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CLARK COUNTY
WASHINGTON

AUDITOR
GREG KIMSEY

Clark County

FINANCIAL COMPLIANCE AT TRI-MOUNTAIN GOLF COURSE

Clark County Auditor's Office
Audit Services
Report #08-01

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V (360) 397-2025; **TTY** (360) 397-2445; **E-mail** ADA@clark.wa.gov

Audit Services

1300 Franklin Street, Suite 575, P.O. Box 5000, Vancouver, WA 98666-5000

(360) 397-2310, Fax (360) 397-6007, www.clark.wa.gov/auditor/audit/index.html

EXECUTIVE SUMMARY

Clark County owns the Tri-Mountain golf course, which since 2003 has been operating under a contract with a management company (vendor). The contract states that gross revenues from the course are public funds belonging to the County and are to be deposited into an account known as the Deposit Account. The vendor is authorized to transfer amounts from the Deposit Account to pay its monthly Operating Fee and for certain other expenses.

At the request of the county official charged with the responsibility for contract oversight – the county’s contract manager – Audit Services looked at improvements to internal controls, performed limited revenue testing, and reviewed banking activity for the golf course.

- Internal controls over receipting have improved since audits performed in 2007. The vendor has placed an emphasis on improving controls and has addressed recommendations made.
- Revenue testing to determine if 2007 revenues were being accurately recorded did not result in any exceptions. Vendor records were accessible and clearly marked.
- The County has not adequately monitored golf course revenues and expenses to ensure compliance with the financial aspects of the contract, and/or has not appropriately amended the contract. This is evidenced by:
 - Apparent overpayments to the vendor in each of the five years examined for such items as credit card and other bank fees, payroll for lessons provided, and gift certificates honored. These total about \$126,000 for the five year period.
 - Uncertainty as to whether the vendor has been fully paid for its services in accordance with the contract. If not, the vendor may be entitled to an adjustment for several or all years from 2004 to 2007.
 - The vendor not complying with its obligation to have a certified public accountant test revenues and review or compile operating statements.
 - A lack of clarity between the parties on whether or not the vendor should be reimbursed for payment of sales tax on retail sales.

Our recommendations are designed to address these issues; these include:

- Clarifying the nature of authorized transfers by the vendor and resolving any resulting obligations between the two parties. Contract amendments should be processed as applicable.
- Reviewing bank, revenue, and expense data on a routine and periodic basis with a requirement to obtain adequate support for all withdrawals.
- Working with the vendor to identify the nature of withdrawals that remain incomplete from this review (years 2004 and 2005) and resolving any resulting obligations between the two parties.
- Ensuring the vendor receives the correct Operating Fee in the correct time periods to prevent accumulating obligations, and to have the county's expenditures in the correct accounting periods.
- Ensuring that the vendor complies with contract provisions requiring that "annual operating statements be compiled or reviewed and prepared by a certified public accountant selected by the vendor and approved by the County and includes revenue testing." Monthly operating statements provided by the vendor should continue to be furnished to the County as required by the contract.
- Ensuring the intent of the contract is clarified and documented between the County and the vendor, with the support of the Civil Division of the Prosecuting Attorney's Office.

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TRI-MOUNTAIN GOLF COURSE MANAGED UNDER CONTRACT

In January 2003, Clark County entered into a contract with a management company (the vendor) to manage and maintain the county-owned Tri-Mountain Golf Course.¹ The contract calls for the vendor to deposit gross revenues from the sale of services (for example rounds of golf or lessons provided) or merchandise (including food and beverage), into a Deposit Account. From this account the vendor is authorized to transfer amounts for their monthly Operating Fee and reimbursement for purchases of merchandise and inventory. Transfers are also made for reimbursements for travel and capital improvements. These transfers, or withdrawals, are to be placed into the Operating Account, the property of the vendor, from which the vendor then reimburses itself or pays for expenses.

The contract gives the vendor control over both these bank accounts (Deposit and Operating), and requires the County to monitor and evaluate vendor compliance with contract terms. The County's Budget Director (contract manager) has been responsible for monitoring vendor activity since 2003; beginning in October 2007 responsibility for contract management was transitioned from the Budget Director to the General Services Director.

This report provides the results of work performed looking at:

- Internal controls over on-site cash receipting;
- Revenue testing for 2007;
- Banking activity (deposits and withdrawals) for the Deposit Account; and
- Other financial obligations of the County and vendor under the terms of the contract.

Our work did not trace and verify support for all payments made; we did look at the vendor's general ledger for support. Our work did not include review of the vendor's Operating Account activity, nor did it include review of management or maintenance of the golf course.

Work was performed between December 2007 and June 2008, in accordance with generally accepted government auditing standards except for peer review.

