City Auditor's Office

Coral Oaks Golf Course Cash Process Audit

Report Issued: June 13, 2022

Audit Report No. 22-01

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TO: Mayor Gunter and Council Members

FROM: Andrea R. Russell, City Auditor

DATE: June 13, 2022

SUBJECT: Coral Oaks Golf Course Cash Process Audit

The City Auditor's Office has completed the audit of the Coral Oaks Golf Course Cash Process. The audit was conducted in conformance with Generally Accepted Government Auditing Standards by the authority granted through City Ordinances 28-02 and 79-10.

We would like to express our sincere appreciation to Coral Oaks and Financial Services management and staff for the courtesy, cooperation and proactive attitude extended to the team members during the audit. If you have any questions or comments regarding this audit, please contact Andrea Russell at 242-3380.

C: Rob Hernandez, City Manager
Connie Barron, Assistant City Manager
Dolores Menendez, City Attorney
Kimberly Bruns, City Clerk
Mark Mason, Financial Services Director
Heather Abrams, Debt Treasury Manager
Allen Manguson, Coral Oaks Manager
Audit Committee

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EXECUTIVE SUMMARY

The City Auditor's Office conducted a performance audit of the processes in place for cash handling at the Coral Oaks Golf Course. This audit was not included in the City Auditor's FY22 approved Audit Plan. It was added to the plan after the Office received a hotline call concerning certain cash handling practices that were occurring at Coral Oaks. The audit was initiated based on observations the Office made as a result of the call.

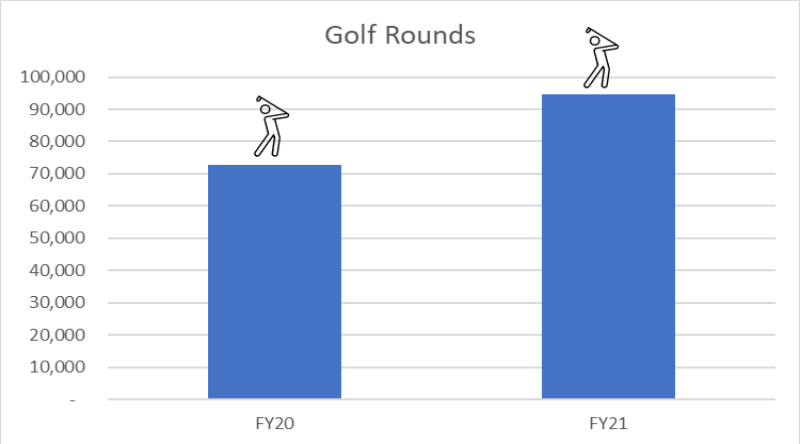
Based on the test work performed and the audit recommendations noted below, we concluded deficiencies exist in internal controls over cash handling and inventory management. We noted control deficiencies in the following areas:

- City Cash Handling Policies and Procedures
- Compliance with ITS Policies and Procedures
- Golf Course Cash Handling Policies and Procedures
- Inventory Safeguarding and Management

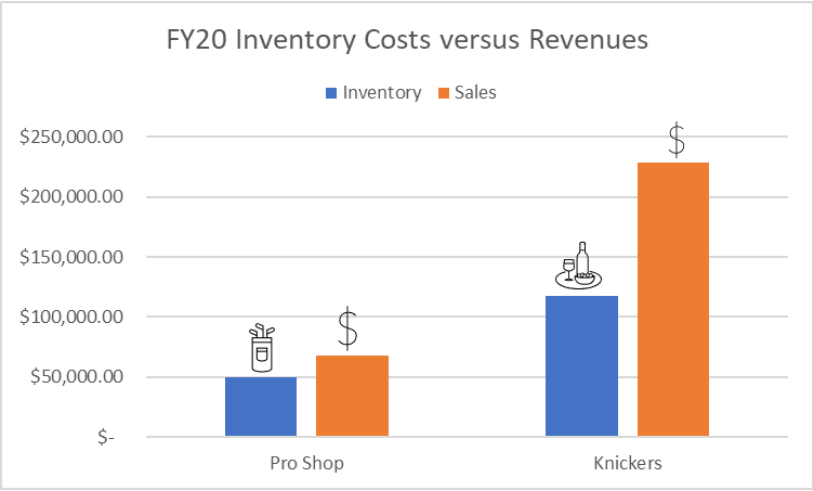
For further details on these findings and recommendations, see the Findings and Recommendations section. We consider these control deficiencies material because similar issues were noted in prior audits and reviews the Office conducted.

