

OFFICE OF THE CITY CONTROLLER



HOUSTON PARKS AND RECREATION DEPARTMENT (PARC)

FISCAL YEAR 2013 FOLLOW-UP PROCEDURES

Ronald C. Green, City Controller

David A. Schroeder, City Auditor



OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS

RONALD C. GREEN

November 26, 2013

Mayor Annise D. Parker & City Council Members
City of Houston, Texas

**SUBJECT: REPORT 2014-07
HOUSTON PARKS AND RECREATION DEPARTMENT (HPARD) – FY2013 AUDIT FOLLOW-UP
PROCEDURES**

Dear Mayor Parker & City Council Members:

The Office of the City Controller's Audit Division has completed its follow-up procedures related to the FY2013 remediation efforts performed by management. As part of providing independent and objective assurance services related to efficient and effective performance, compliance, and safeguarding of assets, we perform follow-up procedures to ensure that corrective actions are taken related to issues reported from previous audits.¹

During FY2011, the Audit Division (Division) changed the Audit Follow-Up Process to utilize a risk-based approach, which contains two primary components:

- Management Status/Self-Reporting
- Fieldwork Testing/Verification

Based on the procedures performed, we obtained sufficient and appropriate evidence to render our conclusions related to HPARD as follows:

- There were a total of 20 open findings contained in the six (6) reports issued during the scope period. Our test-work revealed that 13 had been "Closed" (remediated), with six (6) remaining "Open", and one (1) for which there was disagreement. Exhibit 1 also includes 11 findings that have been identified as "N/A" due to having been closed as the result of previous follow-up testing results. (Objective One).
- Of the 20 findings, HPARD's remediation processes were deemed to be adequate in 13 instances, yielding an overall assessment of **Adequate** (Objective 2).

The Audit Team would like to thank HPARD, specifically: Cheryl Johnson, Deputy Director; Nina Gamble, Administrative Aide; Jason Harsh, Division Manager of Golf Operations; and Anthony Wise, Division Manager for their efforts throughout the course of the engagement.

Respectfully submitted,

Ronald C. Green
City Controller

cc: Chris Brown, Chief Deputy City Controller, Office of the City Controller
Waynette Chan, Chief of Staff, Mayor's Office
Joe Turner, Director, Parks and Recreation Department
David Schroeder, City Auditor, Office of the City Controller

¹ IIA Standard 2500 - requires a process that "....auditors evaluate the adequacy, effectiveness, and timeliness of actions taken by management on reported observations and recommendations...."



Office of the City Controller
Audit Division

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BACKGROUND

The Office of the City Controller's Audit Division has completed its follow-up procedures related to the FY2013 remediation efforts performed by management. As part of providing independent and objective assurance services related to efficient and effective performance, compliance, and safeguarding of assets, we also perform follow-up procedures to ensure that corrective actions are taken related to issues reported from previous audits.¹

During FY 2011, the Audit Division (Division) changed the Audit Follow-Up Process to utilize a risk-based approach, which contains two primary components:

- Management Status/Self-Reporting
- Fieldwork Testing/Verification

MANAGEMENT STATUS/SELF REPORTING:

During the 3rd quarter of the fiscal year, the current list of findings is reviewed and ranked according to three levels of risk (high, medium, and low). They are organized and identified by department and sent for management's self-reported status as to progress toward remediation based on their responses in the Audit Report. This information is then assessed by the audit team considering (1) responsiveness to the original issue and (2) resolution of issue identified.

FIELDWORK/TESTING VERIFICATION PHASE:

During the first quarter of the subsequent fiscal year, the information obtained through the management status phase is used as a basis to select departments for follow-up testing. Using the results of weighted risk-ranked findings, while also ensuring complete review of all City Departments, 4-5 are then selected for follow-up. All findings for those departments are then tested for status (Ongoing, Closed, or Disagreed) and assessment of remediation process (Adequate or Inadequate), with consideration of the accuracy of management's self-reported status.

AUDIT SCOPE AND OBJECTIVES

We identified **all** findings issued in **all** reports through the Office of the City Controller **since FY2009** (this includes reports issued by outside professional services firms as well as those performed and issued exclusively by Audit Division professional staff).

Based on the Process described above the four departments selected were:

- Parks and Recreation Department (PARC)
- Houston Department of Health and Human Services (HDHHS)
- Housing and Community Development Department (HCDD)
- Finance Department (Finance)
- Planning Department (Planning)

¹ IIA Standard 2500 - requires a process that "...auditors evaluate the adequacy, effectiveness, and timeliness of actions taken by management on reported observations and recommendations...."



Office of the City Controller
Audit Division

This report provides the results of the Follow-Up process as it relates to PARD and includes 20 open findings issued via six (6) formal audit report(s) during the period July 1, 2008 through June 30, 2013.

The objectives of our Follow-Up Procedures were to determine:

1. Status of remediation for each open item and
2. A process is in place to resolve the department's universe of findings.

PROCEDURES PERFORMED

Audit procedures performed to meet the audit objectives and provide a basis for our conclusions were as follows:

- Obtained and reviewed the management's self-reporting of findings status;
- Identified and requested the documentation necessary to support the status reported by management;
- Performed Interviews with Management and relevant staff; and
- Reviewed supporting documentation and other evidence provided for sufficiency and appropriateness.

