

**Ventana Grille Audit  
April 2014**

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# Ventana Grille Audit



Office of the City Auditor

Craig Terrell, CPA  
Interim City Auditor

Project # 13-14

April 30, 2014

## *Executive Summary*

*Ventana Grille has continued to operate effectively as a low-volume, casual dining restaurant*

*Compliance with TABC, food safety regulations and standards*

*Effective internal controls over alcohol inventory*

### *Opportunities for Improvement*

*Additional oversight over weekly alcohol inventories*

*Verify the reliability of food and beverage sales and inventory analysis reports*

*Decrease food costs as percent of revenue through spoilage reduction, portion control and increased monitoring*

*Implement recommended marketing programs as justified*

As part of the Fiscal Year 2013 Annual Audit Plan, the City Auditor's Office has completed an audit of the Ventana Grille. The audit was conducted in accordance with generally accepted government auditing standards. 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. Those objectives included:

- Determining whether the Ventana Grille was in compliance with regulatory laws governing health, food handling, alcohol sales and tax reporting
- Determining whether financial statements accurately reflect Ventana Grille operating results
- Determining whether appropriate inventory controls are in place for alcohol and food and beverage sales
- Determining whether recommendations made by a restaurant consultant in 2010 have been implemented where feasible
- Ensuring that the Parks and Recreation Department has instituted appropriate quality control and marketing programs to help identify revenue enhancement opportunities and necessary operating improvements
- Calculating the impact on Ventana Grille operating results as a result of the City's agreement with Coca-Cola Enterprises, Inc. for sponsorship rights

The City Auditor's Office noted that the Ventana Grille continues to be a quality, casual dining facility that is dependent on revenue derived from sales to golfers, tournaments and special events. The vision of becoming a destination restaurant for south Arlington, Mansfield and Kennedale residents has not materialized. When inclement weather reduces golfer traffic, the restaurant experiences low daily sales. According to management, the lack of sales volume has resulted in cost-cutting measures that threaten the

long-term stability of the restaurant and creates the potential for quality degradation. While the City Auditor's Office did not note any significant decrease in quality, it did note that staff appeared stressed and concerned about meeting expectations.

The City Auditor's Office noted that financial results for the Ventana Grille are accurately reported in the Lawson Financial System, except that ending inventory values are not recorded. Due to an emphasis on operating results of the restaurant, the risk exists that management would be tempted to inflate revenues or under-report expenditures in order to bolster the financial statements of the restaurant. Audit testing did not identify any manipulation of Ventana Grille operating results.

While inventory controls over alcohol were adequate, the City Auditor's Office did note several opportunities for improvement. These improvements include a monthly reconciliation of inventory purchases, documentation of review and approval of inventory shrinkage and more accurate recording of the number of servings included in liquor bottles. Strong controls noted included weekly inventory counts, daily reconciliation of beverage cart sales, locked storage and weekly comparisons of actual sales to usage.

Food and beverage (non-alcohol) inventories were not performed consistently throughout the fiscal year and did not include a comparison of actual sales to product usage. While more complicated than the weekly alcohol inventories due to menu item recipes, monthly food and beverage inventories can be conducted to determine a food and beverage cost of goods sold percentage. Generally, the City Auditor's Office noted that further review and verification of food and beverage costs recorded in the Chef Tec system is needed to ensure that inventory and sales analysis reports are reliable. While most menu items are priced to yield a much lower cost of goods sold percentage (25% - 35%), the actual cost of food and beverage sold is approximately 47% of revenue, which exceeds industry standards.

Many of the changes recommended in 2010 by a restaurant consultant have been implemented. However, some significant recommendations related to marketing, inventory reduction and operating hours have not yet been fully implemented. Although a Marketing and Enterprise Development Coordinator was hired in November 2012, significant progress has not been made on developing a formal annual marketing plan, conducting personal visits to target audiences and growing and utilizing the existing marketing database. Management indicated that a recently hired Tournament Coordinator will be the primary contact for catering/special event bookings and will be responsible for increasing the clientele base. Although the Ventana Grille has reduced the selection of wines purchased, the City Auditor's Office noted that the inventory includes wine that was purchased prior to FY2013. The consultant also recommended that the restaurant function as a snack bar on Sunday through Thursday nights, serving golfers and any casual diners.

The City Auditor's Office reviewed the City's agreement with Coca-Cola Enterprises, Inc. (Coca-Cola) and noted that the Ventana Grille paid approximately \$8,000 more for water and soda products under the Coca-Cola agreement. When the other City golf courses are included in the analysis, the courses would have saved over \$20,000 in purchase costs. Although these increased costs are relatively insignificant to total sales, the costs are material to the Ventana Grille bottom line.

These findings and recommendations are discussed in the Detailed Audit Findings section of this report.

## ***Audit Scope and Methodology***

The audit was conducted in accordance with generally accepted government auditing standards. The City Auditor's Office reviewed operating results during FY2013 and FY2014. The following methodology was used in completing the audit:

- Reviewed operating policies and procedures
- Reviewed enabling laws to ensure compliance
- Interviewed restaurant and Golf Division personnel
- Observed daily cash handling processes
- Reviewed financial transactions, including the purchase and recording of inventory, revenue and labor costs
- Observed weekly alcohol and monthly food inventory processes
- Analyzed operating results as recorded in Chef Tec, Pro-ShopKeeper and the Lawson Financial System
- Researched restaurant and golf club industry standards

It was noted that restaurant staff conducted a FY2012 ending inventory of alcohol (beer, liquor and wine) but did not conduct a similar inventory for food and beverage items. As such, the City Auditor's Office was not able to determine the actual cost of goods sold for food and beverage items for FY2013. However, based on analysis of food and beverage turnover, it is likely that the beginning inventory for FY2013 was insignificant compared to total FY2013 purchases and therefore would not have a material impact on the cost of goods sold. The Parks and Recreation Department identified that an inventory was not taken and implemented procedures to ensure that monthly inventories were conducted during the remainder of the fiscal year.

## ***Background***

Ventana Grille is located inside the clubhouse of Tierra Verde Golf Club. Ventana means "window" in Spanish and the windows of Ventana Grille offer a spectacular view of Tierra Verde. Patrons can also dine outside on a patio and enjoy glimpses of golf and nature coming together in harmony. In addition to offering breakfast, lunch and dinner menus, the restaurant also is available for catering, private parties, receptions and special requests.

Prior to 2011, the Ventana Grille was an upscale, tablecloth, chef driven, Spanish motif (tapas and wine as the focus) dining venue serving the south Arlington, Mansfield and Kennedale markets. The restaurant changed focus slightly and is now a more casual, golfer friendly venue that should appeal to both golfers and casual diners in the area. In addition to simplifying menu selections, the restaurant revised labor schedules to eliminate overstaffing and increase efficiency. Review of financial data over the past five fiscal years indicates that the changes have resulted in improvement to the restaurant's bottom line, as noted in the following chart:

<b>Ventana Grille Revenues and Expenses Fiscal Years 2009 to 2013</b>					
	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>	<u>FY 2013</u>
<b>Revenue</b>					
Alcoholic Beverage Sales	\$ -	\$ -	\$ -	\$ 218,335	\$ 202,384
Food and Beverage Sales	349,916	343,661	391,118	380,819	329,624
Management Lease Fees	107,971	92,821	108,834	39,825	-
Other				-	5,308
Total Revenue	<u>\$ 457,887</u>	<u>\$ 436,482</u>	<u>\$ 499,952</u>	<u>\$ 638,979</u>	<u>\$ 537,316</u>
<b>Cost of Goods Sold</b>					
Cost of Alcohol for Resale	-	-	-	\$ 100,857	\$ 60,701
Cost of Food and Beverage for Resale	150,222	169,914	168,885	170,839	155,030
Total	<u>\$ 150,222</u>	<u>\$ 169,914</u>	<u>\$ 168,885</u>	<u>\$ 271,696</u>	<u>\$ 215,731</u>
<b>Expenses</b>					
Personnel	\$ 299,641	\$ 306,277	\$ 278,672	\$ 250,121	\$ 238,073
Supplies	57,045	75,892	48,804	62,880	49,123
Maintenance	1,450	725	1,015	163	2,021
Total	<u>\$ 358,136</u>	<u>\$ 382,894</u>	<u>\$ 328,491</u>	<u>\$ 313,164</u>	<u>\$ 289,217</u>
Total Expenses	\$ 508,358	\$ 552,808	\$ 497,376	\$ 584,860	\$ 504,948
Net Income/(Loss)	\$ (50,471)	\$ (116,326)	\$ 2,576	\$ 54,119	\$ 32,368

Source: Lawson Financial System

### **Staffing**

The FY2014 budget indicates that two full-time positions (Restaurant Manager and Assistant Restaurant Manager) are assigned to the Ventana Grille. However, the Assistant Restaurant Manager position has been held vacant, in an effort to ensure profitable operations. As a result, the Restaurant Manager has reported that it has been difficult to take vacations over the past three fiscal years.

