



Lexington-Fayette Urban County Government
OFFICE OF INTERNAL AUDIT

MANAGEMENT ACTION PLAN PROGRESS REPORT

DATE: March 10, 2015

TO: Jim Gray, Mayor

CC: Sally Hamilton, Chief Administrative Officer
Glenn Brown, Deputy Chief Administrative Officer
Aldona Valicenti, Chief Information Officer
Geoff Reed, Commissioner of General Services
William O'Mara, Commissioner of Finance & Administration
Phyllis Cooper, Director of Accounting
Susan Straub, Communications Director
Urban County Council Members
Internal Audit Board Members

FROM: Bruce Sahli, CIA, CFE, Director of Internal Audit
Chris Ensslin, CIA, CFE, Deputy Director of Internal Audit

RE: Golf Course P&L Statement Review Management Action Plan Progress

EXECUTIVE SUMMARY

On January 19, 2012 the Office of Internal Audit issued the Golf Course P&L Review Report. The 2012 audit report contained six findings addressing various internal control weaknesses. This follow-up review was conducted to evaluate controls put in place by management to address those specific findings from the January 2012 report.

This review is provided for management information only. It is not an audit and no opinion is given regarding controls or procedures.

A summary of each finding from the original audit report and a summary of the results of our follow-up are provided in the table below. The original findings, management's original responses, and details of the results of this follow-up are contained in the ORIGINAL AUDIT RESULTS AND FOLLOW-UP DETAILS section of this report.

Finding	Summary of Original Finding	Follow-up Results
Finding #1 High Priority	FY 2009 & FY 2010 P&L Statements Generated by Parks Personnel Contained Erroneous Financial Information	Civil Service Salaries and Utilities are being charged to the individual golf courses. This finding has been resolved.
Finding #2 High Priority	Nepotism Violation	We identified four possible Nepotism violations at the golf courses.
Finding #3 High Priority	Employees Should be Charged to Enterprise Administration	These employees are being charged to the correct department and section. This finding has been resolved.
Finding #4 High Priority	Seasonal Employee Charged to Wrong Golf Course	The golf course is no longer being charged personnel costs for seasonal employees who have not worked there. This finding has been resolved.
Finding #5 High Priority	Golf Pros Should Approve Employee Time At Each Golf Course	We validated that golf pros are now approving employee time. This finding has been resolved.
Finding #6 High Priority	Equipment Sharing A Reasonable Business Practice	This practice is still continuing, as recommended in the previous audit.

ORIGINAL AUDIT RESULTS AND FOLLOW-UP DETAILS

Original Finding #1: FY 2009 & FY 2010 P&L Statements Generated by Parks Personnel Contained Erroneous Financial Information

Priority Rating: High

Condition:

The FY 2009 & FY 2010 P&L Statements we examined that were generated by Parks personnel and provided to Council for its review did not accurately report golf course revenue and expenses. This appears to have been the result of flawed attempts by Parks personnel to identify the costs of Civil Service employees, Seasonal employees, Operations, and Utilities from RecTrac and PeopleSoft financial records that do not provide sufficient cost tracking by specific golf courses as explained below.

An e-mail dated March 7, 2011 from Parks & Recreation Director Jerry Hancock to CAO Richard Moloney and the Urban County Council Members (Attachment III) contains P&L information for FY 2009 and FY 2010. This P&L information differs from the P&L results presented to the Council Services Committee on June 8, 2010. The FY 2009 and FY 2010 revenue in this P&L Statement is overstated by \$137,423 and \$111,005, respectively. While we did not attempt to validate all the financial information in this memo, we did determine that FY 2010 utilities reported in the memo as totaling \$2,144,579 were actually only \$470,914. We also noted that FY 2010 Personnel /Operating expenses were reported in this memo as totaling \$1,395,496, but actual personnel expense (fulltime & seasonal employees) is above \$2 million in both FY 2009 and FY 2010.

