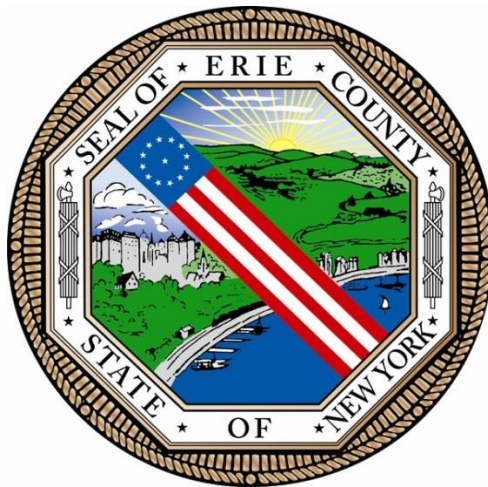


AUGUST 2017

**PERFORMANCE AUDIT
OF THE CASH HANDLING PROCESS
AT THE ERIE COUNTY GOLF COURSES
FOR THE YEAR ENDED DECEMBER 31, 2016**



**STEFAN I. MYCHAJLIW
ERIE COUNTY COMPTROLLER**

**HON. STEFAN I. MYCHAJLIW
ERIE COUNTY COMPTROLLER'S OFFICE
DIVISION OF AUDIT & CONTROL
95 FRANKLIN STREET
BUFFALO, NEW YORK 14202**



August 4, 2017

Erie County Legislature
92 Franklin Street 4th Floor
Buffalo, New York 14202

Dear Honorable Members:

The Erie County Comptroller's Office has completed a performance audit of the Erie County Department of Parks, Recreation, and Forestry's (Parks) cash handling process at the golf courses for the period January 1, 2016 through December 31, 2016.

Our primary objective was to determine that revenues were accurately recorded and deposited timely. Additionally, we sought to determine compliance with both Erie County and Parks policies and procedures; more specifically that Parks employees and management are compliant with established cash handling policies.

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

The scope of our audit included testing of cashier transactions, deposits of revenue, SAP journal entries, and reconciliations of cashier reports, bank deposits, and SAP transactions. We interviewed operational staff (front-line employees), management of the golf courses, and administration. We also reviewed Parks' policies and procedures to verify compliance with Erie

County Accounting Policies. Moreover, we evaluated the internal controls of Parks with respect to safeguarding revenue, misappropriation risk, misuse, loss and theft.

Parks' administration is responsible for establishing and maintaining a system of internal control. The objective of such a system is to provide reasonable, but not absolute, assurance that transactions are executed in accordance with management's authorization.

In connection with our audit, we selected and tested transaction and records from each of the County's golf courses. The purpose of our testing was to obtain reasonable assurance that Parks had, in all material respects, administered financial transactions that were in compliance with County Laws, regulations, policies and procedures.

Our testing of transactions and records disclosed errors that were the result of weaknesses in internal control and instances of non-compliance with County policies and procedures. All such instances are identified in the accompanying Schedule of Findings in Appendix A.

In our testing of transactions and records subject to the resolution of an ongoing Sheriff's investigation (See Audit Finding #1), we found that controls over cash handling transactions and the safeguarding of assets that we tested were not adequate. Due to the ongoing investigations, our testing was more limited than would be necessary to express an opinion. However, the extent of non-compliance noted in our testing indicates that there is more than a relatively low risk that Parks has violated applicable policies and procedures.

TABLE OF CONTENTS

BACKGROUND.....	5
AUDIT FINDINGS AND RECOMMENDATIONS	6
1. INTERNAL CONTROL WEAKNESSES.....	6
2. NON-COMPLIANCE.....	7
3. SEASON PERMITS IRRECONCILABLE.....	8
4. RECONCILLATION ERRORS	9
5. FAILURE TO COLLECT NSF SERVICE CHARGE.....	10
AUDITOR COMMENTS.....	11
1. POLICIES AND PROCEEDURES OUTDATED	11
2. GOLF COURSE PRIVILEGE	11
RESULTS OF EXIT CONFERENCE	13
APPENDIX A – SCHEDULE OF FINDINGS.....	14
APPENDIX B – AUDITEE RESPONSE	15

BACKGROUND

Erie County owns and operates a parks system at various sites throughout the county. Included within the parks system are the County's two golf courses.

