



**Private Club
Performance Management**

Internal Control for Private Clubs



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Note: There are places in this book where specific documents and resources, such as club forms, are underlined. These items may be found on the Private Club Performance Management Marketplace store.

Internal Control Overview

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

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

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

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

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

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

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

Geller lists six standards are crucial to effective internal controls:

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



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

- Design the forms or download them from the Private Club Performance Management website, modify them as necessary for local use, and have them printed with pre-printed sequential numbers and in the appropriate number of parts or copies.
- Issue pre-numbered forms to department heads using the Controlled Forms Sign-Out, PCPM Form 235. Controllers should issue pre-numbered forms in the smallest quantity consistent with departmental needs and common sense.
- It is the Controller's responsibility to periodically account for pre-numbered forms by serial number.

Accounts Receivable (Dues and Member Charges)

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

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

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

Internal Control Principles

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

5. Inventories

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

6. Receiving payment

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

8. **Authority for Making Allowances.** The Dining Room Manager has ultimate responsibility for authorizing allowances. This authority may be delegated to the Assistant Dining Room Manager, Bar Manager, or other responsible individual.

Proposed Internal Control Responsibility Chart

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



Proposed Internal Control Responsibility Chart

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

Income Controls – Initiation Fees and Dues

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

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

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

Internal Control Principles

1. Requirement to Record Initiation Fees

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



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

2. Established Prices for all Merchandise

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

3. Receiving payment

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

3. Have Checks Made Out to Cash

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

4. Member’s Endorsement

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

5. Immediately Stamp the Back of the Check

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

6. Post to a Permanent Record

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

Proposed Internal Control Responsibility Chart

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



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

4. Golf Course Maintenance Purchasing & Receiving

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

5. Golf Course Maintenance Payroll

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

6. Benchmarking

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



Golf Income Control

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

Food & Beverage Income Controls

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

About the Author

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