

**Audit Report**

***Parks, Recreation, and Community  
Services Department  
Fairmount Park Golf Course***

**February 2014**

**AU14-09**

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## REPORT SUMMARY

In accordance with the Internal Audit Work Plan for Fiscal Year 2013/2014, a review of Fairmount Park Golf Course, a service overseen by the Parks, Recreation, and Community Services Department (PRCSD) was conducted to assess the effectiveness, efficiency, and internal controls of golf operations.

The City of Riverside owns the Fairmount Park Golf Course, a nine-hole regulation length public access golf course providing recreation year-round to residents and visitors. In prior years, the management of the golf course operations and maintenance was contracted out to a third-party operator. The agreement with the third party was legally terminated January 2013. After significant renovations at the City's expense to various buildings and the greens, the golf course re-opened to the public on September 19, 2013.

According to a *2011 Golf Economy Report*<sup>1</sup> nationwide golf participation rates have decreased over the past several years and it is generally believed that there is now an abundance of public and private courses competing for a shrinking market. The *Report* forecasts "growth in play over the next 10 years at 1 to 2 percent per year. The market segment which has shown relative strength in recent years is the mid- and upper-mid market oriented daily fee courses. At courses in this segment, a quality experience at a relatively affordable fee is offered."

The golf course is an important component of the overall recreation services provided by PRCSD. The City is striving to achieve an economic breakeven point on operations at the City's only public golf course, seeking ways to enhance revenues and /or provide services more cost effectively.

While PRCSD can be commended for taking over the development, maintenance and operations, we did note opportunities where management could increase oversight and strengthen internal controls over revenue and day-to-day course operations.

## OBJECTIVES, SCOPE and METHODOLOGY

### Objective

Our audit objective was to determine whether existing administrative policies, procedures and internal controls related to day-to-day operations are effective, efficient, and assets are appropriately safeguarded.

### Scope and Methodology

The review was conducted during the month of January and February 2014, for records and transactions processed during the period July 2013 through January 2014. To address the audit objectives and as part of our assessment of risk, we:

- Reviewed the City's *Cash Handling and Receipt Manual* (admin policy number 06.007.00) and PRCSD cash handling policies/procedures;

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<sup>1</sup> Commissioned by the World Golf Foundation and GOLF20/20, October 2012.

- Interviewed PRCS D staff to gain an understanding of the golf course operations and revenue collection process;
- Reviewed physical controls for cash and cash equivalents, Pro shop inventory, and assets to ensure they are adequately safeguarded;
- Reviewed and tested a sample of daily receipts to ensure revenue is deposited and recorded in a timely manner with the City’s Treasury; and
- Reviewed various documents related to the current economic outlook for the golf industry.

Our review was conducted in accordance with *Generally Accepted Government Auditing Standards* and according to the *Standards for the Professional Practice of Internal Auditing* of the Institute of Internal Auditors. Those standards require that the audit is planned and performed to afford a reasonable basis for judgments and conclusions regarding the department, division, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives.

## BACKGROUND

The Fairmount Park Golf Course was designed and opened in 1936, offering a nine-hole golf course covering a total of 54 acres of land within city-owned Fairmount Park. From the longest tees it offers 3,218 yards of golf for a par of 36. Amenities include a driving range, two practice greens, snack bar and a Pro shop.

The City/PRCS D took over operations of the golf course January 2013, upon legal termination of a contracted operator. Under the current operating structure, PRCS D maintains the golf course and manages the overall operations. A food/beverage function is provided by a third party independent contractor, Ability Counts. There is no “golf Pro” employed by the City; lessons are not provided. Membership is not offered.

Under prior management by a third party, the condition of the golf course deteriorated due to poor irrigation, substandard maintenance and equipment. In February 2013, the City Council approved a supplemental appropriation in the amount of \$518k from the Regional Park Fee Fund for much needed improvements to bring the golf course up to golf course standards – renovate the Pro shop, refurbish restrooms, install a secure golf cart storage area, improve the driving range and most significantly, install a basic irrigation system for the entire course.

