

AUDIT REPORT

Golf Enterprise Fund

Golf Enterprise Fund Management

May 2017

**Office of the Auditor
Audit Services Division
City and County of Denver**



**Timothy M. O'Brien, CPA
Denver Auditor**



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May 18, 2017

AUDITOR'S REPORT

We have completed an audit of the management of the City's Golf Enterprise Fund. The objective of the audit was to determine whether Denver Golf, the division that manages the Fund, has a current and comprehensive strategic plan that supports its overall mission. We also evaluated Denver Golf's controls surrounding financial processes, including ensuring that transactions are properly recorded in the City's system of record and properly reported in the City's Comprehensive Annual Financial Report (CAFR).

As described in the attached report, our audit revealed that Denver Golf needs to develop strategic, succession, and contingency plans, and incorporate financial ratios, financial forecasting, and customer feedback into its strategic planning process. We also found that Denver Golf needs to document its cash handling practices in formal policies and procedures, ensure proper segregation and rotation of cash handling duties, implement a checklist for onboarding new employees, update its Operations Manual, develop and document the process for prioritizing capital projects, and update its capital assets list.

Through improved strategic planning and enhanced controls over financial processes, Denver Golf will be able to better plan for contingencies in future years and strengthen the financial controls already in place. Our report includes 14 related recommendations.

This performance audit is authorized pursuant to the City and County of Denver Charter, Article V, Part 2, Section 1, *General Powers and Duties of Auditor*, and was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We extend appreciation to Denver Golf and the personnel who assisted and cooperated with us during the audit.

Denver Auditor's Office

A handwritten signature in black ink, appearing to read "Timothy M. O'Brien", is written over a light blue horizontal line.

Timothy M. O'Brien, CPA



Golf Enterprise Fund Management May 2017

Objective

The objective of the audit was to determine whether the Golf Enterprise Fund has a current and comprehensive strategic plan that supports the overall mission of Denver Golf and whether the Golf Enterprise Fund has effective processes and controls to ensure that transactions are properly recorded in the City's system of record and properly reported in the Comprehensive Annual Financial Report.

Background

The operation and maintenance of the City's eight golf facilities is accounted for in the Golf Enterprise Fund and managed by Denver Golf, a division of the City's Department of Parks and Recreation. Enterprise funds do not generally receive financial support from the General Fund, so Denver Golf must generate sufficient revenue to cover expenditures. Revenue comes primarily from fees paid by golfers who use the golf facilities.

REPORT HIGHLIGHTS

Highlights

Our review of the Golf Enterprise Fund identified weaknesses in two broad areas – Denver Golf's strategic planning efforts and its operational practices.

Strategic Planning – Regarding strategic planning, we found that Denver Golf does not have a current strategic plan in place and has not developed succession or contingency plans for several key staff positions. Although Denver Golf collects customer feedback through a variety of survey methods and follows up on negative feedback, the procedures for incorporating the feedback into operational changes and strategic planning efforts are not documented. Finally, we found that Denver Golf does not analyze financial data over multiple years by forecasting, trending, or performing ratio analysis on financial results. Conducting periodic financial condition analyses of the Golf Enterprise Fund, including financial trending and ratio analysis, would enhance Denver Golf's ability to understand and assess its overall financial health, and would help it assess and address negative trends as they emerge. We offer four recommendations to enhance Denver Golf's strategic framework.

Operational Practices – In the second area, we found that Denver Golf generally has sound processes for recording and reporting financial transactions. However, we identified seven areas for improvement that could enhance the internal controls that are already in place.

- Denver Golf lacks documented policies and procedures surrounding reconciliation and financial reporting processes.
- We found a lack of segregation of duties in cash management practices, as well as a lack of rotation of duties in two areas.
- Denver Golf does not utilize a new hire onboarding checklist that could help ensure that new employees complete all onboarding activities and review the policies and procedures related to their position.
- Monthly merchandise inventory procedures are not consistently reviewed and applied.
- Denver Golf's Operations Manual has not been updated for several years.
- Denver Golf does not have a formal methodology for prioritizing capital improvement projects.
- Denver Golf's capital asset listing needs to be updated.

We offer ten recommendations related to Denver Golf's practices to enhance existing financial controls.

For a copy of this report, visit www.denvergov.org/auditor or contact the Auditor's Office at 720.913.5000.

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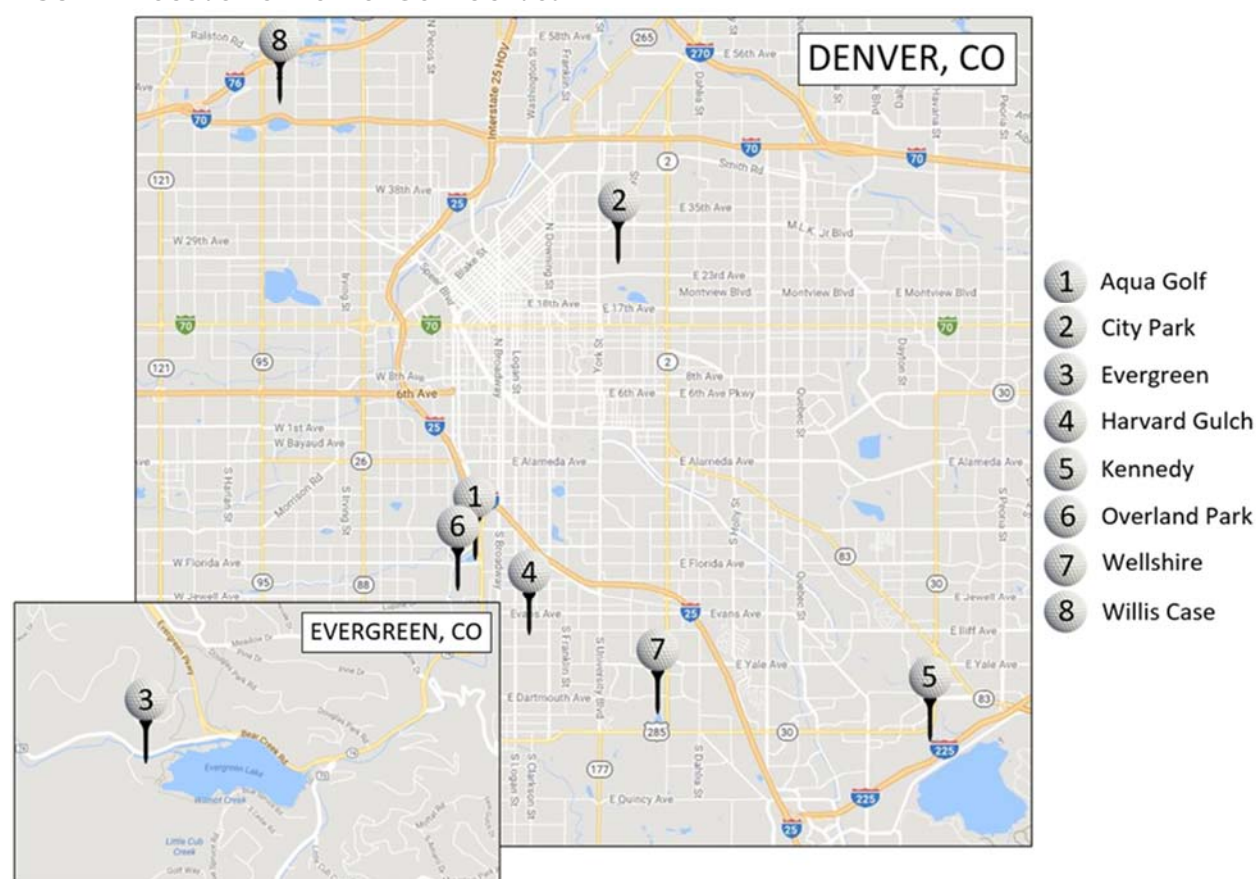
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BACKGROUND

The City and County of Denver Owns and Operates Eight Golf Facilities

Cities large and small across the country offer a wide range of outdoor recreation activities, including golf. Across the United States, there are nearly 2,500 municipal golf courses owned by a city or other governmental authority.¹ The City and County of Denver (City) owns, operates, and maintains eight golf facilities, including seven golf courses and the Aqua Golf facility, a signature water driving range. The City's golf facilities are open year round (with the exception of Evergreen, which closes for winter) and offer a variety of programs, such as group and private lessons for adults and children, club and league play, tournaments, socials, and night golf. Figure 1 shows a map of the City with the location of each facility.

FIGURE 1. Location of Denver Golf Facilities



Source: Developed by the Auditor's Office based upon information from the Denver Golf website.

¹ "Municipal Golf Courses," We Are Golf Coalition, accessed March 29, 2017, <http://wearegolf.org/accessibility/municipal-golf-courses>.

The City's Golf Courses Are Funded through the Golf Enterprise Fund and Managed by Denver Golf

The City's golf program is funded through an enterprise fund, which is one of several fund types established by the Denver Revised Municipal Code (D.R.M.C.). Chapter 20 of the Code establishes the use of a variety of different funds as fiscal and accounting entities in which cash is recorded and segregated. All funds, with the exception of the General Fund, have specific sources of revenues and specific purposes of expenditures. There are nine fund types, one of which being the General Fund.² Each City agency or activity is placed in a specific fund. The General Fund is the City's main operating fund, funding a majority of the agencies and programs traditionally associated with local government, including but not limited to public safety, public works, parks and recreation, health, and administration. The primary revenue sources for the General Fund are sales taxes, property taxes, and other municipal fees.

Enterprise funds, on the other hand, are used for City activities that are financed and operated in a manner similar to private businesses, where the cost of providing goods and services is recovered primarily through user charges. This is the case for the City's golf facilities. Enterprise funds may not be used for normal government operations or services, and are not comingled with the General Fund. Enterprise funds have a separate accounting and financial reporting process. The D.R.M.C. outlines and limits how enterprise funds may be used. The City has the following four enterprise funds: Aviation, Wastewater Management, Environmental Services, and Golf.

The Golf Enterprise Fund, which was established in 2005 within the context of the Colorado constitution, finances the operation and maintenance of the City's golf facilities. The D.R.M.C. outlines the source of Golf Enterprise Fund monies and limits how those monies may be used.³ In 2016, the Golf Enterprise Fund was appropriated just over \$11 million for operations and \$850,000 for capital improvements.

From an administrative perspective, the City's golf courses are managed by personnel in the Department of Parks and Recreation (DPR). Denver Golf is one of four divisions within DPR.⁴ As mentioned above, Denver Golf operates using funding through an enterprise fund, therefore it must generate sufficient revenue to cover all of its operating and capital expenditures. That revenue is generated by members of the public who pay fees to use the golf facilities.

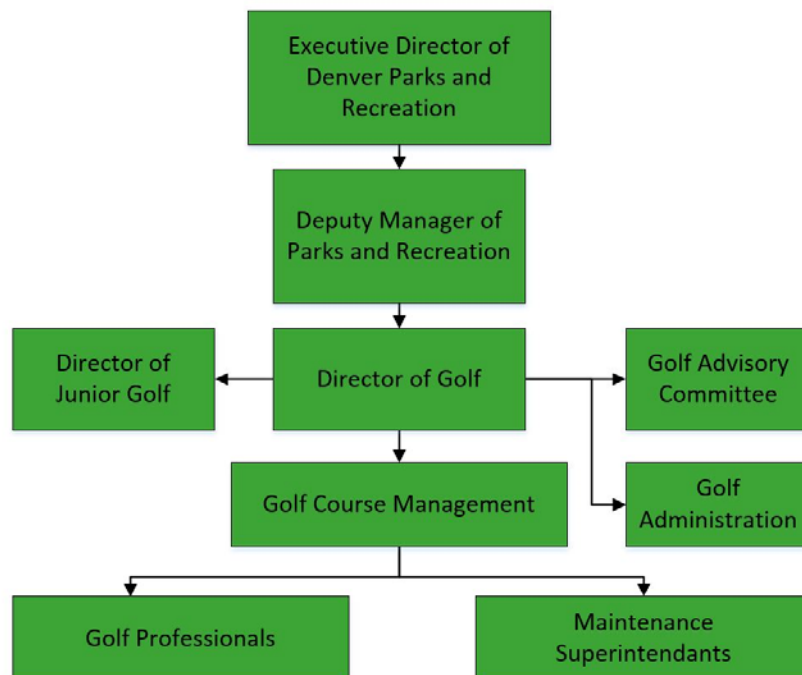
Figure 2 shows an organizational chart summarizing Denver Golf and its relationship to DPR.

