



Mountainview Country Club: Who's Minding the Store?

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“**T**hat woman is *nuts*! I’m not a psychiatrist—or a babysitter. I just want to do my job as *controller*—and make certain the financial statements are correct,” Sandi Lane exclaimed. She had just been subjected to a forty-five minute screaming rant by Alexis Tate-Hughes, inventory buyer and manager of the Pro Shop at Mountainview Country Club (the Club). Lane, controller of the Club, was meeting with the accounting clerk in her own office when Tate-Hughes stormed in and shouted at the clerk, “Get out of here! I’ve got some things to say to Sandi!”

After the clerk hurriedly left Lane’s office, Tate-Hughes yelled at Lane, “Who do you think you are, calling my assistant? If you’ve got questions about the Pro Shop inventory, you ask *me*. Do you think I’m *stealing*?!”

“*Are you*—are you taking inventory from the Pro Shop?” Lane knew that was not the best response but, she was emotionally exhausted from the five-year battle over the inventory and other accounting issues. Lane tried to explain why she made the call earlier in the day. “I was only asking your assistant whether there was a data entry error. A \$10 cost didn’t seem right for the most expensive golf slacks in the shop. I wasn’t accusing you of stealing. You’re just paranoid.”

Tate-Hughes did not listen. She screamed back at Lane. “You treat me differently from everyone else at the Club. You single me out because my husband is the general manager (GM) and he’s *your* boss. You’re jealous because he makes so much money and because he bought me a Hummer last month. You’re just a bitch. *I’ll see to it you don’t work here anymore!*”

Tate-Hughes left Lane’s office in a rage. Lane was certain it would be only a short time until she was called into the office of Hank Hughes, general manager (and husband of Tate-Hughes). Even though Hughes hired her as controller five years earlier, he had not been supportive of Lane and her work. “Locking horns” with Tate-Hughes was a frequent occurrence for Lane—and Hughes always sided with his wife. It was early April 2011, and Lane wondered: “Will today be the day Alexis convinces Hank to fire me?” Lane also wondered whether she should try again to contact the owners of the Club with her concerns about what she believed were serious financial issues.

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She had been rebuffed previously by the general partner. Maybe it was time to report the situation to a professional accounting organization, the state board of accountancy, or possibly the Internal Revenue Service. Lane was uncertain whether it was worth it to continue fighting for what she knew was right. From her business law class, Lane knew that legally she had a fiduciary duty to protect the Club's assets even if the owners did not seem to care. Her own personal and professional ethics had been her motivation for all her work at the Club. She knew that if the Club became financially insolvent, all the employees could lose their jobs. But now, Lane was emotionally drained and felt like none of the options were good ones.

SANDI LANE

It was the best possible Christmas gift when Hank Hughes called Sandi Lane in late December 2005 and offered her the position as controller at Mountainview Country Club. She had been job hunting for several months, wanting desperately to resign from the controller's position at another local country club, Forest Glen. For six months the Forest Glen general manager had refused to let Lane reconcile the bank accounts. She suspected financial improprieties and worried the general manager might try to implicate her.

When she resigned, Lane gave two weeks' notice to Forest Glen. To please her new employer she agreed to go to Mountainview during the evenings for training by the outgoing controller, Russell Farthing. She worked days at Forest Glen and nights at Mountainview for two weeks. She could have walked away from Forest Glen without giving notice but Lane always wanted to do her best and be professional—even in a bad situation.

The Mountainview position came after Lane had spent nearly ten years in various financial and accounting positions in the hospitality industry. For five years, she was controller at Rivers Catering with primary responsibility for all financial operations. After the death of one of the partners, the surviving partner attempted to keep the son of the deceased from inheriting his mother's portion of the business. Lane's sense of integrity caused her to resign.

Her parents taught Lane to "always do the right thing" and ". . . be confident in who you are and what you believe in." Leaving the unethical situation at Rivers Catering had resulted in unemployment for Lane. She stayed with Mountainview because she was certain she could "clean up the mess."

Lane knew her experience at Forest Glen and Rivers Catering would serve her well at Mountainview as would her earlier experience at Briarwood Country Club. She had worked there on a contract basis for nearly a year as an accountant with responsibility for reconciling the bank accounts and tracking inventory. She *knew* the right accounting procedures. All she had to do was implement them at Mountainview. "*I can fix it. I can do this.*" was her mantra.

Her love for accounting began with a temporary job at her father's real estate management company. Lane completed her undergraduate studies in pre-med with plans to become a doctor. She was a member of the women's golf team for four years as an undergraduate. Unfortunately, the time spent on the road with the team and in practice took too much time away from her studies. Her GPA and MCAT were not quite high enough for admission to medical school.

After graduating with her bachelor's degree, Lane spent the next eighteen months shadowing an OB-GYN thinking she might want to work as an assistant in his practice. Middle-of-the-night calls to deliver babies and other aspects of the specialty did not appeal to her.

Lane's dad knew she was feeling lost about a career path. He invited her to lunch and suggested she try some accounting work in his office. "You're good with numbers. Here's our QuickBooks manual. Just try it for a while . . ." Lane fell in love with accounting. She enrolled in the night program of a local community college, with a plan to take the courses required to sit for the CPA exam. After nearly five years of part-time night classes while working full-time at her dad's company Lane completed the courses required to sit for the CPA exam.

Just as she was finishing her coursework, Lane was offered the controller's position at Rivers Catering. There she gained experience in all aspects of the financial and accounting operations. Duties included preparation of financial statements and the company's income tax returns, as well as establishing strong internal controls with the objective of preventing misappropriation of assets. She put into practice the methods she had learned in her accounting courses. She worked closely with the firm's external CPA during the annual audits and during an audit by the state's sales tax division. Unfortunately, the long hours (often seven days per week) at Rivers Catering (and subsequently at Mountainview) prevented her from the intense studying required to adequately prepare for the CPA exam.

