

CITY OF SPRINGFIELD, MASSACHUSETTS

***REPORT ON AGREED-UPON
PROCEDURES***

***FOR THE 2015 AND 2016 CONTRACTS
BETWEEN THE CITY OF SPRINGFIELD AND
KENNEDY GOLF MANAGEMENT, INC.***



**Independent Accountant's Report
On Applying Agreed-Upon Procedures**

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To Mayor Dominic J. Sarno
City of Springfield
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We have performed the procedures enumerated below, which were agreed to by the Office of Internal Audit of the City of Springfield, solely to assist you in determining if certain provisions of the City's 2015 and 2016 contracts with Kennedy Golf Management, Inc. (KGM) were adhered to by KGM. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The Office of Internal Audit established the scope of this engagement to be limited to:

- 1.) The completeness of KGM's responsibility to account for and deposit with the City all City revenues including gift certificates and certain tournaments proceeds;
- 2.) The use of the City's cash registers to properly record all revenues belonging to the City;
- 3.) To determine if the expense reimbursements paid by the City to KGM were eligible based on the requirements specified in the 2015 and 2016 contracts;
- 4.) KGM reporting requirements specified in the 2015 and 2016 contracts;

We agreed to perform the procedures established by the Office of Internal Audit which are enumerated in the Procedures and Associated Findings section of this report.

Executive Summary

Overall Objectives

To determine whether Kennedy Golf Management, Inc. (KGM) complied with the terms of City Contracts #20131001 and #20160835 to provide Golf Professional and Instructional Services for years 2015 and 2016 at the Veterans' and at the Franconia Municipal Golf Courses.

We were contacted by the City's Office of Internal Audit in August of 2016 about performing the procedures listed above. The Office of Internal Audit and the City's Department of Parks, Buildings, and Recreation Management (DPBRM) had become concerned over the large increase in revenue recorded in fiscal year 2016 as compared to the previous 5 years. Adding significantly to these concerns was the Internal Revenue Service Criminal Investigations Unit's issuance of search warrants on July 28, 2016 at both golf courses and at the homes of Kevin

Kennedy in East Longmeadow and in West Dennis, Massachusetts.

On page 6 of this report we included a chart that shows FY2016 revenues from both golf courses combined to be 41% (\$473,000) higher than the previous 5 year averages. KGM had offered no explanation as to a business reason for the increases. Coincidentally, we learned that the IRS investigation began in July of 2015, just at the start of FY2016, and that Kevin Kennedy Jr., the sole owner of KGM, was aware of this.

Given the IRS investigation and the unexplained increase in revenue, the City asked us to perform these procedures to determine if there were any areas of non-compliance with the contracts that would provide grounds for termination of the 2016 contract.

Overall Scope of the Procedures

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1. We met with key officials of the City including the CAFO, the Director of Internal Audit and his staff, the Executive Director of DPBRM and members of his staff, representatives of the City's Legal Department, Kevin Kennedy, Jr. and members of his staff, and various City employees working at the golf courses.
2. We obtained copies of the 2015 and 2016 Golf Course Contracts with KGM and we planned our procedures around the requirements of those contracts which focused on the criteria provided by the Office of Internal Audit.
3. We obtained and examined numerous documents and analyses of the golf course operations including daily cash receipt turnovers, cash register tapes, golf tournament summaries, spreadsheets documenting daily golf activities, golf course policies and procedure manuals, golf course payroll records, golf course rates that were established by the Parks Commissioners, and various financial reports from KGM.
4. We visited the two golf courses and became aware of their operations and internal controls and we meet with various employees of the City and of KGM.
5. We analyzed and organized the information obtained and prepared this report that addresses the specific areas of contract compliance that the Office of Internal Audit had asked us to inquire about.

Key Findings

- 1.) Based on the work we performed, we do not believe that KGM properly accounted for or deposited with the City all City revenues including cart rentals, greens tickets, tournament proceeds, and gift certificate revenues. We did not obtain any explanation for the 41% increase in greens tickets and cart rental fees turned over in FY2016.
- 2.) Based on our observations and conversations with various personnel it became clear that the City' cash registers were not being used to properly record all revenues belonging to the City. We've documented numerous instances where detailed activity was not properly entered into the cash registers. We learned that gift certificate sales were either only entered into the cash register used for KGM revenues or not entered at all. We learned that tournament proceeds were entered into the cash registers in lump

- sums and that KGM retained profits from certain tournaments without City knowledge.
- 3.) We analyzed the expense reimbursements (advances) made to KGM and we found that in 2015 the City made all agreed upon payments to KGM and in 2016 the City made the first two scheduled payments plus a minimum wage differential that was required under the contract. For both years KGM did not provide adequate support for its actual expenses and the analysis we performed with the limited information that was provided indicates that KGM was over paid for both years by the City.
 - 4.) Throughout our report we mention areas where reporting requirements of the two contracts were not met. In virtually every area that we examined we found deficiencies in the amount and timeliness of the reporting requirements of the contracts. Reports were not provided and records were not maintained for significant areas of the contracts. Some examples include not maintaining inventory and sales reports in the golf pro-shops, no logs were maintained for gift certificate sales, no logs were kept for the number of daily golfers and cart rentals, tournament rosters were not maintained and the details of the total revenues and expenses for tournaments was not maintained, and complete financial statements showing KGM and City revenues and expenses were not provided.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on whether certain provisions of the City's 2015 and 2016 contracts with Kennedy Golf Management, Inc. (KGM) were adhered to by KGM. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Mayor, the City of Springfield Legal Department, the City Council Audit Committee, the Office of Internal Audit, the Administration and Finance Division, and the Parks Commission of the City of Springfield and is not intended to be and should not be used by anyone other than these specified parties.



Powers & Sullivan, LLC
October 19, 2016

Procedures and the Associated Findings

Overview of the Engagement

As part of our planning and preparation for conducting this agreed-upon procedures engagement for the City, we determined that it was prudent to understand the underlying issues the City had determined could be problematic with the operations of the golf courses.

The City owns two municipal 18 hole golf courses. The Parks Commission establishes the framework for operation and general policies while the Parks, Buildings and Recreation Management Department – Parks Division (DPBRM) is their representative for the overall management of the facilities. The golf course maintenance is provided for using employees of the DPBRM while the Golf Professional and Instructional Services are outsourced to a private management company. For the two contract periods covered by this engagement, the management company was selected through two competitive Requests for Proposals (RFP) for Golf Professional and Instructional Services at Veterans Memorial and Franconia Golf Courses.

In both instances, Kennedy Golf Management, Inc. (KGM), formed in 2009, submitted the only proposal and was selected by DPBRM. The RFP required that the individual or company provide a specific individual who is a Class A member of the Professional Golfers' Association (PGA). Kevin Kennedy, the sole owner of KGM, is a Class A member of the PGA and is the person designated in both contracts to provide these services. The terms of the contracts are for each calendar year where the golf season is defined as March through December. Each contract is for one year with two additional options to renew for two additional one year periods at the sole option of the City of Springfield. Contract #20131001 was properly executed for 2013 and renewed for 2014 and 2015. Contract #20160835 was properly executed for 2016 however; on November 20, 2016 the City terminated the Golf Course Contract with KGM.

KGM and Kevin Kennedy's prime contractual responsibility was to manage the day-to-day operation of both golf courses including the responsibility for the internal controls of all financial activity and related reporting. Our findings related to these financial and reporting responsibilities are discussed throughout in this report.

We became aware through news reports and discussions with City Officials that Agents from the Internal Revenue Service Criminal Investigations Unit executed search warrants at both golf courses and at the homes of Kevin Kennedy in East Longmeadow and in West Dennis, Massachusetts on July 28, 2016. City Solicitor Edward Pikula and other City Officials met with law enforcement authorities and agreed to provide any records in the City's possession that they request and to cooperate in any investigation that may be going on. We learned that the IRS investigation began in July of 2015, 12 months before the searches were executed by the Agents.

The City finance team and specifically the Internal Audit Division evaluated the risk of misappropriation of funds and conducted internal audit procedures during fiscal year 2016 to evaluate any potential exposure. We agree with the internal auditors that the control of revenue

received from cash, credit cards and gift certificates posed the greatest risk of misappropriation. The risk is considered more significant when coupled with the IRS investigation.

We gained an understanding of the operation of the Golf Pro Shops and made an initial assessment of the internal controls for the processing of City revenues. Although the cash register tapes and credit card terminal reports are provided as part of the City revenue turnover each day, it is apparent that the amount turned over is balanced against these tapes and not the actual cash in the registers. The final cash deposited appears to be what is required to balance the day. We would place little reliance that the activity reported and deposited was the actual activity for the day.

Golf course revenues are limited due to several factors. There is a finite amount of greens fees that can be collected in a day due to limiting each group to four players; tee times are spaced out for playing purposes; daylight hours; and weather conditions. In New England the golf season is usually spring, summer and fall with most courses closed in winter. Both of Springfield's golf courses have been operating for decades and we would expect similar number of rounds played each year. The monthly/yearly revenues generated by greens fees and cart rentals should be similar between years when factoring the modest price changes over the years of the contracts.

Both contracts with KGM had provisions that identified which golf course revenues were City revenues and those that were KGM revenues. The City was also required to reimburse KGM for certain actual expenses. At the golf courses, KGM maintained separate cash registers and credit card terminals for both the City revenues and the KGM revenues. The following are excerpts from the contracts:

1. In addition to the compensation provided in this Agreement, the Golf Pro shall be entitled to receive and keep as his own property all fee revenue from golf lessons, rental revenue from hand pull carts, but not power carts, and all revenue from the operation of the two Golf Pro Shops.
2. All other gross revenue received or earned as a result of activities at the two golf courses, including but not limited to power golf cart rental fees and greens tickets, shall be totally the property of the City.

