

**COUNTY OF SACRAMENTO
INTERNAL SERVICES
DEPARTMENT OF FINANCE
AUDITOR-CONTROLLER**

Inter-Departmental Correspondence

July 17, 2012

To: Jeffrey Leatherman
Director, Department of Regional Parks

From: Julie Valverde
Director of Finance

By: Alan A. Matré
Chief of Audits



Subject: **REVIEW OF CHERRY ISLAND GOLF COURSE'S GOLF SERVICES
MANAGEMENT AGREEMENT WITH EMPIRE GOLF, INC.**

We have performed the procedures enumerated below, which were requested by the County of Sacramento, Department of Regional Parks (Parks), solely to assist Parks in evaluating Empire Golf, Inc.'s (Empire) operations at Cherry Island Golf Course (2360 Elverta Road, Elverta, California, 95626) as it pertains to the Professional Golf Services Management Agreement between the County of Sacramento and Empire for the period of January 1, 2011 to December 31, 2011. Parks' management is responsible for ensuring Empire is in compliance with requirements specified in the Professional Golf Services Management Agreement. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of Parks' management. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. This report is applicable solely to procedures referred to below and is not intended to pertain to any of Empire's other operations, procedures or compliance with other laws and regulations. The procedures we performed are summarized as follows:

- We reviewed Empire's internal control system over the collection and recording of: green fee, pro shop (merchandise), restaurant, and alcohol revenue.

Finding: Empire's internal control system is sufficient for collecting and recording golf course revenues.

- We reviewed the base management, performance incentive, and alcohol concession fee payments made to Empire.

Finding: Concessionaire payments made to Empire for the current period under review appear accurate. However, we were unable to confirm the repayment of performance incentive fees in the amount of \$4,096 noted in our previous agreed-upon procedures engagement to the Parks for the period of July 1, 2003 to June 30, 2004. See Attachment II, *Comments and Recommendations*.

- We reviewed Empire's recording and submission of revenues and whether proper authorization was granted from Parks for expense reimbursements occurring at Cherry Island Golf Course.

Finding: Empire is not depositing all revenues from golf operations and alcohol sales. Also, imprest funds located at Cherry Island Golf Course are not recognized on Sacramento County's accounting financial system (COMPASS). See Attachment II, *Comments and Recommendations*. Also see Attachment I, *Management and Performance Incentive Fee Payment Schedule*.

- We reviewed Empire's compliance with major operational requirements prescribed in the Professional Golf Services Management Agreement.

Finding: Empire is not complying with section 3.13 (compliance with AB1663 and AB2986) of the Professional Golf Services Management Agreement. Section 3.13 requires criminal background checks be performed on staff employed at Cherry Island Golf Course. Also, equipment located at Cherry Island Golf Course is not being properly tracked. See Attachment II, *Comments and Recommendations*.

Because the preceding procedures do not constitute an examination made in accordance with attestation standards established by the American Institute of Certified Public Accountants, we do not express an opinion on any of the accounts or items referred to above. Had we made an examination in accordance with attestation standards established by the American Institute of Certified Public Accountants, other matters may have come to our attention that would have been reported to you. This report relates only to golf course operations at Cherry Island Golf Course as it relates to the Professional Golf Services Management Agreement between the County of Sacramento and Empire, and does not extend to Empire's management, consulting, and planning operations as a whole.

Empire's responses to the findings identified in our agreed upon procedures report is described in Attachment II, *Comments and Recommendations*. We did not review Empire's responses and, accordingly, we express no judgments on them.