MOUNTAINVIEW COUNTRY CLUB

Mountainview Country Club was regarded as one of the best in the Rocky Mountains, aptly named for the stunning views of the nearby mountain range with 12,000 to 14,000 foot snow-capped peaks. Small streams fed by melting snow ran along the edges of the 18-hole golf course. In the late fall and winter through early spring, it was common to see elk and mule deer grazing on the course.

The Club was the center point of a 900-acre private country club and gated community which featured custom single-family residences and townhomes. The residential lots sold for \$115,000 up to \$950,000. Some larger acreage sites sold for \$300,000 to \$1,250,000. The luxury townhomes were in the price range of \$500,000 to \$750,000. Custom-built single-family homes were from \$750,000 to \$3.5 million. The 7,400 yard championship golf course was designed by a retired professional golfer, a winner of many national and international golf tournaments. Shortly after it opened, the course was named one of the "top 10" new private courses in the United States.

When the Mountainview development opened in 2003, it had somewhat modest facilities with a club house of 9,000 square feet and a Pro Shop of 400 square feet. Residential sales in the exclusive community skyrocketed, as did club memberships (costing \$35,000 to join and \$400 per month dues plus the cost of food/beverage). In the fall of 2008, Mountainview opened a new 24,000 square foot facility which cost \$8 million. It included an 18,000 square foot club house and a 6,000 square foot outdoor pavilion. The new club house was elaborate with lavishly appointed dining rooms, spacious locker areas, multiple bars/lounges, and a 1,200 square foot Pro Shop.

The décor in much of the club featured sports memorabilia from Mountainview University, a nationally-ranked powerhouse in all collegiate sports. The Club was in the unique position of using the university name and logo under a licensing agreement,

part of which specified the men's and women's golf teams could use the facility as their home course. The teams also held nationally-sponsored tournaments there—which helped grow membership in the Club and increase residential sales for the surrounding development. Because of the Club's strong ties to the university and use of the official logo, many people thought the university owned the Club and that the Club's employees worked for the university.

MOUNTAINVIEW PARTNERSHIP

Mountainview Country Club was established as a limited partnership by Robert Melton, Tom Dawson, and the Adams-Stanton Development Corporation. They spent nearly \$20 million initially to buy the land, build the clubhouse and golf course, and to develop the surrounding residential community. All of the capital was privately invested by the three members of the partnership.

Robert Melton was a “native son,” having grown up on a ranch in the Rocky Mountains. His first part-time job in high school was picking up lost golf balls at a country club. He earned a bachelor's degree in business from Mountainview in 1955 and then an MBA in 1960. Melton was well-connected at the state level, having worked as an intern in the state house two summers during college and later for five years in the governor's office. Melton served on the board of many non-profits, including the Athletic Foundation of Mountainview University.

Melton owned 55 percent of the Club partnership. By the time Mountainview opened, Melton had built more than 4,500 acres into residential developments, owned seven banks, and owned and operated five private country clubs in the Rocky Mountain region. His generous donations to Mountainview University gave him the connections needed to get the licensing agreement for the Mountainview name. Melton did not visit the businesses he owned very frequently. He was totally hands-off. Melton relied on his property managers plus a cadre of accountants, financial experts, and attorneys who provided high-level, overview reports. Melton was often quoted as telling his staff, “I don't want to hear about a problem. I just want to know when you've solved it.”

Tom Dawson was the second of the three partners in Mountainview. He was a multi-millionaire, who made most of his fortune in real estate development. He frequently said he was “in the right place at the right time.” In the 1990s, he expanded his firm's operations to Mexico and Europe. Not long after Lane began working at the club, some of the staff warned her to steer clear of Dawson, describing him as “the smallest partner (because he owned only 20 percent) . . . but with the one with the biggest ego.” Every time he went to Mountainview Club, he made unauthorized (and unbudgeted) expenditures for items costing \$20,000 to \$30,000 each. On one occasion he had a massive bronze eagle sculpted and placed at the entrance to the Club. Dawson was unconcerned about payment of the eagle's \$40,000 price tag. “I don't care what it cost. It's the University's mascot and a great tie-in for us.” He told anyone within ear-shot he was best friends with the head football coach, Larry Vance, and with the head men's golf coach, Thomas Roane. It was an unwritten rule—but well understood—for the Mountainview staff that the only person allowed to talk with Dawson was Hank Hughes, general manager.

Lane learned from other staff members that you did not want Dawson to know your name because he “chewed people up” when he was angry. Lane was on the receiving end of his anger about two years after she went to work at Mountainview. She had

placed a hold on the privileges of one of the Club members for non-payment of his account (more than \$5,000 several months past due). She learned the man was Dawson's friend when Dawson called and screamed at her, "Little lady, don't you *dare* cut off Club privileges for any of my friends. That guy is worth \$50 million! If any of my friends owe money to the Club, you call me and *I'll* collect it." Lane tried to explain, "I was just doing my job. I thought managing accounts receivable was my responsibility." Dawson fired back, "Not when it comes to *my friends!*" When the general manager, Hughes, found out Lane had spoken with Dawson, he was both angry and nervous. "No matter what he said . . . don't you *ever* call Dawson. When you have issues with past due accounts, you tell me and I'll handle it!"

