

Internal Audit Report

Sample Hotel, Sample City USA
Audited: March 1, 2008

Report Completed by:





Internal Audit Results

Your Hotel, Sample City USA

Date: March 1st, 2008

About this report:

This report was created by Five Diamond Hospitality to help you evaluate your internal controls.

Our auditor searched for specific examples for each item. Example: the property's General Manager may count the main safe on a surprise basis each week. However, if they are unable to present signed and dated count sheets for the time period the auditor requests, they will lose the points. The auditor uses a date at least two weeks in the past when reviewing audit packs and reconciliations.

While our auditor made every attempt possible to incorporate your company's policies and procedures, some of the policies and procedures vary greatly from company to company. At the request of your company's CFO, we will gladly amend items on this audit and future audits.

Suggestions for review are available at the end of the report. For further help, please feel free to call us or send an e-mail.

FIVE DIAMOND HOSPITALITY

Internal Audit Results

Your Hotel, Sample City USA

Date: March 1st, 2008

	Score This Audit	Points Available	%	Score Last Audit	Points Available	%	+ / -
Cash Control Procedures							
Bank Account Practices	6	8	75%	4	8	50%	25
Cash Handling Practices	31	46	67%	25	46	54%	13
Accounts Receivable Procedures							
General Ledger Practices	4	7	57%	6	7	86%	(29)
City Ledger Practices	19	24	79%	10	24	42%	38
Accounts Payable Procedures							
Purchasing Practices	4	6	67%	3	6	50%	17
Payment Processing Practices	13	17	76%	10	17	59%	18
Payroll Procedures							
Payroll Practices	15	24	63%	15	24	63%	0
Inventory Procedures							
Food Inventory Practices	5	12	42%	7	12	58%	(17)
Beverage Inventory Practices	6	18	33%	10	18	56%	(22)
Revenue Reconciliation Procedures							
Room Revenue Practices	21	29	72%	14	29	48%	24
Food and Beverage Practices	12	19	63%	9	19	47%	16
Banquet Revenue Practices	5	5	100%	2	5	40%	60
Parking Revenue Practices	11	15	73%	7	15	47%	27
Gift Shop Practices	6	10	60%	4	10	40%	20
Total Revenue Practices	8	11	73%	4	11	36%	36
General Operating Procedures							
General Operating Practices	4	5	80%	3	5	60%	20
Sales and Use Tax Practices	16	19	84%	10	19	53%	32
Total	186	275	68%	143	275	52%	16

Cash Control Procedures:

Bank Account Practices	Points Achieved	Points Available
All bank accounts and check signers must be authorized by the CFO	1	1
All bank accounts are reconciled monthly by someone who does not have cash handling duties	3	3
Account reconciliation includes examination of signatures and endorsements of checks/deposits	0	2
Copies of checks not provided on bank statement. Controller will contact bank to change.		
All bank account reconciliations are reviewed monthly by the Controller	2	2
Cash Handling Practices	Points Achieved	Points Available
A bank contract is on file for all associates who are issued banks	1	2
Only 8 out of 12 cashiers had bank contracts on file		
A bank contract is on file for the General Cashier for the total cash	2	2
All bank contracts are secured in the main safe	0	1
Bank contracts were kept in employee files. Controller will add a copy to the safe		
Only the General Cashier has access to the main safe	1	1
The total cash on hand ties to the amount on the balance sheet	1	1
A signed cash over/short policy is on file for all associates who handle cash	1	2

Only 8 out of 16 cash handlers had a policy on file

Proper discipline is administered in accordance with the cash policy 1 2

There was 1 instance of a \$89 shortage with no documentation

The General Cashier must take annual vacations and have duties assumed by another associate 1 1

The General Cashier must not perform and accounts payable or accounts receivable functions 1 1

House banks are audited at least monthly on a surprise basis 0 3

Bank count sheets were not available

Main safe is audited at least monthly on a surprise basis 0 2

Bank count sheets were not available

Petty cash disbursements are supported by proper receipts 1 1

Petty cash disbursements on are submitted within 14 days 1 1

All drops made in the drop safe require a witness 1 2

Only about 75 percent of associates had a witness sign

The cashier's bank count is included on all deposit envelopes 0 1

Bank count was not included on any deposit envelopes

The drop safe requires two people to open 3 3

All deposits are removed from the drop safe with a witness and immediately logged 2 3

