



Memorandum

To: Honorable Mayor and Members of the City Council

From: Patrice Randle, City Auditor *P. Randle*

Subject: Golf Operations Audit - **REVISED**

Date: August 24, 2012

The attached report supersedes the original version of the Golf Operations Audit issued by the City Auditor's Office on May 11, 2012.

Subsequent to the issuance of the original audit report, Parks management expressed a need to revise their initial responses. Although initially not concurring with some of the audit recommendations, Parks stated that the implementation of some of the audit recommendations could actually improve golf operations.

The City Auditor's Office has, therefore, revised the original report by replacing management's initial responses with the updated responses. All audit findings and conclusions made in the original report remain unchanged.

Attachment

**Golf Operations Audit
August 2012**

Patrice Randle, City Auditor
Craig Terrell, Assistant City Auditor
Michelle Brown, Staff Auditor

Golf Operations Audit Table of Contents

	<u>Page</u>
Executive Summary	1
Audit Scope and Methodology	3
Background	3
Detailed Audit Findings	11

Golf Operations Audit



Office of the City Auditor
Patrice Randle, CPA
City Auditor

Project # 10-11

August 24, 2012

Executive Summary

The Golf Division has reduced its reliance on the General Fund subsidy but still operates at a net loss

Management should increase oversight of the Golf Division by establishing more specific performance goals

Opportunities for Improvement

More accurate recording within golf software

Better utilization of golf software

More effective performance monitoring

Marketing Plan

Tournament booking services

As part of the Fiscal Year 2010 Annual Audit Plan, the City Auditor's Office conducted an audit of Golf Operations. The audit was conducted in accordance with generally accepted government auditing standards, except for peer review. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The objectives of this audit were to determine whether:

- the Golf Division has implemented practices that maximize utilization and profitability of City golf courses;
- private lessons are properly accounted for and cost effective;
- City golf operations are in compliance with the Parks and Recreation Department's cost recovery model; and
- appropriate controls have been established over discounts and coupons.

The Golf Division is included as part of the Parks Performance Fund. Historically, the General Fund has provided the Parks Performance Fund with a subsidy that exceeds \$2 million per year. Although not specifically separated for presentation in the City's Comprehensive Annual Financial Report (CAFR), Golf Division revenues have not exceeded expenditures in recent years. However, the City Auditor's Office noted that the Golf Division has been successful in decreasing net losses from golf operations, despite a reduction in the number of rounds played in recent years.

Nationwide golf participation rates have decreased over the past several years and it is generally believed that there is now an abundance of public and private courses competing for a shrinking market. While the Golf Division can be commended for developing, maintaining and operating award winning courses, the City Auditor's Office did find opportunities where management could increase oversight and strengthen internal controls over revenue and course operations.

The City Auditor's Office noted that the Golf Division does not utilize the point of sale (POS) system for historical analysis and management of course utilization data on a day of week/time of day basis. Instead, the Division inputs summarized data into Excel spreadsheets to monitor and track performance. While this provides management with summary results, it does not allow for more specific data analysis that may be useful to identify trends by day of week/time of day. Such analysis could lead to a better understanding of when to offer incentives to increase play.

Parks and Recreation Department management has not established specific goals related to revenue expectations for the Golf Division, including the use of discounted prices for rounds of golf and for merchandise sold in the pro shops. For example, the City Auditor's Office noted that the Golf Division frequently charged some golfers the course twilight rate (reduced fees for late afternoon/early evening hours) for morning play, charged the annual pass greens fee rate to non-annual pass holders, and charged non-seniors the reduced senior greens fee rate. Management oversight and internal control could be strengthened if specific revenue goals and expectations were established and monitored.

The Golf Division does not have a formal, directed marketing approach. The Golf Division has focused its advertising efforts on newspaper and radio ads, co-hosting radio shows, digital billboards, e-mail blasts and promotional coupons through Ideal Golfer and other golf-specific publications. While the Golf Division feels it has been successful in attracting new players to Arlington courses, the City Auditor's Office noted that the Golf Division does not have an individual dedicated to collecting, interpreting and presenting data to help determine the effectiveness of its marketing strategies and guide additional enhanced marketing efforts.

The City Auditor's Office noted that the Golf Division has had an unwritten contract with a tournament booking services vendor since 2005. Management indicated that as a part of the tournament booking services, the vendor is responsible for negotiating tee times/prices and establishing extra services that may be desired for any tournament. The City Auditor's Office noted that the Golf Division did not compare or reconcile tournament revenue as recorded on the contractor's invoice to revenue recorded in the Pro-Shop Keeper (PSK) system before authorizing payments to the vendor. Therefore, a risk exists that the vendor could overcharge for tournament bookings and not be detected.

The City Auditor's Office also noted weaknesses in internal controls over annual passes, the monitoring of private lessons, the recording of summer clinics, and the recording of merchandise purchased for resale.

Finally, although the City has established a formal cost recovery policy for the recreation centers, one has not yet been established for the Golf Division. Establishing specific financial performance expectations for the Golf Division may help ensure that cost recovery goals are met.

Audit Scope and Methodology

Documentation, correspondence and transactions from FY2009 through FY2011 were included in the scope of this audit.

The audit was conducted in accordance with generally accepted government auditing standards, except for peer review. The following methodology was used in completing the audit.

- Interviewed staff within the Golf Division to gain an understanding of the policies and procedures over sales, operations, lessons, customer service and tournaments
- Obtained access to data from PSK, utilized by the Golf Division to reserve tee times and record sales of greens fees, rentals and merchandise
- Performed analysis on the PSK data to identify anomalies and opportunities for improved internal controls
- Reviewed current marketing efforts and discussed potential enhancements with management
- Reviewed and tested sales transactions to ensure that discounts, coupons and special offers were offered and recorded in accordance with written policies
- Verified that employees received pay for providing golf lessons in accordance with written City policy

Background

The mission of the Parks and Recreation Department is to provide quality facilities and services that are responsive to a diverse community and sustained with a focus on partnerships, innovation and environmental leadership. The Golf Division is part of the Parks and Recreation Department and is dedicated to being environmentally responsible by following Audubon International's Principles for Sustainable Resource Management, which include wildlife conservation and habitat enhancement, energy efficiency and water conservation.

The Golf Division operates four golf courses (three 18-hole courses and one nine-hole course) at different locations throughout the city. The four golf courses operated by the Golf Division are Chester W. Ditto, Lake Arlington, Meadowbrook and the Tierra Verde Golf Club. Each golf course is unique and offers its own amenities. The City also operates three full-line pro shops and the Ventana Grille, a restaurant at the Tierra Verde Golf Club.

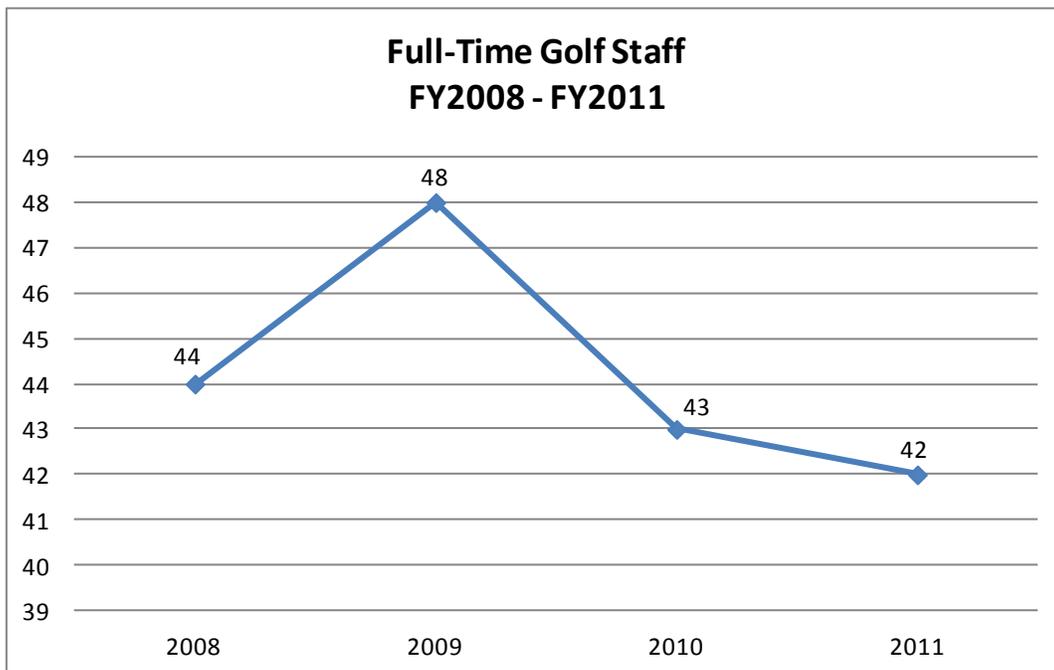
The Golf Division is generally divided into two categories: golf course operations and pro shop operations. With the exception of the Meadowbrook Golf Course, every golf course has an accounting unit for each category (operations and pro shop). Meadowbrook only has one accounting unit due to it being a smaller golf course. In addition to the golf course and pro-shop categories, restaurant operations are included at the Tierra Verde Golf Club to account for Ventana Grille operations. In FY2008, pro-shop accounting units were combined with golf course operations for each course. However, in FY2009, separate accounting units for pro-shop operations and golf course operations were restored.

Golf revenue is generated through greens fees, cart rentals, golf club rentals, lessons and clinics, pro-shop sales and food and beverage sales. Expenditures vary throughout the Golf Division, but the largest expenses are for water, sewer and garbage service, items for resale (including merchandise and food and beverage) and botanical supplies.

As mentioned in the Executive Summary, the Golf Division operates from the Parks Performance Fund which allows the Golf Division to recover the costs of programs through revenue. Additionally, the Golf Division is able to reinvest in those revenue-generating programs. The General Fund provides an annual subsidy to the Parks Performance Fund in the form of an inter-fund transfer of approximately \$2.3 million.

Staffing

According to management, the Golf Division operates with a very lean workforce. The following chart shows that all four golf courses, pro shops and the Ventana Grille function with a total of approximately 40 full-time employees. Annual salaries and benefits are approximately \$2 million.