² The nine fund types as established in Denver Revised Municipal Code, § 20-16, are: (1) general fund; (2) special revenue fund; (3) debt service fund; (4) capital project fund; (5) local public improvement or maintenance fund; (6) trust fund; (7) internal service fund; (8) Treasurer's group of accounts fund; and (9) enterprise fund.

³ Denver Revised Municipal Code, § 20-18 – Fund plan.

⁴ The four divisions of Denver Parks and Recreation are Golf, Parks and Planning, Recreation, and Parks Administration.

FIGURE 2. Denver Golf Organizational Chart



Source: Developed by the Auditor's Office.

Denver Golf Management and Administration

Within the realm of golf course management, Denver Golf has two primary personnel positions: Golf Professionals (Golf Pros) and Golf Course Superintendents (Supers). Each facility has one Golf Pro who oversees the pro shop and functions as the overall course manager.⁵ Each golf course also has one Super who is in charge of course maintenance. In the area of Golf Administration, Denver Golf has several personnel who provide services in the areas of human resources, accounting, purchasing, concession contract monitoring, marketing, customer relations, and golf tournament scheduling.

Golf Course Financial Management

In conjunction with the Supers, each Golf Pro tracks and manages the revenue and expenditures for their respective courses. However, personnel from DPR and other City agencies play a supporting role in Denver Golf's financial processes, as follows:

- **DPR's Finance and Accounting Teams** – Finance and Accounting team personnel from DPR are responsible for:
 - Conducting golf course monthly reconciliations of revenue and expenses;
 - Coordinating the annual asset inventory count;
 - Reviewing monthly merchandise inventory counts;
 - Reconciling daily cash deposits within PeopleSoft; and

⁵ There is currently no Golf Pro at the City Park golf course. Instead, two Assistant Golf Pros are sharing the Golf Pro's responsibilities. Denver Golf chose this arrangement because it plans to close the City Park golf course for the entire 2018 season, so the City can complete the *Platte to Park Hill: Stormwater Systems* project.

- Managing the posting of journal entries and the preparation of financial statements for inclusion in the annual Comprehensive Annual Financial Report.
- **Department of Finance** – The Controller’s Office:
 - Consolidates Denver Golf’s financials into the overall DPR financial statement; and
 - Makes changes to Denver Golf’s PeopleSoft accounts.
- **Budget and Management Office (BMO)** – BMO assists Denver Golf by tracking the annual cost allocation payment, including their budget request in the DPR budget proposal, and presenting their annual budget request to the Mayor and City Council.
- **Purchasing Division** – Within the Department of General Services, the Purchasing Division handles purchasing for Denver Golf.

Golf Facility Amenities

Each of the City’s eight golf facilities offers different amenities. While each facility has a pro shop, the size and content of the shops vary depending on the clientele. Aside from Aqua Golf, a water driving range, the remaining seven courses have either a 9-hole or 18-hole golf course. Driving Ranges can be found at five of the facilities. Putting greens, practice space, and rental carts (both driving and push carts) can be found at a majority of the locations. Some courses have restaurants on site, run by a third-party concessionaire. Table 1 summarizes the main amenities at each facility.

TABLE 1. Amenities at Denver Golf Facilities

	Aqua Golf	City Park	Evergreen	Harvard Gulch	Kennedy	Overland Park	Wellshire	Willis Case
Regulation Course		✓			✓	✓	✓	✓
18-Hole Executive Course ⁶			✓					
9-Hole Par Three				✓	✓			
Driving Range	✓	✓			✓	✓	✓	
Mini Golf	✓				✓			
Putting Green		✓	✓	✓	✓	✓	✓	✓
Other Practice Space		✓				✓	✓	✓
Instruction	✓	✓	✓		✓	✓	✓	✓
Driving Cart Rental		✓	✓		✓	✓	✓	✓
Pull Cart Rental		✓	✓	✓	✓	✓	✓	✓
Rental Clubs		✓	✓	✓	✓	✓	✓	✓
Pro Shop	✓	✓	✓	✓	✓	✓	✓	✓
Restaurant		✓	✓		✓	✓	✓	✓
Junior Golf Course		✓					✓	✓
Night Golf				✓		✓		
Meeting Room/Event Center	✓	✓			✓	✓	✓	
Men’s/Ladies’ Social Club		✓	✓		✓	✓	✓	✓

Source: Developed by the Auditor’s Office based upon information from Denver Golf.

⁶ Executive golf courses are shorter than regulation courses, with a variety of par three, par four, and/or par five holes. Eighteen-hole executive courses are 5,200 yards in length or less, with a par of 65 or less. Evergreen is a par 69, 5,011-yard course.

DPR has granted a concession license to three concessionaires that operate the restaurant at the six courses that have a restaurant. The concessionaires pay a percentage of their revenues to the Golf Enterprise Fund.⁷ Denver Golf negotiates and manages these concession contracts. Table 2 lists the three concessionaires and the courses at which they operate a restaurant.

TABLE 2. Golf Facility Concessionaires

Concessionaire	Course
Flog, LLC	City Park
	Kennedy
	Overland
	Willis Case
BC Evergreen, LLC	Evergreen
Wellshire, LLC	Wellshire

Source: Developed by the Auditor’s Office based upon information from the Denver Golf website.

Note: Aqua Golf and Harvard Gulch do not have contracted concessionaires.

Golf Enterprise Fund Revenue and Expenditures

The Golf Enterprise Fund’s primary sources of revenue are the funds generated by the golf courses themselves, such as green and range fees, golf lessons, concession fees, cart rental fees, and pro shop merchandise sales. A small percentage of Golf Enterprise Fund revenue comes from interest income.

Approximately half of the Golf Enterprise Fund’s expenditures are for personnel services, such as salaries and benefits. Funds are also used for services, supplies, capital equipment, and debt service payments. These expenditures include utilities, repairs, course maintenance, labor, operating supplies, equipment purchases (e.g., turf equipment and golf carts), capital maintenance (e.g., buildings, bridges, and courses), and capital improvement projects (e.g., replacing aging buildings, bridges, golf course irrigation systems, and building infrastructure). Table 3 summarizes the Golf Enterprise Fund’s operating revenue and expenditures for fiscal years 2011 through 2016. See Appendix A for the Golf Enterprise Fund’s Statement of Net Position, Statement of Change in Fund Net Position, and Statement of Cash Flows for 2010 through 2015.

⁷ Concessionaires pay different percentages of revenues, depending on the negotiated contract terms. Current golf concessionaire contracts dictate that concessionaires will pay anywhere between 4 and 10 percent of their gross revenues to the Golf Enterprise Fund.

TABLE 3. Golf Enterprise Fund Operating Revenues and Expenditures, 2011 – 2016 (in thousands)

Description	2011	2012	2013	2014	2015	2016
Total Operating Revenues	\$8,927	\$9,762	\$9,522	\$10,881	\$10,543	\$11,338
Total Operating Expenses	<u>\$8,507</u>	<u>\$8,695</u>	<u>\$10,235</u>	<u>\$12,057</u>	<u>\$10,584</u>	<u>\$10,529</u>
Operating Income (Loss)	\$420	\$1,067	\$(713)	\$(1,176)	\$(41)	\$809
Non-Operating Revenue (Expenses)	<u>\$(192)</u>	<u>\$(209)</u>	<u>\$(264)</u>	<u>\$(145)</u>	<u>\$(157)</u>	<u>\$(126)</u>
Change in Net Position	\$228	\$858	\$(977)	\$(1,321)	\$(198)	\$683

Source: Developed by the Auditor's Office based upon Comprehensive Annual Financial Report data. The 2016 financial results are based upon preliminary unaudited 2016 financial data from the Controller's Office. These figures are not final and are subject to change.

Note: According to Denver Golf Management, the larger losses in Net Position for 2013 and 2014 were primarily due to bad weather in 2013 that decreased revenue, and the reclassification of golf carts in 2013 and 2014 from capitalized assets to expensed assets which increased operating expenses. However, Denver Golf analyzes operating results on a cash basis, and stated that although operating expenses increased, Denver Golf still had the cash on-hand to cover any deficits.

Denver Golf's Annual Cost Allocation Payment

Annually, Denver Golf is billed for the cost of City services it utilizes during the year. Cost allocation is a cost recovery method that allows certain departments in an organization to distribute the costs of providing services to other departments in a fair and equitable manner. Each year, the City creates a cost allocation plan that calculates the value of services provided to each department in the City. Based on these calculations, the City can recover the cost of services provided to the City's enterprise funds.

For fiscal year 2012, the City instituted a cap on the amount owed by enterprise funds where the enterprise fund cannot be required to pay more than 5 percent of its total prior year expenditures in cost allocation payments to the General Fund. This cap, in effect, provides a discount on the total cost that must be paid by the City's enterprise funds, including the Golf Enterprise Fund.

A provision in the Colorado Constitution also impacts cost allocation calculations for City enterprise funds. Article X of the Colorado Constitution defines enterprise funds in section 20, subsection 2(d) as the following: *"Enterprise" means a government-owned business authorized to issue its own revenue bonds and receiving under 10% of annual revenue in grants from all Colorado state and local governments combined.* The City must adhere to this rule for its enterprise funds per the City's Code of Ordinances Section 20-17 (c)(1) Fund Structures. Therefore, if the value of the discount becomes greater than 10 percent of the Golf Enterprise Fund's revenue, it may be in violation of City ordinance. The percentage of discount value compared to revenue for the last three years has been rising and was at 7.5 percent for the 2016 fiscal year (based on preliminary 2016 revenue results).

Table 4 summarizes the annual cost allocation payments made by the Golf Enterprise Fund in years 2013 through 2016.

TABLE 4. Cost Allocation Payments by the Golf Enterprise Fund, 2013 – 2016 (in thousands)

	2013	2014	2015	2016
Prior Fiscal Year Expenditures	\$8,194	\$9,229	\$11,336	\$8,930
Full Cost Allocation for Prior Fiscal Year per Cost Allocation Plan	\$992	\$1,011	\$1,211	\$1,299
Cost Allocation at 5 percent of Prior Year Expenditures	\$410	\$461	\$567	\$447
Difference (amount of discount)	\$582	\$549	\$644	\$852
Total Operating Revenue per CCD 2016 Disclosure Statement	\$9,522	\$10,881	\$10,543	\$11,338
Discount as a Percentage of Revenue	6.12%	5.05%	6.11%	7.51%

Source: Developed by the Auditor's Office based upon information from the Budget and Management Office.

Note: The Fiscal Year 2016 revenue amount of \$11.3 million is a preliminary amount based upon unaudited 2016 financial results from the Controller's Office. This figure is not final and is subject to change.

Although the discount as a percentage of revenue has been increasing, the Golf Enterprise Fund is still in compliance with the 10 percent limit established by City ordinance. However, the discount impacts the operating revenue and therefore the change in net position for the Fund. Table 5 provides a comparison of the Change in Net Position with the cost allocation discount to what the Change in Net Position would have been without the discount for the years 2013 through 2016.

