



Memorandum

TO: Craig Hayton, Community Services Director

THRU: Bill Greene, City Auditor (X8982)

FROM: Diana Storino, Senior Internal Auditor (X8997)

CC: Rosa Inchausti, City Manager
Greg Ruiz, Chief Deputy City Manager
Keith Burke, Deputy City Manager
Lisette Camacho, Deputy City Manager
Alexander Jovanovic, Deputy Community Services Director – Parks & Rec
Julie Hietter, Community Services Admin Manager

DATE: August 19, 2024

SUBJECT: FINAL REPORT: GOLF COURSE CONTRACT AUDIT (Ken McDonald G.C.)

Attached is our final report on the subject audit. Copies of this report will be distributed to the mayor and council and posted to the Internal Audit Office website.

Thank you and your staff for your cooperation during this project.

Golf Course Contract Audit (Ken McDonald)

Project Team:

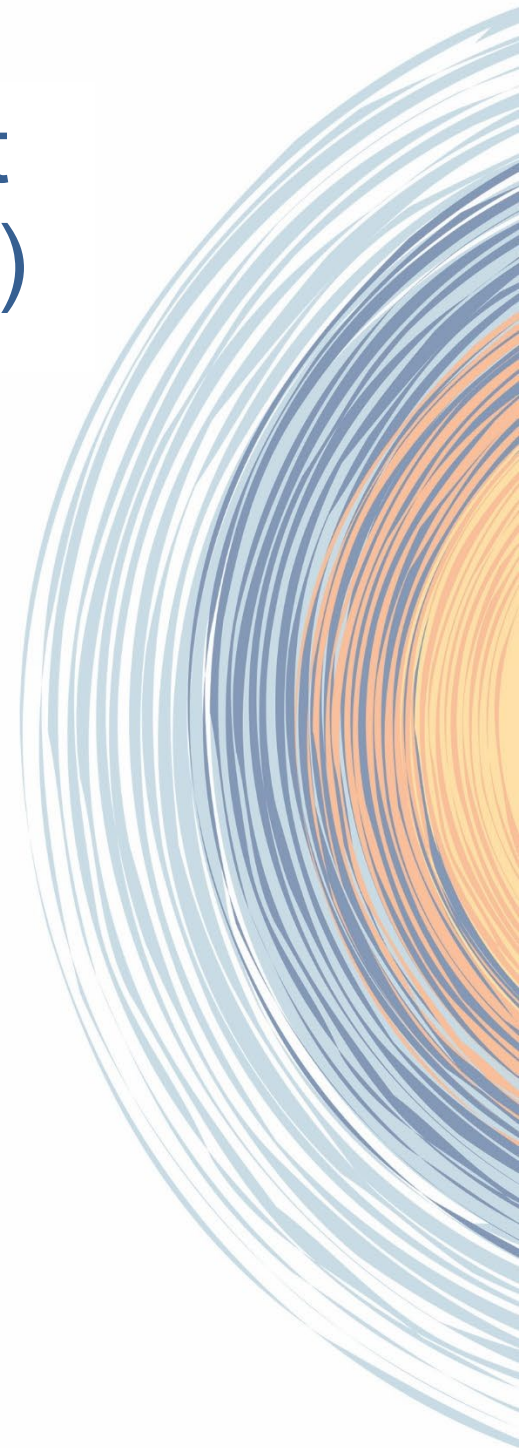
Bill Greene, City Auditor
Diana Storino, Sr. Auditor

Mission Statement

To enhance and protect organizational value by providing high-quality, objective, risk-based audit and consulting services to assist the City in accomplishing strategic priorities, goals, and objectives.



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Executive Summary

Purpose

We evaluated internal controls that ensure revenue payments are remitted to the City of Tempe (“City” or “Landlord”) by Tempe Golf LLC (“Tenant” or “Courseco, Inc”) in accordance with the requirements of the Golf Course Lease and Management Agreement (dba Ken McDonald Golf Course “the Golf Course”).

