



**Private Club
Performance Management**

Internal Control for Private Clubs



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Table of Contents

Internal Control Overview	1
Audit Trail.....	4
Accounting Forms	5
Accounts Receivable (Dues & Member Charges)	6
Income Controls – Golf	8
Income Controls – F&B.....	10
Income Controls – Activities	13
Income Controls – Initiation Fees & Dues.....	14
Income Controls – Retail Sales.....	15
Cash Receipts Controls	17
Check Cashing Procedures.....	19
Payroll Controls	21
Catering and Meeting Controls	25
Purchasing and Receiving Controls	29
Asset Management Controls	32
Internal Control Problem Areas	34
Conclusion	36
Internal Control Audit Checklist.....	37



Internal Control Overview

According to A. Neal Geller in his book *Internal Control: A Fraud-Prevention Handbook for Hotel and Restaurant Managers**, “internal control is defined as the systems and procedures established and maintained to safeguard an organization’s assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies.”

Geller goes on to say that “Internal Control, while often considered an accounting function, is actually a function of management. The ultimate responsibility for good internal controls rests squarely with management.” As such, internal control is not a distinct and separate function within a club. Rather, they are an integral part of each department and the club as a whole. In this sense, internal control is management controls.

An important function of internal control is to ensure the achievement of a club’s purpose, objectives, and financial performance in creating a system of checks and balances against undesired actions.

Geller points out that the hospitality business in general, and certainly private clubs, have some operating characteristics that make them vulnerable to malfeasance and theft:

- Small, often standalone enterprises.
- A high volume of small transactions.
- Numerous line positions are relatively low-paid, and employees are often inexperienced.
- Desirable inventories, such as food, liquor, and retail stocks.

Geller also says that “three factors are necessary for fraud or pilferage to take place:

- “Need and/or desire on the part of the employee.
- “Opportunity created by lax oversight or controls.
- “Failure of conscience on the part of the employee. This failure can be encouraged by management when it sets a poor example regarding perquisites and privileges thereby creating ill will and a sense of discrimination.” It’s easy for the employee to rationalize theft if he or she feels that management takes undue advantage of its position to utilize facilities and services, take products, or use consumables.

Geller lists six standards are crucial to effective internal control:

1. “**Documentation.** Internal Control systems and all transactions and other significant events must be clearly documented, and such documentation must be readily available to examination (audit).
2. “**Recording of Transactions and Events.** Transactions and other significant events are to be promptly recorded and properly classified.
3. “**Execution of Transactions and Events.** Transactions and other significant events are to be authorized and executed only by persons acting within the scope of their authority.
4. “**Separation of Duties.** Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions should be separated among different individuals.



5. “**Supervision.** Qualified and continuous supervision must be provided to ensure that internal control objectives are achieved.
6. “**Access to and Accountability for Resources.** Access to resources and records is to be limited to authorized individuals and accountability for the custody and use of resources is to be assigned and maintained. Periodic comparison shall be made of the resources with the recorded accountability to determine whether the two agree. The frequency of the comparison shall be a function of the vulnerability and value of the asset.”

*The book is *Internal Control: A Fraud-Prevention Handbook for Hotel and Restaurant Managers* by A. Neal Geller, Cornell School of Hotel Administration, Cornell University, Ithaca, NY, 1991.

Club Internal Control Plan

Each club operation is unique in its size, number, and types of revenue-generating activities, staffing levels, methods of accepting payments, and other factors that will directly impact the design and makeup of its internal control plan. Likewise, prudent management must assess risks and the cost of risk avoidance alternatives in designing a plan.

The following pages address areas of concern in club operations. The suggested solutions may or may not be appropriate for any club. Hopefully, the discussion of each area will help each general manager formulate the appropriate internal control plan for his or her operation. Keep in mind that there is no perfect solution, and every control must be balanced by the perceived risks and the cost of avoiding those risks.

The discussion of club internal control touches upon the following issues:

- Income control
- Credit policies & accounts receivable
- Cash receipts
- Payroll
- Food & beverage control
- Catering and meeting control
- Purchasing and receiving control
- Asset management
- Inventory control
- Cost management

But regardless of the final plan the following general principles of internal control must be adhered to:

- Establish and maintain division of duties
- Fix responsibility with one individual
- Limit number of staff with access to assets
- Keep cash banks and inventories to a minimum and in a secured environment



- Make internal controls preventive, not detective
- Perform surprise counts by independent staff
- Bond staff with access to cash, records, or stores
- Require vacations and rotate staff
- Schedule periodic external audits
- Use cost-benefit analysis to ensure cost of controls is less than potential benefit. While measuring costs is relatively easy, it is more difficult to measure potential loss or inconvenience to staff and members without the control. However, management must make the effort and use judgment in determining the level of controls to implement.

All department heads and staff with specific asset control responsibilities should be thoroughly trained in the proper policies and procedures to ensure proper internal controls. Periodic surprise audits by management should be conducted in various areas to ensure adherence to internal control policies and procedures.

Disclaimer: Each area of discussion has a proposed responsibility chart. While these responsibilities are recommended under the assumed constraints of most club operations, each general manager will need to assess his or her own risks and assign responsibilities based upon cost-benefit considerations.



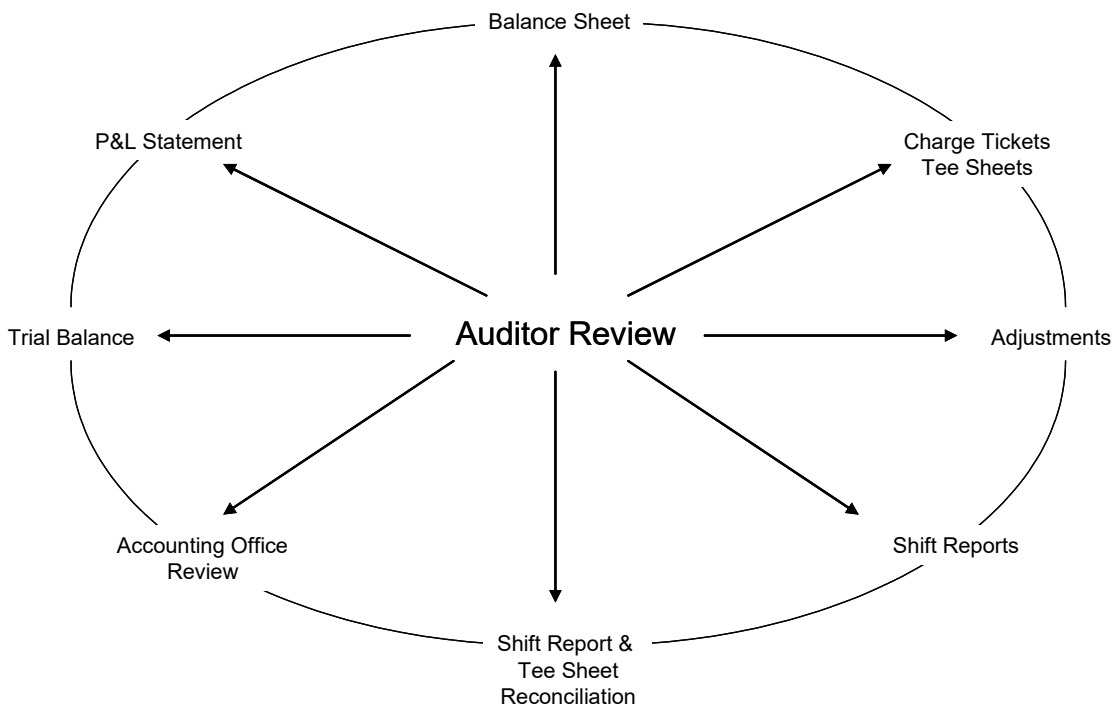
Audit Trail

A basic principle of internal control is that all there must be an appropriate audit trail for all accounting transactions.

An audit trail is a reference in an accounting transaction to an underlying source or document. For auditing and internal control purposes, the audit trail is more than just a reference. Rather it is a “true” path or track which creates a history of accounting transactions, allowing them to be recreated or traced to their original source. An audit trail consists of all evidence of transactions, including their source documents. These can be internal documents (vouchers, journals, ledgers) or external documents (invoices, member checks).

Well-established audit trails allow internal or external auditors to review every accounting transaction. Where the auditor starts is immaterial, since a good audit trail can be followed back to the source document(s) or forward to the financial statement and balance sheet. Should any document in the audit trail be missing, it should be possible for the entire transaction to be reconstructed by moving forward or backward in the audit trail.

In this sense, the audit trail can be conceived as circular as the following amended diagram from Geller’s book suggests.





Accounting Forms

Certain accounting documents or forms must be tightly controlled to ensure the integrity of the audit trail. Controls are established by:

- Numbering forms sequentially. This is usually done in the printing process by pre-numbering the forms serially or the numbers are assigned sequentially by the point-of-sale (POS) system when the transaction occurs.
- Printing forms in multiple parts or copies, usually in a non-carbon-required (NCR) format. The number of parts is dependent upon the distribution of the form.
- Pre-numbered forms must be closely controlled by the accounting office; that is, they must be issued by serial number with the receiving party signing for all forms received using the [Controlled Forms Sign-Out, PCPM Form 235](#).
- When a using department returns used accounting forms to the accounting office, the forms should be in numerical order.
- Pre-numbered forms must be periodically accounted for by serial number by the accounting office.

