

How to Bullet Proof Your Accounting Department Against Fraud



Club Managers
Association of America[®]

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A monograph submitted to the Certification Committee
of the Club Managers Association of America
in partial fulfillment of the requirements for the
Master Club Manager (MCM) designation

Draft December 11, 2007

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Acknowledgements

I would like to take this opportunity to thank the many people who gave me their time, knowledge, and support throughout this process.

My MCM Monograph Support Group comprised:

Ray Schmidgall, Ph.D. CPA
Professor
The School of Hospitality Business
Michigan State University

Norm Spitzig, MCM
Principal & Senior Partner
Master Club Advisors

Kevin Rodgers, CPA
Controller
Medinah Country Club

Peter Goldman
Editor & Publisher
White Collar Crime Fighter Newsletter

John Rainis, CPA
Country Club Specialist
BDO Seidman, LLP

MCM Academic Council...for giving of their time, energy, and wisdom to strengthen our association.

Jack D. Ninemeier, Ph.D. ...my guiding light throughout the entire process. Your guidance, wisdom, and words of encouragement are greatly appreciated.

Mr. Joseph Basso, MCM...for his assistance with my Professional Data Profile.

Mr. Joe Perdue, CCM, CHE...for his personal and professional encouragement and support throughout the MCM process and my entire career.

To all the private club controllers that were interviewed:

Tony Riley
Controller
Park Ridge Country Club

Joyce Conway
Controller
La Grange Country Club

Michael Dasbach
Controller
Butler National

John W. Quarles, CPA
Controller
Hinsdale Country Club

Kara Klousitzer
Controller
Butterfield Country Club

Mick Nissen
Controller
La Rinconada Country Club

Kevin Rodgers, CPA
Controller
Medinah Country Club

Bill Laase
Controller
The Standard Club

To all of the forensic auditors that were interviewed:

Joseph J. Stastny, CPA
Forensic Auditor
Mulcahy, Pauritsch, Salvador & Co. Ltd

John Rainis, CPA
Country Club Specialist
BDO Seidman, LLP

Venice Meyer
Forensic Auditor
The Huron Consulting Group

Peggy Swanton
President /CFO
Tactics Inc.

To all 198 club managers across the United States, Canada, and Costa Rica who took time out of their busy schedules to contribute the information for this monograph. I hope the information proves worthy of your contributions.

To all the people who contributed letters of support for my PDF...thank you for taking the time to write letters on my behalf.

Mike Clark
Eleazar Sanchez
Sandy Dobias
Corbin Boyt
Mike Mercado
Nathan Leek

Thomas Harrigan
Jim Szewc
Thomas Hansen
Doc Watson
Julie Majer
Brad Warble

Dave Schumpp
Jim Breen
Bernadette Serrano
Don Schwarz
Dan Gibbons

Robert D. Nelson, CCM, Thomas W. Harrigan III, Clarence “Doc” Watson
CCM...for being my mentors and for their ongoing support and encouragement throughout my career. These three highly respected gentlemen shared their guidance and wisdom with me on a daily basis and have helped shape who I am today personally and professionally.

Julie Majer...you came into my life, got me on the right path, and you continue to be the wind beneath my wings. I lost my sister to cancer and God sent me an angel to replace her until we meet again in heaven.

My Mother, Theresa L. Kornfeind...What can I say, you are responsible for giving me life, teaching me how to give instead of take, how to play “nice,” and how to love and appreciate the little things in life. My unconditional love for you will never waver.

Dr. Paul J. Kornfeind O.D. ...This document is dedicated in your memory. You are my foundation, my hero, and a role model that any son would be lucky to have. You were at

the Managers Awards Luncheon in Las Vegas when I received my CCM designation. I know you will be watching from heaven when I walk across that stage as MCM. I can't begin to express how much I miss and love you.

Executive Summary

Private club general managers, passionate multi-taskers possessing intimate knowledge of their club's operational areas, can be at the mercy of their controllers and bookkeepers if they are not conversant in the demands of accounting and active in instituting fraud controls. Fortunately, most controllers and bookkeepers deserve the trust that general managers place in them. However, those that don't can cause major problems for a club and its general manager.

This monograph explores how well private clubs are protecting themselves against fraud—and where general managers need to improve the controls to keep money from

walking out the club door. The research compares three separate groups: CMAA club managers, club controllers, and club-specific forensic auditors, focusing on their attitudes toward internal controls.

The findings weren't surprising: Club managers take a lax approach to internal controls while club controllers and club-specific forensic auditors are more strict. Club controllers tend to embrace internal controls so long as the procedures don't impede their work. Forensic auditors, on the other hand, were very focused about internal controls regardless of the time or cost commitment. All three groups were asked the same questions—in both the surveys and personal interviews—and this monograph compares the responses.

The information gathered through the research was then used to create a checklist that can help club managers protect their clubs against fraud. The checklist offers practical ways that club managers can implement effective controls.

Statement of the Problem

Fraud and white collar crime has reached pandemic levels within corporate America. Private clubs, more specifically the accounting departments within private clubs, are not immune to the risk of fraud. Although most accounting departments within private clubs are small (two to three people on average), the damage that can be done and the amount of money that could be embezzled could add up into millions of dollars over time.

This monograph will identify who commits fraud, why they do it, and the need for strict internal controls in a private club. It will also make recommendations about what general managers can do to protect their clubs against fraud. This information is important because frequently the general manager either puts too much trust in the accounting department or is not sufficiently knowledgeable about the internal controls necessary to protect their clubs and careers.

Review of the Literature

Although there are literally thousands of articles written on fraud, very little has been written about fraud in the accounting departments of private clubs. More specifically, there are no other known studies that contrast the attitudes toward fraud among private club managers, private club accountants, and club-specific forensic auditors while comparing their implementation of financial controls.

The research for this monograph began on the internet with the help of Google's search engine. The keywords: "fraud," "private club management," "accounting department," "nonprofit organizations," and "embezzlement" were all used in different combinations to begin the process of research for the development of this monograph.

Many articles had general relevance and proved good reading background for the topic. More were moderately relevant and were considered as the monograph was developed. A few articles were highly relevant; the two that the researcher found particularly insightful were an article from *The Bottomline* magazine and another from *The BoardRoom*

magazine. A club-specific case study, *Accounting Fraud at Deercreek Country Club*, was also incorporated into the monograph. The case study almost mirrored the researcher's own personal experience dealing with a dishonest controller at the club he managed. Indeed, the forensics reports from the fraud investigation at his previous club also formed a basis for the research into private club fraud. In addition, the researcher read several relevant books dealing with fraud in nonprofit organizations, internal controls, internet fraud, and an entire book of case studies dealing with the bad side of business.

To further help with the development of this monograph, the researcher also engaged in one-on-one discussions with private club accountants and club-specific forensic auditors. This literature review will summarize the articles, case studies, and books that contributed to the study by providing background information used.

An article by Bob Salmore, *Carrying the Torch for Honesty*, is very relevant to the topic of fraud. It discusses how the general managers of clubs must create an atmosphere of honesty and integrity. They must passionately set the expectation that no infraction, regardless of size, will be tolerated. They then must enforce that expectation. The article discusses research that was done for all types of clubs and cites that managers must realize that fraud at a club is like a weed. It starts small and eventually takes over the entire lawn. The common message in this article is: hire honest people, encourage employees to report honesty infractions, set the expectations for honesty high, and enforce those expectations.

Two experts in the area of fraud, William F. Wernersback, CPA, CFE and Stacia A. Turner, CPA, CHAE authored an article titled, “Who is Watching the Golf Shop?” They stated that the golf shop is one of the largest revenue centers in a country club. The article focused on different ways to prevent fraud in the golf operations. The main message was that club managers and boards are focused on restaurant and golf course operations. While this article was not specific to the accounting department, the common theme of fraud was applicable.

Some examples are:

- Reconciling golf rounds reported by the tee sheet to the point-of-sale system
- Conducting a daily sales audit
- Monitoring changed, voided, and refunded transactions
- Balancing cash, credit card, and house accounts

This golf shop-specific information, although omitted from this monograph, was very valuable in establishing the fact that fraud can happen club wide and managers can’t just focus on the clubhouse.

Although the researcher read several case studies to cultivate his knowledge of fraud prevention in the accounting department, *Accounting Fraud at Deercreek Country Club* stood out above the rest. Linda A. Hong, MBA, CPA and Jeffrey E. Michelman, Ph.D., CPA, CMA developed this case study for classroom discussion, basing it on actual events. Fortuitously, this case study was published on January 14, 2007, right around the time the researcher began to study for this monograph. It ironically showed great similarity to the actual events that the researcher experienced at his own club.

The actual investigation into fraud at Deekcreek Country Club was started after it was noticed that a check that had been written with an unrecognizable second signature. This discovery started a chain reaction and, like the layers of an onion, the more layers that they peeled back, the worse it smelled. Credit card fraud, wire transfers, the construction-in-progress account not being able to balance, multiple versions of the budget in use, forged signatures, unreconciled bank accounts were all brought to light and mirrored the events that took place at the club of the researcher. The researcher found it spine-chilling to discover so many parallels between his controller and the controller in the case study. Both controllers had a previous record and were both on probation for fraud at their previous job.

Among the many books written on fraud, the following have made important contributions to the development of this monograph:

- Edward J. McMillan, *Preventing Fraud in Nonprofit Organizations*, John Wiley & Sons. Inc., 2006. The author stressed that with the current litigious environment, it is becoming increasingly difficult to get an honest reference from previous employers. An organization will typically provide only verification of a person's title and their duration of employment. Today, employers have to rely almost exclusively on the accuracy of an individual's application or resumé as well as the honesty of the applicant. The author highly recommended the use of a background check on all key employees. Employers must request permission

before they can perform a background check and the cost of background checks can be high, but the amount of money lost to the actions of a dishonest employee could easily reach into the millions.

- K.H. Spencer Picket, *Internal Controls, A Manager's Journey*, John Wiley & Sons, Inc., 2001. The main message that this book conveyed was that internal control is no longer the exclusive domain of highly trained accountants on the internal auditing staff. The members of upper management must develop systems of internal controls and enforce them on a continual basis. Everyone on the staff must embrace and participate in the established internal controls for the systems to work. Thirty percent of all fraud is detected by fellow employees turning in dishonest employees. So management needs to have a system for employees to anonymously report such crimes.

- Frank W. Abagnale, *The Art of the Steal*, Broadway Books, 2001. The author of this book is an infamous former con artist. He knows all the tricks of the trade, making him one of America's most sought-after fraud prevention experts. The book contains a series of stories educating the reader on how to prevent financial foul play. This book is especially helpful for those honest and hardworking individuals for whom fraudulent activities are foreign ideas. This book presented how to think like a criminal for the purpose of learning how to:
 - Prevent identity theft
 - Create forge-proof documents

- Avoid information embezzlement
- Prevent products from being counterfeited
- Safely use credit and debit cards
- Take advantage of other useful fraud prevention tips

Conclusion

The lack of research in the specific area of fraud in the club accounting department indicates there is a high likelihood that this study will contribute significantly to the prevention of fraud. In addition, this study will provide club managers now and in the future the tools necessary to protect their clubs as well as their careers.

Background Information

In order to understand how to prevent fraud and understand the scope of the problem in private clubs, it is first necessary to understand what controls are and how they contribute to fraud prevention. This section provides general information about internal controls, defines fraud, and describes the elements surrounding fraudulent activities.

Controls: What are they, and why do we need them?

Control is based on a dynamic concept that ensures objectives are being achieved as efficiently as they can be by identifying high risk areas, implementing stringent internal

controls, reducing loss/waste, and maximizing profits. Controls do not impede progress; instead, they should be designed to drive an organization forward. Simply put, controls are implemented to assure that everything goes as it is supposed to go. Control is about taking aim, making sure the means to achieve the goal are in place, and managing the risks that can impair the ability to get there. Control is based on the people you surround yourself with and getting them to deliver. If the right people are in the right place, chances are good that they will make sure things are done right the first time in an efficient manner. Implementation of strict internal controls will often be met with resistance from the staff. Sometimes they will feel that “Big Brother” is watching, or that management doesn’t trust them and is questioning their honesty. However, controls protect them as well, a truth that can be communicated to them as controls are implemented.

Effective controls are directed towards areas that represent high risk: the dollar amount at risk multiplied by the likelihood of this amount being lost or depleted. Control is an art, not a mechanical activity that can be based solely on an unchanging checklist or a fixed model. Good controls are an invisible and dynamic force. Controls instill order and define the respective relationships of the organization’s components. They coordinate activities and stop people from spinning off in uncharted directions.

Control is the principle force that bonds an organization together. Control simply means achieving necessary goals by recognizing potential problems and ensuring there are procedures to deal with them and help prevent them. The whole idea of control is to

reduce risk; controls can never eliminate all risk. Risk is the flip side of controls.