Background

On July 2, 2021, the City issued a Request for Proposal (RFP) related to improvement and operation of the Golf Course. The four stated goals were to: (1) ensure the long-term viability of public golf, (2) address capital improvement needs at the Golf Course, (3) provide revenue to the City, and (4) expand golf and recreational amenities to a wide and diverse audience. On March 3, 2022, City Council authorized staff to negotiate an agreement with Courseco, Inc. for improvement and operation of the Golf Course in accordance with Tenant’s proposal.

The Golf Course agreement has an effective date July 1, 2023, with initial term of lease for 20 years from the effective date and expiration date is June 30, 2043, with two extension terms of 5 years each. Courseco, Inc submits a Quarterly Revenue Report (QRR) to the City which details revenue by category and the revenue-sharing payment amount.

For quarters ending September 2023, December 2023 and March 2024, golf revenue was about \$430,000, \$610,000, and \$1,044,000 respectively. The City’s Golf Revenue sharing percentage of 5% resulted in revenue sharing payments from July 2023 through March 2024 totaling about \$104,000.

Results in Brief

Internal controls exist to ensure revenue payments are remitted to the City of Tempe in accordance with the requirements of the Golf Course Lease and Management Agreement. However, requiring Courseco, Inc. to include supporting documentation with their Quarterly Revenue Summary Reports (QRRs) would provide more assurance that payment amounts are accurate.

Courseco, Inc. does not currently submit the supporting documentation necessary to evaluate and substantiate the revenue-sharing payments along with their Quarterly Revenue Summary Reports. This documentation should include a chart of accounts, Pro Shop Daily Reconciliation, deposit tickets, cash register reports, trial balance, and bank statements, all of which would allow for the amounts reported to be properly substantiated.

Recommendations

Our detailed report contains audit recommendations to further improve contract administration controls.

Department Responses to Recommendations

<p>Rec. 1.1: Require source documentation and all relevant reconciliations be attached to each Quarterly Revenue Report in Excel format.</p>	
<p>Response: As part of reporting on the audit results to CourseCo, we will request the recommended documentation be included with all quarterly revenue reports, starting with the July-Sept 2024 report.</p>	<p>Target Date: Sept 30, 2024</p>
<p>Explanation, Target Date > 90 Days: N/A</p>	
<p>Rec. 1.2: Upon completion, obtain and review the independent certified public accountant review of annual statement.</p>	
<p>Response: We will request and review the certified review of annual statement for each year, beginning with fiscal year 2023-24. Fiscal year-end reports are due to the City by Aug 31 each year.</p>	<p>Target Date: Sept 30, 2024</p>
<p>Explanation, Target Date > 90 Days: N/A</p>	
<p>Rec. 2.1: Review source documents and reconciliations submitted with each QRR and monitor the cash over/short account and perform follow up as necessary.</p>	
<p>Response: We will review the recommended documentation beginning with the July-Sept 2024 quarterly revenue report to ensure revenue reports are accurately reported. Quarterly reports are due to the City 30 days following the close of the quarter.</p>	<p>Target Date: Nov 15, 2024</p>
<p>Explanation, Target Date > 90 Days: Revenue report for July-Sept 2024 is due 30 days following close of the quarter, Oct 30.</p>	
<p>Rec. 3.1: Assign the responsibility for retaining and reviewing insurance certificates.</p>	
<p>Response: As part of reporting on the audit results to CourseCo, we will request to receive annual notification of their insurance policy renewals. If annual notification can't be set up automatically, we will request the policies each year 30 days prior to the renewal date.</p>	<p>Target Date: Sept 30, 2024</p>
<p>Explanation, Target Date > 90 Days: N/A</p>	

1 – Internal Controls: Revenue Cycle

Background

The golf course revenue cycle encompasses all the processes involved in generating, managing, and collecting revenue from various sources within the golf course operation. Efficient management of the golf course revenue cycle is essential for maximizing profitability, maintaining high service standards, and ensuring a positive experience for members and guests.

