

FIREWHEEL OPERATING CONTRACT AUDIT

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EXECUTIVE SUMMARY

OBJECTIVES:

- Evaluate the Contractor's compliance with operating contract requirements.
- Evaluate the reasonableness of the City's revenue estimate based on the Contractor's revenues.
- Document the Contractor's controls for financial reporting.
- Report the progress toward resolution of audit findings from Audit #0606

OVERALL CONCLUSION:

Firewheel Golf Course is an asset for the City. It enhances development, stimulates tax revenue and provides recreation to citizens of Garland. This audit provides recommendations to strengthen its many benefits to the City of Garland.

OPPORTUNITIES FOR IMPROVEMENT:

1. The City portion of the golf course revenue is decreasing while the Contractor's portion of revenue is increasing, on a yearly basis. (Reference Page 13)

Recommendation: We recommend that the City Manager reevaluates the contract amendment from February 2, 2006.

Management Response:

At the time the contract is renewed, this provision can be reevaluated, along with other aspects of the contract, within the context of its financial impact on the Contractor. The analysis above views only revenue impacts and does not take into consideration additional expenditures currently being paid by the Contractor, in particular the cost of the Marketing and Tournament Promotions position.

While management share the Auditor's desire that the City earn more revenue – it is also critical to the on-going operation of the golf course that the Contractor maintain at least a minimum level of profitability.

2. The amount of green fees waived needs to be monitored more closely.

(Reference Page 15)

Recommendation: We recommend that the City Manager ensures the Contractor:

- Waives green fees to only those entitled to receive them. Waivers and discounts are not excessive and are related to the promotion of Firewheel
- Conducts periodic analysis of the effects of specials and/or promotions to study their positive or negative impacts on the green fee revenue
- Documents all the required fields and keeps a log with the daily sheet to be in compliance with the Waived Fee Policies and the Professional Golf Service Agreement

Management Response:

The Revenue Segment Analysis can be a helpful measurement to determine who bares the impact of promotional offers, however, it does not factor in free range balls, pro shop items, and meals provided by the Contractor. Major promotions efforts are packaged in such a fashion that the City and Contractor are each discounting an (approximately) equal percentage. The Contractor will often provide free range balls or other items to arrive at the targeted discount.

Through the use of new tee time scheduling software, record of all players' names, tee times, charges, and player type will be documented in a player activity report that will be logged with the daily sheet. This will provide a daily record of the names and number of players for whom green fees were waived and the purpose of such waiver. Other information about each player will be stored in the database and can be retrieved at any time. The Firewheel Golf staff is scheduled to begin logging these reports in April 2009.

Also, new statistical software is currently being tested and interfaced with the point of sale / tee time scheduling software. This software will help provide periodic analysis and reports for management to study the positive and negative effects of promotions. This software along with management reports should be functioning in the March – April timeframe.

3. Adequate records are not being maintained for the issuance of rain checks.

(Reference Page 16)

Recommendation: We recommend that the City Manager ensures the Contractor:

 Maintains a journal that records the rain check number, name of the recipient, date, remaining number of holes to be completed and any other pertinent information, when issued

- Records the date and any other pertinent information in the journal, upon redemption of a rain check
- Prints the Firewheel logo and the player's name on the rain check card to prevent duplication
- Maintains redeemed rain check cards for a reasonable period of time for audit purposes

Management Response:

The Firewheel staff is experimenting with the point of sales rain check module. The system will track all rain checks with a unique rain check number to prevent duplication or fraud. Each rain check receipt will be printed with a unique rain check number, the name of recipient, date, and the balance remaining. The system will run a report showing all rain checks issued and redeemed for audit and staff purposes. While we have incurred some problems with implementation, we are hopeful the system will be functional in March 2009.

4. The City's portion of golf course revenue received from the Contractor does not match with the Contractor's income tax return "Commissions to City" figures.

(Reference Page 17)

Recommendation: We recommend that the City Manager:

- Monitors and reconciles the amount remitted with the reports submitted to the State and Federal agencies
- Ensures the Contractor exercises separation of duties by having reconciliation of weekly revenue collections to daily activity documents, preparation of the weekly report and deposit-making to the City performed by different individuals.

Management Response:

The Contractor's accountant reported that the amount entered on the income tax return did not take into consideration the contract amendment from February 2, 2006, which reduced the City's share of cart rental and concession sales from 10% to 5%. Therefore, the amount entered on the return for 2006 was overstated.

Management and the Contractor both understand the importance of having accurate accounting of all revenue and expenditures. Currently, new controls are being reviewed and established that will ensure that segregation of duties, monitoring, and reconciling occurs with all reports remitted to the City, State, and Federal government.

5. The City's Firewheel liquor sales figures from 2006 and 2007 do not match with that reported to the State Comptroller. (Reference Page 18)

Recommendation: We recommend that the City Manager:

- Monitors and reconciles the amount remitted with the reports submitted to the State and Federal agencies
- Ensures the Contractor ties all POS systems and the 19th Hole Cash Register together so that a consolidated, computer-generated report can be issued and reconciled
- Ensures the Contractor exercises separation of duties by having reconciliation of weekly revenue collections to daily activity documents, preparation of the weekly report and deposit-making to the City performed by different individuals.