The KGM revenue described in 1 above, recorded daily in their cash registers and credit card terminals, was required by the contract to be reported to the City. No daily reports were provided to the City and no records are available for us to examine for contract years 2015 and 2016. Therefore we cannot complete an accurate analytical comparison of the revenues KGM was entitled to.

The City revenue collected and deposited by KGM described in 2 above, recorded daily in the City's cash registers and credit card terminals, have been reported to the City and recorded on the City's MUNIS accounting ledgers. As part of the City's internal audit division risk evaluation, they completed a detailed analysis of daily and yearly revenue recorded for both courses for the past several years and we verified the accuracy of the reporting. The following schedule summarizes only the City revenues that were turned over and recorded in the City's Munis financial reporting system for the fiscal years 2011 to 2016.

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	5 Year Average	FY 2016	FY 2016 Dollar Increase Over 5 Year Average	FY 2016 Percentage Increase Over 5 Year Average
Franconia									
Greens Fee.....	\$ 482,389	\$ 498,819	\$ 439,735	\$ 416,523	\$ 445,223	\$ 456,538	\$ 636,579	\$ 180,041	39%
Cart Rental.....	\$ 119,271	\$ 150,623	\$ 131,962	\$ 103,051	\$ 91,452	\$ 119,272	\$ 205,614	\$ 86,342	72%
Totals	\$ 601,660	\$ 649,442	\$ 571,697	\$ 519,574	\$ 536,675	\$ 575,810	\$ 842,193	\$ 266,383	46%
Veterans									
Greens Fee.....	\$ 403,378	\$ 466,569	\$ 440,003	\$ 425,901	\$ 436,089	\$ 434,388	\$ 587,454	\$ 153,066	35%
Cart Rental.....	\$ 100,769	\$ 138,591	\$ 139,810	\$ 140,559	\$ 127,521	\$ 129,450	\$ 182,935	\$ 53,485	41%
Totals	\$ 504,147	\$ 605,160	\$ 579,813	\$ 566,460	\$ 563,610	\$ 563,838	\$ 770,389	\$ 206,551	37%
Combined									
Greens Fee.....	\$ 885,767	\$ 965,388	\$ 879,738	\$ 842,424	\$ 881,312	\$ 890,926	\$ 1,224,033	\$ 333,107	37%
Cart Rental.....	\$ 220,040	\$ 289,214	\$ 271,772	\$ 243,610	\$ 218,973	\$ 248,722	\$ 388,549	\$ 139,827	56%
Totals.....	\$ 1,105,807	\$ 1,254,602	\$ 1,151,510	\$ 1,086,034	\$ 1,100,285	\$ 1,139,648	\$ 1,612,582	\$ 472,934	41%

The schedule above, provided by the City Comptroller, calculated the total 5 year average (FY11 – FY15) of City revenue to be \$1,139,648. In FY16 total City revenue was \$1,612,582 which is a \$472,934 (41%) increase over the average. The largest individual significant change is FY16 Franconia power cart rental revenue increasing by 72% over the average. The greens fees and power cart rental fees, as set by the Park Commissioners, remained substantially the same throughout this period. As stated earlier, the expectation is that on average the golf course revenue should remain consistent between years if the fees remained constant. We have not been able to determine a business reason to explain the increase in revenue in FY16. We spoke with Kevin Kennedy about the day-to-day operation of the golf course but he informed us he could not discuss anything to do with the City or the IRS investigations. Therefore he was not able to provide us with a business explanation related to the increase. We spoke with golf course employees who stated that they felt that the level of play has not changed in FY16 compared to other years.

We are aware that during FY16, the City's internal auditing department was scrutinizing the operations of the golf courses managed by Kevin Kennedy at the request of the Springfield Parks Commission and the DPBRM and that the IRS was also conducting their own investigation. What effect, if any, these investigations had on the FY16 increase in revenue cannot be determined by us.

In the next section we will report on the specific agreed-upon-procedures related to 1.) the completeness of City revenues including gift certificates and certain tournaments; 2.) the use of the City's cash register to record all revenues belonging to the City; 3.) the eligibility of expense reimbursements made by the City of Springfield; and 4.) the related reporting requirements of the Contracts.

Agreed-Upon-Procedure Section

Reporting Requirements

Objective

To determine if KGM filed all of the required reports, including financial and activity reporting, to the Director of Parks, Recreation and Building Management by the dates specified in the contracts.

It was agreed that the procedures required to achieve the objective would be to test to see if Kennedy Golf Management has been in compliance with the specific contractual terms for the 2015 and 2016 golf seasons (March to December). Both contracts are substantially the same with the only new section in the 2016 contract related to payment of a \$10 per hour minimum wage. There are minor section/subsection changes but the language is the same. We will reference the 20160835 contract for our compliance testing.

Agreed-upon procedure

- Determine if KGM was in compliance with the provisions of the specified reporting requirements in the contracts by identifying the provision and comparing the provision to the actual reports provided.

Contract Compliance Requirement 1

Section V A 3. Pro Shops - General

The Golf Pro shall be responsible for and shall keep current records regarding ordering all pro shop inventory, tracking monthly inventory levels, merchandising and promoting sales of the inventory, devising buying and payment plans, and tracking sales and purchases using acceptable accounting practices.

Findings

In both proposals submitted by Kennedy Golf Management in response to the RFP's is a Kennedy Golf Management, Inc. Bid Summary. In the financial reporting section of this response the proposal stated:

- KGM will have sophisticated Point of Sale systems to account for all goods sold in both golf shops.
- Weekly computer generated reports will be produced at the request of the Department of Parks, Recreation and Facilities Management.
- KGM's golf shop revenues, payroll records and bank statements, and cash register receipts will be provided to the DPRFM upon request with no questions asked.
- KGM employs the most advanced accounting technology in an effort to maximize reporting and compliance. KGM will satisfy any and all requests from the DPBRM for financial records.

According to the proposal KGM has the ability to produce the required reports at any time. Per discussion with Kevin Kennedy and other Pro Shop staff, KGM only uses City provided cash registers to conduct transactions belonging to the City and does not employ “the most advanced accounting technology in order to maximize reporting and compliance.” In addition, no such records can be produced or have been produced.

Conclusion

KGM is not in compliance with the reporting requirements of the contracts.

Contract Compliance Requirement 2

Section VI Scope of Services – Subsection F Specific Listing of Services

The following items are compliance requirements related to revenue, deposits and reporting where the Golf Pro shall/will:

- Collect golf cart rental fees.
- Account to the Executive Director and remit, without any deductions, to the City on a daily basis all gross monies collected from power cart rentals.
- Keep all revenue from hand pull carts but is still required to keep and provide records regarding revenues from hand pull carts, if requested.
- Be responsible for the sale of all greens tickets and shall account to the Executive Director and remit, without deductions, to the City on a daily basis all gross monies collected from such sales at both courses.

Findings

KGM collected the revenues received for hand cart rentals, power cart rentals and sales of greens tickets. They kept all hand cart rentals but did not provide records regarding revenues from hand carts. We are not aware if the Executive Director ever requested the records. KGM deposited with the City revenue related to power cart revenues and greens tickets and provided a daily accounting that matched the deposit.

In KGM’s proposal is a Policies and Procedures Section on various aspects of golf operations. One key procedure listed is that each golfer will leave the golf shop with a bag tag and receipt. The bag tag and receipt will be verified by a second employee outside at the first tee. Any customer approaching the first tee without a receipt or bag tag will not be allowed to start and will be sent back to the golf shop. This second verification by the starter is a key control employed by most golf courses. The starter will maintain a tee time log and enter the receipt number, number of players, walking or riding carts, the time and hole they teed off. This control log is then used to verify the revenue entered into the cash register at the golf shop. Kevin Kennedy told us that no starter logs are maintained.

The bag tag system that KGM uses could be a valid control as it provides an easily identifiable visual verification of payment. The tags are color coded that relate to the type of round

purchased. The control is diminished because there is no control log of the tags in inventory and those used each day.

One of the primary responsibilities of a golf starter is the completion of an accurate log of all golfers that play and verification that they paid for the greens fee and carts. The log would be a primary source of evidence to verify the accuracy and completeness of the revenue reported in the cash register. Since these starter logs are not available along with no control over bag tags, the internal controls over the power cart rentals and greens tickets are inadequate to provide assurance that all “gross monies” collected were actually remitted to the City.

Conclusion

KGM complied with the contract provision to account to the Executive Director the types of revenues remitted to the City on a daily basis. As mentioned in the overview section of this report, the FY16 revenues deposited with the City were approximately 46% higher than the FY15 deposits. We have not been provided with any reasonable business explanation for the change in revenue between years or for the previous five year period. Due to the complete lack of effective internal controls and the fact KGM has not provided a reasonable explanation of the significant revenue fluctuations, we question the compliance with the contract provisions for providing accurate reporting and remittance of “gross revenues” to the City.