Attachment

cc: Greg Blik

COUNTY OF SACRAMENTO
DEPARTMENT OF REGIONAL PARKS
CHERRY ISLAND GOLF COURSE
EMPIRE GOLF, INC.
JANUARY 1, 2011 TO DECEMBER 31, 2011

MANAGEMENT AND PERFORMANCE INCENTIVE FEE PAYMENT SCHEDULE

Base Management Fee:¹

<u>Monthly Management Fee</u>	<u>Months</u>	<u>Total Management Fee</u>
\$7,500	12	\$ 90,000

Performance Incentive Fee:²

<u>Revenue Category</u>	<u>Actual Revenues</u>	<u>Base Projections</u>	<u>Performance Fee</u>
Green Fees	\$ 801,650	875,000	
Golf Cart Fees	347,585	325,000	
Driving Range	84,242	70,000	
Lessons	75,479	45,000	
Merchandise Sales	241,740	240,000	
Food and Beverage	<u>162,171</u>	<u>300,000</u>	
Total Incentive Fee	<u>\$1,712,867</u>	<u>1,855,000</u>	(142,133)
Performance Fee @ 8% Exceeding Base Projected Revenue			<u>\$ 0</u>

Alcohol Concession Fee:³

<u>Alcohol Activities</u>		
Alcohol Revenues		\$ 123,974
50% Gross Revenues Due to the Department of Regional Parks	(61,987)	
Cost of Goods Sold	(38,278)	
Liquor License Annual Renewal (Type-47)	<u>(572)</u>	
		(100,837)
Total Alcohol Concession Fee		<u>\$ 23,137</u>

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INCENTIVE MANAGEMENT FEE PAYMENT SCHEDULE

Total Empire Concessionaire Fees:

Base Management Fee	\$ 90,000
Performance Incentive Fee	0
Alcohol Concession Fee	<u>23,137</u>
Total Concessionaire Fees	
Paid to Empire	<u>\$ 113,137</u>

Notes to the Incentive Management Fee Payment Schedule:

- ¹ Empire is paid a guaranteed Base Management Fee of \$7,500 per month for concessionaire services performed at Cherry Island Golf Course.
- ² Empire receives an annual Performance Incentive Fee of 8% from gross actual revenues from all operations exceeding total gross base projected revenues. Empire did not earn a Performance Incentive Fee for the period January 1, 2011 to December 31, 2011.
- ³ The County of Sacramento receives 50% of the gross revenues from the sale of alcohol beverages at Cherry Island Golf Course. The remaining 50%, less the cost of alcohol goods for sale and required alcohol licenses, is Empire's Alcohol Concession Fee.

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COMMENTS AND RECOMMENDATIONS

**CURRENT STATUS OF PRIOR YEAR FINDINGS FOR THE PERIOD JULY 1, 2003
TO JUNE 30, 2004, REPORT DATED MARCH 7, 2006**

INTERNAL CONTROL

Comment

Empire's point-of-sale accounting software (Double Eagle) calculates rounds of golf incorrectly. The accounting software used to operate and manage pro shop activities should calculate the total rounds of golf played correctly.

We noticed two instances (March 9, 2004 and June 5, 2004) during our testing whereby the Double Eagle point-of-sale software summarized and calculated the number of golf rounds played incorrectly. On March 9, 2004, the recalculated tee sheet total for coupon rounds of golf played was 19 and the Fee Sales Detail Report from Double Eagle showed 20 rounds. On June 5, 2004, we recalculated 8 super twilight rounds played, but the calculated total on the Double Eagle system showed 7 rounds.

Recommendation

We recommend Parks and Empire staff investigate the causes of why the Double Eagle point-of-sale system is calculating rounds of golf incorrectly.

Current Status of Prior Year Finding

Empire switched its point-of-sale system from Double Eagle to Club Prophet. The Club Prophet system appears to be totaling rounds of golf accurately.

Empire Management's Response

None

INCENTIVE FEES

Comment

The contract agreement between Parks and Empire has several payment clauses for the management of Cherry Island Golf Course. Empire receives a guaranteed monthly payment (Base Management Fee) for managing the golf course, and they receive additional compensation in the form of incentive fee payments (Performance Management Fee, Incentive Management Fee, Alcoholic Beverage Concession Fee).

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TO JUNE 30, 2004, REPORT DATED MARCH 7, 2006
(Continued)**

Performance Incentive Fee payments are based on 10% of gross profit sales realized from the sale of pro shop merchandise less the cost of goods sold, and are paid to Empire once a month.