BACKGROUND

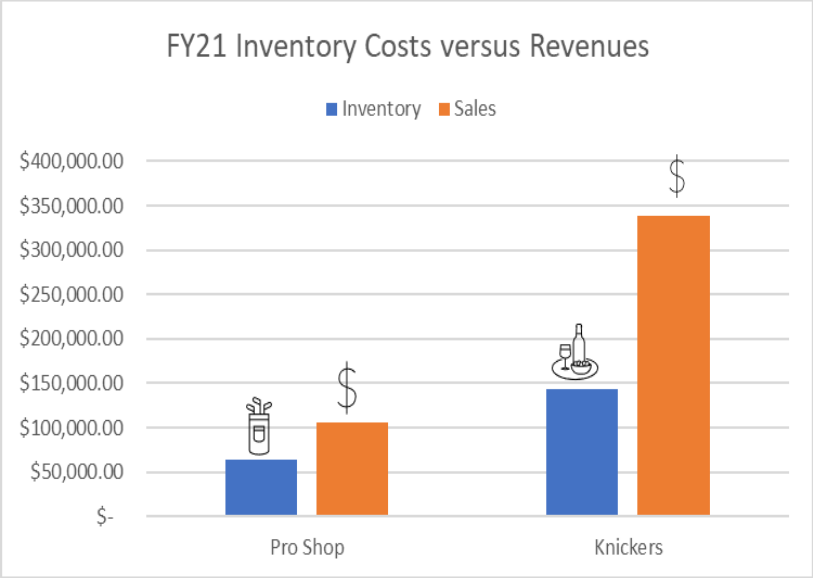
Coral Oaks is the City's municipal 18-hole golf course. It has a well-stocked golf pro shop and a full-service restaurant facility, Knickers Pub, on-site. A division of Cape Coral's Parks and Recreation Department, Coral Oaks employs 47 individuals including 14 full time employees and 33 contracted employees. The Pro Shop employs eight and Knickers Pub employs nine. Daily administration of the pro shop and the pub is managed on-site by Coral Oaks with general oversight performed by Parks and Recreation. See the tables below for rounds played, and revenues and expenses for the Pro Shop and Knickers Pub for FY20 and FY21.



Total golf rounds information obtained by point-of-sale system (RecTrac).



Inventory costs and revenues information obtained by financial software system (Munis).



Inventory costs and revenues information obtained by financial software system (Munis).

AUDIT OBJECTIVE

The audit objective is to determine if adequate controls exist over the cash handling process at Coral Oaks Golf Course to ensure proper safeguarding of assets and the effectiveness and efficiency of the processes.

STATEMENT OF AUDITING STANDARDS

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.

FINDINGS AND RECOMMENDATIONS

FINDING 2022-01 Cash Handling Policies and Procedures Need Improvement
Rank: High

Condition:
Incomplete or Missing Cash Policies and Procedures
During walkthroughs the City Auditor's Office observed several practices for which there are no documented or vague policies and procedures in the City of Cape Coral Cash Handling Policies and Procedures Manual (City Manual). Some of these areas are specific to golf course operations such as how to track and record tips. We also noted the City Manual was lacking information on physical safe procedures and a time standard for when employees should obtain cash handling training.

Recording of Tips
Currently, in the kitchen area of Knickers, there is a tip collected log posted on the wall. Employees are supposed to record cash tips received on the log; however, we noted during several walkthroughs the sheet was blank. In addition, during walkthroughs and while reviewing camera footage of the register area, we observed credit card tips taken by the individual who earned them on shift directly from the cash drawer with no verification by another individual. A review of payroll records for the scope of the audit appears to indicate tips were not accurately reported.

Physical Safe Procedures
The only procedure stated in the City Manual regarding safe procedures, is that the safe is kept locked when not in use. There are no other documented procedures to define other areas of concern such as changing the safe code, and who should have access to the safe or its contents.