Elma Meadows is home to the County's first golf course. Located in the Town of Elma, the 220-acre park was acquired by Erie County in 1957. The 18-hole par 72 course is over 6,000 yards and current holds a 3 ½ star rating by Golf Digest. An average of 55,000 rounds are played on the course annually. In addition to the golf course, Elma Meadows features a picnic grove, a passive recreation area, and six shelters available for rent.

Grover Cleveland, the original site of the Country Club of Buffalo, is one of the area's oldest golf courses. The course hosted the 1912 US Open Golf Tournament. Erie County acquired the 112-acre park, including the 18-hole, 5,700-plus yard golf course from the City of Buffalo in 1986 for one dollar. Approximately 52,000 rounds of golf are played on this par 69 course annually.

Parks is responsible for the management and operation of the County Parks System. A substantial portion of Parks revenue is from the two county golf courses. Over the last three years, the golf courses have generated an average of \$900,000 in revenue and continues to trend upward.

The fees collected are established by the Erie County Legislature, including golf fees, golf cart rental, and golf club rental. Golf fees are generated by annual passes, cash sales, and credit card sales. There is a 2.5% credit card surcharge fee imposed on customers that is acquired to offset processing transaction costs and is passed through to the credit card companies.

Parks collects cash receipts at its Rath Building Office as well as the two golf courses. The collections included fees for season passes, greens fees, gift certificates, golf cart rentals, and golf club rentals.

AUDIT FINDINGS AND RECOMMENDATIONS

1. INTERNAL CONTROL WEAKNESSES

Cash and checks received at the golf courses collected from the sale of greens passes, golf cart rentals and golf club rentals are not adequately safeguarded to prevent loss or theft.

(a) During our walkthrough of the collection process we noted the following:

The safes at the golf courses are simple combination locks. All previous cashiers and current cashiers have full knowledge of how to access the safes. Further, these safes are single access units and do not separate daily cash receipts from the change-making fund.

The video surveillance at the golf courses, although present, was not active and functioning. Therefore, no video surveillance footage could be retrieved.

(b) Management failed to provide proper oversight of cash receipts and the end of day process. Daily cash receipts were only reviewed when preparing the deposit transmittal. This is contrary to the Erie County Accounting Policy, Cash Receipts – Overview, “Cash handling operations must be dutifully reviewed and managed on a daily basis. To minimize the potential for mistakes or misappropriation of cash, segregation of cash handling duties is recommended. The duties of collecting cash, maintaining documentation, preparing deposits and reconciling records should be separated among different individuals. In departments in which separation of cash handling duties is not feasible, strict individual accountability and thorough review and management is required.”

(c) Transmittals completed by the Park Superintendent were not reviewed and approved prior to deposit. This is contrary to the County of Erie Bank Deposit Transmittal Training instructions, which state “The department will complete the deposit transmittal in the department with the name and signature of the depositor and the name and signature of the approver.”

(d) Deposits are not prepared on a timely basis. Generally, bank deposits were made weekly or bi-weekly, as time permitted. This disregards Erie County Accounting Policy, Cash Receipts – Overview, “All cash received by operating departments within the County should be either deposited with the Comptroller’s Office’s cashier immediately (i.e., within one business day) or, if specifically authorized by the Comptroller’s Office, it may be deposited by the operating department in a bank account specified by the Comptroller’s Office with the required deposit information immediately forwarded to the Comptroller’s Office.”