Management Response:

The Texas mixed beverage gross receipt report has not been properly reconciled to the weekly reports submitted to the City. Controls are being implemented to ensure that segregation of duties, monitoring, and reconciliation's are made between all reports given to the City and state. As mentioned in the Management Accomplishments section, management and staff are currently exploring the statistical reporting functions of Firewheel's POS and newly implemented tee sheet scheduling software. Staff is currently working on writing a consolidated report to be used for reporting to the state and City. Unless there are unforeseen software issues this should be completed by the end of April.

6. An inventory of all furniture, fixtures and equipment owned by the City and the Contractor is not produced.

(Reference Page 19)

Recommendation: We recommend the City Manager and the Contractor jointly produce an inventory of all furniture, fixtures and equipment owned by the City and the Contractor respectively, as soon as possible, to be in compliance with the Golf Concession Services Agreement and to avoid any future conflicts.

Management Response:

The Firewheel staff has started compiling an inventory of all furniture, fixtures and equipment owned by the City and the Contractor. This document will be completed by the end of April 2009.

7. The Starter Tee sheets are not reconciled with the Point of Sales (POS) system.

(Reference Page 20)

Recommendation: We recommend that the City Manager ensures the Contractor:

- Performs daily reconciliation of starters' tee sheets with the POS system records to ensure accuracy of the number of rounds played
- Updates the starter tee sheets when a new player is added and/or a reservation is cancelled during business hours
- Replaces the Pro Shop's manual calendar with the POS "Advanced Tee Time Schedule" module
- Considers adding the wireless handheld starter interface to the process to improve communication between the Pro Shop staff and the Starter

Management Response:

The Firewheel staff has begun training on the IBS "Advanced Tee Time Schedule" module and which should be in full use in March 2009. The IBS tee sheet and the retail register will be integrated to provide a single resource for reserving tee times and collecting fees from players. This will provide for a high level of accuracy between the daily sheet figures and the tee sheet figures.

Currently, management and the Contractor feel there has not been enough of a problem with communication between the Pro Shop staff and the Starter to warrant the purchase of wireless handheld starters. If this becomes an issue in the future management will consider options to improve communication

8. The POS systems in the two golf courses (Old/Lake and Bridges) are not networked.

(Reference Page 21)

Recommendation: We recommend that the City Manager ensures the Contractor links the two POS systems to produce continuous transaction numbering

Management Response:

IBS has completed the process of networking the two POS systems together. The delay in being able to network the systems was the result of the City's delay in completing the fiber project along Brand Road.

9. Pavilion rental fees are not reconciled.

(Reference Page 21)

Recommendation: We recommend that the City Manager ensures the Contractor:

- Performs reconciliation between daily recaps and all receipts and consistently applies to both POS systems. The reconciliation should be performed by someone other than the person preparing the weekly report and bank deposit
- Retains 25% of the pavilion rental fees

Management Response:

New controls are being reviewed and established that will ensure that segregation of duties, monitoring, and reconciling occurs with all remitted reports.

10. Contractor's financial statements are not certified. (Reference Page 22)

Recommendation: We recommend that the City Manager ensures the Contractor is in compliance with the Golf Concession Service Agreement and provides the City with a certified financial statement upon request.

Management Response:

It has become cost prohibitive for the Contractor to provide certified financial statements due to the audit procedures that would have to be performed by a Certified Public Accountant. We request assistant from the Internal Auditor in developing an in-house solution that provides the City with a reasonable level of assurance.

11. The tournament green fee revenue from Old/Lakes course is under reported.

(Reference Page 22)

Recommendation: We recommend that the City Manager ensures the Contractor:

- Connects all POS registers and the 19th Hole cash register together so that a consolidated daily activity report along with weekly, monthly, and annual recaps can be prepared without using manually prepared excel reports
- Reconciles the weekly, monthly, and annual reports to the daily activity documents. The reconciliation is performed by someone other than the person preparing the weekly report and bank deposit. The reconciled balances are then forwarded to the financial statements

Management Response:

The City and Firewheel staff is currently working on developing an automated report within the IBS statistical software to eliminate the need for manual calculations. This report will allow for all relevant data to be exported out of the POS system into an Excel spreadsheet automatically.

Currently, new controls are being reviewed and established that will ensure that segregation of duties, monitoring, and reconciling occurs with all remitted reports

12. We are unable to determine whether all employee compensation rounds offered at the Firewheel are non-taxable. (Reference Page 23)

Recommendation: We recommend that the City Manager ensures the Contractor:

- Verifies employees who receive compensation rounds perform substantial services at the Golf Course and not incur any additional costs.
- Maintains sufficient documentation including employee names, titles, tee times, number of rounds granted, etc in order to be in compliance with the IRS's rules and regulations

Management Response:

Within the IBS Advanced Tee Time Schedule all employees and player's assistance can be coded with a unique player type description. For example, an employee who is placed on the tee sheet will be coded as "Compensation-Employee" next to his/her name. This will allow for a history of all rounds and tee times an employee plays to be saved in the software's database.