Controls are the things that help you succeed, and risks are things that get in the way. The bottom line: controls are a matter of life and death for a club.¹

Effective internal controls generate important information, ensure compliance with required procedures, protect assets while minimizing losses, and promote economy, efficiency, and effectiveness. An example of this is a club's ability to implement segregation of duties. Segregation of duties is a basic, key internal control and is one of the most difficult to achieve in a private club because, on average, the accounting force for a private club is two and one half people. Segregation of duties is used to ensure that errors or irregularities are prevented or detected on a timely basis by employees in the normal course of business. Segregation of duties provides two benefits: 1) a deliberate fraud is more difficult because it requires collusion of two or more persons, and 2) it is much more likely that innocent errors will be found. At the most basic level, it means that no single individual should have control over two or more phases of a transaction or operation. Management should assign responsibilities to ensure a crosscheck of duties.

Other examples of controls can be found throughout this document—including in a comprehensive checklist of controls for a private club.

Basic control standards

Society and the club members demand some degree of corporate governance. Standards are about the way clubs are directed and controlled and, as such, present the argument that the club's board of directors is responsible for reporting back to the members.

- An organization needs good *segregation of duties* where necessary. A bad example would be a club where the same person opens the checks, posts them to the members' accounts, and prepares and makes the daily bank deposit. A more efficient example would be a club where the receptionist opens and stamps the incoming checks "for deposit only." The accounts receivable clerk posts the payment to the members' accounts or to the proper general ledger account. The controller then prepares the deposit. The manager or someone who has no connection to the accounting department makes the deposit in a locked bank bag.
- Staff needs to seek *authorization* of important transactions that have a high value. The act of authorizing brings another employee in a supervisory role into the mix. This could prove to be a very valuable system of checks and balance.
- *Security* is another important control to keep unauthorized persons away from valuable items or information. Physical security is self-explanatory, and passwords, firewalls, and other systems are needed to protect electronic databases.
- When it comes to computerized transactions, *identification codes* create a log of who has accessed the system, and they create an audit trail. Consider, for example, a copy of the chit received from the dining room. It should contain the server's name, the date, and a record of products consumed, along with the amount that will be charged to the member's account.

- **Verification** is another important concept related to physically verifying that the club has the product that it ordered, received, and paid for. Stock checks, inventory reconciliation, inspections, and asset checks are means to verify that managers have control over theft-prone items.
- **Control totals** allow managers to compare recorded transactions against actual sales. For example, one can compare the number of porterhouse steaks sold (via a daily point of sales report) against actual inventory, minus any waste (i.e. an overcooked and returned steak). An additional level of security in this example would be to have the manager on duty or chef verify that the steak was indeed overcooked and not given to a bartender in exchange for drinks to the kitchen/wait staff.
- **Supervisory accountability** involves holding your supervisors accountable to ensure that control systems are in place, and that department heads are monitoring them. In theory, monetary rewards for achieving the financial goals of a club will drive this process and encourage tighter internal controls. On the other hand, problems involving managers whose departments fall short of the club's financial goals should be documented and they should be a main point of discussion during performance reviews. Managers that follow this process are more likely to have department heads that are focused on controls and more likely to achieve established goals. More than anything, managers should establish a control culture where team members want to get things right.²

These are basic examples of control procedures that must be in place to protect clubs and, hopefully, produce positive financial results. Later sections of this monograph will discuss details of managerial control systems.

Overview of Fraud and Fraudulent Activities

This section will review:

- Causes of fraud
- Types of fraud
- Components of fraud
- Who commits fraud
- Warning signs of fraud
- Why persons commit fraud
- When employees commit fraud
- How dishonest employees are caught

Causes of Fraud

An organization is a series of controlled emotions directed towards business goals.

Emotions drive one's energy, and energy, in turn, drives the business. Harold Geneen, put it best when he said, "The soul of a business is a curious alchemy of needs, desire, greed, and gratification mixed together with selflessness, temptation, and personal contributions far beyond material rewards."³

Temptation is an act that looks appealing to an individual. It is usually used to describe acts with negative connotations that often leads a person to regret the act for legal, social, psychological (guilt), health, economic, and other reasons.

Greed is a selfish, excessive, or uncontrolled desire for possession or pursuit of money, wealth, food, or other possessions, and is generally considered a vice, especially when one desires things simply to own them. Greed may entail acquiring material possessions at the expense of another person's welfare or otherwise reflect flawed priorities.

Fraud and corruption are very unpleasant subjects. There is nothing positive about them, and they are based on human greed. One definition argues that fraud involves the use of deception to obtain an unjust or illegal advantage. Some managers naively consider fraud a distant concept: something that happens to other companies but not at their clubs. Fraud can become a reality when bored, disillusioned, or dishonest people undertake actions out of a desire for a thrill or to risk the danger of getting caught. Clear and firm controls must be in place to combat the real risk of fraud.⁴

Types of Fraud

Fraud covers offenses such as:

- Theft - simple or by collusion
- Forgery
- Bribery
- Corruption - accepting large gifts from a preferred supplier
- Misrepresentation
- False accounting

- Extortion through blackmail
- Other acts that fall under the banner of deception and illegal acts

Managers need to protect the assets of a club with effective procedures and accountability as well as with physical security. Even if a certain level of trust has been established with a particular employee, a club manager must still maintain some caution because life changes, and people and their personal situations change. Greed is a real concern, and it is only the fear of getting caught that keeps many persons in check.

Fraud can be programmed into accounting information by club employees, and it can even be committed by people who don't work at your club, perhaps through the submission of false or inflated payment invoices or through electronic identity theft.

This study concerns employee fraud in which club employees try to steal from the club because of their special position within the organization. Concealment is a feature of this type of fraud. Referred to as "false accounting," it can remain undiscovered, in contrast to "smash and grabs": fraud where the problem is immediately obvious.

Components of Fraud

Fraud depends on motive, means, and opportunity.

- "Motive" is the reason why the crime was committed. Some employees may have financial difficulties, some feel the club or its members owe them, or some have an addiction such as drugs, alcohol, or gambling.

- “Means” is a more obscure concept. Some argue that the criminal must have the intellectual capacity or be sufficiently “streetwise” to plan a successful fraud. One may also need the ability to lie or to otherwise hide the fraudulent act. Criminals must know how the system works to circumvent the internal controls already in place. A working knowledge of the accounting system, scanners, and laser printers coupled with an employee’s deceptive ideas is a deadly combination and recipe for disaster.
- “Opportunity” is what allows the criminal to commit the crime. He/she may be in a position of trust with access privileges and the physical means to commit the crime. This opportunity may involve the use of passwords or physical security devices such as locks or key pads. In addition, the criminal would need access to computers, bank accounts, receipt books, or purchase orders. In other words, motive and means are not sufficient without the chance to defeat the system.⁵

Who Commits Fraud

In the real world of fraud, the criminals rarely fit the stereotypical image of someone capable of planning and implementing fraudulent schemes. Rather, they are typically above suspicion like the young employee who sings in the choir or the older person who has been with your club for years and remembers everyone’s birthday. Embezzlers are of any age, sex, race, religion, and income bracket. How many times do you hear about priests who get arrested for defrauding their own parish out of hundreds of thousands of dollars? It can happen to any club or organization.⁶

Warning Signs of Fraud

Among the warning signs of fraud are:

- The disgruntled employee
- The stressed-out employee
- Employees living beyond their means
- The employee who never takes a vacation
- Employees who are unnaturally compulsive about their job responsibilities
- Employees experiencing financial difficulties
- Employees with a drug and/or alcohol problem⁷

Why Persons Commit Fraud

Despite the appearance of honesty, you can never be sure of what is going on in someone's personal life, and desperate people are capable of taking desperate action. Common issues which can cause employees to do something dishonest include when they:

- Have a gambling problem
- Have an alcohol problem
- Have a substance abuse problem
- Are in a tight financial crunch
- Have amassed large medical bills
- Enjoy living life on the bleeding edge⁸

When Employees Commit Fraud

A disturbing consistency that surfaced during this study was that most embezzlement occurred between the time the auditors concluded their field work and when the auditors arrived the subsequent year. Employees committing fraud put any fraudulent activity on hold while the auditors were physically on property. For example, a “ghost employee” would be terminated before the arrival of the CPA, and would then be “rehired” after the audit was complete. Although far from a comprehensive list, the majority of fraudulent schemes share the following:

- Weak internal controls
- Too much trust
- Poor management oversight
- Lack of internal audit committees
- No background checks on key positions
- Lack of management verification of bank and credit card statements⁹

How Dishonest Employees Are Caught

The following statistics run counter to the popular belief that outside audit typically uncover fraud. Dishonest employees are caught because:

- 50% The employee gets greedy and sloppy and is caught by pure luck
- 30% Whistle blowers report fraudulent activity
- 18% An internal audit committee finds the fraud
- 2% A CPA conducts a financial audit¹⁰

Most criminals know exactly what the auditors do and do not check; especially if they are long-term employees and have been through the audit process in the past. Prior to the audit, the auditor sends a list of what will be reviewed and this allows the dishonest employee to address applicable accounting irregularities. Managers should also know that auditors are not there to uncover fraud during the course of their audit, but rather to offer an opinion on whether the figures in the financial statement are presented fairly.

Conclusion

The trick to good internal controls is to find a balance between no controls and controls that are too strict and impede forward progress. Finding the right balance involves more than simply having a contingency plan “to cover us when something goes wrong.” When there is too much risk, something will probably go wrong. Too much control is just as bad because there will be little progress.

The current trends toward downsizing, empowerment and increased delegation, process re-engineering, and coaching are thought to be a replacement for traditional supervisory management. However, they create different control perspectives. Managers are still responsible for obtaining, delivering the right things, and achieving results. To do so, they must set high standards and develop a culture where these standards are the norm.

Research Design and Methodology

Information reported in this monograph was generated from three general sources. First, numerous books, periodicals, case studies, and internet articles were studied. They

provided information about fraud and helped to justify the need to research fraud in private clubs.

Second, to add depth and club specificity, a survey of club managers was conducted. A cover letter (Appendix D) was sent via e-mail to 800 randomly selected members of the Club Managers Association of America. The randomization was achieved by contacting Chris Velo, Director of Technology Operations for the Club Managers Association of America. Chris was able to extract the name and e-mail address of every seventh member from the master data bank of members. The cover letter contained a link to an online survey (Appendix E) which consisted of sixty yes/no and multiple choice questions. Space was provided for comments after each question.

Use of an electronic survey via the World Wide Web (www.surveymonkey.com) yielded several advantages:

- Easy to input the survey (cut and paste)
- Quick turn-around time for data collection
- The data was automatically tallied
- 100% accuracy regarding data tabulation
- Guaranteed confidentiality of the data
- Survey could be completed by the participant 24/7 from any computer with internet access
- Tremendous time and cost savings

The survey instrument provided insights from the general manager perspective. Eight hundred random members of the Club Managers Association of America were asked to respond to a total of sixty questions divided into seven sections specific to their clubs:

- General club
- Accounting office practices
- General manager
- Human resources/hiring practices
- Treasurer
- Management team
- Pro shop
- Demographics

One hundred and ninety eight usable responses (24 percent) were returned. The survey results provide many common themes that helped formulate the recommendations in this monograph.

The third source of information in this monograph came from personal interviews with nine private country/city club controllers and four forensic auditors with actual country club fraud experience. Their insight and “hands-on” experiences were very astute. Club controllers were interviewed to discover what their clubs were doing that was unique to combat embezzlement and to learn their professional opinions about internal controls. Interviews addressed two dimensions: what did their club do about a specific topic, and what would they do if they were in charge. Interviews with the forensic auditors

addressed the issues from the perspectives of professionals focused on accounting controls and lent a very aggressive dimension to the suggestions and recommendations.

The checklist to help private club managers prevent fraud at their clubs was developed from a combination of:

- The answers given by the general managers
- The recommendations from the private club controllers
- The recommendations from the club-specific forensic auditors
- The research that was done as outlined in the literature review

Results, Discussion, and Recommendations

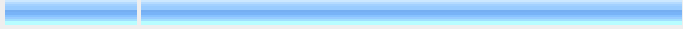
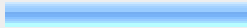
The research very quickly unveiled that most club managers take a very lax approach to internal controls, country club accountants embrace internal controls as long as it doesn't impede their progress, and the forensic auditors take a very serious approach to controls regardless of the time or cost commitment.

This section is organized into six primary segments:

- General club policies, procedures, and committees
- Accounting office practices
- General manager involvement
- Human resources/hiring practices
- Club treasurer involvement
- Golf operations

General Club Policies, Procedures, and Committees

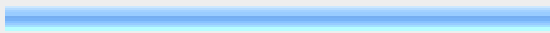
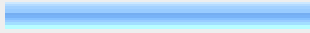
The first issue to address is: should a private club have a written policy regarding theft, fraud, and embezzlement? The following question was asked of all general managers, controllers, and auditors.

| Does your club have a written policy regarding theft, fraud, and embezzlement? | | Response Percent | Response Count |
|--|--|------------------|----------------|
| Yes |  | 72.7% | 141 |
| No |  | 27.3% | 53 |

Looking at the above statistic, 27.3 percent of the clubs did not have a written policy regarding theft, fraud, and embezzlement. Interview results revealed that 50 percent of club controllers felt that it would be a good idea to have such a policy. The other 50 percent did not feel that it was necessary and questioned why they should bother since a written policy in an employee handbook would not stop fraud.

