

METRO
Regional Parks and Greenspaces

***Review of Controls Over Revenue
from Glendoveer Golf Course***

March 2003

A Report by the Office of the Auditor



METRO

PEOPLE PLACES
OPEN SPACES

Alexis Dow, CPA
Metro Auditor



METRO
OFFICE OF THE AUDITOR

March 11, 2003

To the Metro Council and Chief Operating Officer:

The Glendoveer Golf Course, in Northeast Portland, was transferred to Metro ownership from Multnomah County in 1994. A private concessionaire operates the two 18-hole golf courses and adjacent pro shop, driving range, indoor tennis courts and other facilities. Under a management and a lease agreement, Metro receives nearly \$900,000 a year in revenue, primarily from greens fees.

We studied the management controls in place to ensure that Metro receives appropriate payments under the terms of the agreements. While payments have generally been accounted for accurately, we found a need for improvement in three main areas:

- Metro is likely entitled to more rent than previously realized due to unclear and misinterpreted lease language.
- Controls over receipts can be improved, both by the concessionaire and by Metro.
- Information and procedures for evaluating the concessionaire's internal controls and compliance with agreement terms can be improved and made timelier.

Our report presents six specific recommendations for making these improvements. The Chief Operating Officer has agreed to make these changes. His written response is at the end of the report.

We sincerely appreciate the cooperation and assistance provided by Metro Regional Parks and Greenspaces staff and representatives of the concessionaire, Glisan Street Recreation, Inc., during this review.

Very truly yours,

Alexis Dow, CPA
Metro Auditor

Auditor: James McMullin, CPA

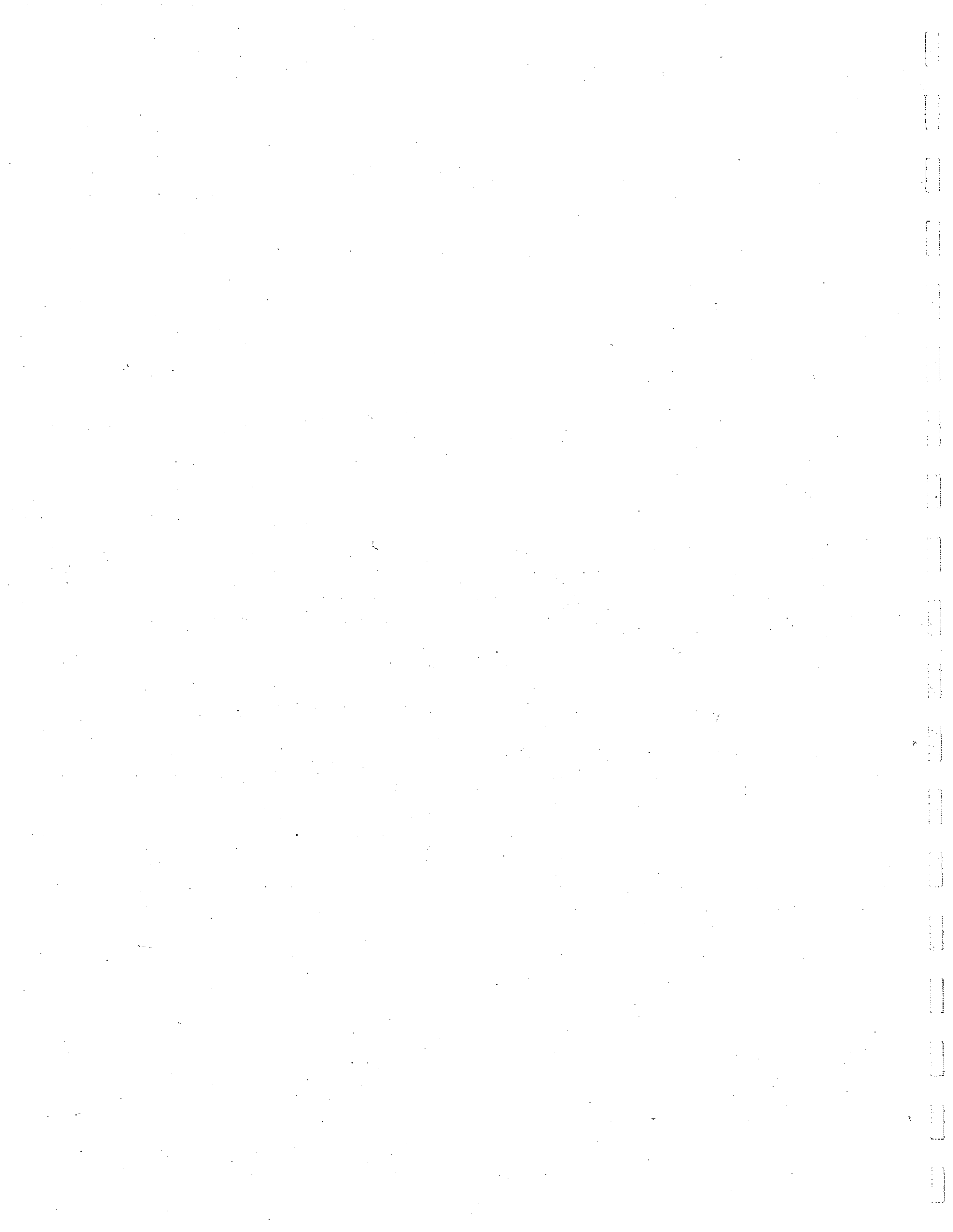
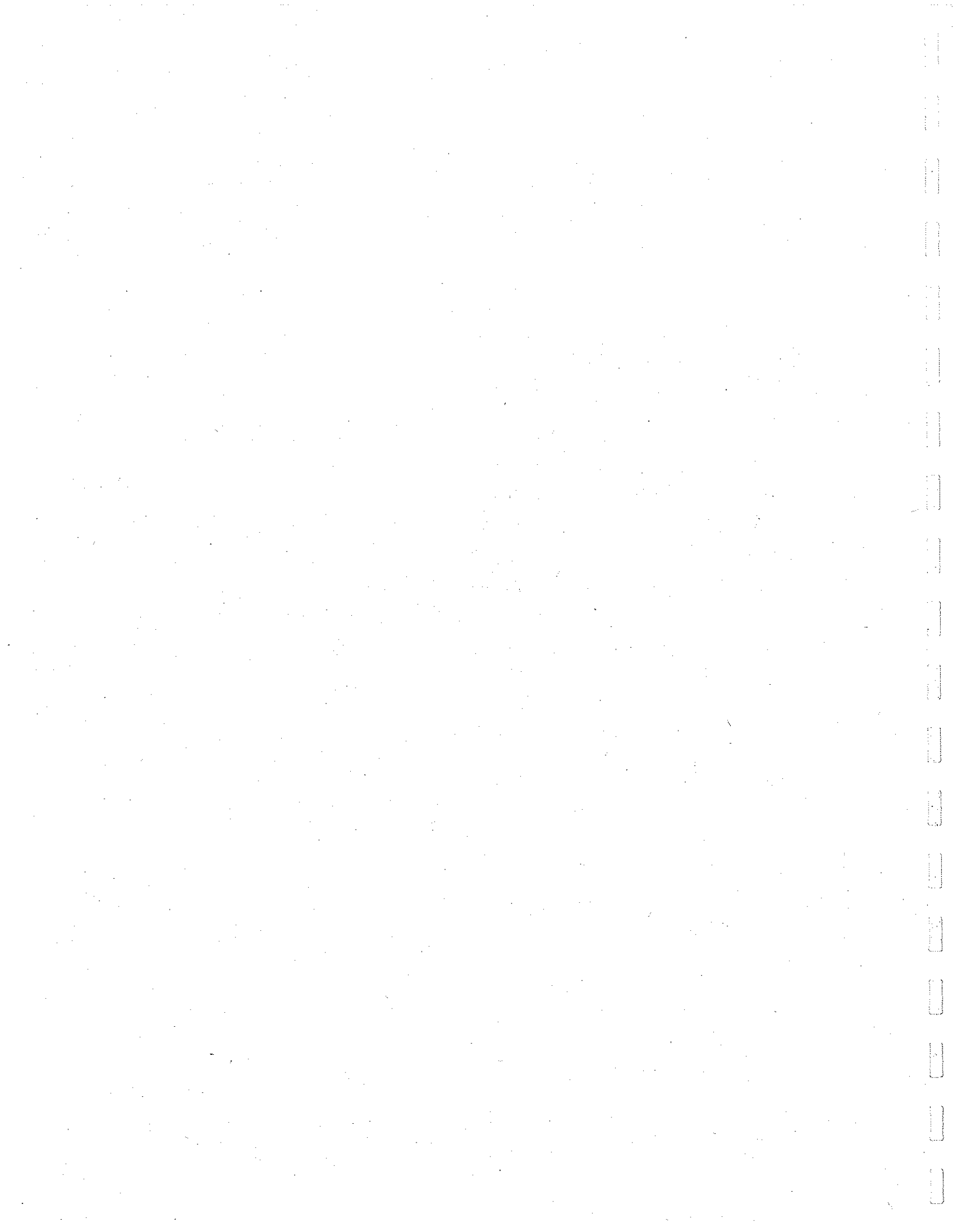