13. Payments to the City are not remitted in a timely manner. (Reference Page 24)

Recommendation: We recommend that the City Manager ensures revisions be made to the Golf Service Agreement to reflect more specifics concerning Contractor's weekly payments

Management Response:

The remittance of payments to the City has been delayed in the past due to the utilization of a manual accounting and reporting system. With the implementation of the IBS system these delays should be eliminated.

14. The annual membership revenue is declining. (Reference Page 24)

Recommendation: We recommend that the City Manager requires the Contractor to consider revising the two Unlimited Green Fee Membership Plans and include discounted cart fees and/or range balls to increase memberships and revenue during times of reduced economic growth.

Management Response:

The Auditor's recommendation will be taken into consideration when developing promotional offers.

15. Tee time reservations are not offered online. (Reference Page 25)

Recommendation: We recommend that the City Manager ensures the Contractor works with the Firewheel website administrator and the POS system vendor to utilize the POS tee time reservation module and offer customers the option to reserve tee times on the internet 24 hours a day and 7 days a week.

Management Response:

We agree that being able to book tee times on line is critical in today's market. The first and critical step in moving this direction is the implementation of the electronic tee sheet which should be operation in March 2009.

Authorization

We have conducted an audit of the City of Garland's contracts for professional services related to the management of the Firewheel Golf Park. The audit was conducted under the authority of Article VII, Section 5 of the Garland City Charter and in accordance with the Annual Audit Plan approved by the Audit Committee of the Garland City Council.

Scope and Methodology

We conducted the audit in accordance with Generally Accepted Government Auditing Standards, with the exception that no peer review has been performed on this audit entity in the past three years. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence that produces a reasonable basis for our findings and conclusions based on our audit objectives. These included procedures assessing management controls, such as reviewing segregation of duties, checks and balances, proper revenue reporting and compliance with the Professional Golf Services and Golf Concession Services Agreements. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit covered the period from the conclusion of Audit #0606 (October 1, 2005) through September 30, 2007. Subsequent event testing occurred for transactions after September 30, 2007.

While we report to the Mayor and City Council and present the results of our work to the Audit Committee, we are located organizationally outside the staff or line management functions we are auditing. Therefore, this Audit organization may be considered free of organizational impairments to independence to audit internally and report objectively to those charged with governance.

The objectives of our audit were:

- Evaluate the Contractor's compliance with operating contract requirements
- Report progress toward resolution of audit findings from the prior audit (Audit #0606)
- Evaluate the reasonableness of the City's revenue estimate based on the contractor's revenues
- Document the Contractor's controls for financial reporting

To adequately address the audit objectives, we performed the following steps:

 Reviewed the Professional Golf Services and Golf Concession Services Agreements to ensure compliance and analyze the effects of noncompliance

- Reviewed Audit #0606 to check for actions taken based on recommendations
- Analyzed daily revenue reports and compared them to weekly and monthly reports for accuracy
- Obtained and analyzed the Contractor's income tax return, quarterly financial statements as well as the liquor and sales tax return to verify accuracy of reported revenue
- Reviewed national statistics on the number of rounds played, to verify decreased popularity claims
- Discussed and reviewed operating procedures with the Firewheel management and observed course operations to assess internal control deficiencies
- Reconciled contracted weekly reports and deposits to the City account as well as the financial system
- Reviewed discounts and specials to determine if they generate more revenue and verify proper accounting and allocation of the discounts
- Prepared trend analysis for each revenue segment
- Compared the City's revenue share with that earned by the Contractor
- Interviewed appropriate personnel

Overall Conclusion

Firewheel Golf Course is an asset for the City. It enhances development, stimulates tax revenue and provides recreation to citizens of Garland. This audit provides recommendations to strengthen its many benefits to the City of Garland.

Background

Firewheel is one of the largest municipal golf courses in the nation. It underwent extensive expansion that added 27 new holes to the previously existing 36 holes. The 63-hole facility is made up of the Bridges Course that was opened in 2001 and is comprised of three nine-hole courses, the Champion, the Masters, and the Tradition. The first 18-hole Old Course was opened in September 1983 while the second 18-hole, Lakes Course, was opened in 1985. The Bridges clubhouse features a full-service restaurant, the Branding Iron, a bar, conference rooms, men and women's locker rooms, a business center and an attractive golf shop. The Old/Lakes course has a tournament pavilion that is rented out, as well as a concession stand called the 19th hole. Remodeling is currently underway on the 19th hole and will be renamed "the 64th hole."

All Firewheel golf carts are equipped with the ProLink onboard global positioning navigation system (GPS) monitors for the benefit of the golf patrons. Upon approach of each hole, players can view a lay-out map, pro distance, and green topography.

The Texas Golfer ranked the Firewheel among the best of the best in December 2007 and May 2008. The Course was also ranked as one of the best hidden gems in the area by Avid Golfer magazine in 2008.