The Adams-Stanton Development Corporation was the third of the three partners in Mountainview (25 percent interest). The firm was an international residential development company which specialized in high-end golf clubs and communities. It was founded in Canada in the early 1900s as a partnership between a carpenter (Donald Adams) and a general contractor (Barry Stanton). The two men built their company into an international business by the 1940s. By 2005, more than 150 Adams-Stanton communities were under construction in the United States. Industry experts frequently named the firm as the number one private home builder in North America. Harvey Johnston was vice president for the Rocky Mountain region of Adams-Stanton. He had been with the company for nearly fifteen years when the Mountainview partnership was formed. Johnston was appointed to represent Adams-Stanton in the partnership and to serve as the general partner (GP).

Johnston had a bachelor's degree in accounting and was a licensed CPA. Lane interacted with him frequently because he had primary responsibility for forecasting sales and preparing Mountainview's budgets. He also reviewed variance reports prepared by Lane and called her for explanations any time the actual financial figures deviated from his budget. At first Lane thought she could trust Johnston; he encouraged her to confide in him. But Lane found him moody and unpredictable and often wondered how he had gotten so high in the Adams-Stanton organization. He was a stereotypical accountant, always wearing black-rimmed glasses and carrying a mechanical pencil in his shirt pocket. Lane quickly realized he had no idea how to market Mountainview or how to manage and interact with people. He was devoid of social skills. Lane surmised his success was because he never said a negative word about Adams-Stanton or any aspect of Mountainview's operations. To Lane, Johnston seemed like someone who might have been "the nerd" in school, an outcast with few friends. Then, he got in with the "movers and shakers" at Adams-Stanton and was willing to do almost anything to run in those circles. He was, in Lane's opinion, a "yes man" who made certain his employers never had to deal with problems. Other staff employees at the Club told Lane that was how the partners wanted it. After the past-due account incident with Dawson, and Hughes reprimanding Lane, Johnston went in-person to see her and gave her stern instructions. "Don't you *ever* contact any of the partners . . . for any reason. That's the quickest way I can think of for you to lose your job."

HANK HUGHES, GENERAL MANAGER

"He's a piece of work," was Lane's assessment of Hank Hughes during her first week as controller at Mountainview. Hughes hosted a luncheon for the Club's administrative staff to honor them for accomplishments of the previous year. It was held at a posh

downtown restaurant and should have been a nice event. Lane had looked forward to the opportunity to visit with her new co-workers and other managers away from the office. She wondered why none of them seemed excited. Within thirty minutes after arriving at the luncheon, Lane understood. Hughes was already drunk . . . and, obnoxious. He made lewd remarks to the Club's female employees and insulted the men.

His obnoxious behavior was not limited to the Mountainview employees. He yelled at servers and the restaurant hostess and manager. Lane was certain the group would be kicked out. She was relieved when the meal was over. Hughes continued his bad behavior as he stood at the curb waiting for the valet to bring his car. Gesturing to a small sedan, he said, "Whose hunk of junk is this? Move it so I can have *my* Mercedes!"

Lane was told by co-workers Hughes got the general manager's position at Mountainview Golf Club through his friendship with the head basketball coach at the university, Zeke Tobias. They had roomed together in college and had been close friends for thirty years. Tobias was acquainted with Melton (majority partner in the Club). He persuaded Melton to hire Hughes (at an annual salary of \$200,000 plus perks). The Tobias-Hughes connection ran deep. The coach had also "made a place" for Hughes' son on the basketball team—even though he was a marginal player.

The rumor mill at Mountainview said Hughes was fired from his previous job at the largest country club in a neighboring state. The reasons ranged from sexual harassment to being drunk on the job. When Lane heard such stories, she never commented. She did wonder how he could have hidden his "true self" so well during her interview with him. During that time, he presented himself as both professional and knowledgeable about the country club business. She left the interview confident she would enjoy working for him. After the events at the restaurant, Lane had a few second thoughts about her new position but she was glad to have a job and thought she could stay out of his way and do some good for the employees and owners of the Club.

ALEXIS TATE-HUGHES, BUYER

At no time during Lane's interview with Hughes did he mention that his wife also worked at the Club. That relationship was one of their first points of contention. Alexis Tate-Hughes had the title of buyer and inventory manager for the Pro Shop. She was responsible for identifying the product mix, making purchases, receiving merchandise, stocking the store, and monitoring inventory. She also hired Pro Shop employees. Her work at the Club was her only job but Tate-Hughes was paid based on a monthly invoice she submitted as if she was a "consultant"—not as an employee.

Lane tried to persuade Hughes that the payment method was wrong. "You can't pay her as a consultant. That's for people who provide services to many different firms—like our external auditor, our CPA firm. Alexis is *not* a consultant. She's just like all the other employees,¹ she is *not* self-employed and the club should be paying the employer portion for social security taxes. If the IRS ever audits us, we'll be in a lot of trouble and will have to pay the taxes plus penalties and interest."

Hughes responded, "That's none of your concern." Lane fired back, "It *is* my concern because I sign the payroll tax returns. If you insist on paying her as a consultant, *you'll* have to sign them." Lane had been at Mountainview only two months. She could not believe she had a blow-up with her manager so soon after starting her new job. Lane talked with Harvey Johnston about the incident. As the GP and a CPA, she expected him to know the IRS rules on consultants versus employees. Instead, he tried

to make Lane feel she was incompetent. He asked how many hours of accounting she had as compared to his own coursework. Then, he told her firmly, “The partners approved this arrangement. So, Hank’s right. It’s *not* any of your concern.” Lane knew that the Club (or any other employer) did not get to choose the consultant versus employee status, but there was no use arguing with Johnston.