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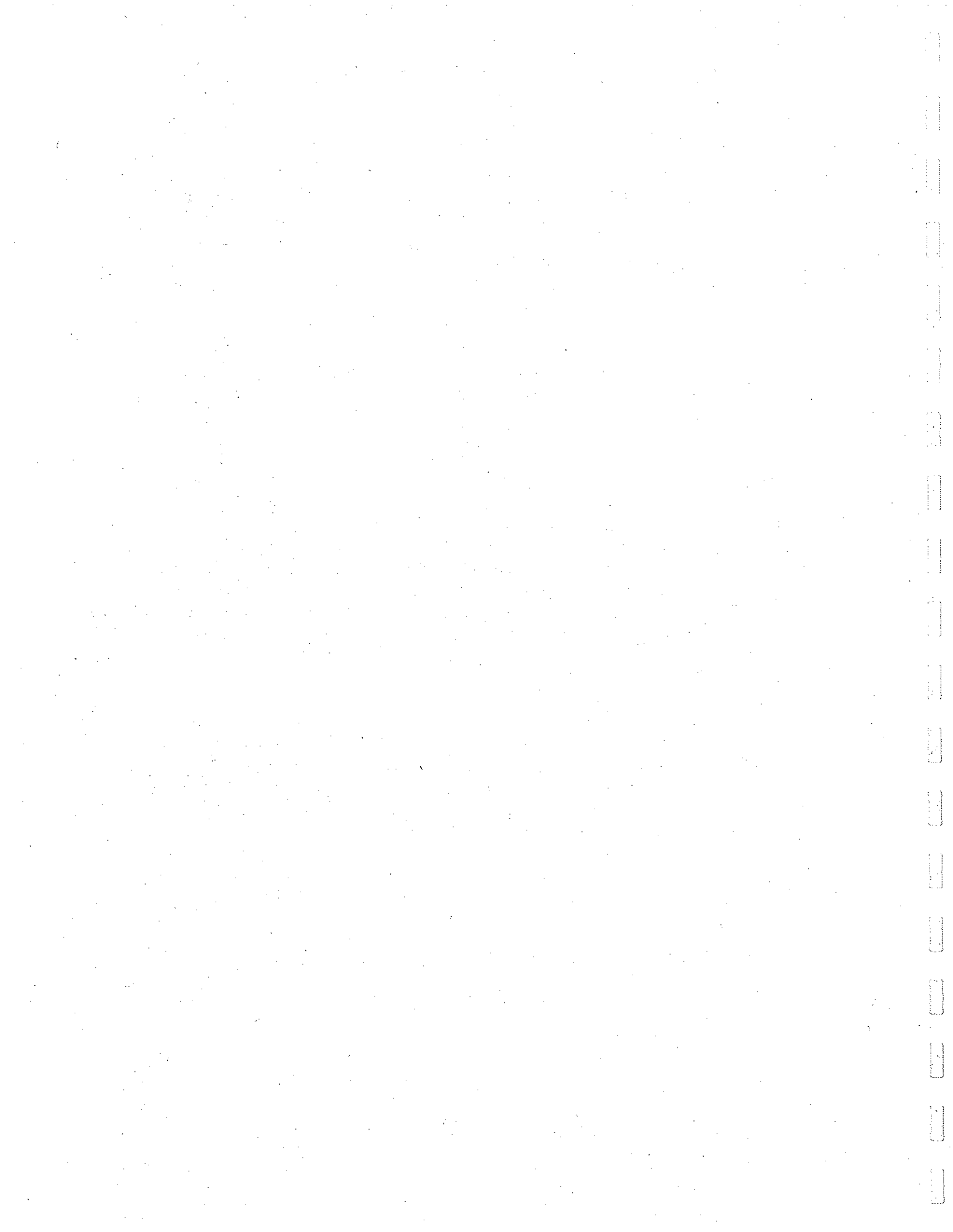
Executive Summary

The Glendoveer Golf Course, at 140th and Glisan in Northeast Portland, was transferred from Multnomah County ownership to Metro in 1994. A private concessionaire operates the two 18-hole golf courses and adjacent pro shop, driving range, indoor tennis courts and other facilities. Metro and the concessionaire divide the revenue under two agreements, one covering the golf courses, the second covering the other facilities. Metro receives about \$900,000 a year in revenue, mostly in greens fees.

We examined the management controls in place to ensure that Metro receives appropriate payments under the terms of the agreements. While payments have generally been accounted for accurately, we found a need for improvements in three main areas, as follows:

- Metro may not be receiving all it should in rents related to the adjacent facilities, such as the clubhouse, driving range and tennis courts. The current amount – \$12,000 a year – is the contractual minimum. The amount to be paid is based on the concessionaire's net revenues after allowable expenses are deducted. We identified several items that, in our view, have routinely but inappropriately been deducted as expenses, including profit-sharing payments and employee compensation not related to these facilities. The agreement's language is vague on these matters and needs to be clarified. To assure proper rent payments, Metro also needs to obtain more information about the concessionaire's operations and expenses so that it is in a better oversight position.
- An outside audit of the concessionaire's operations, contracted and paid for by Metro, is not providing Metro with a full range of management information needed to assure that terms of the agreements are being complied with and that revenue controls are adequate. Metro needs to better define the scope of work to be performed and make the audits timelier.
- A variety of controls over expenditures and receipts can be improved, both by the concessionaire and by Metro. For example, there is no policy governing the granting of free rounds of golf, and controls over gift certificates are inadequate.