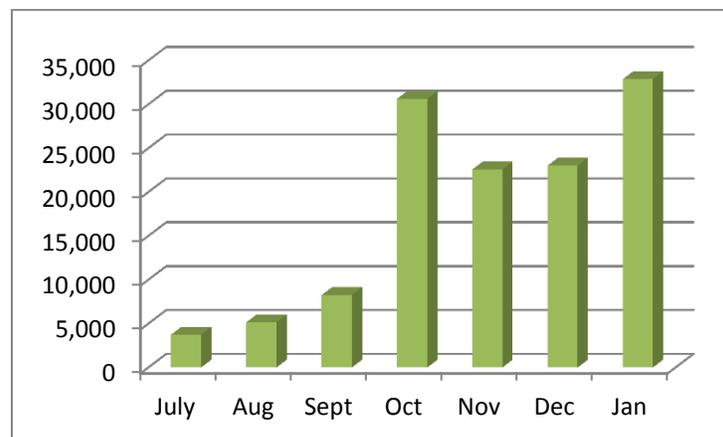
In comparison to other 9-hole golf courses surveyed, the Fairmount Park Golf Course green fees were below market rate. A slight increase in green fee rates and a golf cart rental fee was approved by the City Council in February 2013. Fees are considered to be very affordable for the local market. (See Appendix A for current rates.)

## General Fund ~ Revenue and Expenditures

The golf course operates as a public recreation amenity not unlike other recreation assets that have lower fee recovery such as the City swimming pools. Operating with General Funds allows the golf course to be maintained to high standards without having a profitability motive. However, operating as a General Fund can have political ramifications (i.e., 80% of taxpayers who do not participate in golf are subsidizing the 20% who are active in the sport). This potential objection can be overcome by demonstrating that the golf course is valuable to the community in many ways – charity events, company-sponsored tournaments, summer camp programs, senior programs, etc.

The revenue that flows through the golf facility comes primarily from green fees, range fees, golf cart rentals and associated spending on merchandise, food and beverages. The PRCSD golf course FY2013/14 projected/budgeted revenue is \$475k. Since the re-opening of the golf course in mid-September 2013, the golf course has reported a strong revenue stream.

**Monthly Actual Gross Revenue<sup>2</sup>  
July 2013 through January 2014**



The City Council approved an operating budget of \$693k for FY2013/14, of which \$480k is for day-to-day operational expenditures to maintain the golf course and facilities. To date, the golf course is operating significantly under expenditure budget (total operating expenses as of January 31, 2014 are only \$183k).

### Staffing

Seven PRCSD part-time employees manage the day-to-day operations of the golf course and Pro shop; two full-time and one part-time PRCSD employee perform golf course maintenance. The golf course is open to the public from 6:00am until 7:00pm daily, which requires two work shifts. There is currently no appointed full-time golf course manager/supervisor.

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<sup>2</sup> Gross revenues do not include cost of sales on merchandise sold in the Pro shop.

## ASSESSMENT of OPERATIONS

### Performance Indicators

Performance indicators measure the effectiveness of a golf course's marketing strategies and the overall efficiency of the facility's operations. Golf courses have a number of possible revenue streams. No. 1 is greens fees -- the cost for playing a round of golf on the course. Merchandise sales and food and beverage sales are other important revenue streams.

PRCSD has not implemented a golf course management system, which would automate the tee time process and provide data on golf course utilization for review, analysis, and decision-making. Currently a manual recording process is used to manage tee times and rounds of golf played. Tee times are on a first come first serve basis, or via a phone reservation up to one week in advance. Activity on the golf course is monitored by observation from the Pro shop. Because tee times and rounds of golf played are recorded manually, there is no comprehensive data on golf course utilization - the number of rounds played or attendance by day of week and time of day.

#### Revenue Per Available Tee Time

Revenue per available tee time or available rounds is a critical performance indicator for all golf courses to track. Just as a hotel has a limited number of rooms, a golf course has a finite number of tee times available each day. They are also perishable; an unsold tee time cannot be sold at a later date. The golf course should make certain the revenue from the available tee times is maximized. Monitoring revenue per available tee time on a monthly basis can reveal how effective marketing efforts are in bringing golfers to the course.

#### Course Utilization

The number of rounds sold divided by total available rounds yields course utilization -- similar to occupancy percentage in the hotel industry. PRCSD should track this performance indicator by time of day, day of week, and month of the year. Slow days or slow times of the day with few sold rounds require implementing marketing strategies to bring in more people.

#### Repeat Business

PRCSD should track the percentage of golfers who come back to the course after playing it for the first time. Repeat business percentage is a performance indicator that reveals the overall customer satisfaction the business is achieving. A high repeat business percentage shows that the green fees are priced fairly and competitively. It also indicates that course maintenance is meeting a high standard. Golfers return to courses they judge to be well maintained. Smooth greens and healthy turf grass in the fairways and rough are two components of good maintenance golfers seek.

### Internal Controls

Internal controls rely on the principle of checks and balances in the workplace.