During FY2013, the restaurant paid approximately \$237,000 in salaries, wages and benefits to 39 different employees. Only the restaurant manager position is classified as a full-time position with benefits. Of the 39 employees that received payments in FY2013, 20 are still considered active with the City. The beverage cart attendant and restaurant server positions are exempt from minimum wage rate laws and rely on tips. As shown in the table below, salaries and wages paid to the restaurant manager and line cooks make up almost 70% of the total payments.

**Ventana Grill  
Summary of Wages and Benefits  
FY 2013**

Description	Number	Still Active	Hours	Total	Average Rate	Pct. of Total
Beverage Cart Attendants	10	5	3,702	\$ 20,869	\$ 5.64	8.80%
Line Cooks	9	5	8,992	80,975	9.01	34.15%
Restaurant Manager	1	1	2,080	81,650		34.43%
Restaurant Server	17	7	7,244	46,780	6.46	19.73%
Restaurant Worker	1	1	779	6,343	8.14	2.67%
Special Events Assistant	1	1	59	517	8.76	0.22%
<b>Total</b>	<b>39</b>	<b>20</b>	<b>22,856</b>	<b>\$ 237,134</b>	<b>\$ 10.38</b>	<b>100.00%</b>

Source: Lawson Financial System

**Alcohol Sales**

Gross alcohol sales for FY2013 were approximately \$232,000, as shown in the table below. Beer sales account for slightly more than 70% of the total alcohol sales:

**Ventana Grill  
Alcohol Sales - Gross\*  
FY2013**

Item	Qty	Amount	Pct.
Beer	45,507	\$ 164,822	71%
Liquor	8,107	54,694	24%
Wine	1,503	12,377	5%
<b>Total</b>	<b>55,117</b>	<b>\$ 231,893</b>	<b>100%</b>

\* - Includes 14% mixed beverage tax

Source: Pro-ShopKeeper Sales Data

During FY2013, 243 different items were sold comprising the total amount of alcohol sales. However, the most popular beers comprised more than 50% of total alcohol sales and the top 30 sellers accounted for over 80% of total alcohol sales, as shown in the chart on the following page:

**Ventana Grille  
Alcohol Sales - Top Sellers  
FY 2013**

Description	Qty	Unit Price	Extended
Miller Lite 16 oz Aluminum Bottle	5,458	\$4.00	\$21,832
Coors Light 16 Oz Aluminum Bottle	5,112	4.00	20,448
Bud Light 16 Oz Aluminum Bottle	4,440	4.00	17,760
Coors Light Can	4,514	3.25	14,671
Miller Lite Can	4,023	3.25	13,075
Michelob Ultra 16 Aluminum Bottles	2,864	4.00	11,456
Bud Light Can	3,017	3.25	9,805
Shiner Bock Can	2,566	3.75	9,623
Smirnoff 50 ml Bottle	1,242	6.00	7,452
Crown Royal 50 ml Bottle	934	6.50	6,071
Blue Moon Draft	1,628	3.50	5,698
Michelob Ultra Can	1,396	3.25	4,537
Sam Adam's Seasonal Draft 16 Oz	1,038	3.75	3,893
Heneiken Can	997	3.75	3,739
Crown Royal -VG	571	6.00	3,426
Corona Can	899	3.75	3,371
Bud Light Lime 16 Oz Aluminun Bottles	819	4.00	3,276
Crown Royal Double	340	9.00	3,060
Bud 16 Oz Aluminum Bottle	758	4.00	3,032
Jack Daniel 50 ml Bottle	494	6.00	2,964
Smirnoff Double	318	8.25	2,624
Smirnoff Vodka	402	5.25	2,111
Budweiser Can	617	3.25	2,005
Bloody Mary Smirnoff	331	6.00	1,986
Sam Adams's Seasonal Pitcher	165	12.00	1,980
Tito's Vodka Double	203	9.00	1,827
Liberty School, Cabernet Sauvignon Glass	214	8.50	1,819
Bud Light Lime Can	543	3.25	1,765
Cycles Gladiator Chardonnay Glass	231	7.50	1,733
Blue Moon Pitcher	152	11.00	1,672
<b>Total</b>	<b>46,286</b>		<b>\$188,711</b>

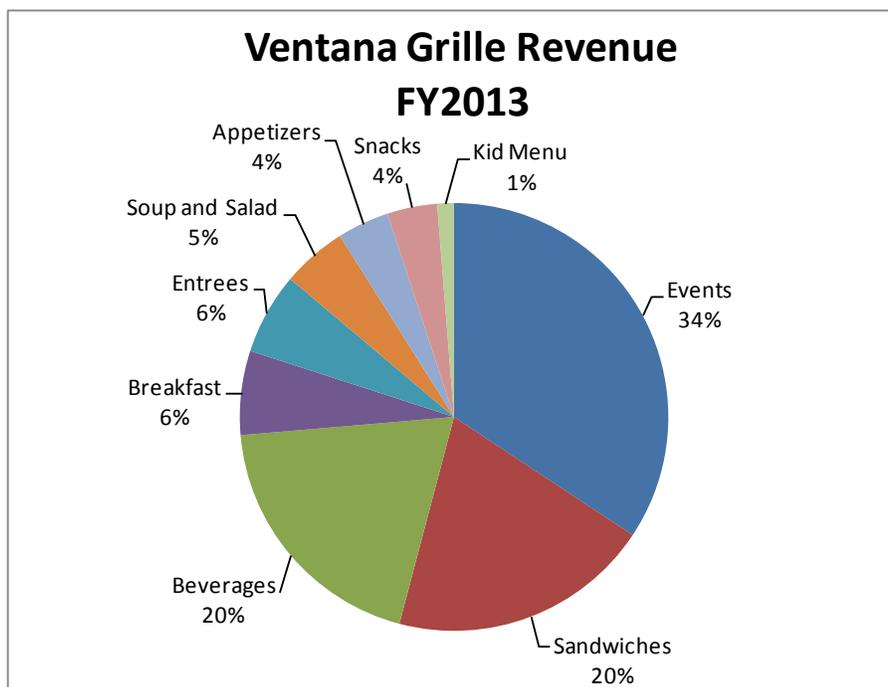
Source: Pro-ShopKeeper Sales Data

**Food and Beverage Sales**

The Ventana Grille recorded over \$300,000 in food and beverage revenue for FY2013. As shown in the following charts, revenue from events (tournaments, receptions, weddings, parties, catering, etc.) comprised more than one-third of the revenue received in FY2013:

<b>Ventana Grille Food and Beverage Revenue FY2013</b>				
Category	Qty.	Revenue	Average Revenue Per Sale	Pct. of Total Revenue
Events	7,566	\$ 105,292	\$ 13.92	33.97%
Sandwiches	13,393	60,737	4.53	19.59%
Beverages	31,825	59,939	1.88	19.34%
Breakfast	6,129	19,496	3.18	6.29%
Entrees	1,858	18,920	10.18	6.10%
Soup and Salad	2,782	15,017	5.40	4.84%
Appetizers	2,141	12,005	5.61	3.87%
Snacks	9,730	11,585	1.19	3.74%
Kid Menu	1,067	3,859	3.62	1.25%
Desserts	263	1,289	4.90	0.42%
Misc	4,109	1,152	0.28	0.37%
Sides	377	671	1.78	0.22%
<b>Total</b>	<b>81,240</b>	<b>\$ 309,961</b>	<b>\$ 3.82</b>	<b>100.00%</b>

Source: Pro-ShopKeeper Sales Data



Source: Pro-ShopKeeper Sales Data

Excluding the events category, the top sellers account for approximately 50% of the total food and beverage sales. As shown in the chart below, sales of beverages (fountain drinks, bottled water, Powerade, can drinks) and various sandwiches account for the majority of the sales.