Incentive Management Fees are paid to Empire annually. They equal 10% of the gross sales from all golf course operations exceeding the base revenue projection. The base revenue projection for all combined categories for the year under review is \$1,952,762. Base revenue categories include the following: Green Fees, Golf Cart Rental, Driving Range, Lessons, Equipment Rental, Merchandise Sales, Food and Beverage, Miscellaneous.

The Alcohol Beverage Concession Fee paid to Empire is based on the sale of all alcoholic beverages (Beer, Wine, Liquor) at Cherry Island Golf Course. Empire receives half of the revenues from alcohol sales. They are responsible for paying the cost of goods sold for alcohol and any associated liquor licensing from their half of the alcohol revenues. Any remaining monies comprise the Alcohol Beverage Concession Fee paid to Empire.

The agreement limits the total combined Base Management, Performance, Incentive, and Alcohol Concessionaire Fees Empire can receive. Per the agreement, combined annual Performance, Incentive, and Alcohol Concession Management Fees paid to Empire shall not exceed the annual total of Base Management Fee payments.

Parks overpaid \$4,096 in incentive fees to Empire Per Section 2.13(D) Part (2) of the agreement, "The combined amount of the annual Performance, Incentive and Alcohol Concession Management Fees paid to Manager shall not exceed the annual total of Base management Fee Payments paid to Manager pursuant to this Section 2.13(A) for the same fiscal year accounting period...". Empire received \$60,705 in Base Management Fees and \$64,801 in combined Performance, Incentive, and Alcohol incentive fees. The difference between the \$60,705 of Base Management Fees and the \$64,801 in combined Incentive fees is \$4,096. Empire billed the Parks more incentive fees than what was permissible per the contract agreement.

Recommendation

We recommend Empire refund Parks for the overpayment of incentive fees.

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**CURRENT STATUS OF PRIOR YEAR FINDINGS FOR THE PERIOD JULY 1, 2003
TO JUNE 30, 2004, REPORT DATED MARCH 7, 2006
(Continued)**

Current Status of Prior Year Finding

We were unable to confirm the repayment of incentive fees in the amount of \$4,096. Parks and Empire were unable to provide supporting documentation confirming the refund of the overpayment of incentive fees. We reiterate our previous finding and recommend Parks follow up on the overpayment of incentive fees.

Empire Management's Response

Empire is unable to locate any records dating back to the time period in question. In a separate but related matter in the current contract, Empire Golf was to have a capital contribution of \$50,000 for the redesign and construction of the 10th hole at Cherry Island. Empire Golf's total contribution for this project totaled \$55,889.31.

Empire would propose that these two amounts offset each other and neither the County nor Empire have a further obligation of repayment on either of these contract matters.

CURRENT FINDINGS

EQUIPMENT FINDING

Comment

During our review of equipment located at Cherry Island Golf Course, we identified one piece of missing equipment and equipment missing inventory tags. We were unable to locate equipment number 65878 (Oufont 72" Mulcherizer Rotary Mower), and equipment numbers 68068 (Debris Blower) and 68070 (Toro Sprayer) were not affixed with County of Sacramento inventory tags. Equipment located at Cherry Island Golf Course should agree to the County of Sacramento's fixed asset listing and be properly tagged with a County of Sacramento equipment sticker.

Recommendation

We recommend Parks and Empire follow County of Sacramento guidelines for fixed assets and conduct a regular fixed asset inventory and properly tag fixed assets with inventory tags.

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COMMENTS AND RECOMMENDATIONS

CURRENT FINDINGS
(Continued)

Empire Management's Response

Empire has prepared a list of existing equipment on hand. However, since 2006 the County has not been able to provide a list of Fixed Assets that comprise County records in order that a comparison can be done and ultimate disposals recorded as necessary in order to get County records in order. Assets were not originally purchased by Empire; therefore Empire has no access to historical purchase records/data.