Failure to make deposits in a timely manner increases exposure to the risk of loss or misappropriation. This was evident during our testing of deposits from November of 2016 when management of Parks was unable to provide deposit detail and disclosed to us that funds were missing. The incident is currently under investigation by the Erie County Sheriff. Our examination revealed that approximately \$13,491 was missing, consisting of golf course receipts in the amount of \$13,341 and petty cash of \$150. We were unable to audit any related records to substantiate the exact amount of the loss.

WE RECOMMEND that the following be implemented to effectively reduce the risk of misappropriation, misuse, loss and theft:

- (1) Utilization of a depository safe to remove cashier access to previous receipts.
- (2) Installation of video camera for surveillance of both the cashier and the safe location within the building along with proper video backup.
- (3) Preparation of appropriate policies and procedures:
 - a. Daily review of receipts and regular management oversight.
 - b. Independent review of the prepared transmittal for completion prior to the deposit of funds.
 - c. Regular and timely deposit of cash receipts.

2. NON-COMPLIANCE

Parks is not in compliance with the Golf Play Privileges Policy (Policy) per the Erie County Golf Manual (Manual). During our audit, we noted that Parks failed to adhere to key criteria outlined in the aforementioned policy as it relates to complimentary golf privileges available to employees.

- (a) There was no evidence that documentation of greens fee and golf cart rental costs waiver incurred by, and solely for, an employee exists. This disregards the Policy which states "Play includes the waiver for the greens fee and golf cart rental cost for the employee only," per the Manual. Properly recording waivers will allow Parks to justify the benefits received by employees, provide accountability for the waiver of fees and cart rental, and ensure that there is no exploitation.

(b) Parks has failed to track the complimentary golf passes issued to employees who receive this privilege and the number of golf rounds each employee plays, and thus, no report to the Commissioner was submitted for 2016. This is contrary to both the Policy and Manual criteria, “Annually the Superintendent will provide the Commissioner of Parks, Recreation & Forestry a list of which employees received this privilege and rounds each employee played.”

Due to the limitations of the software system and lack of additional recording methods, accurate tracking of employee golf rounds played did not occur. Complimentary golf privileges without an effective method for recording and tracking the number of rounds played per employee, the time and date rounds were issued, the course played and whether a cart was used are susceptible to manipulation and misuse.

WE RECOMMEND that the following be implemented to effectively track and review the use of complimentary employee golf privileges:

- (1) Continuous monitoring and oversight of employee golf privileges used in order to mitigate the possibility of abuse.
- (2) Develop, implement, and maintain offline golf privilege log at each course to ensure compliance with the Golf Play Privileges Policy. Require all employees to sign-in prior to complimentary play; noting the employee name, complimentary pass number, whether a waiver was utilized, and time and date the privilege was used.
- (3) While the software system does not offer remote tracking of golf play privileges used, it does offer direct on-site access. At the close of each shift, the cashier should run a report listing all of the golf privileges used, and together with the offline golf privilege log, submit both to the Parks Superintendent.

3. SEASON PERMITS IRRECONCILABLE

Parks utilizes a Golf Reservation System through Chelsea Information Systems Inc. to generate and utilize its golf permit passes. For the 2016 season, Parks was neither able to generate a permit holder report nor an employee golf play privilege report in order to determine how many patrons or staff were granted season permits through the Chelsea Information System. There was a missing link in the audit trail to properly reconcile the sale and use of season permits. The purchase of a season permit does not produce a transaction in the Chelsea Information System and therefore the transaction does not appear on the Z-report.

The limitations of the Chelsea Information System are a major contributor in the inability to reconcile season permit revenues to season permit holders. The fact that these transactions were not recorded in the system further compounds the issue. Lastly, the administration team failed to generate the reports that would make reconciliation possible.

Moreover, Parks provided a list of all the employees receiving golf privileges, but did not provide an accurate number of golf rounds played by those employees, only an estimate by the Parks Superintendent. The list did not accurately detail the location, date and time the golfing privilege was used or whether nine (9) or eighteen (18) holes were played by the employee.