Deposits are removed with a witness but not logged

Bank deposits are made every business day	1	3
---	---	---

Bank deposits were made 16 out of the last 20 business days

Bank deposits are sent via armored car	2	2
--	---	---

A photo book of all armored car drivers is provided by armored car company and in use	0	1
---	---	---

Hotel did not have photos of drivers

All checks are photocopied prior to being deposited	1	1
---	---	---

Deposits for change orders are made prior to the change order being delivered	2	2
---	---	---

Change orders are sent and received via armored car	2	2
---	---	---

All checks received by mailed are logged and deposited by someone other than Cashier and A/R	2	2
--	---	---

All checks received on property are endorsed immediately upon receipt	2	2
---	---	---

Associated in Accounts Receivable do not handle checks or cash	2	2
--	---	---

Internal Audit Results

Your Hotel, Sample City USA

Date: March 1st, 2008

Accounts Receivable Procedures:

General Ledger Practices

	Points Achieved	Points Available
The General Ledger must be in balance each day	1	1
All house accounts must be checked out within 3 business days of the event/guest check out	0	1
There is 1 guest skip in a house account 20 days		
All manager accounts must be checked out at least monthly	1	1
All guest balances are below maximum individual credit limit established by hotel	0	2
There were 3 guests with a balance over \$2000		
Collection of NSF checks follows company guidelines	2	2

City Ledger Practices

	Points Achieved	Points Available
The City Ledger must be in balance each day	1	1
All direct bill accounts must have an approved db application on file	1	3
Only 7 out of the 10 requested DB applications were on file		
An approved direct bill list is updated and distributed at least quarterly	3	3
All direct bill applications are received prior to group/function arrival	3	3
City Ledger is aged each day	1	1

FIVE DIAMOND HOSPITALITY

Internal Audit Results		
Your Hotel, Sample City USA		
Date: March 1st, 2008		

All credits on the City Ledger are not aged and listed in the current column

2

2

All accounts over 30 days are called and call details logged

1

3

Only 7 out of the 13 accounts over 30 days have call details

All accounts over 90 days are called upon by the General Manager and call details logged

3

3

All balances written off are approved and documented by the General Manager

2

2

Credit meetings are held at least monthly with minutes forwarded to the CFO

2

3

Credit meetings are held but not sent to the CFO

Accounts Payable Procedures:

Purchasing Practices

Purchase Orders are completed and authorized according to hotel guidelines

Points Achieved

Points Available

1

3

Only 8 out of the 20 purchases had proper purchase orders

A minimum of 3 bids are required on all capital purchases and large operating expenses

2

2

The receiving department receives and checks all incoming goods to the purchase orders

1

1

Payment Processing Practices

Points Achieved

Points Available

Invoices are directly sent to the accounts payable department

1

1

All invoices must match the purchase order totals

1

2

Travel agent commissions are audited by accounting

1

1

Sales tax is self assessed on all out of state purchases

1

2

Found 1 vendor who supplies lamp shades that did not charge tax, wasn't self assessed

Vendor statements are researched and kept on file for 6 months

2

2

A/P balances are aged daily and paid within vendor terms

1

3

Found 6 instances where invoices were paid in over 60 days

Associate expense reports are audited to ensure they are within company travel guidelines

1

1

FIVE DIAMOND HOSPITALITY

Controller approves all invoices prior to being paid

All A/P checks require 2 signatures

Any on property checks are kept locked up where only Controller can access

Internal Audit Results

Your Hotel, Sample City USA

Date: March 1st, 2008

	2	2
	1	1
	2	2

Payroll Procedures:

Payroll Practices	Points Achieved	Points Available
All payroll additions or terminations must be authorized by the General Manager	2	2
All payroll wage changes must be authorized by the General Manager	2	2
All hourly associates use a time clock, preferably a biometric hand punch clock	1	1
All overtime is approved by someone at the Director level or higher	1	1
Payroll productivity reports are created and distributed at least weekly	0	3
There is no evidence of any payroll productivity reports		
Time sheets must be prepared daily and reviewed by department heads	2	2
A system is in place for paying out charge tips	1	1
Tip reporting is in compliance with federal and state laws	1	2
Tipped employees such as bellman do not declare tips		
Payroll is reconciled before submitting to payroll processing company	2	2
Payroll is reconciled again after it is received from payroll processing company	0	2
There is no evidence of payroll being reconciled		
Paychecks are distributed by someone independent of the payroll department	1	1
Paychecks are distributed by someone other than an associates direct department head	0	1