TABLE 5. Change in Net Position without the Cost Allocation Discount, 2013 – 2016 (in thousands)

Description	2013	2014	2015	2016
Operating Income (Loss) (as found on Table 3)	\$(713)	\$(1,176)	\$(41)	\$809
Non-operating Revenue (Expenses) (as found on Table 3)	<u>\$(264)</u>	<u>\$(145)</u>	<u>\$(157)</u>	<u>\$(126)</u>
Change in Net Position (as found on Table 3)	\$(977)	\$(1,321)	\$(198)	\$683
Amount of Cost Allocation Discount (as found on Table 4)	<u>\$(582)</u>	<u>\$(549)</u>	<u>\$(644)</u>	<u>\$(852)</u>
New Change in Net Position Without Discount	\$(1,559)	\$(1,870)	\$(842)	\$(169)

Source: Developed by the Auditor's Office based upon data from the Comprehensive Annual Financial Report and the Budget and Management Office.

Note: Fiscal Year 2016 amounts are preliminary, based upon unaudited 2016 financial results from the Controller's Office. These figures are not final and are subject to change. According to Denver Golf Management, the larger losses in Net Position for 2013 and 2014 were primarily due to bad weather in 2013 that decreased revenue, and the reclassification of golf carts in 2013 and 2014 from capitalized assets to expensed assets which increased operating expenses. However, Denver Golf analyzes operating results on a cash basis, and stated that although operating expenses increased, Denver Golf still had the cash on-hand to cover any deficits.

Capital Improvements at City Golf Facilities

As an enterprise fund, Denver Golf's revenues must also fund its capital improvements, and since its business model relies heavily on the conditions of the golf courses, it is essential that Denver Golf invests some of its year-end revenues into improvements to land and facilities. Denver Golf determines the available budget for capital improvement projects in a given year based on the amount of excess revenues it earned in the previous year. Denver Golf primarily uses these funds to make improvements to buildings and other golf facilities. Occasionally City-wide projects may

also affect improvements to the courses. For example, Denver Golf recently worked with Denver Water to replace the water supply at the Wellshire and Harvard Gulch golf courses, a project that was partially funded by Denver Water in exchange for water rights.⁸

Denver Golf's capital projects improve upon a range of services and amenities at the golf courses, including interior pro shop improvements and on-course restaurant upgrades. Denver Golf has a process for determining their capital improvement projects two years in advance. When setting capital improvement priorities, Denver Golf's capital improvement funds are set aside into six pre-determined categories.⁹ Factors that Denver Golf uses to determine their priorities include safety concerns, a project's return on investment, and the overall budget picture for Denver Golf.

City Park Golf Course and the Platte to Park Hill Stormwater Project

In 2015, the City began planning for a project called *Platte to Park Hill: Stormwater Systems* that is intended to be a comprehensive approach to improving flood control, while improving water quality and enhancing public spaces. As part of the project, the City Park Golf Course will close for the 2018 golf season so the City can redesign the course to hold floodwaters during future catastrophic flooding events, providing flood control for nearby homes and businesses. The City's goals for the redesign of City Park Golf Course include the following:

- Improving course playability and updating facilities;
- Minimizing impacts to course views, trees, and historic integrity;
- Prioritizing water quality and environmental sensitivity; and
- Enhancing neighborhood connections and existing programs.

Denver Golf Seeks Customer Feedback Through Surveys

To gather customer feedback, Denver Golf offers several surveys to golfers. This feedback is intended to inform course managers about both their successes and their shortcomings. Paper surveys are available at each course, and hyperlinks to web-based surveys are emailed to customers regarding a range of topics. For example, after a customer has booked a tee time, they receive an email with a hyperlink to a survey related to booking a tee time.¹⁰ Also, after completing their round, every customer receives an email thanking them for playing, including one of the surveys, which are rotated to ensure that customer opinions are gathered regarding all areas of service. In addition, Denver Golf's website includes a feedback page, where the surveys can be accessed by golfers.¹¹

⁸ Denver Water is the water utility supplying water to the City and County of Denver and the surrounding suburbs.

⁹ Categories of Capital Improvement projects include (1) Asphalt/Concrete, (2) Buildings/Mechanical, (3) Communications/Security, (4) Course Construction, (5) Reserve/Contingency, and (6) Water Infrastructure.

¹⁰ Tee Times are reservations for the time to begin a round of golf.

¹¹ "Feedback", Denver Golf, accessed April 10, 2017, <https://www.cityofdenvergolf.com/contact/feedback>.

OBJECTIVE

The objectives of the audit were to determine whether:

1. The Golf Enterprise Fund has effective processes and controls to ensure that transactions are properly recorded in the City's system of record and properly reported in the Comprehensive Annual Financial Report; and
2. The Golf Enterprise Fund has a current and comprehensive strategic plan that supports the overall mission of Denver Golf.

SCOPE

This audit reviewed Denver Golf's financial processes and strategic direction in terms of meeting key mission and performance objectives.

METHODOLOGY

We utilized various methodologies during the audit to gather and analyze information pertinent to the audit scope and to assist with developing and testing the audit objectives. These methodologies included the following:

- Interviewing Denver Golf and Department of Parks and Recreation personnel to gain an understanding of employee roles and operational and financial processes
- Conducting site visits at four golf facilities (Aqua Golf, Harvard Gulch, Kennedy, and Willis Case) to observe financial processes and evaluating the strength of key controls surrounding those processes
- Attending monthly Denver Golf staff meetings to analyze discussions among Golf personnel
- Reviewing a strategic study completed for Denver Golf and evaluating the implementation status of the resulting recommendations
- Assessing Denver Golf's practices for capturing customer feedback and for prioritizing capital improvements
- Comparing daily and monthly reconciliations to transactions in Denver Golf's system of record, the City's system of record, and bank statements and assessing how data flows between the two systems of record
- Assessing the annual process of compiling fiscal year results and reporting to the City Controller's Office for inclusion in the Comprehensive Annual Financial Report
- Reviewing procurement and expenditure accounting processes
- Understanding the monthly merchandise inventory process and the annual inventory process for controlled and capital assets
- Conducting an independent financial ratio and trend analysis of financial results from 2010 through 2015

FINDING 1

Denver Golf Has Not Developed a Current Long-Term Strategic Planning Framework that Incorporates Customer Feedback and Financial Analysis

In assessing whether the Golf Enterprise Fund has a current and comprehensive strategic plan that supports the overall mission of Denver Golf, we found that planning activities are carried out using a relatively short-term outlook. Denver Golf has not developed a long-term strategic planning framework that aligns with best practices. Such an approach would include the development of a succession plan and a contingency plan, consideration of customer survey responses, and an evaluation of financial data. We make several recommendations to this end.

Denver Golf Has Not Internally Developed a Strategic Plan

In response to a recommendation from a 2010 audit by our office, which found that Denver Golf did not have a strategic plan, Denver Golf hired a third-party consultant to develop one.¹² After completing this work, the third-party consultant presented a 106-page report to Denver Golf, which included 39 recommendations in areas such as governance, asset management, reporting, financing, marketing, and more. Despite the consultant's efforts, Denver Golf reported that many of the recommendations were not implemented because they did not align with Denver Golf's strategies and constraints. Furthermore, some of the recommendations were Denver Golf's ideas that were already underway or about to begin. For example, a recommendation to sell the Evergreen Golf Course was not agreed upon by Denver Golf and Department of Parks and Recreation management because selling City park land would require a vote of the citizens of Denver.

Denver Golf does not have a strategic plan, despite a 2010 audit recommendation to create one and a consultant's 2011 efforts to create one.

Denver Golf has not developed their own strategic plan since the third-party consultant's report was published in 2011. This is partially due to Denver Golf not having a schedule for updating its strategic planning efforts. It may also be partially due to Denver Golf never adopting the third-party consultant's report as their own strategic plan because much of it was determined to be unsuitable. The U.S. Government Accountability Office (GAO) recommends that strategic plans be issued at least every four years, covering at least a four-year period. GAO further recommends that strategic planning activities are only to be performed by internal employees, not by outside consultants.

By not developing their own strategic plan and documenting a schedule for regular updates, Denver Golf lacks a formalized long-term approach to managing strategic elements of agency operations. Doing so would position the agency to better prepare for and meet day-to-day challenges. A useful and relevant guide for strategic planning, GAO's "Managing for Results in

¹²Information obtained from the September 2010 Performance Audit of the Golf Enterprise Fund, which can be found on the Office of the Auditor's website, at <https://www.denvergov.org/content/dam/denvergov/Portals/741/documents/Audits2010/Golf%20Course%20Enterprise%20Audit%20Report%2009-16-10.pdf>.

Government,” describes the key elements of a strategic plan, which are reflected in Recommendation 1.1.

RECOMMENDATION 1.1

Denver Golf should internally develop a current strategic plan, including a schedule for updating the strategic plan approximately every four years. At minimum, the strategic plan should include the following elements:

- Mission statement
- General (strategic, long-term) goals and objectives
- A description of how goals and objectives contribute to local government priority goals
- A description of interagency collaboration to achieve the agency's goals and objectives
- A description of the strategies and resources required to achieve the agency's goals and objectives
- A description of how the agency's goals and objectives incorporate input from stakeholders
- A description of how the agency's performance goals and priority goals relate to the general goals and objectives
- Identification of external factors that could significantly affect the achievement of the agency's goals and objectives
- Program evaluations used to establish or review the agency's goals and objectives

Agency Response: Agree, Implementation Date – December 31, 2018

Denver Golf Has Not Developed Formal Succession and Contingency Plans for Key Positions

Related to strategic planning, additional elements that are missing from Denver Golf's long-term planning approach include formal succession and contingency plans. Succession planning recognizes that certain positions are essential to the organization, and when employees with vast institutional knowledge leave an organization, they leave behind knowledge gaps for certain activities that are critical to the agency's success. Therefore, it is crucial to hire and retain competent personnel over the long term, and have a formal plan for training the replacements of those key personnel. Contingency plans address the entity's need to respond to sudden personnel changes that compromise the internal control system, such as a sudden medical leave for an

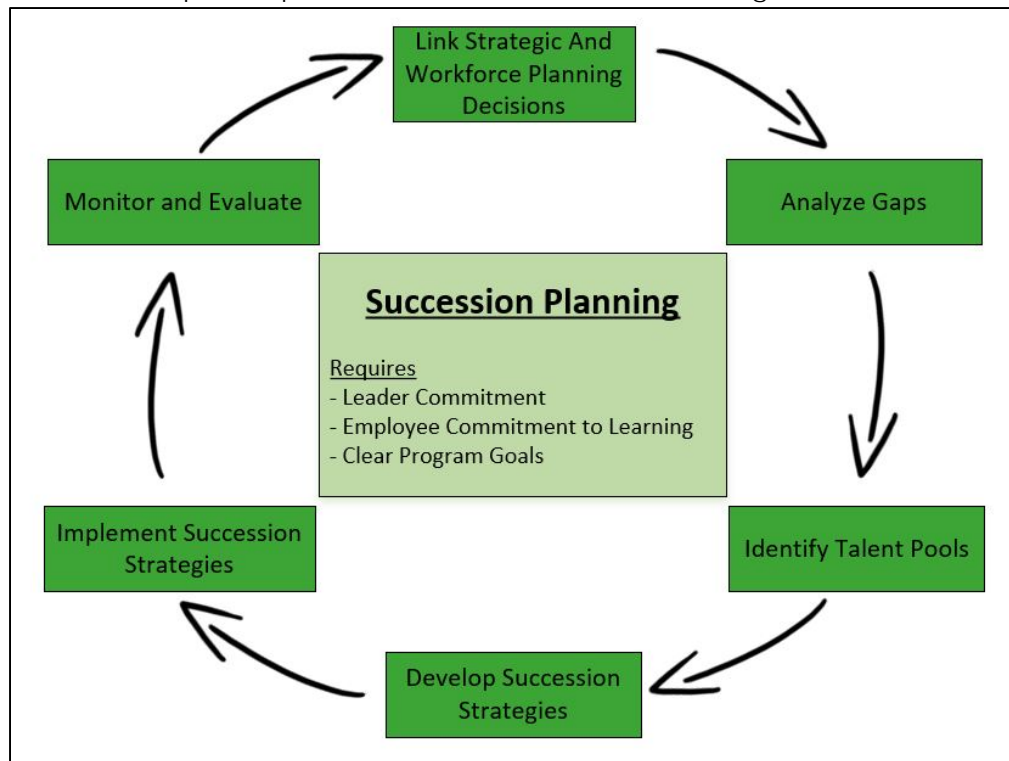
Certain positions are essential to an organization. When employees with vast institutional knowledge leave, they leave behind knowledge gaps for certain activities that are critical to the agency's success.

employee in a key role. Our audit found that Denver Golf has not developed or implemented formal succession or contingency plans for key roles within the agency.