On April 20, 2011, Director Jerry Hancock provided a copy of the FY 2010 P&L to the Council Budget Links Committee. This P&L Statement also contained several errors. As mentioned in the Background section of this report, one of the concerns brought to our attention was an allegation that revenue collected at one golf course was actually being reported as revenue collected at another golf course. The results of our detail testing indicate that FY 2009 and FY 2010 golf revenue is being properly reported to the correct golf course in PeopleSoft. However, during the review it was represented to us that the FY 2010 P&L Statement provided to Council derived its Revenue figures from RecTrac gross revenue, which included sales tax. Sales tax is actually an expense on a P&L Statement that should be deducted in order to determine profitability; however, the sales tax was not deducted anywhere in this P&L Statement. Operating expenses and Seasonal Labor in this P&L Statement were obtained from PeopleSoft financial data, but it was represented to us that 2010 Budget figures were used to calculate the Civil Service Labor cost (instead of actual Civil Service Labor cost). Utilities cost as reported on this P&L Statement was actually a three year average of utility costs rather than actual 2010 utility costs. The P&L's Cost of

Goods figures were merchandise purchase costs for the year, which is not an accurate calculation of actual cost of goods sold.

These P&L Statements were prepared by Parks personnel who have limited knowledge of Accounting standards and insufficient expertise in the preparation of comprehensive financial reports. It also appears there were several attempts by Parks employees to compile this financial information, with varying results. During the course of the audit the possibility of intentional financial misrepresentations by Parks employees in their preparation of the P&L Statements was expressed to us. Although it is understandable how such a concern could arise given the varying results reported by different P&L Statements presented at different times, this anomaly is more likely the result of insufficient knowledge and expertise as noted above, and in our opinion there is insufficient substantive evidence to support a finding of intentional misrepresentation.

In our opinion, the most fundamental issue surrounding the erroneous Golf Course P&L Statements, as well as an ongoing challenge to compile accurate and comprehensive financial results for the golf courses, appears to be directly related to the process for budgeting and reporting costs incurred at each cost center (Budget Section) within the PeopleSoft System. For example, the personnel costs of full time civil service golf course employees (Golf's largest expense category) are rolled up into Section 7642 - Golf Courses rather than being charged to their specific golf course where the employees are assigned. The same cost reporting approach is used for Utilities. This makes the allocation of these costs to the golf course that generated the expense very problematic, and significantly inhibits any reasonable attempt to identify the true cost of the golf courses.

Effect:

Erroneous golf course financial statements can adversely affect strategic planning and management decisions made by the Administration and Council regarding golf operations. The allocation of Civil Service personnel and Utilities cost into an administrative Budget Section results in a financial reporting structure that is incompatible with determining costs by cost centers such as a specific golf course.

Recommendation:

Beginning in FY 2013, the golf course budget process should be amended to include all direct costs associated with a specific golf course. Under this approach, all personnel assigned to a golf course or other function would be charged to that Budget Section and managed accordingly. All expenses should be budgeted and charged to the individual golf course where the expense occurs. All expenses on the P&L's should be actual expenses for the fiscal year the expense occurs. This includes the reporting of actual utilities expense on golf course P&L's rather than using a three year average. Cost of Goods Sold should be the actual cost of goods sold during the fiscal year instead of using the total purchases for the

year. Expenses such as Utilities should be allocated as direct costs whenever possible. Otherwise, a formula should be developed to allocate Utilities as an indirect cost based on a reasonable estimate such as square footage when a golf course shares a building with another function such as an administrative office building. Golf Course Revenue should be reported directly from the PeopleSoft System.

It is also recommended that the budget process be amended to provide for direct costing of other LFUCG functions in the FY 2013 Budget. Management can benefit from this approach in determining the financial results of other revenue generators such as the LFUCG swimming pools.