The auditors were 100 percent supportive of the idea and felt that it set the tone at the top. Having a policy in place for new employees sends a message to new hires that the club is concerned and will investigate and prosecute those suspected of fraud.

In addition, they recommended that every private club develop a written ethical behavior policy that covers fraud, theft, and embezzlement. This sends a signal to the staff that any form of theft or unethical behavior will not be tolerated. This also protects the club in the event that an employee must be terminated for unethical behavior.

| Does your club have a conflict of interest policy? | | Response Percent | Response Count |
|--|---|------------------|----------------|
| Yes |  | 60.6% | 117 |
| No |  | 39.4% | 76 |

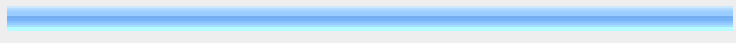
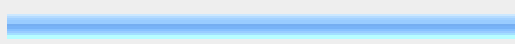
Doing business with members or their companies can be a source of problems. About 61 percent of the clubs surveyed have a written policy against doing business with members. Of the controllers surveyed, only one club had a written conflict of interest policy, but they all felt that one should be implemented and enforced. The Standard Club allows their members to do business with the club, but they needed full disclosure to the membership, and it must be approved in writing by the board of directors.¹¹

All of the auditors are in favor of having and enforcing a written policy mainly because it protects the manager from getting caught in an otherwise tough situation.

Every club should have and enforce a written conflict of interest policy. Doing business with members often prevents managers from getting competitive bids on products or services, and it prevents them from obtaining the best price, service, or selection.

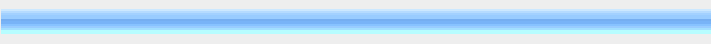
Whether intentional or unintentional, this could be an example of a member fraud against the club.

| Does your club have a policy against writing checks out to cash? | Response Percent | Response Count |
|--|------------------|----------------|
|--|------------------|----------------|

| | | | |
|-----|--|-------|-----|
| Yes |  | 60.0% | 117 |
| No |  | 40.0% | 78 |

Typically, private clubs have very little cash on hand. Petty cash, a private party that has requested a cash bar so guests can purchase their own drinks, a small bank for the pro shop, and cash needed to pay the caddies, if applicable, is what the average club needs. Still, cash remains the number one potential area for employee theft. A check made out to cash creates just as much risk as cash itself. However, 40 percent of the clubs and 30 percent of the controllers surveyed make checks out to cash. Even though 30 percent of the controllers surveyed work at clubs that allow checks to be made out to cash, 100 percent of the controllers and 100 percent of the auditors felt that checks should never be made out to cash; in fact they should be made out to the custodian of petty cash.

It is recommended that every private country club have and enforce a policy against writing checks out to cash.

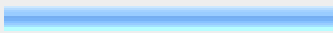
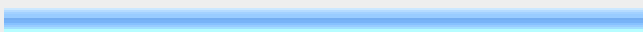
| Does your club have an audit/internal controls committee? | | Response Percent | Response Count |
|---|--|------------------|----------------|
| Yes |  | 43.6% | 85 |
| No |  | 56.4% | 110 |

Of all the dishonest employees who get caught for embezzlement, 18 percent of the cases are caught by internal controls committees. That is a very high percentage considering that only two percent are caught by outside auditing firms.¹² The survey showed that

56.4 percent of clubs do not have audit/internal control committees. The response from the controllers varied. For example, 30 percent felt that it was a good idea to have an audit/internal controls committee and thought it should be chaired by someone with an accounting background. One-half (50 percent) of the controllers didn't think having an audit committee was necessary because it would just create more work and more meetings to attend. One controller commented that the finance committee was not excited or even interested in the club finances, let alone in audit/internal controls.¹³

All of the auditors felt that every club should have an audit/internal controls committee (ICC) that is separate from the finance committee. They recommended that the ICC meet quarterly and hire someone outside the club with accounting experience to sit on the ICC. The controllers also felt that the audit firm should give an annual "End of the Year, State of the Union Club" presentation to the board, the finance committee, and the internal controls committee.¹⁴

The Union League Club of Chicago has an internal control committee that meets once a month to protect the assets of this \$25 million per year operation. General Manager Jonathon McCabe said, "It is a pain, but at the end of day, it provides me with lots of 'insurance.' As the audit committee does more work, they find out how good our controls and policies are, and it gives the members an extra layer of safety to ensure we are doing things correctly and are compliance with GAP and more. The auditors actually end up singing our praises; who knew?" No matter what the size of your club, an ICC is a good idea and adds one more layer of protection.

| Does your club have a written “whistle blower protection policy” | | Response Percent | Response Count |
|--|--|------------------|----------------|
| Yes |  | 34.3% | 61 |
| No |  | 65.7% | 117 |

The survey shows that more than 65 percent of the clubs surveyed do not have a whistle blower protection policy. The statistics show that 30 percent of all dishonest employees are caught as a result of being turned in by a fellow employee.¹⁶ In order to protect employees who report fraudulent activity, the federal government has developed a system for whistle blower protection.

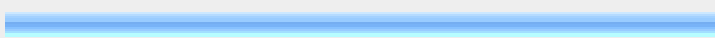
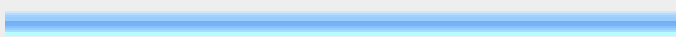
Whistle blower protection is provided by federal acts and related statutes that shield employees from retaliation for reporting illegal acts of employers. An employer cannot rightfully retaliate in any way, such as discharging, demoting, suspending, or harassing the whistle blower. If an employer does retaliate, whistle blower protection might entitle the employee to file a charge with a government agency, sue the employer, or both.¹⁷ For that reason it is important for a club to have a written policy. A designated board member should be made available for any employee to contact and to report any wrongdoings within the club. To take it a step further, outsourced whistle blowing hotlines are one of the most successful tools for encouraging employees to report fraud, theft, and other misconduct. By using an outsourced hotline, your club will benefit from an impartial, professional external whistle blowing service that is very unobtrusive and easy to set up. They are responsible for protecting and collecting information with complete confidentiality, giving your employees the peace of mind needed to speak up about

workplace malpractice. It is recommended that the president of the club be the contact person in case the general manager is involved in the fraud. If it is reported that the president of the club is in fact involved with a fraudulent activity, a secondary contact person from the executive committee or the general manager should be available for the outsourced company to use in this case. The hotline number should also be given to vendors in case they become aware of, or if they are approached by a dishonest employee to aid and participate in club embezzlement. There are several companies that provide this service and they can be found on the internet.¹⁸

It is recommended that every club have a written whistle blower protection policy in place that includes a hotline to an outside service that reports any wrongdoings to the club's president.

Accounting Office Practices

The following are recommendations to help increase internal controls regarding accounting office procedures.

| Does your club use a lock box? | | Response Percent | Response Count |
|---------------------------------------|--|-------------------------|-----------------------|
| Yes |  | 51.8% | 100 |
| No |  | 48.2% | 93 |

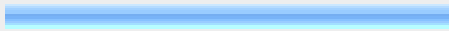

The survey shows that just over half, 51.8 percent, of all clubs surveyed use a lockbox, which is a service provided by banks to companies for the receipt of payment from customers. Under the service, the payments are mailed to a special post office box, rather

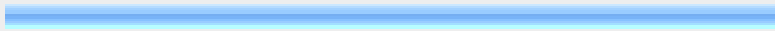
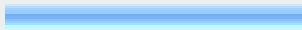
than going to the club. The bank will then go to the box, retrieve the payments, process them, and deposit the funds directly into the club bank account.

The controllers felt that although expensive, every club should use a lockbox. They also commented that it made their job easier because it was something they did not have to deal with. The controller from La Grange Country Club mentioned that 30 percent of their members use auto debit/direct deposit straight from the bank.¹⁹ All the auditors felt that the best line of defense was for a club to use a lock box. They also agreed with the controllers that electronic transfer is preferred for member payments.

Even though a lock box is an added expense, it is also an added line of defense against fraud. If the check is never touched by a club employee, the risk is greatly reduced and almost eliminated. On the other hand, lockbox banking can also be very risky. Bank employees who have access to lockboxes are rarely supervised, which opens the situation up to possible fraud. The fraud primarily occurs in the form of check counterfeiting because the checks that are in the lockboxes provide all the information needed to make counterfeit checks. Companies can protect themselves from such fraud by using a bank that they trust and by constantly monitoring their lockboxes. It is highly recommended that you investigate having your members use auto debit. Change in a private club does not happen overnight, especially with older members. If the conversion to auto debt bill paying is made now, in a few years it can be made mandatory, and will save the expense of a lock box while maintaining the same level of security.

| | | |
|---|----------------|-----------------|
| Do you use Biometric time clocks to avoid “buddy swiping”? | Respons | Response |
|---|----------------|-----------------|

| | | e Percent | Count |
|---------|---|--------------|-------|
| Ye s |  | 32.3% | 63 |
| No |  | 67.7% | 132 |


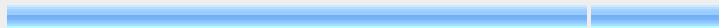
| Is your time clock visible to a supervisor? | | Response Percent | Response Count |
|---|--|---------------------|-------------------|
| Yes |  | 77.2% | 149 |
| No |  | 22.8% | 44 |

The survey results show that 32 percent of clubs across the country are currently using biometric time clocks. Biometric time clock systems are used to authenticate employees while "punching in/out" through scanning fingerprints, palm prints, or by measuring dimensions of the hand.

What was surprising is that 22.8 percent of the time clocks in clubs were in places that were not visible to a supervisor. In the wireless world of technology that we live in, there is no reason why a time clock should not be visible to a supervisor.

These two questions go hand in hand. Past experience has shown that clubs that use the old-fashioned time cards or the newer swipe card systems are very susceptible to "buddy swiping".²⁰ All of the controllers interviewed had at some point caught employees punching other employees' time cards in or out.

An overwhelming 85 percent of the controllers and 93 percent of the auditors agree that the use of a bio-metric time clock placed in clear view of a supervisor is a great way to eliminate or at least greatly reduce the amount of timecard fraud. The cost of an average hand scan biometric time clock installed with software and cabling was less than \$5,000. These monies can easily be recouped over time with the reduction of “buddy swiping.” Just due to the sheer size of the facility, The Standard Club, located in downtown Chicago, goes as far as to post a security guard at the back door to check bags, purses, and monitor the time clock.

| Does your club use purchase orders? | | Response Percent | Response Count |
|-------------------------------------|--|------------------|----------------|
| Yes |  | 44.9% | 87 |
| No |  | 55.2% | 107 |

A comparison of club managers’ and club controllers’ views about purchase orders indicates large disagreement. While approximately 45 percent of club managers reported their use, only one controller felt that purchase orders provided great controls and should definitely be used.²¹ Another controller felt that they should definitely be used, but only in the pro shop.²² The other controllers felt they were: a waste of time, a real hassle, impossible to get signatures, and ‘bogged the accounting department down in a lot of minutiae.’ La Grange Country Club was unsuccessful after three attempts to implement a purchase order system.²³

Once again the auditors were 100 percent in agreement with each other, and they are strong supporters of purchase orders in clubs. One auditor commented that “not only are

they a great control point, they have also proven to be a great management tool. Without a purchase order, a product could be purchased, possibly with logos, shipped, and put into circulation before the manager even knows it was purchased. At that point it would be like trying to get the toothpaste back in the tube.”²⁴

The use of purchase orders has a direct correlation with the size of a club. A larger club has more resources and more personnel to institute a purchase order system. Having a well-defined process in place is critical to the success of the program.

The recommendation is that all private clubs, regardless of their size, implement a purchase order system not only as a control point, but also a management tool to control overspending—especially on non-returnable items.

| Does your club accept cash? | | Response Percent | Response Count |
|-----------------------------|--|------------------|----------------|
| Yes | | 47.9% | 93 |
| No | | 52.1% | 101 |

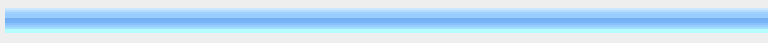
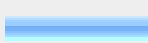
Accepting cash is a special club control concern. Yes, private clubs should accommodate and serve the members. This is likely why 47.9 percent of the managers surveyed reported that their clubs do in fact accept cash.