Furthermore, per the Manual all employees wishing to enjoy complimentary golf privileges must request a 3000 Series Golf Pass from the Superintendent on an annual basis. We noted that 3000 Series Golf Passes also include regular, youth, and senior season pass holders for Elma Meadows / Grover Cleveland who are part of the general public and are not employed by either of the municipal golf courses.

The inability to track and or reconcile the sale of season permits or employee passes increases the possibility of fraud, misuse and abuse.

Since a significant portion of Parks' revenue originates from the sale of season permits, it is imperative that Parks is capable of accounting for its sale of services to the public. **WE RECOMMEND** that Parks takes the steps necessary to ensure that reports are timely generated to properly document and reconcile the sale of season permits. **WE FURTHER RECOMMEND** that Parks add an additional "Code Cost Description of Permit" line per the Golf Permit Application, such as "5000A/B --- Elma/Grover Employee Golf Privilege." This will ensure that complimentary golf privileges available to employees can be easily reconciled as necessary.

4. RECONCILLATION ERRORS

There were multiple instances where the reconciliation of the cashier's Z-report and the daily credit card transaction report contained errors.

During the course of our testing we found that the amounts charged on the credit card transaction report were more than the cashiers' day end Z-report. We examined 73 days of transactions between April 27, 2016 and November 2, 2016 and found that at Grover Cleveland there were reconciliation differences of \$153.00. This is an error rate of 8%. Based on the error rate, this difference would have been significantly higher had we expanded our sample testing.

<i>Location</i>	<i>Date</i>	<i>Z-report</i>	<i>Credit Report</i>	<i>Difference</i>
Grover Cleveland	4/27/2016	\$ -	\$ 67	\$ 67
Grover Cleveland	6/23/2016	\$ 141	\$ 166	\$ 25
Grover Cleveland	8/5/2016	\$ 465	\$ 476	\$ 11
Grover Cleveland	8/8/2016	\$ 199	\$ 217	\$ 18
Grover Cleveland	9/6/2016	\$ 32	\$ 44	\$ 12
Grover Cleveland	9/13/2016	\$ 136	\$ 156	\$ 20
Total Reconciliation Errors				\$ 153

WE RECOMMEND that Parks administration implement procedures to review and compare the daily credit card transactions with the Z-reports to disclose transaction differences.

5. FAILURE TO COLLECT NSF SERVICE CHARGE

On April 25, 2016, a patron purchased a 2016 Grover Cleveland Season Permit for \$340. The check was returned for non-sufficient funds on April 26, 2016. According to Erie County Accounting Policy, Received Check Payments Backed by Insufficient Funds (NSF), it is the responsibility of the department to complete collection efforts via all means necessary.

No action was taken by Parks to collect the \$20.00 service charge, nor was any action taken to prevent additional golfing without recovering the charge. Fortunately, we determined that this individual did not utilize his golf pass during the 2016 season.

WE RECOMMEND that Parks management take the steps necessary to detect, prevent and recover NSF fees.

AUDITOR COMMENTS

1. POLICIES AND PROCEDURES OUTDATED

During the course of our audit work, we reviewed the Erie County Parks' "Revenue Handling Procedures," last revised January 2014, and the Manual which had no effective date of revision noted. Having current policies and procedures in place are beneficial if they are properly implemented, monitored, and updated.

The Parks department utilized outdated policies and procedures that did not mitigate the risk of processing errors due to lack of employee knowledge or employees performing duties not in accordance with management's expectations as was evident throughout the course of the audit.

WE RECOMMEND that Parks administration update and review the existing policies to ensure compliance with accounting practices. With updated policies and procedures communicated to all relevant staff, increased employee accountability can be expected as well as a reduction in accounting errors.