We believe that the key roles within Denver Golf are, at minimum, the Director of Golf, the Department of Parks and Recreation (DPR) Finance Manager, and the Golf Senior Accountant. These positions are responsible for executing and overseeing key controls throughout financial and other internal processes. For example, as we discuss in Finding 2 of this report, DPR Finance personnel are responsible for reconciliation processes, but there is a risk of breakdown in these processes because they are primarily performed by the DPR Senior Accountant but are not documented. Further, audit work revealed that the Director of Golf has a number of key responsibilities. Specifically, the Director prioritizes Denver Golf's capital projects, negotiates the agreements with concessionaires operating at six of the golf courses, and adds and removes staff access to the point-of-sale system. The unexpected loss of this staff person would likely leave Denver Golf without someone knowledgeable enough to take on these responsibilities without impacting service, at least in the short term.

Denver Golf's lack of succession and contingency planning can be tied to the agency's lack of strategic planning, as strategic planning encompasses long-term planning for human resource needs, including plans for vacancies in key roles and avoiding the loss of institutional knowledge. According to the GAO's Standards for Internal Control in the Federal Government, also known as the Green Book, management should define succession plans for key roles, choose succession candidates, and train succession candidates to assume the key roles. The Green Book also recommends that management should define contingency plans for assigning key roles if a position is vacated without advance notice. Figure 3 provides a visual guide depicting the succession planning cycle.

FIGURE 3. Graphic Representation of a Succession Planning Process



Source: Developed by the Auditor's Office based upon the federal Office of Personnel Management's reference material entitled "Succession Planning Process".

Additionally, the Government Finance Officers Association (GFOA) has a best practice resource entitled “Key Issues in Succession Planning” that identifies specific policies and procedures that contribute to improved government management through succession planning. The GFOA recommends that an organization develop the following strategies to ensure continuity and consistency of service delivery due to employee turnover:

- Develop an integrated approach to succession management, including workforce planning, succession planning, knowledge management practices, and recruitment and retention policies
- Continually assess potential employee turnover
- Provide a formal, written succession plan as a framework for succession initiatives
- Develop written policies and procedures to facilitate knowledge transfer
- Develop leadership skills
- Encourage personal professional development activities
- Improve design of recruitment and retention practices
- Consider non-traditional hiring strategies

RECOMMENDATION 1.2

Denver Golf should define key positions and, within the strategic plan, include a section that addresses succession and contingency planning for key positions, considering recommendations from best practice guidance.

Agency Response: Agree, Implementation Date – December 31, 2017

Documenting Procedures Could Improve Practices for Addressing Negative Responses from Customer Surveys

Denver Golf currently collects customer feedback surveys through a manual paper form, email, and online tools. From these surveys, Denver Golf will address customer concerns individually on an as-needed basis, and incorporate significant areas for improvement into operational plans. For example, Denver Golf management reported that they were getting negative feedback regarding sand bunkers, and they responded by making operational changes to improve the condition of the bunkers. While we found that Denver Golf appropriately addresses negative feedback, their procedure for doing so is not documented. Denver Golf could enhance how they track and trend survey responses by formalizing the procedure to ensure feedback is incorporated in operational and strategic planning processes where appropriate. One enhancement that could be considered while formalizing their procedure would be to keep survey data and the response actions taken in a central repository. If responses to unhappy customers were tracked and stored in an accessible central location, Golf Pros and Superintendents from all of Denver's courses could research whether a current issue has occurred at another course, which could inform their response to a similar situation.

The Green Book requires that management document its procedures and suggests that agencies should monitor programs in part by using complaints or comments from the general public to indicate areas that may be in need of improvement. The Green Book goes on to state that management should consider whether current controls address the issues identified, partially through monitoring public complaints. Improved documentation and use of negative customer survey responses across all of the City's golf facilities would help to identify all reoccurring issues at the courses, which could lead to faster recognition and resolution of customer concerns.

RECOMMENDATION 1.3

Denver Golf should document its procedure to address the trends noted within negative survey responses, as well as any lessons learned, into operational processes or future strategic planning efforts, as appropriate. Denver Golf should also consider a central repository for negative survey feedback and the actions taken to address customer concerns.

Agency Response: Agree, Implementation Date – December 31, 2017

Denver Golf Does Not Analyze Multiple Years of Financial Data or Utilize Financial Ratios to Monitor Current Financial Results and Forecast for Future Trends

Historically, Denver Golf has not analyzed financial data by forecasting, trending, or performing ratio analysis on financial results. The audit team identified this issue as a process improvement to their current financial monitoring and review processes. During monthly meetings with Golf

To evaluate fiscal conditions to guide policy and programmatic decisions, Denver Golf could continually analyze financial results by performing forecasting, trending, and ratio analysis.

Professionals and Golf Course Superintendents, financial results for the previous month are compared to the same month in the prior year. For example, March 2016 results are compared to March 2015 results. In addition to this monthly process, DPR Finance makes projections for the following year as part of the annual budget process. Because these reviews compare results between adjacent periods only, Denver Golf may not be able to properly identify long-term trends that would emerge by looking at data over a longer period of time, such as five years or more. Further, in the absence of more robust financial data, Denver Golf has less information internally to guide policy, strategic goals, and programmatic decisions.

The GFOA has published two best practice resources related to this issue: “Financial Forecasting in the Budget Preparation Process” and “Establishment of Strategic Plans.”

Financial Forecasting in the Budget Preparation Process – In this best practice resource, the GFOA recommends that governments at all levels forecast major revenues and expenditures several years into the future. The forecast should also be regularly monitored and updated periodically. Even though Denver Golf’s budget is prepared as part of the City’s overall budget, the principles behind the recommendation can be applied more broadly. The Background section of this resource states:

The purpose of the financial forecast is to evaluate current and future fiscal conditions to guide policy and programmatic decisions. A financial forecast is a fiscal management tool that presents estimated information based on past, current, and projected financial conditions. This will help identify future revenue and expenditure trends that may have an immediate or long-term influence on government policies, strategic goals, or community services. An effective forecast allows for improved decision-making in maintaining fiscal discipline and delivering essential community services.

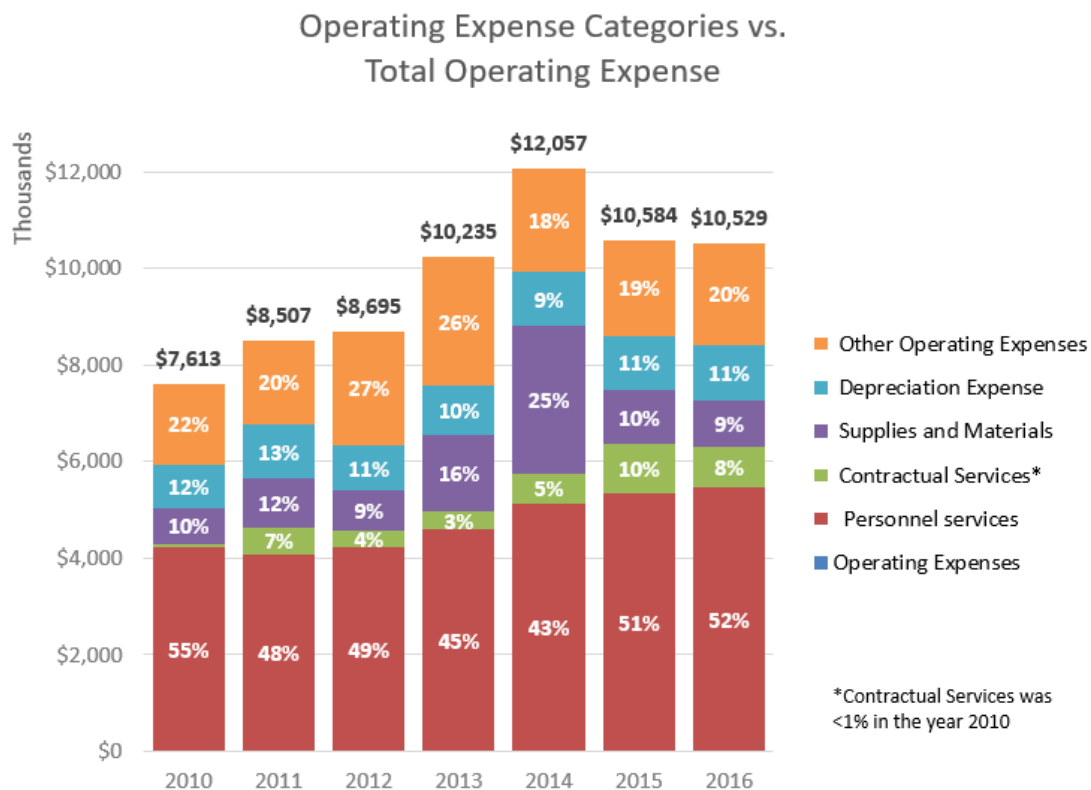
Establishment of Strategic Plans – In this best practice resource, the GFOA recommends that all governmental entities use some form of strategic planning to provide a long-term perspective for service delivery and budgeting. The document also states that an important complement to the strategic planning process is the preparation of a long-term financial plan, and that the financial planning process should assess the long-term financial implications of current and proposed policies.

The GFOA recommends that governments at all levels forecast major revenues and expenditures several years into the future, and use some form of strategic planning for service delivery and budgeting.

We performed an independent analysis of Denver Golf's financial data to provide management with a comprehensive example of the types of trending, forecasting, and financial ratio analysis that can be incorporated into their monthly and annual processes. The results can be viewed in the following charts.

Operating Expenditures Over Time – To illustrate the financial trend of Denver Golf's operating expenditures, we populated the expense data from the Comprehensive Annual Financial Report (CAFR) for the years 2010 through 2016. Figure 4 presents a broad analytical and diagnostic tool, based on historical data.

FIGURE 4. Denver Golf Operating Expenditures by Year, Separated by Category, 2010 – 2016



Source: Developed by the Auditor's Office based upon Comprehensive Annual Financial Report data.

Note: Other Operating Expenses includes items such as interfund charges and services, worker's compensation reimbursements, Human Resources and Payroll services, other miscellaneous professional services, utilities, advertising, and other miscellaneous administrative expenses. According to Denver Golf Management, the increases in expenses in 2013 to 2014 were primarily due the reclassification of golf carts in 2013 and 2014 from capitalized assets to expensed assets which increased operating expenses.

From the graph presented in Figure 4, management would be able to determine where the majority of Denver Golf's expenses derived from, and how those expenses have changed over multiple years. For example, the Auditor's Office noted that personnel and contractual service expenses have increased in both amount and percentage of overall expenses over the past five years, and there was a significant spike in supplies and materials expense in 2014. Denver Golf management could potentially research the root causes of these changes and watch for continued trends to make a prediction on these expense categories for several years into the future. This type of graph could also be created for each Denver Golf facility to conduct a more granular analysis.

Using relevant financial data from the City's CAFR, the audit team also calculated the following financial ratios related to the Golf Enterprise Fund: Net Profit Margin, Operating Cash Flow, and Current Ratio.

