



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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NEWS RELEASE

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FOR RELEASE _____ April 13, 2012 _____

Auditor of State David A. Vaudt today released a report on a special investigation of the Department of Natural Resources' Honey Creek Resort (Resort) for the period October 1, 2010 through October 20, 2011. The special investigation was requested by the Department of Natural Resources as a result of concerns regarding improper transactions processed by Kathy Ewing, the former Group Sales Assistant at the Honey Creek Resort. As the Group Sales Assistant, Ms. Ewing was responsible for preparing bills for group events, such as weddings or conferences, for adjusting the group bills, as appropriate, and receiving payments for group bills.

Vaudt reported the special investigation identified 10 improper refund transactions totaling \$2,770.16 processed by Ms. Ewing between August 23, 2011 and October 17, 2011. Of this amount, \$1,976.08 was deposited to Ms. Ewing's personal bank account and \$794.08 was used to make payments on her mother's credit card account which she was authorized to use.

Vaudt also reported Ms. Ewing was in charge of preparing, billing and adjusting group bills. As a result, she was able to create improper portfolios showing refunds to certain accounts or credit certain portfolios directly to show a refund owed to the group. She also processed the refunds she created by applying them to her personal bank account using her debit card or as a payment on a credit card she was authorized to use. The refunds were described on the improper portfolios as refunded rooms, wrong rates or overcharges.

The report includes recommendations to strengthen the Resort's internal control and overall operations, such as improvements to segregation of duties, reviewing supporting documentation for refunds issued and establishment of policies regarding use of credit cards.

Copies of this report have been filed with the Division of Criminal Investigation, the Appanoose County Attorney's Office, the Appanoose County Sheriff's Office and the Attorney General's Office. A copy of the report is available for review in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/specials/1260-5420-BE00.pdf>.

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**REPORT ON SPECIAL INVESTIGATION
OF THE
DEPARTMENT OF NATURAL RESOURCES'
HONEY CREEK RESORT**

**FOR THE PERIOD
OCTOBER 1, 2010 THROUGH OCTOBER 20, 2011**

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Auditor of State's Report

To the Members of the Natural Resource Commission
and the Director of the Department of Natural Resources:

As a result of alleged improprieties regarding certain financial transactions and at the request of the Department of Natural Resources (Department), we conducted a special investigation of Honey Creek Resort's (Resort) Group Sales System. We have applied certain tests and procedures to selected financial transactions recorded in the Group Sales System for the period October 1, 2010 through October 20, 2011. Based on discussions with Resort personnel and a review of relevant information, we performed the following procedures.

- (1) Obtained an understanding of the concerns identified by the Department and the Manager of the Resort.
- (2) Evaluated internal controls to determine whether adequate policies and procedures were in place and operating effectively.
- (3) Examined reports obtained from the credit card processing company used by the Resort to identify transactions for which refunds were issued.
- (4) Examined available supporting documentation for selected transactions to determine if refunds to group accounts were supported.
- (5) Obtained and reviewed personal bank statements for accounts held at certain financial institutions by Kathy Ewing, the former Group Sales Assistant, to identify the source of certain deposits made to the accounts.
- (6) Obtained and reviewed statements of personal debit and credit cards held by Ms. Ewing and/or her mother to identify the source of certain payments or credits posted to the accounts.

These procedures identified 10 improper refund transactions totaling \$2,770.16, of which \$1,976.08 was deposited to Ms. Ewing's personal bank account and \$794.08 was used to make payments on a credit card account she was authorized to use.

The procedures described above do not constitute an audit of financial statements conducted in accordance with U.S. generally accepted auditing standards. Had we performed additional procedures, or had we performed an audit of financial statements of the Honey Creek Resort, other matters might have come to our attention that would have been reported to you.

Copies of this report have been filed with the Appanoose County Sheriff's Office, the Division of Criminal Investigation, the Appanoose County Attorney's Office and the Attorney General's Office.

