

RECREATION AND PARK COMMISSION:

Concession Audit of the
Harding Park Golf Course
Complex
July 1, 2004, Through
June 30, 2005

FINANCIAL AUDITS



*June 30, 2006
05044*



CITY AND COUNTY OF SAN FRANCISCO

OFFICE OF THE CONTROLLER CITY SERVICES AUDITOR

Ed Harrington
Controller

Monique Zmuda
Deputy Controller

June 30, 2006

Audit Number 05044

Recreation and Park Commission
McLaren Lodge
501 Stanyan Street
San Francisco, CA 94117

President and Members:

The Office of the Controller presents its report concerning the concession audit of the Harding Park Golf Course Complex (Harding Park Golf), which is owned by the City and County of San Francisco. Under the direction of the general manager of the Recreation and Park Department (department), Kemper Sports Management-Harding Park, LLC (Kemper) provides and supervises all golf activities at Harding Park Golf, which consists of Harding Park Golf Course and Fleming Golf Course. In exchange for management of the property, including a golf professional shop (pro shop) and restaurant and bar, the City pays Kemper a monthly management fee of \$16,000 and reimburses operating expenses of Harding Park Golf.

We did not audit Kemper's Tournament Agreement with PGA Tour, Inc. or the World Golf Championships – American Express Championship tournament held at Harding Park Golf in October 2005, since this was not part of our scope. Further, the Board of Supervisors Budget Analyst's Office has recently audited the department, including an assessment of the department's management of golf activities.

Reporting Period: July 1, 2004, through June 30, 2005

Greens Fees and Other Revenues Remitted:

| | |
|-------------------------|--------------------|
| Greens Fees Remitted | \$4,336,385 |
| Other Revenues Remitted | <u>\$1,020,610</u> |
| Total Revenues: | \$5,356,995 |

Expenses Reimbursed by the City:

| | |
|----------------------|----------------|
| Payroll and Benefits | \$ 900,535 |
| Operating Expenses | 736,470 |
| Loan Repayment | <u>192,373</u> |
| Total Expenses: | \$1,829,378 |

FINANCIAL AUDITS

Results:

- Kemper correctly remitted to the department, in all material respects, all the greens fees, restaurant, bar, and pro shop revenues it recorded receiving, and properly supported the expenses reimbursed by the City.
- Kemper needs to make some minor improvements in operating the golf course. Kemper charged some players an incorrect tournament rate previously set by the department. It also did not comply with one of the provisions of the management agreement between the Recreation and Park Commission and Kemper. Kemper did not post in its pro shop a sign for customers to request receipts when they pay greens fees and other purchases.

Kemper's response and the department's response are attached to this report. The Controller's Financial Audits section will be working with the department to follow up on the status of the recommendations.

Respectfully submitted,

Noriaki Hirasuna
Director of Financial Audits

INTRODUCTION

BACKGROUND

Harding Park Golf Course Complex (Harding Park Golf) is operated by Kemper Sports Management-Harding Park, LLC (Kemper) under a management agreement dated April 1, 2003, with the City and County of San Francisco (City) Recreation and Park Commission (Commission). Located at Skyline Boulevard and Harding Road in San Francisco, Harding Park Golf consists of the Harding Park Golf Course, an 18-hole golf course, and the Fleming Golf Course, a 9-hole golf course. The initial term of the management agreement is for seven years from the opening date, July 1, 2003, to July 1, 2010. Either party may extend the term of the management agreement for an additional two years.

The management agreement requires Kemper to:

- Collect all gross revenues and transfer them from Kemper's account to the City's bank account as designated in advance by the City.
- Provide and supervise golf starter and player activities at Harding Park Golf.¹
- Supervise a golf shop for the promotion and sale of golf-related items, rental of golf carts and golf equipment, rental of buckets of balls for the driving range, and the advertising, promotion and offering of quality golf instruction.
- Operate the day-to-day business operations of the driving range.
- Operate a first class restaurant, bar and banquet service serving food and beverages to golfing and non-golfing clientele.
- Meet all requirements of hosting the PGA Tour tournament events at Harding Park Golf, and to enter into a separate agreement with the PGA Tour, Inc. subject to approval by the Recreation and Park Department (department).

The management agreement also entitles Kemper to:

- Collect a monthly management fee of \$16,000 from the City.