Accounting forms remain under the control of the accounting office regardless which department uses them. The accounting office designs, orders, assigns numbers, receives, inventories, stores, and issues accounting forms to end users. Forms should be issued to departments in blocks with a permanent record of the numbers issued. “Back” or “hard” copies of forms will be returned to the accounting office for audit and filing.

The accounting office, then, is charged with beginning-to-end responsibility for accounting forms and has recorded the serial numbers at receipt, at inventory, at issue, and at final turn in.

List of Pre-Numbered Accounting Forms. While there may be other forms that need to be tightly controlled such as gift certificates or other negotiable instruments, the following are forms used in most club operations:

- [Petty Cash Receipt, PCPM Form 201](#). Recommend printing in three parts (2 flimsy copies + 1 hard copy). The original is kept by the petty cash holder, one is placed in the petty cash box, and one is kept by the person drawing petty cash.
- [Member Adjustment, PCPM Form 215](#). Recommend printing in three parts (2 flimsy copies, + 1 hard copy). In some cases, the POS system may print a version of this form. The original is kept by the generating department; two copies are submitted to the accounting office with the departmental daily report. The accounting office will send one of its copies to the general manager for review.
- [Catering Contract, PCPM Form 226](#). In some cases, the POS system may print a version of this form. Recommend printing in five parts (4 flimsy copies + 1 hard copy). The original is retained by the catering manager and one copy is given to the client. Other copies may go to the chef, the food services manager, and the accounting office.
- [Purchase Order, PCPM Form 228](#). Recommend printing in four parts (3 flimsy copies + 1 hard copy). The original is retained by the purchasing department head, one copy each goes to the vendor, to receiving, and to the accounting office.



- The club controller will usually be responsible for the following in relation to accounting forms:
 - ❖ Design the forms or download them from the Private Club Performance Management website, modify them as necessary for local use, and have them printed with pre-printed sequential numbers and in the appropriate number of parts or copies.
 - ❖ Issue pre-numbered forms to department heads using the [Controlled Forms Sign-Out, PCPM Form 235](#). Controllers should issue pre-numbered forms in the smallest quantity consistent with departmental needs and common sense.
 - ❖ It is the controller's responsibility to periodically account for pre-numbered forms by serial number.

Accounts Receivable (Dues and Member Charges)

Members in private clubs pay dues for the privilege of belonging to the club. These dues represent the single largest source of revenue for most clubs and must be closely controlled. The dues paid is determined by membership category and is periodically increased by management decision to compensate for rising expenses and/or inflation.

In most clubs, dues are billed in advance, that is the dues for July are due and payable in the statement sent out at the beginning of July. The statement of a member's account will also contain all member charges for the previous month and any amounts in arrears. The amount billed on member statements, both for dues and past charges, represents accounts receivable to the club and is considered an asset.

Many clubs require members to pay their dues and charges by check. Some allow the use of credit cards.

Internal Control Principles

1. **Division of duties.** The following duties associated with accounts receivables should be handled by different employees:
 - a. **Billing.** Recommend this duty be assigned to the accountant.
 - b. **Receiving payment**
 - (1) If by check, recommend the administrative assistant be responsible for opening all mail, segregating, and recording all checks received on a [Check Receipt Log, PCPM Form 238](#), and then providing the checks and the Check Receipt Log to the accountant for posting. A copy of the Check Receipt Log should be retained and filed by the administrative assistant. See Cash Receipts Control below for more information.
 - (2) If by credit card, monies received by the club are deposited directly into the club's bank account, but deposits must be reconciled to the credit slips. Recommend this duty be assigned to the administrative assistant. Once the reconciliation is made, the administrative assistant will sign the reconciliation, make a copy for his/her records, and return the original to the accounting office.



- c. **Keeping ledgers (both control and subsidiary).** Recommend this duty be assigned to the accountant.
 - d. **Posting.** Once posting is completed, the controller will deposit all checks.
 - e. **Credit Policy.** Recommend this be established by the general manager.
 - f. **Collections.** Recommend this be assigned to the controller. Club policy calls for successive collection letters (over 30-, 60-, 90-day) to be signed by progressively higher-ranking club managers.
 - g. **Authority for Making Allowances.** Recommend this duty be assigned to the general manager. A permanent record of all allowances must be made with the signature of the general manager or other designated individual authorizing the allowance.
2. **Aged Accounts Receivable Report.** Recommend preparation by the controller and review by the general manager. After reviewing the general manager should sign and date the report which must be returned to the controller for filing.
 3. **Rotation of Duties.** Periodically it is good idea to rotate the above assigned duties to other employees, if this can be cost justified. Many instances of embezzlement are discovered when an employee is on vacation or otherwise removed from normal duties.
 4. **Systematic Write-Off Procedures.** The club policy on Disputed Member Charges and Delinquent Member Accounts combined with Club Rules and Regulations requiring forfeiture of initiation fees in the case of seriously delinquent member accounts, covers this issue well.

Proposed Internal Control Responsibility Chart

Duty	Responsible Individual
Billing	Accountant
Receiving Payment/Reconciling CC Credit Slips	Administrative Assistant
Keeping Ledgers	Accountant
Deposit Checks	Controller
Credit Policy	General Manager
Collection	Controller
Authority for Making Allowances	General Manager/Other designated individual
Review of Aged Accounts Receivable Report	General Manager



Income Controls - Golf

Golf is a major source of revenue in most private clubs. Income is derived from green fees, cart fees, merchandise sales, lessons and clinics, and club repairs. Due to the large capital investment and ongoing maintenance cost of the golf course, it is essential that all rounds of golf be accounted for. Both green fees and cart fees are directly attributable to rounds of golf. Merchandise sales are also an important part of golf revenues.

In most cases, all or some portion of lessons and clinics income goes to the professional staff. However, sound accounting and internal control policy requires that these monies be rung up as income and then paid out to the professional staff by payroll check with all appropriate deductions.

Internal Control Principles

1. Ringing up of all income

- a. All golf revenues will be rung up through the golf point-of-sale (POS) system. The POS device will print a charge slip which must be signed by the member. In some cases, golf revenues are paid by credit card by members' guests.
- b. The signed member charge slip or signed credit card voucher are both primary accounting documents which must be turned in to the accounting office with the golf daily report. While the POS prints the charge slip, it records the revenues. Complimentary rounds of golf must also be rung into the POS system, generating a zero-balance charge slip.
- c. At the end of the day, the total of all charge slips, and credit card charges must equal the total revenues recorded by the POS.
- d. The internal control principle here is that all sales are recorded with an accounting document to serve as an audit trail of the sale. The POS creates the document and keeps track of the total sales by category at the same time it posts the charge to the member account or credit card sales account.

2. Fixed Green Fees and Cart Fees

- a. Green fees and cart fees must be fixed and published for each membership or player category. Fees are usually established by the general manager or the board of directors during the budget process.
- b. Deviation from these fixed rates must be approved by the senior golf professional on duty using a [Member Adjustment, PCPM Form 215](#). The Member Adjustment is an accounting document, multi-part, serially numbered, and controlled by the accounting office.
- c. A properly completed and authorized Member Adjustment must be attached to every discounted or complimentary charge slip and be sent to the accounting office as part of the golf daily report.
- d. The internal control issue is not that rates should never vary, but that all changes must be properly authorized, and an audit trail created to verify the proper authorization.



3. Tee Sheet

- a. The Tee Sheet is important not only as a place to verify course availability but serves also as the control document for use of the golf course. All rounds must be recorded on the tee sheet along with player category of all persons using the course.
- b. At the end of the day, a copy of the completed tee sheet will be sent to the accounting office with the golf daily report.
- c. Verifying the tee sheet is the single most important internal control step for green fees and cart fees. It is the closest thing to a daily inventory of tee times, both used and unused, sold, and unsold. Checking the tee sheet is simple and direct: all tee times marked as used on the tee sheet that day should be on that day's summary document as having been charged to a member or a guest. Any discrepancies between tee times used and corresponding revenue or, in the case of a golf member, an indication that no green fees were charged, must be investigated and reconciled. The same principle applies for cart fees.

4. Daily Report of Golf Rounds

- a. The [*Daily Report of Golf Rounds, PCPM Form 220*](#), is an important control document for golf revenues. The golf professional staff completes it daily.
- b. By entering the number of rounds indicated by the tee sheet for various player categories and the green fees and cart fees charged, the form automatically calculates golf revenues. These amounts are compared to the revenue per the POS system and variances are indicated. All variances must be investigated and reconciled.
- c. Finally, all complimentary or discounted rounds must be accounted for and approved.
- d. The completed Daily Report of Golf Rounds will be turned in to the accounting office with the golf daily report.
- e. The Daily Report of Golf Rounds serves as verification that all rounds on the tee sheets have been charged the appropriate green fee and cart fee or were authorized to be discounted or complimentary.