Most (85 percent) of the controllers surveyed commented that they do take cash from members to accommodate their needs, but they would prefer not to. The other 15 percent of the clubs represented by the controllers had a policy that they do not accept any cash. Clubs in general have very few cash transactions. The advice from the auditors is to limit

the amount of cash transactions as much as possible. Cash has the highest inherent risk and is very hard to track and recoup once it is missing.²⁵

Other suggestions from the survey are:

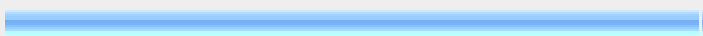
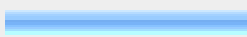
- Make sure bank deposits are done daily.
- Make sure the person who makes the deposit is not doing the posting.
- When cash is received, have a numbered carbon receipt filled out and signed by the member and by the person receiving the cash.
- If the bank provides a courier service, schedule a daily pick-up. The controller/office manager and courier must both sign off on the amount.
- Cash bars and bar carts on the course require a rigorous prevention program to protect against theft. The use of a separate cashier and numbered drink tickets on a cash bar is recommended.

| Do you stamp incoming checks “For deposit only at XYZ Country Club account” upon receipt? | | Response Percent | Response Count |
|---|--|------------------|----------------|
| Yes |  | 86.3% | 158 |
| No |  | 13.7% | 25 |

Stamping the incoming checks “For Deposit Only at XYZ Country Club” appears to be a common practice with most clubs. Of the managers surveyed, 86.3 percent reported that they do in fact stamp their incoming checks. (Using a lockbox or direct deposit can mostly eliminate this step.) Every controller agreed that this is a good practice, and that it should take place. The controller at Butterfield Country Club has been working with

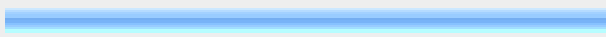
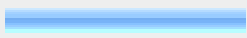
JONAS on a check reader that is directly deposited into the bank and immediately posted to the member's account.²⁶

Every auditor supported this practice. If a club does not use a lockbox or electronic transfer, it must segregate the duties when processing member payments. Have the receptionist open the checks, have the accounts receivable/accounts payable employee input the data, have the controller prepare the deposit, and have a neutral party make the deposit.²⁷

| Does your accounting department stamp all receipts and petty cash slips as "paid" so they can't be used more than once or duplicated? | | Response Percent | Response Count |
|---|--|------------------|----------------|
| Yes |  | 73.6% | 134 |
| No |  | 26.4% | 48 |

The results from the controllers interviewed were surprisingly different than the responses of the club managers. For example, 73 percent of the managers reported that their clubs stamp receipts and petty cash slips as "paid" so they cannot be duplicated. While no controllers who were interviewed stamped their receipts as "paid," all agreed that it should be done. As well, all auditors concurred that this is a practice that should be followed. A survey response also suggested that in addition to stamping the receipts as paid, they should be signed by the employee and the general manager.

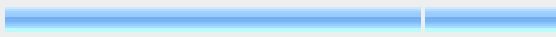
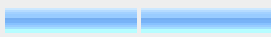
The recommendation is that all receipts and petty cash slips be stamped as "paid" and be signed by the employee and initialed by the general manager when he or she does the monthly review of the petty cash fund. Note: the petty cash fund is also discussed later in this document.

| Does your accounting office deface and save all voided checks in a file for the auditors? | | Response Percent | Response Count |
|---|---|------------------|----------------|
| Yes |  | 84.7% | 155 |
| No |  | 15.3% | 28 |

It was encouraging to see that 84.7 percent of the clubs surveyed deface and save all checks until they can be reviewed by the auditors. Once again, the response from the controllers regarding this issue was spread out across the board. Interestingly, 45 percent of the controllers strongly support this practice, but only 35 percent of them deface the voided checks and dispose of them after a while. The other 20 percent stated that the auditors never ask for the voided checks so they just shred them. On the other hand, 100 percent of the auditors support this practice. They also recommended scanning all invoices and checks in addition to scanning all voided checks. This data along with the daily back-up of data should be stored electronically off property on a computer in another part of the country. One auditor thought that it was good practice for the general manager to do a random check of the file containing voided checks to assure that this is, in fact, being done.


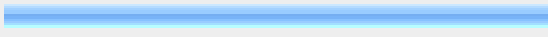
The recommendation is for the accounting department to deface all voided checks, cut out the signature lines, and keep them on file for the auditors to examine. The general manager should review this file every quarter to make sure that it is being done.

| Are all dining room voids approved by a department manager and reviewed by the accounting office? | | Response Percent | Response Count |
|---|--|------------------|----------------|
|---|--|------------------|----------------|

| | | | |
|-----|---|-------|-----|
| Yes |  | 69.7% | 129 |
| No |  | 30.3% | 56 |

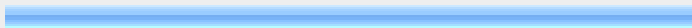
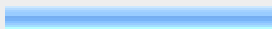
The controllers who were interviewed agreed with the club managers who were surveyed. 69.7 percent of the managers surveyed make it common practice for the department head to approve all voids and then have the voids reviewed by the accounting department. Seventy percent of the controllers stated that the department head could void an entrée or an entire check and they wouldn't even know that it happened. The auditors agreed unanimously that all voids should be approved by the department head and then by the accounting office. Park Ridge Country Club uses the JONAS point of sale program, and it has a policy that states that all voids must be charged to a house account and then reviewed by the controller. It is also recommended that department heads change their passwords frequently to prevent servers from voiding items without prior management approval.²⁹

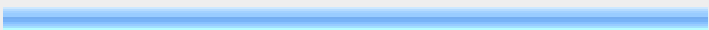

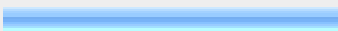

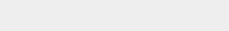
The recommendation is to establish a policy that all voids in the dining room need to be voided by a department manger using a secure password, submitted with a typed explanation for the void, charged to a house account, and reviewed by the accounting department, the general manager, and executive chef.

| Does your club allow wire transfer of funds? | | Response Percent | Response Count |
|--|--|------------------|----------------|
| Yes |  | 56.6% | 103 |
| No |  | 43.4% | 79 |

Although 56.6 percent of the clubs surveyed allow wire transfer of funds, the supporting information reinforced that they can only transfer between accounts within the same bank, and most needed prior approval from the general manager or the treasurer. Seventeen percent of the controllers can transfer funds anywhere, but they rarely do. The controllers did warn that if they had wanted to embezzle money via a wire transfer, they could do so very easily because the internal controls preventing them are not in place. The transfer will show up on the bank statement, but they could be out of the country long before someone notices the money is gone. Of the auditors, 87 percent were okay with wire transfers providing the necessary controls were in place. It is appropriate to wire transfer funds as long as the general manager or treasurer verifies them with the bank with a verbal callback.³⁰ Auditors vehemently oppose having any bills paid online and recommend that all bills be paid by paper check. There are no controls in place to stop a controller from paying his or her personal bills online, especially if the club and the employee use the same provider (examples: Comcast, an internet provider and ComEd, a power company).

If the club does allow wire transfers, there needs to be tight controls in place. It seems that the auditors have the right idea and feel that it was acceptable to wire transfer funds as long as the general manager or treasurer verifies with the bank with a verbal callback. Online payment of bills should be strictly forbidden.

| Do you require two signatures on checks? | | Response Percent | Response Count |
|--|--|------------------|----------------|
| Yes |  | 75.5% | 139 |
| No |  | 24.5% | 45 |

| What amount do you require two signatures? | | Response Percent | Response Count |
|--|--|------------------|----------------|
| All |  | 44.4% | 76 |
| \$1-\$999 |  | 2.9% | 5 |
| \$1,000-\$4,999 |  | 21.6% | 37 |
| \$5,000-\$9,999 |  | 13.5% | 23 |
| \$10,000 or higher |  | 17.5% | 30 |

*** Note: The total response rate is 99.9 percent due to rounding of the numbers**

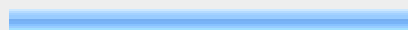
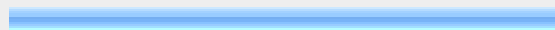
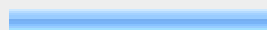

Approximately 75 percent of clubs surveyed require two signatures on some checks and 44 percent of the clubs required two signatures on all checks. Once again, the controllers had a difference of opinion:

- @ 30 percent felt there should be two signatures on all checks
- @ 55 percent felt that any check greater than \$5,000 require two signatures
- @ 15 percent felt that any check greater than \$10,000 require two signatures

Surprisingly, 75 percent of the auditors felt that any check greater than \$5,000 should have two signatures, and 25 percent felt that it was necessary only when greater than \$10,000.

To ensure the most secure policy, two signatures on all checks should be required. Some other helpful hints to increase protection:

- Do not allow your controller or anyone who has access to the general ledger to sign checks.
- Do not allow your general manager to sign checks for products or services for which he is responsible for ordering.
- Do not allow rubber stamp or electronic signatures.
- Do not allow blank checks to be pre-signed.
- Have the same board member sign checks every month to recognize patterns or breaks in patterns.

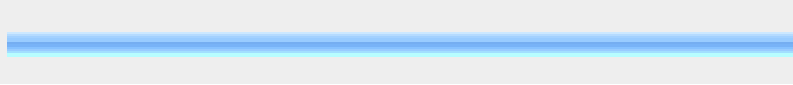
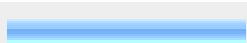
| How would you rate your accounting office regarding adequate segregation of duties? | | Response Percent | Response Count |
|---|--|------------------|----------------|
| Outstanding |  | 30.6% | 56 |
| Not bad |  | 45.9% | 84 |
| Could be better |  | 21.9% | 40 |
| Things are going to change after I finish this survey |  | 1.6% | 3 |

The interesting statistic, as a result of the managers surveyed, was that 23.5 percent were not satisfied with the segregation of duties in their own accounting department. The follow up question in three months should be how many managers have done anything about it. The challenge that most controllers face was the lack of resources (employees) for proper segregation of duties. The average size club has between 2.5 and 3 people on the accounting staff. The larger clubs interviewed had the luxury of 4 to 5 people on the accounting staff plus a separate human resources department. Obviously, the bigger the

club, the higher the accounting budget, and the greater ability to segregate duties for increased internal controls. Managers of smaller clubs must be that much more attuned to the workings of the accounting department. The recommendation is to do the best with the resources that are available. The general manager should also meet with the accounting staff to discuss this topic and make sure that the club is doing everything possible to segregate duties.

General Manager Involvement

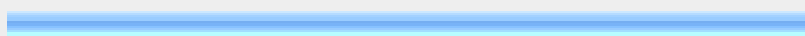
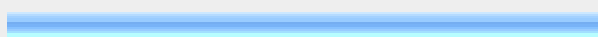
This section was included to see how involved general managers are with the accounting department and internal controls.

| Do you receive the sealed bank statements directly from the bank? | | Response Percent | Response Count |
|---|--|------------------|----------------|
| Yes |  | 71.6% | 126 |
| No |  | 28.4% | 50 |

Of the managers surveyed, 71.6 percent currently receive the sealed bank statement directly from the bank. All of the controllers interviewed fully supported the need for the general manager to receive the sealed bank statement first and to review it for any discrepancies. Fifty percent of the auditors felt that this practice was no longer necessary due to online banking and the ability to view the statement from a computer. Those same auditors recommended that the general manager and the treasurer should definitely go online once a month to look over the statement.

The recommendation is a combination of both ideas. The club’s bank statement should come directly unopened to the general manager or the treasurer. The general manager should go online and check the banking activity every day or every other day.


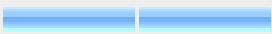
The treasurer should also have access to the online banking and do random checks of the banking activities.

| Do you receive the sealed credit card statements directly when they arrive? | | Response Percent | Response Count |
|---|--|------------------|----------------|
| Yes |  | 62.9% | 110 |
| No |  | 37.1% | 65 |

The survey reflects that 62.9 percent of the managers surveyed receive the sealed credit card statement directly. Clubs may want to rethink this policy because this may not always be a good thing. Dishonest general managers most frequently steal by misusing credit cards.³¹ While having a company credit card is very convenient, it does create temptation for abuse. The two best ways discovered to prevent fraud in this area are to eliminate the cards altogether or to apply with a corporate card that allows the controller, general manager, and/or treasurer the ability to view the charges online. They also have the ability to drill down and review the charges in detail to see exactly what was purchased. Most cards offer this service. Whoever signs up for a card must take the card out in their name and are ultimately responsible (not the club). Now every member of the management team can have a card without worries.