¹ Golf starter activities include registering players, collecting and safeguarding greens fees and reservation fees, preparing and submitting accounting reports, and providing marshals to enforce golf rules and regulations.

- Receive reimbursement of operating expenses by the City.
- Enter into a loan agreement of up to \$1,000,000 for pre-opening costs and expenses, to be repaid by the City.

SCOPE AND METHODOLOGY

The purpose of the audit was to determine whether Kemper complied with the reporting and payment provisions of its management agreement with the Commission. To conduct the audit, we reviewed applicable provisions of the management agreement and Kemper's monthly summary reports that it submitted to the department. We also reviewed Kemper's procedures for recording, summarizing, and reporting greens fees, other gross revenues, and expenses from its business operations.

To determine whether Kemper correctly reported and remitted greens fees, and other gross revenues, we recalculated the amount due to the department, and tested, on a sample basis, Kemper's monthly and daily sales reports, daily tee time sheets, and cash register reports. We compared the gross revenues reported by Kemper to the department with the sales Kemper reported to the California Board of Equalization and to Kemper's financial statements for the audit period. We also reviewed Kemper's payment records maintained by the department to determine if Kemper paid its gross revenues on a timely basis.

To determine whether Kemper correctly reported its expenses from business operations, we tested, on a sample basis, Kemper's reimbursement requests and supporting documentation and Kemper's monthly summary reports. In addition, we reviewed and compared Kemper's reimbursement requests and loan payments maintained by the department to Kemper's check registers.

We did not audit Kemper's Tournament Agreement with PGA Tour Inc. or the World Golf Championships – American Express Championship tournament held at Harding Park Golf in October 2005, since this was not part of our scope. Further, the Board of Supervisors Budget Analyst's Office has recently audited the department, including an assessment of the department's management of golf activities.

AUDIT RESULTS

KEMPER CORRECTLY REMITTED GREENS FEES AND OTHER GROSS REVENUES BUT CHARGED SOME LOWER TOURNAMENT FEES

From July 1, 2004, through June 30, 2005, Kemper Sports Management-Harding Park, LLC (Kemper) collected and remitted to the Recreation and Park Department (department) \$4,336,385 in greens fees from both Harding Park and Fleming Golf Courses, and \$1,020,610 in other gross revenues. Table 1 shows the total revenue Kemper remitted for the audit period.

TABLE 1

Gross Revenue Collected and Remitted July 1, 2004, Through June 30, 2005

| | Amount |
|-------------------------------------|-------------|
| Harding Park Golf Course Green Fees | \$3,585,373 |
| Fleming Golf Course Green Fees | 751,012 |
| Other Gross Revenues | 1,020,610 |
| Total | \$5,356,995 |

Although our tests showed that Kemper, in all material respects, correctly and timely remitted to the department the greens fees and other gross revenue it recorded for the period we reviewed, we found that Kemper did not always charge players the correct rates approved by the Recreation and Park's Commission (Commission).

We found Kemper charged certain players lower rates for playing in tournaments. For example, beginning September 1, 2004, the Commission-approved rates for players participating in tournaments were \$92 during the weekdays and \$103 during weekends. However, our tests show that from September 1, 2004, through June 30, 2005, Kemper charged participants from the Harding Park Men's Club (Men's Club) only \$66 for weekend and weekday tournaments.

According to Kemper's controller, tournament rates for the Men's Club were charged at a rate of \$66 for weekend and weekday plays prior to the approval of the standard tournament rates, but were not documented due to continuing negotiations with the department. According to the department's property manager responsible for managing the agreement, the department is aware of this situation and has been working with the Commission and various organizations to establish standards and policies for exceptions to the established tournament rates.

We also noted that Kemper did not post in its pro shop a sign for customers to request receipts for all purchases. The management agreement states that this sign must be posted at each point of sale. According to Kemper's controller, a player must present a valid receipt upon approaching the employee at the first tee. However, this method only helps to ensure that green fees are recorded in the cash register system, but does not take into consideration the sale of merchandise, food and beverages, and other miscellaneous items. A posted sign reminding customers to request receipts is a good internal control to help ensure that employees record all transactions in the cash register system.

KEMPER CORRECTLY REPORTED ITS EXPENSES

Our tests showed that Kemper, in all material respects, correctly reported to the department the expenses incurred for operating Harding Park Golf Course Complex (Harding Park Golf) during our audit period. The department reimbursed Kemper \$1,829,378, which includes the reported expenses and a loan principal and interest² amount of \$192,373. Table 2 shows Kemper's reimbursable expenses for the audit period.