Contract Compliance Requirement 3

Section VI Scope of Services

Subsection F(8) requires the Golf Pro to submit within 30 days of the commencement of the work, March 31, to the Executive Director a written plan that the Golf Pro intends to use to accomplish the services contemplated by this agreement including but not limited to the following:

- i. Hiring, training and supervising staff and volunteers;
- ii. Buying, tracking, maintaining, stocking, and selling Pro Shop inventory;
- iii. Marketing, merchandising, promotion strategies and interaction with players to promote the pro shops;
- iv. Organization, coordination, implementation, and administration, including dates and estimated number of attendees, of all lessons, clinics, tournaments, events, and services contemplated by this agreement;
- v. Plans and strategies to appropriately increase revenue and to promote the two municipal golf courses and the game of golf;
- vi. Plans and strategies to address issues of golf course etiquette; and
- vii. Implementation and administration of all accounting systems for receipts and disbursements of the Golf Pro regarding the services contemplated by this agreement.

Findings

Based on our discussions with Kevin Kennedy and the Executive Director, no such written plan has ever been submitted.

Conclusions

KGM is not in compliance with the reporting requirements of the contracts.

Contract Compliance Requirement 4

Section VII Compensation, Budget, and Expenses

The subsections itemize the budget, the compensation schedule to be paid KGM, KGM revenues and City revenues, required reporting dates of itemized compensation and staff expenses, refunds due City, termination clause, deposit requirements and required revenue reporting.

Subsection B – Established the approved maximum budget for the Golf Pro and the Golf Pro Staff. The Golf Pro Budget was set at \$67,000 for the 2015 and 2016 contracts. The Golf Pro Staff Budget of \$173,967.92 for 2015 and \$202,987.12 for 2016 includes 9 line items in which KGM is only entitled to the actual expense incurred up to a the maximum set by the line item budget.

Subsection C – Establishes a standard payment equal to the total budget to be paid in equal installments on March 1, May 1, July 1 and September 1 along with a final \$10,000 payment on November 1.

Subsection D- The Golf Pro shall not make any advance payments to staff and shall be entitled to seek reimbursement only for actual payments made for services already rendered in accordance with the hourly rates and maximum hours of work per week which have been approved by the Executive Director DPBRM.

Subsection E – Requires Golf Pro to provide to the Executive Director DPBRM an itemized report of all compensation and staff expenditures made by the Golf Pro as follows:

1. Report Due May 15 covering the period March 1 – April 30.
2. Report Due July 15 covering the period May 1 – June 30.
3. Report Due September 15 covering the period July 1 – August 31.
4. Report Due November 15 covering the period September – October 31.
5. Report Due December 15 covering the period November 1 – December 31.

This subsection requires that if the actual expenses paid, as detailed in the 5 interim required reports listed above, is less than the compensation paid in Subsection C the Golf Pro shall refund the difference.

Subsection H – In addition to the compensation provided in this Agreement, the Golf Pro shall be entitled to receive and keep as his own property all fee revenue from golf lessons, rental revenue from hand pull carts, but not power carts, and all other revenue from the operation of the two Golf Pro Shops. The Golf Pro is still required to maintain, and if requested, to provide to

the City with records regarding this revenue as provided in paragraph number 9 of this Agreement.

Subsection I – States that all other gross revenue received or earned as a result of activities at the two golf courses, including but not limited to power golf cart rental fees and greens tickets shall be totally the property of the City. The Golf Pro shall deposit each day, at the end of the day, all such revenue into a bank account provided by the City for the receipt of these daily deposits. The Golf Pro is still required to maintain and provide to the City records regarding this revenue as provided in paragraph number 9 of this agreement.

Findings

Our findings in this section of our report are only related to whether or not KGM was in compliance with the reporting requirements of the contracts. In later sections we report on completeness of revenues, recording all revenues and expense reimbursement eligibility.

Subsections B, C, D & E are related to the compensation paid by the City to KGM and the required documentation and detailed reports to support the up-front payments. The contract terms cover the 2015 golf season defined as March 1, 2015 through December 31, 2015 and the 2016 golf season defined as March 1, 2016 through December 31, 2016. In order to provide KGM cash flow the contracts require the City to make an up-front payment on March 1st, the first day of the contractually defined golf season. This continues every two months until November 1st. Therefore the City pays the contract amount and then KGM will supply a detailed report 15 days after the end of each two month period. A final reconciliation is required to be completed at December 31st and KGM is required to refund any overpayment.

For the 2015 golf season contract the City paid the \$240,967.92 due KGM in accordance with the contract terms. KGM did not provide the Executive Director an itemized report of all compensation and staff expenditures made by the Golf Pro by the due date for any of the 5 reporting dates. However upon request by the City's Director of Internal Audit KGM provided payroll and banking records after the required due dates.

The 2016 golf season contract is ongoing at the time of this report and therefore KGM only had to provide itemized reports for the expenditures through August 31, 2016. As of the writing of this report KGM has only provided a copy of its Form 941 payroll report for the second quarter of 2016. This was provided to the Director of Internal Audit on August 23, 2016. No other financial information has been provided for 2016.

Subsection H requires that KGM maintain records to support all revenue retained by them and if requested provide records to support the revenues. We are aware the City requested these records and we also requested the records directly from Kevin Kennedy. We were informed these records are not available. Since both Pro Shops utilize a separate cash register and credit card terminals we would need access to these records to test whether City revenues were commingled with KGM revenues.

Subsection I clearly states that all gross revenues received or earned as a result of the activities at both golf courses, except for the KGM revenues specifically identified in subsection H, shall be totally the property of the City. It further requires that all of these revenues be deposited into

the City bank account and that KGM maintain and provide records regarding these revenues to the City. KGM does provide records of the revenues deposited into the City accounts as required.

Pro Shop Gift Certificates are sold and at times donated by the Golf Pro to various organizations and individuals. We were told by Kevin Kennedy and by an assistant Golf Pro that sales of gift certificates are deposited into the KGM accounts and not the City's. The gift certificates can be used for Pro Shop purchases, greens tickets and cart rentals however there is no process in place that transfers money from KGM to the City when used for greens tickets or power cart rentals. This was confirmed by the assistant Golf Pro. There are no controls or records over gift certificates issued, used and outstanding. Therefore the sales of gift certificates were not deposited with or reported to the City as required by subsections H & I.

Both courses host numerous golf tournaments each year. One type is organized by an outside organization that collects a fee and pays only the total for all of its player's greens tickets and cart fees to KGM for deposit.

The other tournaments are organized by the Golf Pro as part of his responsibilities contained in Section VI, Scope of Services. Subsection F5 states that; "The Golf Pro shall assist in the operation of any and all tournaments". The information on these tournaments found on the golf course website requires all fees be paid to Kennedy Golf Management at a rate that is significantly higher than the published greens and cart fees. We discussed with Kevin Kennedy how these tournaments were run he indicated that KGM collected all fees and on the day of the tournament he would record these on the City's register including the number of greens tickets and power cart rentals and KGM would then write a check to the City for the total. He confirmed that KGM would realize a profit after deducting other costs he incurred such as prizes. He indicated that the Golf Pro historically had kept the profits from these tournaments well before he became the Golf Pro and he continued the practice.

The contracts are specific in what Gross Revenues are retained by the Golf Pro and that all other Gross Revenues are City property. The revenues and related expenses for tournaments organized by the Golf Pro have not been specifically authorized in the contract to be retained by KGM. Therefore the City did not receive the gross revenues and KGM did not report the revenues to the City.

Conclusion

KGM did not submit detailed reports to the City to support the actual expenses incurred for 2015 on the required due dates and therefore was not in compliance with the reporting requirements.

KGM did not provide the records to support the 2015 and 2016 revenues retained by KGM after the City requested them and therefore was not in compliance with the contract reporting requirements.

KGM does not deposit or report to the City the Gross Revenues for gift certificates and Golf Pro organized tournaments and therefore is not in compliance to the contract reporting requirements.

Contract Compliance Requirement 5

Section IX. Receipts and Expenditures

Subsection D states that if requested in writing by the Executive Director of DPBRM or the City Comptroller, the Golf Pro shall, within two calendar days or such time as the parties agree, furnish all requested financial records and, if requested, a financial statement of all operations performed or being performed under the current agreement, for each preceding golf season, as originally determined or thereafter amended, and, as reasonable up-to-date as possible, for the current golf season. Each such financial statement requested shall contain a breakdown of receipts and expenditures, and shall be in such form and detail as is satisfactory to said Executive Director of DPBRM or the City Comptroller. The Executive Director of DPBRM and the City Comptroller, or their designee, shall have the right at any reasonable time to inspect all financial records of the Golf Pro pertaining to the operations under this Agreement. This paragraph applies to all operations regardless of whether the revenue is the property of the Golf Pro or the City.

Finding on Subsection D

The last sentence of the paragraph above states that the paragraph applies to the revenue that is the property of the Golf Pro. In Section VII H and throughout the contract states the Golf Pro is required to maintain and provide the City with records regarding the revenue that is the property of the Golf Pro. In each Pro Shop KGM has its own cash register and credit card terminal that is to be used to record the financial activity of the revenue retained by the Golf Pro. As the City's designee as part of this engagement, we have the right to inspect all financial records of the Golf Pro. In our discussion with Kevin Kennedy he told us that the cash register tapes and any other detailed financial documentation related to the Golf Pro retained revenue did not exist and that they could not be recreated. He also stated that no records are available for Golf Shop inventory. Not being able to examine the detailed daily financial activity of the revenue recorded on the Golf Pro's cash register and credit card terminal is a scope limitation that severely limits our ability to analyze all financial activity of both courses. It also makes it impossible to test the records to see if City revenues were actually recorded in the Golf Pro cash registers and credit card terminals.