<b>Ventana Grille</b>				
<b>Top Sales - Food and Beverage</b>				
<b>FY2013</b>				
<b>Item</b>	<b>Qty.</b>	<b>Unit Price</b>	<b>Extended Price</b>	
Powerade	8,522	\$ 2.31	\$ 19,404	
Dasani Water Bottle	5,124	1.50	7,463	
Fountain Drink	3,305	2.31	7,433	
Classic Club	955	7.95	7,071	
To Go Fountain Drink	3,058	2.31	6,885	
Can Drink	4,853	1.39	6,675	
Hot Dog	1,625	3.50	5,566	
Cup of Soup and Half Sandwich	672	6.95	4,503	
Sandwich of the Day	667	7.95	4,469	
Philly Cheesesteak Sandwich	548	7.95	4,109	
Saturday Breakfast	501	9.00	4,050	
Iced Tea	1,729	2.31	3,926	
Snickers	3,463	1.16	3,867	
Grilled Chicken Panini	486	7.95	3,639	
Express Burger	576	6.50	3,470	
Breakfast Taco	1,778	1.95	3,085	
Turkey and Cheese Classic	725	3.75	2,646	
19th Hole Nachos	348	7.95	2,601	
Ventana Burger	318	8.50	2,596	
<b>Total</b>	<b>39,253</b>	<b>\$ 2.64</b>	<b>\$ 103,458</b>	

Source: Pro-ShopKeeper Sales Data

## *Detailed Audit Findings*

### **1. While inventory controls over alcohol were adequate, the City Auditor's Office noted several opportunities for improvement.**

The Ventana Grille has implemented adequate internal controls over alcohol inventory. Alcohol inventory is taken weekly, liquor not immediately needed is stored in a locked cage, beverage cart sales are reconciled daily and inventory reports are produced weekly that compare actual usage to sales to identify shrinkage. The City Auditor's Office analyzed liquor sales and purchases and noted that the actual alcohol cost of goods sold percentage (29%) varied little from the expected percentage, indicating immaterial inventory shrinkage.

Although the internal controls noted above provide adequate safeguards over alcohol, the City Auditor's Office noted the following areas where controls could be further strengthened:

- Verification that purchases were accurately recorded in the Chef Tec system

Purchases of alcohol are recorded in the Lawson Financial System. Tracking and monitoring alcohol purchases, sales and inventory is performed in Chef Tec. To ensure that reports produced in Chef Tec are accurate and reliable, staff must ensure that all inventory purchased is recorded in Chef Tec. During the audit, the City Auditor's Office noted that the Golf Operations Administrator verified that selected alcohol purchases (provided by the Restaurant Manager) were entered in Chef Tec. However, she did not reconcile total purchases (as recorded in Lawson) to purchases recorded in Chef Tec for the same period. Audit testing identified at least one alcohol purchase recorded in Lawson that was not recorded correctly in Chef Tec. A purchase of three cases of beer was inadvertently recorded as two cases. As the Restaurant Manager is responsible for purchasing, recording and conducting alcohol inventory counts, an additional control is needed to verify that all purchases were recorded. Otherwise, the Restaurant Manager could purchase alcohol using City funds, not record the purchase in Chef Tec, use the inventory for personal purposes and then produce inventory reports that would not indicate shrinkage. After discussion with staff, the recommended additional control was implemented immediately.

- Documentation of review and approval of inventory analysis reports

As noted above, the Restaurant Manager is responsible for purchasing, recording and inventorying alcohol. He is also responsible for printing and reviewing inventory reports that calculate shrinkage. The City Auditor's Office did not note any formal documentation of the results of reviews of the inventory reports. For example, in the example noted above, a purchase of three cases of beer was entered as two cases. The inventory analysis for that week showed a negative shrinkage of 24 beers, as the beers were actually counted during the physical inventory. There was no indication that the error was identified or resolved during the weekly inventory process. The weekly alcohol inventory reports are also periodically reviewed by the Golf Operations Manager as an oversight control. However, the City Auditor's Office did not find any evidence that these reviews are formally documented. Internal control would be strengthened if the review and acceptance of inventory reports were documented by the Golf Operations Manager or his designee.

- More accurate recording of the number of servings included in liquor bottles

Alcohol purchased for resale is recorded by number of servings in Chef Tec. This enables management to purchase bottles of liquor and maintain inventory control over the size of servings. The recorded serving size for hard liquor is 1.25 ounces. A one liter bottle of scotch, for example, will therefore contain 27 servings under ideal conditions. However, when recording alcohol purchases in Chef Tec, the Restaurant Manager has been recording the number of servings available from a one liter bottle as 22, not 27. The difference is seen as the expected spillage/shrinkage that is likely to normally exist. Customer expectations of a good “pour”, bartenders’ desire for a higher tip, actual spillage and pouring errors (such as making a drink incorrectly), will all lead to shrinkage. Internal control would be strengthened if the number of servings available was entered as 27. Inventory reports would then provide a more accurate picture of the true amount of shrinkage that has occurred. The City Auditor’s Office was not able to calculate the true amount of shrinkage for liquor sales. The City Auditor’s Office noted that approximately \$6,800 in liquor was purchased in one liter containers during FY2013. The loss of five servings from each one liter bottle would equate to a loss of \$1,260 (18.5%) in product or \$4,342 in sales.

As noted earlier, controls over alcohol were relatively strong without these improvements. There is not quantitative evidence available to determine the benefits of implementing these additional controls. However, as internal control is strengthened, inventory losses (shrinkage) should decrease, accountability should increase and operating results may improve.

***Recommendation:***

The Director of Parks and Recreation should ensure that staff periodically reconciles alcohol purchases recorded in the Lawson Financial System to alcohol purchases recorded in Chef Tec.

***Management’s Response:***

*Concur. Beginning mid-February 2014, Golf Operations Administrator began to reconcile entries into Chef Tec with purchases recorded in Lawson by reviewing vendor statements to make sure payment was either made or is in process, review of GL290’s and by comparing Chef Tec invoice entry report to the actual vendor invoice for accuracy.*

*Target Date: Complete and On Going*

*Responsibility: Golf Operations Administrator and Restaurant Manager*

***Recommendation:***

The Director of Parks and Recreation should require that the Golf Operations Manager or his designee document the review of weekly alcohol and monthly food and beverage inventories, indicating approval of any steps taken to investigate and resolve significant discrepancies.

***Management’s Response:***

*Concur. Review of weekly alcoholic beverage and monthly food and beverage inventories take place during weekly Ventana Grille Business Meeting, typically held on Mondays. Restaurant*

*Manager is to bring printed inventory with any variances identified and steps for reconciliation outlined in memo format for significant variances.*

*Target Date: Complete and On Going*

*Responsibility: Golf Operations Manager, Golf Operations Administrator and Restaurant Manager*

***Recommendation:***

The Director of Parks and Recreation should require that Ventana Grille staff identify and record liquor servings based on the optimal number of servings per bottle.

***Management's Response:***

*Concur. Liquor servings per liter bottle were changed from the 22 pours established when the alcohol portion was owned by the private club to the maximum number of possible servings per liter bottle, which are 27 units; and for the 750 ml bottles equivalent to 20 pours per bottle. The 22 pours previously used is a standard that is utilized in restaurants and bars to compensate inventories for spillage and other serving factors. These are now recognized and adjusted through the weekly inventory process. This change was made the first week of December, 2013.*

*Target Date: Complete and On Going*

*Responsibility: Golf Operations Manager and Restaurant Manager*

**2. Food and beverage costs exceed industry standards/averages.**

The cost of food and beverage (non-alcohol) sold by Ventana Grille in FY2013 was approximately 47% of sales. The consultant previously had recommended that Ventana Grille break out the cost of goods sold by food and non-alcoholic beverages and beer, liquor and wine. Industry standards suggest that the cost of goods sold as a percentage of sales should range between 25% to 45%. Although no specific goal has been established and comparison to industry standards is difficult, it would appear that the Ventana Grille should aim for less than 47% as personnel expenses at current sales volume equals 44% of revenue. Although not specifically identified in the audit, spoilage, portion control, theft and input errors are most likely responsible for the higher actual cost of goods sold percentage.