Director of Parks & Recreation Response:

Information provided on P&L statements was the best available at the time of the request. Several meetings and adjustments have been made since these documents were generated. We agree that all costs reported should be separate line items in the PeopleSoft module for each Course or site code. Parks has attempted to make these corrections since the implementation of PeopleSoft with limited success. Journal Entry CB077 on council docket for Work Session 1/10/12 moves all civil service funds to individual golf courses, and will be accurate for FY12 and beyond. Utilities and Fleet Costs will be moved to individual courses with the FY13 budget.

Parks did inaccurately report FY 2010 P&L utilities as an average based on the golf services Manager's inaccurate reading of the spread sheet provided by General Services.

In reporting the FY 2009 and FY 2010 Golf P&L's, the Cost of Goods Sold (COGS) was reported as true cost of the goods actually sold in the time period reported, measured by physical inventories of product. That calculation did not match what PeopleSoft showed as merchandise sales costs (which are purchases of product, not costs of product sold), and the criticisms about our P&L's not matching PeopleSoft, lead to the Golf Manager being directed to use the PeopleSoft number. Moving forward the COGS will be reported as the cost of goods actually sold in the reported time period.

We also recommend that sales tax (paid by Accounting) be reported in PeopleSoft, so that everyone can see the expense item, per golf course. Rec Trac shows total revenue as the amount of gross sales deposited in the bank. When and how tax is calculated and paid is not currently available to Parks and Recreation and could not be reported. The Division is open to additional training in order to find and document taxes and will make every effort to reflect these expenses in the future. We concur with the recommendation to allocate utility costs across the courses for FY 2013.

Commissioner of General Services Response:

I concur with the response.

Follow-up Detail Results:

In comparing the FY 2015 budgets of golf courses to the FY 2011 budgets, it appears that the civil service salaries of golf course employees are now being allocated to the specific golf courses. For example, in FY 2011 Section 7642 (Golf Courses) had \$1,013,840 budgeted in civil service salaries and the individual golf courses (i.e. Avon, Picadome, Kearney, Meadowbrook, Tates Creek, and Lakeside) had \$0 in civil service salaries. In FY 2015 Section 7642 (Golf Courses) had only \$100,900 budgeted in civil service salaries while Picadome civil service salaries are budgeted at \$184,300; Kearney civil service salaries are budgeted at \$221,500; Lakeside civil service salaries are budgeted at \$190,100; Meadowbrook civil service salaries are budgeted at \$31,100; and Tates Creek civil service salaries are budgeted at \$161,900.

Utilities have also been moved from Section 7642 (Golf Courses) in FY 2011 to the individual golf courses in FY 2015. The total expenses for Section 7642 (Golf Courses) in FY 2011 was budgeted at \$2,415,238 and in FY 2015 the expenses were reduced to \$173,250. These expenses are now being allocated to the individual golf courses.

This finding has been resolved. No management response required.

Original Finding #2: Nepotism Violation

Priority Rating: High

Condition:

A seasonal employee was working at Tates Creek Golf Course where her husband is the golf pro. This is a violation of Section 25-19 of the Urban County Code of Ordinances, which states, "No officer or employee shall supervise or manage the work of a relative." Section 25-19 specifically defines a spouse as a relative.

Effect:

Page 37 of the LFUCG Employee Handbook states, "In order to avoid favoritism, conflicts of interest, and maintain morale and productivity, you cannot be supervised or hired for a position in which you would be directly supervised by a relative nor may a relative advocate, recommend, or cause the employment, appointment, promotion, transfer, or advancement of his or her own relative or participate in any action relating to employment or discipline."

Recommendation:

This seasonal employee should not work at the Tates Creek Golf Course.