Found in the fourth paragraph of the first section of the 2016 contract is a clause that states; "**WHEREAS**, the proposal submitted by Kennedy Golf Management, attached hereto as **Exhibit B** and incorporated by reference, was the most advantageous proposal received;". Since the proposal is incorporated by reference and was determined by City officials that the statements made in the proposal was part of their determination that KGM's proposal was the most advantageous, we believe any statements made in the proposal should be considered as part of determining contractual compliance.

In Kevin Kennedy's proposal a section on financial reporting stated:

- KGM will have sophisticated Point of Sale systems to account for all goods sold in both golf shops.

- Weekly computer generated reports will be produced at the request of the Department of Parks, Recreation and Facilities Management.
- KGM's golf shop revenues, payroll records and bank statements, and cash register receipts will be provided to the DPBRM upon request with no questions asked.
- KGM employs the most advanced accounting technology in an effort to maximize reporting and compliance. KGM will satisfy any and all requests from the DPBRM for financial records.

Conclusion on Subsection D

KGM's proposal stated they would be maintaining sophisticated Point of Sale systems and advanced accounting technology for both Golf Shops. Kevin Kennedy told us that none of these systems actually exist and he did not retain any records of the detailed documentation of the Golf Pro retained revenues recorded on the Golf Pro Shop registers and credit card terminals.

These deficiencies are a violation of the contract provisions.

Subsection E states the Golf Pro shall deliver to the Executive Director of DPBRM, within thirty calendar days after the end of each current golf season, certified financial statements for all operations and activities of the Golf Pro under this Agreement regardless of whether the revenue is the property of the Golf Pro or of the City.

Finding of Subsection E

The scope of our engagement is only for Golf Contract Year 2015 and 2016. Therefore only the 2015 certified financial statements are due. We reviewed two formal written requests for the 2015 financial statements from the Executive Director in March 2016 and April 2016 and the certified financial statements have not been received. We are aware that in prior years similar requests were made and KGM provided a line item summary of a non-certified profit and loss statement. We reviewed an email correspondence from the City's Internal Auditor which documented that the Golf Pro had agreed to deliver a Reviewed set of financial statements from a certified public accountant within 30 days. The delivery of this report has not happened. Normally certified financial statements are defined as audited financial statements that include an audit opinion, balance sheet, income statement, statement of cash flows and notes to the financial statements. KGM did not comply with this reporting requirement even though he submitted limited non-audited financial information. The Contract with the City provides funding for this information to be prepared and the City did pay these amounts to KGM.

Conclusion on Subsection E

KGM provided a limited non-certified profit and loss statement to the Executive Director. KGM did agree to provide the City with full financial statements reviewed by a certified public accountant to be in compliance with the 2015 reporting requirement within 30 days as advised by the City's Internal Auditor. However these reviewed financial statements were not provided. KGM is not in compliance with the 2015 reporting requirement since no reviewed financial statements have been provided.

Completeness of KGM's responsibility to account for and deposit all City revenues including gift certificates and certain tournaments

Since both courses have a City cash register and a KGM cash register along with a City credit card terminal and a KGM credit card terminal there is a possibility that City revenues could be recorded on the KGM registers or terminals. In order to test for this possibility, we need to examine the daily transactions recorded on the KGM machines. As previously stated, Kevin Kennedy informed us that none of the KGM register tapes or credit card terminal receipts were retained and are not available for our inspection.

Therefore there is a scope limitation from both the City's internal audit division and our perspective. Although these records are required to be maintained and available for inspection in accordance with the contract, they are not available.

With the knowledge of this limitation, we agreed to perform certain procedures on the records available for certain tournaments and random weeks selected by the City's internal auditor. Many of the original documents that we needed to examine are in the possession of the Internal Revenue Service Criminal Division Springfield offices. The IRS allowed us to have fully supervised access to these records for one day.

The procedures we performed along with our findings and conclusions are listed below.

Greens Fees and Cart Fees Approved Rates

Agreed-upon procedure

- Determine if the greens and cart fees charged by KGM were in accordance with the fees approved by the Parks Commission by comparing the meeting minutes approving the rates and examining the actual fees charged.
- Determine if any people or staff are allowed to play golf and take golf carts free of charge through discussion with KGM and City staff and examination of KGM records. Verify that the Parks Commission has approved free golf in the meeting minutes.

Findings

The City of Springfield's Board of Park Commissioners annually approves the rates to be charged at both courses. The March 22, 2016 meeting minutes stated that there will not be a rate increase for this season and then approved the rates for greens fees and carts. We were not provided with the minutes for the 2015 golf season but we were informed that there was no rate increase for 2015. In 2013 only the greens fee rate was approved and had no mention of power golf carts rates.

The rates posted on the Golf Course web site posts the walking rate and a riding rate that combines the greens fee and power cart fee per person. The walking greens fee rates are programmed into the City cash register and they tie into the greens fees charge. Power cart fees are entered into the register separately.

In the March 16, 2016 meeting minutes the power cart rates were approved at \$30.00 per power cart rental for 18 holes and \$16.00 for twilight 9 holes. The combined rates posted on the web site substantially agree with the approved rate when the greens fee is added to the cart rental rates per person. The actual rates programed into the cash registers are broken down into four different rates.

- 9 hole cart – This rate is \$15.06 plus sales tax of \$0.94 and is charged when 2 golfers are sharing the same cart for a total receipt of \$16. This rate agrees with the approved rate and the rate posted on the web site.
- 9 ½ hole cart – This rate is \$7.53 per person plus sales tax of \$0.47 when only one person is renting the cart for a total receipt of \$8.00. This rate does not agree with the \$16 approved rate and the rate posted on the web site.
- 18 hole cart – This rate is \$28.24 plus sales tax of \$1.76 and is charged when 2 golfers are sharing the same cart for a total receipt of \$30. This rate agrees with the \$30 approved rate and the rate posted on the web site.
- 18 ½ hole cart – This rate is \$14.12 per person plus sales tax of \$0.88 per person when only one person is renting the cart for a total receipt of \$8.00. This rate does not agree with the \$30 approved rate and the rate posted on the KGM web site.

The Commissioners only approved the total cart rental fee and did not approve the rates for ½ hole cart rates that were actually being charged when only one golfer rode in a cart.

KGM reported these rates being charged on the Daily Cash Receipt Report submitted to the City consistently for the 2015 and 2016 golf season. Even though the City received these reports daily for both years under review they did not require KGM to eliminate the use of a ½ hole cart rate.

We discussed with Kevin Kennedy, KGM staff and City employees if anyone was allowed to play for free and we were told that all KGM staff and City employees working at the golf courses play for free. These free rounds of golf are not recorded in the cash register or any other type of log book.

Conclusion

There is a shared responsibility between both parties of the contract to verify the approved rates are actually charged for each golf season. The past practice of allowing ½ hole cart rates was clearly apparent to any City employee reviewing the Daily Cash Receipt Report and was allowed to continue for years. We are not aware that KGM sought the approval by the Parks Commission nor are we aware that this was requested by the City. Therefore although not specifically authorized by the Commissioners, we do not consider this to be a contract compliance issue.

Gift Certificate Reporting

The objective of the procedures is to determine if gift certificates sold or donated at both courses have been accurately reported and deposited with the City.

Agreed-upon procedure

- Document the internal controls implemented by KGM for gift certificates sold or donated by observation and discussions with Kevin Kennedy and KGM staff.
- Based on the internal controls implemented by KGM for gift certificates sold or donated by KGM staff, examine the ledgers maintained by KGM to track all gift certificates issued, whether it was a pro shop or greens fee certificate, whether the purchase was recorded in the City or Pro Shop register, when the gift certificate was redeemed and how many gift certificates remain outstanding.
- Based on the results of the internal controls documented, trace gift certificates sold or donated by KGM staff to the actual register deposit to verify they have been accurately and completely reported and deposited with the City.
- If it is indicated by the procedures performed that gift certificates are donated verify that the Parks Commission has approved the donation by reviewing their meeting minutes.

Findings

We discussed with Kevin Kennedy and an Assistant Golf Professional employed by KGM the process used to control, issue and redeem gift certificates. The following types of gift certificates are issued by KGM;

- Golf Pro Shop Certificates
 - Are sold and deposited with KGM and can only be redeemed for Golf Shop merchandise.
- Generic Gift Certificates
 - Are sold and deposited with KGM. Can be redeemed for Golf Shop merchandise, greens fees and cart rentals.
- Rounds of Golf/Cart Rental Certificates
 - Are sold and deposited with KGM and can be redeemed only for golf.
- Donated Golf/Cart Rental Certificates
 - Are donated by KGM to certain tournaments as prizes or to others.

We determined that there are no meaningful controls over the issuance and redemption of gift certificates. Kevin Kennedy and one of his Assistant Golf Professional's told us that:

- certificates are pre-numbered but are left under the pro shop counters
- there is no inventory control over unused certificates
- there is no log book listing the certificates issued, redeemed and outstanding
- when a generic gift certificate is redeemed for golf or cart rentals there is no process to transfer funds from KGM to the City even though the original sale was deposited with KGM
- when a certificate is redeemed the golf shop employee is instructed to tear up the certificate after use instead of including it with the daily reporting

- if there is a partial redemption the employee is instructed to write on the certificate how much was used and the remaining balance
- there is no programmed key in the City's cash registers to record when a gift certificate is sold

Although we anticipated being able to perform the procedures listed above based on our understanding on how most golf courses and businesses control the sale, issuance and redemption of gift certificates we cannot complete the procedures because of a complete lack of any supporting documentation.

