



OFFICE OF THE CITY AUDITOR
COLORADO SPRINGS, COLORADO

12-22 City Golf Course Contract Compliance Review

November 2012



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12-22 City Golf Contract Compliance Review

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Purpose

The purpose of our audit was to review contract compliance with the terms specified in the City's golf course pro shop concessionaires, G.I.M.M.I.E. Golf and Northern Golf agreements. The audit covered the period of January 1, 2011 to December 31, 2011.

Highlights

We conclude that overall, the concessionaires and the City were operating in material compliance with the terms and conditions of the contract.

The City of Colorado Springs has two municipal golf courses. The City Golf Manager was responsible for golf course operations which were performed under contract by two concessionaires; one operating the pro shop and the other operating the restaurant on site. The Golf Manager monitored concessionaire performance and compliance with the contracts on behalf of the City. For the purposes of this review, we only reviewed the two contracts with the pro shop concessionaires at each course.

Each contract covered a term of five years, with one optional renewal term for five years. The contracts expire in 2013 and 2014, respectively, with a renewal option available for one of the contracts. Although each contract was similar, they were both fairly complex. The concessionaires collected and remitted all green fees, golf cart rental fees, and locker rental fees to the City. The concessionaires paid rent on the pro shop located on site; however, they retained all proceeds from the pro shop sales. The

(Continued on page 2)

Management Response

Management was generally in agreement with our recommendations.

Recommendations

1. To improve the clarity of the contract, we recommend amending contract language to remove nonessential requirements and add clarification to other clauses.
2. We recommend that the concessionaires amend their insurance to remove the clause that limits the scope of the additional insured and include excess liability insurance.
3. Simplify the contract to reduce time spent by City employees managing the contract. When the contract terms end, evaluate other contract structures in addition to the current golf-professional arrangement. These include a management fee arrangement and utilizing a single concessionaire to operate both courses. Incentive payments for increased revenues should also be considered.

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(Highlights continued from page 1)

cessionaires provided lessons to the public and retained these fees, as well. The City paid a management fee to each concessionaire. The City reimbursed each concessionaire for the hours certain employees worked and a percentage of those wages to cover workers' compensation insurance for those employees. The City reimbursed the concessionaires for credit card transaction fees incurred on behalf of the City. The City also paid the concessionaires a percentage of golf cart rental fees to cover administering the carts. Finally, the City was responsible for maintenance on the golf course.

During the course of our audit, we identified three observations related to contract compliance and administration and have listed our recommendations for each. Please note that they are not presented in any particular order in the attached report. We also identified one area where processes could be improved. This area is detailed on the pages that follow as well.

(Recommendations continued from page 1)

Opportunity for Improvement

1. The golf course concessionaires should consider expanding the employee manuals to include details necessary for contract compliance such as maintaining time separately for activities that are not billable to the City. They should also consider maintaining documentation that is signed and dated by the employee that states they have read, understood, and agree to comply with the policies and procedures set forth in the manual.

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OFFICE OF THE CITY AUDITOR

Public Report

Date: November 21, 2012

To: President of Council Hente, President Pro-Tem Martin, and Members of City Council

Re: 12-22 City Golf Course Contract Compliance

We conducted an audit of the City's two municipal golf courses.

The purpose of our audit was to review contract compliance with the terms specified in the City's golf course pro shop concessionaires, G.I.M.M.I.E. Golf and Northern Golf agreements. The audit covered the period of January 1, 2011, to December 31, 2011.

We concluded that overall, the concessionaires and the City were in compliance with the contract. During the course of our audit, we identified three observations and recommendations. They are listed in the attached report. We also identified areas where processes could be improved. These are detailed on the pages that follow as well.

As always, feel free to contact me if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Denny Nester". The signature is fluid and cursive.