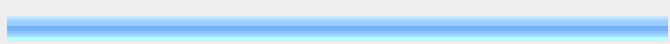
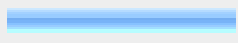
A few more suggestions to improve your level of security:

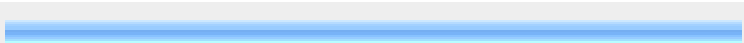
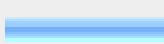
- Insist on a **detailed** receipt for each transaction or reimbursement will not be allowed. (No receipt, no reimbursement, no exceptions!) The cardholder will more than likely lose only one receipt and hopefully learn his/her lesson.
- Do not allow personal transactions of any kind to be charged on this account.
- Have the credit card statement sent directly to the treasurer. This is recommended for three reasons:
 - To reduce opportunities for the general manager and the controller to collude.
 - “When Big Brother is watching, people are much less likely to steal!”
 - It increases your chances that your treasurer and controller meet at least once a month, and it keeps the treasurer involved.

| Do you double check all major journal entries? | | Response Percent | Response Count |
|--|--|------------------|----------------|
| Yes |  | 68.5% | 124 |
| No |  | 31.5% | 57 |

Of the general managers, 68 percent were proactive about this issue and say that they do in fact double check all major journal entries. This was contrary to what the controllers said. When asked, 90 percent of the controllers stated that their general manager did not double check all major journal entries. On the flip side, all of the controllers and all of the auditors concurred that, in fact, the general manager should review all major journal entries. The general manager should check all major journal entries, and the controllers should prepare a monthly report with explanations to the audit/finance committee as well as the general manager for review.³²

Many general managers fall short in this area. The recommendation is that the controller should prepare a monthly report of all major journal entries with explanations for the general manager and the finance committee to review.³³

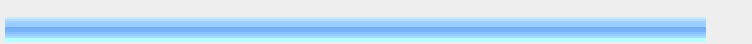
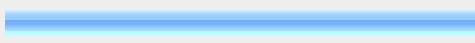
| Do you approve all invoices? | | Response Percent | Response Count |
|------------------------------|--|------------------|----------------|
| Yes |  | 77.7% | 139 |
| No |  | 22.4% | 40 |

| Do you insist that all invoices are attached to checks prior to signing? | | Response Percent | Response Count |
|--|---|------------------|----------------|
| Yes |  | 85.4% | 152 |
| No |  | 14.6% | 26 |

Most managers, 77.7 percent, are already approving all of the invoices at their respected clubs. In fact 85.4 percent insist that the invoices be attached to the checks they are signing. These high percentages were impressive in this day and age of fraud. Once again, all of the controllers and all of the auditors felt that the general manager should approve all invoices, and that the invoices should be attached to the checks before obtaining a signature. Some other recommendations to increase the level of internal controls:

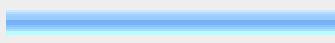
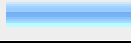
- The treasurer should approve and sign the checks for purchases made by the general manager.

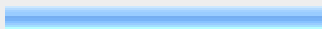
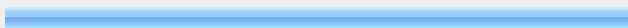
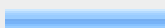
- All department heads should approve all invoices for their department prior to the check being prepared.
- Before the general manager signs the checks, the invoice should be stamped paid with the date and check number written on the invoice.

| Do you approve all write-offs and adjustments to member's accounts? | | Response Percent | Response Count |
|---|--|------------------|----------------|
| Yes |  | 62.4% | 111 |
| No |  | 37.6% | 67 |

The survey proves that is an area that the managers can do a better job in since only 62.4 percent approve all write-offs and adjustments to the member's accounts. Of the controllers interviewed, 80 percent stated that their general manager does not approve write-offs to members' accounts. Once again, all the controllers and all the auditors agreed that the general manager should approve any credit issued to a member greater than \$200.

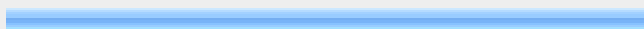

The recommendation is that the controller discuss any credits given greater than \$200 and provide a monthly "credits issued greater than \$200" report with explanations to the general manager and to the audit/finance committee.

| Do you review the petty cash account? | | Response Percent | Response Count |
|---------------------------------------|---|------------------|----------------|
| Never |  | 21.5% | 38 |
| Daily |  | 8.5% | 15 |

| | | | |
|----------------|--|--------------|-----------|
| Weekly |  | 20.3% | 36 |
| Monthly |  | 39.6% | 70 |
| Quarterly |  | 10.2% | 18 |

The survey reflected that 21.5 percent of the general managers never review the petty cash accounts. This was completely opposite of the finding of the interviews with the controllers. When the controllers were asked whether their general manager reviewed the petty cash accounts, 80 percent stated that the general manager never even looked at it! The other 20 percent said the general manager checked it weekly. A reason for this discrepancy could not be established with the data provided. An assumption would have to be made that it was 1) strictly by chance or 2) either the general managers or the controllers gave false information, perhaps unintentionally.

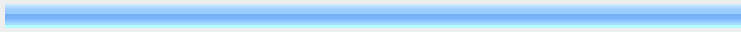
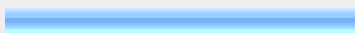
The auditors recommended that the general manager should review the petty cash account on a monthly basis. They also added that this should be at random times during the month, and that the general manager and the controller should review it together. Once again, cash is very susceptible to theft.

| Do you approve all new vendors to avoid "ghost vendors"? | | Response Percent | Response Count |
|--|--|------------------|----------------|
| Yes |  | 59.3% | 105 |
| No |  | 40.7% | 72 |

It was encouraging to see that almost 60 percent of general managers already required approval of all new vendors to avoid ghost vendors. Most embezzlement cases in which the controller has been caught involve ghost vendors or ghost employees. (Ghost

employees are discussed later in this monograph).³⁴ Many of the books and articles reviewed as part of the present research shared stories of fake vendors being established, fake invoices being created, and dummy bank accounts with embezzled funds. The auditors suggested that the general manager should review a computer-generated vendor listing on a monthly basis. They also strongly recommended that when any invoice from a new vendor is received, the general manager should look at the company’s Website or call the number on the invoice. Comparing the addresses of all vendors to the addresses of your office staff is also recommended. Be extremely cautious when a post office box is listed as a company address.

A final suggestion is to make it a policy for your members to write out the entire name of the club and not to use the acronyms when making payments to their account. For example, if the member writes his check out to G.G.C.C. instead of Green Grass Country Club, embezzlement can occur. A dishonest employee can set up a “dummy” corporation called Green Garden Culinary Club and deposit the checks made out to G.G.C.C. The banks are not responsible in this case.

| Do you meet and approve all new hires to avoid ghost employees? | | Response Percent | Response Count |
|---|--|------------------|----------------|
| Yes |  | 70.1% | 124 |
| No |  | 29.9% | 53 |

| Do you sign employee paychecks or are they stamped by a payroll company? | Response Percent | Response Count |
|--|------------------|----------------|
| | | |

| | | | |
|-------------------------------------|--|-------|-----|
| Yes, I sign them | | 34.9% | 60 |
| No, the payroll company stamps them | | 65.1% | 110 |

| Do you as GM distribute the payroll checks randomly to verify all employees are legit? | | Response Percent | Response Count |
|--|--|------------------|----------------|
| Yes | | 29.4% | 52 |
| No | | 70.6% | 125 |

The findings of the survey showed that:


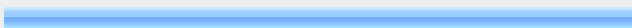


- 70 percent of the managers meet all new hires to avoid ghost employees
- 34.9 percent sign the employees paychecks
- 29.4 percent randomly distribute payroll checks

As stated above, most embezzlement cases where the controller was caught involved ghost vendors or ghost employees.³⁵ A club can greatly reduce the risk of “ghost employees” on the payroll by using the following tactics:

- The general manager should insist on meeting and approving all new employees as part of the hiring process.
- The general manager should insist on a copy of the payroll registry and review it weekly.
- The general manager should randomly distribute the paychecks making sure to check identifications in the process.

- As a final layer of protection, the general manager should hand sign every paycheck as opposed to having them stamped by the payroll company. This is true of small to medium size clubs. For example, if a club has more than 150 employees a review of the payroll report might be sufficient and save the manager the time involved in signing a large quantity of checks. The entire executive committee should also be allowed to sign paychecks in case a manager gets sick or goes on vacation.

Although the controllers and the auditors felt it was not necessary to hand sign the paychecks, they did concur that the first three points were extremely necessary and should be done consistently.




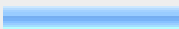
| How often do you review the bank reconciliation statement? | | Response Percent | Response Count |
|--|--|------------------|----------------|
| Never |  | 19.1% | 34 |
| Monthly |  | 59.6% | 106 |
| Quarterly |  | 15.2% | 27 |
| Annually |  | 6.2% | 11 |

The survey results were once again contradictory to the responses from the controllers. In the survey, 81 percent of the managers stated that they do review the bank reconciliation statement. One hundred percent of the controllers interviewed reported that their respective general managers never looked at the bank reconciliation statement. All the controllers agreed that the general manager should review the bank reconciliation

quarterly. The auditors took it one step further with all of them agreeing that the general manager should review the bank reconciliation once a month.

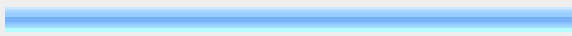
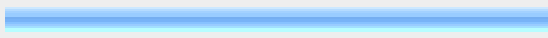
The recommendation in these times of high speed internet, off-shore accounts, and an upward spike in white collar crime, is for the general manager to check the bank reconciliation on a monthly basis and go online to check the bank accounts on a daily basis. This process will allow him/her to keep current with the club's banking, and to ensure:

- Verification that the bank deposit is being made daily
- No unauthorized wire transfers were made
- The accounts are accurate
- No discrepancies

| Do you ever double back to the club late at night to see what is going on while you are gone? | | Response Percent | Response Count |
|---|--|------------------|----------------|
| No |  | 6.2% | 11 |
| Once in a while (every three months) |  | 43.5% | 77 |
| Frequently (every couple of weeks) |  | 39.0% | 69 |
| Weekly |  | 11.3% | 20 |

“When the cat’s away, the mice will play.” How many times has this phrase been heard? According to the survey, 93.8 percent of general managers return to the club after they leave. It is highly recommended that general managers return to the club after leaving for the day at random times to see what goes on when the staff believes the manager will not be returning. Be prepared, because the results can be shocking! Although this has nothing to do with the accounting department, it could have a huge effect on internal controls. One manager stated that after going home, he switched cars with his wife or friend and was amazed with what was going at the club when the staff was not supervised. Another manager now had answers for the board as to why the food cost was greater than 65 percent. Another manager witnessed cases of liquor going out the back door. Whether done nightly (if necessary), weekly, or monthly, it is highly recommended to check on what goes on after you have left the building!

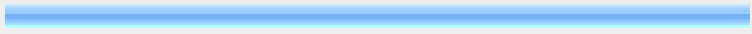

Human Resources/Hiring Practices

| Does your club conduct background and criminal checks as part of the hiring process? | | Response Percent | Response Count |
|--|---|------------------|----------------|
| Yes |  | 50.9% | 90 |
| No |  | 49.2% | 87 |

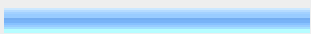
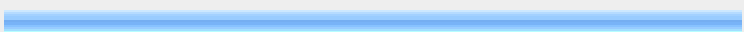
When asked if their clubs did background checks, the answers provided by the controllers were different from the 50/50 survey responses from the club managers. All the controllers and all the auditors felt that it was good business practice to do background checks. This can be done quickly and inexpensively with the internet. This practice can prevent a bad hire from happening before an offer is made.³⁶ Only 8 percent of the people

who have committed fraud in the past have been convicted and this is because companies just fire dishonest employees without prosecuting them.³⁷

It is strongly recommended that a complete background check is performed on any employee who handles or transports cash, orders products and/or services, works with children or works in the accounting office.


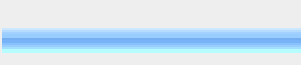
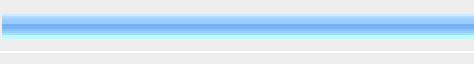

| Does your club check references as part of the hiring process? | | Response Percent | Response Count |
|--|--|------------------|----------------|
| Yes |  | 94.4% | 168 |
| No |  | 5.6% | 10 |

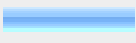
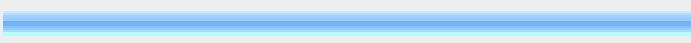
The results of the survey were encouraging: 94.4 percent of the clubs surveyed acknowledged that they did check references as part of the hiring practice of all employees. This practice was recommended and supported by the controllers and the auditors. Be cautioned that applicants are only going to provide names and numbers of people who will cast a positive light. Talking to a direct supervisor or director of human resources would be advisable. Once again, the upfront effort could save the club thousands of dollars in the long run.³⁸

| Does your club conduct credit checks as part of the hiring process? | | Response Percent | Response Count |
|---|--|------------------|----------------|
| Yes |  | 25.1% | 44 |
| No |  | 74.9% | 131 |

Even though only 25.1 percent of clubs do credit checks, the controllers and auditors all agreed that this is another important level of security. However, this could be construed as an invasion of privacy. If a controller or department head cannot control their own finances, can they be trusted with the assets of the club?³⁹ Recall reasons why people steal. If an employee is deep in debt and find themselves struggling to pay the bills, the necessity and temptation to steal increases. This is where a first-time thief without a criminal record could be undetected and already be working for your club. Whether it is a newly developed gambling addiction, a new found need for drugs, or an uninsured person who has incurred debts of thousands of dollars caring for a loved one, a bad credit report signals extreme caution. Although it may seem unfair to assume that a person is dishonest just because there has been a sickness, life does create situations that we have no control over and can put a person in a desperate situation—in turn increasing the temptation to commit fraud. It is recommended that credit checks be run on all department heads.