We would like to acknowledge the assistance extended to us by personnel of Honey Creek Resort during the course of our investigation.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

January 15, 2012

Department of Natural Resources
Honey Creek Resort

Investigative Summary

Background Information

The Honey Creek Resort (Resort) is a destination resort located on the shores of Rathbun Lake in Appanoose County. The Department of Natural Resources (Department) began development of the Resort and surrounding facilities during fiscal year 2006. The Resort consists of an 850-acre park which features a great lodge/hotel, conference center, restaurant, indoor water park, cottages, camping sites and an 18-hole golf course. On January 28, 2008, the Department contracted with Central Group Management LLC (CGM) to manage the Resort. The Resort opened to the public on September 18, 2008.

CGM provides hospitality management services to its clients. CGM also handles all day-to-day administration and maintenance of the Resort's facilities. These services include:

- recruiting, training and hiring staff,
- management of food and beverage services,
- golf course and water park management and
- conference and guest services.

CGM hired Kathy Ewing in October 2008 to work as a clerk at the front desk of the lodge. She was reassigned to the Sales Department in April 2009 to work as the Group Sales Assistant. As the Group Sales Assistant, Ms. Ewing's responsibilities included:

- making group reservations,
- preparing billings for group reservations,
- preparing adjustments to bills and
- collecting deposits and final payment for the group reservations.

The Resort's General Manager, Andy Woodrick, received notification on October 19, 2011 from the credit card processing company used by the Resort of unusual activity on a credit card. Mr. Woodrick began an internal investigation of the activity on October 20, 2011. He reviewed certain transactions related to the credit card identified by the credit card processing company and identified a purchase was made in the Resort's gift shop with the credit card. He obtained the charge slip and determined it was signed by Ms. Ewing. Using the information provided by the credit card processing company, Mr. Woodrick identified amounts refunded to the credit card. He matched the refunds to supporting records maintained at the Resort. The support showed refunds were related to various group portfolios. In addition, the Group Sales System documented the adjustments were made by Ms. Ewing.

Mr. Woodrick contacted Department officials and informed them of the concerns identified. Ms. Ewing was suspended on October 20, 2011 as a result of "improper use of Department of Natural Resources' funds" and was terminated from employment on October 24, 2011 after admitting to improperly posting refunds to her personal bank account and a credit card account she was authorized to use.

Department officials requested the Office of Auditor of State perform an investigation of the Honey Creek Resort's Group Sales System. As a result, we performed the procedures detailed in the Auditor of State's Report for the period October 1, 2010 through October 20, 2011.

Detailed Findings

The procedures performed identified 10 improper refund transactions totaling \$2,770.16. Ms. Ewing created the refunds by adjusting group portfolios after the bill had been paid. The refunds created by Ms. Ewing appeared to be owed to a group or individual. However, instead of issuing the refund to the individual or group which originally paid the portfolio, she applied the refund to her personal bank account or her mother’s credit card account which she was authorized to use.

According to an interview conducted by the Appanoose County Sheriff’s Office, Ms. Ewing stated she accidentally applied a refund owed to a group back to her credit card. She had the credit card on her desk when processing the transaction. When she noticed the credit on her statement and no one noticed the mistake, she figured it was a way to catch up on her bills.

For the 10 transactions identified, **Table 1** summarizes the amounts Ms. Ewing diverted to her personal bank account using her debit card and the amount posted to a credit card account she was authorized to use. A detailed explanation of each amount follows the **Table**.

Account	Table	Number of Transactions	Amount
Personal bank account	Table 2	7	\$ 1,976.08
Credit card account	Table 3	3	794.08
Total		10	\$ 2,770.16

As previously stated, Ms. Ewing was responsible for preparing group bills, adjusting group bills and collecting payments. Because Ms. Ewing was responsible for the entire group billing process, she was able to create improper additional portfolios showing refunds to certain accounts or credit certain portfolios directly to show a refund owed back to the group. She also processed the refunds she created by applying them to her personal bank account using her debit card or as a payment on a credit card account she was authorized to use.

Exhibit A lists the 10 transactions identified, how the refunds were described on the portfolios and when the refunds were applied to her personal bank account or the credit card account she was authorized to use.

Appendices 1 and **2** include copies of portfolios Ms. Ewing adjusted using 2 different methods. **Appendix 1** includes a copy of the portfolio given to a guest at checkout. As illustrated in **Appendix 1**, the portfolio was paid in full with a VISA card. The second page of the portfolio was prepared 2 months after the portfolio was settled. The second page of the portfolio shows a refund was given to the customer because the wrong rate had been charged to the customer. However, the refund was actually applied to Ms. Ewing’s personal bank account.