Denny Nester, MBA, CPA, CIA, CGFM, CFE, CGAP

City Auditor

cc: Steve Bach, Mayor

Laura Neumann, Chief of Staff

Kara Skinner, Chief Financial Officer

Candice Bridgers, Accounting Manager

Karen Palus, Parks, Recreation and Cultural Services Director

Kim King, Parks and Recreation Manager

Dal Lockwood, Golf Manager

Bill Martin, G.I.M.M.I.E. Golf Owner

Mike Northern, Northern Golf Owner



Office Of The City Auditor

City Golf Course Contract Compliance

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REPORT DETAILS

PURPOSE AND SCOPE

The purpose of our audit was to review contract compliance with the terms specified in the City's golf course pro shop concessionaires, G.I.M.M.I.E. Golf and Northern Golf agreements. The audit covered the period of January 1, 2011, to December 31, 2011.

BACKGROUND

The City of Colorado Springs has two municipal golf courses. The City Golf Manager was responsible for managing golf course operations, including determining fees, and administering concessionaire contracts. Two types of concessionaire contracts were in place; one operating the pro shop and the other operating the restaurant on site. The pro shop concessionaires provided services at the pro shops and driving range, as well as providing course rovers and administering golf cart rentals. The Golf Manager monitored concessionaire performance and compliance with the contracts on behalf of the City. For the purposes of this review, we only reviewed the pro shop concessionaire contracts at each course.

Each contract covered a term of five years, with one optional renewal term for five years. One contract included a renewal option that could be exercised at the City's option. Although each contract was similar, they were both fairly complex. The concessionaires collected and remitted all green fees, golf cart rental fees, and locker rental fees to the City. The concessionaires paid rent on the pro shop located on site; however, they retained all proceeds from the pro shop sales. The concessionaires provided lessons to the public and retained these fees as well. The City paid a management fee to each concessionaire. The City reimbursed each concessionaire for the hours certain employees worked and a percentage of those wages to cover workers' compensation insurance for those employees. The concessionaires used their own credit card machines that were not part of the City system. Accordingly, the City reimbursed the concessionaire for transaction fees incurred in processing sales on behalf of the City. The City also paid the concessionaires a percentage of golf cart rental fees to cover administering the carts. Finally, the City was responsible for maintenance of the golf courses.

Fees generated from operations together with fund balances were sufficient to operate the courses without tax revenues. Revenues received under the contracts for 2011 were approximately \$1.9 million for Patty Jewett and \$1.1 million for Valley Hi.

COMMENDABLE PRACTICES

G.I.M.M.I.E. Golf (Patty Jewett Golf Concessionaire) assigns some staff to only perform duties which are reimbursable under the contract. In addition, these employees are paid once a month. This allows the timecards to easily tie to the amount submitted to the City for reimbursement. This process provides transparency in contract compliance.



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CONCLUSION

We conclude that overall, the concessionaires and the City were operating in material compliance with the terms and conditions of the contract. During the course of our audit, we identified three observations related to the contract and have listed our recommendations for each. Please note that they are not presented in any particular order in the attached report. We also identified areas where processes could be improved. These areas are detailed on the pages that follow as well.



OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

OBSERVATION 1 – CONTRACT LANGUAGE SHOULD BE REVISED TO IMPROVE CLARITY

The contracts between the City and the Golf concessionaires are fairly complex because of the payments/remittances required by both parties. We noted the following contract requirements that should be reviewed to ensure requirements are clearly stated and accurate:

- Concessionaires collect golf cart rental revenue on behalf of the City. They are allowed to retain a certain percentage of the fees for managing the cart rental services. The contract language states that the concessionaire will be reimbursed a percentage of golf cart rentals excluding sales tax. During the audit, it was determined that the concessionaires are not the party responsible for sales tax because the City owns the carts.
- Concessionaires are required by the contract to obtain a printed name on the golf cart rental receipt. During the audit, a separate paper form was used for this purpose; however, the concessionaires are moving to a new information system in April 2012 that requires a name and address be entered at the time of rental payment. Accordingly, contract language that specifically requires a printed name to be obtained on the receipt is no longer necessary.