When they first met, Tate-Hughes told Lane she had no prior experience or training as a buyer. She earned a degree in interior design at Mountainview University where she met Hank. They dated in college and were married shortly after graduation. They had one college-age son who was on the basketball team at Mountainview. The Club’s compensation package for Tate-Hughes was nearly \$60,000 per year plus a “uniform allowance” (from the Pro Shop) and a food/beverage allowance. She was the only non-employee who received such perks.

Most of the employees at the Club told Lane they did not like to be around Tate-Hughes. She seemed more interested in dressing in the latest fashions and showing off her new jewelry than she was in doing her job. When she came to the Pro Shop to check stock and take inventory, she wore high heels and a short, tight skirt. She talked down to the Club staff.

FINANCIAL OPERATIONS AND CONCERNS

At the Club, Lane had extensive responsibilities for all aspects of the accounting functions—but with no staff. She was a “one-person shop,” responsible for preparing payroll and tax reports, budgets and variance reports, financial statements, membership tracking, and cash flow forecasting, as well as human resources. During her first four years as controller, Lane handled both accounts payable and accounts receivable causing internal controls to be non-existent. In her fourth year at the Club, Lane persuaded her manager to let her hire an AP/AR clerk to enter data into the accounting system, process credit card transactions, and assist with making bank deposits.

When Lane began as the Club’s controller, the only people who were authorized to sign checks were the GM and the GP. She talked with both men about “segregation of duties.” Their proposed solution was to give her signature authority on the bank account. She told her dad she was extremely nervous, “Adding me to the bank account only makes things *worse*—not better!”

The first two years at the Club were particularly trying for Lane. There were no standard accounting controls in place in any part of the operation. No one checked anyone else’s work. Department managers ordered whatever they wanted without regard to their budget. No one confirmed that items ordered were actually received—and used—at the Club. Reconciliations of bank accounts, receivables, and payables were almost non-existent. No one reviewed Lane’s work. She had the authority to enter transactions into the accounting system without anyone checking her entries. Lane was overwhelmed, not knowing which problem area to tackle first. Lane could not believe so many accounting functions were being handled improperly. When she talked with Hughes and Johnston about any of her concerns, their attitude was, “We’ve always done it that way and we’ve never had a problem. Just do your job like everyone before you did.”

Lane’s difficulties at work coincided with difficulties in her personal life. She and her husband divorced in her second year at the club, and Lane had to withdraw money

from her 401(k) retirement account just to make ends meet. Despite the unpleasant aspects of her work, Lane was glad to have a job.

She frequently “talked shop” with her dad; she needed a sounding board, someone who was knowledgeable about business. She told her dad, “I’ve heard people say it takes five to six years to get an organization like you want it—with qualified people in a good structure. But, I’d at least like to feel like I know what’s going on. So many of the numbers just don’t look right. They’re all over the place, with dramatic swings from month to month. None of it makes any sense.”

The Club reported annual revenues from memberships, annual dues, and food/beverage sales of approximately \$7 million but incurred net losses of about \$1.5 million almost every year. Every part of the operation seemed to be a “money pit” with expenses that were out-of-line. One glaring example was the cost of maintaining the golf course—\$1.8 million annually for the 18-hole course. Lane knew Forest Glen spent only \$800,000 per year to maintain its 27-hole course. Lane told her dad, “Something’s not right.” Her dad responded, “I’m certain you’ll figure it out, hon. You’ve got the analytical skills. Just remember—listen to your gut. If something feels wrong, it’s probably worth checking into.” Lane took her dad’s advice to “listen to her gut.” Thankfully, golf course maintenance was not her responsibility. The GM made it clear the day she interviewed and again when she was hired that her duties did not extend to the facilities and grounds. Lane was glad because she had her hands full tackling problems just in areas that involved inventory, sales, accounts receivable, and cash handling.

Food and Beverage

One of the first areas Lane scrutinized closely was the food and beverage operations which consistently lost tens of thousands of dollars every month. The first “red flag” for Lane came as part of a month-end close. She asked the food and beverage manager if he had any invoices to be booked for the month so she could record expenses and the associated liabilities owed to vendors. He said, “None.” Two weeks into the next month several vendors called Lane, asking why their invoices had not been paid. The Club owed them more than \$20,000. The same thing happened several months in a row, prompting Lane to do a three-year analysis of revenues and expenses.

She concluded the food and beverage manager was “stealing us blind.” Those were her words when she reviewed her report with Hughes. She was also certain the guy was getting kickbacks from vendors as enticements to buy their products. She told Hughes, “I’ve reviewed all the invoices, the sales figures and have done some spot checks of inventory on-hand. I am certain cases of wine and prime rib are *walking out the door*.” As general manager, he should have been worried. Instead, he seemed irritated she had prepared written documentation of the problems.

The action Hughes took to deal with the food and beverage situation was to hire a consultant, someone who was friends with the assistant food and beverage manager. During the ensuing weeks, Lane learned the consultant had been laid off from her job as food/beverage director of another country club. She had a lot of motivation to make Mountainview’s food and beverage manager look bad—and, she did. She wanted his position—and, she got it. All three of the Club’s partners told Hughes to fire the “thieving” food and beverage manager. Instead, Hughes demoted him, but made work so miserable for him that ultimately he resigned. During the new food and beverage manager’s first year, she cut the losses by half—down to less than \$30,000.

Cash Flow Issues

Cash flow became a serious problem after Mountainview's new club house was completed in the fall of 2008. The partnership had an \$8 million loan which required "interest only" payments during the first year. After that, they owed \$100,000 every quarter for the principal, with payments set up on automatic draft from Mountainview's operating account with Century Bank. The payments were due on the tenth of each month, but the draft was set up for the 1st of each month. Employees were paid on the first and sixteenth of each month. As April approached, Lane was certain they would not have enough cash to make both the loan payment and the payroll.