Although the City Council Policy No. FIN-03 states, "all operating expenses of Firewheel are funded through adequate fees and charges," that has not been the case since 2001. According to the FY/09 Annual Operating Budget, the Firewheel fund is projected to end the year with a \$1,873,966 deficit. The Golf Course faces many challenges including competition, change in economic conditions, and flooding. The management is currently working on several strategic plans including, price adjustments, capitalizing on having 63 holes to attract tournaments, targeted advertisements, and improvements in playing conditions. They also eliminated 9 full-time positions at the City. Currently, there are 27 full-time and 4 part-time City employees. During the busy season (April-October, 2009), management anticipates to have 28 full-time and 14 part-time employees. The Golf Contractor also employs several individuals at the Firewheel and is in charge of their compensations.

Management Accomplishments

Management sincerely appreciates the work completed by Internal Audit in its review of the Firewheel Golf course. We found the findings and recommendations extremely beneficial.

Many of the accounting issues identified in the Audit are, in part, the result of the Contractor's heavy reliance on a manual record keeping system that provides limited reporting capacities. Recently, a Budget Analyst from the Budget and Research Department was assigned to work with the Contractor's staff to more fully automate Firewheel's accounting records and management reports. As part of this effort, an advanced tee time scheduling module is being implemented that will interact with the point of sale (POS) system to provide a single source for reserving tee times and collecting fees from players. This will allow the Firewheel staff to more effectively track and control the tee time inventory. The module will also provide a complete database on all golfers, including name, phone, e-mail, address, and player type. This will allow for the staff to capture play statistics and quickly look up players when booking and checking in.

The module also has capabilities that are currently being explored to provide customized reports on historical and projected play statistics that can be used for marketing and management decisions. Reports can also be created to automate the information sent to the City and State and avoid many of the errors created by the current manual process. Implementing this module is the first step in addressing many of the Internal Auditor's findings and will result in better record keeping, reports, and controls.

Opportunities for Improvement

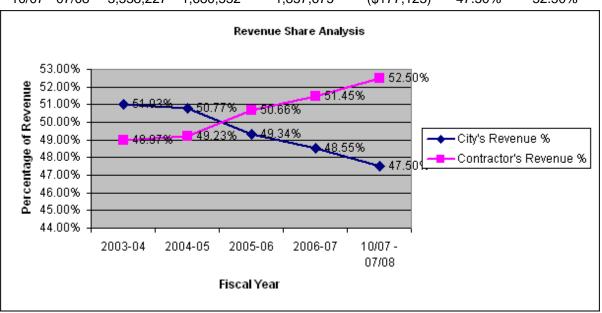
During our audit we identified certain areas for improvement. Our audit was not designed or intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, the Opportunities for Improvement section presented in this report may not be all-inclusive of areas where improvement might be needed.

1. The City's portion of golf course revenue is decreasing while the Contractor's portion of revenue is increasing, on a yearly basis.

Our review of the Firewheel's revenue collection during the past five years revealed the following:

FIREWHEEL GOLF PARK
REVENUE BY FISCAL YEAR (Per Weekly Report)

Fiscal Year	Net Revenue	City's Revenue Share	Contractor's Revenue Share	Difference (+/-)	City's Revenue %	Contractor's Revenue %
2003-04	4,225,096	2,155,917	2,069,177	\$86,740	51.03%	48.97%
2004-05	4,202,377	2,133,480	2,068,897	\$64,583	50.77%	49.23%
2005-06	4,508,011	2,224,159	2,283,852	(\$59,693)	49.34%	50.66%
2006-07	4,265,151	2,070,728	2,194,423	(\$123,695)	48.55%	51.45%
10/07 - 07/08	3,538,227	1,680,552	1,857,675	(\$177,123)	47.50%	52.50%



The graph above indicates that the City's portion of revenue is decreasing while the Contractor's portion is increasing, on a yearly basis. We believe the execution of the contract amendment from February 2, 2006 is the major factor for this condition. This amendment reduced the City's share of cart rental and concession sales from 10% to 5% (Since this change was agreed upon orally before, the Contractor began remitting payments to the City effective January 1, 2005, based on the reduced 5% agreement). The reduction was designed to primarily serve as a reimbursement for the credit card fees being borne by the Contractor for all green fees, cart rentals and concession sales. However, the following analysis reveals that the City lost approximately \$360,000 since the execution of this contract amendment.

Golf Carts & Concession Sales Revenue Analysis

		City's Portion (Before & After Amendment)				
	Revenue	10%	5%	Difference		
01/05 - 09/05	\$1,508,727	\$150,873	\$75,436	-\$75,436		
2005-06	\$2,009,690	\$200,969	\$100,484	-\$100,484		
2006-07	\$1,987,474	\$198,747	\$99,374	-\$99,374		
10/07 - 07/08	\$1,691,998	\$169,200	\$84,600	-\$84,600		
Total :	\$7,197,889	\$719,789	\$359,894	-\$359,894		

We believe that the City should be earning more revenue since it is responsible for the maintenance and improvements of the golf course as well as its buildings, structure, and other facilities such as furniture, fixtures, equipments, etc. related to the golf course operations, other than those owned solely by the Contractor, and labor. The City has been subsidizing the golf course to cover its operations costs for several years now.