AUDITOR'S RECOMMENDATION

To improve the clarity of the contract, we recommend amending contract language to remove nonessential requirements and add clarification to other clauses. Specifically we recommend the following:

- Remove the "excluding sales tax" clause from the contracts.
- Remove the clause that requires a printed name to be obtained.

CITY RESPONSE

We agree with the recommendation. Amendments to both pro-shop contracts regarding the clarifying language discussed above were sent to each pro-shop and incorporated into the agreements by September 28, 2012.



OBSERVATION 2 – CONTRACT INSURANCE REQUIREMENTS WERE NOT BEING MET

Both concessionaire contracts require Worker's Compensation Insurance, Employer's Liability Insurance, Commercial General Liability Insurance, Excess Liability Insurance, and Automobile Liability Insurance including owned, non-owned and hired automobiles.

The contracts also require the City to be named as an additional insured with the exception of workers' compensation and employer's liability insurance. The certificates of insurance for both concessionaires state that the City is listed as additional insured in regards to general liability. This clause excludes the other type of insurance (automobile and excess liability) where the City should be listed as an additional insured.

The certificate of insurance for both concessionaires does not list the excess liability insurance that is required to be carried under the contract.

AUDITOR'S RECOMMENDATION

We recommend that the concessionaires amend their insurance to remove the clause that limits the scope of the additional insured and include excess liability insurance.

CITY RESPONSE

We agree with the recommendation. Both pro-shop concessionaires have been contacted and the insurance requirements have been amended, eliminating the excess liability requirement and increasing the Commercial General Liability requirement to a \$2,000,000 aggregate with the City named as additionally insured. This amendment was approved by the Contracting as well as Risk Management offices and is compliant with current insurance requirements for similar contracts. Both concessionaires' policies were up to date and compliant by September 28, 2012.



OBSERVATION 3 – CONTRACT WAS COMPLEX AND VARIOUS CONTRACTING OPTIONS EXIST

The City of Colorado Springs golf courses are operated by concessionaires under an arrangement where some fees are remitted to the City and some are retained by the operator. The City has contracted with the course operators since 2003 and 2005 for the Patty Jewett and Valley Hi courses, respectively, with each contract having a five year term. We had the following observations related to the contract structure.

THE CONTRACT IS COMPLEX

We observed that the current contract structures include several items paid or remitted to and from the concessionaire. As a result, the contracts are fairly complex, and required significant administrative effort by Parks and Recreation staff to ensure all monies due the City were collected and that expenses that should be the concessionaire’s responsibility were not charged to the City as per the table below.

Revenues Collected and remitted to City	Revenues Retained by concessionaire	Expenses paid for or Reimbursed by City	Expenses paid by concessionaire
Green fees, locker rental, cart rental, permit sales	Pro Shop Sales Revenue, Lesson Revenue	Wages for starters and rovers, plus worker’s compensation costs. Credit card transaction fees, percentage of cart fees to cover administrative costs, management fee, golf course maintenance	All other employee wages and related taxes, purchase of goods sold in the pro-shops, sales tax, supplies used to operate the driving range.

VARIOUS MODELS EXIST FOR GOLF COURSE OPERATIONS

Several possible models for golf course operations include:

- The present ‘golf professional’ contract type, where a golf professional operates the course and retains part of the revenues.
- A management contract type arrangement, in which the contract is structured so that the concessionaire operates everything owned by the City, possibly including the pro shops and food service, and receives a management fee.
- Operation by the City itself.



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Factors that may be considered in the City's Golf Course contract arrangements include:

- Utilization of one concessionaire to operate multiple courses.
- Incentives for various revenue benchmarks to encourage the concessionaire or management company to increase sales.

The City Auditor's Office has not analyzed the potential impacts of various contract arrangements for the City of Colorado Springs or conducted a review of the procurement process related to the contracts currently in place.

AUDITOR'S RECOMMENDATION

Changes to simplify the contract and reduce the City's administrative efforts should be considered at the end of the contract term.