2. GOLF COURSE PRIVILEGE

The policies and procedures manual for Parks includes a Golf Play Privileges Policy. The stated intention of the policy is "to assist in the hiring and retention of employees at both Erie County owned golf courses..." It provides all staff assigned to both Elma Meadows or Grover Cleveland golf courses greens fees and golf cart rental at either course. The policy states that the Superintendent will provide the Commissioner of Parks annually a list of which employees received the privilege and the number of rounds played by each employee.

The propriety of the policy should also be revisited. While the goal of hiring and retaining employees is admirable, the provision of compensation not available to other employees may be of concern. Individuals receiving this benefit are members of the CSEA and AFSCME collective bargaining units, as well as an MC, whose employment agreement in many ways mimics the CSEA agreement. The golf play privilege, while not taxable compensation, may be considered an employment benefit. This benefit is not included or described in either the CSEA or AFSCME contracts. Moreover, because the benefit has been offered to at least one employee who is not assigned to either course (the MC employee), the past practice may unintentionally open the privilege beyond employees assigned to either golf course.

WE RECOMMEND revisiting the policy to allow Erie County to examine whether the policy supports the goals prompting the implementation of the policy, whether the policy is appropriately implemented within contractual and legal parameters, including, but not limited to, whether the rule needs approval of the Erie County Legislature, and, ultimately, whether the policy should be improved or eliminated.

RESULTS OF EXIT CONFERENCE

An exit conference was held on August 4, 2017 with the Commissioner of Parks, a member of his staff, and a representative from Budget and Management.

The draft of the audit report was reviewed and included a discussion of both the Audit Findings as well as the Auditor Comments. There were no objection to the content of the report and the auditee was in agreement with the information it contained. We were provided with the department's written response to the audit report, which we have included as Appendix B.

The Commissioner spoke about the concerns raised throughout the report related to the limited capability of the Chelsea Information System. We were informed that following extensive communication with the company providing the software, the system is now updated.

The Erie County Comptroller's Office would like to thank the commissioner and staff of the Department of Parks, Recreation, and Forestry for the courtesy and timely cooperation extended to us during the audit.

ERIE COUNTY COMPTROLLER'S OFFICE

CC: Daniel Rizzo, Commissioner, Department of Parks, Recreation and Forestry
Hon. Mark C. Poloncarz, County Executive
Robert W. Keating, Director, Budget and Management
Erie County Fiscal Stability Authority

APPENDIX A – SCHEDULE OF FINDINGS

**Department of Parks, Recreation, and Forestry
Schedule of Findings
For the Year Ended December 31, 2016**

Unaccounted Cash Receipts*	\$ 13,341.00
Reconciling Errors in Cashier Reports	153.00
Unaccounted Petty Cash*	150.00
Uncollected Non-Sufficient Funds Charges	20.00
Total Findings	<u>\$ 13,664.00</u>

* Unaudited

APPENDIX B – AUDITEE RESPONSE

Re: Response to Performance Audit of the Cash Handling Process at the Erie County Golf Courses for the Year Ended December 31, 2016

I. AUDIT RECOMMENDATIONS

1. INTERNAL CONTROLS

- A. **Recommendation:** “Utilization of a depository safe to remove cashier access to previous receipts”.

Response: Prior to the Audit, new drop down safes were ordered for each golf course and have since been installed. The safes are used for the daily cash receipts and accessed only by a double key lock to which cashiers do not have access. The keys are kept with the Park Superintendent and with Administration. The combination safes are utilized at the golf courses strictly for the cashier’s ability to make change, with an amount of \$500 or less kept in the safes. A log is maintained and approved each day by every cashier, as verification.

- B. **Recommendation:** “Installation of video cameras for surveillance of both the cashier and the safe locations”.

Response: After last season (2016), new cameras were ordered and installed. They are fully functioning and have a six (6) month back up.

- C. **Recommendation:** “Preparation of appropriate policies and procedures”:
- a. “Daily review of receipts and regular management oversight”,
 - b. “Independent review of the prepared transmittal for completion prior to deposit”, and
 - c. “Regular and timely deposit of cash receipts.”