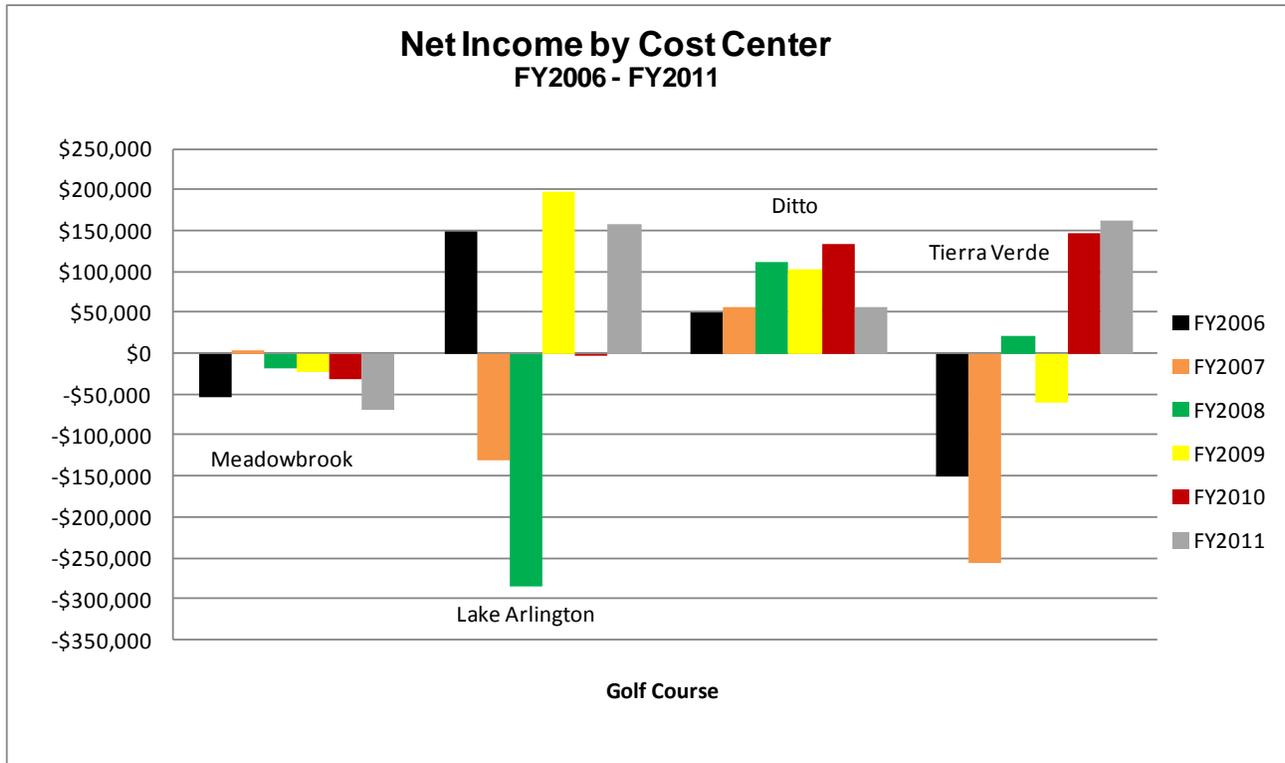


Source: Parks and Recreation Department

In addition to full-time staff, the Golf Division utilizes part-time and seasonal employees, and volunteers. Part-time and seasonal positions include Cart Attendants, Clubhouse Attendants, food and beverage workers and general maintenance workers. The Guest Services Assistant is a volunteer position at each course that is responsible for providing course information, monitoring the pace of play, enforcing course rules and regulations, and providing assistance to customers and course staff as needed. In exchange for their volunteer efforts, Guest Services Assistants receive one complimentary round of golf for each four to six-hour (eight hours at Tierra Verde) shift they work. Complimentary rounds are provided at the specific golf course where the Guest Services Assistants volunteer.

Profitability

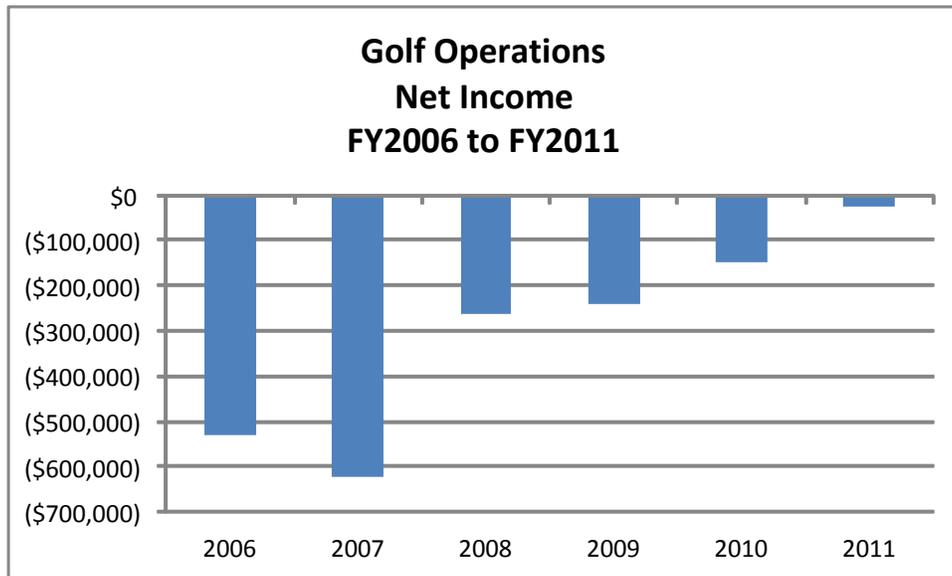
Although separate accounting units have been established to account for golf course and pro-shop operations, the Golf Division has indicated that they prefer to look at each golf course as a cost center to determine net position. The following chart shows net income for each golf course. It should be noted that the Lake Arlington Golf Course was closed during portions of FY2008 and FY2009 due to renovations.



Source: Lawson Financial System

The Golf Administration accounting unit is used to record expenses such as administrative salaries and benefits, advertising and supplies. Revenue for the Hooked on Golf Program and miscellaneous items are also recorded within the Golf Administration accounting unit. The above chart shows the results of operations without any allocation of administrative expenses from the Golf Administration accounting unit. In FY2009, revenue from a settlement and gas lease helped contribute to a profit within Golf Administration.

The following chart shows Golf Division net income for FY2006 through FY2011.



Source: Lawson Financial System

The above chart was adjusted to remove the following income not associated with golf operations.

- \$250,076 of income in FY2008 and \$299,993 in FY2009 related to a settlement payment as a result of Tierra Verde construction issues
- \$180,000 in revenue in FY2009 related to natural gas surface use and pipeline license revenue

In addition, the following items impact the year-to-year comparison and should be noted.

- The Golf Division was not required to pay its annual debt service obligation in FY2008 or FY2010. Such payments would have been approximately \$530,000 each year. In FY2011, Parks paid the debt service obligation.
- The net income charts do not include greens fee surcharges that were collected and deposited in the Parks Capital Projects Fund and used to pay debt service requirements. Except for fiscal years 2008 and 2010, debt service payments exceeded the surcharge fees collected. In FY2010, \$118,031 in surcharge fees were recorded in the Parks Capital Projects Fund and not returned to the general fund although no debt service was paid. In FY2008, \$409,538 in surcharge fees were returned to the Golf Fund Wide accounting unit since the debt service requirements were waived.

The charts above also include \$10,000 in Arlington Tomorrow grants provided to the Ditto, Lake Arlington and Tierra Verde golf courses to purchase organic fertilizer silos.

Description of Courses

The following section provides a description of each of the City's four golf courses and provides a summary of operating results for FY2006 through FY2011. As indicated earlier, the operating results presented do not include any allocation of Golf Administration expenditures or Parks and Recreation indirect expenses. However, the results can be used to obtain a general idea of the

profitability of each course. As previously noted, accounting units for course operations and pro shop operations were combined in FY2008. Accounting units were separated again in FY2009.

Chester W. Ditto Golf Course

The Chester W. Ditto Golf Course is located in north Arlington on 164 acres. The course opened in 1982 and its amenities include a driving range, practice putting green, chipping area and clubhouse that offers a snack bar and full line pro shop. Private and group lessons are also available and taught by Professional Golfers' Association (PGA) professionals and apprentices.

As shown in the following chart, Chester W. Ditto Golf Course Pro-Shop revenue regularly outpaces expenditures, while golf course operations show a net loss.

Ditto Golf Course Net Income						
FY2006 - FY2011						
	2006	2007	2008	2009	2010	2011
Golf Course						
Revenue	\$ 523,789	\$ 486,112	\$ 1,153,775	\$ 547,147	\$ 574,596	\$ 583,450
Expenditures	564,308	531,293	1,036,683	593,613	588,963	674,232
Net Income	\$ (40,519)	\$ (45,181)	\$ 117,092	\$ (46,466)	\$ (14,367)	\$ (90,782)
Pro Shop						
Revenue	\$ 480,241	\$ 460,781	\$ -	\$ 510,541	\$ 480,366	\$ 533,726
Expenditures	390,191	359,171	4,682	361,746	331,968	386,646
Net Income	\$ 90,050	\$ 101,610	\$ (4,682)	\$ 148,795	\$ 148,398	\$ 147,080
Total Net Income before Administrative and Debt Service costs	<u>\$ 49,531</u>	<u>\$ 56,429</u>	<u>\$ 112,410</u>	<u>\$ 102,329</u>	<u>\$ 134,031</u>	<u>\$ 56,298</u>

Source: Lawson Financial System

Lake Arlington Golf Course

The Lake Arlington Golf Course is located in west Arlington on 185 acres. The 18-hole, par 71 course opened in 1963, and has undergone two redesigns since. The course was restored in 1989 after a flood. The renovation included an overhaul of the Hole 2 green and reengineering of some ponds and drainage across the course. More recently, the Lake Arlington Golf Course underwent a remodel that included a complete restoration of all greens and fairways. The remodel, completed in 2009, also included some elevation changes and improvements to the putting surfaces. The course offers various amenities including a putting green, chipping area and clubhouse with a full line pro shop and small café with patio seating overlooking the 18th hole. As previously noted, the Lake Arlington Golf Course was closed during portions of FY2008 and FY2009 due to renovations.

Lake Arlington Golf Course Net Income						
FY2006 - FY2011						
	2006	2007	2008	2009	2010	2011
Golf Course						
Revenue	\$ 514,541	\$ 506,348	\$ 634,063	\$ 570,486	\$ 467,953	\$ 549,171
Expenditure	<u>496,785</u>	<u>515,176</u>	<u>917,187</u>	<u>575,708</u>	<u>572,398</u>	<u>571,894</u>
Net Income	\$ 17,756	\$ (8,828)	\$ (283,124)	\$ (5,222)	\$ (104,445)	\$ (22,723)
Pro Shop						
Revenue	\$ 531,295	\$ 521,951	\$ -	\$ 576,602	\$ 415,951	\$ 496,348
Expenditure	<u>399,904</u>	<u>398,929</u>	<u>1,195</u>	<u>373,441</u>	<u>312,691</u>	<u>317,102</u>
Net Income	\$ 131,391	\$ 123,022	\$ (1,195)	\$ 203,161	\$ 103,260	\$ 179,246
Total Net Income before Administrative and Debt Service costs						
	<u>\$ 149,147</u>	<u>\$ 114,194</u>	<u>\$ (284,319)</u>	<u>\$ 197,939</u>	<u>\$ (1,185)</u>	<u>\$ 156,523</u>

Source: Lawson Financial System

Meadowbrook Golf Course

The Meadowbrook Golf Course, located in central Arlington, is the City's oldest course. Opened in 1924, the nine-hole walking course is also the smallest course with 26.96 acres. Meadowbrook offers concessions and a full line pro shop.