The internal audit division informed us that a City employee acting as a secret shopper purchased a gift certificate for a weekend round of golf with a cart at Franconia on August 7, 2016 for \$40 in cash. He noted the gift certificate was taken from under the counter; no information was recorded in a log; the transaction was not rung up in a register; and he was not issued a receipt.

On August 10, 2016 he purchased a \$40 gift certificate for a weekend round of golf with a cart at Veterans with a debit card. He noted that the gift certificate was taken from under the counter; no information was recorded in a log; the credit card terminal used was KGM's; he received a credit card receipt from the terminal; the transaction was not rung up on the register.

On August 12, 2016 the same employee redeemed the Veterans gift certificate and received a golf cart key to begin his round. He noted the gift card was torn up; he did not receive a bag tag; no receipt was issued; and no starter checked for a bag tag.

The information provided by the internal audit division supports the information we obtained through discussions with KGM employees and our observations.

The Department of Parks, Buildings and Recreation Management issued a total of 14 gift certificates for a foursome of golf during the 2015 and 2016 golf seasons. The department maintains a log of the gift certificate number, date donated, organization and certificate value. The certificate is valid for the current golf season and expires at the end of each calendar year.

Conclusion

There is a complete lack of any meaningful accountability over all aspects of gift certificates issued by KGM. We were told by the Assistant Golf Pro that all sales of gift certificates are recorded in the KGM cash register and credit card terminal. He stated there was no process to transfer funds from KGM's cash register to the City's cash register when the golf round gift certificate is redeemed. This is also supported by the City's Internal Audit Division report on the two gift certificates purchased each for a round of golf with a cart. One transaction in cash was not rung up in either cash register and the one purchased with a debit card was processed with the KGM credit card terminal. Each of these purchases clearly was for golf and was required to be deposited with the City but was not.

Based on our understanding of KGM's policy for the sale and redemption of gift certificates we have found evidence that supports the conclusion that most gift certificate revenues for golf rounds and carts were not deposited with the City as required. However due to the lack of any documentation we cannot quantify the amounts for 2015 and 2016. Beyond just being a contract compliance issue, any revenue retained by KGM that is clearly City revenue is a misappropriation of funds.

There is nothing in the contract that allows KGM to issue free gift certificates for City revenue however Kevin Kennedy stated it is common place for tournament prizes. Without the authorization to issue free golf gift certificates either in in contract or by the Board of Park Commissioners we consider the issuance to be a compliance violation of the contract provisions.

Verify revenues reported from selected tournaments have been accurately and completely reported and deposited with the City.

In KGM's proposal within the Policies and Procedures section is the standard Golf Course Tournament Contract in place for the 2015 golf season. The contract lists the standard terms and conditions which among other things lists the anticipated number of players. It specifically states the weekday rate per golfer is \$38 and weekend is \$39. This is the correct rate charged for greens fees \$24 weekday and \$25 weekend and the standard \$14 power cart rental rate per person. Therefore we would expect all golfers playing in a tournament to have paid for the greens fee and cart rental fee.

We requested the contracts from Kevin Kennedy and he told us they were not maintained. Also on the day of the tournament there is no starter's log that verifies the actual number of players and carts taken. Without this information we could not independently verify that all golfers and carts rented were properly entered into the cash register.

The City's Internal Audit Division selected the following random tournaments for us to review.

- 7 fall scramble tournaments played between October 17, 2015 and November 27, 2015
- Henry Bontempo tournament played in September 2015 and 2016
- John Raimonde tournament played in July 2015 and 2016
- Memorial Day Tournament played May 30, 2016
- Federici Open played September 13, 2015
- SECC Shotgun Tournament played June 6, 2015
- Spring 2 Ball Tournament played April 25, 2015
- Mal Fallon Shotgun Tournament played May 24, 2015
- Kyle Bruno Tournament played September 12, 2015

Agreed-upon Procedures

- The Internal Audit Division selected 17 tournaments that cross both years and include both courses to verify the accuracy and completeness of revenues earned, reported and

deposited with the City. City and golf course records were examined and then compared to the standard fees and expected rounds and cart rentals for these periods.

Henry Bontempo 4-Ball Tournament

Findings

This is a four day tournament that has been held for the past 42 years and is played at Franconia Golf Course. KGM manages the tournament and the \$225 per person fee is collected in advance and deposited with KGM. Therefore the total revenue generated from players is 192 times \$225 for a total of \$43,200. The fee includes the greens fee, steak dinner Friday night, and lunch on Saturday and Sunday. The fee does not include golf carts. The food is paid for by KGM.

KGM collects the \$225 directly from each player and does not offer a discount if a the golfer is a Junior or Senior and therefore the greens fees turned over to the golf course from KGM should be the full 18 hole rate. KGM does not offer a discount or provide a refund if a player does not show up to play and therefore the greens fees turned over to the golf course from KGM should be for the full 192 golfers that paid KGM.

Per conversation with Kevin Kennedy this tournament is normally sold out with 192 players made up of 96 2 person teams. On Friday September 4, 2015 48 teams teed off at 8:15 in a shot gun start and the other 48 teams teed off at 1:15 in a shot gun start. This is a pre-qualifying round in which some teams may have qualified on a previous day. Therefore the actual teams that play on Friday may be less than 96. On both Saturday and Sunday the entire field of 192 golfers plays a round of golf each day. On Monday only the 10 championship and 10 consolation matches in each division play which amounts to 80 players. We have the published results of the 2015 Monday rounds which lists 80 players.

The total greens fee revenue due the City is \$16,208 for all four days. This is comprised of 192 golfers on Friday @ \$24 = \$4,608; 192 golfers on Saturday @ \$25 = \$4,800; 192 golfers on Sunday @ \$25 = \$4,800; and 80 golfers on Monday @ \$25 = \$2,000. The rates did not change between 2015 and 2016 and therefore the total is the same for both years.

In 2015 KGM deposited \$12,101 for greens fees which is \$4,107 lower than what should have been turned over. In 2016 KGM deposited \$14,806 which is \$1,402 lower than what should have been turned over.

When we were interviewing Kevin Kennedy in September of 2016 the Bontempo tournament had recently been played and he had documentation on the number of players and cart fees available for us to review. He did not keep similar records for the 2015 tournament and therefore we would only have the Daily Cash Receipt Report, cash register tapes and credit card terminal receipts available for review.

We summarized the financial activity of the tournaments on the following pages and made the following observations:

- Both years had the maximum number of players 192 and teams 96.
- Both years 5 to 7 employees played and were not charged greens fees. No indication was made as to whether these were City employees or KGM employees.
- In 2016 when the Internal Audit Division was observing the tournament, the greens fee rate deposited with the City was the \$24 weekday rate for 18 holes on Friday and the \$25 weekend and holiday rate for Saturday, Sunday and Monday (Labor Day). These are the correct rates.
- In 2016 KGM did not deposit with the City greens fees totaling \$1,402 related to employees who played for free and for golfers who were scheduled to play and did not.
- In 2015 KGM did not deposit with the City greens fees totaling \$1,327 related to employees who played for free and for golfers who were scheduled to play and did not.
- In 2015 when the Internal Audit Division was not observing the tournament, a lower greens fee rate was used in every instance except for one.
 - On Friday the Junior rate of \$16 was charged to 1 player which may be correct; the Twilight Weekend rate of \$22 was charged to one player; and the Twilight Weekday rate of \$19 was charged to 167 players. Except for the Junior rate all other charges should have been \$24, which was the amount charged in 2016. Therefore KGM kept \$837 of greens fees that belonged to the City.
 - On Saturday the Junior rate of \$16 was charged to 1 player which may be correct; the Twilight Weekend rate of \$22 was charged to 186 players. Except for the Junior rate all other charges should have been \$25, which was the amount charged in 2016. Therefore KGM kept \$558 of greens fees that belonged to the City.
 - On Sunday the Twilight Weekday rate of \$19 was charged to 182 players. The charge should have been \$25, which was the amount charged in 2016. Therefore KGM kept \$1,092 of greens fees that belonged to the City.
 - On Monday the Twilight Weekday rate of \$19 was charged to 40 players; the Twilight Weekend rate of \$22 was charged to 12 players; and the Weekday 18 Hole rate of \$25 was charged to 12 players. All charges should have been \$25. Therefore KGM kept \$276 of greens fees that belonged to the City.
 - On Monday the course was only being used for the tournament in the morning and since it was Labor Day we would expect the public to play later in the day. The daily cash report listed an additional 16 rounds of play for golfers 16 and under. Since there was only one Junior player listed on Friday and Saturday and none on Sunday it is impossible that 16 Juniors were part of the tournament.
 - One Senior round was also listed for Monday which when combined with the 64 tournament players and 16 Juniors equal the 81 golfers reported in the daily cash report.
 - We reviewed a summary of the 2015 tournament and it listed the results all 20 matches with the players' names that were played on Monday September 7, 2015. There were 80 players on Monday but only 64 greens fees were deposited with the City. Therefore \$400 of expected greens fees are unaccounted for (which is included in the 5th bullet above).
 - The total greens fees kept by KGM in 2015 relating to rate differences that belonged to the City were \$2,763.