Appendix 2 includes a copy of a portfolio for a wedding held at the Resort. The portfolio included deposits and charges for the event. As illustrated by the **Appendix**, the bill was settled in full on September 20, 2011. However, on September 26, 2011, Ms. Ewing applied a refund to the account for the room rental of \$300.00. The refund was then applied to her personal bank account.

Personal Bank Account

We scanned the transactions in Ms. Ewing's personal bank account during the period of our investigation. The transactions which increased the balance of the account included transactions described as "DEPOSITS" and electronic transactions which included a description. The transactions are discussed in the following paragraphs.

Ms. Ewing's payroll checks from the Resort were deposited electronically and were recorded on the bank statements as "Park Professiona PR DEPOSIT". According to staff we spoke with, payroll is sent electronically to individual banks by CGM's payroll service, Park Professional Services.

For the transactions described as "DEPOSIT" on the bank statements, we obtained the related deposit slips. For selected deposits, we reviewed the deposit slip to determine the source of the funds deposited to the account. The deposit slips showed the deposits were made by Ms. Ewing and her husband. The deposit slips also showed checks and cash were deposited to the account. According to Resort staff we spoke with, Ms. Ewing did not handle or have access to cash in her position as Group Sales Assistant. In addition, group reservations were paid by check or credit card.

The remaining deposits in Ms. Ewing's personal bank account include a description "POS Credit Adj. Honey Creek Resort St Par Moravia". According to Resort staff we spoke with, this is how a charge would be shown on a statement or a refund to the account would be shown. **Table 2** includes the 7 transactions identified in Ms. Ewing's personal bank account.

Table 2

Date	Description per Statement	Amount
08/25/11	POS Credit Adj. Honey Creek Resort St Par Moravia	\$ 67.20
08/25/11	POS Credit Adj. Honey Creek Resort St Par Moravia	134.40
09/12/11	POS Credit Adj. Honey Creek Resort St Par Moravia	224.00
09/21/11	POS Credit Adj. Honey Creek Resort St Par Moravia	350.00
09/28/11	POS Credit Adj. Honey Creek Resort St Par Moravia	300.00
10/11/11	POS Credit Adj. Honey Creek Resort St Par Moravia	396.48
10/19/11	POS Credit Adj. Honey Creek Resort St Par Moravia	504.00
Total		<u>\$ 1,976.08</u>

During our review of Ms. Ewing's personal bank account, we did not identify any POS Credit Adjustments from the Resort prior to August 25, 2011.

Credit Card Account

As previously stated, Ms. Ewing was authorized to use a credit card issued to her mother. According to the Appanoose County Sheriff's Office, Ms. Ewing stated she was responsible for the charges and payments on the credit card and her mother was aware she used the credit card. Based on our review of the credit card statements, we identified 3 transactions, totaling \$742.28, posted as payments to the credit card account from Honey Creek Resort. **Table 3** details the 3 transactions posted to the account.

Table 3

Date	Description	Amount
08/23/11	Honey Creek Resort St Par Moravia, IA	\$ 134.40
09/13/11	Honey Creek Resort St Par Moravia, IA	458.08
10/17/11	Honey Creek Resort St Par Moravia, IA	201.60
Total		<u>\$ 794.08</u>

During our review of the credit card statements, we did not identify any payments described as Honey Creek Resort St Par Moravia, IA prior to August 23, 2011.

Recommended Control Procedures

As part of our investigation, we reviewed the procedures used by Honey Creek Resort to process refunds for group reservations. An important aspect of internal control is to establish procedures which provide accountability for assets susceptible to loss from error and irregularities. These procedures provide the actions of one individual will act as a check on those of another and provide a level of assurance errors or irregularities will be noted within a reasonable time during the course of normal operations. Based on our findings and observations detailed below, the following recommendations are made to strengthen the Resort's internal controls.

- A. Segregation of Duties – An important aspect of internal control is the segregation of duties among individuals to prevent one person from handling duties which are incompatible. For example, the person preparing the bills should be independent of the person receiving the payments and recording the receipts.