The following chart shows revenue and expenditures for the Meadowbrook Golf Course and pro-shop for FY 2006 through 2011. Each year, with the exception of 2007, expenditures have exceeded revenue.

Meadowbrook Golf Course Net Income						
FY2006 - FY2011						
	2006	2007	2008	2009	2010	2011
Golf Course						
Revenue	\$ 210,340	\$ 201,619	\$ 241,694	\$ 219,638	\$ 197,176	\$ 208,068
Expenditure	<u>263,490</u>	<u>198,440</u>	<u>259,793</u>	<u>243,622</u>	<u>230,053</u>	<u>277,864</u>
Total Net Income before Administrative and Debt Service costs						
	<u>\$ (53,150)</u>	<u>\$ 3,179</u>	<u>\$ (18,099)</u>	<u>\$ (23,984)</u>	<u>\$ (32,877)</u>	<u>\$ (69,796)</u>

Source: Lawson Financial System

Tierra Verde Golf Club

The Tierra Verde Golf Club is the City's newest addition, opened in 1998. The 18-hole course sits on 256 acres in southwest Arlington and offers a wide array of amenities including a state of the art golf learning center, lighted driving range, three-hole practice course, large chipping and putting green complex, an outdoor pavilion, lessons taught by PGA/Ladies Professional Golf Association (LPGA) professionals and apprentices, a full line pro shop and a full service restaurant. Tierra Verde is certified as an Audubon Signature Sanctuary which ensures that construction and design are both

economic and environmentally friendly. The Audubon Signature Sanctuary also adheres to sustainable resource management principles. Tierra Verde has been presented with numerous awards including the 2004 Golf Digest Environmental Leaders in Golf Award and the Top Mid-priced Course in the DFW Metroplex in both 2006 and 2007. The Dallas Morning News also ranked Tierra Verde 80th in the Top 100 Golf Courses in Texas for 2011.

Tierra Verde Golf Club Net Income						
FY2006 - FY2011						
	2006	2007	2008	2009	2010	2011
Golf Course						
Revenue	\$ 599,345	\$ 639,917	\$ 1,559,833	\$ 838,487	\$ 985,519	\$ 937,106
Expenditure	655,250	648,904	1,443,285	911,207	767,742	881,186
Net Income	<u>\$ (55,905)</u>	<u>\$ (8,987)</u>	<u>\$ 116,548</u>	<u>\$ (72,720)</u>	<u>\$ 217,777</u>	<u>\$ 55,920</u>
Pro Shop						
Revenue	\$ 478,498	\$ 439,732	\$ 36	\$ 486,006	\$ 406,229	\$ 510,590
Expenditure	460,688	478,493	6,653	422,256	353,375	408,015
Net Income	<u>\$ 17,810</u>	<u>\$ (38,761)</u>	<u>\$ (6,617)</u>	<u>\$ 63,750</u>	<u>\$ 52,854</u>	<u>\$ 102,575</u>
Total Net Income before Administrative and Debt Service costs	<u>\$ (38,095)</u>	<u>\$ (47,748)</u>	<u>\$ 109,931</u>	<u>\$ (8,970)</u>	<u>\$ 270,631</u>	<u>\$ 158,495</u>

Source: Lawson Financial System

Ventana Grille

The Ventana Grille is a full-service restaurant, located at the Tierra Verde Golf Club. The restaurant is operated by the City's Restaurant Manager, and is open daily to golfers and the dining public for breakfast, lunch and dinner. Brunch is served on select holidays. The Ventana Grille offers a warm and inviting atmosphere with indoor and patio seating with a view of the golf course.

As seen in the following chart, expenditures have outpaced revenue for the Ventana Grille every year since it opened in October 2006, except for the most recently completed fiscal year. Operating results improved in FY2011. According to management, this improvement is due mostly to weather. However, improvements can also be attributed to atmosphere and menu changes made as a result of a restaurant consultant's review and City Council direction to simplify operations.

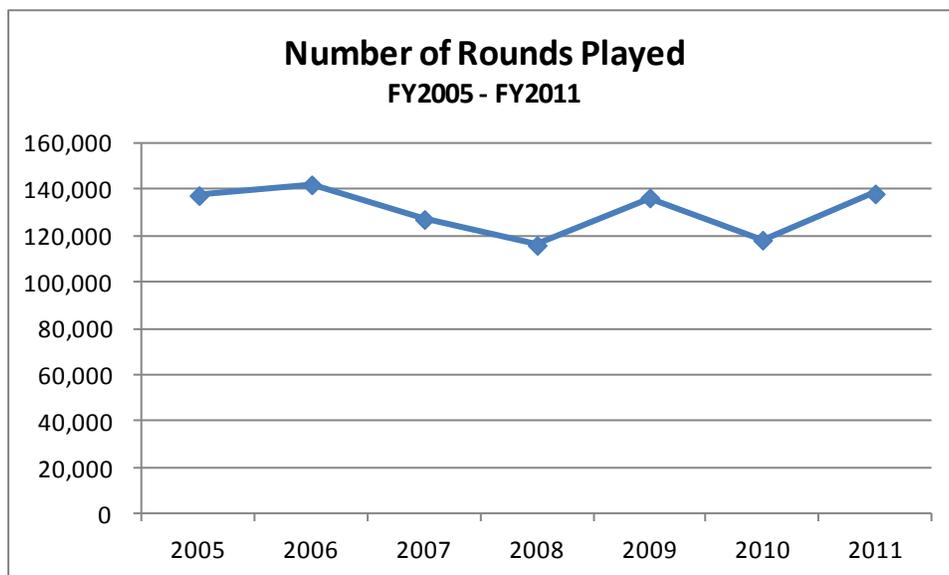
Ventana Grille Net Income						
FY 2006 - FY2011						
	2006	2007	2008	2009	2010	2011
Restaurant						
Revenue	\$ 167,951	\$ 365,144	\$ 487,410	\$ 457,888	\$ 436,482	\$ 499,952
Expenditure	<u>281,213</u>	<u>573,350</u>	<u>575,762</u>	<u>508,358</u>	<u>552,808</u>	<u>497,376</u>
Total Net Income before Administrative and Debt Service costs	<u>\$ (113,262)</u>	<u>\$ (208,206)</u>	<u>\$ (88,352)</u>	<u>\$ (50,470)</u>	<u>\$ (116,326)</u>	<u>\$ 2,576</u>

Source: Lawson Financial System

While the Ventana Grille is separate from the Tierra Verde Golf Club in management and accounting, the Golf Division has indicated that the restaurant has an impact on play at the golf course, specifically tournament play. According to management, the flexibility in menu and pricing has enabled management to be more competitive in attracting tournaments to Tierra Verde.

Rounds

The following chart shows the actual rounds played in the last seven years. There are numerous factors that affect the number of rounds played each year such as weather and the economy. According to golf management, the market has been saturated with new golf courses to serve the same number of golfers in the last several years. They attribute the golf market, along with poor economic conditions, to the decrease in rounds played between 2006 and 2008. Poor weather conditions in 2010 also caused a reduction in play.



Source: Golf Management Reports

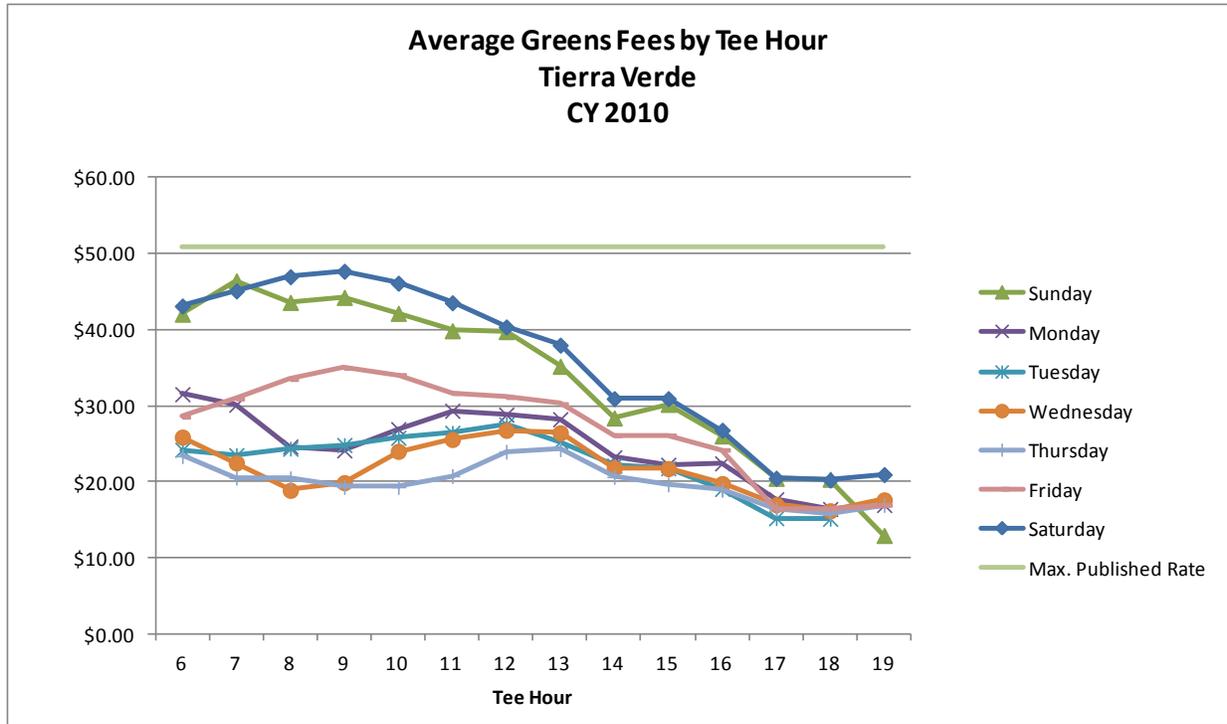
Detailed Audit Findings

1. The Golf Division does not utilize the current golf point of sale (POS) system for historical analysis and management of course utilization data by day of week and time of day.