The Club Treasurer Involvement

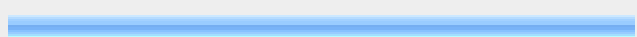

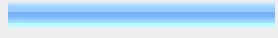
| How involved is your treasurer? | | Response Percent | Response Count |
|---------------------------------|--|------------------|----------------|
| Haven't seen him in a long time |  | 7.2% | 12 |
| Comes around once in a while |  | 33.5% | 56 |
| Very involved |  | 56.3% | 94 |
| Micro manager |  | 3.0% | 5 |

| How often does your treasurer review the bank reconciliation statement? | | Response Percent | Response Count |
|---|--|------------------|----------------|
| Never |  | 32.5% | 55 |
| Monthly |  | 43.8% | 74 |

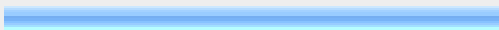
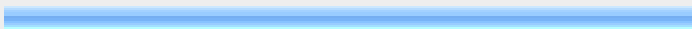
| | | | |
|-----------|---|-------|----|
| Quarterly |  | 16.6% | 28 |
| Annually |  | 7.1% | 12 |

Most of the general managers (98.2 percent) surveyed feel that their treasurers are somewhat involved in the financial activities of the club. Only 7.2 percent of the managers feel the treasurer is not showing too much interest in the financial activities of the club. Of the managers surveyed, 32.5 percent reported that their treasurers never review the bank reconciliation statement. Having a treasurer who is involved and reviews the bank statement monthly was highly recommended by everyone interviewed. Employees will be less likely to commit fraud knowing there are several layers of protection in place. Being the treasurer of a club takes a certain amount of time and dedication, so every club should make sure that the treasurer is aware of the commitment necessary before accepting the assignment. The problem that did arise at most clubs was the two-year turnaround in the position, making it difficult to have any consistency. This is nothing new to clubs and must be dealt with the same as every other position on the board.

Golf Operations

| Do you require your pro shop to turn in a daily sales report? | | Response Percent | Response Count |
|---|--|------------------|----------------|
| Yes |  | 65.7% | 113 |
| No |  | 7.0% | 12 |
| Not applicable |  | 27.3% | 47 |

| Do you require your pro shop to turn in the manual tee sheet reconciled against the chits including comp rounds? | Response Percent | Response Count |
|--|------------------|----------------|
| | | |

| | | | |
|-----|--|-------|----|
| Yes |  | 40.3% | 64 |
| No |  | 59.8% | 95 |

According to the survey, 65.7 percent of the clubs require their pro shops to turn in a daily sales report and 59.8 percent require them to turn in reconciled manual tee sheets.

The pro shop is an area that is very susceptible to fraud. Most managers would not suspect their own employees and/or members of stealing from the club. With the precious metals involved in producing golf clubs, the price of clubs has risen dramatically. (A premium brand of clubs could easily cost more than \$2,000.) However, golfers often leave their equipment unattended outside. Thieves have discovered E-bay and the theft of golf clubs has increased. The theft of golf clubs at private clubs is significantly lower than at a public fee club, but caution is still necessary. Pro shop employees are also aware of the value of a brand new state-of-the-art driver. They know it can turn into cash via the internet. Who would ever be suspicious of the golf professional or golf employee holding or carrying a golf club? It would be very easy for an employee or member to slip a new driver, putter, or relief wedge into his or her bag and walk away. What about members who enter the pro shop, in a hurry, and grab a box of balls, a hat, or a jacket and walk out with the intention of coming back after the round to pay for the item(s) and then forget to do so? The pro shop inventory is worth thousands of dollars with sometimes as many as three sets of doors. Maintaining tight controls on the pro shop is a huge challenge that every club faces.

It is very easy for a member to demo a club and take it out for a “test drive” and forget to return it. The simplest way to control this is to charge the member’s account and then

credit it when the equipment is returned. It is amazing how fast members remember the demo club when it shows up on their statements.

This monograph is not suggesting that members and employees of private club are dishonest. The message is to raise awareness that pro shop merchandise can be converted to cash and/or make great gifts.

Helpful internal controls include:

- Require your pro shop to turn in the manual tee sheet reconciled against the chits including comp rounds.
- Have the pro shop turn in a daily sales report.
- Employ a starter to ensure that carts and greens fees are recorded. Golf professionals can easily get distracted and not record all of the revenue owed the club.

Conclusion

The main purpose of this monograph has been to educate the general managers of today and tomorrow on how to prevent fraud in the accounting department of their clubs. When used consistently, this information and the checklist that follows can prove to be very valuable to managers. As a manager, you are responsible for everything that happens on your watch. The damage that can be done to your career is incomprehensible if fraud happens at your club, on your watch. Even though you did not commit the crime, you will still lose the trust of the board and the membership in your ability to be an effective leader. Be very careful whom you hire, because fraud can definitely cause great amounts of embarrassment to you and your club. Trust is a gift that needs to be earned and not just

passed out like candy on Halloween. Be very cautious as to whom you trust, and no matter how much you trust someone, an occasional reconciliation of their actions and procedures could be very beneficial for both parties. Please take to heart the recommendations set forth in this document because if you feel that this can only happen to the other guy, you could be in for a huge shock and disappointment. Internal controls are definitely a proactive concept that cannot be taken lightly. Once the crime has been committed, there is no turning back, like the old saying goes, you cannot get the toothpaste back in the tube. Follow the checklist, keep your eyes and ears open, and, most importantly, keep your finger on the financial pulse of the club at all times.

Checklist/Recommendations

- Create and enforce a written ethical behavior policy that covers fraud, theft, and embezzlement.
- Create and enforce a written conflict of interest policy.
- Create and enforce a policy against writing checks out to cash.
- Create an internal controls committee (ICC) that is separate from the finance committee, who meets quarterly. Hire someone outside the club with accounting experience to sit on the ICC.
- Require the club's audit firm to give an annual "End of the Year, State of the Club" presentation to the board, the finance committee, and the internal controls committee.
- Create a written whistle blower protection policy that includes a hotline to an outside service that reports any wrongdoings to the club president.
- Use a lockbox .
- Encourage your members to start using auto debit (direct deposit) now to eliminate the use of a lockbox over time.
- Place a biometric time clock in clear view of a supervisor to reduce timecard fraud.
- Implement a purchase order system as a control point and a management tool. .
- When dealing with cash:
 - Make sure bank deposits are done daily.
 - Make sure the person who makes the deposit is not doing the posting.

- When cash is received have a numbered carbon receipt filled out and signed by the member and by the person receiving the cash.
 - If the bank provides a courier service, schedule a daily pick up. The controller or office manager and courier should sign off on the amount.
 - Cash bars and bar carts on the course require a rigorous control system to protect against theft.
 - Use a separate cashier and numbered drink tickets on a cash bar .
- Stamp incoming checks, “For Deposit Only XYZ Country Club.” If you use a lockbox or direct deposit, the club can eliminate this step.
 - Stamp all receipts and petty cash slips “paid” and have the employee sign it and the general manager initial it during his or her monthly review of the petty cash fund.
 - Deface all voided checks in the accounting department, cut out the signature lines and keep them on file for the auditors to examine. The general manager should review this file every quarter to assure that it is being done.
 - Require a department manager to perform all voids in the dining room using a secure password. The manager should then submit the void with a typed explanation, charged to a house account. The accounting department, the general manager, and executive chef all review the voids.
 - Incorporate airtight controls on wire transfers with the general manager or treasurer verifying with a verbal callback to the bank.
 - Avoid online payments and pay all bills by check.
 - Require two signatures on all checks. Other requirements are:

- The controller or anyone else with access to the general ledger cannot sign checks.
 - The general manager does not sign checks for products or services for which he or she is responsible for ordering.
 - Rubber stamp or electronic signatures are not permitted.
 - Blank checks are not signed.
 - The same board member should sign checks every month.
- Segregate duties as much as possible with the available resources. Discuss segregation of duties with the accounting staff.
- Arrange for the club's bank statement to be mailed directly and unopened to the general manager or the treasurer or their review.
- Require the general manager to go online to check the banking activity every day or every other day.
- Provide the treasurer with online access to do random checks of the banking activities.
- Eliminate credit cards or use an American Express Corporate Card. Other credit card usage tactics:
- Insist on a **detailed** receipt for each transaction or reimbursement will not occur.
 - Do not allow personal transactions of any kind to be charged on this account.
 - Have the bank statement and the credit card statement sent directly to the treasurer.

- Require the controller to prepare a monthly report of all major journal entries with explanations for the general manager and the finance committee to review.
- Require the general manager to approve all invoices, and the invoice should be attached to the checks prior to signing.
- Require the treasurer to approve and sign the checks for purchases made by the general manager.
- Require all department heads to approve invoices for their departments prior to preparing the check.
- Stamp invoices paid and write the date and check number on the invoice prior to the general manager signing the checks.
- Require the controller to discuss any credits given greater than \$200 and provide a monthly “credits issued greater than \$200” report with explanations to the general manager and the audit/finance committee.
- Require the general manager to review the petty cash account monthly at random times with the controller.
- Supply the general manager with a computer-generated vendor listing to review on a monthly basis.
- Require the general manager to review the websites of new vendors whenever they send an invoice or call the number on the invoice.
- Compare the addresses of all vendors to the addresses of the office staff.
- Be extremely cautious when a post office box is listed as a company address on an invoice.

- Require members to write the entire name of the club and not to use the acronyms when making payments to their accounts.
- Require the general manager to meet and approve all new employees as part of the hiring process.
- Review a copy of the payroll registry weekly.
- Randomly distribute paychecks and check employee identifications in the process.
- Hand sign every paycheck; do not have them stamped by the payroll company.
 - The general manager should review the bank reconciliation monthly.
 - The general manager should go online and check the bank accounts daily.
- Require the general manager to randomly but routinely return to the club to check what goes on after top management has left the building!
- Perform complete background checks on any employee who handles or transports cash, orders products and/or services, works with children, or works in the accounting office.
- Check references as part of the hiring process for all employees.
- Run credit checks on all department heads.
- Communicate the commitment level necessary to potential club treasurers before they take the assignment.
- Require pro shop managers to turn in the manual tee sheet reconciled against the chits--including comp rounds.
- Require pro shop managers to turn in a daily sales report.
- Use starters to ensure that carts and greens fees get recorded.

Endnotes

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Appendices

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Appendix H: Survey Results

Appendix I: Demographic Information

Appendix A

Monograph Support Group List

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Appendix B

MCM Support Group Request Letter

May 1, 2007

John Rainis CPA
Country Club Specialist
BDO Seidman, LLP
233N. Michigan Avenue
Suite 2500
Chicago, IL 60601

Dear John,

Just a quick note to touch base with you as I begin the final steps towards earning Master Club Manager or the MCM designation. Enclosed in this packet is a copy of the first draft of my monograph proposal, a copy of the e-mail response from Dr. Jack Ninemeier, a hard copy of the Master Club Manager pamphlet explaining the process and a letter for you to sign and turn in along with my proposal to the MCM Academic Council.

Dr. Ninemeier is a senior member of the MCM Academic Council as well as my “point guard” and “lighthouse” to guide me through the MCM process. I sent him my monograph proposal to make sure that it is complete and on target with what the MCM Council expects. He has given me the green light to move forward and send it to you, a member of my support group for your comments, ideas or suggestions. As stated above, his comments are included for your review. When you have a few minutes, could you please review my proposal and share your thoughts with me.

After I collect the suggestions from the group and make the recommended adjustments and I will send you another draft for your review and approval if warranted. My goal is to finish this entire project, although very aggressive, by February of 2008. Since I am not working and the “window of opportunity” in the Chicago market is basically closed until the fall, I want to use this time to achieve this goal.

I can't begin to thank you enough for your support, knowledge and guidance as I pursue a designation that is held by a very elite group of club managers. As I stated in my original correspondence, there are only 14 Master Club Managers in the country to date. My driving force is to see the look on my mother's face when I walk off the stage at the Managers Award Luncheon after receiving my MCM plaque. My parents were in Las Vegas when I achieved my CCM designation and I know my father will be looking down from heaven and smiling next winter.

If you have any questions or comments please feel free to contact me at paulkornfeind@comcast.net or (708) 246-1007.

Sincerely,
Paul N. Kornfeind III, CCM

Appendix C

Monograph Proposal Paul N. Kornfeind III, CCM August 16, 2007

Proposed Topic: “How to Bullet Proof Your Club against Embezzlement”

Statement of the Problem - On November 10, 2006, I was asked to resign as General Manager of “XYZ” Country Club. The reason for my termination was due to the actions of a dishonest bookkeeper on my watch. The controller for “XYZ” Country Club resigned in January 2006. This left me with one person in control of all of the financial responsibilities while I searched for a replacement. To make a very long story short, during the nine-month period of having dual responsibilities, this bookkeeper resorted to fraud and embezzlement to fuel a gambling addiction. On the second search attempt, a very competent controller was found. It didn’t take too long for this person to figure out that there was a serious problem.

After fully cooperating with the police, the bank, and the auditors, it was found that \$53,000 over nine months had been embezzled. The club authorized a full and complete forensics audit. It revealed that she acted alone. The audit also discovered exactly how she was able to “cook the books” well enough that it fooled 18 sets of eyes belonging to me, the board, and the entire finance committee. My ex-bookkeeper is currently serving a three and a half year sentence in a state prison and has been ordered to pay back \$50,000 in restitution.