AUDIT METHODOLOGY

The audit was performed in accordance with *Generally Accepted Government Auditing Standards* and the engagement was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* as promulgated by the Institute of Internal Auditors (IIA). Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



CONCLUSIONS

Based on the procedures performed, we obtained sufficient and appropriate evidence to render our conclusions related to PARD as follows:

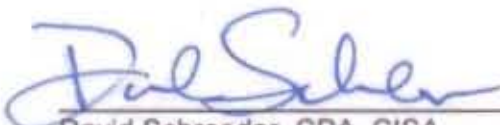
- There were a total of 20 open findings contained in the six (6) reports issued during the scope period. Our test-work revealed that 13 had been "Closed" (remediated), with six (6) remaining "Open", and one (1) for which there was disagreement. Exhibit 1 also includes 11 findings that have been identified as "N/A" due to having been closed as the result of previous follow-up testing results. (Objective One).
- Of the 20 findings, PARD's remediation processes were deemed to be adequate in 13 instances, yielding an overall assessment of **Adequate** (Objective 2).

ACKNOWLEDGEMENT AND SIGNATURES

The Audit Team would like to thank PARD, specifically: Cheryl Johnson, Deputy Director; Nina Gamble, Administrative Aide; Jason Harsh, Division Manager of Golf Operations; and Anthony Wise, Division Manager for their efforts throughout the course of the engagement.



Scott Haiflich, CGAP
Auditor-in-Charge



David Schroeder, CPA, CISA
City Auditor

EXHIBIT 1

| Report Number | Finding Title | Finding | Management Response/Actions Taken As Of 5/31/2013 | Conclusion | |
|---------------|---|---|---|--|---------------------|
| | | | | Ongoing/Closed | Remediation Process |
| 2009-02 | COMPLIANCE WITH DEFENSIVE DRIVING COURSE REQUIREMENTS | Audit testing revealed that one of the four Department employees receiving vehicle allowances had not completed a DDC as required by AP 2-2. | <p>Actions Taken: All employees who receive Vehicle allowance are in compliance. The department sends out reminders to Division Heads/Managers for all employees. We are taking an active role to make sure all HPARD employees are in compliance. Employees go to E.B Cape to attend DDC classes; as well as during the year we offer DDC classes to the employees at some of HPARD locations.</p> <p>Date Completed/To Be Completed: May 2013</p> <p>Supporting Documentation: DDC copies in the file and a updated report kept by the Safety Team.</p> | Ongoing: We selected a sample of 20 employees from a list provided by PARD of "All HPARD Employees who Drive on City Business as of August 2013. DDC certificates were not current for 10 (50%) of the 20 tested. | Inadequate |
| 2009-02 | COMPLIANCE WITH MOTOR VEHICLE RECORD REQUIREMENTS | Discussion with Department management revealed that MVRs are not obtained annually after the initial report is obtained for employees who drive on City business. The Department justifies not obtaining MVRs due to budget constraints. Specifically, we were told that due to the large number of Department employees who drive on City business, the expense is cost prohibitive. | <p>Central HR ran the annual MVR's for all HPARD employees the first of May 2013. We are following the procedures in A.P. 2.2 for all employees who are found not to be in compliance.</p> <p>Date Completed/To Be Completed: May 2013</p> <p>Supporting Documentation: Emails and signed letters from the employees who were found not to be in compliance.</p> | Closed: The City Human Resources Department (HR) annually obtains MVRs for HPARD. We were provided the 2013 MVR exception report from HR. | Adequate |
| 2009-02 | SEMI-ANNUAL REVIEWS OF VEHICLE MILEAGE REPORTS | Semi-annual reviews of vehicle allowances were not conducted on the one non-executive staff member file we tested. Failure to perform semi-annual reviews could result in under and/or over-payments to vehicle allowance recipients. | Finding Closed - No Response required | N/A | |

EXHIBIT 1

| Report Number | Finding Title | Finding | Management Response/Actions Taken AS OF 5/31/2013 | Ongoing/Closed | Remediation Process |
|---------------|----------------------------------|---|--|---|----------------------------|
| 2010-14 | PROCUREMENT PROCEDURES | <p>PARD does not have internal written procedures related to its purchasing process. The lack of standard procedures has caused confusion and inconsistency in application and practices of purchasing activity within the Department.</p> | <p>Actions Taken: The department continues to use A.P. 5-2 (which we believe covers all of the department purchasing processes); SPD has now finalized the Purchasing Manual and the department uses this as a tool to guide the department thru the purchasing process. The purchasing section works closely with the divisions to assist with their operational needs.</p> <p>Date Completed/To Be Completed: January 2012</p> <p>Supporting Documentation: The Purchasing staff is planning to have a training with HPARD End Users to discuss the purchasing process in 2013, utilizing the purchasing manual.</p> | <p>Disagreement: Section 6 of AP 5-2 states that, "All departments must utilize internal purchasing procedures consistent with Executive Order 1-14 and these procedures. Departments must submit their procedures to the City Purchasing Agent for approval." PARD has taken the position that this requirement is unnecessary stating that, "The department continues to use A.P. 5-2 (which we believe covers all of the department purchasing processes)".</p> | <p>Disagreement</p> |
| 2010-14 | GOODS RECEIVED/ DELIVERY TICKETS | <p>Detail testing of goods and services received identified that PARD is not consistently submitting documented evidence of receipts to Accounts Payable. In addition, the date of goods and services received recorded on receiving documents and entered into the SAP "Goods Received" field has typically been the date of entry, rather than the actual received date. The actual date of goods and services received is important, since it is one component of determining the baseline date, used to calculate the date payment must be processed to avoid late payment of interest. Table 1 below summarizes the results of our sample testing of receiving activity:</p> | <p>Finding Closed - No Response required</p> | <p>N/A</p> | |
| 2010-14 | Master Approval List | <p>The Lists for each department have not been updated since July, 2006. Without current information, invoices may be released for payment without proper approval authority.</p> | <p>Finding Closed - No Response required</p> | <p>N/A</p> | |