The Golf Division has been utilizing Pro-Shop Keeper (PSK), comprehensive POS golf course management software, since 2003. The software allows management to automate tee time reservations, pro shop inventory and point of sale transactions. While the Golf Division utilizes PSK to perform these functions, the City Auditor's Office noted that the Golf Division does not use the software to summarize and report actual results of course utilization by day of week and time of day. Instead, the Golf Division maintains course utilization data by summarizing and recording course usage in Excel spreadsheets. The data summarized in Excel is not reported on a day of week or time of day basis.

In order to provide adequate oversight and identify potential under-performance, sound business practices dictate that specific revenue goals be established by day of week/time of day. Currently, Parks and Recreation management monitors the Golf Division using revenue per round as a performance measure. While this measure is adequate to help determine whether the Golf Division is effective in increasing revenue, it does not help management provide oversight of golf operations. For example, using the current performance measure, an increase in the number of rounds played in prime hours will increase the revenue per round performance. However, the additional revenue received from the increased number of rounds played may not be commensurate with the expected revenue based on day of week/time of day.

After obtaining calendar year 2010 tee sheet and sales data by time of day and day of week, the City Auditor's Office analyzed the revenue. As expected, average greens fees revenue, by tee hour, was higher on weekends compared to weekdays, and higher in the mornings compared to afternoon, as shown for Tierra Verde in the following graph.



Source: Pro-Shop Keeper data

Although the above chart excludes greens fees related to annual passes, employees and tournaments, the City Auditor’s Office noted that the average greens fees generally did not reach the maximum published rate for the course. Further review indicated that average greens fees do not reach the maximum published rate due to senior rates (which are discounted), twilight fees, and special incentives.

Further review of PSK data revealed the following.

- **Twilight fees were charged during non-twilight hours.**

Twilight fees are discounted rates generally offered by golf courses to increase participation rates in the late afternoon/early evening hours. For example, while the published greens fee for Fridays at Tierra Verde is \$55 (including cart fee), the Friday twilight fee is only \$39. Twilight is defined on the Arlington golf website as three and one-half hours before sunset. The City Auditor’s Office queried PSK data and found 1,438 records where golfers were charged a twilight rate before 1:00 PM. Approximately 1,100 of these records were associated with the Tierra Verde golf course. Golf Division management noted that in order to maximize course revenue, it is sometimes desirable to offer special incentives to new customers or to reward certain clientele for continued patronage. For example, a potential tournament client could be given a free or discounted round of golf as an incentive to book a future tournament.

The number of rounds charged twilight fees during non-twilight hours may be considered immaterial – the rounds represent just over 1% of the total number of rounds played in calendar year 2010. However, the City Auditor’s Office noted that Parks and Recreation

Department executive management has not established formal guidelines or expectations regarding what would be considered a reasonable amount of discounted rounds and how those rounds should be reflected in the POS system. The City Auditor's Office noted that it was difficult to verify the validity of discounted fees due to a lack of documentation indicating management approval. The City Auditor's Office also noted that the Parks and Recreation department in the City of Dallas prohibits, by policy, contracted golf course operators from offering reduced fees outside approved, published incentives.

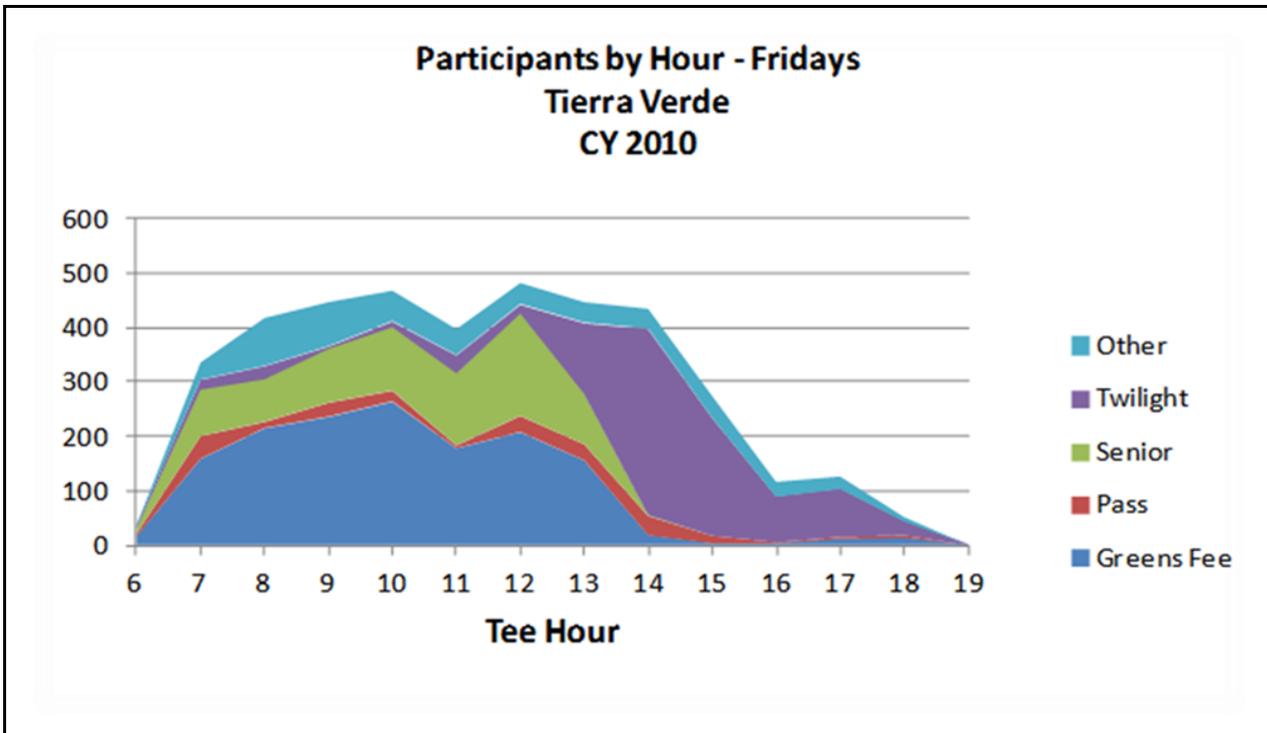
- **Individuals were charged senior rates although account data indicated they were not qualified.**

The City Auditor's Office noted that some participants were charged senior greens fees although account data recorded in PSK indicated that the individual was not qualified based on age. Although it is possible that an unqualified golfer could be paying the greens fee for a qualified (62 or over) golfer, data queries indicated that the un-qualified golfer also received the reduced senior rate. Although the City Auditor's Office only found a minimal number (44) of these errors, the majority of senior greens fees were not associated with accounts for which the City has birth date information. Therefore, the possibility exists that more un-qualified golfers were charged the senior rate. The City Auditor's Office did not see evidence that senior Parks and Recreation Department management has established oversight controls that would help identify potential abuse of offering reduced rates.

- **Individuals paid the annual pass rate for multiple golfers**

Golfers may purchase annual passes that allow them to pay a reduced amount for each round of golf. For example, an annual pass at Ditto Golf Course is \$750 which entitles the golfer to pay just \$2 in greens fees for each round of golf. The City Auditor's Office noted that golfers holding one annual pass were actually able to pay the reduced annual greens fee rate for all golfers in their party. Although it is possible that other members of the party may also have been annual membership holders, Golf Division management indicated that employees have been instructed to enter the greens fees for each annual pass holder separately. The City Auditor's Office noted other issues related to annual passes which are explored in more detail in Finding 4 of this report.

The following chart shows golfer participation at Tierra Verde by tee hour for Fridays in CY2010.



Source: Pro-Shop Keeper data

Because specific revenue performance goals have not been established by day of week and time of day, it would be difficult for Parks and Recreation Department management to identify specific potential exceptions related to the recording of revenue. For example, such analysis may lead one to question the number of discounted rounds of golf provided to golfers as incentives to increase play. This could lead to a lack of management oversight over the golf courses and the inability to identify and correct under performance.

Golf management already uses the summarized Excel course utilization data as a foundation for establishing greens fees and identifying when and how special incentives should be offered. Adding time of day/day of week analysis to that foundation would increase management’s ability to establish appropriate fees and oversight of course utilization for specific timeframes.

The City Auditor’s Office noted that the golf courses have been inconsistent in how actual course usage has been recorded in PSK. For example, while some courses appear to record rainouts and cancellations for each reservation, others do not record reservations as rainouts or cancellations, believing it to be unnecessary as long as actual revenue is recorded in the City’s financial system. There is generally no attempt to reconcile tee sheet reservations to revenue rounds recorded in the financial system. Because this reconciliation is not performed, it is difficult to determine whether a tee sheet for a particular golf course reflects unrecorded revenue.

The City Auditor’s Office reviewed the standard reports available through the software and noted that no report exists that summarizes course usage by day of week and time of day. The City Auditor’s Office was able to create such reports by obtaining access to a test database and using external report writing tools such as Microsoft Access and Excel. The process utilized to produce

these ad hoc reports was tedious and inefficient. According to the Golf Operations Manager, it is possible to request additional reports from the software vendor, but such requests may be fairly expensive to fulfill.

By not using the automated system to perform historical day of week/time of day analysis, management may not have sufficient data to establish appropriate fees and incentives. In addition, the Golf Division is expending additional effort to record transactions in external spreadsheets that should already be captured and recorded in a system designed to increase management effectiveness. This manual effort may also result in faulty data due to data entry errors.

Recommendation:

The Parks and Recreation Director should ensure that staff seeks to increase the utilization of PSK data by working with the vendor to develop desired reporting capabilities, including the ability to summarize play by day of week/time of day, as feasible or consider partnering with the University of Texas at Arlington (UTA), the City's Information Technology Department or outside consultants to obtain information technology assistance in developing additional Pro-Shop Keeper reporting capabilities using external report writing software.

Management's Response:

Partially Concur. The Golf Division utilizes PSK data to provide a foundation for projecting revenues. This information, along with other data, is averaged over a five year period to determine performance. Other variables are also taken into consideration, such as inclement weather, course conditions, competitions, watering restrictions, droughts and other unforeseen circumstances. These factors impact daily use and therefore must be taken into consideration when determining course specials and discounted rates. If discounts are predetermined without consideration of these variables, substantial loss can occur from providing lower green fees and other discounts during peak usage and tournaments.

Staff has been working with PSK for additional reports and features. Future software updates will provide greater report customization and provide a dashboard approach with emphasis on revenue generation at each facility. These customized reports are the result of a nation-wide effort, by the vendor, to solicit precise feedback from golf facility managers. In addition, the Golf Division is working with PSK and Information Technology to create an interface in Lawson for revenue uploads, which would reduce labor hours and data entry errors.

Target Date: Pending release of next version from PSK

Responsibility: Greg Durante, Golf Services Manager

Recommendation:

The Parks and Recreation Director should ensure that specific revenue goals are established for the Golf Division based on day of week/time of day analysis.