Previous Audits

The Washington State Auditor's Office (SAO) reviewed internal controls at Tri-Mountain golf course early in 2007, following a misappropriation of funds reported by the vendor. SAO found weak internal controls over financial operations, including the recording of revenue, and had concerns about the banking activity. They listed concerns as:

¹ The Golf Course has been managed under contract since 1997. The original vendor was replaced in late 2002 with the current vendor and a new contract was effective January 1, 2003.

- “Bank activity, such as deposits and withdrawals, was not reviewed by the County. The contractor (vendor) authorized his own withdrawals from the account which amounted to several transactions per month.”
- “The County did not adequately monitor cash receipting at the golf course to ensure it received all money due to it.” During the SAO review “numerous internal control weaknesses over cash receipting” were noted.
- “The County relied on financial information provided by the vendor without verifying its accuracy. The contract required an annual review or revenue testing be performed by an accounting firm. The County did not ensure the vendor complied with this aspect of the contract.”

As a result of its work, the SAO recommended, in its 2006 Accountability Audit Report², that “the County perform additional monitoring of course operations to ensure vendors accurately report revenues.” They stated that the “monitoring, at a minimum, should cover cash receipting, reporting, and bank account activity.”

At the county contract manager’s request, Audit Services performed a review of internal controls over cash receipting in June 2007 to determine the extent to which controls had been improved since SAO’s review and what more could be done to strengthen the receipting systems. Audit Services found that many of the SAO recommendations over cash receipting had already been put into place, and reported on these improvements, with additional recommendations, in a memorandum to the Budget Director, on June 20, 2007.

In November 2007, the county’s contract manager requested another review, with an emphasis on revenue testing. Audit Services looked at improvements to internal controls, performed limited revenue testing, and reviewed banking activity for the golf course.

RESULT: Internal Controls Improved

Audit Services performed a second internal control review comprised of interviews, observations, and tests of records. We found the internal controls to be greatly improved over those that existed during the SAO review conducted in early 2007 and Audit Services’ review from mid-2007.

We found continued improvements. For example:

- Installation of a second safe for the cashier deposits. This second safe allows cashiers to have access to their cash bags from the first safe, while deposits are “dropped” into the second safe. The second safe’s combination is only known to

² Washington State Auditor’s Office, Accountability Audit Report, Clark County, Report Date: August 2, 2007, Report No. 73204, issued September 7, 2007.

course management – the Head and Assistant Head Pros – so staff are unable to access deposits after they are prepared.

- Vendor management at the course now reviews bank statements to ensure that all deposits have been received by the bank and recorded correctly.
- Voids and returns are appropriately reviewed by vendor management before completion of the transactions. Appropriate records of each voided or return transaction now includes management's review, noted by their initials on the transaction tapes, as well as in their manual reconciliation (on the cashier's envelope).
- Receipting system errors are being watched, and management reports that the system has been working better. There are fewer of the partial transactions occurring that had caused balancing errors in the past.

RESULT: Revenue Testing Performed With No Exceptions

We performed limited revenue testing to determine if revenues received in 2007 were accurately deposited to the Deposit Account. We tested revenue by reviewing documentation from the balancing process and tracing transactions from the point of sale system, through the manual deposit log to the bank statements and Monthly Income Reports kept by the vendor. Records needed for revenue testing were easy to access and clearly marked. We found no exceptions.

RESULT: Insufficient Contract Monitoring

Our revenue testing led us to review withdrawals from the county's Deposit Account to determine if these were made in accordance with the contract terms. We found:

- Withdrawals for items which appear to be out of compliance with the contract terms.
- The vendor may not have taken the correct Operating Fee. In two of the five years more than the base fee was taken, resulting in overpayment. In four of the years, it appears the vendor may not have taken the adjustment for the local consumer price index allowed under the contract.
- The vendor has not yet met the contract provision requiring a certified public accountant to compile or review the annual operating statements, and to perform revenue testing.
- Contract terms related to the payment of sales tax on retail sales activity at the golf course are not clear between contract manager and attorney.

Withdrawals Not in Compliance with Contract

The contract for management services allows the vendor to make withdrawals from the county's Deposit Account for its monthly Operating Fee along with reimbursements for specific expenses: the cost of retail inventory, travel expenses limited to an annual amount, and capital expenses as approved by the County. Expenses to operate,

manage, and maintain the Facility are paid from the vendor's Operating Account, which is funded exclusively by the Operating Fee. We found withdrawals for items which appear to be out of compliance with the contract terms.

Credit Card Fees and Other Bank Charges

There is no contract provision stating that credit card fees and other bank charges can be taken from the county's Deposit Account. We found that charges related to use of credit cards as well as returned item charges have been deducted by the bank directly from the Deposit Account. The vendor is responsible for these operating expenses, and thus, these should not be taken from the Deposit Account, but should be paid from the vendor's Operating Fee. The contract manager was not aware that such fees were being taken from the Deposit Account.