Our recommendations for addressing these matters are on the next page.



Recommendations

We recommend that Metro's Regional Parks and Greenspaces Department do the following to protect Metro's financial interests, limit exposure to risk and ensure concessionaire accountability:

1. Develop and document a plan for assuring that Metro receives proper rent payments. The plan should provide for:
 - Defining more clearly how rent will be computed, including the specific revenues and expenses to be included and excluded in determining net earnings.
 - Obtaining detailed financial information from the concessionaire on each component of revenue or expense related to these computations.
 - Determining whether the concessionaire has reasonable controls over the revenues and expenses involved in the rent calculation. Parks could do this cost effectively by:
 - Identifying and prioritizing risks associated with assuring each source of revenue and expense is properly accounted for and reported
 - Evaluating the concessionaire's controls only for identified high-risk components
 - Defining who will evaluate the controls and the role of the annual financial audit in the process.
 - Working with the concessionaire to improve weak controls where this can be done cost effectively.
2. Improve the effectiveness of the annual financial and compliance audit through the following steps:
 - Defining the purpose of the audit, including the extent to which the audit is expected to evaluate controls for preventing and detecting fraud.
 - Defining the specific management and lease agreement terms the auditor is to assess for compliance and requiring the auditor to report on compliance with each term.
 - Defining the purpose and nature of the review and assessment of the concessionaire's internal controls, including requiring the auditor to state what work was done to test controls and whether the controls are reasonably adequate to deter fraud.
 - Requiring the auditor to assess the concessionaire's determination of Metro's share of greens fees and rent and detail how these were calculated.
 - Reviewing audit reports to assure they adequately address the audit purpose and meet expectations in terms of content.

- Making the audits more timely.
3. Routinely reconcile greens fees and rent payments with the concessionaire's audited financial statements.
 4. Work with the concessionaire to improve cash control procedures by:
 - Establishing policy on complimentary golf.
 - Establishing controls over gift certificates.
 - Separating the duties of accounting for cash and preparing deposits.
 - Precluding the concessionaire's bookkeeper from having access to cash registers.
 - Documenting the concessionaire's internal control and cash handling policies and procedures in a written manual.
 5. Improve the Parks Department's cash handling procedures at Metro headquarters by:
 - Separating the duties of receiving cash and preparing deposits.
 - Keeping a log of receipts.
 - Documenting the chain of custody when transferring deposits to the Accounting Services Division.
 - Documenting Parks' cash handling procedures at Metro headquarters.
 6. Reimburse the concessionaire for an overpayment of greens fees in the amount of \$3,681 for calendar year 2000.

Introduction and Background

In January 1994 Metro assumed ownership of the Glendoveer Golf Course from Multnomah County as part of the County's transfer of ownership of its parks and recreation facilities to Metro. The golf course and other facilities located adjacent to the course are operated by a concessionaire, Glisan Street Recreation, Inc. (GSR), under two separate agreements.

One agreement covers operation and maintenance of the two 18-hole golf courses; the other covers rent from recreational facilities and 7.25 acres adjacent to the golf course. Table 1 provides basic information about the two agreements.

Table 1 Overview of Metro's agreements with GSR for operations at Glendoveer Golf Course

	Management agreement for golf course operations	Lease agreement for adjacent property
What it covers	Operation and maintenance of two 18-hole golf courses	Property rights to 7.25 adjacent acres, on which GSR has built a pro shop, driving range, indoor tennis courts, restaurant and coffee shop
Duration of agreement	Through December 2012	Through December 2012
Source of operating income	Greens fees	Revenue from Premises facilities (such as golf cart rental, golf lessons, fees for use of driving range and tennis courts, and sublease from restaurant and coffee shop)
Contract terms covering Metro's share of proceeds	Metro receives 44 percent of gross greens fees; GSR receives 56 percent, from which it pays all costs associated with managing and maintaining the golf course	Metro receives 20 percent of net earnings or \$12,000, whichever is greater.
Proceeds to Metro, 1999-2002	1999: \$857,000 2000: \$879,000 2001: \$858,000 2002: \$900,000	1999: \$12,000 2000: \$12,000 2001: \$12,000 2002: \$12,000

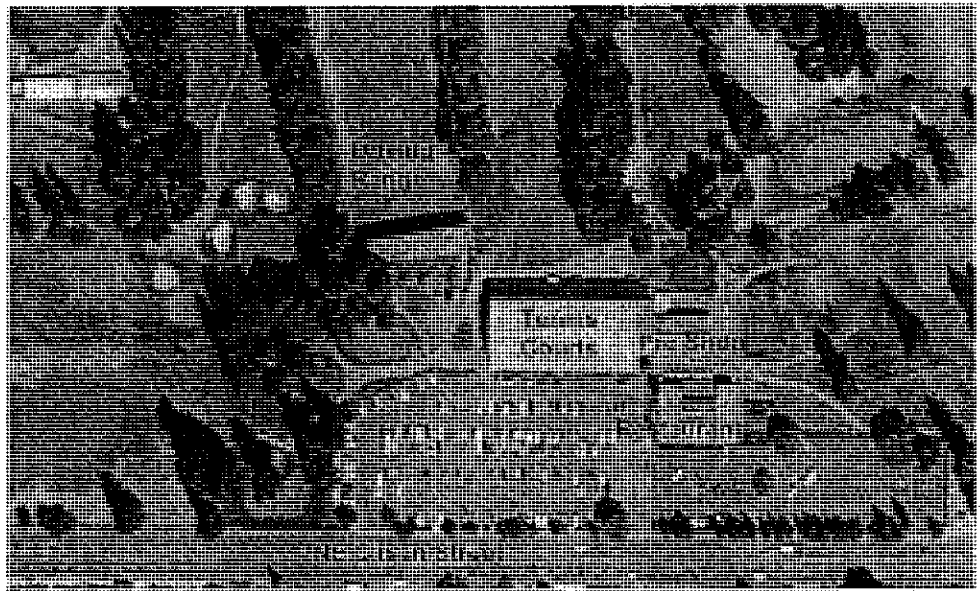
GSR is an Oregon corporation whose sole business is managing and operating the Glendoveer Golf Course and conducting business activities on the leased property. GSR employs about 15 persons full time, including a general manager, pro shop manager, two golf

professionals and a bookkeeper. GSR also hires additional staff as needed during the busy summer months.

Metro's share of the proceeds has come almost exclusively from greens fees, which totaled about \$2 million annually in 1999-2002. Although gross revenues from the Premises facilities have been about \$1 million annually, until recently GSR has not reported positive net earnings from this revenue. As a result, Metro has always received the minimum \$12,000 payment.