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|---------------|---|--|---|----------------|---------------------|
| 2009-24 | Adoption of Mission Statement | PARD does not have a mission statement adopted by the AFMD that would specifically apply to the management and maintenance of existing athletic fields | Finding Closed - No Response required | N/A | |
| 2009-24 | Athletic Field Inspections | PARD has a targeted standard to perform field inspections for both Level 1 and targeted Level 2 fields on a weekly basis. However, there is not a process in place to ensure they are conducted and recorded. | Finding Closed - No Response required | N/A | |
| 2009-24 | Athletic Field Inspections | A review of the PARD work order forms for the 13 month period (April, 2007 through April 2008) did not indicate any maintenance activity. As a result, it could not be determined if the PARD Targeted Maintenance Schedule was being followed. | Finding Closed - No Response required | N/A | |
| 2009-24 | Litter Removal | A review of the PARD work order forms for the 13 month period (April, 2007 through April 2008) did not indicate compliance with the daily pick up of litter for Level 1 Fields and twice per week for Level 2 Fields. | Finding Closed - No Response required | N/A | |
| 2009-24 | Athletic Field Maintenance | A review of the PARD work order forms for the 13 month period (April, 2007 through April 2008) did not indicate compliance with: the Skinned Area Maintenance/Field Marking; Mowing/Trimming; and Other Field Maintenance Activities targeted maintenance standards. | Finding Closed - No Response required | N/A | |
| 2009-24 | Approval and Adoption of AFMD P & P | The Athletic Field Maintenance Division's (AFMD) Draft Policy and Procedures have not been formally approved, adopted, and made available to all Division employees. | Finding Closed - No Response required | N/A | |
| 2009-24 | Inspection Procedure for Adopted Fields | A formal procedure for inspecting adopted fields is not currently in place. | Finding Closed - No Response required | N/A | |

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| Report Number | Finding Title | Finding | Management Response/Actions Taken AS OF 5/31/2013 | Ongoing/Closed | Remediation Process |
|---------------|--|---|--|--|---------------------|
| 2009-24 | Category Condition Ratings Level 1 Fields | A physical inspection of Level 1 Fields (see matrices on pages 47 and 48) indicated that four of six fields had individual category condition ratings of either "Caution" or "Deficient." | Finding Closed - No Response required | N/A | |
| 2009-24 | Category Condition Ratings Level Adopted Fields | A physical inspection of Adopted Fields (see matrices on pages 47 and 48) indicated that 13 of 15 fields had individual category condition ratings of either "Caution" or "Deficient." | <p>Actions Taken: Next meeting with adoption organizations is scheduled for October 2013</p> <p>Date Completed/To Be Completed: October 2013</p> <p>Supporting Documentation: We will forward documentation after the meeting is held.</p> | <p>Closed: Section 6.3 of <i>Sports Field Management: Standard Operating Procedures</i> requires monthly inspections of adopted fields. However, we were informed that Adopted Fields are inspected on a weekly basis and that adoptees are notified in writing when repeated deficiencies are observed. The documentation provided (completed inspection forms and letters to adoptees identifying deficiencies) supported that Section 6.3 of the SOP is being performed beyond what is required.</p> | Adequate |

EXHIBIT 1

| Report Number | Finding Title | Finding | Management Response/Actions Taken AS OF 5/31/2013 | Ongoing/Closed | Remediation Process |
|---------------|---|---|---|---|------------------------|
| 2012-03 | Contract Compliance – Concession Payments For Favorable Financing Rates | <p>• As of the date of the report, concession payments associated with the interest rate differential per the contract have not been recognized, paid, nor scheduled. To date, the accrued concession payment owed to the City is calculated to be \$108,755 .</p> <p>NOTE: (1) Assuming the prime rate doesn't rise above 5.5% through the remainder of the note, the total concession payment owed to the City would be \$181,537. (2) At minimum, the interest rate differential for the term of the current loan would be approximately \$152,000. This uses the assumption of an immediate increase in the prime rate to 7%, and the loan being held to term. Subsequent re-financing could occur, which could also have an impact.</p> <p>• The Contract extension date noted in Article V (March 8, 2014) is in conflict with the percentage of Revenue Receipts final dates Article IV (March 9, 2014 through March 8, 2019).</p> <p>Generally, City contracts state an end date with the possibility for one to three automatic extensions for a period of years. In the case of this contract, it specifically states that any reference to a renewal is deleted. However, in the preceding Article IV, it requires BSL to make percentage of Revenue Receipt payments past the end date of the contract.</p> | <p>Actions Taken: According to the agreed upon payment schedule all payments were made and the department received the final payment May 2013; also an amendment was approved by Council and the new contract end date is March 7, 2019.</p> <p>Date Completed/To Be Completed: May 15, 2013</p> <p>Supporting Documentation: SAP payment documents and a copy of the approved amendment to the contract.</p> | <p>Closed: We were provided check copies for five scheduled payments by BSL totaling \$135,943.75, supporting that the debt was paid in full.</p> | <p>Adequate</p> |
| 2012-03 | Contract Compliance – Reporting and Operational Requirements | <p>The following are items where BSL was not in compliance:</p> <ul style="list-style-type: none"> • Audited financial statements are not submitted to PARD; • Prices were not posted for the public to view; • BSL did not have the 35 required hand carts; and • Signs were not on vending machines noting where customers could obtain a refund. | <p>Actions Taken: BSL still has a fleet of pull carts in their inventory which are available to the customers. The department received the most updated financial statement from BSL April 2013.</p> <p>Date Completed/To Be Completed: April 2013</p> <p>Supporting Documentation: Financial statements submitted by BSL 2013.</p> | <p>Closed: We were provided the BSL Audited Financial Statements for the year ended December 31, 2012.</p> <p>In addition, we were provided an amendment to the BSL Golf Corporation contract revising the number of available pull carts from 35 to 10.</p> | <p>Adequate</p> |