Recommendation: We recommend that the City Manager reevaluates the contract amendment from February 2, 2006.

Management Response:

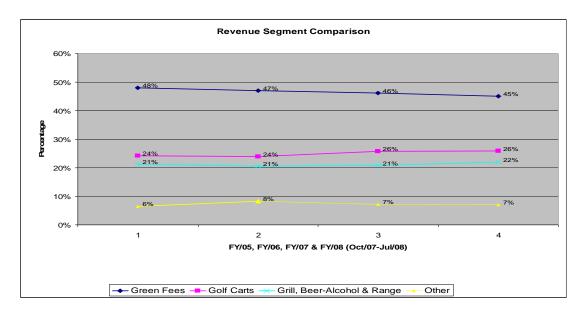
At the time the contract is renewed, this provision can be reevaluated, along with other aspects of the contract, within the context of its financial impact on the Contractor. The analysis above views only revenue impacts and does not take into consideration additional expenditures currently being paid by the Contractor, in particular the cost of the Marketing and Tournament Promotions position.

While management share the Auditor's desire that the City earn more revenue – it is also critical to the on-going operation of the golf course that the Contractor maintain at least a minimum level of profitability.

2. The amount of green fees waived needs to be monitored more closely.

Our review of golf rounds compensated during Fiscal Year (FY) 2007 at the Firewheel revealed that the green fees were waived at an excessive manner. In FY 2007, approximately \$269,000 of the green fees were waived. According to the Professional Golf Services Agreement and the Waived Fee Policy, the Green Fees should be waived to the members of the United States Golf Association, the Professional Golf Association, the Golf Course Superintendent Association, the UIL, or for other civic or City sanctioned events. It also states that the Contractor should keep records of the players' names, their phone numbers, number of rounds played, name of their affiliation, PGA/LPGA card numbers and tee times. However, we were unable to locate sufficient documentation to confirm whether all of the waived fees were granted appropriately and to only those entitled to receive them.

A trend analysis graph prepared from the Firewheel revenue segments' figures revealed the following:



According to this study, the green fee revenue share decreased to 45% in FY/08 compared to 48% in FY/05 while the golf cart fee revenue increased to 26% in FY/08 compared to 24% in FY/05. Revenue from the green fee belongs to the City. It is evident that the green fees are waived most of the time when Firewheel provides discounts and specials.

Recommendation: We recommend that the City Manager ensures the Contractor:

 Waives green fees to only those entitled to receive them. Waivers and discounts are not excessive and are related to the promotion of Firewheel

- Conducts periodic analysis of the effects of specials and/or promotions to study their positive or negative impacts on the green fee revenue
- Documents all the required fields and keeps a log with the daily sheet to be in compliance with the Waived Fee Policies and the Professional Golf Service Agreement

Management Response:

The Revenue Segment Analysis can be a helpful measurement to determine who bares the impact of promotional offers, however, it does not factor in free range balls, pro shop items, and meals provided by the Contractor. Major promotions efforts are packaged in such a fashion that the City and Contractor are each discounting an (approximately) equal percentage. The Contractor will often provide free range balls or other items to arrive at the targeted discount.

Through the use of new tee time scheduling software, record of all players' names, tee times, charges, and player type will be documented in a player activity report that will be logged with the daily sheet. This will provide a daily record of the names and number of players for whom green fees were waived and the purpose of such waiver. Other information about each player will be stored in the database and can be retrieved at any time. The Firewheel Golf staff is scheduled to begin logging these reports in April 2009.

Also, new statistical software is currently being tested and interfaced with the point of sale / tee time scheduling software. This software will help provide periodic analysis and reports for management to study the positive and negative effects of promotions. This software along with management reports should be functioning in the March – April timeframe.

3. Adequate records are not being maintained for the issuance of rain checks.

Due to lack of supporting documentation, we are unable to determine whether the Firewheel has been issuing and redeeming rain checks properly. According to the Golf Professional, the term "rain check" is a generic term used for the ticket that allows someone to finish his round that was interrupted due to rain, weather, family emergency, or other issues. Rain checks are awarded to players who are unable to complete a minimum of nine holes or more. Although, the Golf Course Superintendent maintained the weather data, there was lack of sufficient documentation on the rain checks (the ones issued due to rain or weather), in order to compare the two for proper issuance. It was also evident that the rain check was easy to duplicate since it did not have the Firewheel logo and the player's name printed. Absence of appropriate internal controls could lead to improper issuance, easy

reproduction and multiple use of rain checks which in turn could result in loss of revenue and increased maintenance costs.