- In most tournaments the majority of golfers ride in a power cart which is our expectation. In 2016 the internal audit division conducted a site visit on Sunday and observed only 4 people walking. We cannot verify the number of carts rented for either year as no records exist except for the amount reported and deposited by KGM to the City.
- For the 2015 tournament Friday 174 golfers played and KGM reported 109 players paying \$14 each to ride in a cart or 63%. On Saturday all 192 golfers played and KGM reported 64 players paying \$14 each to ride in a cart or 33%. On Sunday 187 golfers played and KGM reported 99 golfers paying \$14 and 13 paying \$15 to ride in a cart or 60%. On Monday 80 golfers played and KGM reported 18 golfers paying \$14, 4 players paying \$15 and 9 golfers paying \$7.50 to ride in a cart or 36%.
- When we consider that the same players golf on the first three days it is hard to explain why over 60% decided to rent carts on Friday and Sunday but on Saturday only 33% of the same players decided to rent carts. According to KGM 111 golfers paid for carts on both Friday and Sunday while only 64 paid for a cart on Saturday which is a difference 47 cart rentals at \$14 per person or \$658.
- In the 2016 tournament the percentages of golfers paying for carts were 71% for Friday, 69% for Saturday, 64% for Sunday and 97% on Monday. Even though we would expect the percentages to be higher for the first three days, the 2016 percentages are significantly higher than 2015.
- If all golfers that played rented carts for all 4 days the total cart rental revenue would be \$9,184 in 2015 and \$9,840 in 2016. The actual cart rental fees turned over in 2015 was \$4,343 and \$6,141 in 2016. Some downward adjustments to the total cart rental fee projected would need to be made for golfers that prequalified before Friday, those who did not show up on Sunday and those that may have walked.

When we were reviewing the actual Daily Cash Receipt Report and cash register tapes we noted that KGM would enter in summary totals for the greens fees and carts. For example the cash register tape would show 167@ \$19 for \$3,173 which represents 167 golfers at the Weekday Twilight rate. As detailed in the section above, in 2015 KGM only deposited greens fees at the reduced Twilight rates instead of the full day 18 hole rate. When we reviewed the cash register tapes we noted an unusual entry. On Friday 167 golfers were entered into the register with the Weekday Twilight Rate of \$19; on Saturday 186 golfers were entered into the register with the Weekend Twilight Rate of \$22; on Sunday at 7:28 am 180 golfers were entered into the register with the Weekend Twilight Rate of \$22 totaling \$3,960. This was the same rate that was used on Saturday. However immediately after entering that transaction, 180 golfers at \$22 totaling a negative (\$3,960) was voided. The next transaction recorded, still at 7:28 am, was 182 golfers at \$19 totaling \$3,458. The \$3,458 is the amount actually deposited with the City.

September 2015

	Friday 9/4/2015			Saturday 9/5/15			Sunday 9/6/15			Monday 9/7/15			Total		
Greens Fees	Number	Rate	Fees	Number	Rate	Fees	Number	Rate	Fees	Number	Rate	Fees	Number	Rate	Fees
<u>Number of Players</u>															
Junior Rate Charged	1	\$ 16	\$ 16	1	\$ 16	\$ 16		\$ 16	\$ -		\$ 16	\$ -	2	\$ 16	\$ 32
Twilight Weekend Rate Charged	1	\$ 22	\$ 22	186	\$ 22	\$ 4,092		\$ 22	\$ -	12	\$ 22	\$ 264	199	\$ 22	\$ 4,378
Twilight Weekday Rate Charged	167	\$ 19	\$ 3,173		\$ 19	\$ -	182	\$ 19	\$ 3,458	40	\$ 19	\$ 760	389	\$ 19	\$ 7,391
Full Weekday Rate Charged		\$ 24	\$ -		\$ 24	\$ -		\$ 24	\$ -	0	\$ 24	\$ -	0	\$ 24	\$ -
Full Weekend Rate Charged		\$ 25	\$ -		\$ 25	\$ -		\$ 25	\$ -	12	\$ 25	\$ 300	12	\$ 25	\$ 300
Pre-qualified and did not play Friday	18	\$ -	\$ -		\$ -	\$ -		\$ -	\$ -		\$ -	\$ -	18	\$ -	\$ -
Withdrawals No Fee Charged		\$ -	\$ -		\$ -	\$ -	5	\$ -	\$ -		\$ -	\$ -	5	\$ -	\$ -
Employees/Others No Fee Charged	5	\$ -	\$ -	5	\$ -	\$ -	5	\$ -	\$ -	16	\$ -	\$ -	31	\$ -	\$ -
Total	<u>192</u>		<u>\$ 3,211</u>	<u>192</u>		<u>\$ 4,108</u>	<u>192</u>		<u>\$ 3,458</u>	<u>80</u>		<u>\$ 1,324</u>	<u>656</u>		<u>\$ 12,101</u>
Power Cart Fees															
<u>Number of carts rented</u>															
18 Hole Carts	39	\$ 28	\$ 1,092	0	\$ 28	\$ -	49	\$ 28	\$ 1,372	2	\$ 28	\$ 56	90	\$ 112	\$ 2,520
1/2 18 Hole Carts	31	\$ 14	\$ 434	64	\$ 14	\$ 896	1	\$ 14	\$ 14	16	\$ 14	\$ 224	112	\$ 56	\$ 1,568
9 Hole Carts		\$ 15	\$ -		\$ 15	\$ -	13	\$ 15	\$ 195	4	\$ 15	\$ 60	17	\$ 60	\$ 255
Total	<u>70</u>		<u>\$ 1,526</u>	<u>64</u>		<u>\$ 896</u>	<u>63</u>		<u>\$ 1,581</u>	<u>22</u>		<u>\$ 340</u>	<u>219</u>		<u>\$ 4,343</u>
Total Greens and Cart Fees			<u>\$ 4,737</u>			<u>\$ 5,004</u>			<u>\$ 5,039</u>			<u>\$ 1,664</u>			<u>\$ 16,444</u>
<u>Number of Players Using Carts</u>															
18 Hole Carts - 2 in Each Cart	78			0			98			4			180		
1/2 18 Hole Carts - 1 in Each Cart	31			64			1			16			112		
9 Hole Carts - 1 Person for 9 Holes	0			0			13			4			17		
Total	<u>109</u>			<u>64</u>			<u>112</u>			<u>24</u>			<u>309</u>		
Percentage of Players Taking Carts	56.8%			33.3%			58.3%			30.0%			47.1%		

September 2016	Friday 9/2/2016			Saturday 9/3/16			Sunday 9/4/16			Monday 9/5/16			Total		
	Number	Rate	Fees	Number	Rate	Fees	Number	Rate	Fees	Number	Rate	Fees	Number	Rate	Fees
Greens Fees															
<u>Number of Players</u>															
Junior Rate Charged		\$ 16	\$ -		\$ 16	\$ -		\$ 16	\$ -		\$ 16	\$ -	0	\$ 16	\$ -
Twilight Weekend Rate Charged		\$ 22	\$ -		\$ 22	\$ -		\$ 22	\$ -		\$ 22	\$ -	0	\$ 22	\$ -
Twilight Weekday Rate Charged		\$ 19	\$ -		\$ 19	\$ -		\$ 19	\$ -		\$ 19	\$ -	0	\$ 19	\$ -
Full Weekday Rate Charged	169	\$ 24	\$ 4,056		\$ 24	\$ -		\$ 24	\$ -		\$ 24	\$ -	169	\$ 24	\$ 4,056
Full Weekend Rate Charged		\$ 25	\$ -	185	\$ 25	\$ 4,625	177	\$ 25	\$ 4,425	68	\$ 25	\$ 1,700	430	\$ 25	\$ 10,750
Pre-qualified and did not play Friday	16	\$ -	\$ -		\$ -	\$ -		\$ -	\$ -		\$ -	\$ -	16	\$ -	\$ -
Withdrawals No Fee Charged		\$ -	\$ -		\$ -	\$ -	8	\$ -	\$ -		\$ -	\$ -	8	\$ -	\$ -
Employees/Others No Fee Charged	7	\$ -	\$ -	7	\$ -	\$ -	7	\$ -	\$ -	12	\$ -	\$ -	33	\$ -	\$ -
Total	192	\$ 4,056		192	\$ 4,625		192	\$ 4,425		80	\$ 1,700		656	\$ 14,806	
Power Cart Fees															
<u>Number of carts rented</u>															
18 Hole Carts	62	\$ 28	\$ 1,736		\$ 28	\$ -		\$ 28	\$ -		\$ 28	\$ -	62	\$ 112	\$ 1,736
1/2 18 Hole Carts		\$ 14	\$ -	132	\$ 14.12	\$ 1,864	118	\$ 14.12	\$ 1,666		\$ 14	\$ -	250	\$ 56	\$ 3,530
Special Rate of \$25 per Cart		\$ 25	\$ -		\$ 25	\$ -		\$ 25	\$ -	35	\$ 25	\$ 875	35	\$ 100	\$ 875
9 Hole Carts		\$ 15	\$ -		\$ 15	\$ -		\$ 15	\$ -		\$ 15	\$ -	0	\$ 60	\$ -
Total	62	\$ 1,736		132	\$ 1,864		118	\$ 1,666		35	\$ 875		347	\$ 6,141	
Total Greens and Cart Fees		\$ 5,792			\$ 6,489			\$ 6,091			\$ 2,575			\$ 20,947	
<u>Number of Players Using Carts</u>															
18 Hole Carts - 2 in Each Cart	124			0			0			0			124		
1/2 18 Hole Carts - 1 in Each Cart	0			132			118			0			250		
Special Rate - 2 in Each Cart	0			0			0			70			35		
9 Hole Carts - 1 Person for 9 Holes	0			0			0			0			0		
Total	124			132			118			70			409		
Percentage of Players Taking Carts	64.6%			68.8%			61.5%			87.5%			62.3%		

Conclusion

KGM was completely consistent in depositing with the City the correct 18 hole weekday and weekend/holiday greens fee rates in 2016. This occurred with the knowledge the City Internal Audit Division was observing the tournament. In 2015 KGM consistently was depositing with the City Twilight rates which was obviously the wrong rate. KGM collects a \$225 fee from each golfer and deposits 100% of the fee into their own accounts and then makes a deposit with City for greens and cart fees by writing a KGM check, using a KGM credit card or KGM cash. Therefore the use of the lower greens fee rate with the knowledge that the full 18 hole rate should be used resulted in \$2,763 of City revenue being kept by KGM. This is a significant violation of the contract provisions because it is actual revenue that is 100% quantifiable that was kept by KGM.