EXHIBIT 1

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|---------------|--|---|---|--|--------------------------|
| 2012-04 | Contract Compliance – Capital Improvements | LMG did not build a driving cage or range. LMG did not spend \$60,000 or more in updating the Pro Shop and landscaping in lieu of building a driving range. | <p>Actions Taken: Although there has been more discussion in reference to the Capital improvements at the course, there has not been a final decision reached by The Director and Mr. Lopez on the capital improvements for the course.</p> <p>Date Completed/To Be Completed: Ongoing</p> <p>Supporting Documentation:</p> | <p>Ongoing: The capital improvements issue remains unchanged. We were provided a copy on an email, dated, July, 30, 2012, from LMG's accounted to the HPARD Director in which several projects were proposed. However, we were not provided any evidence of those projects having been approved or started.</p> | <p>Inadequate</p> |

EXHIBIT 1

| Report Number | Finding Title | Finding | Management Response/Actions Taken AS OF 5/31/2013 | Ongoing/Closed | Remediation Process |
|---------------|--|---|---|--|--------------------------|
| 2012-04 | Contract Compliance – Operational Requirements | <p>The following are the items that were not in compliance:</p> <ul style="list-style-type: none"> • During the audit period staff preparing food in the concession area did not have the required Food Service Manager’s Certification as required by City Ordinance Chapter 20, Article II, Division III, Section 20-53. (The Pro Shop manager was in the process of taking the required course at the end of the auditor’s on-site review.) • On two occasions since 2008, LMG’s concession area has been closed down by the City of Houston Health Department inspectors due to numerous health violations. The first occurrence was March 26, 2008, and the second was November 8, 2010. They were allowed to reopen after the violations were corrected. • LMG comingled funds by depositing revenue earned from outside Consulting Services into the same bank account for Glenbrook golf revenue. • LMG does not have the 15 required hand carts. • Prices were not posted for the public to view. (This was corrected by management while auditor was on-site). • Employees in direct contact with the public did not have the required name badge. • The vanity/cabinets in the bathroom were in need of repair. • The restroom walls need painting. (Management began painting restrooms while auditor was on-site). • Plywood covering a broken board on the bridge near tee 11 was noted as posing a potential safety hazard to foot traffic by PARD staff. On February 22, 2011 the bridge was still in need of repair. This same issue was also noted in a 2007 inspection by PARD. | <p>Actions Taken: Pull cart amounts were adjusted but are still being offered to the customers. Operational team visits the course to assure the course is following the contract terms.</p> <p>Date Completed/To Be Completed: May 2013</p> <p>Supporting Documentation:</p> | <p>Ongoing:</p> <ul style="list-style-type: none"> • We were provided a copy of the certificate issued by the Houston Department of Health and Human Services for the Food Service Manager’s Certification Program. The certificate expires 11/26/17. • Review of City of Houston Health Department inspections subsequent to the closure on November 8, 2010 revealed that, although some violations were recorded, closure was not warranted. • We were shown evidence of the now separate bank accounts with Amegy Bank for Glenbrook Golf Course | <p>Inadequate</p> |
| 2012-04 | Contract Compliance – Unreported Revenue | <p>LMG does not have a process in place that ensures discounted fees collected are recalculated to the regular rate and reported as such to PARD when paying the concession fee.</p> <ul style="list-style-type: none"> • Employee comps are not entered into the point-of-sale (POS) system and thus not recalculated at the regular fees. • Currently, the number of discounted transactions is small and when recalculated to the regular rates would not increase the minimum concession fee due to PARD. However, Wacky Wednesday is a new promotion that began in the Fall of 2010, which appears to be bringing in a significant amount of players. As the economy improves and golf revenues increase these discounts could have the potential to affect the future fees owed to PARD. | <p>Actions Taken: The department is reviewing the monthly statements to assure when a comp is charged it shows the revenue received.</p> <p>Date Completed/To Be Completed: monthly</p> <p>Supporting Documentation: monthly statements</p> | <p>Ongoing: The contractor commented that comp rounds and discounted rounds are not being reported as revenue at the regular prices.</p> | <p>Inadequate</p> |

