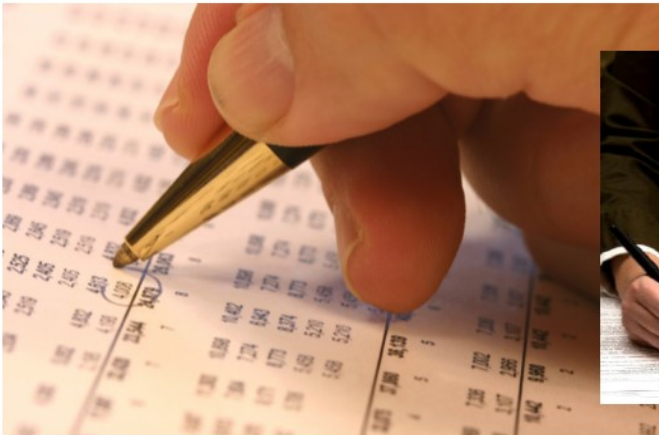




Internal Control for Private Clubs



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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.”

Club Internal Control Plan

Each 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 several areas of concern in club operations. The suggested solutions may or may not be appropriate for any particular 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.

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, CRI Form 235.
- When using departments return used accounting forms to the Accounting Office they 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 of which department is using 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, CRI Form 201. Recommend printing in three parts (2 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, CRI Form 215. Recommend printing in three parts (2 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, CRI Form 226. In some cases, the POS system may print a version of this form. Recommend printing in five parts (4 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, CRI Form 228. Recommend printing in four parts (3 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, respectively.

The Club Controller will usually be responsible for the following in relation to Accounting Forms:

- Design the forms or download them from the Club Resources International 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, CRI 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 amount of 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.

Most 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 Admin Assistant be responsible for opening all mail, segregating, and recording all checks received on a Check Receipt Log, CRI 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 Admin Assistant. See Cash Receipts Control 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 Admin Assistant. Once the reconciliation is made, the Admin 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 different individuals.
 - 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 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	Admin Assistant
Keeping Ledgers	Accountant
Deposit Checks	Controller
Credit Policy	General Manager
Collection	Controller
Authority for Making Allowances	General Manager
Review of Aged Accounts Receivable Report	General Manager

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, CRI 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.

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.

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 custom 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, CRI Form 226, for sample.
- d. Should a sales person 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 sales persons 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 outside business.
 - (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 sales person and attached to the contract.

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	Admin 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:

- Consumables 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, CRI 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] 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.

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?			

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.

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