² The City reimburses Kemper for a loan Kemper owes to Southwest Bank in the sum of \$969,641 to pay for the expenses associated with the opening of Harding Park Golf and for improvements to the clubhouse.

TABLE 2

**Expenses Submitted by Kemper and Reimbursed by City
July 1, 2004, Through June 30, 2005**

| | Amount |
|----------------------|---------------|
| Payroll and Benefits | \$ 900,535 |
| Operating Expenses | 736,470 |
| Loan Repayment | 192,373 |
| Total | \$1,829,378 |

RECOMMENDATIONS

To ensure the Recreation and Park Department (department) receives all revenues due from Kemper Sports Management-Harding Park, LLC (Kemper) and properly manages Harding Park Golf Course Complex, we recommend that the department take the following actions:

- Develop written policies and procedures for Kemper, as well as other city golf course operators, to follow in the fees that are to be charged for tournament play and keeping records of tournaments hosted by the courses.
- Require Kemper to post a sign stating that all customers must be given a receipt at each point of sale transaction, and that if a receipt is not given, the customer shall be allowed some form of compensation as mutually agreed upon by the department and Kemper.

We conducted this review according to the standards established by the Institute of Internal Auditors. We limited our review to those areas specified in the audit scope section of this report.

Staff: Elisa Sullivan, Audit Manager
Lily Chau

KEMPER SPORTS MANAGEMENT-HARDING PARK, LLC RESPONSE TO THE AUDIT



99 Harding Road
San Francisco, CA 94132
www.harding-park.com

June 1, 2006

Noriaki Hirasuna, Financial Audits Director
City Hall, Room 476
1 Dr. Carlton B. Goodlet Place
San Francisco, CA 94102


Dear Mr. Hirasuna:

Harding Park Golf Course is in receipt of the Financial Audits Division's draft report regarding the concession audit recently performed. Upon review of the Division's findings in the draft report, we respond as follows:

- 1.) Regarding the finding of charging a reduced rate of \$66 for tournaments played by the Harding Park Men's Club ("Club"), the Recreation and Park Department directed Harding Park Golf Course in spring of 2004 to charge this reduced rate for Club events until the Recreation and Park Commission establishes a confirmed policy for the Club rates at the facility.
- 2.) Regarding the finding that Kemper did not post a sign for customers to request receipts for all purchases, Kemper is aware of this finding and is in the process of posting signs at the points of sale at the facility. Further, please note this posting requirement will be complied with going forward.

We trust the responses contained herein reasonably address the findings in the Division's report. We enjoy the opportunity to serve the City of San Francisco and its Recreation and Park Department in the management of the Harding Park golf course.

Yours sincerely,



Stephen W. Schroeder
General Manager-Harding Park Golf Course

c.c. Elisa Sullivan, Audits Manager
Jaci Fong, Recreation and Park Department
Tom Hart, Recreation and Park Department

RECREATION AND PARK DEPARTMENT RESPONSE TO THE AUDIT



City and County of San Francisco
Recreation and Park Department

McLaren Lodge in Golden Gate Park

501 Stanyan Street, San Francisco, CA 94117

TEL: 415.831.2700 FAX: 415.831.2096 WEB: <http://parks.sfgov.org>

June 29, 2006

Mr. Noriaki Hirasuna
Director, Financial Audits Division
Office of the Controller
City Hall, Suite 476
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4694

Dear Mr. Hirasuna:

The Recreation and Park Department agrees with and accepts all findings in the recently completed audit of Kemper Sports Management at Harding Park Golf Course conducted by your office.

Staff will present this audit and its recommendations to the Recreation and Park Commission on Thursday, July 20, 2006. Copies of all documentation presented at that meeting, along with the Resolution number, will be forwarded to your office for inclusion in the your files.

Again, thank you, Elisa and Lily for your work, patience and cooperation throughout this process.

Sincerely,

A handwritten signature in cursive script, appearing to read 'Tom Hart'.

Tom Hart
Property Manager

cc: Margaret McArthur, Commission Liaison
Katharine Petrucione, Director of Administration and Finance
Jaci Fong, Director of Property



Mayor Gavin Newsom
General Manager Yomi Agunbiade

cc: Mayor
Board of Supervisors
Civil Grand Jury
Public Library