- Separation of Duties reduces the likelihood of errors and irregularities. An individual is not to have responsibility for more than one of the three transaction components: authorization, custody, and record keeping. When the work of one employee is checked by another, and when the responsibility for custody for assets is separate from the responsibility for maintaining the records relating to those assets, there is appropriate segregation of duties. This helps detect errors in a timely manner and deter improper activities; and at the same time, it should be devised to prompt operational efficiency and allow for effective communications.
- Physical Restrictions are the most important type of protective measures for safeguarding assets, processes and data.
- Monitoring Operations is essential to verify that controls are operating properly. Reconciliations, confirmations, and exception reports can provide this type of information.

#### Cash Handling/Timely Deposits

The golf course accepts cash, check, and all major credit cards. Credit card transactions are processed through a separate terminal; merchant services are provided by Bank of America.

The golf course has two safes located in a locked office. One safe is for daily operating cash (\$100) and back-up cash (\$200). A second is a drop safe for securing deposits at the end of the business day. All seven part-time employees have access to the safe containing daily operating and back-up cash. The drop safe is only accessible by the lead staff member and PRCSD superintendent. Each safe has its own activity log; daily cash in, out, or deposits is required to be noted on the logs. Cameras also record activity in/out of the two safes.

PRCSD has developed cash handling policies and procedures. Daily receipts are reconciled to cash on hand; a *Daily Revenue Report* is prepared and submitted with the daily deposit to staff at PRCSD headquarters. PRCSD deposits funds with Treasury, which are recorded in the appropriate revenue accounts. Our review and testing of selected daily golf course receipts indicates controls are adequate; deposits reconciled, processed and recorded timely. There appears to be adequate separation of duties and cash handling procedures; however the risk of theft/loss is high when too many employees have access to the safe(s).

#### Inventory/Merchandise

The Pro shop offers a limited supply of merchandise available for sale - polo shirts, shorts, hats, visors, gloves, tees, and other golf related items. A vending machine provides bottled water and soft drinks.

The current inventory management process for merchandise held for sale is manual. When new merchandise is received at the golf course, it is verified against the packing slip/billing of lading and each

item is recorded on an Excel spreadsheet. No markup formula<sup>3</sup> is utilized to establish the retail sales price; staff set the retail price equivalent to or lower than the current market price.

According to management, merchandise is to be inventoried once a month by staff. Inventory records (invoices, packing slip/billing of lading) are not maintained on-site at the golf course, but with PRCS staff located off-site. Merchandise sales are entered in the cash register as a taxable sale<sup>4</sup> and broken out separately on the cash register tape and *Daily Revenue Report*.

Physical inventory of Pro shop merchandise for sale has only occurred three times (June, August, and December 2013). In our review we noted inventory recently purchased/received was not recorded on the Excel spreadsheet prior to placing the items out on the shelves/racks for sale to golfers. Month-end, staff should perform a physical count of inventory and reconcile to the Excel spreadsheet and to *Revenue Reports*. Any variance (loss due to theft) should be noted. Additionally, management may want to consider reducing retail prices after a reasonable period of time for slow-moving items. Because records were incomplete, we were not able to arrive at a current value of inventory in the Pro shop at the time of our review. Documented policy/procedures, internal controls and accountability of inventory needs management's attention.

#### Safeguarding Equipment

A secured and alarmed storage shed is utilized to house various types of turf equipment and 15 golf carts at the end of the business day. Access is controlled with an individually assigned code number entered on a key pad to open the entry door and roll up the shutter doors. After staff has finished retrieving the golf carts and/or turf equipment, the storage shed is to be locked. Physical restrictions appear to be adequate to ensure control and safekeeping of these assets.

#### Discount Cards/Monthly Passes

Any valid pre-paid discount cards and/or monthly passes issued by the prior operator are still honored at the golf course. The process for managing the current value and validity of the discount and passes is manual. Each time a portion of the discount card or monthly pass is redeemed, the information is recorded on the card itself and a copy is retained in a binder. When a discount card or pass is no longer valid, it is retained by staff and properly disposed. Staff note on the copy of the discount card and monthly pass it has been fully redeemed. Currently, management is not aware of the number of discount cards and passes that are valid and the related value. Discount cards and passes distributed by the prior operator should no longer be honored now that the City is operating the golf course. Notice should be posted at the Pro shop and communicated to golfers that these items will no longer be honored after an established date (i.e., as of July 1, 2014).

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<sup>3</sup> A markup formula is a tool used by businesses to determine what they should price merchandise for while still turning a profit and covering overhead expenses.

<sup>4</sup> A seller must collect and report taxable sales to the State of California. Finance-Accounting calculates the sales tax liability and payment is remitted quarterly to the State.