Both agreements require GSR to maintain an accurate accounting of golf course and Premises revenues and expenses in accordance with generally accepted accounting procedures. In addition, they require GSR to furnish Metro quarterly and annual reports showing revenues from all sources and all operating expenses. Metro has the right to audit all of GSR's accounts, records, books and data. Metro's Regional Parks and Greenspaces Department (Parks) is responsible for managing the two agreements with GSR and monitoring GSR's activities.

The aerial photograph below shows the basic layout of the recreational facilities on the 7.25 acres that GSR rents from Metro.



Glendoveer Golf Course and Facilities

**Objectives, Scope
and Methodology**

The objective of this review was to evaluate Parks' management controls for assuring that Metro receives appropriate payments under terms of the management and lease agreements and for protecting payments received. To accomplish this objective we:

1. Reviewed the management and lease agreements, focusing on financial terms including procedures for determining Metro's share of greens fees and rent.
2. Evaluated Parks procedures for monitoring GSR's compliance with the management and lease agreements and for evaluating GSR's internal financial and fraud controls. This work included:
 - Interviewing Parks managers and staff involved in monitoring GSR's compliance with the management and lease agreements.
 - Reviewing official Metro contract files and Parks files relating to the two agreements.
 - Evaluating the annual financial audit Parks uses to monitor GSR, including evaluating the contract for audit, interviewing the CPA who performs the audits, reviewing audit reports for 1996 through 2001 and reviewing the audit workpapers for 2000 and 2001 audits.
 - Determining Parks procedures for testing reasonableness of revenue from Glendoveer.
 - Reconciling actual payments for Metro's share of greens fees as shown in Metro's accounting records with GSR's audited financial statements for calendar years 2000 and 2001.
 - Interviewing Parks Office Manager to determine Parks procedures for handling payments from GSR.
 - Obtaining legal advice from Metro's Office of General Counsel on how rent should be calculated under the lease agreement.
 - Interviewing City of Portland officials involved in managing and accounting for the City's golf course operations to determine policy and procedures relating to controlling revenues.
 - Reviewing audit reports dealing with financial controls over other government-owned golf courses.
 - Reviewing a 1987 Multnomah County audit of the County's systems for revenue control and contract management over Glendoveer and, where relevant, following up on audit recommendations.

3. Evaluated GSR's procedures for controlling, recording and reporting greens fees. This work included:
 - Interviewing GSR's general manager, bookkeeper, pro shop manager and a starter and observing operations to determine GSR's procedures for controlling, recording and reporting greens fees.
 - Reading the year 2000 audit program and workpapers of the CPA who audited GSR to determine the extent to which we could rely on this work to accomplish our audit objectives.
 - Interviewing the concessionaire of the City of Portland's Eastmoreland Golf Course to determine their procedures for controlling greens fees revenue.
 - Observing GSR employees conducting sales transactions, including processing them on GSR's cash register.
 - Calculating Metro's share of greens fees revenue from GSR's daily register tapes and cash reports for the months of August and September 2002 and agreeing these amounts with GSR's payments to Metro.
 - Testing the reasonableness of reported greens fees by comparing the number of players reserving tee times with the number actually paying to play for the high volume weekends of August and September 2002.

The scope of our review did not include evaluating GSR's controls over Premises revenues and expenses. Our preliminary work showed that net earnings from Premises sources had always been negative, so there was no need for us to consider these controls because they did not play a part in determining rent due Metro. However, because our review found that net earnings were understated, potentially entitling Metro to more income than the \$12,000 minimum, Parks will need to evaluate these controls in the future.

We conducted our work in accordance with generally accepted government audit standards. Our fieldwork was conducted from October 2002 through December 2002.

Improvements Are Needed to Assure Proper Payments to Metro and to Better Control Receipts

The Parks Department has historically relied on an annual financial audit to assure that rent and greens fees payments are proper and that GSR is complying with financial provisions of the contracts. The Department has supplemented this procedure with some informal tests of the reasonableness of greens fees reported. While these procedures appear to have reasonably assured that greens fees rung into GSR's cash register are accurately accounted for, we found several weaknesses that could result in loss of revenue from golf or Premises operations or in incorrect payments to Metro:

- Net earnings from Premises facilities were not properly determined, and as a result Metro may not be receiving as much as it should in rent from the lease agreement.
- Better procedures and information are needed to ensure that Parks can adequately monitor revenues and expenses under the lease agreement.
- Annual audits were not focusing on some important revenue controls and were not timely.
- Greens fees and rent payments in Metro's accounting system are not being reconciled with GSR's audited financial statements, resulting in at least one overpayment by GSR.
- Cash handling controls can be improved, both by GSR and by Parks. The weaknesses observed cover such matters as the policy for free rounds of golf and the separation of cash-handling duties between employees.

Metro May Be Entitled to More Rent Under the Lease Agreement

The lease agreement requires GSR to pay a rental amount equal to 20 percent of GSR's annual net earnings from business activities conducted on the leased property¹ or \$12,000, whichever is greater. The agreement defines these net earnings as GSR's gross receipts from all sources on the Premises² during the 12-month period ending the preceding December 31, less the following:

- Gross greens fees received during the period
- All operating expenses (except rent), including interest, property taxes and depreciation, but excluding provisions for corporate

¹ These activities include golf cart rentals, golf lessons, driving range and tennis court fees and a sublease from a restaurant and coffee shop.

² The lease agreement is structured such that "all sources on the Premises" includes gross greens fees revenues, which are then subtracted in arriving at net earnings.

income and excise taxes, officers' and directors' compensation, travel expenses, entertainment expenses and the actual cost of golf course maintenance.

As part of our work, we reviewed how the CPA who had conducted the financial audit of GSR was determining net earnings. We disagree with the auditor's decision to include the following items as allowable operating expenses:

- **Profit sharing and donations.** Profit sharing is not a cost of operations and by its very nature is determined after expenses are deducted from revenues. Charitable donations that GSR chooses to make are unrelated to operating the businesses at Glendoveer and are similar to other expenses that are already disallowed under the lease agreement, such as entertainment expenses.
- **General Manager's compensation.** There are two problems here. The first is that the General Manager is also an officer of the corporation (President), and the agreement on its face does not allow a GSR officer's compensation to reduce net earnings for the purpose of calculating rent. Even if doing so can be justified on the grounds that the compensation is for the person's duties as General Manager, rather than as President of the corporation, there is a second problem related to how much of the General Manager's compensation should be considered an allowable operating expense in determining rent.

The General Manager's time is divided between managing the golf course and managing the business activities covered by the lease agreement (the exact percentage of time spent on each activity is unknown). However, his entire compensation – currently \$87,100 – has been treated as an allowable operating expense under the lease agreement, reducing net earnings and potential rent.

We believe the portion of General Manager compensation related to managing the golf course should not be allowed to reduce Premises net earnings for purposes of determining rent. Under the terms of the lease agreement this cost would be more appropriately considered an “actual cost of golf course maintenance” – an expense category the lease specifically excludes as an allowable operating expense.

The treatment of these expenses can make a significant difference in the amount of rent due Metro. As the calculations in Table 2 show, Metro would be entitled to additional rent of about \$5,000 for calendar year 2001 if profit sharing and donations were disallowed and if only one

half of the General Manager's compensation were considered an allowable operating expense under the assumption that the manager spends half his time related to managing the golf course.