During the last week of March, she called a vice-president at Century Bank and asked if the auto draft could be changed just for April. She suggested the draft occur on the fifth for the first quarterly principal payment because they would not have enough cash for the monies to be taken out of the account on the first. He said, "Certainly. You're not going into default. If we draft on the fifth, you'll still be paying before the due date of the tenth."

Lane was glad the cash flow issue was resolved. She had been having nightmares about how she would explain to employees if they were not paid on the first of April. Just before noon on April 1, the president of Century Bank called Lane. He was upset. "What's happened with your \$100,000 draft? Why didn't it go through today?" Lane explained the situation and gave him the name of the vice-president who approved the change. Within minutes after the phone call ended, Hughes summoned Lane to his office. "What do you think you're doing? You don't have authority to change the date of the draft for our bank loan!" Hughes was yelling. "You made this decision without talking to me. How dare you jeopardize the loan? You're being insubordinate!"

Lane defended herself. "I was being pro-active and I solved a potentially huge problem. It was better for the bank to draft on the fifth . . . instead of a draft on the first not clearing . . . or, to have our employees' paychecks bouncing all over town." As Lane left his office, Hughes was still screaming after her, "*I run this Club. You don't run this Club!*"

Pro Shop Inventory

In addition to on-going cash flow problems, Lane worried about inventory and overall operations of the Pro Shop. Lane had never felt comfortable talking with her supervisor, Hank Hughes, about her concerns because his wife was the manager there. She tried several times to talk with Johnston. "He's a CPA; he'll get it." Instead, he told her, "You're just imagining things. You're not responsible for inventory anyway. Drop it." Lane responded, "I *am* responsible for inventory. I'm the controller. You and I both have a fiduciary duty to protect *all* the assets of this Club—particularly since you are a licensed CPA and I want to be one." Lane did spot checks and counted inventory herself. It confirmed her suspicions about shortages and likely theft from the Pro Shop.

Six months after starting at Mountainview, Lane had called Russell Farthing, former controller at the Club. She had enjoyed working with him during the time he trained her and felt he was a straight-shooter. She asked him directly why he left Mountainview. He had a one word reply. "Alexis." His concerns were the same as Lane's about inventory and management of the Pro Shop.

As Lane began her third year at the Club, she decided it was time to tackle the inventory issues in the Pro Shop. She knew it would be ugly because the manager of that area was the GM's wife. Lane scheduled a meeting with Tate-Hughes to review the

Pro Shop's latest monthly financial statements. The meeting was frustrating. Each time Lane asked Tate-Hughes to explain something about the inventory or cost of goods sold numbers, she could tell Tate-Hughes did not understand.

The concept of inventory turnover and comparisons to industry averages seemed completely foreign to her. Lane asked: "What does it mean to you when I tell you we have a 30 percent profit margin in the Pro Shop?" Tate-Hughes snapped back, "That's your thing. You're the accountant . . . figure it out."

Lane showed the balance sheet and income statement to Tate-Hughes and asked, "Do you even understand cost of goods sold?" Tate-Hughes said, "I know it costs something and we sell it for something higher. This is not my deal . . . *you're* the number cruncher!" Lane barely controlled herself when she replied, "No, *you're* the buyer and inventory manager. You *should* know everything about inventory, cost of goods sold, and gross profit. You should know the right inventory level and turnover numbers for a pro shop this size. I shouldn't have to do *your* work."

Inventory turnover for the Club's Pro Shop was *less than* once per year. The first time Lane calculated the ratio, she could not believe it. She thought she might have made a mistake but her number was correct. During the meeting with Tate-Hughes, Lane tried to explain that an inventory level of \$300,000 (cost) was *two to three times higher* than it should be. Lane knew first-hand about pro shop operations from her work at Forest Glen and she recently benchmarked with other clubs in the area. Part of the inventory issues were because Tate-Hughes bought only the most expensive product lines (such as Ralph Lauren and Burberry). "That kind of inventory gets out-of-date very quickly. Styles change and no one wants it." Lane went on to explain the turnover figure should have been a minimum of 2.5 times per year. She ended the meeting and told Tate-Hughes: "We will be putting new inventory control procedures in place. I'm talking to Hank about it."

Lane's meeting with the GM, Hughes, about the Pro Shop was difficult, but she finally persuaded him to require monthly inventory counts. Lane wanted independent counts done by someone else but Hughes insisted his wife was responsible. "Like the fox guarding the hen house," was Lane's thought. She had to accept Tate-Hughes' involvement but was glad she would have some physical counts to compare to the perpetual inventory records in the accounting system. Lane set up a ledger account for "Inventory Shrinkage/Overage" to record the difference when the physical count did not match the accounting records.

Inventory Procedures and Reporting

After the new procedures were implemented with monthly physical counts, the Pro Shop was *always short* when comparing the counts with the amounts in the ledger. The shortages ranged from \$5,000 to \$15,000 per month. Tate-Hughes was never able to explain why the quantities and cost of inventory in the Pro Shop were so different from the accounting records. Her standard response was, "Inventory must be at the monogrammer's. There's a lot of stuff at her place." Lane considered calling or going in-person to the monogrammer to determine if she had any Pro Shop inventory. But Lane felt it would not have made a difference. Hughes would have defended his wife and likely would have ordered Lane to forget about the Pro Shop inventory.