In addition, KGM did not deposit with the City greens fees totaling \$1,402 and \$1,327 for 2016 and 2015, respectively, related to employees who played for free and prequalified golfers who were scheduled to play and did not. This is a significant violation to the contract provisions because it is actual revenue that is 100% quantifiable that was kept by KGM.

On Monday September 7, 2015 KGM deposited revenue for 64 golfers at rates lower than the holiday rates. We were provided with the published results of the 20 championship and consolation matches for that Monday. There are 4 players in each of the 20 matches or 80 golfers. Therefore 16 greens fees are not accounted for in the deposit which amounts to \$400. This is a significant violation of the contract provisions because it is actual revenue that is 100% quantifiable that was kept by KGM.

KGM does not maintain any records for power cart rentals and therefore our revenue analysis is based on analytical procedures by comparing actual revenue deposited to expectations, other days and different years. As stated in our findings, there is no reasonable explanation in 2015 to have the same golfers pay for 109 rental fees on Friday, 64 rental fees on Saturday and 112 rental fees on Sunday. The only reasonable explanation is that KGM did not fully report all cart rentals on Saturday. The comparisons between years also show a higher percentage of golfers renting carts in 2016 compared to 2015. This is a significant violation of the contract provisions because by not depositing all revenues to the City, KGM would benefit from any underreporting.

John Raimonde Tournament

Findings

The Raimondi Tournament is played on one course on Saturday and the other course on Sunday in one weekend each July. KGM manages the tournament and the \$130 per person fee is collected in advance and deposited with KGM. The fee includes the greens fee and cart fee along with dinner Sunday night. The food is paid for by KGM.

We obtained a listing of the final results that lists all of the teams and golfers for the 2015 and 2016 tournaments. Per these records 190 golfers participated in 2015 and 180 in 2016. Each day of the tournament KGM enters into the City cash register the number of golfers and rate along with the number of cart rentals and rates. Since the registration form clearly states the \$130 fee includes all cart fees we would expect KGM to deposit the total 18 hole weekend rate with cart of \$39 per person. Since there is no discount offered on the registration form for Juniors or Seniors there should be no discount for the fee turned over to the City. We have provided a financial analysis of the 2015 and 2016 tournaments.

2015 Tournament

	<u>Saturday July 18, 2015</u>			<u>Sunday July 19, 2015</u>			<u>Total 2015</u>		
	<u>Number</u>	<u>Rate</u>	<u>Fee</u>	<u>Number</u>	<u>Rate</u>	<u>Fee</u>	<u>Number</u>	<u>Rate</u>	<u>Fee</u>
Greens Fees									
Saturday/Sunday Rate	182	\$ 25	\$ 4,550	188	\$ 25	\$ 4,700	370	\$ 25	\$ 9,250
Free	8	\$ -	\$ -	2	\$ -	\$ -	10	\$ -	\$ -
Total	<u>190</u>		<u>\$ 4,550</u>	<u>190</u>		<u>\$ 4,700</u>	<u>380</u>		<u>\$ 9,250</u>
Cart Fees									
18 1/2 Hole Rate - 1 Golfer	183	\$ 14	\$ 2,562	189	\$ 14	\$ 2,646	372	\$ 14	\$ 5,208
18 Hole Rate - 2 Golfers	4	\$ 28	\$ 56	0	\$ 28	\$ -	4	\$ 28	\$ 56
Free	3	\$ -	\$ -	1	\$ -	\$ -	4	\$ -	\$ -
Total	<u>190</u>		<u>\$ 2,618</u>	<u>190</u>		<u>\$ 2,646</u>	<u>380</u>		<u>\$ 5,264</u>

2016 Tournament

	<u>Saturday July 16, 2016</u>			<u>Sunday July 17, 2016</u>			<u>Total 2016</u>		
	<u>Number</u>	<u>Rate</u>	<u>Fee</u>	<u>Number</u>	<u>Rate</u>	<u>Fee</u>	<u>Number</u>	<u>Rate</u>	<u>Fee</u>
Greens Fees									
Saturday/Sunday Rate		\$ 25	\$ -		\$ 25	\$ -	0	\$ 25	\$ -
Weekend Twilight Rate	180	\$ 22	\$ 3,960	180	\$ 22	\$ 3,960	360	\$ 22	\$ 7,920
Total	<u>180</u>		<u>\$ 3,960</u>	<u>180</u>		<u>\$ 3,960</u>	<u>360</u>		<u>\$ 7,920</u>
Cart Fees									
18 1/2 Hole Rate - 1 Golfer	10	\$ 15	\$ 150	13	\$ 15	\$ 195	23	\$ 15	\$ 345
18 Hole Rate - 2 Golfers	6	\$ 30	\$ 90	0	\$ 30	\$ -	6	\$ 30	\$ 90
9 1/2 Hole Rate	14	\$ 8	\$ 112	10	\$ 8	\$ 80	24	\$ 8	\$ 192
9 Hole Rate	87	\$ 16	\$ 1,392	2	\$ 16	\$ 32	89	\$ 16	\$ 1,424
Free	63	\$ -	\$ -	155	\$ -	\$ -	218	\$ -	\$ -
Total	<u>180</u>		<u>\$ 1,744</u>	<u>180</u>		<u>\$ 307</u>	<u>360</u>		<u>\$ 2,051</u>

For the 2015 tournament KGM substantially deposited with the City the golf and cart fee rentals for all golf participants except for those that played for free. The total of golf and cart fees earned by the City was \$14,920 while the total actual deposit was \$14,514 a deficiency of \$307. This is mainly due to what appears to be several free rounds that may have been allowed for course employees.

For the 2016 tournament KGM used the Weekend Twilight Rate of \$22 greens fee instead of the \$25 weekend rate used in 2015 correctly. The amount of City revenue retained by KGM is 360 rounds times the \$3 lower fee or \$1,080.

The cart fees deposited does not make any sense for either day. It is possible that some of the fees may be related to additional rounds played at the courses after the tournament was over but neither day provides for a full accounting of cart revenue. The tournament fee paid to KGM includes all cart fees so like 2015 when KGM reported cart revenue for every player for both days the same is to be applied for 2016. There were 360 rounds played and the individual cart rate of \$14 per person amounts to \$5,040. The total deposited by KGM for the two day tournament was \$2,051 and therefore at least \$2,989 of City revenue was not deposited with the City. In addition, KGM brought in an extra 25 carts for the tournament for expected cart usage that were paid for by the City.

Conclusion

KGM did not deposit, properly account for, or report or deposit all City revenues due for the 2016 tournament. Greens fees were \$1,080 lower than required because KGM reported the Weekend Twilight rate and not the 18 Hole Weekend rate. Cart fees were at least \$2,989 lower than required because KGM did not include a significant number of cart rentals. KGM retained at least \$4,061 of City revenue for the 2016 tournament. This is a significant violation of the contract provisions because it is actual revenue that is 100% quantifiable that was kept by KGM.

Fall Scrambles in 2015

Findings

KGM manages many fall scramble tournaments each year and charges \$40 per person including golf. Therefore we expect that the full rate for weekend golf plus an 18 hole cart fee to be paid for a total of \$39 person. The Internal Audit Division selected 7 tournaments between October 17, 2015 and November 29, 2015 for us to review. KGM has no records that summarize each fall scramble therefore we included the entire day of golf activity as part of our review. The following summarizes our findings.

- A total of 355 18 hole rounds of golf were played on the 7 days reviewed.
- 2 rounds were recorded in the City's cash register at the Junior Rate of \$16 for a total of \$32
- 28 rounds were recorded in the City's cash register at the 18 Hole weekend rate of \$25 for a total of \$700

- 79 rounds were recorded in the City cash register at the weekday twilight rate of \$19 for a total of \$1,501
 - All of these rounds were played on November 27, 2015 where the sunset was 4:14 pm. Twilight rounds do not start until 3:00pm. No other rounds were played on that day so it is very unlikely that this is the correct charge code.
 - If the 18 hole weekday rate of \$24 was recorded in the City's cash register another \$395 would have been deposited.
- 246 rounds were recorded in the City's cash register at the weekend twilight rate of \$22 for a total of \$5,412.
 - Again the sunset between 4:18 and 5:59 for the other six days and it is unlikely all of these rounds qualified for the twilight discounted rate.
 - If the 18 hole weekend rate of \$25 was recorded in the City's cash register another \$738 would have been deposited.
- As stated earlier KGM charged \$40 per person and the cart rental was included in the price. Of the 355 18 hole rounds played by golfers most we assume were part of the fall scramble tournaments and only the following cart rentals were recorded in the City's cash register.
 - 3 ½ 18 Hole Cart Rentals at \$14 per golfer for a total of \$42 in revenue deposited
 - 4 ½ 9 Hole Cart Rentals at \$7.50 per golfer for a total of \$30 in revenue deposited
 - 1 9 Hole Cart Rental at \$15 per golfer for a total of \$15 in revenue deposited
 - This works out to be only 5 ½ golfers out of 355 golfers playing 18 holes, that most had already paid KGM for the cart rental, actually rode in a cart according to the KGM reporting.
 - There is no valid business explanation for the number of cart rentals for these 7 days. If all of the 355 golfers actually rented carts at \$14 per person then the City would have received \$4,970 instead of the \$87 KGM reported and deposited.