The monograph will address the need for strict internal controls in a private club and how to protect against theft, fraud, and embezzlement. This is very important because often the general manager either puts too much trust in the accounting department and his or her department heads or is not equipped with the knowledge of the various forms of internal controls available to protect the club and their career.

Review of the Literature

A comprehensive review was done. I reviewed 29 articles, one case study, and six books in addition to attending a seminar at the 2007 CMAA World Conference developed by Ed McGinty, Senior Partner with Condon, O’Meara, McGinty & Donnelly LLP. ***“Don’t be Clubbed by your Employees. Stop Fraud Before it Happens.”***

- The actual forensics report from “XYZ” Country Club
- Two articles were highly relevant to my topic
- One case study was highly relevant to my topic
- Ten articles had general relevance to my topic
- Nine articles were reports of actual events pertaining to country clubs and fraud
- Seven articles had moderate relevance. I may be able to use parts of these articles.

The two highly relevant articles to my topic are:

Who is Watching the Golf Shop? *The Bottom Line magazine*;

February/March 2003:

William F. Wernersback CPA, CFE, Senior Managing Director of Club Consultants LLC: Stacia Turner, CPA, CHAE Managing Director of Club Consultants LLC

Carrying the Torch for Honesty *The Boardroom magazine*:

January/February 2006

Bob Salmore CPA Director. McGladrey & Pullen, LLP

The highly relevant case study to my topic is:

Accounting Fraud at Deercreek Country Club, January 14, 2007: Linda A Hong, MBA, CPA Instructor, Department of Accounting and Finance, Coggin College of Business, University of North Florida. Jeffery E. Michelman Associate Professor of Accounting, Department of Accounting and Finance, Coggin College of Business, University of North Florida.

The highly relevant book regarding my topic is:

Internal Control - A Manager's Journey K.H Pickett (2001) John Wiley & Sons.

Although there has been a significant amount of research done on fraud and embezzlement, there has been little written that is private club industry specific.

Proposed Research Methods

Methods to gain information:

- Continue research on the internet
- Read the six books I acquired related to embezzlement
- Develop a questionnaire to be sent to the CMAA members asking security specific questions. *See attached survey*
- Interview 7 to 10 country club controllers on country club specific internal controls
- Interview 3 to 5 forensics auditors on country club specific internal controls
- Interview software developers (Jonas/Northstar) on ways that technology can be used to prevent fraud
- Open discussion with the members of my support group

Results, Discussions and Implications

After the information is gathered, the results will be analyzed using statistical software such as Microsoft Office Excel and SPSS. I want to create a private club-specific checklist that managers/controllers can use to make sure they are doing everything possible to limit risk and protect the assets of the club. Included will be some helpful hints and suggestions to:

- Derive procedures from risk assessment to form control standards
- Design, document, install and monitor standard operating procedures
- Implement improved internal control and accountability
- Design club specific policies regarding fraud, embezzlement
- Implement club specific cutting edge technology to reduce risks
- Implement pre-employment procedures to reduce the risk of a bad hire
- Unique internal control ideas from the controllers/managers in the field
- Recognize warning signs of a dishonest employee

Appendix D

Survey Letter to General Managers

August, 2007

Dear Club Manager:

I realize that most of you are in the peak season at your clubs and your time is very valuable this time of year. I am conducting research for my Master Club Manager (MCM) monograph. The results of this survey will allow every club manager to arm themselves with the necessary knowledge to protect their clubs against embezzlement. Your input is vital to the success of this study.

I would hope that you have the same passion that I do towards combating the pandemic of embezzlement that is running rampant throughout our industry and the entire business world. With the help of computers, laser printers, and the internet, the rate of white collar crime is skyrocketing. Last year, I was personally forced to resign from my previous club due to the actions of a dishonest bookkeeper. **Your participation in providing the information for this survey will be beneficial to every member of CMAA now and in the future.**

With the use of technology, I am conducting this survey electronically via www.surveymonkey.com. The entire survey comprises sixty yes or no and multiple choice questions with space provided for your additional comments. The survey should take about fifteen minutes to complete. After the information is gathered, I will create a country club specific checklist for managers and controllers to use to make sure they are doing everything possible to limit risk and protect the assets of their club.

By choosing www.surveymonkey.com as the host of this survey, your results are guaranteed to be kept in the strictest of confidence. Your individual answers will be automatically compiled for analysis and I will only know **who** participated by your e-mail address.

I would like to complete this survey within the next two weeks, so I am asking that you please set aside twenty minutes in the next few days to help out a fellow club manager. I would like to thank you in advance and let you know that your time and participation in this very important research study is greatly appreciated. To participate in this survey simply click on this link provided.

If you have any questions or concerns I can be reached at paulkornfeind@comcast.net or (708) 246-1007.

Sincerely,

Paul N. Kornfeind III, CCM

Appendix E

Survey Instrument to General Managers

General Club

1. Does your club have a written policy regarding theft, fraud and embezzlement?
 - a. Yes
 - b. No
2. Does your club have a conflict of interest policy?
 - a. Yes
 - b. No
3. Does your club have a policy against writing checks out to cash?
 - a. Yes
 - b. No
4. Does your club have an audit/internal controls committee?
 - a. Yes
 - b. No
5. Does your club use a lock box?
 - a. Yes
 - b. No
6. Do you use Bio-Metric time clocks to avoid “buddy swiping”?
 - a. Yes
 - b. No
7. Is your time clock visible to a supervisor?
 - a. Yes
 - b. No
8. Does your club use purchase orders?
 - a. Yes
 - b. No
9. Does your club accept cash?
 - a. Yes
 - b. No
10. If your club accepts cash how is it handled?

Accounting Office

11. Do you stamp incoming checks “For deposit only at XYZ Country Club account” upon receipt?
 - a. Yes
 - b. No

12. Does your accounting department stamp all receipts and petty cash slips as “paid” so they can’t be used more than once or duplicated?
 - a. Yes
 - b. No
13. Does your accounting office deface and save all voided checks in a file for the auditors?
 - a. Yes
 - b. No
14. Are all voids approved by a department manager and reviewed by the accounting office?
 - a. Yes
 - b. No
15. Does your club allow wire transfer of funds?
 - a. Yes
 - b. No
16. Do you require two signatures on check?
 - a. Yes
 - b. No
17. What amount do you require two signatures on check?
 - a. All
 - b. \$1-\$999
 - c. \$1,000- \$4,999
 - d. \$5,000- \$9,999
 - e. \$10,000 or higher
18. How would you rate your accounting office regarding adequate segregation of duties?
 - a. Outstanding
 - b. Not bad
 - c. Could be better
 - d. Things are going to change after I finish this survey

General Manager

19. Do you receive the **sealed** bank statements directly from the bank?
 - a. Yes
 - b. No
20. Do you receive the **sealed** credit card statements directly when they arrive?
 - a. Yes
 - b. No

21. Do you double check all major journal entries?
 - a. Yes
 - b. No

22. Do you approve all invoices?
 - a. Yes
 - b. No

23. Do you insist that all invoices are attached to checks prior to signing?
 - a. Yes
 - b. No

24. Do you approve all write-offs and adjustments to members' accounts?
 - a. Yes
 - b. No

25. Do you review the petty cash account?
 - a. Never
 - b. Daily
 - c. Weekly
 - d. Monthly
 - e. Quarterly

26. Do you approve all new vendors to avoid "ghost vendors"?
 - a. Yes
 - b. No

27. How often do you review the bank reconciliation statement?
 - a. Never
 - b. Monthly
 - c. Quarterly
 - d. Annually

28. Do you sign employee paychecks or are they stamped by a payroll company?
 - a. Yes, I sign them
 - b. No, the payroll company stamps them

29. Do you have a company credit card?
 - a. Yes
 - b. No

30. What is the credit limit?
 - a. \$0-\$500
 - b. \$501-\$1,000
 - c. \$1,001- \$5,000
 - d. \$5,000 or more

31. Do you meet and approve all new hires to avoid ghost employees?
 - a. Yes
 - b. No
32. Do you as GM distribute the payroll checks randomly to verify all employees are legit?
 - a. Yes
 - b. No
33. Do you ever double back to the club late at night to see what is going on while you are gone?
 - a. No
 - b. Once in a while (every three months)
 - c. Frequently (every couple of weeks)
 - d. Weekly

Human Resources/Hiring Practices

34. Does your club conduct background and criminal checks as part of the hiring process?
 - a. Yes
 - b. No
35. Does your club check references as part of the hiring process?
 - a. Yes
 - b. No
36. Does your club conduct credit checks as part of the hiring process?
 - a. Yes
 - b. No
37. Does your club bond employee in the accounting department as part of the hiring process?
 - a. Yes
 - b. No
38. Does your club have a written “whistle blower protection policy”?
 - a. Yes
 - b. No

Treasurer

39. How often does your treasurer review the bank reconciliation statement?
 - a. Never
 - b. Monthly
 - c. Quarterly
 - d. Annually

40. How involved is your treasurer?
- a. Haven't seen him in a long time
 - b. Comes around once in a while
 - c. Very involved
 - d. Micro manager

Management Team

41. Do you meet with your management team to discuss ways that fraud and embezzlement could occur?
- a. Yes
 - b. No
42. Do your auditors talk to all or at least most of your employees about internal controls as part of the audit process?
- a. Yes
 - b. No
43. Does your management team have company credit cards? (Circle all that apply)
- a. Yes
 - b. Controller
 - c. Chef
 - d. Golf Pro
 - e. Assistant Manager
 - f. Grounds Superintendent
 - g. No
44. What are the credit limits?
- a. \$0-\$500
 - b. \$501-\$1,000
 - c. \$1,001- \$5,000
 - d. \$5,000 or more

Pro Shop/Locker Room/Caddies

45. Do you require your pro shop to turn in a daily sales report?
- a. Yes
 - b. No
 - c. Not applicable
46. Do you require your pro shop to turn in the manual tee sheet reconciled against the chits including comp rounds?
- a. Yes
 - b. No
47. Do you periodically review caddie charge reconciliation reports?
- a. Yes
 - b. No

Demographics

48. Job Title
- General Manager/COO
 - Manager
 - Clubhouse Manager
 - Assistant Manager
 - Other
49. Besides the general manager, who is the highest ranking financial manager employed at your club?
- Bookkeeper
 - Accountant
 - Controller
 - Chief Financial Officer or CFO
 - Other
50. Do you require your highest ranking financial manager to be a CPA?
- Yes
 - No
51. In which area of the country do you work
- Central (OK, MO, OH, IN, MI, IL, WI, MN, IA, ND, SD, NE, KS)
 - Mountain (NM, CO, AZ, UT, ID, MT, WY)
 - North (ME, NH, VT, MA, RI, CT, NY, NJ, PA, DC, DE, MD, WV)
 - South (VA, NC, SC, GA, FL, TX, AR, LA, MS, AL, TN, KY)
 - West (NV, CA, OR, WA, HI, AK)
 - Other
52. Type of club?
- Athletic
 - City
 - Country
 - Golf
 - Yacht
 - Faculty
 - Other
53. Which statement best describes your club?
- A member-owned club
 - A corporate-owned club
 - A management company run
 - Other

54. How long have you been at your present club?
- a. Less than 1 year
 - b. Between 2 and 3 years
 - c. Between 3 and 4 years
 - d. Between 4 and 5 years
 - e. Between 5 and 6 years
 - f. 6 years or more
55. Mark your highest education level
- a. Graduated high school
 - b. Some college
 - c. College diploma/certification
 - d. Bachelor's degree
 - e. Some graduate work
 - f. Masters degree
 - g. Other
56. Are you certified by the Club Managers Association of America?
- a. No
 - b. Yes, I am a CCM
 - c. Yes, I am a MCM
57. Gender
- a. Male
 - b. Female
58. How many years have you been in the club industry?
- a. Less than 1 year
 - b. 1 to 2 years
 - c. 2 to 4 years
 - d. 5 to 10 years
 - e. 10 to 15 years
 - f. More than 15 years
59. What does your club do that is unique when it comes to internal controls?

Appendix F
Follow-up E-mail

September 2007

Dear Fellow Club Managers,

Two weeks ago I sent you an e-mail describing my MCM monograph and a link to www.SurveyMonkey.com requesting your help with a short survey. If you have completed the survey I want to take this time to thank you.

If you have not completed the survey please consider giving me 15 minutes of your valuable time and help another club manager out. Simple log onto www.SurveyMonkey.com and key in the **ID Fraud Pass code: Embezzlement** and follow the instructions. As a reminder, your answers will be totally confidential and the only form of identification will be a list of the e-mail addresses of those people who have participated.

I really need your assistance with completing the survey ASAP! My goal is to have my monograph approved in time to make a presentation at the 2008 CMAA conference in Orlando.

Once again, I can't thank you enough for your help and timely participation.

Paul N. Kornfeind III CCM

Appendix G

Thank You Note to the General Managers

Dear Colleagues,

I just wanted to take a moment to thank you for taking the time to fill out my survey regarding internal controls. I do appreciate your help and timely response. For those of you who have requested a copy of the survey results I will be sending them out shortly.