Director of Parks & Recreation Response:

A seasonal employee whose husband is the Golf Pro Supervisor at Tates Creek was hired to fill an immediate part time need that occurred when student employees left to return to school this fall. This occurred at the same time that civil service personnel were laid off at Tates Creek and Lakeside, causing personnel disruptions and a reduction in service to the public. The employee was hired to assist at all courses as needed, was hired by and supervised by the Golf Services Manager, and she reported to him, not the Tates Creek Pro. She worked at more than one course based on the demand until positions could be filled. The employee worked 77 hours over an 8 week period, and earned \$557. As a seasonal employee, there was no opportunity by the Tates Creek Golf Pro to affect her promotion, transfer or advancement. This employee was terminated prior to the audit's conclusion and will not be employed at Tates Creek in the future.

Commissioner of General Services Response:

I concur with the response.

Follow-up Detail Results:

There are four possible nepotism violations at the Golf Courses as the individual in the NAME column may be reporting to the individual in the NAME2 column (see below).

NAME	JOBTITLE	NAME2	JOBTITLE2
Evan Bennett	Pro Shop Attendant	Brian Bennett	Golf Course Superintendent Sr
Brian Bennett	Golf Course Superintendent Sr	Ryan Bennett	Pro Shop Attendant
Daniel Snelling	Pro Shop Attendant	Daniel Snelling	Golf Course Superintendent Sr
Karl Tomaschko	Pro Shop Attendant	Kirk A. Tomaschko	Laborer I

Section 25-19 of the Urban County Code of Ordinances states, "No officer or employee shall supervise or manage the work of a relative." We recommend the possible nepotism violations noted above be reviewed by Parks management and that corrective action be taken as needed to ensure consistent compliance with this Ordinance.

Commissioner of General Services Response:

Parks management has reviewed the follow up detail results above and found the particular courses mentioned to be in compliance with Section 25-19. Evan and Ryan Bennett are not currently employed with LFUCG and are not expected to return. The Tomaschko's have both resigned employment in the Fall of 2014 and are not expected to return. Daniel Snelling Jr. is expected to return. In all 4 cases,

however, the employees in question are/were supervised by the Golf Pro working in the pro shop while the relative either was or reported to the Superintendents who oversee the course management and upkeep. All golf employees ultimately report to the Golf Pro for that course. The Division will continue to monitor the situation and avoid nepotism in every case.

Original Finding #3: Employees Should Be Charged to Enterprise Administration
Priority Rating: High

Condition:

Prior to Fiscal Year 2012, Section 7641 was titled Golf Administration even though it included the personnel costs of some employees who support other sections in the Division of Parks and Recreation. In FY 2012, Section 7641 was renamed Enterprise Administration, while separate Sections such as 7645-Kearney Hills Golf Course also exist to capture costs specific to the courses. However, the personnel costs for two employees totally dedicated to golf are still being budgeted in Section 7641-Enterprise Administration.

Effect:

Including golf administration employees in Enterprise Administration overstates the true cost of Enterprise Administration.

Recommendation:

The personnel costs for Parks employees' Mike Fields and Renee Bullock should be transferred to Section 7642-Golf Courses because this is now the correct Section to incur golf administration personnel costs.

Director of Parks & Recreation Response:

We concur with this finding. Parks and Recreation has made several efforts to correct this since the implementation of PeopleSoft. Journal Entry CB077 in the amount of \$1,340,483.00 is on the Work Session docket for January 10, 2012 to accurately reflect civil service costs by course for FY 2012.

Commissioner of General Services Response:

I concur with the response.

Follow-up Detail Results:

We verified that these employees are being charged to the correct department and section.

This finding has been resolved. No management response required.

Original Finding #4: Seasonal Employee Charged to Wrong Golf Course
Priority Rating: High

Condition:

The personnel cost for a floater seasonal employee has been charged to Lakeside Golf Course but the employee has not worked there. As of the completion of audit fieldwork, this employee had only worked at Picadome and Tates Creek Golf Courses.

Effect:

The Office of Internal Audit acknowledges that the availability of golf course floater employees appears to be a legitimate business practice; however, this does not negate the need to accurately account for Seasonal Employee personnel costs at specific golf courses.