The City Auditor's Office noted the following regarding food and beverage sales and inventories:

- As noted earlier for alcohol purchases, the Golf Operations Administrator has not been reconciling food and beverage purchases recorded in Lawson to purchases recorded in Chef Tec. Because the Golf Operations Administrator does not have comprehensive knowledge of Chef Tec, she is not able to verify that purchases have been recorded at proper serving sizes for menu recipes.
- Food and beverage inventories were not performed consistently throughout the fiscal year and did not include a comparison of actual sales to product usage. As noted in the scope section of this report, an ending FY2012 inventory was not performed. While the City Auditor's Office

noted that monthly food and beverage inventories were performed for May through December 2013, those inventories were physical counts only, with no reports that compared expected usage to actual usage, except for December 2013.

- While more complicated than the weekly alcohol inventories due to menu item recipes, monthly food and beverage inventories can be conducted to determine a food and beverage cost of goods sold percentage. The City Auditor's Office noted that only the December 2013 inventory included a calculation of the cost of goods sold percentage. However, it was determined that the calculation resulted in an erroneous blended cost of goods sold percentage that included both alcohol and food and beverage costs. When segregated, the City Auditor's Office noted that the cost of goods sold as a percentage of revenue was approximately 51% for December 2013.
- Generally, the City Auditor's Office noted that further review and verification of food and beverage costs recorded in the Chef Tec system is needed to ensure that inventory and sales analysis reports are reliable. While most menu items are priced to yield a much lower cost of goods sold percentage (25% - 35%), the actual cost of food and beverage sold is approximately 47% of revenue. In addition, a sales report generated within Chef Tec for December 2013 included the following anomalies:
  - The calculation that staff fountain drink cost \$1.20 equaling 178% of the sales price.
  - The calculation that the cost of the black bean, bourbon bacon and Ventana burgers all exceeded 150% of their respective sale prices.
  - The cost of ham and turkey sandwiches and hot dogs all exceeding 50% of their respective sale prices
  - The cost (\$15.39) of a sack lunch for a tournament exceeding 180% of the sales price.
  - Total sales for the month per the report did not agree to sales reported in Lawson and on other Chef Tec reports.
- The City Auditor's Office noted that over \$16,000 in Ventana Grille revenue was collected by the Tierra Verde Pro Shop and recorded only as "Ventana Food" in Pro-ShopKeeper. This revenue was recorded in the general ledger but was not included on Pro-ShopKeeper sales reports for the Ventana Grille and therefore not incorporated into Chef Tec for inclusion in sales analysis reports. Review indicated that the revenue not recorded in Chef Tec was related to tournament and special event sales.

Ventana Grille management noted that Chef Tec was implemented within the last fiscal year and only minimal training was received on the more advanced uses of the system. Management noted that they are in the process of analyzing menu items and determining which items should receive emphasis on a new menu that will be produced during the second quarter of FY2014. By not periodically analyzing sales and inventory reports, the risk exists that menu items may be priced inappropriately or theft may occur and not be detected.

**Recommendation:**

The Director of Parks and Recreation should ensure that staff periodically reconciles food and beverage purchases recorded in the Lawson Financial System to food and beverage purchases recorded in Chef Tec.

**Management's Response:**

*Concur. Beginning mid-February 2014, Golf Operations Administrator began to reconcile entries in Chef Tec with purchases recorded in Lawson by reviewing vendor statements to make sure payment was either made or is in process, reviewing GL290's and by comparing Chef Tec invoice entry report to the actual vendor invoice for accuracy.*

*Target Date: Complete and On Going*

*Responsibility: Golf Operations Administrator and Restaurant Manager*

**Recommendation:**

The Director of Parks and Recreation should require that the Restaurant Manager conduct monthly food and beverage inventories and produce inventory and sales analysis reports that will help identify shrinkage, spoilage and menu items with high costs.

**Management's Response:**

*Concur. The Restaurant Manager currently conducts monthly food and beverage inventories. We will utilize the reports available in Chef Tec, along with the point of sale system, to produce reports to identify shrinkage, spoilage and menu items that may need modification or elimination due to high margins and/or low customer sales. Golf Administration will also review on a quarterly basis to aide in menu adjustments. Specific reports that will be used are:*

***Chef Tec Program***

*Purchases: Detailed purchases; Food purchases by period; Summary of invoice*

*Inventory: Extensions; Physical inventory worksheet; Inventory on hand; Location on inventory items; Percentage food cost by category; Recipes using and inventory item; Overall percentage food costs*

*Sales: Sales breakdown; Sales by number sold; Sales by contribution to profit; Sales by category (rank by number sold); Sales by category (rank by profit)*

***Pro Shop Keeper Program***

*Daily and Sales Reports: Sales by Category type; Sales by hour detail; Sales transaction report; Sales person daily cash out; Void Items; Balance cash drawer with credit card tips*

***Interface and Excel***

*Sales Extension from Pro Shop Keeper to Chef Tech; Daily and monthly revenue entry*

*Target Date: Complete and On Going*

*Responsibility: Restaurant Manager, Golf Operations Administrator and Golf Operations Manager*

***Recommendation:***

The Director of Parks and Recreation should ensure that staff verifies and validates the accuracy of Chef Tec sales and inventory analysis reports so that the reports can be relied upon to help identify menu changes and product placement.

***Management's Response:***

*Concur. As the recipe feature in Chef Tec drives the analysis component of both existing product as well as future items, each recipe will be reviewed for portion, item content, standardization of measurement and product pricing. We will utilize the reports available to help identify menu changes and product placement.*

*Target Date: June 13, 2014*

*Responsibility: Restaurant Manager, Golf Operations Administrator and Golf Operations Manager*

**3. The Ventana Grille does not have a formal annual marketing plan.**

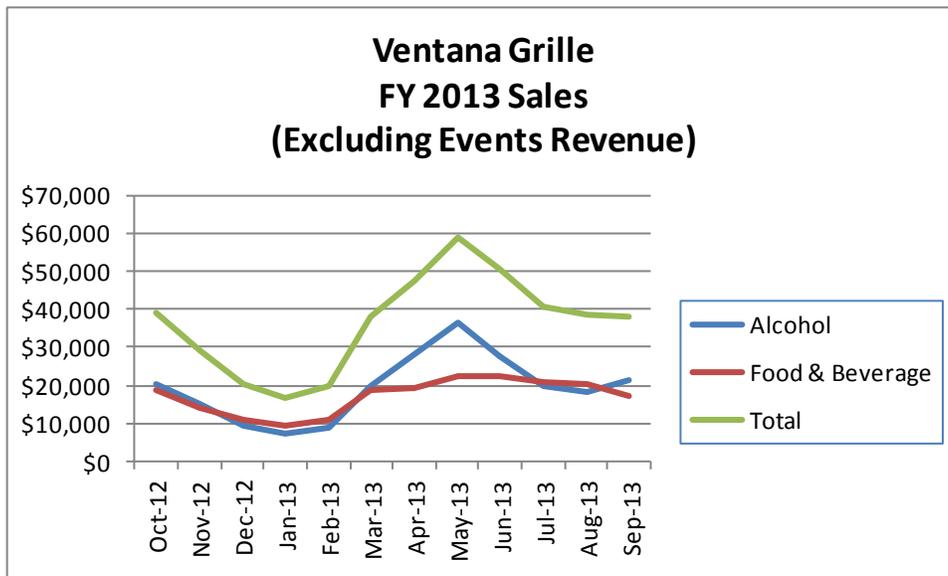
A well-written, comprehensive marketing plan is the focal point of all business ventures because it describes how the business plans to attract and retain customers, the most crucial aspect of a business. The marketing plan is the basis from which all other operational and management plans are derived. An effective marketing plan:

- identifies needs and wants of consumers
- determines demand for product
- aids in design of products that fulfill consumers needs
- identifies competitors and analyzes a business's competitive advantage
- identifies new product areas
- identifies new and/or potential customers
- allows for test to see if strategies are giving the desired results

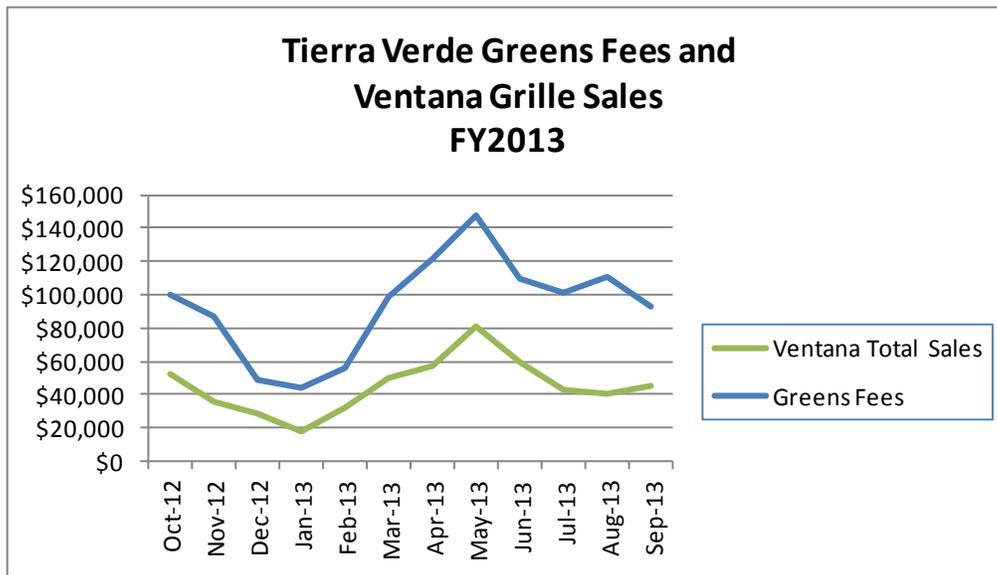
Although a Marketing and Enterprise Development Coordinator was hired in November 2012, significant progress has not been made on developing a formal annual marketing plan, conducting personal visits to target audiences and growing and utilizing the existing marketing database. Management indicated that a recently hired Tournament Coordinator will be the primary contact for catering/special event bookings and will be responsible for increasing the clientele base.

Although discussions with Parks and Recreation management indicated that the department has a general understanding of where marketing efforts should be focused, the City Auditor's Office noted that management has not established specific goals of targeted marketing efforts. As shown in the graphs below, the Ventana Grille has been dependent on golfers and warm weather. Revenue decreases in the hot summer months and continues to decrease through winter until spring arrives. As shown in Finding #5, for many days during this period, the gross margin from sales does not exceed the cost of

labor. The graphs give an indication of where sales could be increased and how to measure success of targeted marketing efforts.



Source: Pro-ShopKeeper sales data



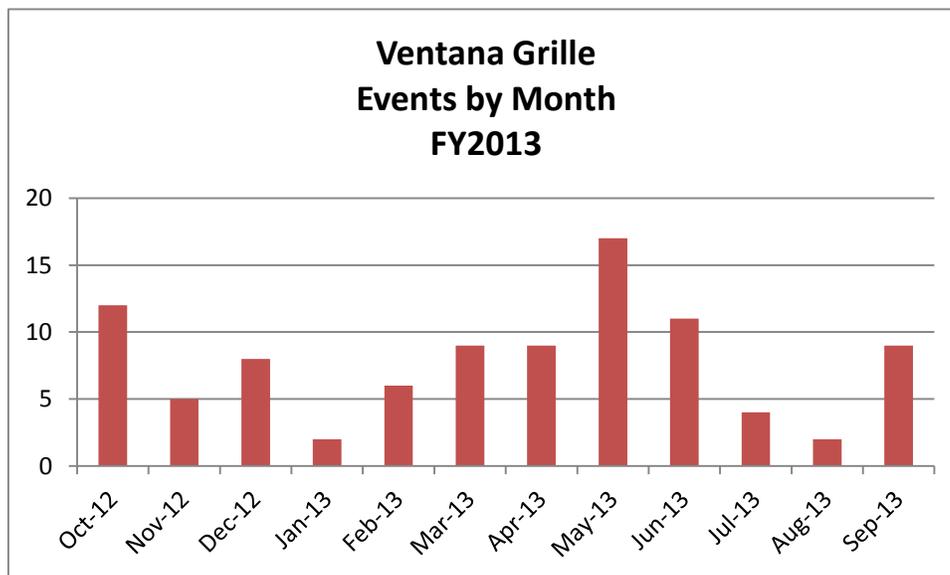
Source: Pro-ShopKeeper sales data

Although there was a strong correlation between Ventana Grille sales and greens fees in FY2013, the table below indicates that there was some variance between months, possibly indicating that additional focused marketing efforts could improve results. For example, in August 2013, Ventana sales per round of golf decreased 42% from the May 2013 level of \$18.88 per round of golf.

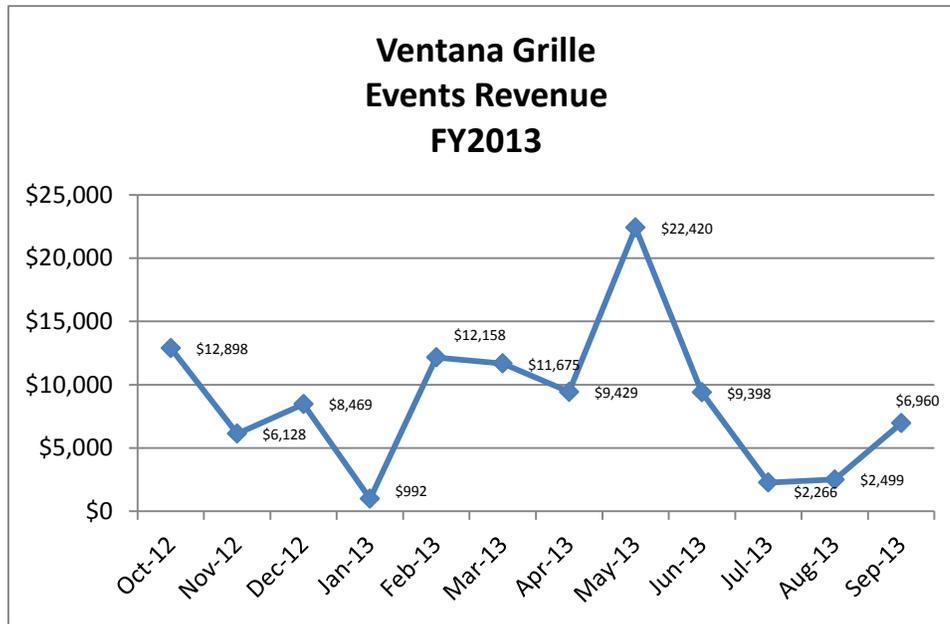
<b>Month</b>	<b>Ventana Total Sales</b>	<b>Greens Fees</b>	<b>Ventana Sales as a Pct. of Greens Fees</b>	<b>Rounds of Golf</b>	<b>Sales per Round of Golf</b>
Oct-12	\$ 52,078	\$ 100,128	52.0%	3,458	\$ 15.06
Nov-12	35,175	86,439	40.7%	2,863	12.29
Dec-12	28,945	48,942	59.1%	1,900	15.23
Jan-13	17,401	44,276	39.3%	1,881	9.25
Feb-13	31,806	55,914	56.9%	2,179	14.60
Mar-13	49,763	98,829	50.4%	3,475	14.32
Apr-13	56,954	121,025	47.1%	3,828	14.88
May-13	81,087	148,171	54.7%	4,296	18.88
Jun-13	59,871	110,113	54.4%	3,914	15.30
Jul-13	42,806	101,431	42.2%	3,822	11.20
Aug-13	40,861	110,549	37.0%	3,772	10.83
Sep-13	45,106	92,703	48.7%	3,366	13.40
<b>Total</b>	<b>\$ 541,853</b>	<b>\$ 1,118,520</b>	<b>48.4%</b>	<b>38,754</b>	<b>\$ 13.98</b>

Source: Pro-ShopKeeper sales data

Review of the “Events” category indicated that a large amount of the variance is attributed to tournaments, special events and other catering business. The charts below indicate both the number and dollar value of events held in FY2013.