Response: Thank you for bringing these inefficiencies to our attention. The former Superintendent was responsible for completing the daily deposits, at the golf courses, and failed to do so correctly and on a timely basis. We addressed these issues with the addition of a Principal Clerk position. With this new position, proper oversight of the daily financial transactions and segregation of duties is enforced. There is a review of all financial transactions from the golf courses, bank transmittals are reviewed and approved, and cash receipts are deposited in a timely manner.

2. NON-COMPLIANCE

Recommendation:

- A. "Continuous monitoring and oversight of employee golf privileges,
- B. "Develop, implement, and maintain offline golf privilege log at each course", and
- C. "At the close of each shift, the cashier should run a report listing all of the golf privileges used."

Response: We are currently revisiting the policy regarding complimentary employee golf privileges. At this time, all complimentary employee passes Issued in 2017 have been suspended. When and if this policy is re-examined, it will go through an appropriate approval process.

3. SEASON PERMITS IRRECONCILABLE

Recommendation: Properly document and reconcile season permit sales and add an additional "Code Cost Description of Permit" line.

Response: We have made several changes regarding this issue. Prior to the audit findings, the golf reservation system, Chelsea Information System, was upgraded and all passes are now recorded. The Z-reports generated now have the information for all season passes sold. The sale of season passes is now handled at the administration level, in the Rath Building, with periodic days at the golf courses, Seasonal employees no longer have the ability to issue passes. We feel the changes that we have made adequately meet the Audit recommendations. In regards to the employee seasonal passes and adding a descriptive line, this policy is currently being revisited and will be addressed, as stated above.

4. RECONCILIATION ERRORS

Recommendation: Administration implements "procedures to review and compare the daily credit card transactions with the Z-reports to disclose transaction differences".

Response: As per our previous response to an IAM, although there may be differences between the Z-reports and the credit card reports, that difference does not indicate that a golfer was overcharged but may have been a tender error by the cashier. The reconciliation between the Z-reports and the credit card transactions is now handled at the administration level. There is a daily review of the reports and any errors are documented and corrected in a timely manner.

5. FAILURE TO COLLECT NSF SERVICE CHARGE

Recommendation: Parks management takes the steps necessary to detect, prevent and recover NSF fees.

Response: In the past, any returned checks/NSF fees that had to do with the golf courses were handled by the Superintendent, who would contact the customer, collect the money and the fee, and if needed, suspend the season pass. If the fee was unable to be collected, the Superintendent would inform the departmental accounting staff and a letter would be sent out by the Department. With a new Superintendent and additional staffing, we now have a better ability to follow up on such issues. The Parks Department will handle Golf Pass related NSF checks and all other NSF checks in accordance with the Erie County Received Check Payments Backed by Insufficient Funds (NSF) policy.

II. AUDITOR COMMENTS

1. POLICIES AND PROCEDURES OUTDATED

Recommendation: "Parks administration update and reviews the existing policies to ensure compliance with accounting practices."

Response: Thank you for bringing to our attention that the last revision for the "Revenue Handling Procedures was in January, 2014. We are in the process of updating the Policy & Procedures manuals and hope to have it completed by September 2017.

2. GOLF COURSE PRIVILEGE — RECOMMENDATION:

Recommendation: Revisit "the policy to allow Erie County to examine whether the policy supports the goals prompting the implementation of the policy, whether the policy is appropriately implemented within contractual and legal parameters, including, but not limited to, whether the rule needs approval of the Erie County Legislature, and, ultimately, whether the policy should be improved or eliminated."

We agree that the policy must be revisited. As stated previously, we do not have any complimentary employee passes active in the system. We will be revisiting the policy and any corresponding processes and if we look to implement this privilege again, we will go through the appropriate approval process.

Thank you for the opportunity to respond to the audit report. Please do not hesitate to contact me with any questions.

Sincerely,

Daniel Rizzo
Commissioner of Parks, Recreation & Forestry