Internal Audit Results

Your Hotel, Sample City USA

Date: March 1st, 2008

Paychecks are distributed by department heads

Signed check registers are returned to accounting and verified	1	2
--	---	---

17 employees did not sign for their check or their hours last pay period

Property payroll audits are performed twice per year with associates presenting IDs	0	1
---	---	---

There is no evidence of this

All payroll is paid via checks, no cash	1	1
---	---	---

Inventory Procedures:

Food Inventory Practices

	Points Achieved	Points Available
Accounting department maintains inventory record and does not have access to inventory	2	2
Personnel independent of the storage function periodically takes physical inventory	0	2
Chef completes inventory		
Accounting department extends physical inventory and verifies	0	1
Not verified by accounting		
Inventory adjustments must be approved by the Controller	1	1
Daily inventories and usage rates of high priced items should be monitored	0	2
There is no evidence of this		
Access to inventory should be restricted to storage employees	2	2
Records of spoilage must be maintained	0	2
There are no spoilage logs on file		

Beverage Inventory Practices

	Points Achieved	Points Available
Accounting department maintains inventory record and does not have access to inventory	2	2
Personnel independent of the storage function periodically takes physical inventory	0	2

Internal Audit Results

Your Hotel, Sample City USA

Date: March 1st, 2008

F&B Manager takes inventory

Accounting department extends physical inventory and verifies	0	1
---	---	---

Not verified by accounting

Inventory adjustments must be approved by the Controller	1	1
--	---	---

Daily inventories and usage rates of high priced items should be monitored	0	2
--	---	---

There is no evidence of this

Access to inventory should be restricted to storage employees	2	2
---	---	---

Records of spoilage must be maintained	0	2
--	---	---

No spoilage logs on file

Beverage inventory prices must be updated at least twice per year	1	1
---	---	---

All liquor orders are filled using bottle for bottle exchange	0	3
---	---	---

There is no evidence of this

All liquor bottles in inventory are marked with the hotel's stamp	0	2
---	---	---

There is no evidence of this

Revenue Reconciliation Procedures:

Internal Audit Results

Your Hotel, Sample City USA

Date: March 1st, 2008

Rooms Revenue Reconciliation Practices

	Points Achieved	Points Available
All complimentary rooms must be approved by a rooms executive	2	2
The room rate variance report must be reviewed daily by Accounting	2	2
Housekeeping discrepancy report is reviewed daily	2	2
Call Accounting postings are reconciled daily	0	2
Call accounting is not reconciled		
Movie system postings are reconciled daily	0	2
Movie system is not reconciled		
High speed internet postings are reconciled daily (if hotel charges for internet)	2	2
Mini-bar postings are reconciled daily (if available)	2	2
All guaranteed no-shows are billed daily	1	2
No –shows are being billed twice per week		
All cancelled reservations with advance deposits are refunded promptly	1	1
All guest ledger adjustments are processed within company guidelines	3	3
All credit card refunds are reviewed by accounting and compared with original transaction	1	3
Credit card refunds are reviewed but not compared with original transaction		
Front desk runs additional authorizations (credit report) at least twice per day	2	2

Internal Audit Results	
Your Hotel, Sample City USA	
Date: March 1st, 2008	

All cash paying guests are given a receipt each time cash is paid

3 3

All checks from guests are processed through a check approval service

0 1

This service is not being used

Food and Beverage Revenue Reconciliation Practices

Points Achieved Points Available

All POS postings are reconciled daily

3 3

All outlet voids are done by a manager or supervisor

3 3

All management or house charge accounts are reviewed daily by Controller or General Manager

2 2

Any coupons issued are pre-numbered with a matching log

0 2

Coupons are not pre-numbered with log and are easily available from the front desk

All coupon logs are reviewed at least monthly by accounting

0 1

No logs maintained

Cash only list is issued to all outlets at least twice per day

1 1

A receipt is issued to the customer during every transaction

3 3

A Mystery Shopping Program is in place

0 3

No program in place

Mystery Shop Reports are reviewed by GM

0 1

Internal Audit Results
 Your Hotel, Sample City USA
 Date: March 1st, 2008

Reports not available

Banquet Revenue Reconciliation Practices

	Points Achieved	Points Available
Banquet revenue spreadsheets are reconciled each day by accounting	3	3
A liquor requisition worksheet is completed for every function with a bar	2	2