EXHIBIT 1

| Report Number | Finding Title | Finding | Management Response/Actions Taken AS OF 5/31/2013 | Ongoing/Closed | Remediation Process |
|---------------|--|---|--|---|---------------------|
| 2012-04 | Contract Compliance – Lack of Internal Controls Over Revenue | <p>The following weaknesses in internal controls over revenue were noted:</p> <ul style="list-style-type: none"> • Prior to September 1, 2010, LMG did not use Tee sheets to document golfers using the course. The new Golf Pro hired in August 2010 suggested implementing the process. • Redeemed rain checks were not retained with the daily paper work. These documents would provide evidence that an actual rain check was presented to the Pro Shop for a round of golf. Eight days of golf transactions were reviewed in which there were four instances of redeemed rain checks without supporting documentation. • LMG does not employ a Starter . The first tee can be observed by the staff through the Pro Shop windows, which is currently how they are monitoring that all players starting a round of golf have paid. While this may be effective during slow times of the year, it may be ineffective during times when staff is too busy to monitor. | <p>Actions Taken: Tee sheets are still being used.</p> <p>Date Completed/To Be Completed: April 2013</p> <p>Supporting Documentation:</p> | <p>Closed: Testing for the period 9/22 - 28/13 revealed that t-sheets were used and that tickets are retained to support t-sheet entries.</p> | Adequate |
| 2011-05 | Green Fees and Cart Revenue | <ul style="list-style-type: none"> • Auditors could not determine if all revenue was valid due to lack of properly supported revenue transactions. Tee sheets were not retained at Brock while Memorial stated they retained their documentation for approximately two months before discarding. This practice does not allow proper review of the validity and reliability of historical financial data and is not consistent with Texas Statute Chapter 441, Subchapter J as adopted by City Ordinance 91-88 and PARD Record Control Schedule (policies and procedures related to record retention). • Starters and Marshalls at Brock golf course were all volunteers. In exchange for volunteering their time they are allowed to play golf for free. Through auditor observation and inquiry, Starters and Marshalls are not always present on the course. One control over revenue is ensuring golfers playing have a legitimate ticket and this is the responsibility of the Starter. By not having the course fully manned, a key internal control is missing. • During the 13-day review of all courses, many transactions occurred that could be signs of inappropriate actions but due to lack of further documentation they could not fully be explained: <ul style="list-style-type: none"> - Twenty-three transactions were entered as a cash receipt and an equal amount for change. The amount was usually \$18. This occurred at all locations except Sharpstown. Management stated they did not know why or how this transaction occurred and they assumed it was a computer glitch. - Fifty-five transactions were entered in which there was a negative cash or credit card amount which totaled <\$1,951.00>. The credit card machine is separate from the POS requiring the cashier to enter the sales amount twice, which can result in errors. It is possible that some of the negative credit card amounts were for this reason, but there was no documentation to verify why it had occurred. | <p>Actions Taken: All paperwork/reports are retained on site at each facility, and relative policies and procedures revised. Cameras have been installed, watching cash handling areas at all courses. POS system upgraded to prevent erroneous transactions when opening cash drawers. Starters and Marshalls were already in place at all facilities.</p> <p>*Memorial Range Operations Memorial now uses the E-Range system for selling range balls at a discount. The E-Button is programmed through software on the point of sale computer in the pro shop with the customers name and phone number entered with the e-button. The range machine is downloaded each day showing the e-buttons used throughout the day and keeps a running total on the usage of each customer.</p> <p>Date Completed: September, 2011</p> <p>Supporting Documentation: POS Sales Reports/Tee Sheets/Retained Coupons and Logs</p> | <p>Closed: We performed sample testing of supporting documentation for reported revenue at the Memorial and Gus Wortham Golf Courses for the period June 23 - 29, 2013. Testing revealed that T-Sheets were supported with sales tickets and that the transactions were properly recorded in the POS.</p> <p>In addition, we verified that cameras were in place to monitor cash handling.</p> | Adequate |