The primary revenue accounts include various fees and pro shop sales. The revenue cycle begins when a customer purchases merchandise and the cashier scan the bar code into the contractor's Point of Sale (POS) System (Total E Integrated). This POS system is used to capture all golf and related revenue transactions.

POS system captures revenue daily. The following POS documents are generated at the golf course and are forwarded daily to Courseco, Inc. Corporate Accounting:

- End of Day Register tapes
- Cash deposit ticket
- Pro Shop Daily Reconciliation
- Settlement Summary by Terminal Identification (credit card detail breakdown by cash register)

Accounting documents located at Courseco, Inc Corporate Accounting Offices include:

- Trial balance (a bookkeeping worksheet in which the balances of all ledgers are compiled and serve as the basis for the preparation of financial statements),
- Chart of Accounts (listing of all balance sheet and profit and loss accounts),
- Bank statements.

Courseco, Inc. submits a Quarterly Revenue Report (QRR) to the City. The report details golf revenue, by category (e.g., green fees, cart rental, driving range to name a few) and revenue-sharing payment amount.

Approach

To evaluate the effectiveness of internal controls governing revenue recognition, revenue-sharing payments arrangements and insurance requirements, we performed the following steps:

- Met with Courseco, Inc. staff to gain an understanding of golf course operations and reviewed lease agreement noting revenue sharing component and insurance requirements.
- Reviewed lease agreement terms to ensure revenue-sharing calculation was clearly defined in agreement and revenue sharing reports provided adequate supporting documentation to substantiate revenue sharing calculation and subsequent payment.

- Reviewed QRR and supporting documentation to ensure revenue-sharing payment amount is accurate.
- Assessed segregation of duties to prevent unauthorized access or manipulation of revenue data.
- Determined revenue sharing reports were being maintained in accordance with lease agreement terms.

Results

Internal controls, such as clearly defined lease agreement terms, required individual log-in identification at the cash register combined with daily reconciliations, and proper segregation of duties between cash handling and accounting functions, help ensure that revenue-sharing payments are made, and insurance requirements are met in accordance with lease agreement terms.

Primary internal controls surrounding the revenue cycle at the Golf Course include:

- Lease agreement with clearly defined descriptions for revenue-sharing calculation and payment and insurance requirements
- Individual log-in identification at the register
- Daily reconciliations between POS system and accounting records
- Segregation of duties between the cash handling and accounting functions

Lease Agreement Terms: The golf revenue sharing calculation and subsequent payments and reports are defined in the agreement as follows:

Golf Revenue Sharing - Courseco, Inc. pays the City five percent (5%) of all Golf Course Revenues up to the Golf Course Revenue Threshold. Golf Course Revenue Threshold means Golf Course Revenues of \$2.4 million in the first year of the lease term and increased annually in accordance with the terms of the lease agreement.

Revenue Sharing Payments – Courseco, Inc. pays the City on a quarterly basis. The payments are due in full within thirty (30) calendar days following the end of each quarter. Currently, Food & Beverage revenue sharing component has not commenced pursuant to Article 5.3.2 but will begin following the completion of the Clubhouse Improvements.

Revenue Sharing Reports – Courseco, Inc. submits to the City a statement of Golf Revenues and Food and Beverage Revenues (collectively “Gross Revenues”) within thirty (30) days after the end of each calendar quarter.

Article 18.2 of the Golf Course Lease and Management Agreement specified the types and amounts of insurance required.

Individual Log-in: During a site visit, the Courseco, Inc. Manager, demonstrated at the register that all employees who handle cash and have access to cash registers each have individual log-in identifications. At the end of each shift, registers are subjected to

a “blind close”, where the employee does not know how many cash sales were made. After closing, the employees leave the starting “till” (cash in the drawer) in the register and secure the day’s cash sales in a drop bag into the safe.