Time standard for Cash Handling Training
Coral Oaks employee job descriptions for those who handle cash, include a requirement that "cash handling training must be completed within 90 days." There is no time standard for obtaining the training in the City Manual. In discussion with the Debt Treasury Manager and the Head Cashier for the City, they stated they would prefer individuals obtain training as soon as possible and definitely prior to the employee handling cash. We also noted at the time of testing that only four of the 16 (25%) employees who handle cash had received cash training. Some individuals have been employed at the golf course for 16 years. Untrained employees could result in inaccurate cash records as well as the acceptance of counterfeit money. During walkthroughs that were conducted over several days at different times, we observed $100 bills that were not verified for authenticity via the use of a pen to detect counterfeit bills.

Noncompliance with Existing Policies and Procedures

We also observed during walkthroughs that Coral Oaks employees are not following existing policies and procedures in the City Manual. For example, Coral Oaks is not complying with safe log procedures when employees open and close, and how to proceed if change is needed. We noted during walkthroughs, Coral Oaks did not utilize safe logs with deposit supporting documentation or as part of the daily process.

Lack of Proper Safeguarding of Cash Assets

When staff close out a money bag or cash drawer at Kickers, they do so in the back where they have access to a computer. The back office where money is counted has a camera for monitoring the process, but there is also a side entry door that is unlocked and accessible by anyone, including the public, during business hours. On a few occasions, during our walkthroughs, we observed individuals entering and exiting the side door while money was being counted at the desk in the back. The City Manual states: "Cash handlers should use caution by not allowing customers into the facility during the cash opening and closing."

Criteria:

- City of Cape Coral Cash Handling Policies and Procedures Manual
- Coral Oaks Opening and Closing Procedures
- Job Descriptions

Cause:

- No defined policies and procedures
- Noncompliance with the City of Cape Coral Cash Handling Policies and Procedures Manual

Effect:

- Inaccurate payroll reporting
- Potential loss/theft of money
- Potential collection of counterfeit money/revenue
- Insufficient funds to operate a cash drawer/money bag

RECOMMENDATIONS:

2022-01a: FINANCE Oversee the update or addendum of cash handling policies and procedures for areas specific to cash handling at Coral Oaks, such as tip recording, and physical safeguarding of cash assets.

2022-01b: FINANCE Monitor Coral Oaks compliance with all Cash Handling policies and procedures to ensure proper procedures are in place for handing cash at Coral Oaks. (i.e., safe log completion and training requirement).

2022-01c: PARKS AND REC (An individual outside of Coral Oaks) Monitor Coral Oaks employees' on-site compliance with all cash handling policies and procedures.

2022-01d: FINANCE Update the City Cash Handling Policies and Procedures to define deficient areas such as a time standard for training and safe requirements.

2022-01e: PARKS AND REC Parks and Recreation should work with Payroll to develop a process to utilize RecTrac to ensure accurate reporting of all (cash and credit card) tips within employee payroll.

Management Response and Corrective Action Plan:

2022-01a **FINANCE** Select one of these boxes: ☒ **Agree** ☐ **Partially agree*** ☐ **Disagree***

***For partially agree or disagree a reason must be provided as part of your response:**

2022-01a The Financial Services Department will work with the Parks and Recreation Business System Analyst to implement a tip function within the POS RecTrac (or any replacement system) to replace the Daily Tip Reporting Tracking Form. Finance will update the Cash Handling Policy to include a section for Tips. Finance will work with Coral Oaks to add the physical safeguarding of cash assets.

2022-01a **Management Action Plan Coordinator:** Financial Services Director

2022-01a **Anticipated Completion Date:** 08/01/2022

2022-01b **FINANCE** Select one of these boxes: ☒ **Agree** ☐ **Partially agree*** ☐ **Disagree***

***For partially agree or disagree a reason must be provided as part of your response:**

2022-01b The Financial Services Department will work with Coral Oaks to ensure compliance with policies and procedures.

The Financial Services Department will work with Coral Oaks to implement a workflow to notify the Treasury Division of new employees and provide training. The Financial Services Department will update the Cash Handling Manual to address findings.