## Gift Certificates

The golf course began offering Gift Certificates<sup>5</sup> for purchase in December 2013. Gift certificates are pre-numbered and retained in a folder, secured in a locked office accessible only by staff. The certificates do not have an expiration date.

### *Sale*

- The sale is entered into the cash register as a non-taxable sale.<sup>6</sup>
- The pre-numbered paper certificate is manually filled in with to/from, dollar amount, employee signature/ID number and date of purchase.
- The gift certificate information is manually entered into the *Gift Certificate Sales Log*.

### *Redemption*

- If/when the certificate is only partially redeemed, the information is recorded on the back of the original gift certificate, including date, dollar amount redeemed, remaining balance and the employee's initials. The certificate is copied and retained by staff for the log; the original is returned to the customer.
- If/when the gift certificate is redeemed for its total value the certificate is defaced and properly disposed.

As of January 29, 2014, 18 gift certificates have been sold for a total value of \$673. Due to lack of an adequate monitoring/recording process, the outstanding value (balance) of the sold certificates is currently not known. Documented policies/procedures and adequate internal controls need to be established if PRCS D/golf course continue to offer Gift Certificates.

## CONCLUSION

### Long-Term Financial Strategy

With shrinking budgets and added pressure to eliminate costly programs/services, a long-term financial strategy for the Fairmount Park Golf Course would benefit resident and guest golfers. Following are options for management consideration:

Self-Operation The City/PRCS D continues to operate its golf course with all revenues, expenses, employees, etc. belonging to the City. Two different accounting methods should be considered:

- General Fund – the golf course operates as any other line item in the City's budget; losses are not transparent.
- Non-Major Enterprise Fund – the golf course operates like other City enterprises; excess revenue is returned to the enterprise for future improvements; losses are transparent.

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<sup>5</sup> Gift certificates are for future redemption of an equal value for the use of green fees, golf cart rentals and Pro shop merchandise.

<sup>6</sup> The sale is recorded as recognized revenue and not as deferred revenue on the City's financial records.

Concession Agreements This involves granting a license to operate a portion of the facility rather than the right to occupy the premises:

- Self-operate grounds maintenance and contract for the Pro shop (may or may not include Food/Beverage) operations. This gives the City direct control of maintenance.
- Self-operate Pro shop (may or may not include Food/Beverage) and contract for grounds maintenance.

Full-Service Management Contract Hire a single management entity/company to operate all aspects of the City golf course, for an established fee paid to the management company.

Operating Lease Lease the golf facility to a private operator in exchange for an annual (or monthly/quarterly) lease payment to the City. The lease could be established to include certain lessee requirements, including capital investment in facility improvements.

Sell the Golf Course Removes the operation from the City's books; however, currently there may not be a market for the facility.

In spite of a challenging economic environment, the game of golf continues to offer recreational opportunities and enjoyment for Riverside residents and visitors.

Our review provides an independent assessment of the activities and practices that would benefit from improved oversight and lead to a more effective and efficient operation of the City's municipal golf course. No findings were issued as part of this review. No response from management is necessary, although we welcome your feedback of our assessment.

Respectfully,  
Cheryl Johannes, Internal Audit Manager  
Office of the City Manager

## Appendix A

**Fairmount Golf Course** 2681 Dexter Dr. Riverside, CA (951) 369-3001 Open Daily from 6am-7pm

Green Fees	Weekdays	Weekends/Holidays
<b>City of Riverside Resident (9 holes)</b>	\$10.00	\$12.00
<b>Non-Resident (9 holes)</b>	\$11.00	\$14.00
<b>Senior Resident (55+)(9 holes)*</b>	\$6.00	\$12.00
<b>Senior Non-Resident (55+)(9 holes)*</b>	\$8.00	\$14.00
<b>Junior (under 18)(9 holes)</b>	\$8.00**	\$10.00***
<b>Twilight (9 holes)(after 3pm)</b>	\$7.00	\$8.00
<b>Tournament</b>	\$14.00	\$14.00
<b>Second Round of 9 holes (18 total)++</b>	****	****
<b>Golf Cart Rental</b>	\$6.00/person	\$6.00/person

\*No discount on Weekends and Holidays

\*\*Junior- under 18 on Weekdays and Weekend Afternoons

\*\*\*Junior- under 18 on Weekend morning accompanied by an adult

\*\*\*\*Second Round (18 holes) is offered for \$2 less than the rate of the first 9 holes

++Cart rental is \$6.00 PER PERSON (not per cart). Only two people per cart, must be 16+ to drive. No cart rental charge for second round of 9 holes. Rates were set by Riverside City Council on 2/26/13.