Lane compared the physical counts (and reported cost) at month-end to the "inventory" ledger account balance and recorded the difference in "inventory shrinkage/overage." Hughes hit the roof every month when he saw the dollar amounts of the

monthly inventory shortages. His reaction was always the same. Every month he called Lane into his office and screamed at her, “This can’t be right. *Your counts are wrong.*”

Lane was certain the inventory shortages were accurate. The sales and cost of inventory sold were transmitted to the ledger via accounting software tied to the cash registers. Tate-Hughes and her Pro Shop staff also recorded inventory purchases in the accounting system. Bar codes with SKUs were affixed to each item, scanned, and the cost was entered manually. When items were sold, the bar codes were scanned and automatically taken out of the inventory through the accounting system. The process resulted in a continuously updated count and cost in the “inventory” account in the ledger.

In order to assure adequate disclosure of the inventory shortage, Lane’s strategy became one of recording the estimated inventory losses of \$5,000 to \$15,000 per month as a separate line item on the monthly income statement. She felt this approach documented the losses in writing and put the users of the financial statements (including management and the partners) on notice about Pro Shop inventory. Lane hoped such reporting would protect her if anyone ever inquired about financial improprieties. She could say, “It was all there in the reports.” Neither Hughes nor Johnston ever told Lane to stop reporting inventory losses on the monthly income statements. Lane doubted the Club’s three partners ever saw her line-item detail of inventory losses. She had been told multiple times that majority owner Melton only wanted high-level reports from the managers of his investments and properties.

Each month Lane explained the procedures and perpetual inventory system and emphasized that Tate-Hughes and her staff handled all aspects of the inventory; so, the figures in the ledger resulted from transactions done in the Pro Shop. Hughes’ reaction was, “Then, the physical counts must be wrong. You work with Alexis and figure it out.” During one meeting with both Hughes and Tate-Hughes, Lane told them: “This isn’t rocket science. You buy at a certain cost, add a mark-up, and sell it. You count the inventory on-hand and that should match the numbers in the ledger.” When she recounted that meeting to her dad, Lane fumed, “Hank brags about being a finance major, but it sure doesn’t seem like he has any understanding of even basic accounting.”

More Controls Implemented

The inventory shortages continued and Tate-Hughes accused the janitorial service of stealing inventory. After hearing the same excuse for several months, Lane notified Hughes she was not renewing the janitorial contract and was hiring a new company. She told him, “If Alexis thinks the janitorial employees are stealing, we’ll get a different group . . . and, see if things improve.”

It was near the end of Lane’s third year at the Club. She decided it was time to implement more access controls. She wanted all the locks changed—to re-key every door in the facility. Hughes was against it and kept making excuses not to change the locks. Finally, Lane told him, “I’m having the entire place re-keyed and I’m changing policies on who gets master keys. There are *way too many* of those floating around. Only you and I will have master keys. *I’m tired of everyone having keys to my office.*”

Lane also had a surveillance system installed. She hired one of the best security firms in the region to place multiple cameras inside the Pro Shop and near the entrance and exit. The digital video system kept a record of all activity for a week at a time and there was a real-time monitor set up in Lane’s office. At all times she was able to watch activity in and near the Pro Shop.

After the locks were changed and the cameras were installed, the inventory shortages dropped to \$1,000 to \$1,500 per month. Those amounts still bothered Lane because they totaled \$12,000 to \$18,000 per year. But at least the losses were lower.

EXTERNAL AUDIT

Since the inception of the Club, the partnership had required an external audit of the accounting records. The work had been done annually by Rotan-Landry-Morris (RLM), a regional CPA firm. Lane was told the partners might want to sell the Club at some future date and felt that having an annual audit would be beneficial. She had been uncomfortable with the relationship between RLM and Hughes. The GM frequently gave football tickets for Mountainview games to the RLM partners and invited them to special events before and after the games. He also did a “trade” for part of their audit services. The total audit bill should have been \$30,000 each year. Instead, RLM billed the Club for only \$20,000 and the balance of \$10,000 was used by RLM for greens fees to play golf at the Club. RLM partners often played with Mountainview college coaches and players.

Early in the spring of 2009 (Lane’s fourth year at the Club), it was time for the external audit. Josh Barton was a new auditor assigned to manage the Club’s audit. He was new to RLM and also relatively new in his career as an auditor. It was his first “in charge” assignment. He was enthusiastic and wanted to do a thorough job. Lane was impressed with him the first day they met for their entrance conference. “Is Mr. Hughes not joining us today?” Barton asked. “I think it’s a good idea to include the general manager in the entrance conference.” Lane explained that Hughes had other commitments. She knew his absence was really because of disinterest. He told her before the meeting, “You handle it. There’s nothing new about audits I need to know.”

During the entrance conference, Barton said RLM had recently added more steps in their audit procedures. The additional steps were designed to assure they were meeting the profession’s requirements to plan for and look for fraud.² He asked Lane, “Are there any particular areas of concern you have?”

“You should look at inventory in the Pro Shop. It has been a moving target the entire time I’ve been here. It took me three years to convince the GM we needed to require monthly physical counts to compare to the ledger records. We made that change last year, the year you’re auditing now, and we also installed a surveillance system. Losses have decreased but I’m still nervous about it.”

Barton expressed surprise at hearing the GM’s wife was responsible for buying and inventory in the Pro Shop and that shortages had been so large over such an extended period of time. He also agreed with Lane’s concerns about paying Tate-Hughes as a consultant. He was adamant, “That will never fly with the IRS!”