- **Net Profit Margin** is part of a category of profitability ratios calculated as net income divided by revenue. Net income may be determined by subtracting all of an entity's expenses, including operating costs, material costs (including raw materials), and tax costs from its total revenue. Profit margins are expressed as a percentage and measure how much out of every dollar of sales an entity actually keeps in earnings. For example, a 20-percent profit margin means the entity has a net income of \$0.20 for each dollar of total revenue earned.
- **Operating Cash Flow Ratio** is a measure of the amount of an entity's liquidity. Operating cash flow indicates whether an entity is able to generate sufficient positive cash flow to maintain and grow its operations. The operating cash flow ratio is calculated by dividing cash flow from operations by current liabilities. Current liabilities are the portion of liabilities due within one year and can be found on the balance sheet. The ratio is a measure of the number of times an entity can pay off current debts with cash generated in the same time period. A higher number means an entity can more easily cover its current debts. If the operating cash flow is less than 1, the entity has generated less cash in the period than it needs to pay off its short-term liabilities. Entities with a high or increasing operating cash flow ratio are typically in good financial health.
- **Current Ratio** is a liquidity ratio that measures an entity's ability to pay short-term obligations. To gauge this ability, the current ratio considers the current total assets of an entity relative to the entity's current total liabilities. A ratio less than 1 indicates that an entity's liabilities are greater than its assets and suggests that the entity would be unable to pay off its obligations if they came due at that point. While a current ratio less than 1 shows that the entity may not be in good financial health, it does not necessarily mean that it will go bankrupt. There are many ways for an entity to access financing, and this is particularly true if an entity has realistic expectations of future earnings against which it might borrow.

Table 6 summarizes the results of the ratio analysis performed on Denver Golf's financials for the years 2010 through 2015.

TABLE 6. Denver Golf Ratio Analysis, 2010 – 2015

Denver Golf						
Ratio	2010	2011	2012	2013	2014	2015
Net Profit Margin	13%	5%	11%	-8%	-11%	-0.4%
Operating Cash Flow	1.12	1.08	1.03	0.18	0.09	0.55
Current Ratio	1.57	1.90	2.18	2.57	1.84	1.60

Source: Developed by the Auditor's Office based upon data from the 2010 through 2015 Comprehensive Annual Financial Reports.

From the ratio analysis performed above, we can provide the following insights that management may find useful for their own financial analyses. First, profit margins have historically been unstable,

which might not be a good indicator of performance for Denver Golf. Denver Golf is responsible for selecting profitability ratios that would be best suited for reporting and analyzing their enterprise. Second, typically, Denver Golf has maintained a high operating cash flow, but this ratio has decreased in recent years. This could be an indicator that management should investigate or disclose the state of current liabilities. Third, Denver Golf appears to have a strong current ratio, indicating that the organization would be able to easily pay off its obligations with assets on-hand.

As previously stated, these independent analyses were performed by the audit team to provide an illustrative example of the types of financial data analysis that can be used in financial trending, forecasting, and ratio analysis. It is the responsibility of Denver Golf management to identify the tools and ratios that best fit the enterprise, and to conclude on the results of the financial analysis performed. With the implementation of Workday in 2017 as the City's new system of record, Denver Golf will have the ability to set up financial dashboards that automatically compile, summarize, and display financial results and trending and ratio analysis that will make the process of monitoring much more efficient for Denver Golf management. If Denver Golf chooses to utilize this functionality, the organization will need to work with the Controller's Office and Technology Services to establish these dashboards after Workday is implemented.

Implementing a periodic financial condition analysis of the Golf Enterprise Fund, including financial trending and ratio analysis, would enhance Denver Golf's ability to assess and understand its overall financial health, assist Denver Golf management in assessing negative trends as they emerge, and help initiate timely discussions involving the current impact of enterprise fund objectives.

RECOMMENDATION 1.4

Denver Golf should perform an evaluation of the Golf Enterprise Fund's financial condition, which includes forecasting, trending, and financial ratio analysis, and identify a schedule for periodically updating this analysis. The utilization of Workday dashboard functionality should be considered as an opportunity to streamline this evaluation process.

Agency Response: Agree, Implementation Date – December 31, 2017

RECOMMENDATIONS

We make the following recommendations to Denver Golf to develop a long-term strategic planning framework that incorporates customer feedback and financial analysis:

- 1.1 **Developing a Current Strategic Plan** – Denver Golf should internally develop a strategic plan, including a schedule for updating the strategic plan approximately every four years. At minimum, the strategic plan should include the following elements:
- Mission statement
 - General (strategic, long-term) goals and objectives
 - A description of how goals and objectives contribute to local government priority goals
 - A description of interagency collaboration to achieve the agency's goals and objectives
 - A description of the strategies and resources required to achieve the agency's goals and objectives
 - A description of how the agency's goals and objectives incorporate input from stakeholders
 - A description of how the agency's performance goals and priority goals relate to the general goals and objectives
 - Identification of external factors that could significantly affect the achievement of the agency's goals and objectives
 - Program evaluations used to establish or review the agency's goals and objectives

Agency Response: Agree, Implementation Date – December 31, 2018

The Department agrees with the need to internally develop a strategic plan for the Golf Enterprise Fund.

- 1.2 **Succession and Contingency Planning** – Denver Golf should define key positions, and within the strategic plan, include a section that addresses succession and contingency planning for key positions, considering recommendations from best practice guidance.

Agency Response: Agree, Implementation Date – December 31, 2017

The Department is currently working with the Office of Human Resources on developing succession and contingency plans for all areas of the Department including the Golf Enterprise Fund.

- 1.3 **Negative Survey Responses and Follow Up** – Denver Golf should document its procedure to address the trends noted within negative survey responses, as well as any lessons learned, into operational processes or future strategic planning efforts, as appropriate. Denver Golf should also consider a central repository for negative survey feedback and the actions taken to address customer concerns.

Agency Response: Agree, Implementation Date – December 31, 2017

The Department agrees to develop a method to document the trends noted within negative survey responses, lessons learned and how they will be addressed in operational processes or strategic planning efforts. The Department will also consider the benefits and feasibility of developing a central repository for negative feedback.

- 1.4 **Financial Trending and Forecasting** – Denver Golf should perform an evaluation of the Golf Enterprise Fund's financial condition, which includes forecasting, trending, and financial ratio analysis, and identify a schedule for periodically updating this analysis. The utilization of Workday dashboard functionality should be considered as an opportunity to streamline this evaluation process.

Agency Response: Agree, Implementation Date – December 31, 2017

The Department agrees with this recommendation and will determine the details of implementation after the conversion of the City's financial system to Workday and the end of the prime golfing season.

FINDING 2

Documentation and Other Minor Improvements Could Further Improve Existing Financial Processes

While Denver Golf generally has sound processes for recording and reporting transactions in the Golf Enterprise Fund, we identified seven areas for improvement. First, Denver Golf lacks documented policies and procedures surrounding reconciliations and financial reporting. Second, we found a lack of segregation of duties in cash management, as well as a lack of rotation of duties in two areas. Third, Denver Golf does not utilize a new hire onboarding checklist. Fourth, merchandise inventory procedures are not consistently reviewed and applied. Fifth, Denver Golf's Operations Manual has not been updated for several years. Sixth, Denver Golf does not have a formal methodology for prioritizing capital improvement projects. Finally, Denver Golf's capital asset listing needs to be updated.

Denver Golf Has Sound Processes in Place for Recording and Reporting Transactions

The audit team reviewed the daily cash reconciliation and monthly expense and revenue reconciliation processes by performing process interviews and testing procedures on reconciliations processed by the Department of Parks and Recreation Finance group. These processes include transaction recording; reconciliations between EZLinks (Denver Golf's point-of-sale system of record) and PeopleSoft (the City and County of Denver's system of record); reconciliations of monthly expenses, revenues, and inventory; and final financial reporting to the Controller's office for inclusion in the annual Comprehensive Annual Financial Report (CAFR). We determined that the processes observed during our process interviews follow standards established in the City's Fiscal Accountability Rules (FAR) for accounting procedures.

Financial samples tested during the audit revealed no significant exceptions.

Further, we determined that these processes were well designed for collecting and recording transactions timely and accurately. The samples tested for these processes also revealed no significant exceptions, indicating that these processes are generally operating effectively. For the

processes evaluated by the audit team, we concluded that there are effective controls over cash management, cash reconciliations, and financial reporting. These processes and controls are summarized in Appendix B. However, in addition to the effective controls in place, we identified several additional controls that Denver Golf can implement to further enhance the existing control environment.

Denver Golf Does Not Have Formally-Documented Policies and Procedures over Its Reconciliation and Financial Reporting Processes

Despite their sound processes over periodic reconciliations and financial reporting, Golf lacks documentation of these processes. If policies and procedures for periodic reconciliations and financial reporting are not formally documented and reviewed on a scheduled basis, employees may not fully understand what is expected of them in those areas. Succession planning for employees who are pivotal to the process can be impacted as well.

According to the U.S. Government Accountability Office's (GAO's) Standards for Internal Control in the Federal Government, also known as the Green Book, documentation is key to the effective design, implementation, and operation of an entity's internal control system. The Green Book guidance further specifies that the level and nature of documentation should be determined based on the size of the entity and the complexity of its operations. Therefore, Denver Golf management should use judgment in determining the extent of documentation that is needed. At minimum, Green Book guidance suggests that Denver Golf should routinely document the following:

Documentation is key to the effective design, implementation, and operation of an entity's internal control system.

- Details of its internal control system, including specific internal control responsibilities
- Results of ongoing monitoring and separate evaluations to identify internal control issues
- Identified internal control issues and appropriate corrective actions determined
- Corrective actions taken to remediate internal control deficiencies

Effective documentation assists management's design of internal control by establishing and communicating the who, what, when, where, and why of internal control execution to personnel.

Effective documentation assists management's design of internal control by establishing and communicating the who, what, when, where, and why of internal control execution to personnel. Documentation also provides a means to retaining institutional knowledge and mitigating the risk of knowledge being limited to a few personnel, and provides a way to communicate that knowledge as needed to external parties. The extent of documentation needed to support the design, implementation, and operating effectiveness of internal control components is a matter of professional judgment

for management.¹³ Thus, management should consider the cost benefit of documentation requirements for the entity as well as the size, nature, and complexity of the entity and its objectives.

RECOMMENDATION 2.1

Denver Golf should develop formally-documented policies and procedures over periodic reconciliation and financial reporting processes for the Golf Enterprise Fund.

Agency Response: Agree, Implementation Date – June 30, 2018

¹³ United States Government Accountability Office, Standards for Internal Control in the Federal Government, page 3, accessed April 11, 2017, <http://www.gao.gov/assets/670/665712.pdf>. The five components of internal control include: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.

Segregation and Rotation of Duties in the Pro Shops Could Be Improved

The segregation and rotation of duties are basic premises of sound internal controls. The City's FAR 2.4 requires the separation and rotation of duties, so that one person does not have too much control over an entire process or fiscal activity. Also, both the FAR regarding change funds and Denver Golf's inventory policies and procedures document requires that duties be rotated to avoid circumstances where one person has too much control.¹⁴

Lack of Segregation of Duties – During audit fieldwork we noted that there is occasionally a lack of segregation of duties in cash-handling responsibilities at the pro shops. For example, at City Park, the Assistant Golf Professional will sometimes be the person to close the cash register drawer at day's end, and also prepare and complete the deposit at the bank.¹⁵ Also, management at a few of the courses mentioned that while they try to avoid scheduling staff for two consecutive shifts, the same employee may close down the cash register at night, and then also be responsible for opening the cash register the next morning. This means that one person will have control over the entire cash handling process for that time, creating an internal control weakness for Denver Golf's cash handling process. While we did not identify any instances of employee theft, the risk is present that theft will not be caught if the same person can both close and open the cash register drawer, or if the same persons closes the drawer at night and then also deposits the funds the next day.