5. Retail Sales. Internal control principles for merchandise sales are covered separately under Income Controls – Retail Sales below.

6. Receiving payment

- a. If by member charge, the signed charge slip must be turned in with the golf daily report.
- b. If by credit card, the signed credit voucher must be attached to the charge slip and turned in with the golf daily report.
- c. Whenever a green fee or cart fee is discounted or complimentary, a Member Adjustment must be filled out, signed by the authorizing party, and attached to the charge slip or credit card voucher.



7. **Authority for Making Allowances.** The head golf professional and/or general manager has ultimate responsibility for authorizing allowances. This may be delegated to the golf professional on duty but must be reviewed by the head golf professional.

Proposed Internal Control Responsibility Chart

Duty	Responsible Individual
Ring up Income	Entire Pro Shop Staff
Establishing Fixed Green and Cart Fees	General Manager
Tee Sheet	Golf Professional on Duty
Daily Report of Golf Rounds	Golf Professional on Duty
Authority to Make Allowances	Head Golf Professional – May be delegated
Review of Tee Sheet & Daily Report	Accounting office
Review of Allowances	General Manager

Income Controls – F&B

The food and beverage business is a complex one and effective internal controls are often challenging to achieve. A central element in this difficulty is there is little division of duties; the server handles sales, delivery and shipment, billing, and settling the bill. Fortunately, the fact that most private clubs do not handle cash removes the greatest potential for embezzlement. Added to this is the point-of-sale (POS) system’s ability to record and track sales. Together these two factors greatly reduce the risk, though there is still potential for abuse.

The primary issue is providing food or drink and not receiving payment for it. This can happen because of petty pilferage or by servers providing “free” items in exchange for cash.

Internal Control Principles

1. Requirement to Ring Up Sales

- a. All food and beverage items ordered will be rung up through the point-of-sale system. The POS device will set up a member charge ticket and record all items ordered. At the end of the meal the POS will print a charge slip which must be signed by the member.
- b. The signed member charge slip is a primary accounting document which must be turned in to the accounting office with the dining room daily report. While the POS prints the charge slip, it records the revenues. Complimentary items must also be rung into the POS system, generating a zero-balance charge slips that must be authorized and reviewed by management.
- c. At the end of the day, the total of all charge slips must equal the total revenues recorded by the POS.
- d. The internal control principle here is that all sales are recorded with an accounting document to serve as an audit trail of the sale. The POS creates the document and keeps track of the total sales by category at the same time it posts the charge to the member account.



2. Fixed Menu and Drink Prices

- a. All menu items and drink prices must be fixed and published. Prices are usually determined by the executive chef, the clubhouse manager, and/or beverage manager in consultation. The general manager reviews these prices.
- b. Deviation from these fixed prices must be approved by the dining room manager on duty using a [*Member Adjustment, PCPM Form 215*](#). The Member Adjustment is an accounting document, multi-part, serially numbered, and controlled by the accounting office.
- c. A properly completed and authorized Member Adjustment must be attached to every discounted or complimentary charge slip and be sent to the accounting office as part of the golf daily report.
- d. The internal control issue is not that prices should never vary, but that all changes must be properly authorized, and an audit trail created to verify the proper authorization.

3. Authority to Issue Food and Beverage Items

- a. When food and beverage items are rung up on the POS system, they create a member charge ticket to which items ordered by that party are added. At the same time, the order is printed in the kitchen for food items or the bar for beverage items.
- b. The printed ticket in the kitchen or bar serves as authority to issue the food or beverage item. All kitchen and bar employees must be taught and properly supervised to ensure that no food or beverage item is to be issued or served without the authorization of the printed ticket. When serving an item on the printed ticket, the kitchen or bar employee should initial the item(s) indicating they were served.
- c. The printed tickets from the kitchen and bar must be kept in a safe location and collected at the end of the meal period. These tickets should be compared to the signed member charge slips to ensure that revenues were received for all items issued and to ensure a server hasn't voided an item at the POS after it was issued and served (unless approved by a manager due to member complaint, etc.).
- d. In the case of buffets or club events, managers will need to cross check charge tickets to a reservations list and/or a check-in sheet to ensure that all members have been properly charged. Such lists should contain members' names, member numbers, and the number of people (adults and children) in each party.

4. Open Tickets

- a. At the end of the meal period the food and beverage manager must ensure that there are no "open" tickets in the POS system. If an open ticket exists, the POS system will indicate who the server is, and the manager should consult with the server to determine where the ticket is. All open tickets must be closed for charges to be properly billed to members.
- b. All tickets must be accounted for. Otherwise, a "lost" ticket can be used to order food and beverage for which no revenue was collected.



5. Inventories

- a. A great deal of food and beverage loss is due to pilferage. Items are simply taken when no one is looking. This cost is often “hidden” among many other reasons for higher food costs.
- b. Pilferage is best controlled by vigilant management, clear and enforced policies for pilferage, and [\[Monthly Resale Inventories – Food, Beverage, & Retail, Club Accounting SPPs, A-4501\]](#).

6. Receiving payment

- a. All signed charge slips must be turned in with the F&B daily report.
- b. Whenever a food or beverage item is discounted or complimentary, a Member Adjustment must be filled out, signed by the authorizing party, and attached to the charge slip.
- c. At the end of the meal period the dining room manager must reconcile charge slips to the POS sales totals for food and beverage. Any discrepancies must be investigated and corrected. All charge slips, member adjustments, and the POS shift report must be turned in to the accounting office

8. Authority for Making Allowances. The senior F&B manager has ultimate responsibility for authorizing allowances. This authority may be delegated to the dining room manager, beverage manager, or other responsible individual.

Proposed Internal Control Responsibility Chart

Duty	Responsible Individual
Requirement to Ring Up Sales	Entire Staff
Establishing Fixed Menu and Drink Prices	Executive Chef/Clubhouse Mgr/Bev Mgr or General Manager
Authority to Issue Food and Beverage Items	Chef/Bev or Dining Room Manager
Open Tickets	Dining Room Manager
Authority to Make Allowances	Senior F&B Manager – May be delegated
Review of Daily Report	Accounting office
Review of Allowances	General Manager

Income Controls – Activities

Activity revenues are derived from events, activities, parties, room and pool rentals, and guest fees. All activity revenues must be in the form of member charges and must be rung into a point-of-sale (POS) device. If the activity center does not have a POS terminal, activity staff must take member charge slips to a POS terminal in another part of the club and ring in all charges.

When properly rung in, the POS device will record the revenue in the appropriate activity category and automatically charge the appropriate member account(s).

Internal Control Principles

1. Requirement to Ring Up Sales

- a. All activity charges must be recorded on a member charge ticket and be rung up through the point-of-sale system. Managers must reconcile member charge tickets to a reservation list, sign-up sheet, attendance sheet, booking log, and/or pool check-in sheet to make sure all charges are properly recorded.
- b. At the end of the day, the total of all charge slips must equal the total revenues recorded by the POS.
- c. The internal control principle here is that all sales are recorded with an accounting document to serve as an audit trail of the sale. The POS creates the document and keeps track of the total sales by category at the same time it posts the charge to the member account.

2. Fixed Prices for all Activity Events and Activities

- a. The prices of all events and activities must be fixed and published. Prices are usually established by the activity director and reviewed by the general manager.
- b. Deviation from these fixed prices must be approved by the activity director using a [*Member Adjustment, PCPM Form 215*](#). The Member Adjustment is an accounting document, multi-part, serially numbered, and controlled by the accounting office.
- c. A properly completed and authorized Member Adjustment must be attached to every discounted or complimentary charge slip and be sent to the accounting office as part of the activities daily report.
- d. The internal control issue is not that prices should never vary, but that all changes must be properly authorized, and an audit trail created to verify the proper authorization.

3. **Authority for Making Allowances.** The activity director has ultimate responsibility for authorizing allowances. This authority may be delegated to the assistant activity director or other responsible individuals.



Proposed Internal Control Responsibility Chart

Duty	Responsible Individual
Requirement to Ring Up Sales	Entire Staff
Establishing Fixed Prices	Activity Director or General Manager
Authority to Make Allowances	Activity Director – May be delegated
Review of Daily Report	Accounting office
Review of Allowances	General Manager

Income Controls – Initiation Fees and Dues

Initiation fees are those fees paid by members for the privilege of joining the club. Initiation fees may vary from time to time; therefore, not all members pay the same initiation fee.

When resigning from the club, a member receives the initiation fee back from the club, unless it is a non-refundable initiation fee. The amount returned, and the timing of the refund may vary and is dependent upon the club Membership Documents. The requirement to return initiation fees to members means that the club must carefully document and control all monies received as initiation fees.

The critical issue with dues is that the membership director must establish a reliable means of communications to alert the accountant to start billing dues for new members and to cease billing dues for resigned members.