Empire will continue to coordinate with Regional Parks to better the asset records and perform periodic fixed asset inventories. If there are records of existing fixed assets, they should be provided by the County in order to make for a more accurate and effective list.

BACKGROUND CHECK FINDING

Comment

Empire staff working at Cherry Island Golf Course is not in compliance with section 3.16 of the Professional Golf Services Management Agreement. Section 3.16 compels Empire comply with Education Code §10911.5 and Public Resources Code §5164 of the California Law by having staff sign a "Free from Felony/Misdemeanor Conviction Declaration" and be fingerprinted for a criminal background check if they have supervisory or disciplinary authority over any minor. The required background check is not being performed.

Recommendation

We recommend Empire comply with Education Code §10911.5 and Public Resources Code §5164 of the California Law. Employees at Cherry Island Golf Course should be fingerprinted for criminal background checks if they have authority over minors. We also recommend Parks' management ensure compliance with the operational agreement.

Empire Management's Response

Empire had been informed by Department of Justice that this was a misapplication of process by local government. To fulfill contractual requirements, Empire has commenced live scan testing of Golf Instructors at Cherry Island Golf Course. Empire has only received authorization from DOJ to check employees that are Golf Instructors who interact with minor children. The checking of criminal background beyond this scope for all employees who handle cash is not available to a private company.

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CURRENT FINDINGS
(Continued)

REVENUE DEPOSIT FINDING

Comment

Empire is not depositing all revenues from golf operations and alcohol sales into bank accounts. Change is withheld from golf deposits.

Recommendation

We recommend Empire identify change not previously deposited from current and previous years and forward the monies to Parks. We further recommend all revenues from golf operations and alcohol sales be deposited.

Empire Management's Response

Empire personnel were rounding off the daily bank deposit to an even dollar amount, thereby not including coin in the nightly deposit drop and leaving the difference in the cash register; not realizing this practice was unacceptable to County personnel. This practice was immediately changed upon notification and all monies collected on a daily basis are now deposited. Note, County funds were never "not deposited", they were just not deposited on the corresponding day of business because of the "rounding off" procedure.

The Auditor worksheet prepared to sample the Daily Deposits and evaluate over/shortages did not present a fair reflection of the overall situation as the analysis failed to take into account that legitimate small business expenses, as well as tips, are paid out of the cash register, on a regular if not daily basis. The exclusion of this information resulted in the appearance of larger shortages than actually exist.

This is further evidence by the Cherry Island Golf Course financial statements, which are provided to Regional Parks on a monthly basis by Empire Golf, and show a net cash overage during the time period under review.

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CURRENT FINDINGS
(Continued)

IMPREST FUND FINDING

Comment

Imprest funds located at Cherry Island Golf Course are not tracked or recognized on the County's accounting financial system. There is a total of \$2,280 in imprest cash used for pro shop and restaurant activities. The pro shop has two till drawers in the amount of \$250 each and two change funds in the amount of \$1,000 and \$500. The restaurant has a till of \$200 and a beverage cart change box for \$80. We were unable to determine how the imprest cash was established, or the beginning balance, through inquiries with Parks and Empire staff.

Recommendation

We recommend Parks request imprest cash accounts be established from the Department of Finance, Auditor-Controller, and track imprest amounts on the County of Sacramento's accounting financial system (COMPASS).

Empire Management's Response

The imprest funds, which are the cash on hand for change banks and cash drawers, will be recorded on the June 2012 monthly financial statement supplied to the County by Empire Golf. This will be done in coordination with county Parks Department staff.

REVENUE SHORTFALLS

Comment

During our review of Cherry Island Golf Course revenues, we noticed revenue shortage amounts were not being tracked by Parks. Per section 2.09(3) (Accounting And Reporting Procedures) of the Professional Golf Services Management Agreement, Empire is responsible for cumulative revenue reconciliation shortfalls occurring at Cherry Island Golf Course.

Recommendation

We recommend Parks track cumulative revenue shortfalls from operations occurring at Cherry Island Golf Course.