

**Performance Audit 23-01:  
Golf Course Inventory**

**April 2023**

**City Auditor**

Stan Sewell, CPA, CGFM, CFE

**Senior Auditor**

Richard Walls, CPA, CIA, CMFO





# OFFICE OF INTERNAL AUDIT

## Stan Sewell, City Auditor

April 19, 2023

To: Mayor Kelly  
City Council Members

Subject: Golf Course Inventory Audit (Report #23-01)

Dear Mayor Kelly and City Council Members:

The attached report contains the results of our audit of the golf course inventory. Our audit found the golf course staff generally do a good job managing the inventory. However, we also found there is value in exploring opportunities for improvement.

In order to address the noted areas for improvement, we recommended actions to improve controls to ensure inventory accuracy and segregation of duties.

We thank the management and staff of the golf courses and the department of finance for their cooperation and assistance during this audit.

Sincerely,

Stan Sewell, CPA, CGFM, CFE  
City Auditor

Attachment

cc: Audit Committee Members  
Joda Thongnopnua, Chief of Staff  
Ryan Ewalt, Chief Operating Officer  
Vickie Haley, Chief Financial Officer  
Julia Bursch, Deputy Chief Operating Officer  
Scott Martin, Administrator Parks & Outdoors  
Greta Hayes, Director Recreation  
Eddie Taylor, Manager Golf Courses  
Jim Arnette, Tennessee Local Government Audit

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## AUDIT PURPOSE

This audit was conducted in accordance with the Office of Internal Audit’s 2023 Audit Agenda. The objective of this audit was to determine if controls over the golf course resale inventory are effective to mitigate loss, theft or unauthorized use.

## BACKGROUND

The City of Chattanooga operates two public 18-hole golf courses (Brainerd and Brown Acres) which are staffed by City of Chattanooga employees. Both golf courses have pro shops and concessions that provide items for sale to customers.

Revenue is generated through green fees, annual passes, cart rentals, pro shop sales of golf merchandise, and concession sales. The golf courses utilize a point-of-sale system called Club Prophet. The system provides inventory management for sale of merchandise and concessions through its bar coding system.

### Statistical Information

Pro Shop	FY2021	FY2022
Revenues	153,307	165,328
Cost	88,447	101,830
Inventory - Year End	22,871	35,174

  

Concessions	FY2021	FY2022
Revenues	181,524	196,623
Cost	92,429	110,899
Inventory - Year End	9,760	11,203

Source: Oracle Financial

## FINDINGS AND RECOMMENDATIONS

### Improve Controls to Ensure Inventory Accuracy.

The oversight, performance and control of the golf course inventory process is informal and based primarily on institutional knowledge of staff. Inaccurate inventory records may cause financial misstatement and operational inefficiencies.

During our review, we found several significant inventory adjustments made by the golf course staff. The adjustments are similar to

adjustments made in the past and continue to be made. These inventory adjustments were made after discrepancies were discovered, investigated and documented by staff, then approved by management. We determined the adjustments to inventory resulted from data entry errors that needed to be corrected. Most of the errors resulted from entering the wrong purchased quantity.

Government Accountability Office (GAO) Best Practice indicates inventory accuracy goals should be set at 95 percent or higher and GAO recommends setting other performance expectations, as well as establishing accountability and responsibility for the overall physical count.

### **Recommendation 1:**

We recommend golf course personnel ensure inventory records are accurately maintained, and establish controls over the entry of the quantity of items purchased to ensure consistent and accurate inventory records. We recommend utilization of the administrative support assistant to review quantities entered into the inventory after processing payment. The golf policy manual should be updated to reflect current and newly established procedures.

***Auditee Response:** We concur with the audit finding and recommendation. The administrative assistant will monitor inventory additions for the beer and soft drinks in the course of invoice processing; and the manager golf courses will monitor inventory additions for the pro shop in the process of purchase card approvals. This step will be added to the policy manual.*

***Estimated Implementation Date:** June 30, 2023*

***Priority Level:** Priority 3*

### **Improve Segregation of Duties.**

Segregation of duties is a basic internal control to ensure no single individual has the authority to execute two or more transactions across the inventory process without checks and balances.

During our work, we found the same employees requisition items for the golf course inventory, enter receipts and sales into the inventory system, make adjustments to the inventory and update the inventory system.

The limited number of employees presents a challenge for sufficient segregation of duties. The Manager Golf Courses and the two Golf

Operations Coordinators (Brainerd and Brown Acres) are the only full-time employees that have administrative rights to the inventory system. However, there is a full-time administrative support assistant and there are permanent part-time staff at Brainerd and Brown Acres.

Due to the deficiency in segregation of duties, there is a risk inventory may be misappropriated.

**Recommendation 2:**

We recommend the tasks be divided between the golf course staff as much as practical by utilizing the manager golf courses, the administrative support assistant and the permanent part-time staff to perform some duties. The golf policy manual should be updated to reflect the specific duties assigned to various staff.

***Auditee Response:** We concur with the audit finding and recommendation. The operations coordinators will continue to be responsible for ordering and entering inventory. As mentioned in the previous auditee response, the administrative assistant and manager golf courses will monitor inventory additions. Other employees will assist during physical counts of the inventory. This step will be added to the policy manual.*

***Estimated Implementation Date:** June 30, 2023*

***Priority Level:** Priority 3*

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## **APPENDIX A: SCOPE, METHODOLOGY AND STANDARDS**

Based on the work performed during the preliminary survey and the assessment of risk, the audit covers golf course resale inventory from January 1, 2022 to December 31, 2022. When appropriate, the scope was expanded to meet the audit objectives. Source documentation was obtained from golf course staff and the Finance Department. Original records as well as copies were used as evidence and verified through physical examination.

We reviewed a random sample of inventory items. To evaluate the efficiency of the process, we interviewed staff to gain an understanding of the process, reviewed policies and procedures and tested purchases, pricing, sales and adjustments of inventory items. We also researched best practices in inventory management.

The sample size and selection were statistically generated using a desired confidence level of 95 percent, expected error rate of 5 percent, and a desired precision of 5 percent. Statistical sampling was used in order to infer the conclusions of test work performed on a sample to the population from which it was drawn and to obtain estimates of sampling error involved. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

To achieve the audit's objectives, reliance was placed on data maintained by the golf course staff in the Club Prophet system, as well as Oracle. We assessed the reliability of the data and conducted sufficient tests of the data. Based on these assessments and tests, we concluded the data was sufficiently reliable to be used in meeting the audit's objectives.

We conducted this performance audit from February 2023 to April 2023 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## **APPENDIX B: PRIORITY LEVEL DEFINITIONS**

Priority 1: Critical control weakness exists that exposes the City to a high degree of risk. Noncompliance with federal, state or local law, regulation, statute, charter or ordinance will always be considered a priority 1.

Priority 2: Control weakness exists that exposes the City to a moderate degree of risk.

Priority 3: The opportunity for improved efficiency or reduced exposure to risk exists.



### **City of Chattanooga Fraud, Waste, and Abuse Hotline**

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[www.chattanooga.gov/internal-audit](http://www.chattanooga.gov/internal-audit)