Internal Control Principles

1. Requirement to Record Initiation Fees

- a. The membership director is responsible for collecting and documenting all initiation fees collected. In some cases, the initiation fee is collected in several payments based upon club special financing plans.
- b. Initiation fees are usually collected by check.
- c. The membership director completes the membership paperwork indicating receipt of monies from the new member. The original paperwork with a copy of the member's check stays in the Membership Office while a copy of the paperwork and the original check is hand-carried to the accounting office.
- d. The accounting office is responsible for depositing the member's check in the initiation fee account (a separate bank account) and recording the initiation fee payment in the initiation fee general ledger account.



2. Separation of Duties

- a. One person in the accounting office may not both deposit the initiation check(s) and record receipt in the initiation fee general ledger account.
- b. It is recommended that the accountant make the general ledger entry and the controller makes the deposit.

3. Reconciliation of Bank Account

- a. As with all club bank accounts, the bank statement must be reconciled to the deposit tickets.
- b. It is recommended that the controller reconcile the bank account each month when the bank statement is received.

Proposed Internal Control Responsibility Chart

Duty	Responsible Individual
Receipt and Documentation of Initiation Fee	Membership Director
Notify Accountant of New Members and Resignations	Membership Director
Post Receipt of Initiation Fee to G/L	Accountant
Deposit Initiation Fee in Bank	Controller
Reconciliation of Bank Account	Controller
Review of Initiation Fee Paperwork copy of check, bank deposit slip	General Manager

Income Controls – Retail Sales

Retail sales can be generated in various areas of club operations, including a golf pro shop, tennis pro shop, activities area, and general store. While a great deal of internal controls associated with retail sales has to do with Monthly Resale Inventories, there are some considerations unique to retail operations.

Most retail sales are in the form of member charges. In some cases, credit card sales are also permitted.

Internal Control Principles

1. Requirement to Ring Up Sales

- a. All retail sales will be rung up through the point-of-sale system. The POS device will print a member charge slip and record all items sold.



- b. The signed member charge slip is a primary accounting document which must be turned in to the accounting office with the departmental daily report. While the POS prints the charge slip, it records the revenues. Complimentary (in areas other than retail) or discounted items must also be rung into the POS system as a sale, generating a zero balance or discounted charge slip. Retail complimentary items will be removed from inventory by a direct inventory adjustment, a copy of which goes to the general manager for approval (as with invoices). Examples of such complimentary items might be 100 sleeves of golf balls for gifts for the Member-Guest Tournament or providing a complimentary hat to a VIP.
- c. At the end of the day, the total of all charge slips must equal the total revenues recorded by the POS.
- d. The internal control principle here is that all sales are recorded with an accounting document to serve as an audit trail of the sale. The POS creates the document and keeps track of the total sales by category at the same time it posts the charge to the member account.
- e. In the case of credit card sales, sales are recorded in the POS, the credit card is run through a credit card authorization terminal, and the purchaser must sign the credit card voucher. Signed house copies of the credit card voucher must be turned in daily with the departmental daily report.
- f. The POS automatically creates an audit trail, and the total of all sales must equal the total of all receipts – either member charges or credit card charges.

2. Established Prices for all Merchandise

- a. All merchandise items must have an established price or periodically an established “sale” price. Prices are established by the departmental manager but may be delegated to a merchandise manager.
- c. Deviation from the established price must be approved by the senior departmental manager on duty using a [*Member Adjustment, PCPM Form 215*](#). The Member Adjustment is an accounting document, multi-part, serially numbered, and controlled by the accounting office.
- c. A properly completed and authorized Member Adjustment must be attached to every discounted or complimentary charge slip and be sent to the accounting office as part of the departmental daily report.
- d. The internal control issue is not that prices should never vary, but that all changes must be properly authorized, and an audit trail created to verify the proper authorization.

3. Receiving payment

- a. If by member charge, the signed charge slip must be turned in with the departmental daily report.
- b. If by credit card, the signed credit voucher must be attached to the charge slip and turned in with the departmental daily report.
- c. When any item of merchandise is discounted or complimentary (other than during a retail sale markdown), a Member Adjustment must be filled out, signed by the authorizing manager, and attached to the charge slip or credit card voucher.



4. Inventories

- a. Most retail inventory loss is due to pilferage. Items are simply taken when no one is looking. This cost is often “hidden” among many other reasons for higher cost of goods sold.
- b. Pilferage is best controlled by vigilant management, clear and enforced policies for pilferage, and sound inventory procedures.
- c. Retail managers should give careful thought to the layout of their shops. Small, easily pilfered items should be displayed close to the retail counter to lessen loss. Be particularly careful about any items displayed near exits. In such cases, the shop attendants should have an unobstructed view of the displayed items and exits. High value items should be kept in locked cases or in other more secure areas of the shop.

5. **Authority for Making Allowances.** The department head has ultimate responsibility for authorizing allowances. This authority may be delegated to the other managers on duty or other responsible individuals.

Proposed Internal Control Responsibility Chart

Duty	Responsible Individual
Requirement to Ring up Sales	All Departmental Shop Employees
Established Price for All Merchandise	Department Head or Merchandise Manager
Receiving Payment	All Departmental Shop Employees
Authority to make Allowances and Set “Sales” Prices	Department Head with notification of General Manager
Preparation of Department Daily Report	Departmental Manager on Duty
Review of Department Daily Report	Accounting office
Review of Allowances	General Manager

Cash Receipts Controls

Most private clubs do not accept cash. As a result, cash receipt controls are not usually a concern of clubs.

Should a club accept cash in payment for any products or services, stringent controls must be placed over such receipts.

Should a club allow members to cash checks, specific internal controls must be implemented. See Check Cashing Procedures below for more information.



Internal Control Principles

1. Division of Duties

- a. Any employee with cash-handling responsibilities should not have access to bookkeeping or other accountability responsibilities for that cash.
- b. Likewise, bookkeeping or accounting employees should not have access to cash.

2. Limit Access to Cash Receipts

- a. Should cash be received by a club, the number of persons who can handle such cash (and checks) must be strictly limited. It is advised that those positions handling cash be formally listed and employees in those positions receive special cash handling training covering all policies and procedures associated with cash handling.
- b. Checks for receivables and deposits for catered events that come in the mail must be controlled by specific mail handling procedures discussed below.

3. Mail Handling Procedures

- a. All incoming mail must be opened by someone other than employees with cash-handling or accounting responsibilities. This person will normally be the administrative assistant.
- b. Any checks received in the mail must be immediately stamped with a “for deposit only” stamp. It is also a good idea to have the club name and bank account number on the stamp.
- c. Checks, or other payments received in the mail should be photocopied (1 copy), listed on a [Check Receipt Log, PCPM Form 238](#), and sent directly to the controller for deposit at the bank. The check copies will accompany the Check Receipt Log to the accountant who will post the deposits received. The controller is also responsible for reconciling bank deposits with bank statements. The administrative assistant keeps a copy of the Check Receipt Log in his or her files for at least 3 months.

4. Deposit Receipts Intact Daily

- a. All daily receipts should be deposited in the club’s bank account daily.
- b. If this is not possible, daily receipts should be kept in a secure location and should be segregated by date so that the total of each day’s receipts remains intact.

5. Use Point-of-Sale Devices

- a. Point-of-sale (POS) devices should always be used to record sales and receipts of cash and other payments. Cash-box operations should never be permitted. Ideally, cash bars should be set up with tickets and member charges.



- b. The following principles govern the use of POS devices:
- (1) Totals should be permanently locked, that is never cleared.
 - (2) An accounting employee should take shift readings, never a cash handling employee.
 - (3) Independent readings should be taken periodically. This allows management an opportunity for further checks on the system.

Proposed Internal Control Responsibility Chart

Duty	Responsible Individual
Receipt of Cash	Employees in designated positions
POS Shift and Daily Readings	Accountant
Open and Route Mail	Administrative Assistant
Prepare a Check Receipt Log	Administrative Assistant
Post Receipts to A/R or Deposits Account	Accountant
Deposit Receipts in Bank	Controller
Reconciliation of Bank Account	Controller
Review of Bank Account Reconciliation	General Manager

Check Cashing Procedures

Most private clubs do not accept cash and therefore do not maintain cash on hand. Should a club accept cash and allow members to cash checks, specific internal controls must be in place.

Check Cashing Procedures

1. Clubs almost never cash checks for members. It is the policy of the club not to cash member checks. No such policy may be implemented without the express approval of the board of directors. Having said this, if the club ever adopts a check cashing policy for members, the following procedures should be followed.
2. **Never Cash a Check Made Out to the Club**
 - a. Checks made out to the club are assumed to be for goods or services or past indebtedness (Accounts Receivable).
 - b. Checks cashed for the convenience of members must be easily identifiable and isolated from other checks received.



3. Have Checks Made Out to Cash

- a. Limit check cashing to the accounting staff and limit the amount of cashed checks.
- b. When a check is cashed by an accounting employee (at the location where cash may be handled), a check made out to “cash” is no more dangerous than a \$100 bill. In fact, it is less dangerous because we can end the check’s negotiability by stamping it “for deposit only.” No such device exists to protect the \$100 bill.

4. Member’s Endorsement

- a. Before the member is given his or her cash, the accounting employee should request that the member endorse the back of the check.
- b. This is evidence that the member received cash for the check and that the check was not for the payment of goods or services, or for past indebtedness.