EXHIBIT 1

| Report Number | Finding Title | Finding | Management Response/Actions Taken AS OF 5/31/2013 | Ongoing/Closed | Remediation Process |
|---------------|----------------------------------|---|--|---|--------------------------|
| 2011-05 | Golf lesson revenue | <ul style="list-style-type: none"> • There are no internal controls over the monitoring and revenue collection of golf lesson revenue. Management does not require the Pros to log in or record when teaching a lesson nor do they require the Pros to submit the required registration forms for each participant. • Five (5) City employees at Memorial teach lessons (employees classified as Pros) and earn additional money separate from their normal wages. Due to the lack of internal controls over monitoring the lessons, it could be possible for an employee to teach while on City time. NOTE: We did not see this occur during the onsite portion of our review. • Employees classified as Pros are also collecting payment on behalf of the City from contracted Pros, but are not recording the individual transactions in the POS. • While monitoring Memorial over a two day period, we noted four (4) Pros on the course in golf carts with their students. None of the Pros had either a paid ticket for their student or a Pro comp ticket for themselves. Three of the Pros stated that they were "chipping" (practice that should take place in a specified area designed for that activity). • Golf course management at Memorial did not keep signed copies of the Agreements for the 11 Pros. PARD Management at 2999 South Wayside did not have copies of the Agreements nor were they aware of them. The Audit team was given a copy of an unsigned Agreement. • Some of the Pros use the Center to video and analyze their customer's golf swings. There is no evidence they are paying rent on the utilization of the facility. The building is used solely by the Pros and their customers. The equipment in the Center is not the City's property but is housed in City property and is exposed to the outside during the day. There is no Agreement between PARD and the Pros, who owned the equipment, which states the City is not liable for the equipment if it were to be damaged, lost, or stolen. In addition, the equipment is not marked | <p>Actions Taken: All Teaching Professionals now submit a daily log of lessons given, and reconcile through the POS on a monthly basis. New teaching agreements were revised/signed July 2011, and are renewed on an annual basis.</p> <p>Date Completed:</p> <p>Supporting Documentation: POS Reports/Lesson Logs/Current Teaching Agreements</p> | <p>Closed: We verified that the 11 Teaching Professional providing lessons at the Memorial and Gus Wortham Golf Courses all had signed agreements at the time of follow-up testing procedures.</p> <p>In addition, we requested and were provided monthly teaching logs prepared by Teaching Professionals for June 2013, as reflected in the POS.</p> | <p>Adequate</p> |
| 2011-05 | Pre-Paid Customer Discount Cards | <ul style="list-style-type: none"> • At the time of the audit, September 2010, PARD did not have a process in place to track the number of Smart Cards sold, redeemed, and outstanding. The auditors estimate that if all 3,000 Smart Cards are properly redeemed, using average revenue prices for each tier, this advertisement could help PARD realize estimated revenue of approximately \$1,276,665. • From September 1 – September 13, 2010, Smart Cards were recorded as being redeemed 30 times between the three (3) golf courses. Redemptions were entered using a specific key in the POS titled "Smart Card." However, since there are different criterion for each tier but only one key and no tracking mechanism in place, the auditors could not accurately determine if the Smart Card was being redeemed in compliance with the criteria. • Based on inquiry with golf-course management, the auditors were told that sometimes Smart Cards were incorrectly entered as comps, skewing the analysis. Based on this additional information and lack of a tracking mechanism, management will have a difficult time in controlling the usage and being able measure the success of the Smart Cards. • Management does not perform an analysis to determine if Smart Cards are achieving their goal of increasing course usage and revenue. • Management has entered into an agreement that restricts the City in the following manner: <ul style="list-style-type: none"> - There is no definitive expiration date of the current Agreement. The terms state that it will expire 12-months after the final sale of 3,000 cards, for which there is no specified time limit. | <p>Actions Taken: All staff retrained. Hot Key created on all POS. All usage documented on appropriate form, and specific policy and procedure implemented.</p> <p>Date Completed:</p> <p>Supporting Documentation: POS Reports/Usage Forms/Policy and Procedure</p> | <p>Ongoing: In a letter dated August 28, 2013, the Director of Golf Operations notified Smart Circle International (distributor of Smart Cards) that the City of Houston and PARD were cancelling the agreement in regards to the Smart Circle Golf Cards. In the letter, Smart Circle was informed that cards would no longer be accepted "one year and thirty days from receipt of the letter. This finding will be closed when termination of the agreement is confirmed.</p> | <p>Inadequate</p> |

EXHIBIT 1

| Report Number | Finding Title | Finding | Management Response/Actions Taken AS OF 5/31/2013 | Ongoing/Closed | Remediation Process |
|---------------|----------------------------------|--|---|--|------------------------|
| 2011-05 | Complimentary (Comp) Golf Rounds | <p>PARD does not have written policies and procedures for who is eligible for a comp. Also, they lack adequate controls over rounds of golf given as comps to ensure; they are accurately tracked, are reasonable to industry benchmarks, and the system is not being abused.</p> <ul style="list-style-type: none"> • 440 of 6,243 (7%) rounds of golf were recorded as comps during the period of September 1 through September 13, 2010 (See Table 4 below). • In contrast, Hermann Park, allowed 22 comps out of 1,495 rounds of golf (1.47%), for the period of September 1 through September 13, 2010. <p>NOTE: This comparison was based on reported comps from Hermann and the City-Operated courses and did not include what was noted during the 12-hours of monitoring identified in Finding 1 and listed below.</p> <ul style="list-style-type: none"> • Memorial's monitoring noted 12 comps in an approximately 2-hour period. Three of the comps were for individuals other than Pros but were recorded as Pro comps. <ul style="list-style-type: none"> - One was the son of an employee; and - Two were college students who stated Memorial had an agreement with their school that allowed golf team members to play for free. • Brock's monitoring noted 62 comps in approximately a 10-hour period. Eighteen (18) of these comps were either incorrectly coded in the POS or not recorded at all. <ul style="list-style-type: none"> - Three golfers stated they had redeemed gift certificates, but they had POS tickets for Pro comps. - One golfer stated they had redeemed a 2-for-1 coupon, but had a POS ticket for an Employee comp. - One retired City golf course employee had an Employee comp ticket. - Two golfers were playing off a duplicate employee comp ticket number. - Eleven golfers did not have a POS ticket, but stated that they were either employees/volunteers. The majority of golfers without a POS ticket occurred during the first few days of our course monitoring. At the | <p>Actions Taken: Policies and procedures revised to define/limit comp rounds, and to segregate professional comps from employee rounds. Hot keys were created for every POS, and new registration forms implemented at all facilities.</p> <p>Date Completed: January 2012</p> <p>Supporting Documentation: Policies and Procedures/POS Reports/Registration Forms</p> | <p>Closed: We verified that the section entitled, <i>Volunteer Play</i>, of the policy and procedures manual allows volunteers to play comp rounds twice per week if they work their assigned shifts.</p> <p>Employees are also allowed to play two comp rounds per week.</p> <p>We were provided copies of completed sign-in sheets intended only for volunteers playing comp rounds. The sign-in sheets supported compliance with the policy restricting comp rounds to twice per week per volunteer.</p> <p>Glen Childers & Willie</p> | <p>Adequate</p> |