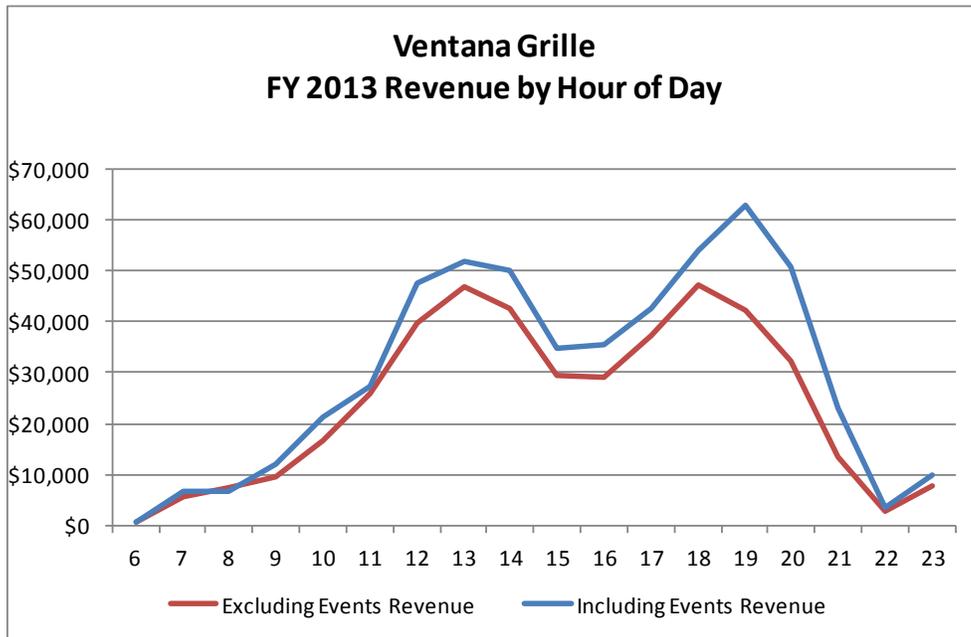
Source: Pro-ShopKeeper sales data



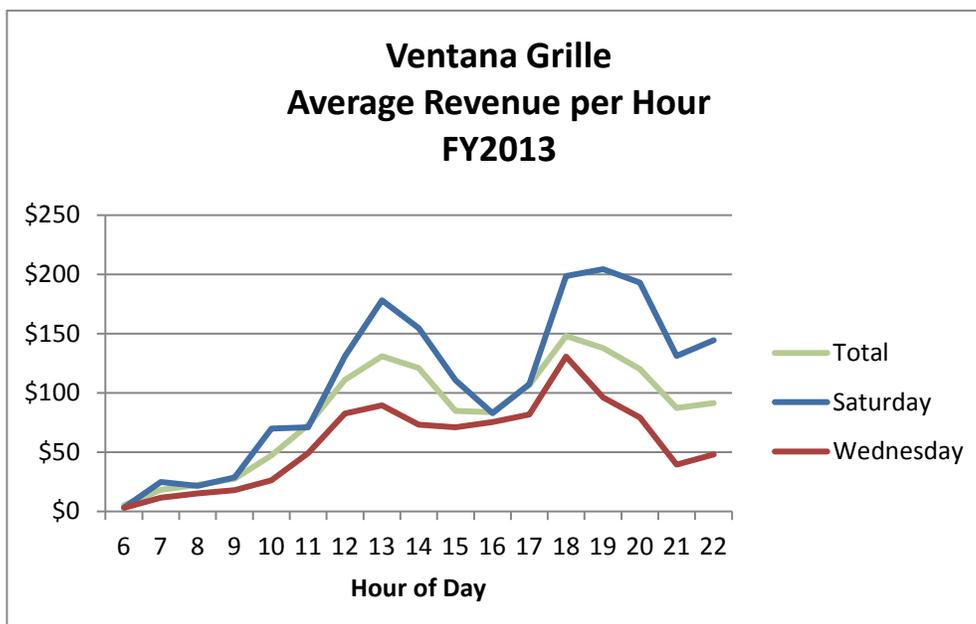
Source: Pro-ShopKeeper sales data

The graphs above indicate that event revenue in July and August decreased significantly from the spring months. Management indicated that it is difficult to get tournament organizers and organizations to commit to events in the hot summer months. In addition, the Ventana Grille stopped catering events at the Bob Duncan Community Center in FY2013 due to the cost of additional insurance required. The Parks and Recreation Department is currently working with the Risk Management Division to identify less costly insurance alternatives that would allow the Ventana Grille to resume catering activities at Bob Duncan. Through May of 2013, the restaurant had recorded revenue of approximately \$16,000 from catering activities at Bob Duncan.

The following charts indicate when revenue is received by the Ventana Grille by hour of day. The first graph shows total revenue by hour of day including and excluding event revenue. The second graph indicates the average hourly revenue recorded by hour of day and compares the busiest day of the week, Saturday, with the slowest day of the week, Wednesday. The second graph excludes event revenue, which is not necessarily recorded at the time service is provided.



Source: Pro-ShopKeeper sales data



Source: Pro-ShopKeeper sales data

**Recommendation:**

The Director of Parks and Recreation should ensure that Ventana Grille management develops an annual marketing plan and establishes specific goals to measure the effectiveness of marketing efforts.

**Management's Response:**

*Concur. The Parks and Recreation Department has been working on a Marketing Plan over the course of the last year. The plan is set to be completed in May of 2014. The plan not only outlines efforts for Ventana Grille, but all Golf business units and efforts to improve marketing across the entire department. Performance measures will be outlined within a dashboard of information to track success and/or failure. These performance measurements will include, but not limited to, food and beverage revenue per player, event attendance, catering events and customer surveys.*

*Target Date: May 31, 2014*

*Responsibility: Marketing and Enterprise Development Manager and/or Marketing and Enterprise Development Coordinator*

**Recommendation:**

The Director of Parks and Recreation should ensure that Ventana Grille management coordinates with the Risk Management Division to identify insurance alternatives that would allow the Ventana Grille to resume catering efforts at the Bob Duncan Community Center or other City facilities.

**Management's Response:**

*Concur. Over the last 18 months the Parks and Recreation Department has been working to solve an insurance challenge that halted the catering services that Ventana Grille provided at city facilities, such as, but not limited to, the Bob Duncan Center (BDC).*

*Since approximately 2010, Ventana Grille has been the preferred caterer at the BDC. The ability to provide this service reached a stumbling block in 2012 when the department was informed that an insurance policy would be required every time a catering event would be held regardless of it being at a city facility. The Parks and Recreation staff worked with members of Human Resources during this timeframe to identify opportunities in which a policy could be acquired by the city that would provide "blanket" coverage for all events at all city facilities. As of March of 2014, a policy has been finalized that will allow Ventana Grille to resume catering at city facilities. Catering will begin effective immediately following the implementation of the policy.*

*Target Date: April 1, 2014, Complete and On Going*

*Responsibility: Risk Management Office, Enterprise Programs Assistant Director and Golf Operations Manager*

**4. Liquor and wine selections can be pared down further as previously recommended by the restaurant consultant.**

During a review performed by a restaurant consultant, it was noted that both wine and liquor selections could be pared back significantly in order to reduce inventory dollars and storage requirements. Reduced product lists would also improve inventory controls, as the reduced number of products would simplify the physical inventory count process.

Inventory turnover ratio is used to measure the inventory management efficiency of a business. In general, a higher value of inventory turnover indicates better performance and a lower value means inefficiency in controlling inventory levels. A lower inventory turnover ratio may be an indication of over-stocking which may pose risk of obsolescence and increased inventory holding costs. As shown in the table below, beer turnover is roughly once every two weeks, liquor a little better than once a quarter and wine about once every six months.