Table 2 Impact of questioned expenses on 2001 net earnings and rent

Questioned 2001 expenses:	
Profit sharing	\$ 29,848
Donations	\$ 6,999
Officer/General Manager compensation (50%)	<u>\$ 43,550</u>
Total questioned expenses	\$ 80,397
2001 net earnings (Per audited financial statement)	<u>\$ 4,797</u>
Adjusted net earnings	\$ 85,194
Metro rent @ 20% of adjusted net earnings	\$ 17,039
Rent already paid	<u>\$ 12,000</u>
Potential additional rent	\$ 5,039

Resolving this matter appears all the more important for future years, because there are indications that GSR's net earnings may be rising. At the time of our audit, Parks management told us that their auditor said GSR may earn enough to owe Metro more rent than the \$12,000 minimum for calendar year 2002. If this happens, making the above adjustments would add an additional \$16,000 to Metro's rent for 2002.

To resolve this matter, we recommend that Parks develop and document a plan and procedures for assuring that Metro receives proper rent payments. The plan should clearly define how rent will be computed, including the specific revenues and expenses to be included and excluded in determining net earnings. Particular attention should be directed at allocations of expenses between golf course and Premises operations.

**Better Information
and Procedures
Needed to Assure
Proper Rent
Payments**

To properly calculate and monitor rent payments, Parks also needs detailed information on all of GSR's sources of revenues and expenses. At the time of our audit, Parks was not receiving the information from GSR that would enable Parks staff to assure that net earnings were properly calculated. The lease agreement requires GSR to furnish Metro with quarterly unaudited operating statements and an annual operating statement certified by their treasurer. These statements are required to show gross revenues from each revenue source and all operating expenses, except depreciation. However, GSR had not submitted the

quarterly statements for over two-and-a-half years and the annual reports for about five years. Parks did not realize these reports were missing until we brought the matter to their attention.³

This information may have seemed of limited use in the past, because the annual financial statements had shown net earnings that were below the level requiring any payment other than the \$12,000 minimum specified in the lease agreement. Given our finding that net earnings may be substantially higher, this information takes on more relevance.

Parks will need to ensure that the information is reported as required and is sufficiently detailed for its use. After we requested the reports, GSR sent Parks quarterly statements for two years and no annual statements. These reports, however, did not show revenues and expenses in sufficient detail for Parks to determine net earnings from Premises sources. Subsequently, we determined that GSR has such information readily available, as GSR's General Manager provided us income statements within minutes that contain the detailed account information needed to properly compute rent.

Parks should work with GSR to assure that these reports are submitted quarterly and annually, as required, and use them to monitor rent payments. In addition, Parks should obtain detailed statements for the past three years to provide a basis for analyzing trends in non-golf related revenues and expenses.

Along with obtaining better information, Parks will also need to establish new procedures to assure that GSR is properly controlling, accounting for and reporting Premises revenue and expenses and properly determining net earnings and the amount of rent. Much of the revenue involved in calculating the rent payments is paid in cash, increasing the need to have such procedures. Without such procedures, Metro is at higher risk of revenues and expenditures being subject to fraud, manipulation, recording or calculation errors. For example, rent due Metro could be understated by charging golf-course-related expenses against Premises revenue to reduce net earnings.

While we recognize that Metro is not yet receiving enough rent to justify Parks setting up a sophisticated risk management system, we believe that the department should develop a plan for assuring that rent is properly determined. This plan should include identifying the key

³ In 1987, the Multnomah County Auditor reported that these reports were not timely and recommended that Parks enforce the contract requirements that financial reports be submitted timely. Parks apparently never implemented this recommendation.

risks associated with each revenue source at Glendoveer and determining whether GSR has reasonable controls to mitigate these risks. From this process, Parks can establish plans for evaluating GSR's controls and working with GSR to improve weak controls in a cost-beneficial manner.

**Annual Audit
Needs To Be Better
Managed**

The Parks Department has been relying almost entirely on the CPA firm it has contracted with for many years to assure that GSR is making proper payments and complying with financial terms of the Management and Lease Agreements. Our evaluation of these audits showed that improvements are needed in two main areas: defining the scope of work and conducting the audit on a more timely basis.

*Improvements
Needed in Defining
Scope of Audit Work*

The scope of work in the audit services contract requires the auditor to do the following:

1. Audit the calendar year financial statements of GSR culminating in a balance sheet, a description of the changes in financial position statement and income statement all based upon and consistent with the management and lease agreements.
2. Assess and make a formal statement of GSR's compliance with the terms of the management and lease agreements.
3. Review and evaluate internal controls at Glendoveer, complete with suggestions for their improvement.

We believe this Scope of Work should more specifically define what work the auditor is expected to do and what the audit reports should contain.

- **Financial statements.** The auditor's reports contain a balance sheet and statement of revenues, expenses and retained earnings. The reports, however, do not contain the changes in financial position statement required by the scope of work. In addition, Parks has apparently not reviewed this reporting requirement with the auditor for many years, as the "statement of changes in financial position" is rarely used for financial reporting, having been replaced by the new standard "statement of cash flows". Parks should review this scope of work requirement to determine whether Parks needs such a financial statement and revise the scope accordingly.
- **GSR compliance with management and lease agreements.** Although the scope of work requires a formal statement on GSR's compliance with the agreements, it does not define which terms in these agreements must be assessed, and the auditor's reports do not identify which terms were assessed. We believe the scope of work

needs to clearly state which terms the auditor is to assess and require the audit report to address the auditor's findings in relation to each of these terms. At a minimum, the contract should require the auditor to report on GSR's compliance with financial reporting requirements and the amount of greens fees and rent due Metro for the year audited and the supporting calculations in sufficient detail to enable Parks to evaluate them.

Putting these requirements in the audit services contract should provide Metro greater assurance that GSR has complied with relevant agreement terms. If such requirements had been in place, the auditor would likely have identified and reported that GSR was not submitting quarterly and annual financial reports as required.

- **Assessment of internal controls.** The audit services contract requires the auditor to review and evaluate GSR's internal controls and make suggestions for improvement, but the contract does not state the purpose of this work. We found that the audits have considered GSR's accounting controls for the purpose of expressing an opinion on GSR's financial statements. The audits, however, have not reviewed or evaluated GSR's controls for deterring fraud in areas other than those most significant to the financial statements, such as controls over gift certificates discussed later. Accordingly, we believe Parks needs to define the role of the annual audit in assessing fraud controls and determine whether the audit can assure that fraud controls are in place to reasonably cover Metro's risks. Parks may need to provide for additional assessments of controls by a CPA or other qualified professional.

After Parks defines the role of the annual audit in assessing fraud controls, the scope of work in the audit services contract needs to reflect this role. As a minimum, the scope should state the purpose of the internal control review and the extent to which the auditor should evaluate controls for deterring fraud. In addition, the scope should require the audit report to specifically describe what the auditor did to examine internal controls and what conclusions were reached. Parks staff should review the audit reports to assure they adequately address the audit purpose and meet expectations in terms of content.