When the contracts are eligible for renewal in 2013 and 2014, we recommend the City consider:

- Both golf professional and management fee contract arrangements
- Utilizing one vendor to operate both courses
- Incentives for increased sales

CITY RESPONSE

We agree with the recommendation and at the end of the current contract terms, the Golf Enterprise will evaluate available options and determine what is economically or operationally most feasible.

Golf as a whole on a worldwide basis has been drastically challenged with the global economic malaise, the price of fuel, the price of water and a change in the use of discretionary income as well as time by our customer base over the last 10 years. In that same time frame golf courses all around the United States have lost as much as 25% of the rounds that they count on to make revenue and make a living at the business of golf.

While Patty Jewett and Valley Hi have also experienced these challenges we have also managed to continue our capital improvement programs, pay all of our expenses, provide a high quality product and maintain an adequate fund balance for the operation of our facilities. We will always look at methods that can improve our operation and improve our customer service. We would certainly welcome the evaluation of reducing our contracted concessionaires if that is a means of improving, not just simplifying, the service we provide.

The only Parks, Recreation and Cultural Services staff that work on golf contracts are those paid by golf itself so no tax dollars are used in the management of the contracts. Any support provided in the accounting, auditing, legal, contracting or any other tax supported administrative functions are paid in full through our pro-rated administration accounts. We understand that the contracts can appear



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complicated but we also understand that the majority of the contract mechanisms are in place so that we don't pay more for services rendered than is necessary.



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OPPORTUNITIES FOR IMPROVEMENT

OPPORTUNITY 1 – INCLUDE CONTRACT REQUIREMENTS IN EMPLOYEE MANUAL

Each concessionaire had a manual for their employees that covered operations, but did not include any information related to the contract. Employee manuals should contain a description of job duties and procedures for handling customer problems and complaints. The concessionaires also did not maintain tangible evidence acknowledging employee receipt of the manuals or agreement to abide by the contents in the manuals.

AUDITOR'S RECOMMENDATION

The golf course concessionaires should consider expanding the employee manuals to include details necessary for contract compliance such as maintaining time separately for activities that are not billable to the City. They should also consider maintaining documentation that is signed and dated by the employee that states they have read, understood, and agree to comply with the policies and procedures set forth in the manual.

CITY RESPONSE

We agree with this recommendation. Discussions regarding this recommendation can begin immediately so that implementation can be arranged and written for the 2013 golf season.

CITY COUNCIL'S OFFICE OF THE CITY AUDITOR

COLORADO SPRINGS, COLORADO

About our Office

The mission of the Office of the City Auditor is to provide City Council with an independent, objective and comprehensive auditing program for operations of the City. Our auditing program includes:

- Evaluating the adequacy of financial controls, records and operations
- Evaluating the effectiveness and efficiency of organizational operations
- Providing Council, management and employees objective analysis, appraisals, and recommendations for improving systems and activities

The Office of the City Auditor is responsible for auditing the systems used by the City of Colorado Springs and its enterprises, including Colorado Springs Utilities. We perform a variety of audits for these entities, including financial audits, performance audits, contract audits, construction audits, and information system audits. We also perform follow-up on a periodic basis to monitor and ensure management actions have been effectively implemented.

Authorization and Organizational Placement

Our audits are conducted under the authority of Chapter 1, Article 2, Part 7 of the Colorado Springs City Code, and more specifically parts 703, 705 and 706 of the Code. The Office of the City Auditor is structured in a manner to provide organizational independence from the entities it audits. This independence is accomplished by the City Auditor being appointed by and reporting directly to the City Council.

Audit Standards

The audit was conducted in a manner that meets or exceeds the International Standards for the Professional Practice of Internal Auditing, a part of the Professional Practices Framework promulgated by the Institute of Internal Auditors, with the exception of the requirements under standards 1312 and 1321 to obtain an external quality assurance review once every five years. We do not believe this non-compliance impacted the quality of our audit.

The audit included interviews with appropriate personnel and such tests of records and other supporting documentation as deemed necessary in the circumstances. We reviewed the internal control structure and compliance tests. Sufficient competent evidential matter was gathered to support our conclusions.