Daily Reconciliation: Courseco, Inc. Controller stated POS documentation is submitted daily to Corporate Accounting and information is reviewed as part of the monthly Corporate Accounting bank statement reconciliation process.

Segregation of Duties: There is no single individual who controls the entire revenue recognition and payment process. The General Manager reconciles and forwards the sales reports for cash and credit card deposits daily to Courseco, Inc. Accounting Department. Monthly, the corporate accounting staff matches deposits against the POS Sales Summary Reports and daily sales deposits. Cash variances are posted to the over/short cash account and credit card sales discrepancies are identified in Courseco, Inc. company-wide bank statement reconciliation process. Also, Courseco, Inc.’s Accounting Department performs monthly reconciliations of their revenue accounts.

Additionally, according to Courseco, Inc. staff, periodic training is provided to employees involved in revenue recognition and payment calculation. Training raises awareness among staff about the importance of compliance with contractual obligations and the potential consequences for non-compliance.

Courseco, Inc. submits a QRR to the City but does not attach supporting documentation. Without QRR supporting documentation, contract monitoring cannot be performed to provide reasonable assurance that payment amounts are accurate.

Courseco, Inc. does not currently submit the supporting documentation necessary to evaluate and substantiate the revenue-sharing payments along with their Quarterly Revenue Summary Reports. This documentation should include a chart of accounts, Pro Shop Daily Reconciliation, deposit tickets, cash register reports, trial balance, and bank statements, all of which would allow for the amounts reported to be properly substantiated.

The City can access these documents in accordance with Article 5.6 of the contract. Specifically,

Inspection and Audit

City shall be entitled at any time and from time to time during the Term and within three (3) years after the Expiration Date or other termination of this Lease, to inspect, examine, copy, and audit Tenant’s books, records and cash receipts as related to Gross Revenues. The purpose of such an examination is to enable City to ascertain, clearly and accurately, the Tenant’s Gross Revenues and to verify that the form and method of Tenant’s record keeping provide adequate and proper control and check of all such revenues.

Matching numbers from the QRRs to the source documentation is a key step to ensure revenue transactions recorded are included in the revenue-sharing calculation. Also, periodically comparing the chart of accounts for revenue/deferred revenue provides reasonable assurance that all revenue categories are being included in the QRR and in revenue payment calculation.

By exercising the lease agreement provision regarding the examination of underlying documents, contract monitoring would be strengthened. Establishing procedures for periodic and systematic monitoring of revenue transactions, revenue allocation and payment processing would strengthen the contract management and oversight function by identifying any discrepancies between revenue and payment records.

Independent Review

The lease agreement states that the annual statement will be reviewed by an independent certified public accountant. Our fieldwork testing ended prior to the annual statement being completed by the independent certified public accountant. Contractual monitoring should include obtaining a copy of the annual statement and address if revenue recognition follows generally accepted accounting principles.

Specifically, Section 5.5 of the lease agreement states:

“In addition, each annual statement shall be reviewed by an independent certified public accountant, at Tenant’s expense, reasonably acceptable to the City. Tenant shall keep at the Premises or at Tenant’s business office complete and accurate books of account, records, cash receipts and other pertinent data, in accordance with good accounting practices and in a form approved by City, showing its Gross Revenues, including without limitation, accurate records of every sale and other transaction made from the Premises.”

Recommendations

- 1.1 Require source documentation and all relevant reconciliations be attached to each Quarterly Revenue Report in Excel format.
- 1.2 Upon completion, obtain and review the *independent certified public accountant review of annual statement*.

2 – Revenue Sharing Calculation

Background

Golf course revenue is primarily from green, cart and driving range fees and pro shop sales. Courseco, Inc. submits a Quarterly Revenue Report (QRR) to the City from which the revenue sharing calculation is made, and payments are submitted.