Management's Response:

Partially Concur. Within the marketing plan / golf strategy, staff will develop a general guideline that provides a month-to-month framework of potential scenarios and opportunities to improve operations by time of day, week and month. This guideline will provide staff direction with historical data and potential marketing opportunities to enhance rounds, merchandise sales, food and beverage and programs.

The Golf Division provides monthly revenue goals which are identified by location and line item. During budget development, a very extensive process utilizing weather and course usage history is used to forecast both revenues and expenditures. These monthly revenue goals are then reviewed by golf management weekly so that adjustments can be made during low use times to prevent unutilized tee times and unsold inventory.

Golf management produces and analyzes daily sales reports, logs and rounds information for each golf course. This information is then submitted to golf administration for review.

Since the Golf Division is directly impacted by weather, surrounding course competition, third party discounts, course conditions and tournament bookings, many of which can change on a day to day basis, relying heavily on a time of day and day of week report would make it very difficult to offer appropriate specials and course discounts. While historical data does serve as an informative tool for revenue projections, it should be utilized in conjunction with current data sources, weather forecasts and course tournament operations.

Golf Division managers utilize historical daily sales data when pricing potential tournaments and events to assure overall revenue will not be impacted by displacing regular play.

Target Date: September 2013

Responsibility: Greg Durante, Golf Services Manager

Recommendation:

The Parks and Recreation Director should ensure that specific guidelines are established regarding the use of incentives and discounted rates.

Management's Response:

Concur. Although there is no formal written document outlining the specific use of discounts and incentives, the Golf Division does have informal guidelines that facility managers follow when offering discounts outside of the normal rates.

Staff will develop general (flexible) written guidelines outlining discounts and incentives and utilize new reporting data from PSK to monitor sales and discounts. Staff will also develop a tracking tool for discounts given that can be used by Golf Administration and Business Services for periodic auditing.

Due to the oversaturation of golf courses, as well as the national decline in avid golfers over the past five years, the golfing industry has evolved into a coupon or discounted driven business.

While audit recommendations have identified unusual daily rate fee charges, it is vital to remember that previous versions of the PSK software did not provide effective coupon features. Often, the discounted senior rate was the same fee as the advertised special, providing staff an easy function to designate the senior rate “button” as a regular discount category. In February, 2012, PSK released an updated software package which provides a specific coupon category. This new feature is being utilized to properly categorize regular specials and to allow staff to evaluate the effectiveness of specials offered through data reporting capabilities.

As demand for our courses change, due to tournaments, competitive specials, weather fluctuations, weddings, outings or a multitude of last minute factors, staff must be flexible and react quickly by making competitive price adjustments. Golf Administration also utilizes third party tee time booking services such as Golf Now and group discount sites such as iDeal Golfer and Golf Q to book unreserved tee times. When operating within the Performance Fund, it becomes the facility manager’s number one objective to increase revenue generation, making last minute decision making a vital part of the manager’s core duties.

Through operational improvements and the utilization of discounts and specials in FY 2011, it should be noted that Arlington golf experienced an increase of 19,968 (16.89%) rounds and \$628,923 (14.79%) in revenues over FY 2010. When comparing Arlington to surrounding cities, Dallas experienced growth of 13,373 (8.78%) rounds and \$179,660 (6.24%) in revenue, Grand Prairie experienced growth of 8,507 (12.38%) rounds and \$63,521 (2.35%) in revenue and Fort Worth experienced a loss of -9,167 (-6.01%) rounds and -\$176,944 (-4.07%) in revenue when compared to fiscal year 2010. In addition, for fiscal year 2012, through the end of July, the Golf Division has experienced an increase of 14,778 (13.17%) rounds and revenue growth of \$659,532.78 (16.54%) as compared to the same time period for FY 2011.

Target Date: December 2012

Responsibility: Greg Durante, Golf Services Manager

Recommendation:

The Parks and Recreation Director should ensure that periodic reviews are conducted to monitor revenue performance and identify trends that require further review and analysis.

Management’s Response:

Concur. The Golf Division does review revenue performance on weekly basis, however additional audits and comparisons could be utilized to monitor peak and off peak rates in an effort to increase overall performance. The golf policy manual currently outlines the routine protocol that should be used when auditing course performance. Considered a regular

practice that should be completed by each manager, formal documents are required monthly to assure business audits are conducted. Golf Administration will provide all managers training to include expectations and how the audit checklists will be reviewed by senior golf management and Parks and Recreation Business Services. Additional reporting provided by PSK should also provide more tools for managers to monitor individual course performance.

In addition, facility managers are required to review internal surveillance camera data to identify and research discrepancies in revenue. This system employs a text overlay that allows managers to view the actual receipt transaction during the customer purchase and this process has been effective in identifying theft and irregular operational behaviors.

Target Date: January 2013

*Responsibility: Greg Durante, Golf Services Manager
Business Services*

2. The Golf Division does not have a formal, directed marketing approach.

Sound business practices dictate that the development and implementation of research-based marketing efforts is necessary to strategically increase revenue, rounds played, and public awareness of municipal golf courses.

The Golf Division typically has an annual advertising budget of \$80,000. However, the Golf Division has tried to develop relationships and streamline efforts to minimize advertising expenses. For example, management noted that the Golf Division has been able to exchange rounds of golf for advertising and has been successful in partnering with local businesses for advertising exposure and cooperative events. As a result, the Golf Division has only spent approximately \$35,000 per year for advertising between fiscal years 2009 and 2011.

The Golf Division has focused its advertising efforts on newspaper and radio ads, co-hosting radio shows, digital billboards, e-mail blasts and promotional coupons through Ideal Golfer and other golf-specific publications. The Golf Division measures success of individual advertising efforts by the amount of participation generated. While the Golf Division feels it has been successful in attracting new players to Arlington courses, the City Auditor's Office noted that the Golf Division does not have an individual dedicated to collecting, interpreting and presenting data to help determine the effectiveness of its marketing strategies. Although some analysis of the success of promotional offers has been performed, the City Auditor's Office noted that the analysis did not include a determination of the effectiveness of retaining new players compared to the potential reduction in greens fees from existing golfers. Analysis performed by the Parks Department of one FY2011 promotion indicated that approximately 78% of the golfers redeeming coupons at Tierra Verde had recently played the course. This could potentially result in decreased revenue due to existing players (otherwise previously willing to pay full price) receiving discounted golf rates and expecting reduced rates in the future as well.

Because of the lack of personnel dedicated to marketing efforts, the City Auditor's Office also noted that the Golf Division has not performed any recent market research/identification or created any

post campaign response-tracking reports to help define future strategies. Current data analysis is hindered by the lack of reports from PSK that could be useful in tracking the success of specific campaigns. For example, not having participation reports by time of day and day of week or by golfer demographic (age, experience, etc.) decreases the ability of the Golf Division to accurately track when and who used promotional coupons.

The City Auditor's Office noted that only limited golfer demographic data is maintained in PSK. Annual pass holder and frequent player club members are recorded in a member table that contained approximately 5,250 records as of March 2011. More than 4,000 of these records did not have birthdate or driver's license information and almost 3,000 did not have an e-mail address or telephone number. More than 80% of the rounds played (as recorded in PSK for CY 2010) are associated with non-members and no demographic data is captured for these players. While it may not be feasible or customer-friendly to obtain demographic data on all players, it may be possible to increase the amount of demographic data through volunteer sign up for special offers and incentives. It should be noted that restricting access of information such as birthdate and driver's license number is important to guard against identity theft.

During audit fieldwork, management noted several areas in which they would like to increase current marketing efforts. These include expanded social media, business-to-business marketing and creating a greater presence with visitor-based opportunities such as hotels and rental car companies. While management noted a desire to increase marketing efforts, management also acknowledged that it is difficult to commit to additional resources for marketing efforts with an unknown return.

Recommendation:

The Parks and Recreation Director should ensure that a more comprehensive marketing plan is developed for the Golf Division. The plan should include, but not be limited to, periodic market research and identification; collecting, interpreting and presenting data to determine the effectiveness of marketing strategies; and creating post-campaign response-tracking reports and promotional analysis to help define future strategies.

Management's Response:

Concur. It is the intent of the Golf Division to develop a more formal advertising and marketing plan as part of the restructuring of the Parks and Recreation Marketing and Enterprise Development business unit. A member of the marketing unit will be assigned to oversee the responsibilities of marketing the services provided by all four golf courses and the Ventana Grille. In addition, as a recommendation of this audit, the department will evaluate the feasibility of including a position within a business plan that will be presented to the City Manager's Office for consideration. If the position is approved, job responsibilities will include managing tournaments and sales on behalf of the Golf Division. Currently, this position is a contracted service and staff believes an internal dedicated individual for this effort will be more productive and lead to a more consistent service delivery. This position will also help in monitoring and evaluating market research to determine effectiveness of promotional campaigns.

The Golf Division does perform occasional post-campaign analyses to determine the effectiveness of specific promotions. Examples of this are: iDeal Golfer internet specials

where redemption rates, new and returning customers and ancillary income were measured; billboards with calls to action; Fort Worth Weekly call to action; and the Avid Golfer Passbook coupon. Since additional research is needed, the Marketing and Enterprise Development Coordinator will be directed to provide supporting research to business units within the Parks and Recreation Department.

Target Date: September 2013

*Responsibility: Gary Packan, Assistant Director of Enterprise Programs
Greg Durante, Golf Services Manager
Ryan Hegreness, Marketing and Enterprise Development Manager*

Recommendation:

The Parks and Recreation Director should consider hiring additional personnel, outside consultants or interns from local universities to assist with marketing efforts, as can be justified by potential revenue enhancement.

Management's Response:

Concur. The Parks and Recreation Department is implementing a reorganization within the Enterprise Programs Division to provide additional marketing resources to the department.

The department is also following up on the recommendation within this audit to evaluate contract services of tournament booking, and to determine if value would exist for this service to be conducted internally. This staff member could be utilized to coordinate the recruitment and implementation of tournaments and special events, as well as assisting in business to business development while promoting all four golf courses and restaurant.

Target Date: December 2012

*Responsibility: Gary Packan, Assistant Director of Enterprise Programs
Greg Durante, Golf Services Manager*

Recommendation:

The Parks and Recreation Director should ensure that staff analyzes the use of Pro-Shop Keeper to identify opportunities to gather and record more golfer demographic information to support future marketing efforts.

Management's Response:

Partially Concur. Feedback from customers is that they want to check in as quickly as possible. Consequently, the use of PSK is not the best solution for capturing all of the desired information. True, zip code information can easily be gathered using PSK, but the Golf Division will have to use other points of contact to accomplish this need.

The Golf Division recognizes the need for additional customer information for moving advertising, sales and marketing initiatives forward. This would include increasing the size and effectiveness of the existing email database, capturing mobile phone numbers for text

messaging, capturing additional potential tournament lead information and expanding the use of social media and commerce. Collected information will be stored in the arlingtongolf.com website as this will be the primary means of distribution.