Recommendation: We recommend that the City Manager ensures the Contractor:

- Maintains a journal that records the rain check number, name of the recipient, date, remaining number of holes to be completed and any other pertinent information, when issued
- Records the date and any other pertinent information in the journal, upon redemption of a rain check
- Prints the Firewheel logo and the player's name on the rain check card to prevent duplication
- Maintains redeemed rain check cards for a reasonable period of time for audit purposes

Management Response:

The Firewheel staff is experimenting with the point of sales rain check module. The system will track all rain checks with a unique rain check number to prevent duplication or fraud. Each rain check receipt will be printed with a unique rain check number, the name of recipient, date, and the balance remaining. The system will run a report showing all rain checks issued and redeemed for audit and staff purposes. While we have incurred some problems with implementation, we are hopeful the system will be functional in March 2009.

4. The City's portion of the golf course revenue received from the Contractor does not match with the Contractor's income tax return "Commission to City" figures.

The City's portion reported in the Contractor's 2006 income tax return was \$183,230 more than that shown in the City finance system (\$2,308,943 vs. \$2,125,713). Similarly, the City's portion of revenue reported in the Contractor's 2005 income tax return was \$26,619 (\$2,292,083 vs. \$2,265,464) more than the City finance records. We believe the Contractor's income tax return should match relatively close to the revenue collected by the City. In this case, we are unable to conclude that the City receives 100% of the revenue that it is entitled to receive. Further review revealed that the Contractor, solely, is in charge of preparing weekly reports, reconciling weekly revenue collections and making deposits to the City. There is lack of segregation of duties.

Recommendation: We recommend that the City Manager:

- Monitors and reconciles the amount remitted with the reports submitted to the State and Federal agencies
- Ensures the Contractor exercises separation of duties by having reconciliation of weekly revenue collections to daily activity documents, preparation of the weekly report and deposit-making to the City performed by different individuals.

Management Response:

The Contractor's accountant reported that the amount entered on the income tax return did not take into consideration the contract amendment from February 2, 2006, which reduced the City's share of cart rental and concession sales from 10% to 5%. Therefore, the amount entered on the return for 2006 was overstated.

Management and the Contractor both understand the importance of having accurate accounting of all revenue and expenditures. Currently, new controls are being reviewed and established that will ensure that segregation of duties, monitoring, and reconciling occurs with all reports remitted to the City, State, and Federal government.

5. The City's Firewheel liquor sales figures from 2006 and 2007 do not match with that reported to the State Comptroller.

Review of the Contractor's reports to the State Comptroller, for monthly liquor sales, in calendar years 2006 and 2007, revealed that the Contractor had under-reported the liquor sales to the City by an estimated \$1,475. All reports to the City, State and Federal Agencies should balance with each other. We believe the controls for data entry in the weekly reports are weak and not reconciled properly to the daily activity reports and transaction documents. We also noticed that the 19th hole cash register is not tied to the Point of Sales system.

Recommendation: We recommend that the City Manager:

- Monitors and reconciles the amount remitted with the reports submitted to the State and Federal agencies
- Ensures the Contractor ties all POS systems and the 19th Hole Cash Register together so that a consolidated, computer-generated report can be issued and reconciled
- Ensures the Contractor exercises separation of duties by having reconciliation of weekly revenue collections to daily activity documents, preparation of the weekly report and deposit-making to the City performed by different individuals.

Management Response:

The Texas mixed beverage gross receipt report has not been properly reconciled to the weekly reports submitted to the City. Controls are being implemented to ensure that segregation of duties, monitoring, and reconciliation's are made between all reports given to the City and state. As mentioned in the Management Accomplishments section, management and staff are currently exploring the statistical reporting functions of Firewheel's POS and newly implemented tee sheet scheduling software. Staff is currently working on writing a consolidated report to be used for reporting to the state and City. Unless there are unforeseen software issues this should be completed by the end of April.

6. An inventory of all furniture, fixtures and equipment owned by the City and the Contractor is not produced.

The Firewheel and the City management failed to provide an inventory list of all furniture, fixtures and equipment owned by the City and the Contractor Section 1E of the Golf Concession Services Agreement between the City and the Contractor states that "on or before the effective date (January 1, 2005) of the agreement the City and the Contractor shall jointly produce an inventory of all furniture, fixtures, and equipment owned respectively by the City and by the Contractor and then in use at the Golf Park. The inventory shall be revised within a reasonable time when and if changes in that inventory occur". According to Section 5C and 5D, the City shall purchase all of the Contractor's furniture, equipment, and fixtures if the City terminates the agreement, and the City may purchase all of the Contractor's furniture, equipment, and fixtures if the Contractor terminates the agreement (Section 5D). Due to lack of proper documentation of all inventories owned by the City and the Contractor, both parties may claim the inventories upon termination. This may lead to legal battles between the parties. Both the City and the Contractor failed to be in compliance with the agreement.

Recommendation: We recommend the City Manager and the Contractor jointly produce an inventory of all furniture, fixtures and equipment owned by the City and the Contractor respectively, as soon as possible, to be in compliance with the Golf Concession Services Agreement and to avoid any future conflicts.

Management Response:

The Firewheel staff has started compiling an inventory of all furniture, fixtures and equipment owned by the City and the Contractor. This document will be completed by the end of April 2009.