Approach

To ensure revenue payments were remitted to the City in accordance with lease agreement requirements, we conducted the following steps:

- Matched monthly revenue amounts from the POS Sales Summary to the Trial Balance report and to the Quarterly Revenue Report submitted to the City which specifies the revenue sharing amount.
- Selected a sample of transactions and traced them through the Courseco, Inc. point of sale system (End of Day Report, Pro Shop Daily Reconciliation Report, credit card report), and their bank statement and to the City’s official financial records.

Results

Quarterly golf sharing revenue payments were calculated correctly, recorded accurately and paid to the City according to lease agreement terms.

Table No. 2.1 details the various types of revenue recorded by each quarter and the corresponding revenue sharing payment made to the City and recorded in the City’s official financial records.

Table No. 2.1 Quarterly Revenue Report Revenue Sharing Payments				
Description	(3rd quarter) July – Sept 2023	(4 th quarter) Oct - Dec 2023	(1 st quarter) Jan - March 2024	Total Revenue by Type
Green Fees	\$280,608	\$423,653	\$665,935	\$1,370,196
Cart Rental	79,250	103,326	140,644	323,220
Card Program ¹	NA	0	81,550	81,550
Driving Range	37,681	41,689	87,474	166,844
Lessons	6,755	5,387	12,736	24,878
Merchandise	19,769	24,249	32,768	76,786
Club Rentals	1,873	4,195	5,691	11,759
Other Revenues	3,912	7,418	16,845	28,175
Total Golf Revenue	\$429,848	\$609,917	\$1,043,643	\$2,083,408
Revenue Sharing Payments	\$21,492	\$30,496	\$52,182	\$104,170

Note: ¹ Courseco, Inc Controller stated the card program commenced in December 2023 and that the revenue was recorded in January 2024. We verified that the card program revenue recorded in the trial balance as of December 2023 was moved to January 2024 through a journal entry.

We judgmentally selected three months (September and December 2023 and March 2024) and performed the following:

- Verified the total for each revenue category on the POS Sales Summary matched the total on Courseco's, Inc. trial balance and QRR.
- Recalculated Quarterly Golf Revenue Sharing payments noting revenue amounts on Courseco's, Inc Trial Balance matched what was reported in the QRR and the City's Cash Receipt Form noting date, payer, amount, account, and cost center numbers and posting to the general ledger.
- Verified that revenue-sharing payments were made timely and accurately.
- Verified the mathematical accuracy of the QRR.

We noted no exceptions other than the 4th quarter payment was not made in a timely manner in accordance with contract requirements. It should have been paid on January 30, 2024, and the check date was February 8, 2024.

In general, the daily total for each revenue category on the POS Sales Summary used to calculate revenue sharing payments matched the total on Courseco's trial balance (official financial record) and bank statement.

We judgmentally selected five days from July 2023 through March 2024 and reconciled individual days transactions from the Courseco, Inc. POS system to their accounting system and the final recording of payments in the City's official financial record. All amounts matched. Table No. 2.2 summarizes the transactions tested and the cash/credit card differences between the credit card report and bank statements identified during testing.

Table No. 2.2 Sales Transaction Testing Daily Reconciliation					
Description	2023		2024		
	Sept. 24	Oct. 13	Feb. 22	Mar. 16	Mar. 31
Total Actual Credit Card Payments	\$8,700	\$9,546	\$12,474	\$14,289	\$4,991
Cash Collected	1,085	1,769	1,902	1,264	392
Cash [Over/(short)]	\$29	\$1	\$2	(\$122)	\$27
Credit Card [Over/(short)]	\$47	\$94	(\$61)	\$30	\$5,141

Cash Over/Short

We verified that the over/short cash amounts were properly recorded in the expense general ledger Cash (Over)/Short Golf reflecting the difference between expected and actual cash collected. The City does not receive the general ledger expense account detail. As of March 2024, this expense account showed a cash shortage of about \$1,400.