These tasks can be completed through creative campaigns such as, but not limited to, arlingtongolf.com, social media, email blasts to current databases with links back to a registration form, hard copy registration forms that can be handed out during tournaments, birthday specials and “tell a friend” reward campaigns. All of these strategies will be implemented by the marketing staff, with the assistance of golf, to assure new marketing approaches are implemented in a satisfactory manner.

Target Date: September 2012

Responsibility: Greg Durante, Golf Services Manager

Ryan Hegreness, Marketing and Enterprise Development Manager

3. The Golf Division issued payments for tournament booking services to a vendor not covered by a written contract.

Written agreements are not necessary to create a binding contract. However, written agreements help avoid misunderstandings regarding the terms of an agreement and are, therefore, desirable. The City Auditor’s Office noted that the Golf Division has an unwritten contract with a vendor (Corporate Swing) for tournament booking services. Management indicated that as a part of the tournament booking services, the vendor is responsible for negotiating tee times/prices and establishing extra services that may be desired for any tournament. This arrangement allows the vendor to receive 10% of tournament greens fees revenue for returning clients or new clients generated by leads provided by the Golf Division. The vendor receives 20% of tournament greens fees for new clients recruited by the vendor. However, the Golf Division could not provide the City Auditor’s Office with a written agreement specifying these amounts or how to calculate amounts due to the vendor.

Because no written agreement existed, the City Auditor’s Office reviewed invoices submitted by the vendor for tournament booking services from May 2010 to April 2011 and compared the invoices to PSK to verify that payments were appropriate. Within material limits, the City Auditor’s Office was able to confirm that vendor invoices were calculated as Golf staff indicated was agreed upon by both parties. The City Auditor’s Office noted that the Golf Division did not compare or reconcile tournament revenue as recorded on the contractor’s invoice to revenue recorded in the PSK system before authorizing payments to the vendor. Therefore, a risk exists that the vendor could overcharge for tournament bookings and not be detected.

The contractor requested the 10% fee for 51 of the 55 tournaments reviewed. The contractor requested the 20% fee for the remaining four tournaments. The large number of returning tournaments indicates that a majority of the City’s tournament green fees were from returning tournaments (which may or may not have been recruited by the contractor in previous years), and only a small proportion of the tournament fees was from new business recruited by the contractor. It is possible that tournament booking services could be taken over by in-house personnel, if available,

in order to avoid paying the contractor, who received just over \$17,000 in fees for the 55 tournaments reviewed.

The City Auditor's Office also identified tournaments within PSK for which the contractor did not submit an invoice. According to Golf Division management, the contractor sometimes chooses to not bill for tournaments. The City Auditor's Office reviewed a sample of 15 tournaments (ranging from April 2010 to November 2010) recorded in PSK that could not be readily associated to a contractor invoice to determine if the vendor actually billed for the tournament. The City Auditor's Office was only able to verify that two of the 15 tournaments were invoiced by the vendor. No documentation existed that the vendor requested payment for booking the remaining 13 tournaments, totaling \$43,407 in greens fees. Due to the lack of specific tournament detail in PSK, the City Auditor's Office was not able to project the total dollar amount of booking fees not requested by the vendor. However, at the minimum 10% fee, no less than \$4,300 would have been paid for the booking services related to those tournaments. The City Auditor's Office was not provided with any documentation to support that such complimentary services, gifts/donations, etc. had been authorized by the City's executive management team.

Golf Division management has not previously thought that a written agreement with the vendor was necessary. The Golf Division believes that the vendor has provided excellent service to the City and has generated additional business through the vendor's contacts in the golfing community. However, without a written agreement that explains the duties and expectations of both parties, the risk exists that misunderstandings will take place, which could lead to non-compliance and/or reduced tournament bookings and revenue. The City could also be exposed to unnecessary litigation.

Recommendation:

The Parks and Recreation Director should require that Parks staff conduct an analysis to determine whether it is more cost effective to procure outside tournament booking services or utilize in-house personnel.

Management's Response:

Concur. The Golf Division believes that it would be more effective to move contracted tournament services to an in-house staff member. Currently, external services are utilized for bringing potential tournaments to Arlington golf courses. While initially, a hybrid approach is necessary, the department is evaluating the feasibility of an in-house approach. A plan is being developed to outline the business case for the position. This process will be addressed through the budgetary process.

Target Date: Completed April 2012

Responsibility: Gary Packan, Assistant Director of Enterprise Programs
Greg Durante, Golf Services Manager

Recommendation:

The Parks and Recreation Director should ensure that a formal contract is executed for tournament booking services, if utilizing an outside source to provide such services is considered to be in the best interest of the City of Arlington.

Management's Response:

Concur. The Golf Division began working with the City Attorney's Office in 2011 to develop a formal contract for this service. The contract has been drafted and executed by all parties.

Target Date: Completed April 2012

*Responsibility: Gary Packan, Assistant Director of Enterprise Programs
Greg Durante, Golf Services Manager*

Recommendation:

The Parks and Recreation Director should ensure that the Golf Division compares tournament revenue to contractor invoices prior to authorizing payment for tournament booking services, if an outside source is used to provide such services.

Management's Response:

Concur. Comparison reports between the contract Tournament Coordinator invoices and PSK will be analyzed for accuracy by the Golf Operations Administrator prior to submitting for payment.

Target Date: Completed April 2012

*Responsibility: Greg Durante, Golf Services Manager
Sandra Grimm, Golf Operations Administration*

Recommendation:

The Parks and Recreation Director should ensure that complimentary services be approved, in writing, by the appropriate person.

Management's Response:

Concur. The Golf Division will rewrite the contract when it expires adding in language that will provide detailed payment requirements regarding tournament services.

Target Date: May 2013

*Responsibility: Greg Durante, Golf Services Manager
Sandra Grimm, Golf Operations Administration*

4. The Golf Division has not established adequate internal controls over the use of annual passes.

According to Golf Division policy (Section XII Asset Control, B “Pro Shop Transactions”), annual pass holders should present their annual pass or proper ID each time they play. The policy also requires that “attention should be given to ensure the correct individual’s name is pulled up in the PSK system.”

Annual pass rates vary from \$190 for a Meadowbrook senior pass to \$2,500 for a regular Tierra Verde pass. The City Auditor’s Office queried the PSK database and found 162 records of annual pass purchases during CY2010, as shown in the following table.

Annual Pass Purchases CY 2010				
Type of Pass	Course	Qty	Price	Total
Regular	Tierra Verde	13	\$ 2,500	\$ 32,500
Senior	Lake Arlington	46	400	18,400
Weekend	Tierra Verde	7	1,800	12,600
Regular	Tierra Verde - Installment	10	1,250	12,500
Regular	Ditto	15	750	11,250
Regular	Lake Arlington	12	750	9,000
Senior	Ditto	21	400	8,400
Family	Ditto	5	900	4,500
Family	Lake Arlington	4	900	3,600
Regular	Meadowbrook	4	750	3,000
Senior	Meadowbrook	15	190	2,850
Senior	Meadowbrook	5	400	2,000
Dependent	Tierra Verde	2	1,000	2,000
Dependent	Ditto	3	100	300
Total		162		\$ 122,900

Source: Pro-Shop Keeper

The Golf Division provided the City Auditor’s Office with a list of 240 golfers that held annual passes at some point during CY2010. This exceeds the number of passes purchased in CY2010, as some golfers may have not renewed their pass purchased in CY2009. In addition, some golfers received extensions of their passes due to course closures for repairs and renovations. Such extensions are not recorded in PSK. The City Auditor’s Office reviewed a sample of the golfers on the provided annual pass list and noted that supporting documentation existed to validate the annual pass purchase. PSK records indicated that over 14,000 rounds of golf were attributed to annual pass holders during CY2010 as shown in the following table.

Annual Pass Greens Fees CY2010		
Type of Pass	Course	Rounds
Senior	Lake Arlington	3,975
Senior	Ditto	2,603
Regular	Ditto	2,010
Regular	Tierra Verde	1,676
Regular	Lake Arlington	1,662
Regular	Meadowbrook	239
Family	Ditto	620
Family	Meadowbrook	171
Senior	Meadowbrook	1,163
Total		<u>14,119</u>

Source: Pro-Shop Keeper

Although policy dictates that each individual pass holder be identified in the POS system, the City Auditor's Office noted that over 1,000 of the 14,119 (7%) annual pass greens fee transactions were associated with "Cash Account" as opposed to being identified with a valid account number of an annual pass account holder. In addition, the City Auditor's Office identified 57 golfers who were not annual pass holders, but were charged for 132 rounds of golf at the annual pass rate for greens fees. This could indicate that non-annual pass account holders were inappropriately charged the reduced annual pass holder greens fee rate and/or there were some new annual pass account holders that played golf before the annual passes were issued. Management indicated that although a cashier may receive a golfer's annual pass fee, the cashier is not authorized to issue the annual pass. Instead, the cashier routes the golfer's information to Golf Administration for the annual pass to be assigned (e.g., account number) and printed. The annual pass information is recorded within PSK and the actual pass is then mailed to the golfer. Per Golf Division management, golfers receive a card with a barcode that tells the cashier they are an annual pass holder.

Inappropriate charges represent potential lost revenue, as annual pass greens fees are \$2 or less, compared to regular greens fees ranging from \$11 for a junior at Lake Arlington to \$26 on a weekend. Management considered their decision to not have cashiers generate annual golf passes an adequate separation of duties. However, this control is negated since cashiers have the ability to charge annual pass fees with or without an annual pass being issued. Management would have better control if they allow cashiers to issue annual passes, but monitor cashier activity by running a report of annual passes issued on a routine basis (e.g., weekly).

Included in the 57 non-annual pass account holders are several employees ("E" accounts) who would normally get to golf for free. It is possible that employees paid for annual pass account holders or that an employee was charged the annual pass rate for unqualified golfers. The steps necessary to determine the total potential number of "lost" rounds were time consuming and difficult. The main difficulty was in matching the manual records of annual pass purchases to greens fees passes in the POS system. Ideally, a system would require that an account could not be

charged the annual pass rate without a valid annual pass purchase recorded in the system. This feature is not currently available within the City's installation of the POS system. Per Golf Division management, modifications made by the POS system vendor to the software or reports are billed to the City and are expensive.

Golf Division management noted that reduced greens fees are occasionally utilized as incentives or rewards for clients to obtain future business or promote continued patronage, thereby increasing gross revenue. Although it is possible that non-annual pass account holders were charged the reduced annual pass greens fees rates as incentive for future business, internal control would be strengthened if management reiterated its policy that each annual pass greens fee rate be supported by an identified annual pass account holder. In addition, periodically analyzing database entries related to annual passes would help management identify whether employees were erroneously allowing non-annual pass holders to pay the reduced annual pass greens fees.