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|---------------|-------------------|--|--|--|------------------------|
| 2011-05 | Gift Certificates | <p>The current process for recording and managing Gift Certificates is not consistent with applicable policy and procedures and both (process and policy/procedures) lack proper internal controls for:</p> <ul style="list-style-type: none"> • Adequate safeguarding of cash; • Efficient monitoring of unredeemed certificates; and • Proper accounting for Golf Revenues associated with Gift Certificate sales and redemption. As of the last fieldwork, the Deferred Revenue account has an outstanding balance of \$146,904.28 as of August 31, 2010 and is no longer used to record Gift Certificate sales. <p>Brock:</p> <ul style="list-style-type: none"> • Gift certificates were not pre-numbered and have a printed expiration date of December 31, 2000. The newer versions either have no expiration or the existing expiration date has been crossed out and the word "None" written on the certificate. • A Log (Gift Certificate book) is not maintained for certificates sold or redeemed. • When a certificate is sold it is recorded in the POS and subsequently reported in SAP as Golf Fee revenue and/or Cart Revenue. The redemption is not recorded in the POS. • When redeeming the Gift Certificate, the customer is either allowed to play without any proof of receipt or they are given a "Employee" or "LPGA/PGA" Comp ticket. There is no record of cart usage. • The certificate is not properly defaced and/or destroyed when redeemed. It is reported to be thrown away. <p>Memorial:</p> <ul style="list-style-type: none"> • Gift certificates are not pre-numbered and have a one-year expiration from the date of issuance. • The Log is not reconciled to the daily sales report from the POS. • When the certificate is redeemed, the Log is not updated. The gift | <p>Actions Taken: All issues in compliance. Converted from gift certificates to utilization of specific Fore POS gift card application/management software. Revised policies and procedures.</p> <p>Date Completed:</p> <p>Supporting Documentation: POS Reports</p> | <p>Closed: Gift Certificates are now sold and redeemed through the POS system. Written procedures have been developed and implemented. The controls embedded in the POS system related to Gift cards are similar to buying a pre-paid credit card from a retail outlet.</p> | <p>Adequate</p> |

EXHIBIT 1

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|---------------|---------------|--|--|---|---------------------|
| 2011-05 | Golf Coupons | <ul style="list-style-type: none"> • Management does not know how many magazines or booklets are published by the companies and therefore, do not know how many coupons are outstanding. • Management is not tracking the redemption of coupons from Avid Golfer. When redeemed, the Pro Shop staff enters the coupon as either a Pro comp, or employee comps, or they record the cart rental with no green fee. Without tracking the number of coupons published, redeemed or outstanding, management cannot perform an analysis to determine if their selection of advertising is accomplishing their objectives of increasing revenue and rounds played. • Redeemed coupons were not regularly retained. Additionally, the coupons that were available for review were not defaced in order to prevent their reuse. • Redeemed coupons are not reconciled to the POS each day. Brock staff stated that they threw the coupons away when redeemed. These lack of internal controls leave PARD at risk of revenue loss and/or manipulation. Without the redeemed coupons the auditors were not able to verify that an actual coupon was presented for redemption. While the auditors could not verify that actual coupons were submitted for redemption, an analysis was performed on Entertainment coupon redemptions recorded in the POS at Brock from January 2010 through June 2010; 75 coupons were recorded redeemed during this period. Of the 75 transactions, 59 (79%) did not comply with the restrictions noted on the coupon. | <p>Actions Taken: Coupons have discontinued in magazines; entertainment Book still have the coupons in them. Each coupon now has a code in POS; The coupons are being attached to the CR being submitted to Management and Finance.</p> <p>Date Completed/To Be Completed: ongoing</p> <p>Supporting Documentation: copy of CR with coupon attached from the course.</p> | Closed: The use of Golf Coupons has been discontinued. | Adequate |
| 2011-05 | Rain Checks | <p>The issuance and redemption of rain checks are not adequately controlled to ensure all revenue is recorded timely and accurately.</p> <ul style="list-style-type: none"> • Due to lack of supporting documentation (redeemed rain checks), auditors could not verify that rain checks recorded in the POS were accompanied by a legitimate rain check ticket. • Adequate internal controls do not exist, which allows the possibility for individuals to receive rain checks without meeting the necessary criterion. Paid tickets are not required to be attached or shown with the rain check. In addition, blank rain checks are not pre-numbered or tracked when distributed. • There is a lack of consistency between golf courses in applying a rain check policy. | <p>Actions Taken: Complete utilization of specific Fore POS Rain Check Management software. Revised related policies and Procedures</p> <p>Date Completed: January 2013</p> <p>Supporting Documentation: POS Reports/Policies and Procedures</p> | Closed: Rain Checks are now issued through and accounted for using the POS system. The system is more efficient and provides a historical record of Rain Checks activity by identifying those that are outstanding and those that have been redeemed. The current Policy and Procedures Manual reflects the new Rain Check procedures. | Adequate |