*Improvement Needed
in Audit Timeliness*

The annual audits are not timely. For the past 5 years, Parks has taken over 5 months after the end of the year to be audited to enter into a contract for the audit. The audit reports have not been completed for an average of over 8 months from the end of the year audited, and for the past 2 years, Parks has not received final audit reports until almost 11

months after the end of the year being audited. These audits should be conducted on a more timely basis so that any identified errors, misstatements and lapses in controls can be corrected quickly.

**Greens Fees and
Rent Payments
Should Be
Reconciled**

Parks should reconcile greens fees and rent payments shown in Metro's accounting system with GSR's audited financial statements. This reconciliation helps assure that payments have been accurately calculated and properly entered into Metro's accounting system.

We made this reconciliation for greens fees payments for calendar years 2000 and 2001 and found that GSR overpaid Metro by \$3,681 for calendar year 2000. Payments for calendar year 2001 reconciled accurately. Metro should reimburse GSR for the overpayment.

**Cash Handling
Controls at
Glendoveer Can Be
Improved**

There are many risks associated with handling cash. Theft can be covered up by suppressing, falsifying or destroying accounting records and by not creating a record at all. In addition, errors can go undetected without appropriate checks. Metro's interests obviously require that GSR and Parks have reasonably adequate internal control procedures to protect Metro and GSR from fraud and error.

Our review of GSR's controls showed that its procedures for controlling greens fees are typical of other golf courses. We did, however, identify some areas in which Parks needs to work with GSR to improve controls.

- **Lack of policy on complimentary rounds of golf.** GSR allows some persons to play golf without paying. This is apparently acceptable industry practice, but Metro has no policy on this matter, and GSR does not track who these players are and their number. Without such information, Metro is at risk that persons who should be paying are playing free.
- **Lack of controls over gift certificates.** At the time of our audit, gift certificates were not being adequately controlled to prevent fraud. Gift certificates need to be controlled because they are like cash in the hands of a person presenting one to play golf. We have the following concerns about controls over gift certificates:
 - The number of certificates issued and outstanding is unknown – the certificates are not pre-numbered, contain no expiration date and no log is kept of the number sold. An employee could sell or forge certificates and go undetected because there is no way to determine how many certificates should be on hand and have been sold.

- The certificates do not show the dollar amount paid – if greens fees increase before the certificate is used, Metro loses a percent of the corresponding revenue.
- The certificates are not adequately secured – the certificates, the size of a large business card, sit in an open box readily visible behind the counter in the Pro Shop making them easily accessible to all employees and possibly others.
- The cash register does not have a sales category for gift certificates – sales are rung into the register as though the rounds were played that day. GSR cannot tell how many were sold.
- **Separation of duties.** GSR's bookkeeper is responsible for all bookkeeping and preparation of bank deposits, and also handles all cash receipts and sometimes operates the cash register during busy times. These practices create the risk of misappropriation of cash with the ability to cover it up. We recommend that all cash receipts be directed to another employee who should list daily cash collections for accounting and make the daily bank deposit. The cash listing totals should be reconciled daily to cash register tapes and monthly to the actual bank deposits.⁴ We also recommend that the bookkeeper should not have access to the cash register.

Currently, more than one cashier uses the one Pro Shop cash register to record sales transactions. This practice creates a situation in which individual accountability over revenues collected cannot be maintained. One partial solution is to have more than one register for busy periods.

- **Lack of written policies and procedures.** GSR does not have a written manual documenting its internal control, cash handling and accounting procedures. Such policies are needed to train new employees, encourage adherence to procedures, ensure consistent handling of transactions and facilitate review. GSR should document its policies and procedures in a written manual.⁴

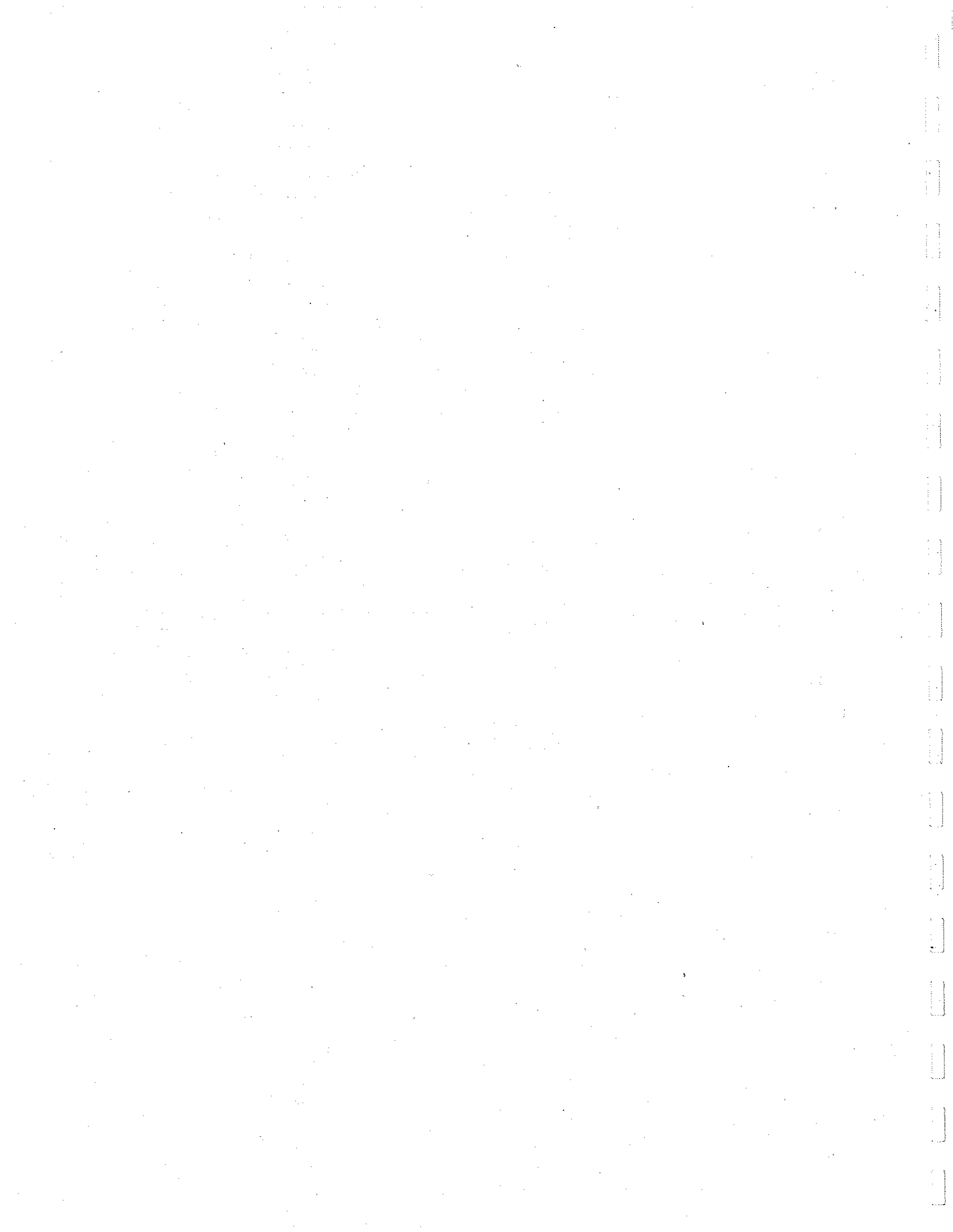
Cash Handling Procedures at Parks Can Also Be Improved

The Parks Department receives and handles cash and checks directly from a number of sources, including GSR. Even though we tested and found no irregularities in how GSR's receipts have been handled and recorded in Metro's records, the Department's procedures for controlling money received by mail can be improved. Areas in which cash handling controls could be improved are summarized below.