Recommendation:

The Parks and Recreation Director should ensure that the Golf Division discusses, with the vendor, the feasibility of modifying the current POS system to require that annual pass rates be allowed only for active annual pass accounts. If a system modification is not feasible, management should periodically confirm through database analysis or other means that annual pass green fees are only provided to golfers with active annual pass accounts.

Management's Response:

Partially Concur. To minimize potential abuse, staff will email the Golf Operations Administrator when a pass is utilized after expiration, or when newly purchased. The Golf Operations Administrator will be responsible for tracking and auditing usage. In addition, staff will put a mechanism in place for contacting pass holders, whose passes are about to expire. This proactive step will provide the pass holders advanced notice and encourage them to contact Golf Administration as soon as possible to renew the pass. This step may not eliminate play on expired passes, but should significantly reduce this from happening and will provide an audit trail to support any exceptions.

The point of sale system currently notifies the attendant of an expired annual pass and there are occasions where the attendant may allow a customer to play with an expired pass. This primarily results from the processing time for either a new pass or a pass renewal. The decision was made by the Golf Division to centralize pass card distribution and renewal years ago, in an effort to improve asset control. This meant that there is a delay (between three and 15 days) between the purchase and the time the pass is activated in the POS System. If this process is decentralized, it could allow pass expiration dates to be issued or changed without ringing the sale into the POS and risking a loss of between \$190 and \$2,500, depending on the pass purchased. In addition, granting additional access within PSK would allow rights to sensitive areas of the POS system that are considered off limits to front counter personnel.

A less than frequent occurrence, but another reason a customer would be allowed to play on an expired pass, has to do with customer service and retention. An example would be when a long time customer, who was not aware that their annual pass had expired, arrives without

the ability to pay the renewal fee. With the amount of competition for play, it is important that the facility show empathy and make customers feel special by allowing them to play and renew during their next visit. All efforts are made to keep PSK updated as quickly and as accurately as possible. There are strategies outlined in the Golf Division SOP dealing with the auditing of annual pass play.

Target Date: October 2012

*Responsibility: Greg Durante, Golf Services Manager
Sandra Grimm, Golf Operations Administration*

5. The Golf Division does not track private lessons.

Tierra Verde and Ditto Golf Courses offer customers clinics as well as private lessons taught by the City's golf professionals. Arlington Golf also offers a separate Hooked on Golf program. This program is run by Corporate Swing, the same vendor that is paid for tournament booking services. Hooked on Golf is a player development program designed to help golfers develop skills and improve their game.

The Standard Operating Procedures for Golf Operations require that all private lessons be rung through PSK, and that lesson payment logs be completed for each lesson. Additionally, the procedures mention the use of a master scheduling book at each pro shop for logging lessons and times instructors are available to teach. These policies also prohibit instructors from accepting payments outside of PSK, including gratuity.

None of the City's four pro shops currently use a master scheduling book or lesson payment log. Instead, each instructor is responsible for scheduling and tracking their own lessons and ensuring that they are properly rung into PSK. The instructor associated with Corporate Swing is also responsible for scheduling and tracking her own lessons. The vendor provides an invoice and monthly payment for facility use based on the number of lessons taught. Because there is no master scheduling book, the City Auditor's Office was unable to determine if all lessons taught were properly rung and recorded in PSK. The City Auditor's Office was, therefore, unable to determine whether all lesson revenue had been properly accounted for within the City's financial system.

According to Golf management, there is little exposure since only a small percentage of lesson revenue is retained by the City. Since the City's golf courses make more revenue from rentals, range balls and returning customers, staff does not see a need to track private lessons.

Recommendation:

The Parks and Recreation Director should either require that staff at each course adhere to established policy by using a master scheduling book to better track when lessons are held and with whom, or revise Golf's standard operating procedures.

Management's Response:

Concur. The Golf Division will modify the SOP to remove the use of the master scheduling book. This book was used prior to the clubhouse attendants having access to Microsoft Outlook on the City network. The Golf Division does track private lessons as they are entered into the POS. Reports of lessons are reviewed by facility managers from the POS and turned in to the timekeeper as part of the payroll process. The lessons are given apart from the 40-hour work week and compensation from the lesson is greater than an overtime rate, where applicable. As the lessons are part of the employee's pay, the City retains 25% of the lesson income to cover the associated matching benefits. It is standard industry practice that Clubhouse Attendants (Assistant Golf Professionals, industry term for Clubhouse Attendant) and Head Professionals earn additional compensation above their hourly wage for teaching private lessons, as their hourly wage is low. The Golf Division earns very little net revenue from the actual lesson, but benefits long-term from customer retention and loyalty.

Target Date: Completed August 2012

Responsibility: Greg Durante, Golf Services Manager

6. Participant and payment information for Junior Summer Clinics are not accurately recorded in Pro-Shop Keeper.

Arlington Golf offers Junior Summer Clinics during the summer months to golfers under the age of 18, in hopes of developing future golfers. Junior Summer Clinics last several days and are taught by Golf Division employees.

Management collects and enters Junior Summer Clinic participant payments into PSK as gift card accounts. The associated gift card account balance is used to purchase items (e.g., food and/or clothing) for clinic participants. At the end of each clinic, any remaining gift card account balances are rung into PSK as payment for the Junior Summer Clinic. Management indicated that PSK is capable of recording clinic participant information. However, since PSK is not currently set up to do so, individual clinic participant information is recorded in manual files that are established for each class.

Golf Operations' Standard Operating Procedures require that participant information be recorded in the master scheduling book. Per management, Junior Summer Clinic net revenue (total revenue less clinic expenses) must be entered into PSK. Instructor pay is calculated at 75% of net revenue, and the remaining 25% is the City's portion of clinic revenue. As stated in Finding 5, a master scheduling book is not used to schedule private lessons or clinics at any of the Pro Shops. Instead, an Excel spreadsheet is used to calculate expenses, instructor pay, and net revenue that is to be recorded in PSK. Management indicated that, given PSK capabilities, the methods currently used are the most effective to calculate and record revenue. However, audit testing indicates that the amounts shown on the Excel spreadsheets do not always match what is input in PSK or recorded in Lawson. It was also noted that the calculation for instructor pay did not always match what was actually paid, per Lawson. The following exceptions were noted.

- Revenue for five clinics held at the Ditto Golf Course and one at the Tierra Verde Golf Club (between June 2009 and August 2009) were not entered properly into PSK.

The City Auditor's Office noted that these exceptions were due to inaccurate registration fees and percentage of net revenue amounts within PSK. For example, for a clinic held from 6/15/09 through 6/18/09, a participant was registered at \$15 instead of the \$75 fee. Another clinic held from 7/13/09 through 7/16/09 showed that one participant did not pay the \$75 registration fee. However, management's Excel spreadsheets indicated that the participants paid the full amounts for each clinic. Additionally, four clinics at Ditto (two from 7/13/09 to 7/16/09 and two from 8/3/09 to 8/6/09) were not rung into PSK at the net revenue amount required per management. Instead, all four clinics were rung in at 75%, versus 100%, of net revenue. Although the clinics had been completed, the incorrect revenue amounts and expense variances resulted in a gift card account balance of \$305.43. The City Auditor's Office also noted that one gift card account is often used for multiple classes.

- Eight exceptions were noted in a sample of 30 Junior Summer Clinic instructor payroll records.

The sample was selected from payroll records between 10/1/2008 and 9/30/2010. Management indicated that different pay rate calculation methodologies caused the discrepancies. For example, since the clinics were for an hour and a half, hourly pay rates calculated within the Excel spreadsheet were determined by dividing applicable revenue by 1.5. However, Lawson records reflect only one hour at the hourly rate, resulting in staff underpayments for clinics held between 6/15/09 and 6/18/09.

Since the Golf Division operates in a Performance Fund, management depends on reports of revenue and expenditures to make business decisions. Since the Excel spreadsheets do not always match what is rung into PSK, a balance of Junior Summer Clinic revenue exists that could be used to purchase items not related to the clinics. The City Auditor's Office noted that two private golf lessons totaling \$85 were charged to the gift card account in 2009, after the clinics were completed. It is possible that the instructor received lesson pay although no lesson was taught. It is also possible that a lesson was taught and the gift card payment was entered instead of cash. While the City Auditor's Office does not have evidence that these situations occurred, both scenarios represent possibilities that could occur when revenue is not recorded properly and a gift card account is left with an unused balance. In addition to the two private lessons, the City Auditor's Office found that non-clinic related purchases of merchandise, totaling \$76.14, were charged to the gift card account in 2011. As of January 2012, the gift card account balance was \$144.29.

Recommendation:

The Parks and Recreation Director should require that participant and payment information be entered into the point of sale system at the time of registration.

Management's Response:

Partially Concur. A regular audit will be developed to check the "gift cards" that are used to make sure that each card is closed at the end of the program. This audit will ensure that the accounting for each program is correct and allocated to the appropriate accounting unit.

The purpose of ringing sales for summer clinics into a "gift card account" is to allow for customers to pay in advance for the clinic as well as the ease of distributing funds (eliminating the need for journal vouchers to correct account line items) at the conclusion of the clinic. For summer camp clinics, all revenues are now entered under one "gift card" number. The clinic typically lasts for four days and is then processed into the POS after the conclusion of the fourth day. This step allows for assigning the correct amount to each line item category (SKU number) that corresponds to the goods and services used. The clinics will vary from week to week in number of students, number of instructors per day, supplies needed, snacks and beverage items, prizes awarded for contests and any price increases. With these numerous variables, it would be extremely difficult to accurately determine a price and create a SKU number prior to the registration. In addition, as this amount would not be exact, additional resources would be needed in creating journal vouchers to correct the line item differences.

Currently, the Golf Division requires all transactions to be entered into the POS at the conclusion of the clinic. The receipt with all the line items identified is then attached to the payroll clinic worksheet for verification. Participant information is collected in the form of name, address, age, parental name and address, skill level and email address (if they choose to provide). After all paperwork is submitted, the Golf Operations Administrator verifies that all funds have been utilized and dispersed properly. This process was implemented in 2010. Additionally, golf management will ensure that each clinic utilizes a separate "gift card account" to ensure accuracy during the payroll process.

Target Date: Completed August 2012

*Responsibility: Greg Durante, Golf Services Manager
Sandra Grimm, Golf Operations Administration*

Recommendation:

The Parks and Recreation Director should require that a reconciliation is performed to ensure that revenue is properly recorded.