<b>Ventana Grille</b>						
<b>Inventory Turnover Analysis</b>						
<b>FY2013</b>						
	<b>Purchases</b>	<b>Beginning Inventory</b>	<b>Ending Inventory</b>	<b>COGS</b>	<b>Average Inventory</b>	<b>Turnover</b>
Beer	\$ 44,981	\$ 1,142	\$ 2,122	\$ 44,001	\$ 1,632	26.96
Liquor	10,675	2,220	2,474	10,421	2,347	4.44
Wine	3,859	1,850	1,883	3,825	1,866	2.05
Total	<u>\$ 59,515</u>	<u>\$ 5,212</u>	<u>\$ 6,479</u>	<u>\$ 58,247</u>	<u>\$ 5,845</u>	9.19

Source: Chef Tec Data

Although the Ventana Grille has reduced the selection of wines purchased, the City Auditor's Office noted that the FY2013 ending inventory still includes wine that was purchased prior to FY2013, including 15 bottles of wine included on the ending inventory list with no value. However, of the 20 different wines purchased in FY2013, only four purchases, totaling \$756, did not sell more than half of what was purchased during the year. Therefore, it appears that the Ventana Grille has done an adequate job of reducing the selection of wines but may be able to pare down the selection even further after sales analysis is performed.

As noted in the chart above, the liquor turnover was substantially better than wine. However, of the 38 separate liquor items purchased in FY2013, 11 (29%) were for purchases of one or two liters for the entire fiscal year. As only a handful of liquor items made the top seller list presented on page 6 of this report, this could indicate that further reductions of the liquor menu is warranted. Some of the low-volume liquor purchased may have been used for special events or parties. Therefore, sales analysis may need to be performed in order to determine if additional selections can be eliminated.

The City Auditor's Office was not able to analyze food and beverage purchases for potential menu eliminations and/or additions. As noted in Finding #3, the reliability of Chef Tec inventory and sales reports needs to be validated prior to identifying underperforming menu items. As noted earlier, Parks and Recreation management has indicated that analysis will be performed and the menu revamped accordingly in the second quarter of FY2014.

***Recommendation:***

The Director of Parks and Recreation should ensure that Ventana Grille management determines whether further reductions to the beer, liquor and wine selections are warranted.

**Management’s Response:**

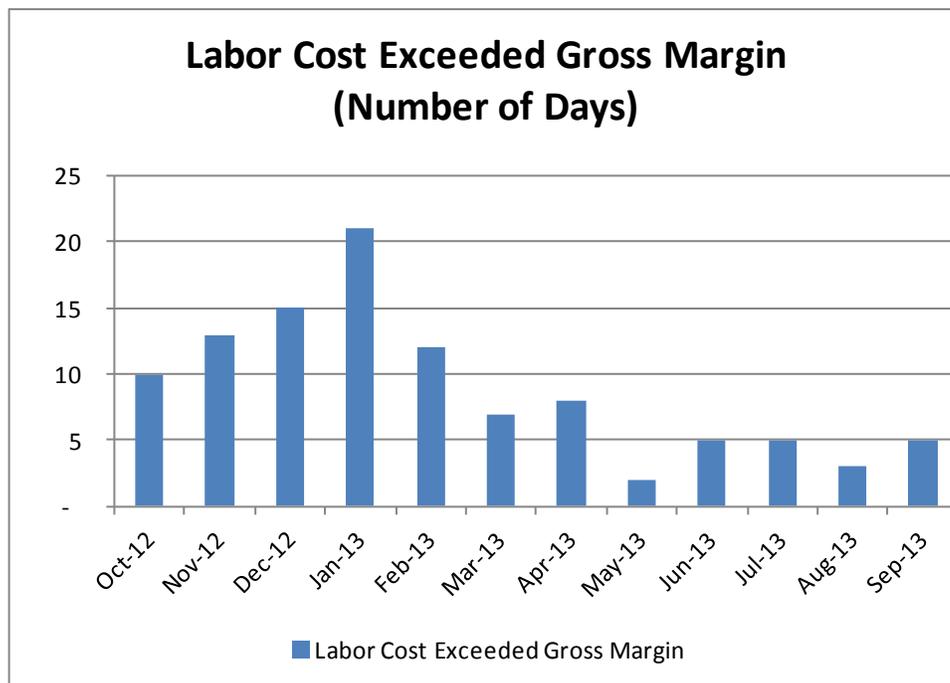
*Concur. Further reductions for the beer, liquor and wine selections will continue to occur. With the dissolution of the private club, Ventana Grille inherited a large variety of selections for a nominal amount that proved to be poor selling products. On-going and continuing efforts are being made to monitor sales to further provide inventory levels that meet customer demand.*

*Target Date: Complete and on going*

*Responsibility: Restaurant Manager and Golf Operations Manager*

**5. The Ventana Grille stays open during inclement weather and off-seasons.**

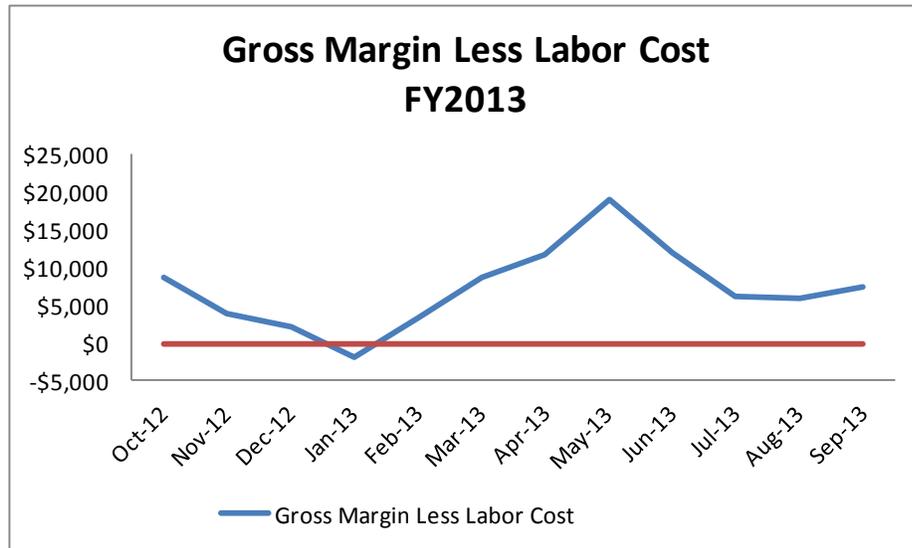
The consultant recommended that the restaurant function as a snack bar on Sunday through Thursday nights, serving golfers and any casual diners who might drop by. According to Parks and Recreation management, a decision was made that the Ventana Grille would remain open during posted restaurant hours, regardless of the weather or other factors. The thought behind the decision was that potential customers (non-golfers) need to know that the restaurant will be consistently open during the posted operating hours. While this ensures that customers will not be disappointed by traveling to a restaurant that is not open, it results in many days throughout the year where gross margin from sales does not exceed the daily, fully burdened cost of labor, allocated based on daily sales. The following chart summarizes the number of days by month for which the calculated gross margin from sales did not exceed the cost of labor.