5. Immediately Stamp the Back of the Check

- a. All checks received should be stamped “for deposit only” immediately upon receipt.
- b. This ends the negotiability of the check, and, with a properly designed stamp, ensures that the check will end up in the correct bank account.

6. Post to a Permanent Record

- a. Create a permanent audit trail by noting all checks cashed for convenience.
- b. Such a record should contain the date, the name of the member, the amount of the check cashed, and the cashing employee’s initials.

Proposed Internal Control Responsibility Chart

Duty	Responsible Individual
Check Cashing	Accountant or Controller
Deposit of Check in Bank Account	Controller
Noting of Checks Cashed	Accountant
Reconciliation of Bank Account	Controller
Review of Bank Account Reconciliation	General Manager



Payroll Controls

Payroll risks fall into the following categories:

- Paying an incorrect wage rate.
- Paying for hours not worked.
- Paying employees who do not exist or continuing to pay terminated employees after they have ceased working.

The two variables in payroll cost are rate of pay and hours worked.

- An employee's rate of pay is determined by the employee's department head and must be documented upon hiring and subsequent change. See [Personnel Data Sheets \(PDS\), P-900.05](#), for more information. All Personnel Data Sheets must be initiated and signed by the department head and forwarded to the Personnel Administrator for review and filing. After reviewing the PDS, the Personnel Administrator forwards a copy of the PDS to the Accounting office to make any necessary additions, changes, or deletions to the payroll register (prepared and distributed by the club's payroll service provider). In some clubs the controller also serves as the personnel administrator. In this case, care must be taken to ensure separation of duties. In other words, the controller must not process Personnel Data Sheets and process the payroll.
- Hours worked must be controlled by adequate timekeeping procedures and verification of hours. The department head has the absolute responsibility to verify all hours worked before submitting time reports to the accounting office for processing.

Phantom employees can be eliminated by proper paycheck distribution and cross-checking the payroll register and an employee census maintained by the personnel administrator.

Internal Control Principles

1. Pay by Check or Direct Deposit Only

- a. This requirement applies to all categories of employee – full time, part time, seasonal, casual, temporary, or contract labor.
- b. The absence of tipping in most private clubs precludes the possibility of tips being paid out to employees in cash.
- c. The club policy requiring lessons and clinic income be rung into the point-of-sale system allows such income to be paid to employee(s) by check and ensures proper payroll withholding.

2. Maintain a Separate Payroll Account

- a. The club or its payroll service maintains a payroll account for the club. Once the total net amount of a club's payroll disbursement is determined, the club prepares a check or a bank draft to the club's



payroll account or service for the net amount of the payroll. Payroll checks and direct deposits are drawn on the club's payroll account or the payroll service's account.

- b. The payroll account is maintained on an imprest basis – that is when all payroll checks are cashed for a pay period, the balance of the account should be zero.
- c. Uncashed payroll checks (unclaimed wages) will be readily evident when the payroll account is reconciled. The controller will note or be notified of any uncashed checks. These unclaimed wages can be symptomatic of fraud or payroll control weaknesses and should be investigated promptly and thoroughly by the controller.

3. Pay Attention to Timekeeping

- a. All club departments will use a mechanical/electrical time punch device to record start and end times of work for each non-exempt employee.
- b. Department heads are required to verify all hours worked by employees under their supervision, paying attention to the following issues:
 - (1) Verifying hours worked agree with scheduled hours for each employee.
 - (2) Employees [Punching in Early, P-400.08](#), before scheduled starting times.
 - (3) Employees punching another employee's timecard.
- c. Once hours are verified by the department head, the corrected time reports are sent to the accounting office for payroll processing.

4. Paycheck Distribution

- a. Usually, about half of a club's employees will use the direct deposit option to deposit their paycheck directly into their checking account. These individuals will still receive a paycheck stub distributed by the club.
- b. The best solution to distribute paychecks and stubs is to have all employees report to a central location, pick up their checks from someone other than the department head, and sign the [Paycheck Receipt Log, PCPM Form 232](#). As an alternative to using the Paycheck Receipt Log, clubs may modify their Employee Census to serve as a paycheck receipt log by allowing space next to each name for an employee signature.
- c. Recognizing the hardship this may present to some clubs, some department heads may distribute checks, but must use a Paycheck Receipt Log for employee signatures indicating receipt of paycheck. When paychecks are distributed this way, a central distribution, or a distribution by someone other than the department head (such as the personnel administrator or other individual not involved in payroll processing) must be done as a double check on at least a quarterly basis.



- d. Any paychecks or stubs not picked up by employees within three days (72 hours) should be returned by the designated paycheck distributor or department head to the accounting office for later pickup. General managers may authorize a longer window of opportunity to pick up paychecks if necessary but should keep in mind the risk of paychecks being left unsecured in various areas of the club.
- e. All completed Paycheck Receipt Logs must be sent to the personnel administrator who will verify that all paychecks and stubs have been signed for. Completed Paycheck Receipt Logs will be filed for a period of one (1) year.
- f. It is strongly recommended that on a periodic basis the general manager distribute paychecks and stubs to employees. In addition to the Internal Control value of such a distribution, it is an excellent human relations exercise for the manager.

5. Employee Census

- a. An employee census is nothing more than a complete alphabetic list of all employees currently employed by the club. The employee census is maintained in a MS-Word file (see sample employee census below). The information listed includes:
 - (1) Last name, alphabetically.
 - (2) First name.
 - (3) Department.
 - (4) Employment status, e.g., FT, PT, or Seasonal.
- b. The employee census is divided into two lists – those who are paid by paycheck and those who are paid by direct deposit.
- c. The personnel administrators is responsible for initially preparing the club’s employee census, and then keeping it updated by making necessary additions (insert lines and names alphabetically) and deletions as they occur (when PDS’s are received from department heads).
- d. Each pay period the personnel administrator will receive a copy of the payroll register from the controller and compare the names of all paid employees from the payroll register with the names of employees on the employee census. Any discrepancies between the two lists will be highlighted or noted on the census by the personnel administrator and then sent electronically to the general manager for review.

6. Division of Duties

- a. Verification of Hours, Make Changes, and Correction of Mis-punches – department head.
- b. Payroll Preparation – accountant or payroll service.
- c. Paycheck Distribution – Designated individual such as the administrative assistant, concierge, or other employee (it is not a good idea to designate the personnel administrator or accounting office



employees to do this because of their involvement in payroll processing). Department heads may distribute paychecks with the approval of the general manager, but a Paycheck Receipt Log must be used to ensure individual acknowledgment of receipt.

- d. Payroll Bank Account Reconciliation – controller.

Proposed Internal Control Responsibility Chart

Duty	Responsible Individual
Verification of Hours, Changes, Corrections using <i>Personnel Data Sheet (PDS), PCPM Form 104</i>	Department Head
Review and filing of PDS	Personnel Administrator
Pay Rate Changes, New Hire & Termination Processing into Payroll System	Controller
Payroll Preparation	Accountant or Payroll Service
Paycheck Distribution	Designated Individual or Department Head
Maintenance of Employee Census; reconciliation of payroll register with Employee Census	Personnel Administrator
Reconciliation of Payroll Bank Account	Controller
Review of Employee Census; periodic distribution of paychecks; review of payroll bank account reconciliation	General Manager
Review of Payroll Bank Account Reconciliation	General Manager

Sample Employee Census

Direct Deposit

Abrams, John	Golf Course Maintenance	FT
Carroll, Mary	Food & Beverage	PT
Dean, Thomas	Golf Operations	FT
Frederick, Joanne	Membership	FT
Hunt, Donna	Activities	PT

Paycheck

Boone, Barry	Kitchen	FT	
Christian, Mona	Activities	Seasonal	No check this pay period
Duran, Dante	Golf Course Maintenance	FT	
Forman, David	Club Maintenance	FT	
Grainger, Melissa	Activities	Seasonal	
Harris, John	Food and Beverage	PT	

Comments

- a. No check this pay period for Mona Christian.
- b. Check processed for Robert Smith in Golf Course Maintenance. No record of a Robert Smith having been hired.

Catering and Meeting Controls

Catering and meeting room rental can be a significant source of revenue for clubs.

Most clubs have a requirement that all such events be sponsored by a member and that the sponsoring member is ultimately responsible for full payment of the event. It is also usual in clubs for there to be leeway in hosting events from sources outside the club to improve revenues and cash flow.

In any case, it makes good business sense to have clear policies in place regarding catering and meeting events to ensure that all parties agree to expectations and that method of payment and payment requirements, including advance deposits, be clearly spelled out. Further, the customized nature of catering and meeting events make these especially vulnerable to fraud. Catered meals and beverages served are usually not controlled with the same division of duties as found in *a la carte* food and beverage service.

Lastly, catered events are often charged on a “per person” or, in the case of alcoholic beverages, a “consumption” basis. This requires special vigilance to ensure proper head counts and before and after inventories of alcoholic beverages along with conscientious oversight by management.