Another example of a segregation of duties issue was noted regarding payment for golf lessons. During the audit, the City's Board of Ethics conducted an investigation into whether all golf lessons are being appropriately reported and recorded in the cash register. According to Board of Ethics documents, the investigation did find instances where a Golf Professional (Golf Pro) did not remit the appropriate portion of the fee from the lesson to Denver Golf or appropriately record the lesson in the point-of-sale system. However, the number of these instances appear to be low and limited to one location. Therefore, the amount of revenue not reported from the lessons in question is immaterial to Denver Golf's financials.

To determine how this lack of segregation of duties may have come about, we examined the City policy surrounding golf lessons. Specifically, the policy states that the Golf Pro who gives a lesson is responsible for booking the lesson, collecting the fee, and entering the sale into the point-of-sale system in the pro shop. Thus, the policy does not direct personnel to separate these three key steps within the revenue collection process for lessons. Without segregating these responsibilities or establishing additional monitoring controls to mitigate any risk associated with the process, it will be easier for Golf Pros to continue not reporting lesson revenue and keeping more than they are due under the policy.

Auditors recognize that establishing appropriate segregation of duties is a challenge in these circumstances because there are so few Denver Golf personnel available to assist in the process. Accordingly, the establishment of compensating controls can mitigate the risk. An example of one of these controls would be posting signs at all golf facilities notifying customers that they should pay for their lessons at the cash register in the pro shop, rather than directly paying the Golf Pro who gave the lesson.

¹⁴ Change funds are a designated amount of money used for making change for customers conducting cash transactions with the agency.

¹⁵ The lack of segregation of duties on the part of the Assistant Golf Pros at City Park golf course is due to a vacancy of the Golf Professional position. Therefore, this issue is temporary, and may not be an issue once a Golf Professional is hired at the City Park golf course.

Lack of Rotation of Duties – Additionally, we found two areas where Denver Golf is not rotating duties appropriately. First, Denver Golf’s inventory policies and procedures document requires that personnel rotate the assignment of inventory counter each month. However, we found that Denver Golf does not document which employees conduct each monthly count, so we were unable to verify the appropriate rotation of inventory counters. Despite rotation of duties being a requirement of the inventory policies and procedures, one Golf Pro explained that they utilize the same inventory counter every month, since that staff member already knows where everything is located, despite this practice contradicting Golf’s inventory policies and procedures.

Similarly, we found that the City’s FAR regarding change funds also has a requirement for the rotation of the change fund custodian.¹⁶ As an internal control to prevent one person from having control over an entire process, FAR 3.3 requires that the custodian of a change fund be rotated for at least two weeks of every year. As found during surprise audits of the change funds by the Cash, Risk and Capital Funding Division of the Department of Finance, and verified through our audit procedures, Denver Golf has not rotated the change fund custodian for the required two weeks out of the year since at least 2014. This also causes unnecessary internal control weaknesses within Denver Golf’s change fund practices.

RECOMMENDATION 2.2

Denver Golf should develop internal controls surrounding the segregation and rotation of duties at pro shops, including (1) segregating the nightly drawer close from the morning drawer opening, (2) segregating responsibility for the daily bank deposit, (3) rotating the change fund custodian duties, and (4) rotating the monthly inventory count duties, according to established procedures. If it is not practical to enact these changes, Denver Golf should create and document compensating controls that can lower the risk to the City.

Agency Response: Agree, Implementation Date – March 31, 2018

RECOMMENDATION 2.3

Denver Golf should update the golf lesson policy to better segregate the responsibilities laid out in the policy. Additional prevention and monitoring control processes should also be added to strengthen the control environment around the golf lesson process.

Agency Response: Agree, Implementation Date – September 30, 2017

¹⁶ The change fund custodian is the employee responsible for the safekeeping of the cash change funds, according to Fiscal Accountability Rule 3.3 – Change Funds.

A Checklist Is Not Utilized to Assist with Employee Onboarding Activities

We found that a formal checklist is not completed to indicate that a new employee has completed all onboarding activities and has reviewed the policies and procedures related to his

A formal onboarding checklist can help ensure that employees understand the importance of the internal control framework.

or her position. If an onboarding checklist is not used to track new hire training and is not reviewed by Denver Golf, there is a risk that the employee has not been properly trained on Golf policies and procedures. This risk is compounded by the fact that Denver Golf employs a significant number of seasonal and temporary employees, due to the seasonality of golf. An onboarding checklist can help hold new employees responsible for becoming familiar with their assigned

tasks, as well as ensuring that they understand the importance of the internal control framework. This issue also stems from a general lack of documentation of policies and procedures in Denver Golf.

The Green Book discusses management considerations when recruiting, developing, and retaining competent individuals, including developing an onboarding checklist for new employees. According to the Green Book, management establishes the expectations of competence for key roles through policies within the entity's internal control system. Also, management should act as necessary to address any deviations from the established policies.

RECOMMENDATION 2.4

Denver Golf should develop and utilize an onboarding checklist to help train new employees and document their progress throughout the training.

Agency Response: Agree, Implementation Date – March 31, 2018

Inventory Policies and Procedures Exist but Are Not Always Reviewed and Applied in a Uniform Manner

Briefly discussed above, one operational process that Denver Golf has documented is the monthly merchandise inventory count at the pro shops.¹⁷ At the end of each month, all pro shops conduct a count of all goods for resale, ideally following the process laid out in Denver Golf's inventory policies and procedures document. However, we found that the inventory policies and procedures document is not required to be reviewed by staff who are responsible for performing monthly inventory counts. Also, the inventory policies and procedures document is not included in the Golf Operations Manual, which is reviewed by all staff before

Denver Golf does not require staff to review inventory policies and procedures, which is not included in the Golf Operations Manual.

¹⁷ The monthly merchandise inventory process is a separate process from the Citywide annual count of the capital asset inventory.

they begin employment. In addition to this, as mentioned above, an onboarding checklist should be created, and this inventory policies and procedures document should be included for any employee to reference as needed.

Without reviewing the policies and procedures document before conducting inventory responsibilities, Denver Golf risks having their staff conduct inaccurate counts of pro shop inventories. This risk is heightened by Denver Golf's use of seasonal or temporary employees, who may otherwise not know their role in the inventory process. GAO has released a best practices guide to conducting consistent and accurate physical counts of inventory.¹⁸ In this guide, GAO recommends that policies and procedures become the basis for training and informing employees and provide all personnel clear and comprehensive instructions and guidelines for the count of inventory. The guidance further states that inventory policies and procedures should be regularly reviewed and updated.

RECOMMENDATION 2.5

Denver Golf should include the merchandise inventory policies and procedures document in their Operations Manual and in the employee onboarding checklist.

Agency Response: Agree, Implementation Date – June 30, 2017

Denver Golf's Operations Manual Should Be Periodically Updated

As mentioned above, Denver Golf's Operations Manual is reviewed by each employee as they begin employment with Denver Golf. The Operations Manual has information regarding golf course rules and regulations, special rates of play, how to handle reservations, no-shows, rain checks, and other operational processes and policies related to Denver Golf's business. However, the Operations Manual has not been updated since January 2012. This means that any changes to Denver Golf's policies or procedures since January 2012 will not be reflected in the Operations Manual, the primary training document for new employees.

The Green Book states that management should review policies and procedures and related control activities on a periodic basis. The Green Book also recommends updates to guiding documents whenever significant changes in personnel, operational processes, or information technologies occur to ensure that control activities are designed and implemented appropriately. Without updating the Operations Manual, Denver Golf's seasonal and temporary employees may not learn the current ways various job responsibilities should be handled, affecting Denver Golf's customer service, image, and bottom line.

¹⁸ United States Government Accountability Office, "Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property," accessed March 20, 2017, <http://www.gao.gov/new.items/d02447g.pdf>.

RECOMMENDATION 2.6

Denver Golf should update the organization's Operations Manual and set a schedule for periodic reviews and updating of the manual, as well as any relevant policies, procedures, or training documents.

Agency Response: Agree, Implementation Date – September 30, 2017

No Formal Methodology for Prioritizing Capital Improvement Projects

A portion of our audit work looked at how Denver Golf prioritizes capital improvement projects,

Without documentation of the methodology used to determine how capital projects are prioritized, Denver Golf cannot ensure they are properly weighing all factors to determine the best use of capital investment dollars.

and we found that Denver Golf does not do so using a formalized methodology. Additionally, the Director of Golf does not document the reasoning for prioritization decisions. The Director of Golf did explain that he includes a variety of factors when considering which projects to complete, including safety concerns, return on investment, and the overall budget of Denver Golf. However, without documentation of the methodology used to determine how projects

are prioritized, including documenting reasons for straying from the order of priority, Denver Golf management cannot ensure they are properly weighing all factors to determine the best use of capital improvement dollars.

The Office of Quality Improvement at the University of Wisconsin's Project Prioritization guide recommends using a prioritization matrix, which identifies relative importance by determining a numerical value for the priority of each project. This type of documentation would also provide assurance and transparency to the citizens of Denver, and provide a place to explain why projects are not completed in the predetermined order of priority when such a deviation occurs. Without documenting how and why projects were selected, City employees will not be able to understand the reasoning behind why Denver Golf established certain projects as priorities. Reflecting on prioritization decisions can be instructive for future decision making processes, but only if decisions are made using a formal scoring methodology and are well-documented.

RECOMMENDATION 2.7

Denver Golf should develop criteria for prioritizing capital improvement projects and ensure that project prioritization is well documented. Strategies for developing criteria should be aligned with the agency's strategic plan.

Agency Response: Agree, Implementation Date – March 30, 2018

Denver Golf's Capital Asset List Needs Updating

While reviewing Denver Golf's capital asset listing, we found a few items that were not clearly described and, therefore, could not be physically counted. According to FAR 4.2, all City agencies must annually certify that they physically have all of the capital assets currently recorded in the City's system of record. While the Controller's Office maintains the capital asset list, agencies are responsible for reporting when assets should be added to, or deleted from, the City's system of record.

During audit work, the audit team set out to determine whether Denver Golf's list of capital assets included any items that did not belong on the capital asset list. Auditors reviewed the 2015 capital asset listing and had questions about a few descriptions that were unclear. For example, one asset was listed as "Evergreen – Other Improvements", and another was listed as "City Park – Master Plan". When the audit team asked Denver Golf employees about the items with unclear descriptions, Denver Golf was not able to identify what those physical assets actually were. Denver Golf inquired with the Controller's Office, and the Controller's Office determined that these assets were added to the list in the early 1990s, meaning the backup documentation would no longer exist, as it would be outside of the City's seven-year record retention policy.

Without a way to determine what the questionably-described assets actually are, there is no way to physically count these items. This means that Denver Golf has been certifying assets which they did not physically verify, bringing the quality of the physical capital asset count and certification into question.

RECOMMENDATION 2.8

Denver Golf should work with the Controller's Office to identify which assets on the annual capital asset list are no longer present and in use, including removing items unable to be identified, and identifying unknown assets that should remain on the asset listing.

Agency Response: Agree, Implementation Date – September 30, 2017

RECOMMENDATION 2.9

Denver Golf should establish a naming convention for capital asset descriptions.

Agency Response: Agree, Implementation Date – March 31, 2018

RECOMMENDATION 2.10

Denver Golf should adhere to Fiscal Accountability Rule 4.3 by ensuring that it completes the annual capital asset physical count, including physically verifying each item on the Controller's Office capital asset list.

Agency Response: Agree, Implementation Date – June 30, 2017

RECOMMENDATIONS

We make the following recommendations to Denver Golf to help it improve its existing financial processes:

- 2.1 **Reconciliation and Financial Reporting Policies and Procedures** – Denver Golf should develop formally-documented policies and procedures over periodic reconciliation and financial reporting processes for the Golf Enterprise Fund.

Agency Response: Agree, Implementation Date – June 30, 2018

It is expected that the reconciliation and financial reporting procedures will change with the implementation of the city's new financial system, Workday. As a result, The Department will develop appropriate policies and procedures after Workday is implemented and before the 2018 prime golf season begins.