2022-01b **Management Action Plan Coordinator:** Financial Services Director

2022-01b **Anticipated Completion Date:** 08/01/2022

2022-01c **PARKS AND REC** Select one of these boxes: ☒ **Agree** ☐ **Partially agree*** ☐ **Disagree***

***For partially agree or disagree a reason must be provided as part of your response:**

2022-01c Parks and Recreation Department will be implementing new software at Coral Oaks to improve operations and tighten accountability at the golf course. Parks and Recreation will coordinate with Financial Services and ITS for the implementation of the new software. We will also evaluate updates to the current RecTrac to address specific processes that need improvements based on audit findings in the interim.

2022-01c **Management Action Plan Coordinator:** Parks and Recreation Director

2022-01c Anticipated Completion Date for RecTrac updates: 8/1/2022
2022-01c Anticipated Completion Date (for New Software): 12/30/2022

2022-01d FINANCE Select one of these boxes: ☒ **Agree** ☐ **Partially agree*** ☐ **Disagree***
***For partially agree or disagree a reason must be provided as part of your response:**

2022-01d The Financial Services Department will update the Cash Handling Policy to include a section for Training requirements.
2022-01d Management Action Plan Coordinator: Financial Services Director
2022-01d Anticipated Completion Date: 08/01/2022

2022-01e PARKS AND REC Select one of these boxes: ☒ **Agree** ☐ **Partially agree*** ☐ **Disagree***
***For partially agree or disagree a reason must be provided as part of your response:**

2022-01e Parks and Recreation Department will work with Payroll to identify the best processes to handle the recording and reporting of all tips received. These processes will be clearly communicated to staff at Coral Oaks and will be monitored to ensure compliance.
2022-01e Management Action Plan Coordinator: Parks and Recreation Director
2022-01e Anticipated Completion Date: 08/01/2022

FINDING 2022-02 Noncompliance with ITS Policies and Procedures
Rank: High

Condition:
We noted during planning and preliminary process walkthroughs that golf course employees in Knickers Pub and the Pro Shop share login and password information when logging into RecTrac or the computer where daily cash outs are logged. We brought this to the attention of ITS and subsequently new logins and passwords were issued to all users. In addition, as part of our walkthroughs, on two separate occasions (03/09/2022 and 04/13/2022), we observed post-it notes with log in and password information unsecured in plain view for any individual to see and access the system.

Criteria:
- Information Technology Policies and Procedures
  - IT – DSS05.04 Password Policy
  - IT – DSS05.04 User Account Management
- AR 46 – End User Computing Policy

Cause:

- Noncompliance with IT Policies and Procedures
- Noncompliance with AR 46 and reporting of a security incident

Effect:

- Potential unauthorized access
- Potential reporting issues
- Potential security concerns

RECOMMENDATION:
2022-02: Comply with user account and password policy requirements.

Management Response and Corrective Action Plan:

2022-02 Select one of these boxes: ☒ **Agree** ☐ **Partially agree*** ☐ **Disagree***
***For partially agree or disagree a reason must be provided as part of your response:**

2022-02 Parks and Recreation will work with the IT Department to ensure adherence to IT Policies and Procedures to include periodic monitoring of log in access activity by Coral Oaks employees.

2022-02 **Management Action Plan Coordinator:** Parks and Recreation Director

2022-02 **Anticipated Completion Date:** 04/03/2023

FINDING 2022-03 Coral Oaks Cash Handling Policies and Procedures need to be better aligned with the City's Cash Handling Policies and Procedures
Rank: High

Condition:
During cash handling testing, we noted that day-to-day operations and procedures do not align with the City Manual and procedures. We also noted there are certain procedures in place at the Golf Course that are not reflected in the City Manual because they are specific to golf course operations including a threshold for over and short situations; monitoring procedures; and deposit documentation requirements.

<u>Cash Drawer Close Out "Over and Short" Threshold</u>
Currently, the City Manual states all over and short situations must be addressed and fixed or communicated to a supervisor; however, Coral Oaks has its own policy that allows for a five-dollar difference for cash drawer close out that does not have to be fixed or communicated. No personnel at Coral Oaks knows the origin of this threshold. It is something that has been in place for as long as any staff can remember. We reviewed a sample of 3,591 cash drawer close outs. We noted 1,908 (53%) had a balance that was either over or short; however, if the informal $5 threshold is considered as a policy, the exception percentage falls to two percent (38 of 1,908).