7. The Starter Tee Sheets are not reconciled with the POS system.

We were unable to obtain an accurate count of the rounds played since "tee sheets" are not used to reconcile payments recorded in the POS registration system. We also could not determine which system had the most accurate count, and whether the City currently receives correct payments for the green fees. The tee sheet is a manual calendar used by the Pro Shop staff to record the date and time of the players' tee time reservations and is maintained at each clubhouse. When a player arrives for his appointed tee time, the payment should be recorded in the POS system and the tee sheet should reflect the payment and the type of green fee paid. If the player is a no-show, the tee sheet should reflect so. Walk-in players should be recorded on the tee sheet in the same manner as a telephone reservation. Our review of the Firewheel tee sheets revealed that these are not updated when players play or the reservations are cancelled. The starter's copy of the tee sheet is also not updated when reservations are changed. The POS system has a tee time reservation module in the package to facilitate this process.

Recommendation: We recommend that the City Manager ensures the Contractor:

- Performs daily reconciliation of starters' tee sheets with the POS system records to ensure accuracy of the number of rounds played
- Updates the starter tee sheets when a new player is added and/or a reservation is cancelled during business hours
- Replaces the Pro Shop's manual calendar with the POS "Advanced Tee Time Schedule" module
- Considers adding the wireless handheld starter interface to the process to improve communication between the Pro Shop staff and the Starter

Management Response:

The Firewheel staff has begun training on the IBS "Advanced Tee Time Schedule" module and which should be in full use in March 2009. The IBS tee sheet and the retail register will be integrated to provide a single resource for reserving tee times and collecting fees from players. This will provide for a high level of accuracy between the daily sheet figures and the tee sheet figures.

Currently, management and the Contractor feel there has not been enough of a problem with communication between the Pro Shop staff and the Starter to warrant the purchase of wireless handheld starters. If this becomes an issue in the future management will consider options to improve communication.

8. The POS systems in the two golf courses are not networked.

The Contractor failed to network the POS systems between the two clubhouses (Old/Lakes and Bridges) to generate transaction numbers in a sequential order. The Contractor agreed to network these two clubhouses during the #0606 audit, and paid IBS to perform this function. However, to date, no improvements have been made to resolve this issue. We believe that lack of proper controls could lead to mistakes in revenue reporting and potential thefts.

Recommendation: We recommend that the City Manager ensures the Contractor links the two POS systems to produce continuous transaction numbering

Management Response:

IBS has completed the process of networking the two POS systems together. The delay in being able to network the systems was the result of the City's delay in completing the fiber project along Brand Road.

9. Pavilion rental fees are not reconciled.

We are unable to rely on the weekly summary rental fees as the actual fees received for the pavilion rental. The summary reports indicate that the City receives 100% of the fees when it is entitled to only 75%. We could not locate supporting receipts for \$2,500 recorded on 9/30/07. In this instance, the City was paid at 100% but a copy of the rental fee receipt could not be found. We also could not locate a summary entry for \$850 recorded on 6/21/07. Each rental receipt should be entered into the POS system and the weekly summary report and the two systems' figures should match upon reconciliation. The City should collect only 75% of the rental fee. The manual process of entering daily activity into an Excel spreadsheet for recap purposes is prone to errors. There are no consistent controls in place to ensure that all activity has been entered into the recap.

Recommendation: We recommend that the City Manager ensures the Contractor:

- Performs reconciliation between daily recaps and all receipts and consistently applies to both POS systems. The reconciliation should be performed by someone other than the person preparing the weekly report and bank deposit
- Retains 25% of the pavilion rental fees

Management Response:

New controls are being reviewed and established that will ensure that segregation of duties, monitoring, and reconciling occurs with all remitted reports.

10. Contractor's financial statements are not certified.

Review of the financial statements received from the Contractor, and a memo received from the Contractor's Accountant revealed that the financial statements submitted to the City are just compiled, not certified. Section 4E of the Golf Concession Services Agreement between the City and the Contractor states that if requested the Contractor should provide the City with certified financial statements related to concession operations. Compiled financial Statements are not adequately audited and an opinion on the quality of the financial statements is not given. Accountants that compile a company's financial statements are neither required to verify/confirm the records nor analyze the statements for accuracy. Internal Audit is unable to verify the accuracy of the Concessions operations revenue reported to the City.

Recommendation: We recommend that the City Manager ensures the Contractor is in compliance with the Golf Concession Service Agreement and provides the City with a certified financial statement upon request.

Management Response:

It has become cost prohibitive for the Contractor to provide certified financial statements due to the audit procedures that would have to be performed by a Certified Public Accountant. We request assistant from the Internal Auditor in developing an in-house solution that provides the City with a reasonable level of assurance.

11. The tournament green fee revenue from Old/Lakes course is under reported.

Review of the weekly reports submitted by the Contractor revealed that the year-to-date total green fees and golf rounds reported for the Old and Lakes courses is not accurate. In the 2007 monthly and weekly reports, the revenue is under-reported by \$8,182 and the rounds by 318 rounds. The City is paid its percentages from the weekly recaps. Adjustments to monthly or annual recaps are neither reported nor paid to the City. The weekly totals should carry forward from the daily recaps while the monthly and annual recaps should carry forward from the weekly and monthly recaps, respectively. There is no reconciliation of the recaps to the daily activity documents.