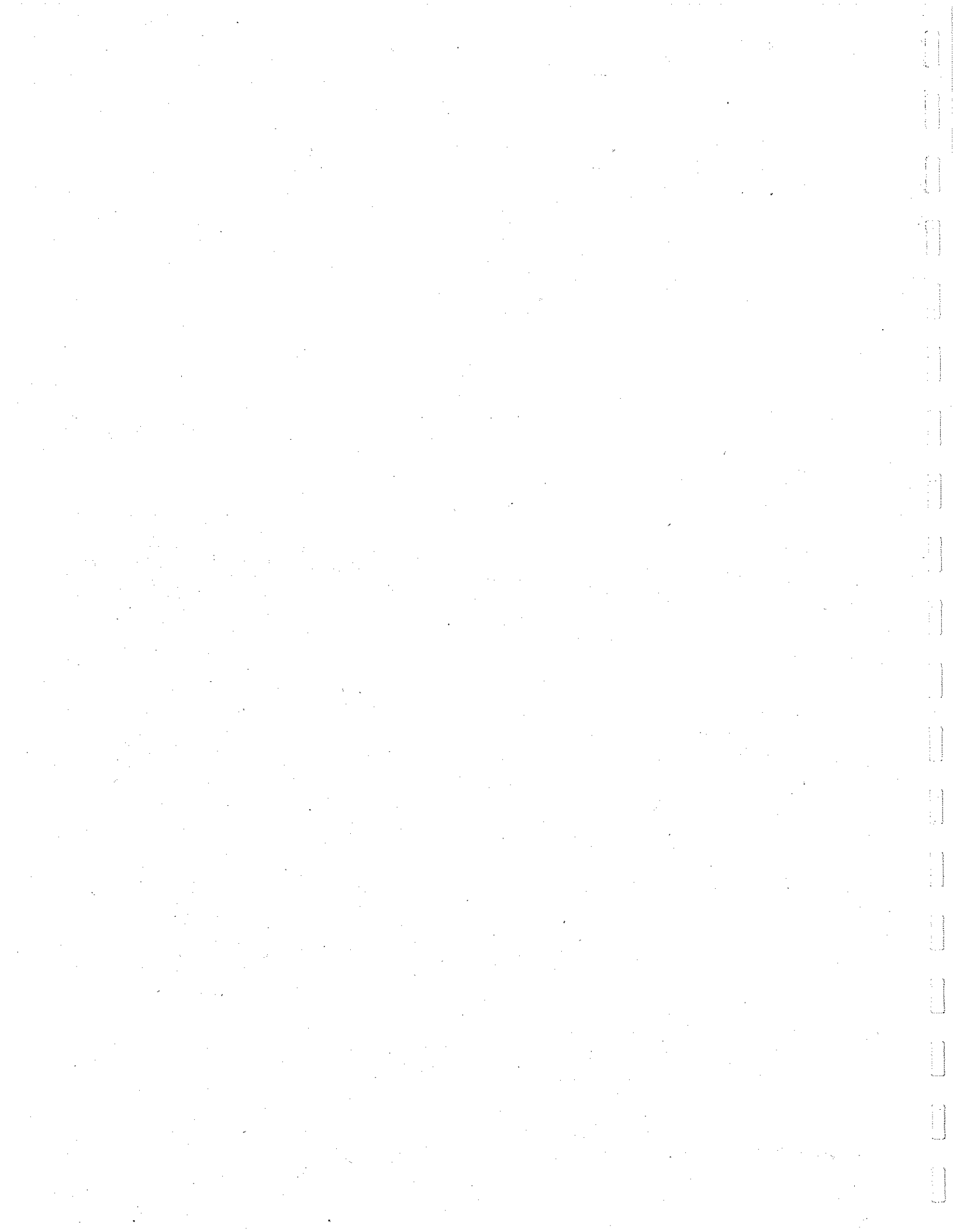
⁴ This internal control issue and recommendation was also reported in a January 1987 audit of GSR. The recommendation was apparently not implemented.

- **Lack of documentation.** The Parks Department has not developed written procedures for handling cash received by mail or in person at their central office. This creates the possibility for inefficient and improper processing of receipts if persons doing the processing leave or are absent. Parks should document procedures for receiving and handling cash and checks by mail.
- **Lack of daily receipts log.** Standard internal control procedure is to have the person who opens the mail list all checks and cash received in a daily log. Parks does not log receipts. A log can be used to verify that all money received has been properly deposited. Parks should establish a cash receipts log listing the employee opening the mail, date, amount of receipt, name of the person or firm making the payment and purpose of the payment.
- **Separation of duties.** Standard internal control procedures call for the person who opens the mail and logs checks to not prepare deposits. Parks has only one person opening mail receipts and preparing deposits, increasing the risk of theft of receipts with no record of the transaction. Parks should designate a different person to open and log receipts from the one who prepares deposits.
- **Accountability for transfers.** Standard internal control procedure is to maintain a record when receipts are transferred from one person to another. The Parks Department and the Accounting Services Division⁵ have no procedure for documenting these transfers. In the event of missing receipts, it is difficult to determine who had the money last. Parks and Accounting should establish a document showing the date and names of the persons transferring and receiving cash.

⁵ The Accounting Services Division is in Metro's Finance Department and is responsible for depositing and accounting for receipts brought to them from other Metro departments.



Response to the Report





METRO

March 11, 2003

The Honorable Alexis Dow, CPA
Auditor
Metro
600 NE Grand Avenue
Portland, OR 97232

RE: Response to *Review of Controls Over Revenue from Glendoveer Golf Course*

Dear Ms Dow:

Thank you for the opportunity to respond to *Review of Controls Over Revenue from Glendoveer Golf Course*. The audit represents the culmination of a great deal of staff work in your office and in the Parks Department, and many of the recommendations should help us make sure we continue to keep the program on track.

I am pleased by your comments that your "review of GSR's controls showed that its procedures for controlling greens fees are typical of other golf courses," (page 14) and that you "tested and found no irregularities in how GSR's receipts have been handled and recorded in Metro's records" (page 15). The improvements you have recommended to make controls better are appreciated and appropriate, and they should help Metro and the concessionaire to improve even further the controls both organizations have in place to prevent fraud and theft.