Monitoring

The City Manual requires a manager to audit/verify all cash bags/drawers once per quarter and a review of cancellation reports monthly. According to Pro Shop staff, this was completed quarterly prior to the scope of the audit but was stopped in December 2019. There was no change to the monitoring requirement, and no one was able to provide a reason to explain why the procedure was stopped. There is no support to indicate that Knickers performs a quarterly review on cash bags. In addition, neither the Pro Shop or Knickers is aware of a cancellation report to review, but cancellations and voids are considered a management override in RecTrac and must be completed by a supervisor.

Deposit Documentation

The City Manual lists documents that are required to be retained in support of each deposit, including: a deposit slip with two signatures, a cash balancing worksheet, system sales reports, a calculator tape with date and initials. The cashier and a separate verifier's initials on deposit paperwork and, credit card and manual receipts must also be retained. Finally, all deposits are to be logged into the armored car deposit book and must have two individuals initial the transactions in the deposit book. As part of the audit, we tested a sample of 61 deposits and noted the only supporting documentation that was readily available were daily cash register and credit card receipts. We noted, Knickers prints the systems sales report and attaches them with the receipts; however, the Pro Shop does not. Knickers and the Pro Shop were unable to provide the following documents needed for deposit testing: cash balancing worksheets; calculator tape with date and initials; and verifier initials on deposit paperwork. Cashier initials on deposit paperwork was not present 58 of 61 (95%) of the deposits. Deposit slips were completed for all 61 deposits tested; however, 16 of 61 (26%) deposit slips did not have two individual initial signs off as required by the City Manual. Finally, nine out of 61 deposits (15%) system sales reports did not agree to the deposit slip/armored car log. A formalized list of required documents for deposits would help to ensure accuracy and completeness of deposits and revenue totals; decrease errors and provide for proper safeguarding of cash.

See test attributes with exception percentage above 5% in the chart below:

Results	Cash Balancing worksheet not completed	2 signatures not on deposit slip	Calculator tape did not have date and initials	Cashier initials missing on deposit paperwork	Verifier initials missing on deposit paperwork	System sales report, deposit slip, and armor car log did not match
Total tested	61	61	61	61	61	61
Total exceptions	61	16	61	58	61	9
Exception percentage	100%	26%	100%	95%	100%	15%

Criteria:

- City of Cape Coral Cash Handling Policies and Procedures Manual
  - Page 6: Cash Drawers/Bags – "A Manager will audit/verify all cash bags/drawers once per quarter."

    - Page 35: Over and Short
    - Page 35 – 40: Closing Activity, Balancing Cash Drawer, Completing Deposit Slips, and Completing Deposit Bags
- Coral Oaks Opening and Closing Procedures
- FGFOA Basic Resource Manual- Section 8

Cause:

- Coral Oaks Golf Course operations do not align with the City of Cape Coral Cash Handling Policies and Procedures Manual
- Insufficient internal controls over golf course cash handling
- Noncompliance with the City of Cape Coral Cash Handling Policies and Procedures Manual
- Informal/undocumented procedures (cash over/short threshold)
- Lack of procedures specific to golf course operations

Effect:

- Potential loss/theft of money
- Improper safeguarding of cash assets
- Lack of supporting documentation for deposits
- Potential inaccurate cash reconciliations
- Inaccurate financial reporting of revenues

RECOMMENDATION:

2022-03: Coral Oaks staff should work with Financial Services to update current policies and procedures to provide strong internal controls and procedures that better align with day-to-day operations at Coral Oaks Golf Course. Updates should include a formal over and short threshold, monitoring procedures, and deposit documentation requirements.

Management Response and Corrective Action Plan:

2022-03 Select one of these boxes: ☒ **Agree** ☐ **Partially agree*** ☐ **Disagree***
***For partially agree or disagree a reason must be provided as part of your response:**

2022-03 Management and staff at Coral Oaks will work with Finance staff to modify their current policies and procedures to provide better controls.