Lessons Provided

The vendor has reimbursed itself for some payroll costs even though the contract considers all payroll costs to be borne by the vendor as a part of its management responsibilities. This arises because the vendor treats payroll costs associated with lessons as a "cost of goods sold" item which, like inventory items, would be reimbursable. Vendor management stated that the manner in which they handle lessons is done according to industry standards, and that this provides better tracking of costs. The contract manager was aware that the vendor had wanted to be reimbursed for the labor cost of providing lessons; he indicated that he told the vendor that the labor costs should not be reimbursed.

Gift Certificates Honored

In 2003, we found that the vendor reimbursed itself for honoring previously issued gift certificates. This is not a reimbursable expense to the vendor. Since all revenue belongs to the County, any impact on revenues in 2003 would have been to the County's detriment, not the vendor's.

Summary of Withdrawals

The following table displays those amounts which appear to be inappropriately withdrawn from the Deposit Account, by year, and by category of expense.

Table 1: Summary of Possible Improper Amounts Withdrawn

Year	Credit Card/Bank	Lessons	Gift Certificates	Total
2003	\$16,796	\$3,059	\$6,459	\$26,314
2004	20,797	1,837		22,634
2005	21,914	1,057		22,971
2006	22,121	2,866		24,987
2007	23,071	6,468		29,539
Five Year Total	\$104,699	\$15,287	\$6,459	\$126,445

Note: analysis of 2004 and 2005 financial data found some withdrawals unsupported; these amounts were, in total, less than one percent of the total withdrawals. Consultation with vendor is on-going to resolve and support all withdrawals from the county's funds.

These withdrawals appear to violate terms of the contract and were not discovered by the County due to insufficient monitoring of the contract and withdrawal of the county's funds. While the contract manager would have been able to identify all withdrawals from the documentation provided monthly by the vendor, to our knowledge, this was not done. Nor did the contract manager request bank statements to verify that the amounts withdrawn matched to the vendor's general ledger.

To improve the county's compliance with these financial components of the contract, we make the following **recommendations**.

- Clarify the nature of authorized transfers by the vendor. There should be agreement concerning what is allowable under the contract. Amendments to the contract should be made as applicable.
- Going forward from January 2008, the county's contract manager should review bank, revenue, and expense data on a routine and periodic basis, monthly or quarterly. In addition, it may be helpful to obtain and review the vendor's reconciliation of the bank statement for the county's Deposit Account in order to ensure that (1) reconciliations are performed and statements agree, (2) any reversals or adjustments of amounts deposited or withdrawn are being addressed, and (3) amounts are being withdrawn in compliance with the contract.
- Work with the vendor to identify the nature of withdrawals that remain unidentified from this review (years 2004 and 2005) and resolve any resulting obligations between the two parties.

The Vendor May Not Be Taking the Correct Operating Fee

The contract establishes a monthly operating fee of about \$94,000 in 2003, with annual increases in accordance with the local consumer price index (CPI). The annual CPI increase ranges from approximately \$29,000 in 2004 to almost \$135,000 in 2007, for a total of almost \$313,000 over the four year period.

In reviewing withdrawals from the county's Deposit Account, we found that the vendor took one additional monthly payment of \$94,000 in 2004.³ Considering the CPI adjustment for 2004 is \$29,000, the vendor overpaid itself by \$65,000 in that year.

In 2005 and 2006, the vendor paid itself monthly amounts at the original 2003 rate of \$94,000, and did not appear to take the CPI adjustment. In 2007, the vendor paid itself twelve payments at the original 2003 rate, plus one other payment of \$25,000.

³ Two base fee payments were taken in June 2004 and one payment in each of the other months in 2004, for a total of 13 monthly payments of \$94,000 each.

It appears to us that the vendor overpaid itself in 2004, but underpaid itself in subsequent years. However, we were told by a senior member of the vendor's staff that in his opinion, the CPI adjustment has been taken.

In our opinion, sound business practices require parties to a contract to monitor and be aware of amounts owed to and from each party. Failure to do so over a number of years may result in accumulating obligations from one party to another that could be sizeable. Uncertainty related to the Operating Fee and related CPI adjustments would have been avoided with adequate monitoring of the financial components of the contract.

We recommend that:

- the County resolve past discrepancies with the vendor, and ensure that in the future the vendor is paid the correct amount of Operating Fee in the correct time periods to prevent accumulating obligations.

No Independent Review of Financial Data

The contract states that the vendor shall provide the County with an annual operating statement which "shall be compiled or reviewed and prepared by a certified public accountant selected by (the vendor) and approved by the County and will include revenue testing."⁴ The cost of this review is the responsibility of the County. This is one of the compliance issues referenced by the SAO in their audit report.