Internal Control Principles

1. Contracts

- a. Catering Contracts should be pre-numbered accounting documents. Like any other accounting document, their distribution is controlled by the accounting office. This does not mean that the accounting office function in any capacity of a sales or service department, but the accounting office should control the supply, flow, and audit history of the documents. In some cases, POS or catering software will generate a pre-numbered catering contract.
- b. Not only is the contract a revenue document which must be accounted for by serial number, but it also plays a more important role. The entire description of the product – everything the club promises to do for the client, the “how” and “when” of the event, the prices to be charged, and how the account will be settled – is described, recorded, and produced according to the written contract.
- c. For this reason, it is imperative that the contract form be designed in a manner that makes it clear to all parties the intent of the client and the club regarding fulfilling the terms of the contract. See [*Catering Contract, PCPM Form 226*](#), for sample.
- d. Should the person booking the event wish to include a complimentary item as an inducement to book the event, the item should be listed on the contract as “no charge,” so that an audit trail is preserved for all items served regardless of price.
- e. Catering staff should have strict guidelines for their ability to discount or offer complimentary items. This delegated authority should be monitored by having the clubhouse manager or general manager review and initial every catering contract. Any discounting above predetermined guidelines must be approved by the general manager.



- f. The contract form should have at least four copies (one original and three copies). Some clubs may decide to have more copies. Three copies provide one for the client, one for the sales and catering department, and one for accounting. The accounting copy is used for confirmation and audit. The kitchen and service staff may use additional copies to guide the food and beverage production and servicing of the catered event.

2. Extras or Other Issues

- a. Much fraud associated with catering events is due to imprecise definitions of the products and/or prices for those products.
 - (1) A common fraud involves intentional or inadvertent padding of the client's bill. While the club receives its revenue, the client is ripped off. Such practice will have a long-term negative impact on the club's reputation and ability to attract catered events.
 - (2) Preventing this type of fraud involves writing a precise contract with all details and extras listed on the contract, discussing all details thoroughly with the client, and confirming the event in writing.
- b. Often a client will request items that are not available directly from the club but must be procured from external sources.
 - (1) While it makes good sense for the club to act as middleman to provide the utmost convenience to the client, it is essential that both quality control and internal controls are in place. Quality control is self-explanatory in that even the work and services of outside vendors reflects upon the standing and reputation of the club.
 - (2) Internal controls require that a clear audit trail be available for all items or services procured by the club but charged to the client, whether marked up by the club or not.
- c. Any last-minute extras or add on must be approved by an individual designated by the client. Should a client desire a last-minute champagne toast, it is essential that only the authorized person designated on the contract, approve the addition. It is best to present that person with a charge ticket showing the items ordered and the additional cost and have them sign the document. This creates incontrovertible evidence of authorization.

3. Division of Duties

- a. **Sales.** The catering manager or clubhouse manager will meet with the client, discuss all details, complete the contract, get the client's signature, sign the contract, obtain the general manager's review, and distribute contract copies to various club departments.
- b. **Advance Deposits**
 - (1) Advance deposits must be recorded on the contract.



- (2) Be in the form of check. The check should be attached to a charge slip showing the amount of the deposit. A copy of the check should be retained by the salesperson and attached to the contract.
- (3) A copy of the check should be given to the accountant who will post the advance deposit to the General Ledger, set up an account for the event showing the posted deposit, and make the appropriate entry on the [*Catering Deposit Log, PCPM Form 227*](#).
- (4) The controller will deposit the check in the club's bank account.

c. Confirmations

- (1) A written confirmation should be prepared by the sales department for the general manager's signature.
- (2) The confirmation should include the full details of the function with exact prices, acknowledgement of any deposits received, and the details for final settlement of the bill.
- (3) Such a confirmation from the general manager is a nice touch indicating to the client that the general manager is taking a personal interest in the event and provides independent verification of the details and pricing of the event by management.

d. Production and Service

- (1) To achieve a suitable audit trail for the production and service, the food and beverage department should prepare a consumption report. This report can be filled out by the chef and the food service manager in charge of the event.
- (2) Consumptions reports list how much of each product was used for each function.
- (3) Completed consumptions reports should be signed by the appropriate managers and sent directly to the accounting office to compare to the event contract.
- (4) the accounting office can use consumption reports to prepare final bills for events.
- (5) Consumption reports are particularly important for open bars and wine service to determine the exact amounts consumed for which charge must be made.

e. Billing and Settlement

- (1) Billing and settlement may be handled in one of two ways:
 - (a) Preferred Method: Final bills are prepared by the accounting office based upon the contract and consumption reports and are mailed to the client for payment. If advance deposits have been collected, the final settlement would be the total charges for the event less any advance deposits.



(b) In cases where the club may have a history of collection problems or there is any concern about receiving timely payment for an event: A final bill is prepared in advance by the accounting office with the “per person” or “per consumption” amounts left blank. As quickly as the consumption reports are completed, the food service manager in charge of the event will fill in these amounts and compute the final bill for presentation to the client at the end of the function.

(2) While the latter method requires detailed coordination and a sense of urgency on the part of the chef and food service manager, this method allows collection on the spot, improves the club’s cash flow, and lessens the chance of delinquent accounts.

f. Audit

(1) When a proper audit trail has been established by the above steps, it is easy for the controller or external auditors to retrace each step of the event.

(2) On a daily basis, the accounting office will match original copies of signed and confirmed contracts with the final bills. This comparison not only helps prevent and detect fraud and embezzlement; it also guards against mistakes in billing.

Proposed Internal Control Responsibility Chart

Duty	Responsible Individual
Sales	Catering Manager or Clubhouse Manager
Receipt of Advance Deposits	Administrative Assistant/Catering Manager/Clubhouse Manager
Posting of Advance Deposits	Accountant
Deposit of Advance Deposits	Controller
Confirmations	General Manager
Production and Service	Food & Beverage Manager
Billing and Settlement	Controller or F&B Manager on Duty
Audit	Controller



Purchasing and Receiving Controls

Clubs purchase large amounts of products for use in operations. These purchases may consist of:

- Consumable products and services, such as china, flatware, glassware, linen, cleaning products, chemicals, supplies, paper products, maintenance contracts, and
- Resale inventories, such as food and beverage products and retail merchandise.

The major issue in purchasing and receiving is that the club pays the correct bill for all materials and services received. The “correct bill” has three important attributes:

- The price is correct; that is, as quoted.
- The quality is that specified or expected.
- The quantity is that specified or expected.

In addition to verifying price, quality, and quantity, an internal control system should be designed to establish a division of duties in the purchasing, receiving, and paying functions of all purchases.

Purchasing frauds usually involve purchasing managers accepting money or other rewards (kickbacks) from vendors to purchase overpriced or substandard items.

Internal Control Principles

1. Purchasing Policies and Management Involvement

- a. Club Purchasing Policies [[Accounting Policies – 4000 Series](#)] are designed to establish policy and procedures for purchasing. Purchase Authority & Limits, Purchase Orders, Competitive Pricing, Receiving, Gifts from Vendors, and Purchase Rebate Programs are some of the policies with internal control implications.
- b. The best control on price adequacy is the involvement of top management. It is an excellent idea for the general manager to review prices, speak with chefs and others about quality levels, and occasionally call around personally to shop some prices.

2. Purchase Orders

- a. Purchase orders (POs) are multi-part accounting forms that play several vital roles in the internal control process.
 - (1) First, the PO authorizes the purchase. Club policy on [[Purchase Orders](#)] requires that all non-recurring purchases greater than \$500 (apart from resale merchandise) require the use of a purchase order.



- (2) Second, the PO provides key information and documentation used for verifying prices and paying invoices. See [Purchase Order, PCPM Form 228](#), for sample.
- b. One copy of the PO goes directly to the accounting office where it becomes part of the overall audit trail and is used in the monthly verification of purchase order serial numbers.
3. **Receiving Controls.** Sound internal control requires that purchasing and receiving functions be separate.
 - a. If a club has a steward or receiving clerk, this is easily done. It is recommended that this employee be an accounting department employee and have good clerical skills.
 - b. If not, we recommend the purchasing manager receive items he or she ordered.
 - c. In either case, whoever receives purchased items must verify the quality and quantity of items purchased.
 - d. This requires opening boxes, counting items charged by the item or weighing items charged by weight, and checking them off against the purchase order, packing list, or vendor's shipping copy.
 - e. Any shortages or items rejected for damage or poor quality should be noted on the purchase order, packing slip, or vendor's shipping copy. The delivery person should sign the changes to verify any discrepancies.
 - f. Annotated purchase orders, packing slips, or vendor's shipping copy must be turned in to the accounting office.
 - g. Another good practice is to have a club stamp that can be stamped on any packing list or vendor's shipping copy. The stamp should have a place for the date, vendor name, receiving person's initials, and the delivery person's initials.
4. **Role of Accounting office**
 - a. The primary function of the accounting office is to record the purchase/receiving transaction, thereby simultaneously establishing the club's indebtedness to vendors, while posting expenses to the proper expense account. [Expense Coding, A-4007](#), to the appropriate expense account should be done by the purchasing department head.
 - b. The accountant (or whoever handles accounts payable) has the responsibility of assembling and checking all the documentation associated with purchasing and payment. This includes:
 - (1) Comparing invoices/packing lists/shipping copy and receiving notations to purchase orders.
 - (2) Ensuring that all expenses are properly posted.
 - (3) Noting and adjusting all invoices for shortages and returns.