Recommendation:

Parks management should establish a process to correctly allocate the personnel expense of seasonal floater employees. This may require the use of reasonable estimates. Employee payroll expense should not be charged to any golf courses where employees have not worked.

Director of Parks & Recreation Response:

Sharing labor among different courses is a common practice and will continue in order to cover required needs and minimize expenses. All employee time charges will accurately reflect the golf course on which employee's worked. Charge-outs to different courses will be used as needed, in the same way that we do with a number of other Parks' employees that work more than one job for the division.

Commissioner of General Services Response:

I concur with the response.

Follow-up Detail Results:

The golf course employee who brought this concern to our attention during the previous audit informed us that the golf course is no longer being charged personnel costs for seasonal employees who have not worked there.

This finding has been resolved. No management response required.

Original Finding #5: Golf Pros Should Approve Employee Time At Each Golf Course

Priority Rating: High

Condition:

Seasonal employee time is approved in PeopleSoft by the Deputy Director of Enterprise Programs. When we inquired during audit fieldwork where a particular seasonal employee had worked, the Deputy Director of Enterprise Programs had to consult with the Golf Manager in order to provide a reply.

Effect:

The Deputy Director of Enterprise Programs is understandably not in a position to be aware of the work activities of seasonal employees. However, this increases the likelihood that seasonal employee expense will be allocated incorrectly.

Recommendation:

Seasonal employees' time cards should be approved by the Golf Pro at the golf course where the employee worked, as the Golf Pro represents the management employee with the most complete knowledge of the activities and whereabouts of seasonal golf employees.

Director of Parks & Recreation Response:

We concur with this finding. Currently, Golf Pro/Supervisors at each course enter and approve the manual timecards kept at the courses where hardware issues only allow one connected terminal at each course. The manual timecards are forwarded to Picadome Administrative offices where the Deputy Director reviews and approves what was entered into PeopleSoft after the managers on site have approved offline and entered the time. Final approval should occur at the Golf Services Manager level and the Division will adjust the current process to reflect this change.

Commissioner of General Services Response:

I concur with the response.

Follow-up Detail Results:

We determined that Golf Pros are approving employee time as recommended.

This finding has been resolved. No management response required.

Original Finding #6: Equipment Sharing A Reasonable Business Practice
Priority Rating: Low

Condition:

One of the initial concerns brought to the Office of Internal Audit was an allegation that a tractor supposedly purchased for Lakeside Golf Course had inappropriately been moved to Kearney Hill Golf Course. The Division of Accounting provided an asset listing of all equipment charged to Department ID 707606-Enterprise Programs, which included 124 mowers and tractors. Within this list, we noted that only equipment purchased during 2008 was assigned both a Section and Site number, i.e. Section 7642 (Golf Courses) and Site numbers 775 (Picadome - six mowers) and 791 (Tates Creek - two mowers). We were also informed by one Golf Pro that sharing equipment among courses to complete necessary maintenance tasks (e.g., aeration) has been a practice for a number of years.

Effect:

The assignment of golf course maintenance equipment purchases to Section 7642-Golf Courses rather than assigning the equipment and related expense to one specific location appears to be a reasonable business practice. It is consistent with the necessity for management flexibility in moving equipment among the various golf courses based upon need, and if managed properly this process may also reduce overall equipment inventory cost and reduce equipment idle time.

Recommendation:

In our opinion, the practice of charging maintenance equipment to Section 7642-Golf Courses and the subsequent sharing of maintenance equipment between golf courses should be allowed to continue. Management should ensure a tracking process exists to account for the location of such equipment for inventory purposes.

Director of Parks & Recreation Response:

We agree that the existing practice is in the LFUCG's best interests.

Commissioner of General Services Response:

I concur with the response. Management will ensure a tracking mechanism will be in place to locate and account for the equipment.

Follow-up Detail Results:

We were informed that this practice is still continuing, as recommended in the previous audit.

No management response required.