Source: Auditor generated from Lawson and Pro-ShopKeeper data

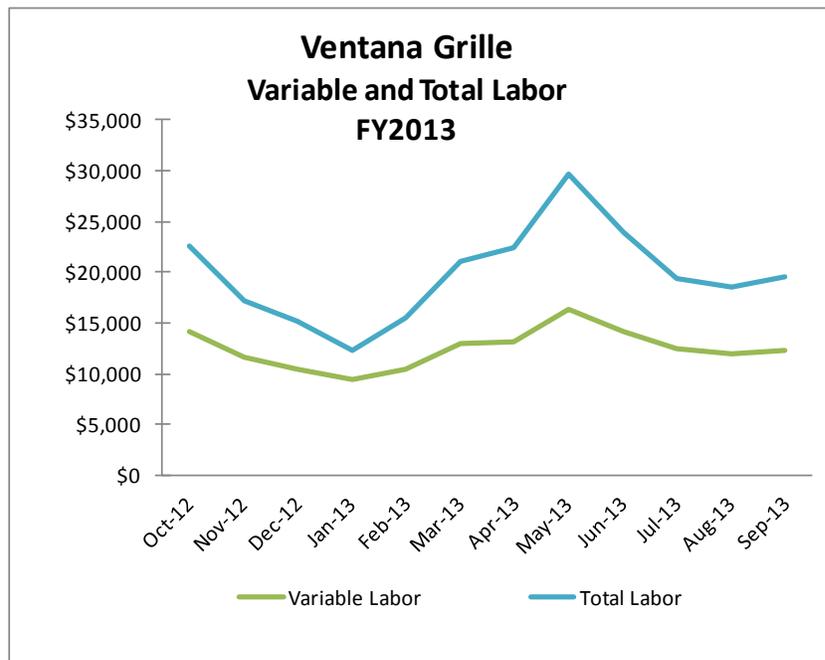
In total, the gross margin did not exceed labor costs on 106 days in FY2013. On those days, labor costs exceeded gross margin by a total of only \$10,242, or an average of \$96 per day. This indicates that management did an adequate job of reducing variable labor expense to the extent possible. As expected, winter months had the most number of days where the gross margin did not exceed the cost

of labor. During FY2013, the gross margin from sales exceeded the cost of labor for every month except January, as shown in the following chart:



Source: Auditor generated from Lawson and Pro-ShopKeeper data

The following chart shows the amount of part-time and seasonal labor costs (variable labor) incurred by month for FY2013, compared to total labor costs. Total labor costs include the salaries and benefits of the Restaurant Manager position, allocated by day based on total sales. The chart indicates that although labor costs are decreased during the winter months, the Ventana Grille still incurs significant labor costs during the winter months.



Source: Auditor generated from Lawson and Pro-ShopKeeper data

If the labor costs for the Restaurant Manager position were allocated based on the daily part-time and seasonal labor incurred, the number of days where gross margin did not exceed labor costs would increase to 142, or 39% of the total number of days in FY2013. Although this tends to indicate that the restaurant would be better off closing or reducing hours during inclement weather or the off-season, the following factors also need to be considered:

- Customer expectations – although not quantified, the restaurant does have a non-golfer clientele. These customers may not return to the restaurant if the restaurant does not keep consistent operating hours.
- Employee satisfaction – employee turnover may increase if employees were not guaranteed sufficient weekly hours. This could lead to additional costs for recruiting, hiring and training new employees.
- Weather conditions – in some cases, weather issues were not anticipated at the start of a day, leading to low sales but not enough time to adjust staffing levels. This is most likely to occur during the spring and summer when the impact of thunderstorms is less predictable.
- Total seasonal and part-time labor on the 106 days equaled \$33,338, for an average of \$315 per day. On the other days, total seasonal and part-time labor costs equaled \$116,037, for an average of \$448 per day. Cutting operating hours or scaling back operations during certain times of the day would save only a portion of the \$33,338 in labor costs.

The potential savings from closing the restaurant or reducing operations during inclement weather do not appear significant. However, scaling back operations as weather and other circumstances dictate could improve the restaurant's bottom line. According to Parks and Recreation management, operating decisions have been made with the intent that the Ventana Grille would serve a non-golf clientele. However, based on the results noted in Finding #3 of this report, it does not appear that the restaurant has developed a significant non-golfer clientele, outside of special events and parties.

***Recommendation:***

The Director of Parks and Recreation should determine whether operating hours or operations should be reduced during inclement weather and/or off-seasons and establish specific guidelines on how such decisions should be made.

***Management's Response:***

*Concur. The Golf business unit will evaluate current operations including seeking the optimal configuration of operating hours to support long-term success of the restaurant. Additional opportunities will also be evaluated that will potentially increase walk-in and catering business.*

*Target Date: August 31, 2014*

*Responsibility: Restaurant Manager, Golf Operations Administrator, Golf Operations Manager, Purchasing Agent and Consultant*

**6. Ventana Grille operating results are negatively impacted by the City's long-term sponsorship agreement with Coca-Cola Enterprises Inc.**

Under a 10-year agreement with the Coca-Cola Enterprises Inc. (Coca-Cola) bottling company, the Ventana Grille must purchase soda and bottled water products from Coca-Cola. While the City

receives annual sponsorship funds that are deposited to the General Fund, enterprise activities such as the golf courses and Ventana Grille must pay higher costs to obtain inventory for resale. The City Auditor’s Office noted that the Ventana Grille paid approximately \$7,900 more for Coca-Cola products due to the sponsorship agreement. While this does not seem like a significant amount, the \$7,900 represents 24% of the FY2013 Ventana Grille profit of \$32,368.

The following table summarizes the cost impact on the top sellers in the Coca-Cola product line:

Ventana Grille FY 2013 Analysis of Impact of Coca Cola Agreement											
Item	Qty.	Price	Extended	Cost	Total Cost	COGS %	Alternative Cost	Total Alternative Cost	COGS %	Savings	
Powerade	8,522	\$ 2.31	\$ 19,404	\$ 0.91	\$ 7,773	40.1%	\$ 0.52	\$ 4,431	22.8%	\$ 3,342	
Dasani Water Bottle	5,124	1.50	7,463	0.70	3,587	48.1%	0.21	1,076	14.4%	2,511	
Fountain Drink	3,305	2.31	7,433	0.63	2,082	28.0%	0.49	1,606	21.6%	476	
To Go Fountain Drink	3,058	2.31	6,885	0.78	2,385	34.6%	0.64	1,945	28.3%	440	
Can Drink	4,853	1.39	6,675	0.53	2,572	38.5%	0.30	1,470	22.0%	1,102	
	24,862		\$ 47,860		\$ 18,399	38.4%		\$ 10,528	22.0%	\$ 7,871	

Source: Auditor prepared from Pro-Shop Keeper data, invoices and research

Alternative costs presented in the table above were found as advertised prices at a nearby local membership warehouse facility. In addition to the products included in the table above, the Ventana Grille is also required to purchase cups, lids and CO<sub>2</sub> cylinders from Coca-Cola. The other City golf courses pay increased fees for products sold as well. In total, the City Auditor’s Office determined that the other golf courses would likely have paid \$14,000 less in FY2013 for the products purchased from Coca-Cola. As noted in the table above, cost of goods sold for the beverages listed was 38% of sales. This exceeds the industry standard/goal of 20%.

While the agreement with Coca-Cola appears to make financial sense to the City as a whole, the impact to the Ventana Grille and the Golf Division is not separately reflected in the financial statements of the entities. According to Parks and Recreation management, the department communicated their concerns to the contract team and provided the team with information on the long-term impact to their net revenue position. According to management, it was expected that increased costs for product purchases would be passed on to consumers. However, management noted that this was not always possible, given the existing price structure and desire to remain competitively priced. Ultimately, the agreement appears to shift funds from the enterprise funds to the general fund. Parks and Recreation management noted that there has not been a formal attempt to identify increased costs or lost sales due to compliance to the Coca-Cola agreement.

**Recommendation:**

The Director of Parks and Recreation should ensure that staff calculates and communicates the impact of the Coca-Cola agreement to department and City management for internal analysis.

**Management’s Response:**

*Concur. The Parks and Recreation Department will create a spreadsheet that analyzes cost and products purchased since the beginning of the Coca-Cola contract. This will provide details estimating the increased cost that the contract has delivered to the Golf business units.*

*This analysis will be provided to the City Manager's Office and Office of Management and Budget for review.*

*Target Date: June 30, 2014*

*Responsibility: Restaurant Manager, Golf Operations Administrator, Golf Operations Manager*

***Recommendation:***

The Director of Parks and Recreation should consider requesting that an allocation method be developed to allocate future sponsorship money to enterprise funds to offset the increased costs of purchasing inventory for resale.

***Management's Response:***

*Concur. The Parks and Recreation Department has submitted a request to the Office of Management and Budget to identify a method and process in which the increased cost for the purchase of products as an impact from the Coca-Cola contract could be transferred to various Performance Fund accounts. This will include accounts such as, but not limited to, Golf and Tennis.*

*Target Date: July 31, 2014*

*Responsibility: Restaurant Manager, Golf Operations Administrator, Golf Operations Manager, Assistant Director of Enterprise Programs*