We did not find that the vendor has used, or is using, an independent certified public accountant, whether approved or not by the County, to review or compile operating statements. We are not aware of any revenue testing.

We found no documentation related to why this provision was put into the contract. We can speculate that it is designed to provide additional assurances related to the validity and accuracy of the financial data. In this regard, this provision would help the County carry out its contract monitoring responsibility.

We understand the County has recently asked the vendor to obtain a certified public accountant for this purpose, and the vendor is moving forward to meet this contract provision. Revenue testing will be performed for 2007.

We recommend that:

- the County ensure that the vendor complies with contract provisions requiring that "annual operating statements be compiled or reviewed and prepared by a certified public accountant selected by the vendor and approved by the County and includes revenue testing." Monthly operating statements provided by the vendor should continue to be furnished to the County as required by the contract.

⁴ Contract, Section 3, P i: [Accounting](#)

Contract Subject to Differing Interpretations

Our examination of withdrawals found that the vendor had reimbursed itself for payments of sales tax on retail activity to the State of Washington since the beginning of the contract in 2003.

We would normally be able to determine if these reimbursements have been in accordance with the terms of the contract by discussing this with management and other parties, and by examining the contract and other related documentation.

In this case however, we have conflicting input from two individuals who represented the County in the contract negotiations, the contract manager and the county's attorney who drafted the contract.

One interpretation of the contract -- that of the contract manager -- is that payment of the sales tax to the State of Washington was intended to be an expense of the County.

The other interpretation -- that of the attorney -- is that the payment of the sales tax was intended to be an expense of the vendor.

In our opinion, the contract wording appears to support this latter view.

We recommend that:

- the intent of the contract be clarified and documented/amended between the County and the vendor, with the support of the Civil Division of the Prosecuting Attorney's Office.

SUMMARY and RECOMMENDATIONS

To summarize the results of work performed, we found:

- Improvements have been made in the area of internal controls over on-site cash handling.
- Results of our limited testing of 2007 revenues indicate that revenues are being correctly deposited by the vendor to the Deposit Account.
- The County has not adequately monitored golf course revenues and expenses to ensure compliance with the financial aspects of the contract, and/or, has not appropriately amended the contract. This is evidenced by:
 - Apparent overpayments to the vendor in each of the five years examined for such items as credit card and other bank fees, payroll for lessons provided, and gift certificates honored.

- Uncertainty as to whether the vendor has been fully paid for its services in accordance with the contract. If not, the vendor may be entitled to the CPI adjustment for several or all years from 2004 to 2007.
- The vendor not complying with its obligation to have a certified public accountant test revenues and review or compile operating statements.
- A lack of clarity between the parties on whether or not the vendor should be reimbursed for payment of sales tax on retail sales.

Our recommendations are designed to address these issues. To summarize, these include:

- Clarifying the nature of authorized transfers by the vendor and resolving any resulting obligations between the two parties. Contract amendments should be processed as applicable.
- Reviewing bank, revenue, and expense data on a routine and periodic basis with a requirement to obtain adequate support for all withdrawals.
- Working with the vendor to identify the nature of withdrawals that remain incomplete from this review (years 2004 and 2005) and resolve any resulting obligations between the two parties.
- Ensuring the vendor receives the correct Operating Fee in the correct time periods to prevent accumulating obligations, and to have the county's expenditures in the correct accounting periods.
- Ensuring that the vendor complies with contract provisions requiring that "annual operating statements be compiled or reviewed and prepared by a certified public accountant selected by the vendor and approved by the County and includes revenue testing." Monthly operating statements provided by the vendor should continue to be furnished to the County as required by the contract.
- Ensuring the intent of the contract is clarified and documented between the County and the vendor, with the support of the Civil Division of the Prosecuting Attorney's Office.

Appendix A: Auditee Comments

June 9, 2008

Tri-Mountain Golf Course
Contract Compliance
Response to Draft Report by the County Auditor's Office

Thank you for the opportunity to respond to the draft audit report provided to me on June 5, 2008. This recent audit was requested by the contract manager as part of transitioning contract monitoring to the General Services Director. As noted in the draft, a previous audit was conducted in 2007 again at the request of the contract manager. I am pleased that both audits resulted in finding that the county's management company (contractor) responsible for managing the day-to-day operations has improved internal controls as addressed by previous recommendations. I am also pleased that the audit determined that revenues collected by the management company were properly receipted and reported.

Over the last year and half, we have continued our discussions with the contractor to improve internal controls. We will continue working with the contractor to ensure compliance with provisions of the management contract. This will include working with the county's Prosecuting Attorney's Office and contractor to clarify certain provisions of the current management agreement.

Again, thank you for the opportunity to respond to the draft report and to your audit teams detail work.

Jim Dickman
Clark County Budget Director