You have made five general recommendations aimed at protecting Metro's financial interests, limiting exposure to risk and ensuring concessionaire accountability within the terms of the two contracts Metro has with Glisan Street Recreation for the operations of Glendoveer Golf Course and the lease of approximately 7.25 acres adjacent to the golf course. I concur with these recommendations and have directed staff to focus on implementing the specific elements of the recommendations. Some of the recommendations will require discussions and negotiations with the concessionaire, and I have instructed staff to work diligently to come to a mutual understanding and agreement with the concessionaire that addresses the issues identified in the report.

My responses to your specific recommendations are as follows:

1. Develop and document a plan for assuring that Metro receives proper rent payments. The plan should provide for:

- **Defining more clearly how rent will be computed, including the specific revenues and expenses to be included and excluded in determining net earnings.**

Agreement with Recommendation: I agree that this recommendation would be favorable to Metro's interests.

The report indicates that donations and profit sharing should not be included as allowable expenses when calculating operating expenses for the purposes of determining rent. The report also questions how the General manager's compensation should be allocated. We agree with your analysis that until now, this has been a moot issue. Now that it is an issue (because of GSR's profit levels on the premises), it is an area of the contract that must be clarified.

Proposed Action Plan: I will direct staff to discuss the issues with the concessionaire and come to an agreement that provides clarity on the proper method of rent calculations.

Proposed Timetable: I expect the discussions with the concessionaire to be concluded by the end of June 2003.

- **Obtaining detailed financial information from the concessionaire on each component of revenue or expense related to these computations.**

Agreement with Recommendation: I agree with this recommendation.

Proposed Action Plan: Parks staff has already requested and received new reports from the concessionaire that fulfill this recommendation.

Proposed Timetable: Completed.

- **Determining whether the concessionaire has reasonable controls over the revenues and expenses involved in the rent calculation. Parks could do this cost effectively by: (1) identifying and prioritizing risk associated with assuring each source of revenue and expense is properly accounted for and reported, (2) evaluating the concessionaire's controls only for identified high-risk components, and (3) defining who will evaluate the controls and the role of the annual financial audit in the process.**

Agreement with Recommendation: I agree with this recommendation.

Proposed Action Plan: I have directed parks staff to begin the process of identifying the higher risk areas of the concessionaire's controls over its revenues and expenditures. Evaluations of controls will be conducted on the areas of highest risk as time and resources are made available.

Proposed Timetable: This recommendation is one that should be an ongoing part of staff's management of the contracts with the concessionaire.

- **Working with the concessionaire to improve weak controls where this can be done cost effectively.**

Agreement with Recommendation: I agree with this recommendation.

Proposed Action Plan: I have directed parks staff to develop a plan to address this recommendation.

Proposed Timetable: Ongoing. The discussions will happen as controls needing improvement are identified.

2. Improve the effectiveness of the annual financial and compliance audit through the following steps:

- **Defining the purpose of the audit, including the extent to which the audit is expected to evaluate controls for preventing and detecting fraud.**
- **Defining the specific management and lease agreement terms the auditor is to assess for compliance and requiring the auditor to report on compliance with each term.**
- **Defining the purpose and nature of the review and assessment of the concessionaire's internal controls, including requiring the auditor to state what work was done to test controls and whether the controls are reasonably adequate to deter fraud.**
- **Requiring the auditor to assess the concessionaire's determination of Metro's share of greens fees and rent and detail how these were calculated.**
- **Reviewing auditor reports to assure they adequately address the audit purpose and meet expectations in terms of format and supporting explanations.**
- **Making the audits more timely.**

Agreement with Recommendation: While I expect that the recommendations will increase somewhat the costs associated with the annual financial and compliance audit, I agree with this recommendation.

Proposed Action Plan: I have instructed Parks staff to revise the Scope of Work for its annual financial and compliance audit to incorporate the recommendations.

Proposed Timetable: The audit should be started at the end of April and finished by mid-July.

3. Routinely reconcile greens fees and rent payments with the concessionaire's audited financial statements.

Agreement with Recommendation: I agree with this recommendation.

Proposed Action Plan: I have instructed staff to reconcile greens fees with the concessionaire's audited financial statements within 2 weeks of receipt of the statements.

Proposed Timetable: This will be done annually in April. (Audited reports are due to Metro by the end of March).

4. Work with the concessionaire to improve cash control procedures by:

- **Establishing policy on complimentary golf.**

Agreement with Recommendation: I agree with this recommendation.

Proposed Action Plan: I have instructed staff to draft a policy for my review.

Proposed Timetable: I expect to have a new policy in place by mid-summer.

- **Establishing controls over gift certificates.**

Agreement with Recommendation: I agree with this recommendation.

Proposed Action Plan: I have instructed staff to work with and discuss this issue with the concessionaire.

Proposed Timetable: Discussions will commence within the next month.

- **Separating the duties of accounting for cash and preparing deposits.**
- **Precluding the concessionaire's bookkeeper from having access to cash registers.**

Agreement with Recommendation: While I agree with these recommendations, the specific work duties of employees is something that Metro does not have specific control over.

Proposed Action Plan: I have instructed staff to discuss this issue with and work with GSR in an effort to get better controls in place.

Proposed Timetable: Discussions will commence within the next month.

- **Documenting the concessionaire's internal control and cash handling policies and procedures in a written manual.**

Agreement with Recommendation: I agree with this recommendation. In the past, the CPA firm hired by the Parks and Greenspaces Department to complete the financial and compliance audit has indicated that written policies and procedures should be created, but the concessionaire has not been willing to do this. I believe that the creation and maintenance of written procedures manuals is a generally accepted accounting procedure and is necessary to operate a first class golf course in an efficient and proper manner.

Proposed Action Plan: I have instructed staff to work with the concessionaire to understand the importance of written procedures and to develop an action plan for its creation.

Proposed Timetable: Unknown.

5. **Improve the Parks Department's cash handling procedures at Metro headquarters by:**
- **Separating the duties of receiving cash and preparing deposits.**
 - **Keeping a log of receipts**
 - **Documenting the chain of custody when transferring deposits to the Accounting Services Division.**
 - **Documenting Parks' cash handling procedures at Metro headquarters.**

Agreement with Recommendation: I agree with this recommendation.

Proposed Action Plan: I have instructed the Parks Department staff to work with the Accounting Services Division staff to develop written cash handling procedures for the Parks Department that include the recommendations presented here.

Proposed Timetable: This should be done by the end of December 2003.

6. **Reimburse the concessionaire for an overpayment of greens fees in the amount of \$3,681 for calendar year 2000.**

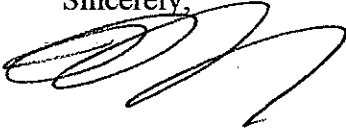
Agreement with Recommendation: I agree with this recommendation.

Proposed Action Plan: I have requested the Parks Department to authorize a reimbursement to be paid to the concessionaire. This should be completed within a few weeks.

Proposed Timetable: This should be completed by March 31, 2003.

I appreciate your report on ways to limit exposure to risk in relation to these two contracts. Your recommendations will continue our efforts to ensure that proper contract review and cash controls in implemented, and increase assurances that public funds are being protected.

Sincerely,

A handwritten signature in black ink, appearing to be 'Mark B. Williams', written in a cursive style.

Mark B. Williams
Interim Chief Operating Officer

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