Due to limitations within the system, adjustments made to the inventory information cannot be tracked. Controls could be strengthened by limiting access to key personnel through the use of a restricted password. The Management Team through its Management Action Plan has assigned the Clubhouse Managers specific passwords for adjusting inventory information. In addition, procedures will be developed and implemented which detail the reporting responsibilities and use of adjustments.

(See Area for Improvement #2 on page 7.)

- The golf courses perform regular physical inventory counts of merchandise on hand. These counts are compared to the system's quantity on hand. Follow-up procedures are needed to research and document differences that occur each month. In addition, procedures are recommended in reporting inventory differences to Management. The Management Team through its Management Action Plan will develop and implement procedures to research, document, and report to management inventory overages and shortages.

(See Area for Improvement #3 on page 7.)

- Discounts are regularly given on golf shop merchandise in order to promote sales. In addition, discounts are offered to golf course employees. Resolution 99-223 has not been updated to reflect discount practices currently in effect. Procedures are needed to ensure discounting practices are reasonable and applied consistently. The Management Team

through its Management Action Plan has discontinued the practice of offering employee discounts, and is in the process of revising the current resolution and developing administrative procedures for the discounting of merchandise. (See

Area for Improvement #4 on page 8.)

We appreciate the efforts of Parks and Recreation Department and the Golf Course Division's management and personnel in timely addressing the issues raised during the audit and aggressively seeking solutions to these matters. We believe through the implementation of the Management Action Plans included in this report, controls will be strengthened, improving operations. We commend the Golf Course Division for their commitment in providing quality recreational facilities and services to Manatee County residents.

AUDIT REPORT AUTHORIZATION:

This audit report has been reviewed and authorized by:

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Richard J. Orienti, CIA, CFE

Director of Internal Audit

R. B. "Chips" Shore

Clerk of the Circuit Court and Comptroller

AREA FOR IMPROVEMENT #1

Subject: Receipt of Merchandise Entered into the Point-of-Sale System

The golf courses use a point-of-sale computer system designed to record purchases and sales, and maintain inventory balances. The system includes a "Receipts Entry" component in which received merchandise is entered into the system. When purchases are entered, the system automatically updates the quantity on hand and calculates the average cost.

Manatee County Golf Course For the six-month period reviewed, many instances were noted where merchandise was received, placed on the sale floor, and subsequently sold without being entered into the system. Entry into the system appears to be delayed or not entered at all due to invoices not being obtained timely from which the information is extracted. By not entering cost information into the system, reports on sales and profits are inaccurate and misleading. Without the quantity information in the system, the numbers included in the Physical Inventory Report are neither accurate nor useful for physical count reconciliation. When items are not entered into the system, an audit trail does not exist to support the receipt of the inventory items received.

Buffalo Creek Golf Course For the six-month period reviewed, it was noted that the "Receipts Entry" system was not used to record the receipt of merchandise. When purchases were received, adjustments were made to the quantity on hand, and the average cost of each of the items was estimated. The system does not have the capability to track adjustments, therefore, an audit trail did not exist to support the receipt of the merchandise. As a result, verification of purchases could not be performed to ensure the accuracy of the information entered into the point-of-sale system and the reports generated.

The current computer system is not interfaced with Manatee County's finance system. If golf course personnel had access to the finance system, invoice information would be available on-line and the efficiency of the receipt input process would improve. Additional efficiencies could be obtained if the point-of-sale computer system interfaced with the finance system, allowing both systems to share information and eliminating duplication of input.

Management Action Plan:

- Management will begin working with the Finance Department and the Information Services Department to begin the process of providing access to the finance system at the golf courses. This will allow the golf courses to input and review purchasing information directly on-line. In addition, management anticipates interfacing the new point-of-sale computer system with the finance system to increase operational efficiency. Management anticipates providing access to the finance system by December 31, 2000. Interfacing of the new point-of- sale computer system is expected by June 30, 2001.

- The Buffalo Creek Golf Course has begun using the “Receipts Entry” component of the point-of-sale system to record the receipt of all merchandise as of September 1, 2000. In addition, Management will develop procedures to ensure the correct and consistent use of the receipt entry component of the computer system. Procedures will be developed by September 30, 2000.

AREA FOR IMPROVEMENT #2

Subject: Adjustments to Inventory in the Point-of-Sale Computer System

The Clubhouse Managers make corrections/adjustments to the inventory information such as quantity, cost, and list price, contained in the point-of-sale system. When adjustments are made, the system does not maintain a record of the change and therefore, the adjustments cannot be retraced. This was confirmed with the author of the point-of-sale system software.

In addition, the computer system requires passwords/authorization codes to adjust the point-of-sale inventory information. It was noted, however, that the code for adjusting the inventory information

is known by all of the employees. As a result, controls over the restriction of unauthorized access does not appear adequate.

Management Action Plan:

- Management has implemented new passwords to be used specifically for adjusting inventory information. These passwords have been assigned only to Clubhouse Managers effective September 8, 2000.

- Management will develop and implement procedures that will detail the use of adjustments and reporting responsibilities. These procedures will be developed and implemented by September 30, 2000.

- With the purchase of the new computer system, Management anticipates the system will have the ability to track and report any adjustments made to the system. The system is expected to be fully functioning by March 2001.

AREA FOR IMPROVEMENT #3

Subject: Periodic Inventory Counts and Reconciliation

The golf courses perform monthly physical inventory counts and results are recorded into the point-of-sale computer system. The system generates a report that compares physical counts to the

system's quantity on hand. The Manager subsequently orders a Physical Update, which changes the quantity on hand in the system to reflect the physical count.

While the managers do review and follow-up on some overages and shortages indicated on the Physical Inventory Report, not all differences are researched or documented with explanations. The quantities are simply adjusted to reflect what is physically in stock. There are no follow-up procedures to address the losses (or gains) that occur each month, or to report the information to upper management on a regular basis.

AREA FOR IMPROVEMENT #3Continued

Management Action Plan:

- Management is in the process of developing procedures that would require research and documentation of inventory overages and shortages. This information will be reported to management on a regular basis. Implementation is anticipated by September 30, 2000.

AREA FOR IMPROVEMENT #4

Subject: Discounts on Sales

Resolution R-99-223 allows for discounts on golf shop merchandise only through the use of coupons during off-peak seasons. A review of the sales reports noted that discounts are given regularly on merchandise sold at both golf courses. Any employee may give discounts for any amount. The golf courses do not have any written procedures for providing the discounts, nor are there any controls in place to restrict and monitor the discounts given by employees.

Resolution R-99-223 does not address or authorize discounting merchandise for employees at either golf course. However, it appears that discounts are given to golf course employees on merchandise at a price of cost plus 5%.

Management Action Plan:

- Management is in the process of developing administrative procedures for sales discounts. Implementation is expected by September 30, 2000.

- Management will amend the resolution to allow for the golf courses to give discounts on inventory merchandise consistent with the administrative procedures. Board of County Commissioners' approval is expected by November 2000.

- Management has discontinued the practice of offering employee discounts effective September 7, 2000.