- 2.2 **Segregation and Rotation of Duties** – Denver Golf should develop internal controls surrounding the segregation and rotation of duties at pro shops, including (1) segregating the nightly drawer close from the morning drawer opening, (2) segregating responsibility for the daily bank deposit, (3) rotating the change fund custodian duties, and (4) rotating the monthly inventory count duties, according to established procedures. If it is not practical to enact these changes, Denver Golf should create and document compensating controls that can lower the risk to the City.

Agency Response: Agree, Implementation Date – March 31, 2018

As discussed with the Auditor's Office staff, numbers 1 and 2 are currently in place except for the winter when play at the golf courses is minimal and staffing levels are reduced. The Department will explore ways to implement compensating controls and document them if such controls are found to be cost effective. The Department will also implement controls for the areas indicated in numbers 3 and 4.

- 2.3 **Improve Golf Lesson Revenue Policy and Procedure** – Denver Golf should update the golf lesson policy to better segregate the responsibilities laid out in the policy. Additional prevention and monitoring control processes should also be added to strengthen the control environment around the golf lesson process.

Agency Response: Agree, Implementation Date – September 30, 2017

The Department will update its golf lesson policy by the date indicated if the applicable Career Service Rule does not need to be modified. If the applicable Career Service Rule requires modification, The Department will work with the Office of Human Resources to make the necessary changes through the Career Service

Board. As soon as possible after the Career Service Board approves the changes to the applicable rule The Department will implement the updated golf lesson policy.

- 2.4 **Onboarding Checklist for New Employees** – Denver Golf should develop and utilize an onboarding checklist to help train new employees and document their progress throughout the training.

Agency Response: Agree, Implementation Date – March 31, 2018

The Department agrees with this recommendation and is in the process of developing these procedures for all employees.

- 2.5 **Operations Manual** – Denver Golf should include the merchandise inventory policies and procedures document in their Operations Manual and in the employee onboarding checklist.

Agency Response: Agree, Implementation Date – June 30, 2017

Inventory policies and procedures are currently documented in a binder at each course and will be consolidated into the official Operations Manual.

- 2.6 **Operations Manual Should Be Updated** – Denver Golf should update the organization's Operations Manual and set a schedule for periodic reviews and updating of the manual, as well as any relevant policies, procedures, or training documents.

Agency Response: Agree, Implementation Date – September 30, 2017

The Department agrees with this recommendation.

- 2.7 **Prioritizing Capital Improvement Projects** – Denver Golf should develop criteria for prioritizing capital improvement projects, and ensure that project prioritization is well documented. Strategies for developing criteria should be aligned with the agency's strategic plan.

Agency Response: Agree, Implementation Date – March 30, 2018

The Department will formalize the current criteria used to prioritize capital improvement projects and will develop 6-year and 12-year capital improvement plans similar to the ones used across the City. The formal prioritization of criteria will include a method for adjusting and documenting extenuating circumstances which affect the prioritization of a project such as a funding source or partner becoming available. This will allow The Department to take advantage of opportunities that arise which might not already be factored into the formal prioritization.

- 2.8 **Review Capital and Controlled Asset List** – Denver Golf should work with the Controller’s Office to identify which assets on the annual capital asset list are no longer present and in use, including removing items unable to be identified, and identifying unknown assets that should remain on the asset listing.

Agency Response: Agree, Implementation Date – September 30, 2017

The Department will work with the Controller’s Office and remove items as deemed appropriate by the Controller’s Office, Generally Accepted Accounting Principles (GAAP), and Governmental Accounting Standards Board (GASB).

- 2.9 **Capital and Controlled Asset Naming Convention** – Denver Golf should establish a naming convention for capital asset descriptions.

Agency Response: Agree, Implementation Date – March 31, 2018

The Department will determine whether naming conventions or more thorough descriptions will accomplish the desired result based upon the functionality of the City’s new financial system, Workday.

- 2.10 **Ensure Accurate Counts of Capital and Controlled Assets** – Denver Golf should adhere to Fiscal Accountability Rule 4.3 by ensuring that it completes the annual capital asset physical count, including physically verifying each item on the Controller’s Office capital asset list.

Agency Response: Agree, Implementation Date – June 30, 2017

The Department currently adheres to Fiscal Accountability Rule 4.3. In the past, certain assets were recorded with inadequate detail to be physically verified (i.e. an asset entry may have a description of "park improvements.") As stated in our response to 2.8 above, the Department will remove these items from the Controller’s Office capital asset list to the extent allowable by the Controller’s Office, GAAP and GASB.

APPENDICES

Appendix A – Selected Golf Financial Information from the Comprehensive Annual Financial Report 2010-2015 (in thousands)

Statement of Net Position	2010	2011	2012	2013	2014	2015
Assets						
Current assets						
Cash and cash equivalents	1,993	2,922	3,482	3,711	3,634	3,054
Receivables:						
Accounts	23	38	1	13	15	3
Accrued Interest	7	15	16	19	23	16
Inventories	146	149	176	167	167	173
Prepaid items and other assets	14	14				
Total Current Assets	2,183	3,138	3,675	3,910	3,839	3,246
Capital assets:						
Land and construction in progress	1,131	1,131	1,131	1,285	1,225	1,131
Buildings and improvements	12,763	12,764	12,764	12,772	12,772	12,788
Improvements other than buildings	15,866	15,899	15,866	15,356	15,539	15,835
Machinery and equipment	4,976	5,124	5,952	5,253	5,488	5,672
Accumulated depreciation	(15,753)	(16,843)	(17,227)	(18,319)	(19,072)	(20,183)
Net capital assets	19,016	18,075	18,519	16,347	15,952	15,243
Bond issue costs and other assets	122	95	69			
Total Noncurrent Assets	19,138	18,170	18,588	16,347	15,952	15,243
Total Assets	21,321	21,308	22,263	20,257	19,791	18,489
Liabilities						
Current Liabilities						
Vouchers Payable	144	133	206	133	229	90
Revenue bonds payable	425	450	470	495	515	540
Accrued Liabilities	190	180	185	197	209	149
Unearned Revenue	330	263	290	277	348	431
Interfund payable	89	410	12	13	16	12
Capital lease obligations	150	187	436	290	604	614
Special incentive payments	13	6				
Compensated absences	47	25	84	115	165	196
Total Current Liabilities	1,388	1,654	1,683	1,520	2,086	2,032
Noncurrent Liabilities:						
Revenue bonds payable	4,900	4,450	3,999	3,498	2,978	2,433
Net Pension Liability						3,700
Unamortized premiums	33	26	833	529		
Capital lease obligations	337	243	423	457	1,322	708
Special incentive payments	6					
Compensated absences	419	468			472	471
Total Noncurrent Liabilities	5,695	5,187	5,255	4,484	4,772	7,312
Total Liabilities	7,083	6,841	6,938	6,004	6,858	9,344
Net Assets						
Invested in capital assets, net of related debt	13,663	12,840	12,851	11,535	10,533	10,948
Unrestricted	575	1,627	2,474	2,718	2,400	(1,157)
Total Net Assets	14,238	14,467	15,325	14,253	12,933	9,791

**Statement of Revenues,
Expenses, and Changes in
Fund Net Position**

	2010	2011	2012	2013	2014	2015
Operating Revenues						
Charges for services	8,744	8,927	9,718	9,522	10,290	10,539
Other revenue			44		591	4
Total Operating Revenues	8,744	8,927	9,762	9,522	10,881	10,543
Operating Expenses						
Personnel services	4,225	4,064	4,234	4,606	5,132	5,355
Contractual services	71	573	348	350	614	1,010
Supplies and materials	731	1,005	816	1,607	3,051	1,109
Depreciation	903	1,130	929	1,003	1,121	1,133
Other operating expenses	1,683	1,734	2,368	2,669	2,138	1,977
Total Operating Expenses	7,613	8,506	8,695	10,235	12,056	10,584
Operating Income (Loss)	1,131	421	1,067	(713)	(1,175)	(41)
Nonoperating Revenues (Expenses)						
Investment and interest income	41	75	34	(40)	50	28
Interest expense	(296)	(267)	(243)	(224)	(195)	(185)
Total Non-Operating Revenues (Expenses)	(255)	(192)	(209)	(264)	(145)	(157)
Change in Net Position	876	229	858	(977)	(1,320)	(198)
Net Position - January 1	13,362	14,238	14,467	15,325	14,253	12,933
Change in accounting position - GASB 65				(95)		(2,944)
Net Position - December 31	14,238	14,467	15,325	14,253	12,933	9,791

Note: According to Denver Golf Management, the larger losses in Net Position for 2013 and 2014 were primarily due to bad weather in 2013 that decreased revenue, and the reclassification of golf carts in 2013 and 2014 from capitalized assets to expensed assets which increased operating expenses. However, Denver Golf analyzes operating results on a cash basis, and stated that although operating expenses increased, Denver Golf still had the cash on-hand to cover any deficits.

Statement of Cash Flows	2010	2011	2012	2013	2014	2015
Cash Flows from Operating Activities						
Receipts from customers	8,958	8,846	9,796	9,497	10,359	10,634
Payments to suppliers	(3,173)	(3,005)	(3,884)	(4,689)	(5,703)	(4,246)
Payments to employees	(4,236)	(4,060)	(4,221)	(4,529)	(5,055)	(5,276)
Other payments / receipts			44		591	4
Net Cash Provided by Operating Activities	1,549	1,781	1,735	279	192	1,116
Cash Flows from Capital and Related Financing Activities						
Proceeds from capital debt			1,307	(641)	1,318	152
Principal payments	(530)	(482)	(918)		(1,145)	(1,119)
Acquisition of capital assets	(910)	(275)	(1,347)	865	(195)	(182)
Interest paid on capital debt	(296)	(161)	(250)	(231)	(292)	(581)
Net Cash by Capital and Related Financing Activities	(1,736)	(918)	(1,208)	(7)	(314)	(1,730)
Cash Flows from Investing Activities						
Interest received	46	66	33	(43)	45	34
Net increase (decrease) in cash and cash equivalents	(141)	929	560	229	(77)	(580)
Cash and cash equivalents - January 1	2,134	1,993	2,922	3,482	3,711	3,634
Cash and cash equivalents - December 31	1,993	2,922	(3,482)	3,711	3,634	3,054
Reconciliation of Operating Income to Net Cash Provided by Operating Activities						
Operating income	1,131	421	1,067	(713)	(1,175)	(41)
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation and amortization	903	1,130	929	1,003	1,131	1,133
Accounts receivable	8	(15)	37	(12)	(2)	12
Prepaid expenses	(14)		(27)			
Inventories	(34)	(2)	14	9	1	(7)
Vouchers payable	(319)	(33)	73	(73)	96	(139)
Unearned revenue	192	(67)	27	(13)	71	83
Accrued liabilities	11	26	13	77	77	(30)
Interfund payable	(329)	321	(398)	1	3	(4)
Items related to pension plans						109
Net Cash Provided by Operating Activities	1,549	1,781	1,735	279	192	1,116
Noncash Activities						
Amortization of bond premium	8	7	7		5	5

Source: Comprehensive Annual Financial Report for the years 2010 through 2015.