Management's Response:

Concur. The Golf Division has in place a revenue worksheet for golf clinics that is utilized to calculate instructor pay and provide information that is used during the payroll process. This worksheet is completed by the Head Golf Professional at the location in which the clinic takes place and is then turned into Golf Administration. Although the process is sound and works well, the Golf Division did experience a situation where a new Head Golf Professional made an error when completing the sheet. When this error was discovered, additional training was provided to the employee. The Golf Division will continue to reconcile POS information with the worksheet to ensure accuracy.

Target Date: Completed April 2012

Responsibility: Greg Durante, Golf Services Manager

7. No Cost Recovery Policy exists for Golf Operations.

The Parks and Recreation Department implemented a Cost Recovery Policy in January 2011 for fee-based programs and activities for recreations centers, athletics, aquatics, tennis and the Bob Duncan Center. This policy uses a pyramid methodology to categorize programs and activities according to their community/individual benefit and the associated cost recovery percent, ranging from 0% to 125%. Golf was purposefully excluded from the cost recovery policy because a golf specific policy is planned for a later date.

City management has indicated, through the 2012 Business Plan, that they expect at least 100% cost recovery from the Golf Performance Fund. City Council has also indicated an expectation of higher than current cost recovery, especially regarding the Ventana Grille. As indicated in the Background section of this report, Golf Operations expenditures have exceeded revenue for the last six years, demonstrating the need for a formal Cost Recovery Policy.

In conducting fieldwork for this audit, the City Auditor's Office reviewed alternative operating models in place at other municipalities across the country. While it appears that some municipalities have found arrangements that are beneficial to all parties, others have created arrangements that result in unsatisfactory relationships. Although Golf Division revenue has not exceeded expenditures in the last six years, the Division has been successful in reducing the amount of losses. To further reduce costs in FY2012, Parks and Recreation Department management is consolidating Meadowbrook operations and pursuing/expanding the use of reclaimed, well and raw water at all courses. The Golf Division has also been successful in simplifying operations of the Ventana Grille, resulting in a slight profit in FY2011.

In addition to the efforts made by the Golf Division to improve financial performance, the City Auditor's Office noted that other municipal golf facilities struggle to recover 100% of their costs. Therefore, the City Auditor's Office could not conclude that the Parks and Recreation Department should pursue alternative operating models for the golf courses. However, the City Auditor's Office noted that a formal cost recovery policy, with specific performance expectations for individual courses, pro shops and/or product lines could help ensure that City Council and management's cost recovery expectations are achieved. Such a policy should include criteria for determining when or if alternative operating models should be pursued.

Recommendation:

The Parks and Recreation Director should ensure that work continues to develop and implement a Cost Recovery Policy for Golf Operations.

Management's Response:

Concur. With the current operational philosophy of achieving 100% cost recovery, a policy would not be valuable at this time. What is needed is a golf strategy that outlines programs and services, as well as supporting expenses that are required to attain and maintain 100% cost recovery. This will be incorporated into a marketing plan for the department.

The entire Golf Division strives to operate at 100% cost recovery, including approximately \$525,000 in annual debt service necessary for the land acquisition and construction of the Tierra Verde Golf Club. It is to the advantage of the Golf Division to operate with this mindset as any additional net revenue is utilized to make facility and equipment improvements. The Golf Division operates in a continuous process improvement environment to streamline operations and cut expenses as business dictates. Examples of this are with the restructuring of Golf Administration and management oversight of Meadowbrook Park Golf Course to reduce salary expenditures, drilling of water wells, and the use of off-road diesel to reduce operating costs without impacting product and service delivery.

Target Date: September 2013

*Responsibility: Gary Packan, Assistant Director of Enterprise Programs
Greg Durant, Golf Services Manager*

Ryan Hegreness, Marketing and Enterprise Development Manager

8. Clear profit goals and sales expectations do not exist for merchandised purchased for resale.

Profitability is an essential function of a performance fund and in order for golf operations to continue they must bring in enough revenue to not only cover expenses, but to reinvest in and promote the business. Currently there is no clear expectation of sales or profit goals. Parks and Recreation management is provided with reports summarizing rounds and revenue received, but management does not review merchandise sales, tee times or other specific data. Management indicated that they have not provided any specific goals or expectations.

The City Auditor's Office noted that pro shop net profit has been approximately 30% each year since 2007, even though golf management indicated that they mark resale items (with the exception of golf balls) at a higher rate. Testing performed by the City Auditor's Office indicated that sales within the pro shops may be affected negatively due to a lack of oversight of discounts and merchandise being sold below cost. The City Auditor's Office noted that course management does not review discounts on daily deposits and there are no reports that detail discounts provided to Golf or Parks and Recreation management.

The City Auditor's Office selected a sample of 33 employee discounts to determine if discounts were appropriately authorized and recorded. Testing was unable to be completed on ten of the 33 items (31%) because information on the discount was not available. Testing identified two of the 33 transactions (6%) as improper discounts. One employee received a discount on a shirt that resulted in paying less than the City cost for the shirt. Another employee received a discount on bottled beer

although City policy does not allow employee discounts on alcohol. The remaining 21 (64%) were reviewed with no exception noted. Also identified in testing, were several items being sold below cost. However, difficulties tracing items in PSK prevented the City Auditor's Office from determining the extent to which items are sold below cost.

Clear profit goals and sales expectations would provide an indicator by which performance and profit could be measured and easily tracked by management. Additionally, discounts could be monitored to ensure that profitability is maximized.

Recommendation:

The Parks and Recreation Director should ensure that clear profit margin goals and sales expectations are established by product class to help ensure that cost recovery goals are met.

Management's Response:

Partially Concur. The Golf Division will develop and add basic guidelines to the SOP; however, due to the nature of the golf resale industry, these guidelines will be very general. PSK does provide reports that can be utilized by Head Golf Professionals and administration to review and analyze sale and discount trends. In addition, staff will be required to increase the frequency of viewing reports as part of the monthly audit process.

The goal of merchandise sales is to earn as much net revenue as possible. While this seems like a simple concept, it is quite involved. Net revenue objectives vary between product class (golf clubs, balls, gloves, shoes, etc.), and vary within each class by vendor. Further driving these margins are outside influences such as competition from discount stores, internet sales, advertising influence as well as customer demand. Some vendors have set suggested retail pricing to follow, however they are rarely followed by our competition. One of the largest factors is that the competition often has greater buying power and can obtain larger discounts on like product. For the Golf Division, it is then necessary to come as close as possible on pricing for some items (usually golf balls) as they are often sold for a lower margin and more as a lost leader. If the Golf Division's prices are substantially higher on these items, customers will assume that pricing is higher on all items, leading to lower overall sales. An industry standard for marking up clothing is to double the cost for the retail price. However there are alternative purchasing opportunities for off price or close out items that would not follow the same principal of markup.

An attempt was made to find comparative data from the PGA and the National Golf Foundation related to what the net revenue (profit margin) for municipal operations in the North Texas, Texas, or the US for merchandise sales. Unfortunately, no information is available to use as a benchmark as to how the Arlington Golf Division's 25.6% net revenue margin compares. The only information found was a national average of 30.7% for public facilities, which includes high-end resort courses that have greens fees up to \$200 where the customers have more discretionary income and higher margins are attainable. Lastly, and not discussed in the report, is the number of times the inventory is turned over during the year. This is an important because a facility can have a lower profit margin and higher inventory turnover, and make more total net revenue than a facility with a higher profit margin and lower turnover.

As part of the retail industry, there are times where product must be sold below cost in order to clear old or seasonal inventory. When attempting to clear old or slow moving inventory, some products may need to be marked below cost to clear room for new stock. This follows standard retailing practices. The public, as well as staff, have the ability to purchase sale items at the lower price point. Staff analyzes the inventory to determine when product should be reduced in order to maximize the sales opportunity and maintain proper inventory levels. It is recognized that every item is not going to be sold at the initial retail offering and markdown strategies are considered when determining the initial retail offering. In addition, merchandising skills are required of the Head Golf Professional and identified during the hiring process.

The Golf Division does have budgetary goals to attain for annual merchandise sales. However, it is important to consider that the primary business for the Golf Division is greens and cart fees, and merchandise is an amenity to the golfer, supporting the entire golf experience. The Golf Division works to maximize net revenues necessary to reach 100% cost recovery while balancing customer loyalty and retention.

Target Date: December 2012

Responsibility: Greg Durante, Golf Services Manager

9. Information in Pro-Shop Keeper does not accurately reflect what is recorded in Lawson

In order to set pricing and accurately monitor profit and loss, it is important for the Golf Division to track revenue from sales and cost of goods sold. Golf management currently uses PSK reports to monitor revenues and expenditures at each course. Since Lawson is the City's source record for revenue and expenditures, it is important that information in Lawson and PSK reconcile to produce meaningful data on profit and loss.

The City Auditor's Office attempted, unsuccessfully, to reconcile merchandise received in PSK to the Merchandise for Resale account in Lawson (account number 60019). Golf management was also unable to reconcile the numbers. Testing indicated that the discrepancy is due to, at least in part, the fact that an item purchased in Lawson was not entered into PSK and that cost is not always entered properly into PSK. According to Golf management, the one item that was purchased and accounted for in Lawson but not entered into PSK was a mistake and the item has since been properly entered into PSK. The City Auditor's Office noted that the cost of several items entered into PSK included shipping. According to Golf management, shipping should not be included in the cost, but should be accounted for separately. Since item costs are not entered consistently, cost of goods sold data contained in reports from PSK may not be accurate. Thus, upper management may not be given an accurate picture of sales and profits when provided with data based on PSK reports.

Recommendation:

The Parks and Recreation Director should routinely reconcile costs recorded within Pro-Shop Keeper to those recorded within Lawson.

Management's Response:

Concur. Due to the current difficulty in producing a monthly report to compare both systems (PSK and Lawson), a reconciliation is not considered feasible at this time. However, randomly selected invoices will be verified within PSK and Lawson on a routine basis.

In addition, the Parks and Recreation Department and Information Technology are in the process of setting up an interface between Pro-Shop Keeper and Lawson that will improve real time revenue entry and reduce potential record errors.

Target Date: October 2012

*Responsibility: Greg Durante, Golf Services Manager
Mark Davies, Parks Fiscal Services Manager*

Recommendation:

The Parks and Recreation Director should ensure that items are properly entered into Pro-Shop Keeper upon receipt.

Management's Response:

Concur. The Golf Division will increase verification steps, randomly checking to ensure that items are properly entered into Pro-Shop Keeper which may involve the assistance of the Business Services group within the Parks and Recreation Department. The Golf Division does have a process in place for properly entering products into the POS; however, one golf course did experience an issue where an employee did not follow the established SOP. The employee received additional training and was administered the proper discipline.

Target Date: Completed April 2012

*Responsibility: Greg Durante, Golf Services Manager
Sandra Grimm, Golf Operations Administration
Business Services*