Parking Revenue Reconciliation Practices

	Points Achieved	Points Available
Parking revenue is reconciled on a daily basis	3	3
All parking tickets are pre-numbered and accounted for daily	2	2
A log is kept of every time the gate is opened without a ticket or pass	2	2
The parking log is reviewed daily by the Controller	1	1
A receipt is issued to the customer during every cash or credit card transaction	3	3
A Mystery Shopping Program is in place	0	3
No program in place		
Mystery Shop Reports are reviewed by GM	0	1

No program in place

Internal Audit Results

Your Hotel, Sample City USA

Date: March 1st, 2008

Gift Shop Revenue Reconciliation Practices

Gift shop revenue is reconciled on a daily basis

A receipt is issued to the customer during every transaction

A Mystery Shopping Program is in place

No program in place

Mystery Shop Reports are reviewed by GM

No program in place

	Points Achieved	Points Available
Gift shop revenue is reconciled on a daily basis	3	3
A receipt is issued to the customer during every transaction	3	3
A Mystery Shopping Program is in place	0	3
Mystery Shop Reports are reviewed by GM	0	1

Total Revenue Reconciliation Practices

Total revenue is reconciled to bank deposits on a daily basis

Reconciled very thoroughly, however, only on a weekly basis

All adjustments over \$100 are reviewed by the Controller

All adjustments over \$500 are reviewed by the General Manager

There is a Gift Certificate Log in place and maintained by Accounting

There is no evidence of a log

	Points Achieved	Points Available
Total revenue is reconciled to bank deposits on a daily basis	4	5
All adjustments over \$100 are reviewed by the Controller	2	2
All adjustments over \$500 are reviewed by the General Manager	2	2
There is a Gift Certificate Log in place and maintained by Accounting	0	2

General Operating Procedures:

General Operating Practices

Licenses and permits are current and posted

Points Achieved

Points Available

2

2

A certificate of insurance is on file for all vendors who perform work on property

0

1

Need to get from all vendors such as bug sprayer, carpet cleaner

All trade outs are documented and approved by regional vice president

2

2

Sales and Use Tax Practices

Points Achieved

Points Available

All room revenues are taxed at the proper state and local rate

2

2

Tax exemptions must be handled according to local and state statutes

2

2

Only the accounting department is allowed to make tax exemption adjustments

0

1

The front desk currently makes tax exempt adjustments

All food and beverage revenues are taxed at the proper state and local rate

2

2

All banquet revenues are taxed at the proper state and local rate

0

2

Meeting room rental currently being taxed improperly

All movie revenues are taxed at the proper state and local rate

2

2

All phone revenues are taxed at the proper state and local rate

2

2

FIVE DIAMOND HOSPITALITY

All gift shop revenues are taxed at the proper state and local rate

All mini-bar revenues are taxed at the proper state and local rate

All parking revenues are taxed at the proper state and local rate

Internal Audit Results

Your Hotel, Sample City USA

Date: March 1st, 2008

	2	2
	2	2
	2	2

Recommendations for Improvement

1. Establish a maximum credit limit for in house guests (typically \$1000 to \$2000) and have the front desk post payment each morning for all guests who reach this amount. Place a copy of the bill under the guest's door with a letter. This will prevent credit card authorizations from expiring and put cash in the bank quicker. Also, the guest will get a chance to review a large folio well before checking out so any errors can be corrected.
2. Create a payroll productivity report that account will distribute at least weekly so department heads can be held accountable for their labor. A payroll productivity template will be sent to you via email.
3. Have accounting verify all inventories each month. Spot check at least 20 percent of the items.
4. Use a spoilage log for both food and beverage items to account for at month end. A template will be sent to you via email.
5. Call accounting postings must be reconciled each day. We recommend that night audit complete this. A template will be sent to you via email.
6. Movie system posting must be reconciled each day. A template will be sent to you via email.
7. Any coupons for the restaurant (especially buffet vouchers) should be pre-numbered and logged. A sample coupon and template of the log will be sent to you via email.
8. Subscribe to random Mystery Shopping for the restaurant, lounge, gift shop, and parking. It is to easy for employee to steal cash in these areas. We recommend that you mystery shop each employee at least once per 3 months.
9. Establish and maintain a log for gift certificates. A template will be sent to you via email.

Please feel free to contact us if you need assistance on this list or any areas of the internal audit report.