Once again, ***thank you!***

Paul N. Kornfeind III CCM

Appendix H

Survey Results

Does your club have a written policy regarding theft, fraud and embezzlement?

Yes 72.7% 141 responses
No 27.3% 53 responses

Does your club have a conflict of interest policy?

Yes 60.6% 117 responses
No 39.4% 76 responses

Does your club have a policy against writing checks out to cash?

Yes 60.0% 117 responses
No 40.0% 78 responses

Does your club have an audit/internal controls committee?

Yes 43.6% 85 responses
No 56.4% 110 responses

Does your club use a lock box?

Yes 51.8% 100 responses
No 48.2% 93 responses

Do you use Bio-Metric time clocks to avoid “buddy swiping”?

Yes 32.3% 63 responses
No 67.7% 132 responses

Is your time clock visible to a supervisor?

Yes 77.2% 149 responses
No 22.8% 44 responses

Does your club use purchase orders?

Yes 44.9% 87 responses
No 55.2% 107 responses

Does your club accept cash?

Yes 47.9% 93 responses
No 52.1% 101 responses

Do you stamp incoming checks “For deposit only at XYZ Country Club account” upon receipt?

Yes 86.3% 158 responses
No 13.7% 25 responses

Does your accounting department stamp all receipts and petty cash slips as “paid” so they can’t be used more than once or duplicated?

Yes 73.6% 134 responses
No 26.4% 48 responses

Does your accounting office deface and save all voided checks in a file for the auditors?

Yes 84.7% 155 responses
No 15.3% 28 responses

Are all voids approved by a department manager and reviewed by the accounting office?

Yes 69.7% 129 responses
No 30.3% 56 responses

Does your club allow wire transfer of funds?

Yes 56.4% 102 responses
No 43.7% 79 responses

Do you require two signatures on check?

Yes 75.4% 138 responses
No 24.6% 45 responses

What amount do you require two signatures?

| | | |
|--------------------|-------|--------------|
| All | 44.1% | 75 responses |
| \$1-\$999 | 2.9% | 5 responses |
| \$1,000-\$4,999 | 21.8% | 37 responses |
| \$5,000-\$9,999 | 13.5% | 23 responses |
| \$10,000 or higher | 17.7% | 30 responses |

What dollar amount do you require two signatures on check?

| | | |
|--------------------|-------|--------------|
| All | 40.8% | 71 responses |
| \$1-\$999 | 3.5% | 6 responses |
| \$1,000- \$4,999 | 19.5% | 34 responses |
| \$5,000- \$9,999 | 12.1% | 21 responses |
| \$10,000 or higher | 8.1% | 14 responses |
| Never | .1% | 28 responses |

How would you rate your accounting office regarding adequate segregation of duties?

| | | |
|----------------------------|-------|--------------|
| Outstanding | 30.8% | 56 responses |
| Not bad | 45.6% | 83 responses |
| Could be better | 22.0% | 40 responses |
| Things are going to change | 1.7% | 3 responses |

Do you receive the sealed bank statements directly from the bank?

Yes 72.0% 126 responses
No 28.0% 49 responses

Do you receive the sealed credit card statements directly when they arrive?

Yes 63.2% 110 responses
No 36.8% 64 responses

Do you double check all major journal entries?

Yes 68.2% 122 responses
No 31.8% 57 responses

Do you approve all invoices?

Yes 78.0% 138 responses
No 22.0% 39 responses

Do you insist that all invoices are attached to checks prior to signing?

Yes 85.2% 150 responses
No 14.8% 26 responses

Do you approve all write-offs and adjustments to member's accounts?

Yes 61.9% 109 responses
No 38.1% 67 responses

Do you review the petty cash account?

Never 21.1% 37 responses
Daily 8.6% 15 responses
Weekly 20.6% 36 responses
Monthly 39.4% 69 responses
Quarterly 10.3% 18 responses

Do you approve all new vendors to avoid "ghost vendors"?

Response

Yes 59.4% 104 responses
No 40.6% 71 responses

How often do you review the bank reconciliation statement?

Never 18.8% 33 responses
Monthly 59.7% 105 responses
Quarterly 15.3% 27 responses
Annually 6.3% 11 responses
Other 9 responses

Do you sign employee paychecks or are they stamped by a payroll company?

Yes, I sign them 35.3% 60 responses
No, the payroll company stamps them 64.7% 110 responses
Other 16 responses

Do you have a company credit card?

Yes 67.8% 120 responses
No 32.2% 57 responses

What is the credit limit?

| | | |
|------------------|-------|--------------|
| \$0-\$500 | 17.2% | 25 responses |
| \$501-\$1,000 | 3.5% | 5 responses |
| \$1,001- \$5,000 | 33.1% | 48 responses |
| \$5,000 or more | 46.2% | 67 responses |
| Other | | 18 responses |

Do you meet and approve all new hires to avoid ghost employees?

| | | |
|-----|-------|---------------|
| Yes | 70.3% | 123 responses |
| No | 29.7% | 52 responses |

Do you as GM distribute the payroll checks randomly to verify all employees are legit?

| | | |
|-----|-------|---------------|
| Yes | 29.7% | 52 responses |
| No | 70.3% | 123 responses |

Do you ever double back to the club late at night to see what is going on while you are gone?

| | | |
|--------------------------------------|-------|--------------|
| No | 6.3% | 11 responses |
| Once in a while (every three months) | 42.9% | 75 responses |
| Frequently (every couple of weeks) | 39.4% | 69 responses |
| Weekly | 11.4% | 20 responses |
| Other | | 7 responses |

Does your club conduct background and criminal checks as part of the hiring process?

| | | |
|-----|-------|--------------|
| Yes | 50.3% | 88 responses |
| No | 49.7% | 87 responses |

Does your club check references as part of the hiring process?

| | | |
|-----|-------|---------------|
| Yes | 94.3% | 166 responses |
| No | 5.7% | 10 responses |

Does your club conduct credit checks as part of the hiring process?

| | | |
|-----|-------|---------------|
| Yes | 24.7% | 43 responses |
| No | 75.3% | 131 responses |

Does your club bond employee in the accounting department as part of the hiring process?

| | | |
|-----|-------|---------------|
| Yes | 23.1% | 40 responses |
| No | 76.9% | 133 responses |

Does your club have a written “whistle blower protection policy”

| | | |
|-----|-------|---------------|
| Yes | 34.7% | 61 responses |
| No | 65.3% | 115 responses |

How often does your treasurer review the bank reconciliation statement?

| | | |
|-----------|-------|--------------|
| Never | 32.9% | 55 responses |
| Monthly | 44.3% | 74 responses |
| Quarterly | 16.2% | 27 responses |

Annually 6.6% 11 responses

How involved is your treasurer?

| | | |
|---------------------------------|-------|--------------|
| Haven't seen him in a long time | 7.3% | 12 responses |
| Comes around once in a while | 33.9% | 56 responses |
| Very involved | 55.8% | 92 responses |
| Micro manager | 3.0% | 5 responses |

Do you meet with your management team to discuss ways that theft and fraud could occur?

| | | |
|-----|-------|---------------|
| Yes | 69.2% | 117 responses |
| No | 30.8% | 52 responses |

Do your auditors talk to all or at least most of your employees about internal controls as part of the audit process?

| | | |
|-----|-------|---------------|
| Yes | 63.7% | 107 responses |
| No | 36.3% | 61 responses |

Does your management team have company credit cards? (Check all that apply)

| | | |
|------------------------|-------|--------------|
| Controller | 27.4% | 46 responses |
| Chef | 10.7% | 18 responses |
| Golf Pro | 7.7% | 13 responses |
| Assistant Manager | 16.1% | 27 responses |
| Grounds Superintendent | 17.3% | 29 responses |
| No | 56.0% | 94 responses |

What are the credit limits?

| | | |
|------------------|-------|--------------|
| \$0-\$500 | 6.0% | 9 responses |
| \$501-\$1,000 | 9.3% | 14 responses |
| \$1,001- \$5,000 | 26.7% | 40 responses |
| \$5,000 or more | 20.0% | 30 responses |
| Not Applicable | 38.0% | 57 responses |

Do you require your pro shop to turn in a daily sales report?

| | | |
|----------------|-------|---------------|
| Yes | 65.3% | 111 responses |
| No | 7.1% | 12 responses |
| Not applicable | 27.7% | 47 responses |

Do you require your pro shop to turn in the manual tee sheet reconciled against the chits including comp rounds?

| | | |
|-----|-------|--------------|
| Yes | 40.1% | 63 responses |
| No | 59.9% | 94 responses |

Do you periodically review caddie charge reconciliation reports?

| | | |
|-----|-------|---------------|
| Yes | 24.8% | 36 responses |
| No | 75.2% | 109 responses |

Appendix I

Demographic Information

Job Title

| | |
|----------------------------------|---------------|
| General Manager/COO 75.5% | 123 responses |
| Manager 8.6% | 14 responses |
| Clubhouse Manager 10.4% | 17 responses |
| Assistant Manager 5.5% | 9 responses |
| Other (please specify) | 10 responses |

Besides the general manager, who is the highest ranking financial manager employed at your club?

| | |
|--------------------------------------|---------------|
| Bookkeeper 9.9% | 16 responses |
| Accountant 9.3% | 15 responses |
| Controller 64.2% | 104 responses |
| Chief Financial Officer or CFO 16.7% | 27 responses |
| Other | 12 responses |

Do you require your highest ranking financial manager to be a CPA?

| | |
|-----------|---------------|
| Yes 27.2% | 46 responses |
| No 72.8% | 123 responses |

In which area of the country do you work

| | |
|---|--------------|
| Central (OK, MO, OH, IN, MI, IL, WI, MN, IA, ND, SD, NE,KS) 24.0% | 40 responses |
| Mountain (NM, CO, AZ, UT, ID, MT, WY) 4.8% | 8 responses |
| North (ME, NH, VT, MA, RI, CT, NY, NJ, PA, DC, DE, MD, WV) 27.0% | 45 responses |
| South (VA, NC, SC, GA, FL, TX, AR, LA, MS, AL, TN, KY) 35.9% | 60 responses |
| West (NV, CA, OR, WA, HI, AK) 8.4% | 14 responses |
| Other | 4 responses |

Type of club?

| | |
|---------------|---------------|
| Athletic 1.8% | 3 responses |
| City 8.6% | 14 responses |
| Country 68.7% | 112 responses |
| Golf 17.2% | 28 responses |
| Yacht 2.5% | 4 responses |
| Faculty 1.2% | 2 responses |
| Other | 8 responses |

Which statement best describes your club

| | |
|-------------------------------|---------------|
| A member-owned club 86.2% | 144 responses |
| A corporate-owned club 12.6% | 21 responses |
| A management company run 1.2% | 2 responses |
| Other | 3 responses |

How long have you been at your present club

| | |
|-----------------------------|--------------|
| Less than 1 year 8.4% | 14 responses |
| Between 2 and 3 years 18.7% | 31 responses |

| | | |
|-----------------------|-------|--------------|
| Between 3 and 4 years | 10.8% | 18 responses |
| Between 4 and 5 years | 13.3% | 22 responses |
| Between 5 and 6 years | 10.2% | 17 responses |
| 6 years or more | 38.6% | 64 responses |
| Other | | 14 responses |

Total number of members at your club (all classes)

| | | |
|----------------|-------|--------------|
| 1-100 | 0.6% | 1 responses |
| 101-200 | 3.0% | 5 responses |
| 201-300 | 7.1% | 12 responses |
| 301-400 | 11.2% | 19 responses |
| 401-600 | 33.1% | 56 responses |
| 601-1000 | 24.3% | 41 responses |
| More than 1000 | 20.7% | 35 responses |

Mark your highest education level

| | | |
|-------------------------------|-------|--------------|
| Graduated high school | 1.8% | 3 responses |
| Some college | 20.8% | 35 responses |
| College diploma/certification | 19.6% | 33 responses |
| Bachelor's degree | 39.9% | 67 responses |
| Some graduate work | 9.5% | 16 responses |
| Masters degree | 8.3% | 14 responses |
| Other | | 3 responses |

Are you certified by the Club Managers Association of America?

| | | |
|-----------------|-------|--------------|
| No | 48.5% | 82 responses |
| Yes, I am a CCM | 51.5% | 87 responses |
| Yes, I am a MCM | 0.0% | 0 responses |
| Other | | 6 responses |

Gender

| | | |
|--------|-------|---------------|
| Male | 90.1% | 154 responses |
| Female | 9.9% | 17 responses |

How many years have you been in the club industry?

| | | |
|--------------------|-------|---------------|
| Less than 1 year | 0.0% | 0 responses |
| 1 to 2 years | 1.8% | 3 responses |
| 2 to 4 years | 5.3% | 9 responses |
| 5 to 10 years | 14.2% | 24 responses |
| 10 to 15 years | 18.9% | 32 responses |
| More than 15 years | 59.8% | 101 responses |