Credit Card Over/Short

The credit card variances are included as part of the corporate bank reconciliation process. The credit card reconciling items ranged from \$30 - \$5,141 and Courseco, Inc. Controller indicated they were identified in the corporate wide bank statement reconciliation process. No further investigation of the minor credit card over/short amounts was performed due to immateriality.

We performed further inquiry regarding March 31, 2024, since the amount (\$5,141) was much larger than the other variances. Courseco, Inc. Controller explained that amount reflected an offline credit card amount. This means the POS system went offline and during this time sales were entered using a handheld terminal. When the POS system came back online, staff was unable to record the revenues at the discounted rate, so the revenues were recorded at the undiscounted rates. This led Courseco, Inc. to make a business decision to expense the shortage as identified during the April 2024 bank reconciliation process. This treatment has no effect on the revenue reported to the City and subsequent payments.

Recommendation

- 2.1 Review source documents and reconciliations submitted with each QRR and monitor the cash over/short account and perform follow up as necessary.

3 – Insurance Requirements

Background

In accordance with Article 18.2 of the Golf Course Lease and Management Agreement, the following types of insurance are required:

- Workers Compensation Per Az Law
- Commercial General Liability
- Automobile Liability
- Professional Liability
- Liquor Liability
- Property, Natural Hazard, and Fire
- Crime and Fidelity
- Umbrella Liability

Approach

We performed the following steps to determine if the contractor complied with the insurance provisions:

- Reviewed insurance requirements specified in the contract coverage type and amount.
- Compared these requirements with the coverage listed on the insurance certificate.

Results

The insurance certificate provided by the contractor met all the specified insurance requirements outlined in the contract. However, City staff was unable to provide the certificates of insurance, and no one is assigned the responsibility of monitoring insurance to ensure compliance with requirements are maintained throughout the contract period.

Initially, at the start of the contract, Courseco, Inc. staff indicated they had the insurance broker review the insurance requirements in the contract to ensure insurance certificates reflect compliance with the contractual requirements. Courseco, Inc. Senior Operations Manager provided a copy for all insurance listed above except the Workers Compensation because that was procured separately from the other required insurances. We reviewed each Certificate of Liability Insurance noting the contractor's insurance coverage aligns with the contractual obligations and the City of Tempe is the certificate holder.

Additionally, Courseco's, Inc. Controller provided a copy of the Certificate of Liability Insurance for Workers Compensation, and the certificate holder is Tempe Golf LLC. This certificate states, "All worksite employees working for Tempe Golf LLC DBA Ken McDonald Golf Course paid under ADP TOTALSOURCE, Inc.'s payroll, are covered

under the (above) stated policy.” Regular review is advised to ensure ongoing compliance.

Recommendation

3.1 Assign the responsibility for retaining and reviewing insurance certificates.

Scope, Methods, and Standards

Scope

We judgmentally selected five days from the following quarters and traced sales transactions from the point-of-sale system to the official financial records of Courseco, Inc and the City of Tempe:

- 2023 Quarter 3 (July 2023 – September 2023)
- 2023 Quarter 4 (October 2023 – December 2023)
- 2024 Quarter 1 (January 2024 – March 2024)

This audit scope included only golf shop revenue as the food revenue sharing component of the contract will not commence until after completion of the Clubhouse Improvements estimated around the Fall of 2026.

Methods

We used the following methods to complete this audit:

- Conducted interviews with Community Services and Courseco, Inc. staff to gain an understanding of golf course operations.
- Reviewed documentation to ensure compliance with contract terms and conditions relative to golf revenue sharing calculation, reporting and payment.
- Selected a sample of revenue transactions and traced amounts from the Point-of-Sale System to Courseco, Inc. official financial records.

Unless otherwise stated in the report, all sampling in this audit was conducted using a judgmental methodology to maximize efficiency based on auditor knowledge of the population being tested. As such, sample results cannot be extrapolated to the entire population and are limited to a discussion of only those items reviewed.