- (4) Running a calculator tape of the addition on all invoices and attaching the tape to the invoice.
 - (5) Stamping the invoice with a stamp that allows a place to initial for:
 - (a) Correct pricing checked.
 - (b) Correct quantity checked.
 - (c) Correct quality checked.
 - (d) Addition verified.
 - (e) Controller approval.
 - (f) General manager's approval.
 - (6) Once all documentation has been checked and verified and appropriate general ledger accounts posted, the accountant will provide the verified documentation to the controller.
- c. The controller will review the documentation, initial in the stamped location, and prepare the vendor payment checks.

5. Role of General Manager

- a. The general manager is responsible for double checking all invoices to ensure all the above steps have been properly completed.
- b. The general manager will then sign each check and cancel the documentation by dating and signing his or her name across the document package.
- c. The general manager should also ensure that the address on the checks and/or envelopes matches the address on the vendor's invoice.
- d. Signed checks and envelopes are then removed from the document package and given to the administrative assistant for mailing.
- e. The cancelled documentation is returned to the controller for filing.



Proposed Internal Control Responsibility Chart

Duty	Responsible Individual
Purchases	Department Heads
Receiving, Verification of Price, Quality and Quantity	Steward or Department Heads
Expense Coding	Purchasing Department Head
Review of Purchase Documents: P.O., Receiving Report, Expense Coding	Accountant
Posting to the General Ledger	Accountant
Check Preparation	Controller
Check Signing and Documentation Cancellation	General Manager
Mailing Checks	Administrative Assistant

Asset Management Controls

The club has capital assets costing hundreds of thousands of dollars. It is incumbent upon club managers to exercise prudent control over these assets.

Primary control is maintained by establishing a thorough inventory of such items and by assigning responsibility and accountability for each item to the department head who uses or is best able to monitor and control the asset. The policy on [Property Management and Control, A-4506](#), spells out requirements to maintain control over capital assets.

Internal Control Principles

1. **Establish and Maintain Thorough Inventory of Capital Assets**
 - a. A Master Inventory of Capital Assets will be established and maintained by the accountant in an MS-Excel® spreadsheet or other program designed for this purpose.
 - b. Departmental receipts will be established for each operating department.
 - c. Newly purchased items will be added to the Master Inventory and appropriate departmental receipt.
2. **Assign Responsibility and Accountability by Departmental Receipts**
 - a. Department heads will sign their departmental receipts acknowledging responsibility for all items on their inventories.
 - b. Department heads will take whatever steps necessary to monitor the presence of assets on their departmental receipt.



3. Conduct Annual Inventory of Capital Assets

- a. Department heads will conduct an annual inventory of all items on their departmental receipts.
- b. Department heads will make an annual certification to the general manager that all items are present or have been properly accounted for using an [Annual FF&E Inventory Summary Report, PCPM Form 212](#), prepared by the accountant.
- c. Missing items will be removed from the departmental receipt only at the direction of the general manager.
- d. In cases of missing items due to the gross negligence of the department head, appropriate disciplinary action will be taken.

4. General Managers' Responsibility

- a. The general manager is responsible for all assets of the club.
- b. Accountability will be delegated to department heads by departmental receipts.
- c. The general manager is responsible for ensuring compliance with proper asset management procedures.

Proposed Internal Control Responsibility Chart

Duty	Responsible Individual
Purchase Capital Assets	Department Heads
Establish and Maintain Asset Inventories	Accountant
Monitor Assets and Conduct Annual Inventory	Department Heads
Ensure Compliance	General Manager



Internal Control Problem Areas

There are several areas of club operations that present special internal control problems. Managers at all levels should pay attention to these areas to prevent loss.

Internal Control Problem Areas

1. Snack Bars

- a. Snack bars are operations with many small, easily pilfered items and relatively low paid employees who operate with a minimum of supervision. Without proper controls and oversight, a great deal of loss can occur in these operations.
- b. The most effective way to curtail loss is to conduct frequent inventories of food and beverage stocks and to compare product consumed (per inventory) with sales for the same period. If this is done on a regular basis, any pattern of ongoing loss will be quickly spotted. In most cases, the mere fact of frequent inventories and questioning staff about shortages will have a diminishing effect on such loss.
- c. This coupled with a policy of termination for theft and following through on this policy when theft occurs will send a clear message to staff that pilferage will not be tolerated.

2. Beverage Cart

- a. The beverage cart has the same potential for loss as snack bar operations.
- b. It is essential that all beverage cart sales be recorded on member charge slip signed by the member. These charge slips must then be rung into a point-of-sale terminal at the end of each shift. The original member-signed charge slips must be attached to the printed POS charge slip. All charge slips must then be turned in to the accounting office with the departmental daily report.
- c. One way to control stock on the beverage cart is to require all items carried on the cart to be requisitioned from the turn house attendant. The cart attendant is required to track all sales on a tick sheet pre-printed with all products normally carried. At the end of the shift/day the extended sales sheet is compared to the extended sheet of product consumed (issues less returns). If signatures from both cart attendant and turn house attendant are required on inventory sheets, a measure of accountability is assured.
- d. Finally, a manager must compare the sales sheets to the inventory consumed sheets on a regular basis and question all shortages.

3. Bar Operations

- a. Beverage operations are notorious for loss potential.



- b. The three major problems are routine over-pouring, pilferage by employees, and pouring excessive amounts of alcohol in anticipation of a cash tip (despite the policy against tipping in most clubs).
- c. The only real defense against both potential problems is frequent inventories. The club requires daily inventories by bar staff. Management must closely check these inventories. Periodic inventories by management must verify the accuracy of these daily inventories. All discrepancies must be investigated.
- d. In most cases, a vigilant management that questions all discrepancies will go a long way toward reducing loss from bar operations.

4. Golf Course Maintenance Purchasing & Receiving

- a. In most clubs, golf course maintenance is far removed from the clubhouse and normal receiving areas. The lack of senior management oversight that this distance creates makes the purchasing and receiving of large and expensive stocks of fertilizers, chemicals, and other supplies problematic in that the same person who does the purchasing is also doing the receiving.
- b. The best course to encourage sound internal controls is to require the use of purchase orders or annual purchasing contracts for the great majority of golf course maintenance supplies and materials. In this way, the general manager will review and sign all POs and purchasing contracts. Management periodically checking prices, as with food purchases, is an appropriate internal control best practice.

5. Golf Course Maintenance Payroll

- a. The same problem with distance can also cause problems in payroll, especially if timekeeping is performed manually. It is a good idea to use the same electronic timekeeping system in golf course maintenance that is used in the rest of the club.
- b. Again, because of the remote location, it is essential to ensure that all employees who are being paid exist. This can be done by requiring golf course maintenance personnel to come to the club's administrative offices to pick up and sign for their paychecks.

6. Benchmarking

- a. While benchmarking is not an internal control, *per se*, it can be used to establish the norm of operations and allow management to quickly spot out-of-line numbers which may be indicative of fraud or abuse.
- b. Management can do itself a big favor by ensuring that areas of the operation which present potential internal control problems are thoroughly benchmarked. In many cases, the only indication that something may be wrong in an operation will come from volatile or extraordinary benchmarks.



Conclusion

As stated previously, there is no perfect solution to establishing and maintaining sound internal controls. Each club and each general manager in consultation with the club controller and department heads must carefully review operations to assess risks and the design of an Internal Control program that controls those risks at a reasonable cost. Whatever internal controls are determined as desirable for the club should be well-documented in an Internal Control plan for the club and all involved parties must be thoroughly trained in their responsibilities.

Finally, the general manager, who has ultimate responsibility for the performance of the club, must spot check internal control requirements on a regular basis to ensure they are being properly followed. While the club's internal control procedures can be detailed in implementation and time-consuming to monitor, failing to have an adequate level of internal controls will invite waste, fraud, and abuse. This can lead to costly and embarrassing problems for the club, and potentially a career-damaging incident for the general manager.



Internal Control Audit Checklist

The following Internal Control Audit Checklist is provided to assist the general managers with establishing and maintaining appropriate internal controls within his or her club.

General managers should conduct an annual audit of Internal Control procedures using the checklist. This tool will help ensure that appropriate procedures are in place and are being followed.

General

Item	Question	Yes	No	N/A
1	Does the club have an Internal Control Plan?			
2	Does the General Manager actively support and monitor the plan?			
3	Are Department Heads and other employees involved in the Internal Control Plan trained in their responsibilities?			
4	Is an audit of Internal Control procedures conducted annually?			
5	Are audit reports available from previous years?			
6	Have internal control weaknesses from previous years been corrected?			
7	Are Accounting Forms, pre-printed, serially numbered, and under the beginning-to-end responsibility of the accounting office?			