Appendix B – Denver Golf Cash Management and Financial Controls Identified

Control Category	Control Description
Cash Management	Changes to green fees are reviewed and approved by City Council on an as-needed basis.
Cash Management	A drop safe is used to securely store the cash deposit for the following business day.
Cash Management	A blind closeout feature is utilized by the EZLinks POS system for when the Golf Pro Shop clerk closes the cash drawers(s) at the end of the day.
Cash Management	The day clerk signs a count sheet to verify that he or she has counted the excess change funds stored in the secured safe throughout the business day.
Reconciliations	The Senior Golf Accountant compares PeopleSoft's "bank statement" to the manually maintained budget-tracking "checkbook" for each golf course, in order to monitor budgeted expenses versus actual expenses. Variances greater than \$1,000 are investigated and resolved. The comparison is reviewed by the Director of Golf in the monthly Golf Pro meetings.
Reconciliations	On a monthly basis, the contracted concessionaire at each golf course completes a template provided by Department of Parks and Recreation (DPR) accounting personnel to track their revenues throughout the year. Based on these revenues and contractual terms, a payment is remitted from the concessionaire to DPR accounting. The Senior Golf Accountant reviews these payments for accuracy, and a final review is provided by the DPR Fiscal Administrator II and DPR upper-level management.
Reconciliations	Once cash deposits have been reconciled, the day is closed within EZ Links and the "Day Close" report is generated. The Accounting Technician will subtotal the amounts provided within the report for easy reconciliation reference. Totals are reconciled to PeopleSoft.
Reconciliations	After EZ Links cash transactions have been reconciled to PeopleSoft and the cash register has been closed for the day, the journal entry is ready for finalizing. Attachments are added from the reconciliation performed over the EZ Links point-of-sale transaction data and the End of Day report. Journal entry reconciliations are reviewed and approved by the Fiscal Operations Supervisor I and the DPR Fiscal Administrator II.
Reconciliations	Journal entries within PeopleSoft follow a specific approval tree. The Controller's Office reviews and approves the approval tree on an annual basis for continued appropriateness.
Reconciliations	The Senior Golf Accountant maintains a Cash Flows statement for each individual golf course and updates the cash flows statements on a monthly basis. The statements are reviewed by the DPR Fiscal Administrator II and the Director of Golf during the monthly Golf Pro meetings.
Financial Reporting	The Golf Department performs an annual comparison of current financial results (revenue and expenses) to prior period. Prior period is an average of the past three to five years.
Financial Reporting	A year-end questionnaire is completed by Golf Management and DPR Accounting to certify that all accounting close procedures have been completed. The questionnaire is signed by the DPR Director of Finance and Administration and the DPR Executive Director.

Financial Reporting	A monthly meeting occurs between the Director of Golf, the Golf Pro Shop Supervisors, and Golf Course Superintendents to discuss golf course financial results and performance metrics. The meetings are recorded in a meeting agenda and minutes.
Financial Reporting	A Golf Budget Worksheet (GBW) is used to track basic financial performance measures for each golf course, which is then reviewed with the Director of Golf in the monthly team meetings. A \$10,000 threshold is used to investigate variances between budget to actual expenses.
Financial Reporting	The Senior Golf Accountant performs a comparison between PeopleSoft data and EZ Links point-of-sale data on a bi-annual basis. This comparison is reviewed by the DPR Fiscal Administrator II.
Financial Reporting	The Senior Golf Accountant maintains a Cash Flows statement for each individual golf course and updates the cash flow statements on a monthly basis. The statements are reviewed by the DPR Fiscal Administrator II and the Director of Golf during the monthly Golf Pro meetings.

Source: Controls were identified by the Auditor's Office through process interviews with Golf personnel.

AGENCY RESPONSE



**Parks and Recreation
Manager's Office**

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Denver, CO 80202
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www.denvergov.org/parksandrecreation

May 5, 2017

Auditor Timothy O'Brien, CPA
Office of the Auditor
City and County of Denver
201 West Colfax Avenue, Dept. 705
Denver, Colorado 80202

Dear Mr. O'Brien,

The Office of the Auditor has conducted a performance audit of Golf Enterprise Fund Management.

This memorandum provides a written response for each reportable condition noted in the Auditor's Report final draft that was sent to us on April 14, 2017. This response complies with Section 20-276 (c) of the Denver Revised Municipal Code (D.R.M.C.).

AUDIT FINDING 1

Denver Golf Has Not Developed a Long-Term Strategic Planning Framework that Incorporates Customer Feedback and Financial Analysis

RECOMMENDATION 1.1

Denver Golf should internally develop a current strategic plan, including a schedule for updating the strategic plan approximately every four years. At minimum, the strategic plan should include the following elements:

- Mission statement
- General (strategic, long-term) goals and objectives
- A description of how goals and objectives contribute to local government priority goals
- A description of interagency collaboration to achieve the agency's goals and objectives
- A description of the strategies and resources required to achieve the agency's goals and objectives
- A description of how the agency's goals and objectives incorporate input from stakeholders



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<ul style="list-style-type: none">• A description of how the agency's performance goals and priority goals relate to the general goals and objectives• Identification of external factors that could significantly affect the achievement of the agency's goals and objectives• Program evaluations used to establish or review the agency's goals and objectives		
Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of specific point of contact for implementation
Agree	December 31, 2018	Scott Rethlake

Narrative for Recommendation 1.1

The Department agrees with the need to internally develop a strategic plan for the Golf Enterprise Fund.

RECOMMENDATION 1.2 Denver Golf should define key positions, and within the strategic plan, include a section that addresses succession and contingency planning for key positions, considering recommendations from best practice guidance.		
Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of specific point of contact for implementation
Agree	December 31, 2017	Scott Rethlake

Narrative for Recommendation 1.2

The Department is currently working with the Office of Human Resources on developing succession and contingency plans for all areas of the Department including the Golf Enterprise Fund.

RECOMMENDATION 1.3 Denver Golf should document its procedure to address the trends noted within negative survey responses, as well as any lessons learned, into operational processes or future strategic planning efforts, as appropriate. Denver Golf should also consider a central repository for negative survey feedback and the actions taken to address customer concerns.		
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Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of specific point of contact for implementation
Agree	December 31, 2017	Scott Rethlake

Narrative for Recommendation 1.3

The Department agrees to develop a method to document the trends noted within negative survey responses, lessons learned and how they will be addressed in operational processes or strategic planning efforts. The Department will also consider the benefits and feasibility of developing a central repository for negative feedback.

RECOMMENDATION 1.4

Denver Golf should perform an evaluation of the Golf Enterprise Fund's financial condition, which includes forecasting, trending, and financial ratio analysis, and identify a schedule for periodically updating this analysis. The utilization of Workday dashboard functionality should be considered as an opportunity to streamline this evaluation process.

Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of specific point of contact for implementation
Agree	December 31, 2017	Scott Rethlake

Narrative for Recommendation 1.4

The Department agrees with this recommendation and will determine the details of implementation after the conversion of the City's financial system to Workday and the end of the prime golfing season.

AUDIT FINDING 2

Documentation and Other Minor Improvements Could Further Improve Existing Financial Processes

RECOMMENDATION 2.1

Denver Golf should develop formally-documented policies and procedures over periodic reconciliation and financial reporting processes for the Golf Enterprise Fund.

Agree or Disagree with Recommendation	Target date to complete implementation activities	Name and phone number of specific point of
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	(Generally expected within 60 to 90 days)	contact for implementation
Agree	June 30, 2018	Sheila Urban

Narrative for Recommendation 2.1

It is expected that the reconciliation and financial reporting procedures will change with the implementation of the city's new financial system, Workday. As a result, The Department will develop appropriate policies and procedures after Workday is implemented and before the 2018 prime golf season begins.

RECOMMENDATION 2.2

Denver Golf should develop internal controls surrounding the segregation and rotation of duties at pro shops, including (1) segregating the nightly drawer close from the morning drawer opening, (2) segregating responsibility for the daily bank deposit, (3) rotating the change fund custodian duties, and (4) rotating the monthly inventory count duties, according to established procedures. If it is not practical to enact these changes, Denver Golf should create and document compensating controls that can lower the risk to the City.

Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of specific point of contact for implementation
Agree	March 31, 2018	Scott Rethlake

Narrative for Recommendation 2.2

As discussed with the Auditor's Office staff, numbers 1 and 2 are currently in place except for the winter when play as the golf courses is minimal and staffing levels are reduced. The Department will explore ways to implement compensating controls and document them if such controls are found to be cost effective. The Department will also implement controls for the areas indicated in numbers 3 and 4.

RECOMMENDATION 2.3

Denver Golf should update the golf lesson policy to better segregate the responsibilities laid out in the policy. Additional prevention and monitoring control processes should also be added to strengthen the control environment around the golf lesson process.

Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of specific point of contact for implementation
Agree	September 30, 2017	Scott Rethlake



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Narrative for Recommendation 2.3

The Department will update its golf lesson policy by the date indicated if the applicable Career Service Rule does not need to be modified. If the applicable Career Service Rule requires modification, The Department will work with the Office of Human Resources to make the necessary changes through the Career Service Board. As soon as possible after the Career Service Board approves the changes to the applicable rule The Department will implement the updated golf lesson policy.

RECOMMENDATION 2.4

Denver Golf should develop and utilize an onboarding checklist to help train new employees and document their progress throughout the training.

Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of specific point of contact for implementation
Agree	March 31, 2018	Scott Rethlake

Narrative for Recommendation 2.4

The Department agrees with this recommendation and is in the process of developing these procedures for all employees.

RECOMMENDATION 2.5

Denver Golf should include the merchandise inventory policies and procedures document in their Operations Manual and in the employee onboarding checklist.

Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of specific point of contact for implementation
Agree	June 30, 2017	Scott Rethlake

Narrative for Recommendation 2.5

Inventory policies and procedures are currently documented in a binder at each course and will be consolidated into the official Operations Manual.

RECOMMENDATION 2.6



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Denver Golf should update the organization's Operations Manual and set a schedule for periodic reviews and updating of the manual, as well as any relevant policies, procedures, or training documents.		
Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of specific point of contact for implementation
Agree	September 30, 2017	Scott Rethlake

Narrative for Recommendation 2.6

The Department agrees with this recommendation.

RECOMMENDATION 2.7 Denver Golf should develop criteria for prioritizing capital improvement projects and ensure that project prioritization is well documented. Strategies for developing criteria should be aligned with the agency's strategic plan.		
Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of specific point of contact for implementation
Agree	March 30, 2018	Scott Rethlake

Narrative for Recommendation 2.7

The Department will formalize the current criteria used to prioritize capital improvement projects and will develop 6-year and 12-year capital improvement plans similar to the ones used across the City. The formal prioritization of criteria will include a method for adjusting and documenting extenuating circumstances which affect the prioritization of a project such as a funding source or partner becoming available. This will allow The Department to take advantage of opportunities that arise which might not already be factored into the formal prioritization.

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Agree	September 30, 2017	Sheila Urban
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Narrative for Recommendation 2.8

The Department will work with the Controller's Office and remove items as deemed appropriate by the Controller's Office, Generally Accepted Accounting Principles (GAAP), and Governmental Accounting Standards Board (GASB)

RECOMMENDATION 2.9

Denver Golf should establish a naming convention for capital asset descriptions.

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Agree	March 31, 2018	Sheila Urban

Narrative for Recommendation 2.9

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RECOMMENDATION 2.10

Denver Golf should adhere to Fiscal Accountability Rule 4.3 by ensuring that it completes the annual capital asset physical count, including physically verifying each item on the Controller's Office capital asset list.

Agree or Disagree with Recommendation	Target date to complete implementation activities (Generally expected within 60 to 90 days)	Name and phone number of specific point of contact for implementation
Agree	June 30, 2017	Sheila Urban

Narrative for Recommendation 2.10

The Department currently adheres to Fiscal Accountability Rule 4.3. In the past, certain assets were recorded with inadequate detail to be physically verified (i.e. an asset entry may have a description of "park improvements.") As stated in our response to 2.8 above, the Department will remove these items from the Controller's Office capital asset list to the extent allowable by the Controller's Office, GAAP and GASB

Please contact Scott Rethlake at 720-913-0761 with any questions.



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Sincerely,

Allegra "Happy" Haynes
Executive Director

cc: Valerie Walling, CPA, CMC®, Deputy Auditor,
Heidi O'Neil, CPA, CGMA, Director of Financial Audits
Dawn Wiseman, CRMA, Audit Manager
Cody Schulte, Internal Audit Supervisor