Recommendation: We recommend that the City Manager ensures the Contractor:

- Connects all POS registers and the 19th Hole cash register together so that a consolidated daily activity report along with weekly, monthly, and annual recaps can be prepared without using manually prepared excel reports
- Reconciles the weekly, monthly, and annual reports to the daily activity documents. The reconciliation is performed by someone other than the person preparing the weekly report and bank deposit. The reconciled balances are then forwarded to the financial statements

Management Response:

The City and Firewheel staff is currently working on developing an automated report within the IBS statistical software to eliminate the need for manual calculations. This report will allow for all relevant data to be exported out of the POS system into an Excel spreadsheet automatically.

Currently, new controls are being reviewed and established that will ensure that segregation of duties, monitoring, and reconciling occurs with all remitted reports.

12. We are unable to determine whether all employee compensation rounds offered at the Firewheel are non-taxable.

Due to lack of sufficient documentation, we are unable to determine whether all employee compensation rounds (approximately 1500 rounds in FY/2007) offered at the Firewheel are non-taxable and part of no-additional cost fringe benefits. According to the IRS Taxable Fringe Benefit Guide and IRS Publication 15-B, in order to be eligible for no additional cost fringe benefits, an employee must perform substantial services in the ordinary course of the line of business and not incur substantial additional costs. It is considered to incur substantial additional costs if the employee spends a significant amount of time in providing the service, even if the time spent would otherwise be idle or if the services are provided outside normal business hours. Due to lack of sufficient documentation the IRS may consider all compensation rounds offered at the Golf Course as taxable benefits.

Recommendation: We recommend that the City Manager ensures the Contractor:

 Verifies employees who receive compensation rounds perform substantial services at the Golf Course and not incur any additional costs. Maintains sufficient documentation including employee names, titles, tee times, number of rounds granted, etc in order to be in compliance with the IRS's rules and regulations

Management Response:

Within the IBS Advanced Tee Time Schedule all employees and player's assistance can be coded with a unique player type description. For example, an employee who is placed on the tee sheet will be coded as "Compensation-Employee" next to his/her name. This will allow for a history of all rounds and tee times an employee plays to be saved in the software's database.

13. Payments to the City are not remitted in a timely manner.

The Contractor does not submit all amounts due to the City in a timely manner. Payments are currently being made on a weekly or bi-weekly basis but are not for the previous week's activity. Review of 50 golf payments made in fiscal years 2006 and 2007 revealed that on average, the Contractor took 16 days, after the end of a particular week's activity, to remit payments to the City. According to the Professional Golf Services Agreement, all amounts due to the City shall be remitted on a weekly basis; it does not specify which payments are due within a week. We believe the payment has to be timely and for the full amount of the previous week's activity.

Recommendation: We recommend that the City Manager ensures revisions be made to the Golf Service Agreement to reflect more specifics concerning Contractor's weekly payments.

Management Response:

The remittance of payments to the City has been delayed in the past due to the utilization of a manual accounting and reporting system. With the implementation of the IBS system these delays should be eliminated.

14. The annual membership revenue is declining.

In comparison with the fiscal year 2006 membership revenue of \$60,102, Firewheel collected only 60% of that amount in fiscal year 2007 and 61% year-to-date as of July, 2008. Firewheel began offering memberships about four years ago. Currently, there are three types of annual membership plans: 1) Individual Unlimited Green Fee Plan for \$1,728, 2) Family Unlimited Green Fee Plan for \$2,160 (covers up to three members living in the same household) and 3) All Inclusive Plan for \$3,100 (covers one person) or \$3,500 (for family). The membership plans were created to enhance Firewheel's popularity and thus increase revenue. However, it has not yet reached that

expectation. We believe that many players are unable to afford the plans offered due to the current economic conditions.

Recommendation: We recommend that the City Manager requires the Contractor to consider revising the two Unlimited Green Fee Membership Plans and include discounted cart fees and/or range balls to increase memberships and revenue during times of reduced economic growth.

Management Response:

The Auditor's recommendation will be taken into consideration when developing promotional offers.

15. Tee time reservations are not offered online.

Firewheel does not offer tee time reservations online. Currently, reservations could only be made by walking-in or by telephone during business hours. Our interview with the Golf professional revealed that the POS system has a tee time reservation module in the package, which may be linked to the Firewheel website at no additional cost. The tee time reservation should be available at all times (including night time), so that the customers are able to reserve tee times at their own convenience. Otherwise, chances of losing customers to competitors increases.

Recommendation: We recommend that the City Manager ensures the Contractor works with the Firewheel website administrator and the POS system vendor to utilize the POS tee time reservation module and offer customers the option to reserve tee times on the internet 24 hours a day and 7 days a week.

Management Response:

We agree that being able to book tee times on line is critical in today's market. The first and critical step in moving this direction is the implementation of the electronic tee sheet which should be operation in March 2009.