The Resort has not established adequate controls in this area. Specifically, the Resort's former Group Sales Assistant could prepare the bills, apply refunds to the bills and collect and record payments. In addition, there was no independent review of the refunds applied to an account or required authorization by a Manager or a Resort Department Supervisor for the refunds issued.

Recommendation – We realize segregation of duties is difficult with a limited number of staff. However, the duties listed above should be segregated. Specifically, individuals authorized to collect and refund payments to the bills should not be allowed to prepare the bills. In addition, refunds applied to a bill should be reviewed and approved by the Supervisor of the event and the Business Manager.

- B. Group Sales – When making a group reservation, a person or company may use a credit card for the required deposit. However, different debit or credit cards may be used for other payments subsequently made for the event. Individuals who pay for their rooms as part of the group may also use a different debit or credit card to pay for their rooms. Because it was not unusual for more than 1 debit or credit card to be used for a group event, Ms. Ewing was able to conceal the refunds processed using her personal bank debit card or the credit card she was authorized to use.

Recommendation – The Resort should require any refunds be applied to the debit or card originally used to pay for the event. Alternatively, the Resort may consider issuing a refund check to the group or individual.

**Report on Special Investigation
of the
Department of Natural Resources'
Honey Creek Resort**

Exhibit

Report on Special Investigation
of the
Department of Natural Resources'
Honey Creek Resort

Improper Refunds
For the period of October 1, 2010 through October 21, 2011

Per Group Portfolio

Date	Description	Comment	Amount
08/23/11	Room Charge	refunding overcharge	\$ 67.20
08/23/11	Room Charge	charged wrong rate	134.40
08/23/11	Room Charge	cottage to be 209 per night	134.40
09/08/11	Room Charge	overcharge	224.00
09/13/11	Room Charge	<i>None</i>	458.08
09/19/11	Room Rental	<i>None</i>	350.00
09/26/11	Room Rental	<i>None</i>	300.00
10/06/11	Room Charge	correction/overcharge	396.48
10/14/11	Room Charge	overcharge /quoted 409 per night	201.60
10/17/11	Room Charge	overcharge /quoted 309 per night	504.00
Total			<u>\$2,770.16</u>

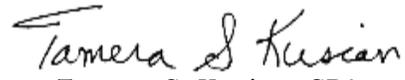
Per Statement		
Post	Personal	Credit
Date	Bank Account	Card
08/25/11	\$ 67.20	-
08/25/11	134.40	-
08/23/11	-	134.40
09/12/01	224.00	-
09/13/11	-	458.08
09/21/11	350.00	-
09/28/11	300.00	-
10/11/11	396.48	-
10/17/11	-	201.60
10/19/11	504.00	-
	<u>\$ 1,976.08</u>	<u>794.08</u>

Report on Special Investigation of the
Department of Natural Resources – Honey Creek Resort

Staff

This special investigation was performed by:

Annette K. Campbell, CPA, Director
James S. Cunningham, CPA, Manager
Adam B. Bartz, Assistant Auditor


Tamera S. Kusian, CPA
Deputy Auditor of State

Appendices

Report on Special Investigation
of the
Department of Natural Resources'
Honey Creek Resort

Copy of Portfolio - Room Charges

Page No. 1



Guest Name: [REDACTED]
[REDACTED]
Centerville, IA 52544 USA

Room #: 105
Folio#: R09CE4 - 1
Group #: 1654
Guests: 1
Clerk: [REDACTED]

Arrive: 06/24/11 Time: 10:09 PM Depart: 06/26/11 Time: 10:09 AM Stat: HIST

Date	Description	Reference	Comment	Charges	Credits
06/24/11	PAY VISA	[REDACTED]	[REDACTED]		(\$333.76)
06/24/11	ROOM CHARGE	105		\$149.00	
06/24/11	STATE ROOM TAX	105t	STATE ROOM TAX	\$7.45	
06/24/11	STATE ROOM TAX	105t	ROOM TAX	\$10.43	
06/25/11	ROOM CHARGE	105		\$149.00	
06/25/11	STATE ROOM TAX	105t	STATE ROOM TAX	\$7.45	
06/25/11	STATE ROOM TAX	105t	ROOM TAX	\$10.43	