During his first day of audit work, Barton went to the Pro Shop and asked Tate-Hughes to see inventory items identified in his audit sample. More than half of the items were missing. Her explanation was, “We always have lots of inventory at the monogrammer’s.” Lane was pleased when Barton asked her for the monogrammer’s phone number and address. “At last,” she thought. “Somebody who’s going to chase this down and figure out what’s going on.” At times, Lane had wondered if the merchandise ordered from vendors ever made it to the Pro Shop. She conjectured that much of the missing inventory might have been shipped directly to the Hughes residence. Would a surprise visit find boxes of golf shirts, slacks, and accessories stacked

high in their garage? Or, maybe it was shipped directly to an off-site warehouse from which Tate-Hughes sold the stuff on eBay. “I’ve got to stop thinking like that. My imagination is getting the best of me.”

Four days into the audit, Lane asked Barton whether the monogrammer had a significant amount of inventory at her place. Barton changed the subject. Later in the day, Lane tried a different approach, asking, “Would you like me to get in touch with the monogrammer or drive over there with you?” His response was curt, “Can’t do it today. I’ve got to complete my review of your bank reconciliations.” Over the next several days Lane inquired about the Pro Shop inventory, but Barton changed the subject. His refusal to answer Lane’s direct questions was in high contrast to his initial agreement with Lane that inventory sounded like an area needing review. Lane suspected Barton had been given orders from somebody higher up at RLM to back off the inventory issue. Was it possible one or more of the partners of the CPA firm was protecting Hughes and his wife?

She felt helpless and thought, “If the external auditors are willing to look the other way, what can I do?” Lane recalled discussions in several of her accounting classes about “going up the chain of command” to report serious issues or concerns. But she had done that and was rebuffed. She also recalled her accounting teachers saying concerns about the competence or professionalism of external auditors could be reported to the State Board of Public Accountancy or to the American Institute of CPAs. However, a report to the State Board could *not* be done anonymously and Lane worried about the potential for adverse impacts on her career. She thought, “I want to be a CPA some day and have a good job at a reputable firm in this area. If I report RLM now to the State Board, later on someone at RLM might keep me from achieving my own career goals.” Lane knew she had a fiduciary duty to protect the assets of her employer. “I’m not naïve about accounting procedures or options for reporting my concerns. But, I’m tired. If the Mountainview partners don’t care about financial issues and their own assets, what can I do?”

ANOTHER INVENTORY BLOW-UP

For the next twelve months, Lane tried not to worry too much about the Pro Shop inventory. The shortages were about \$4,000 per month. She told her dad, “I’m just going to do a really good job of getting memberships collected so I can pay the bills and prepare the financial statements. If Alexis is stealing from the Club, that’s someone else’s problem.”

At the end of March, the inventory numbers came in from the physical count in the Pro Shop. Lane reviewed the receiving reports for merchandise received in the Pro Shop and compared those figures to invoices from the vendors. There was a problem with several of the invoices for merchandise from Burberry and Ralph Lauren. The invoices showed cost figures of \$50–\$60 per item but the amounts entered in the accounting system reflected \$10 per item.

After carefully reviewing all the documentation, Lane called Sissy, the intern who worked for Tate-Hughes. “I’ve got an invoice here and it shows the cost of the pants on this SKU is \$60. But, the accounting records were entered for \$10. Is there a problem with the data entry . . . or, am I looking at something wrong?”

Sissy said Tate-Hughes told her to enter the pants at \$10 with an explanation that the difference had to do with quantity discounts. “Alexis told me they had some special

deal for 'buy one, get one free.' So, I was supposed to enter the cost at \$10. I was just doing what I was told. I'll come walk you through it if you want."

"That's not necessary, Sissy. I'm sure I'll figure it out," Lane reassured her. Sissy had recently graduated from Mountainview and seemed honest. Lane did not want Sissy to feel her integrity was being questioned. But, it was easy to see something was wrong. "Buy one, get one free" for slacks costing \$60 equated to an average of \$30 per pair—certainly not \$10 per pair.

Less than ten minutes had gone by after Lane's phone call to Sissy when Tate-Hughes charged into Lane's office. Tate-Hughes had been nearly impossible to work with for the five years Lane had been controller at the Club. But, today was different. She cursed at Lane and screamed, "*I'm going to make sure you don't work here anymore!*"

WHAT TO DO NOW

Lane thought back to her annual performance review just three weeks earlier. Hughes rated her "exceptional" in every category plus gave her a large bonus. Now his wife threatened Lane with the loss of her job. As the Club's controller, Lane had fought an uphill battle for nearly five years to put sound accounting procedures in place, but had gotten no support from her supervisor, Hank Hughes. When she had raised concerns about financial issues with the GP Harvey Johnston (himself a CPA), he told her it was none of her business. After the current threat from Tate-Hughes, Lane had a mental argument with herself about the actions she could take now. Lane wondered if she should try again to talk with Johnston. Possibly she should send a letter or call one or both of the Club's other partners. Robert Melton, who owned 55 percent of the Club partnership, should be concerned about what seemed to be obvious financial improprieties and the loss of what she estimated to be hundreds of thousands of dollars over several years. Even though Adams-Stanton had only a 25 percent interest in the Club, that portion of Lane's calculation of financial losses was significant. Yet, based on her prior experience with Hughes and Johnston, Lane felt she would get no support from anyone in the Club's organization or any of the partners. How could they not care about losing so much money?