2022-03 **Management Action Plan Coordinator:** Parks and Recreation Director

2022-03 **Anticipated Completion Date:** 08/26/2022

FINDING 2022-04 Improvement needed for controls over inventory management
Rank: High

Condition:

Coral Oaks maintains inventory in both the Pro Shop and Knickers restaurant. Knickers and Pro Shop staff perform monthly inventory counts using the RecTrac Inventory Valuation Summary Report. Inventory management is key to providing accurate sales and revenue

figures. Using RecTrac reports, we judgmentally selected a sample of 60 items for Knickers and the Pro Shop to perform our own onsite inventory verification. The sample included 30 items from each location.

Based on our testing controls over inventory need improvement. We noted the following:

Knickers and Pro Shop:

- There are no documented policies, procedures, or SOP's specifically governing Coral Oaks inventory management practices such as, procedures for adjustments, updates and changes to inventory amounts, monitoring, etc.
- Numerous unreconciled and unaddressed variances exist between quantities reported within the RecTrac System and actual inventory counts on hand.
- Inventory items are maintained in more than one location thereby complicating physical inventory counts because physical location is not tracked within RecTrac.
- Limited/no supporting documentation for adjustments or manipulation of the inventory items or counts within RecTrac, such as, verification of counts prior to updating items in software.

Knickers:

- Knickers staff does not have a good working knowledge of how to utilize RecTrac inventory functions.
- RecTrac is not set up to deduct items from inventory in "real time" or as inventory items are used at time of sale. Beverage cart staff do not utilize RecTrac data to conduct inventory. Proper inventory procedures and asset safeguarding are key to providing accurate expense and revenue data.
- Staff do not verify inventory counts prior to re-order or have established inventory re-order points. Staff performs a judgmental review of items on hand to re-order.

Criteria:

There are no documented inventory procedures for Coral Oaks. Best practices for inventory management indicate controls over inventory are essential to safeguard assets and promote the reliability of inventory records necessary for management decision making and financial reporting.

- Government Accountability Office 02-447G- Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property

Cause:

- Incorrect set up of the RecTrac inventory/sales system
- Lack of controls over inventory management
- No documented inventory policies and procedures
- Unsupported adjustments and manipulation to inventory items
- Inaccurate estimation of inventory item counts

Effect:

- Inaccurate inventory, cost of goods sold, expense and revenue
- Potential theft of inventory

- Inaccurate re-order of inventory items

RECOMMENDATIONS:
2022-04a: Work with Financial Services to develop inventory management policies and procedures to address the physical safeguarding and monthly inventory process.

2022-04b: Work with Financial Services and ITS to evaluate the current inventory management system configuration and update as necessary to ensure transactions are properly recorded in the inventory system to allow for accurate capturing and tracking of inventory and sales.

2022-04c: Utilize RecTrac to establish automated, live time inventory adjustments, in the restaurant and the beverage carts, to improve efficiencies, reduce errors and provide for appropriate inventory management.

Management Response and Corrective Action Plan:

2022-04a Select one of these boxes: ☒ **Agree** ☐ **Partially agree*** ☐ **Disagree***
***For partially agree or disagree a reason must be provided as part of your response:**

2022-04a Management and staff at Coral Oaks will work with Finance staff to create inventory policies and procedures to provide better controls.
2022-04a **Management Action Plan Coordinator:** Parks and Recreation Director
2022-04a **Anticipated Completion Date:** 8/01/2022

2022-04b Select one of these boxes: ☒ **Agree** ☐ **Partially agree*** ☐ **Disagree***
***For partially agree or disagree a reason must be provided as part of your response:**

2022-04b While a new software system will be evaluated to determine its feasibility for addressing these issues, the Coral Oaks staff will continue to work within the RecTrac system to identify potential solutions in the interim.
2022-04b **Management Action Plan Coordinator:** Parks and Recreation Director
2022-04b **Anticipated Completion Date:** 8/05/2022

2022-04c Select one of these boxes: ☒ **Agree** ☐ **Partially agree*** ☐ **Disagree***
***For partially agree or disagree a reason must be provided as part of your response:**