Policy & Procedure

Item	Question	Yes	No	N/A
1	Have all Department Heads and other employees involved in the Internal Control Plan become familiar with Purchasing Policies and Procedures, Accounting Policies - 4000 Series?			
2	Have all Department Heads and other employees involved in the Internal Control Plan become familiar with Inventory Policies and Procedures, Accounting Policies - 4500 Series?			
3	Have all Department Heads and other employees involved in the Internal Control Plan become familiar with Expense Reimbursement Policies and Procedures, Personnel Policies - 800 Series?			
4	Have all Department Heads and other employees involved in the Internal Control Plan become familiar with Internal Control Policies and Procedures, Accounting Policies - 9000 Series?			
5	Have all Department Heads involved in the Internal Control Plan become familiar with Manager's Fiscal Responsibilities, Accounting Policies, A-1004?			



Accounts Receivable

Item	Question	Yes	No	N/A
1	Are member payments accepted "by check only"?			
2	Does the club follow the policies for opening mail and receiving checks?			
3	Are the posting and depositing responsibilities separated for payments received?			
4	Does the club have established credit and collection policies?			
5	Does the General Manager retain authority to make allowances? If authority is delegated, does the GM review all allowances made?			
6	Is a permanent record made of all allowances granted?			
7	Is an Aged Accounts Receivable Report prepared monthly?			
8	Is the Aged Accounts Receivable Report reviewed and initialed by the General Manager?			
9	Are past Aged Accounts Receivable Reports filed by the Controller?			
10	Are any provisions made to rotate Accounts Receivable duties?			
11	Does the club follow the policies on Disputed Member Charges and Delinquent Member Accounts?			



Golf Income Control

Item	Question	Yes	No	N/A
1	Are all sales rung up through a point-of-sale terminal?			
2	Are members and guests required to sign their charge slip and include their member or sponsoring member number?			
3	Are all charge slips or credit card vouchers turned in with the Daily Report?			
4	Are green fees and cart fees fixed and published?			
5	Are deviations from the fixed fees properly authorized by a Member Adjustment, PCPM Form 215?			
6	Is a copy of the Tee Sheet provided to the accounting office daily?			
7	Is a Daily Report of Golf Rounds completed, reconciled, and provided to the accounting office daily?			
8	Does the General Manager review all allowances?			

Food & Beverage Income Controls

Item	Question	Yes	No	N/A
1	Are all sales rung up through a point-of-sale terminal?			
2	Are members and guests required to sign their charge slips and include their member or sponsoring member number?			
3	Are charge slips turned in with the Daily Report?			
4	Are menu and drink prices fixed and published?			
5	Are deviations from the fixed prices properly authorized by a Member Adjustment, PCPM Form 215?			
6	Are food and beverage items only issued by the kitchen and/or bar with appropriate authorization (printed POS ticket)?			
7	Are POS printed tickets compared to member charge slips at the end of the shift/day to ensure all product was properly issued and paid for?			
8	Are all "open tickets" investigated and resolved each shift/day?			
9	Does the General Manager review all allowances?			



Activity Income Controls

Item	Question	Yes	No	N/A
1	Are all sales rung up through a point-of-sale terminal?			
2	Are members and guests required to sign their charge slips and include their member or sponsoring member number?			
3	Are charge slips turned in with the Daily Report?			
4	Are activity and event prices fixed and published?			
5	Are deviations from the fixed prices properly authorized by a Member Adjustment, PCPM Form 215?			
6	Does the General Manager review all allowances?			

Initiation Fees Income Control

Item	Question	Yes	No	N/A
1	Are Initiation Fee payments properly documented by the Membership Director with a copy of the check in the member's file?			
2	Are checks hand-carried to the Controller?			
3	Is a separate bank account established for initiation fees?			
4	Does the Controller deposit initiation fees?			
5	Does the Accountant post the initiation fee payment?			
6	Does the Controller reconcile the initiation fee bank account monthly?			
7	Does the General Manager review the bank account reconciliation?			



Retail Sales Income Control

Item	Question	Yes	No	N/A
1	Are all sales rung up through a point-of-sale terminal?			
2	Are members and guests required to sign their charge slips and include their member or sponsoring member number?			
3	Are charge slips turned in with the Daily Report?			
4	Are prices for all retail items fixed and affixed to the item?			
5	Are deviations from the fixed prices properly authorized by a Member Adjustment, PCPM Form 215?			
6	Are all discounted "sales" prices properly authorized?			
7	Does the General Manager review all allowances?			

Cash Receipts Control

Item	Question	Yes	No	N/A
1	Are those employees who handle cash or checks formally listed and trained in Cash Receipt Controls?			
2	Are proper Mail Handling procedures in place and followed?			
3	Are daily receipts deposited intact?			
4	Are point-of-sale terminals used to record all sales?			
5	Are shift and daily readings made of departmental sales by the accounting office?			
6	Does management make periodic independent readings of departmental sales?			



Check Cashing Procedures

Item	Question	Yes	No	N/A
1	Does the club cash check for the convenience of its members? If not, skip this section.			
2	Are such checks made out to "Cash" and immediately stamped "for deposit only"?			
3	Do members endorse the check to indicate the cash was received?			
4	Is a permanent record made of all checks cashed for the convenience of members?			

Payroll Controls

Item	Question	Yes	No	N/A
1	Are employees paid by check only, including lesson, clinic, club repair, and restringing income?			
2	Does the club use a separate payroll account, maintained on an "imprest" basis?			
3	Do checks have a printed automatic cancellation date for uncashed checks?			
4	Are all non-exempt employees required to use a time clock or other time keeping machine?			
5	Are all non-exempt employee hours verified by Department Heads?			
6	Do Department Heads correct mis-punches and make changes to employee hours as necessary while adhering to [Punching in Early] procedures?			
7	Do Department Heads distribute paychecks using the Paycheck Receipt Log, PCPM Form 232?			
8	Is an Employee Census prepared and reviewed each pay period?			
9	Does the General Manager periodically distribute paychecks?			



Catering & Meeting Controls

Item	Question	Yes	No	N/A
1	Does the club use a pre-printed, serially numbered Catering Contract, under beginning-to-end control of the accounting office?			
2	Are complimentary items provided to a catering client noted as N/C (“no charge”) on the contract?			
3	Is specific guidance given to the Catering Manager/Clubhouse Manager or other catering salespersons, as to their leeway in discounting or providing complimentary services?			
4	Are discounted items or complimentary services beyond the leeway given salespersons, approved by the General Manager?			
5	Is a specific individual noted on the contract who has the authority to “add items” to a catered event for the client?			
6	Are Advance Deposits posted by the Accountant?			
7	Are Advance Deposits deposited by the Controller?			
8	Is a Catering Deposit Log, PCPM Form 227, maintained by the Accountant?			
9	Is a written confirmation sent by the General Manager to the client?			
10.	Is billing and settlement handled by the accounting office after the event?			
11.	Does the Accounting office compare all catering event bills to the contract to ensure the “correctness” of the bill?			



Purchasing & Receiving Controls

Item	Question	Yes	No	N/A
1	Are purchasing policies established and enforced?			
2	Are purchase orders used for non-recurring purchases greater than \$500 (except for resale merchandise)?			
3	Are purchases received by a receiving agent or steward?			
4	In departments where the purchasing individual receives purchases does management exercise special vigilance? (Whenever this is done, management must pay special attention to the procedures by periodically double checking the receipt of goods and services).			
5	Are received items opened, inspected, counted (or weighed) to ensure quality and quantity?			
6	Are invoices checked to ensure prices billed are the same as quoted?			
7	Does the Accounting office compare purchasing and receiving documents and prepare documentation of all invoices for payment?			
8	Is the General Manager presented with invoices documented for payment with? Correct pricing checked? Correct quantity checked? Correct quality checked? Addition verified with affixed calculator tape. Controller approval? Checks attached, ready for signing by the GM?			
9	Does the GM review all invoices prepared for payment, sign checks, and cancel documentation?			
10.	Are check addresses verified as the same as invoices addresses?			
11.	Are checks separated from invoice documentation and mailed by the Administrative Assistant?			
12.	Is invoice documentation returned to the accounting office for processing and filing?			



Asset Management Controls

Item	Question	Yes	No	N/A
1	Are furniture, fixtures, and equipment recorded on a Master Inventory of Capital Assets?			
2	Are assets tagged or otherwise identified with a property asset number?			
3	Have Departmental Receipts been prepared to establish accountability at the Department Head level?			
4	Is an Annual Inventory of Capital Assets conducted?			
5	Is an Annual FF&E Inventory Summary Report, PCPM Form 212, prepared and submitted to the General Manager for review?			
6	Are missing items removed from the Master Inventory of Capital Assets upon the direction of the General Manager?			

About the Author

Ed Rehkopf is a graduate of the U.S. Military Academy and received a Master of Professional Studies degree in Hospitality Management from Cornell's School of Hotel Administration. During his long and varied career, he has managed two historic, university-owned hotels, managed at a four-star desert resort, directed operations for a regional luxury-budget hotel chain, opened two golf and country clubs, worked in golf course development, and launched a portal web site for the club industry.