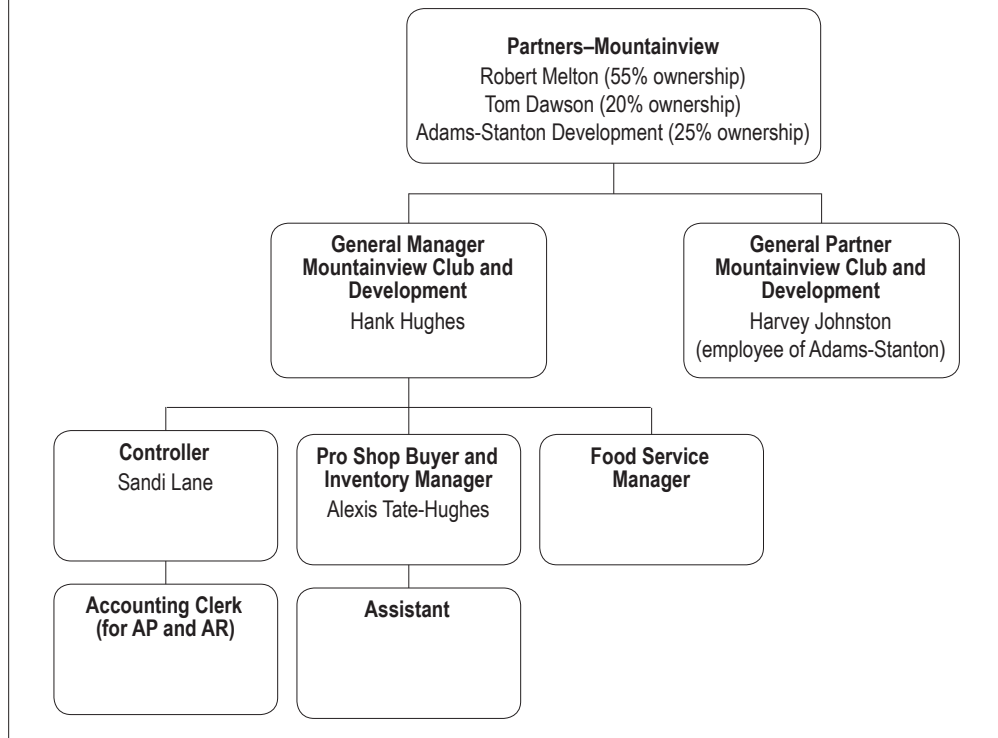
Maybe it was time to go elsewhere. Should she contact a professional accounting organization? Lane remembered from her accounting classes that professional organizations such as the American Institute of CPAs, the Institute of Management Accountants, and the Association of Certified Fraud Examiners might help advise her even though they had no authority over the situation. Another option was to report her concerns about financial misdeeds to an agency with legal authority such as the state board of accountancy or the Internal Revenue Service. For certain, insistence by Lane's supervisor that his wife be paid as a consultant for managing the Pro Shop violated IRS requirements. But was the amount large enough for that agency to launch an investigation? Lane had read that, because of limited staffing, the IRS only investigated "big" cases. Another possible action was to report the external auditors and Johnston to the state board of public accountancy. That agency should be concerned that CPAs were not following audit standards and Johnston certainly had not fulfilled his fiduciary duty to the Club.

In considering the many options, Lane wondered what impact her chosen course of action would have on her accounting career and plans to become a CPA. She worried that if she resigned or soon got fired, she might be blamed for the financial

improprieties. Either a resignation or a firing would prevent her from accessing records that could prove she had done everything possible to assure financial transactions and reports were accurate and that she had fulfilled her own responsibilities to the Club. Lane also knew that choosing to file a report with either the IRS or the state board of accountancy would make her a whistleblower. Such an action would put her on a lonely path requiring significant emotional strength and an extended time commitment. She also worried about how she would pay her mortgage and other monthly bills if she lost her job. She did not have any savings. It likely would be difficult to get another job any time soon. She wanted to make the right decision, but Lane felt she was in a lose-lose situation. She muttered to herself, “No matter what I do . . . I guess I’ll be unemployed soon.”

Exhibit A: Timeline for Sandi Lane’s Accounting Career and Accounting-Related Events at Mountainview	
(In reverse chronological order)	
April 2011	Confronted by Tate-Hughes regarding inventory at Pro Shop.
March 2011	Pro Shop inventory cost in ledger did not match with invoices.
2010	Mountainview GM Hughes allowed Lane to hire clerk.
Spring 2009	RLM annual audit with new in-charge manager. Lane alerts him to inventory concerns in the Pro Shop.
Fall 2009	Bank loan requirements began for principal and interest payments, causing cash flow problems with potential impact on payroll.
December 2008	Lane had all locks changed in the club (including the Pro Shop and accounting office) and limited number of master keys. She also had a surveillance system installed. Losses in the Pro Shop decreased, but were not eliminated.
Fall 2008	Tate-Hughes accused Mountainview’s janitorial service of stealing Pro Shop inventory. Lane hired a new janitorial service.
Fall 2008	Mountainview opened new \$8 million clubhouse and pavilion; interest-only payments on the bank loan required for the first year.
Early 2008	Mountainview GM agreed to required inventory counts in Pro Shop.
Fall 2007	Lane’s divorce finalized.
December 2005	Lane hired as controller at Mountainview Country Club; hired by and reported to the general manager Hank Hughes.
2004–2005	Controller at Forest Glen Country Club.
1999–2003	Controller at Rivers Catering.
1998	Worked as accountant (contract labor) at Briarwood Country Club; responsible for reconciling bank accounts and tracking inventory.
1993–1997	Assisted with accounting work at father’s real estate company while taking accounting classes part-time at a local community college.
Mid 1991–1992	Shadowed OB/GYN with plans for medical assistant career.
1991	Graduated with bachelor’s degree in pre-med.

Exhibit B: Partners and Organization Chart, Mountainview Country Club (2011)



NOTES

1. Refer to the Internal Revenue Service website for that agency's explanation of the difference between a contractor (self-employed) and an employee. www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Independent-Contractor-Self-Employed-or-Employee.
2. American Institute of Auditing Standards, Statement 99 requires auditors to plan for and document their plan to identify fraud during an audit engagement.