2022-04c Coral Oaks staff will be implementing a new software package (Club Caddie) that should be able to better address the inventory issues identified in this audit. IT and Finance will be evaluating the software to determine if this option will work for Finance as well as Coral Oaks. If so, this software should provide a significant improvement in this area.
2022-04c **Management Action Plan Coordinator:** Parks and Recreation Director
2022-04c **Anticipated Completion Date:** 12/31/2022

SCOPE AND METHODOLOGY

Based on the work performed during the planning and the assessment of risk, the audit covers Coral Oaks' cash processing and inventory management for the period of July 1, 2020, to January 31, 2022. Testing was performed using the City Manual and Coral Oaks Golf Course policies and procedures that were in place during the scope of the audit. Original records as well as copies were used as evidence and verified through physical examination. Sample size and selection were based on the CAO Sample Methodology. All data used for analysis and testing of the audit objective was retrieved from the Parks and Recreation RecTrac system utilized by Coral Oaks.

To determine whether internal controls were in place for cash handling, we reviewed the City's Manual and Coral Oaks internal policies and procedures and interviewed and observed staff to gain an understanding of the cash collection process. We reviewed a random sample of deposits and selected one deposit judgmentally based on the amount to verify polices were followed and accurate. We also gathered monitoring documents required by the City Manual to determine if the Pro Shop and Knickers Pub were performing monitoring requirements for the scope of the audit. For the scope of audit all cash drawer close-outs were reviewed to determine if the cash drawer had an "over or short" occurrence and if it was handled in accordance with policies and procedures.

To determine whether internal controls were in place for inventory management, we interviewed staff to gain an understanding of the inventory management process. We reviewed a judgmental sample of inventory on hand to verify if the quantities on hand were accurate.

Unless specifically stated otherwise, based on our selection methods, and testing of transactions and records, we believe that it is reasonable to project our results to the population and ultimately draw our conclusions for testing, findings, and recommendations on those results. Additionally, for proper context we have presented information concerning the value and/or size of the items selected for testing compared to the overall population and the value and/or size of the exceptions found in comparison to the items selected for testing.

APPENDIX A

Finding Classification
Findings are grouped into one of three classifications: High, Medium or Low. Those findings that are categorized as low are not included in the report but rather are communicated separately to management. Classifications prioritize the findings for management to address and also indicate the level of testing required to determine if a finding's Corrective Action Plan is fully implemented in accordance with recommendations and Management's Response.

High: A finding that is ranked as "High" will have a significant impact on the organization. It is one that *prevents* the achievement of a substantial part of significant goals or objectives, or noncompliance with federal, state or local laws, regulations, statutes or ordinances. Any exposure to loss or financial impact for a High finding is considered *material*. Examples include direct violation of City or Department policy, blatant deviation from established policy and procedure, such as actions taken to circumvent controls in place, material non-compliance with federal, state or local laws, regulations, statutes or ordinances, or an area where significant cost savings could be realized by the Department or the City through more efficient operations.

High findings require immediate management attention and should take management's priority when considering implementation for corrective action.

Medium: A "Medium" finding is one that *hinders* the accomplishment of a significant goal or objective or non-compliance with federal, state or local laws, regulations, statutes or ordinances, but can't be considered as preventing the accomplishment of the goal or objective or compliance with federal, state or local laws, regulations, statutes or ordinances. Exposure to loss or potential or actual financial impact is *significant but not material* to the Department or City. Examples include lack of monitoring of certain reports, insufficient policies and procedures, procedure in place or lack of procedure that can result in *potential* noncompliance with laws and or regulations.

Medium findings require management attention within a time frame that is agreed upon by the Department and the City Auditor. Priority for implementation of management's corrective action should be considered in light of other High or Low findings.

Low: A "Low" finding is one that warrants communication to management but is one that isn't considered as hindering the accomplishment of a significant goal or objective and isn't causing noncompliance with federal, state or local laws, regulations, statutes or ordinances. Financial impact or risk of loss is minimal to none; however, low findings can *hinder the effectiveness or quality of department operations and thus are communicated to management separately. Low ranked findings are not included in the final audit report.*

The City Auditor's Office will not follow up on the status of Low findings communicated to Management.