Folio Balance: \$0.00

Guest Signature: _____

Report on Special Investigation
of the
Department of Natural Resources'
Honey Creek Resort

Copy of Portfolio – Room Charges

Page No. 1



Guest Name: [REDACTED]
Centerville, IA 52544 USA

Room #: 105
Folio#: R09CE4 - 2
Group #: 1654
Guests: 1
Clerk: [REDACTED]

Arrive: 06/24/11 Time: 10:09 PM Depart: 06/26/11 Time: 10:09 AM Stat: HIST

Date	Description	Reference	Comment	Charges	Credits
08/23/11	ROOM CHARGE	082310037978	charged wrong rate		(\$120.00)
08/23/11	STATE ROOM TAX	08231003797t	charged wrong rate		(\$6.00)
08/23/11	STATE ROOM TAX	08231003797t	charged wrong rate		(\$8.40)
08/23/11	PAY VISA	082395337978	[REDACTED]	\$134.40	

Folio Balance: \$0.00

Guest Signature: _____

Report on Special Investigation
of the
Department of Natural Resources'
Honey Creek Resort

Copy of Portfolio – Wedding

Page No. 1



Guest Name: Group Master [REDACTED]
[REDACTED]
Moravia, IA 52571 USA

Room #: GROUP
Folio#: R0542F
Group #: 1238
Guests: 0
Clerk: [REDACTED]

Arrive: 09/15/11 Time: 01:17 AM Depart: 09/20/11 Time: 02:34 PM Stat: HIST

Date	Description	Reference	Comment	Charges	Credits
01/24/10	DEP CHECK	#711	[REDACTED]		(\$600.00)
01/24/10	DEP CHECK	#1102	[REDACTED]		(\$1,000.00)
01/28/11	DEP VISA	01288030	***** [REDACTED]		(\$2,000.00)
05/04/11	DEP VISA	05048030	***** [REDACTED]		(\$2,000.00)
08/04/11	DEP VISA	08048030	***** [REDACTED]		(\$2,000.00)
09/17/11	BANQUET SET UP	BEO 1-12012	BANQUET SET UP	\$50.00	
09/17/11	ROOM RENTAL	BEO 1-12012	ROOM RENTAL	\$600.00	
09/17/11	BANQUET GRATUITY	BEO 1-12012	BANQUET GRATUITY	\$58.50	
09/17/11	BANQUET SERVICE CH	BEO 1-12012	BANQUET SERVICE CHARGE	\$58.50	
09/17/11	STATE TAX	BEO 1-12012	STATE TAX	\$11.70	
09/17/11	BANQUET FOOD DINNE	BEO 1-12013	BANQUET FOOD DINNER	\$4,405.70	
09/17/11	BANQUET PM BREAK	BEO 1-12013	BANQUET PM BREAK	\$994.20	
09/17/11	BANQUET BEER DINNE	BEO 1-12013	BANQUET BEER DINNER	\$1,080.00	
09/17/11	BANQUET WINE DINNE	BEO 1-12013	BANQUET WINE DINNER	\$20.00	
09/17/11	BANQUET SET UP	BEO 1-12013	BANQUET SET UP	\$180.00	
09/17/11	ROOM RENTAL	BEO 1-12013	ROOM RENTAL	\$1,000.00	
09/17/11	BANQUET GRATUITY	BEO 1-12013	BANQUET GRATUITY	\$691.19	
09/17/11	BANQUET SERVICE CH	BEO 1-12013	BANQUET SERVICE CHARGE	\$691.19	
09/17/11	STATE TAX	BEO 1-12013	STATE TAX	\$564.35	
09/18/11	BALANCE TRANSFER		From: [REDACTED]	\$105.49	
09/20/11	PAY VISA	092095342078	***** [REDACTED]		(\$2,910.82)
09/26/11	ROOM RENTAL	092625442078	[REDACTED]		(\$300.00)
09/26/11	PAY VISA	092695342078	***** [REDACTED]	\$300.00	

Folio Balance: \$0.00

Guest Signature: _____