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|-----------------------------------|---|---|---|----------------|---------------------|---------------------------|-----|--|-----------------------------------|--|---|---------|--|----|--|---|------------------------|
| 2011-05 | Credit Card Revenue Transactions and Fees | <p>Credit Card Fee activities are not being recorded properly and the underlying financial statement accounts are not being reconciled.</p> <p>As part of our substantive work, we obtained and reviewed a sample of the daily cash receipt packets prepared by each of the four golf courses. Specifically, we compared revenue recorded in SAP to revenue shown on the POS and noted that the revenue recorded in SAP was less. In looking further, we determined that golf course sales paid by customers using a credit card was reduced by 3% of credit card sales in estimating the associated fees charged for each transaction by the bank.</p> <p>The error, which doesn't separately identify the expense, was recorded as shown in the example below (assuming \$100 transaction total):</p> <table style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <thead> <tr> <th style="width: 80%;"></th> <th style="text-align: right; width: 10%;">Debit</th> <th style="text-align: right; width: 10%;">Credit</th> </tr> </thead> <tbody> <tr> <td>Accounts Receivable (A/R)</td> <td style="text-align: right;">100</td> <td></td> </tr> <tr> <td>Accounts Payable- Bank Fees (A/P)</td> <td></td> <td style="text-align: right;">3</td> </tr> <tr> <td>Revenue</td> <td></td> <td style="text-align: right;">97</td> </tr> </tbody> </table> <p>The cumulative balances for the A/R and A/P accounts related to Credit Card transactions as of August 31, 2010 were \$374,791.23 for Credit Card Fees Payable and \$664,544.77 for Credit Card Receivables. Additionally, reconciliations are not performed on these accounts to verify the bank charges are accurate and to adjust the balances accordingly. Based on the fact that the bank and/or credit card companies remit the funds to the City within five to seven days following the transaction and the average daily credit card sales are approximately \$10,000, we would expect the associated Accounts Receivable balance to be approximately \$50,000 - \$70,000.</p> | | Debit | Credit | Accounts Receivable (A/R) | 100 | | Accounts Payable- Bank Fees (A/P) | | 3 | Revenue | | 97 | <p>Actions Taken: HPARD makes a monthly entry to the expense account for credit cards fees for all of the courses. Periodically, the accounts are reviewed to make sure fees are moved correctly.</p> <p>Date Completed: January 2012</p> <p>Supporting Documentation: Monthly entry to the expense account.</p> | <p>Closed: We were provided documentation supporting monthly expense account entries for credit card fees. In addition, PARD employees consulted with the Lead Auditor assigned to the original audit to correctly post balance sheet adjusting entries account entries that were not previously posted.</p> | <p>Adequate</p> |
| | Debit | Credit | | | | | | | | | | | | | | | |
| Accounts Receivable (A/R) | 100 | | | | | | | | | | | | | | | | |
| Accounts Payable- Bank Fees (A/P) | | 3 | | | | | | | | | | | | | | | |
| Revenue | | 97 | | | | | | | | | | | | | | | |

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|---------------|-------------------------|---|---|---|--------------------------|
| 2011-05 | Policies and Procedures | <ul style="list-style-type: none"> • The P&P for City-Operated golf courses is not up-to-date and does not appear to have been revised since 1996. Some items that were noted as out-of-date: <ul style="list-style-type: none"> - The armored car service reference is no longer used by the City. - General Manager (GM) job duties are listed, but there is no position on staff. • The P&P is not always being followed, such as: <ul style="list-style-type: none"> - Each cashier should have a personal code to enter when completing a transaction in the POS. Cashiers were not using a personal code at either Memorial or Brock golf course. - Cashiers are to notify the Pro Shop Manager of discrepancies when reconciling the POS each day. On the first day of the audit, we observed the cashier perform cash close-out procedures at Memorial. The register was \$9 short and he made up the difference with his own money. • The following issues have already been noted in this report. However, they are being mentioned again for emphasis and because written P&P are the starting point for good internal controls and the controls in these areas are weak. <ul style="list-style-type: none"> - The gift certificate process noted in the current P&P is incorrect for accounting purposes and lacks proper internal controls. - Redemption of rain checks and coupons has weak internal controls. The issuance and redemption processes should be documented and proper internal controls incorporated. - The process for tracking, monitoring, and redeeming Smart Cards should be documented with proper internal controls incorporated. - Comps lack written documentation on who is eligible to receive a free round of golf. In addition, each course uses the Comp key in the POS for different reasons, such as coupons or employees from other golf courses are listed as PGA Comps. An updated written P&P would help to make | <p>Actions Taken: The Policies and procedures were updated through December 2012. Additional revision will be made to affected policies and procedures as needed. Current Policy and Procedure Manuals in place at all facilities.</p> <p>Date Completed: December 2011</p> <p>Supporting Documentation: Current Policy and Procedure Manuals in place at all facilities.</p> | <p>Closed: We Selected the Memorial and Gus Wortham Golf Courses for follow-up testing, and verified that those facilities have copies of their most recent Policies and Procedures Manuals.</p> | <p>Adequate</p> |
| 2011-05 | Data back-ups | <ul style="list-style-type: none"> • Parks does not have a written policy and procedure for backing-up POS data. • Data back-ups are stored on-site only. One location stored their back-up in the safe. The safe was stolen, at which time they lost the back-up. | <p>Actions Taken: Data is stored on two separate USB drives, on a daily basis.</p> <p>Date Completed: September 2011</p> <p>Supporting Documentation: USB Drives</p> | <p>Ongoing: Although procedures require daily back-up, the data is stored on-site rather than at a remote site.</p> | <p>Inadequate</p> |