Conclusion

KGM recorded 325 rounds of golf in the City's cash register using a lower twilight rate when the full 18 hole rate should have been recorded. KGM retained \$1,133 of City revenue that was due based on the \$40 fee the fall scramble golfers paid KGM. KGM only recorded \$87 of cart revenue in the City's cash register even though the \$40 fall scramble fee included cart rental. The portion of City cart revenue retained by KGM could be as high as \$4,883 due to not fully reporting the revenue obviously received as part of the \$40 fall scramble charge. This is a significant violation of the contract provisions because it is actual revenue that is quantifiable that was kept by KGM.

Remaining 6 Tournaments Selected for Review

Findings

KGM's Kevin Kennedy told us they do not maintain any detail related to the actual number of players in a particular tournament. This statement conflicts with the fact that KGM's Policies and Procedures Manual clearly required all tournaments to fill out a "Tournament Contract Form" that would have included this information. We believe that these forms were being used but they were not made available to us. Therefore we only have the daily cash receipts report and register tapes to review the activity for the entire day. Other golfers may play before or after the tournament and therefore be included in the daily totals.

We reviewed the tournaments and have made the following observations.

Mal Fallon Tournament

The Mal Fallon tournament was held on Sunday May 24, 2015 at the Franconia Golf Course. The daily cash receipt report listed 201 golfers that paid the weekend 18 hole rate of \$25 per golfer for a total of \$5,025. This amount was deposited with the City.

KGM listed only 1 cart rental using the 18 hole rate of \$28 for the entire tournament. This means that 199 golfers walked the course and carried their own bags. We looked at the past weather report for May 24th and it was sunny and 86 degrees. Our expectation would be that everyone would be taking a cart as most charity tournaments include carts as part of the fee. Therefore if everyone took a cart at the per person rate of \$14 an additional \$2,786 should have been deposited with the City. This is a significant violation of the contract provisions because it is actual revenue that is quantifiable that was kept by KGM.

Daniel Federici Tournament

The Daniel Federici tournament was held on Sunday September 13, 2015 at the Franconia Golf Course. The daily cash receipt report listed 280 golfers that paid the weekend 18 hole rate of \$25 per golfer for a total of \$7,000. This amount was deposited with the City.

KGM listed only 1 cart rental using the 18 hole rate of \$28 and 1 using the ½ 18 hole rate of \$14 for the entire tournament. This means that 277 golfers walked the course and carried their own bags. We looked at the past weather report for September 13th and it was partly sunny with a high of 70 degrees. Our expectation would be that everyone would be taking a cart since for the Federici Tournament charged \$125 per person according to a listing we found on-line which include carts as part of the fee. Therefore if everyone took a cart at the per person rate of \$14 an additional \$3,878 should have been deposited with the City. This is a significant violation of the contract provisions because it is actual revenue that is quantifiable that was kept by KGM.

We have seen evidence at times that KGM charges a discounted rate of \$25 for the use of a golf cart. Since the City cash register uses pre-programed key to enter rounds and carts, it is possible that KGM used the weekend greens fee rate of \$25 to record 140 rounds and then

used the same key to record the cart rental of \$25 to record 140 golfers riding in carts. There is no key programed for a \$25 cart fee. A normal single shotgun start of a golf tournament has about 140 golfers which may explain why there are 280 golf rounds entered into the register. Unless a tournament has a morning and afternoon shotgun start it is not possible to have 280 golfers. Since no records are maintained for the tournament we have no way to verify this was the case.

Spring Two Ball Tournament

The Spring Two Ball Tournament was held on Saturday April 25, 2015 at the Franconia Golf Course. The brochure for the tournament states that the fee is \$60 and includes all cart fees. The daily cash receipt report listed 130 golfers played that day for a total of \$2,838 in greens fees which was deposited with the City. The rounds were listed as follows:

- 64 weekend 18 hole rounds at \$25 for a total of \$1,600
- 29 weekend twilight rounds at \$22 for a total of \$638
- 36 Junior rounds at \$16 for a total of \$576
- 1 weekday 18 hole round at \$24

We assume that the 1 weekday round was an error which only amounts to \$1 in lost revenue. What we are not able to determine is how many of the greens fees relates to the tournament and how many people just played a round that day.

There was a variety of cart charges recorded in the cash register for a total of \$671.50 that was deposited with the City. The cart rentals listed were as follows:

- 6 18 hole cart rentals at \$28 for a total of \$168 – this represents 12 golfers
- 29 individual golfers were charged the one person ½ 18 hole rate of \$14 for a total of \$406
- 3 9 hole cart rentals at \$15 per cart for a total of \$45 – this represent 6 golfers that we assume were playing the twilight rounds and therefore not charged the full 18 hole rate
- 7 individual golfers were charged the one person ½ 9 hole rate of \$7.50 for a total of \$53 which we assume were playing the twilight rounds.

There were 65 golfers who played 18 hole rounds, excluding Juniors, and only 41 golfers who rented a cart for 18 holes. Since the tournament included carts we would assume that more carts should have been rented than 41. However we have not been provided sufficient information from KGM records to make any determination.

SECC Tournament

The SECC Tournament was held on Saturday June 6, 2015 at the Franconia Golf Course. The internal audit division confirmed with SECC that there are approximately 100 golfers. The daily cash receipt report listed 102 golfers played that day at the weekend rate of \$25 for a total of \$2,550 in greens fees which was deposited with the City.

If all 102 golfers rented a cart for the individual rate of \$14 the cart rental revenue would be \$1,428. The actual cart rental fees deposited with the City was \$1,421.50 a variance of \$7.50 which represents 1 ½ nine hole rate.

KGM properly reported all activity and deposited the correct amount for the day.

Kyle Bruno Tournament

The Kyle Bruno tournament was held on Saturday September 12, 2015 at the Franconia Golf Course. The daily cash receipt report listed 210 golfers that paid the weekend 18 hole rate of \$25 per golfer for a total of \$5,025; 1 the twilight weekday rate of \$19; 2 the Junior rate of \$16 for a total of \$32. The \$5,301 was deposited with the City.

KGM listed only 50 cart rentals using the individual ½ 18 hole rate of \$14, totaling \$700, for the entire tournament. This means that 163 golfers walked the course and carried their own bags. We looked at the past weather report for September 12th and it was sunny with a high of 79 degrees. Our expectation would be that everyone would be taking a cart as most charity tournaments include carts as part of the fee. Therefore if everyone took a cart at the per person rate of \$14 an additional \$2,282 should have been deposited with the City. This is a significant violation of the contract provisions because it is actual revenue that is quantifiable that was kept by KGM.

Memorial Day Tournament

The Memorial Day tournament was held on Monday May 30, 2016 at the Franconia Golf Course. The daily cash receipt report listed 22 golfers that paid the holiday 18 hole rate of \$25 per golfer for a total of \$550; 83 the twilight weekend rate of \$22 for a total of \$1,826; 1 the Junior rate of \$16. The \$2,392 was deposited with the City.

The brochure for the tournament listed the tee times occur between 6:00am to 9:00am and the \$85 fee includes carts. It does not make sense to us that the majority of the rates charged were the weekend twilight rate which is reserved for golfers that start later than 3:00pm. We have documented many times in this report that KGM had entered in a twilight rate instead of a weekend rate.

KGM listed the following for cart rentals:

- 3 18 hole cart rate at \$28 for a total of \$84 – this represents 6 golfers
- 1 individual ½ 18 hole cart rate for \$14 – this represents 1 golfer
- 6 9 hole cart rate at \$15 for a total of \$90 – this represents 12 golfers playing only 9 holes
- 62 individual ½ 9 hole rate of \$7.50 for a total of \$465 – this represents 62 golfers playing only 9 holes

The breakdown of the how the greens fees and carts were entered into the City cash register makes no sense to us. This is a tournament that is run every year and therefore KGM would

know the approximate number of players and the need to reserve 3 hours of morning tee times for the tournament. We looked at Memorial Day 2015 and noted that the exact opposite happened last year. There were 87 rounds charged to the 18 hole rate and 18 rounds charged to the twilight rates. There were 63 ½ 18 cart rentals, 2 18 hole rentals, 4 ½ 9 hole rentals and 3 9 hole rentals.

This is a morning 18 hole tournament where the brochure states the \$85 fee includes carts for the 18 holes. However KGM only entered into the cash register 7 golfers that took a cart that day. That would mean there were only 7 golfers in the tournament and only 2 tees times were needed even though KGM blocked off three hours of tee times. Franconia's tee time sheet used at the Pro Shop has 25 tee times available between 6:00am and 9:00am and that translates into a maximum of 100 golfers. It is logical to assume that close to 100 golfers participate in this tournament annually.

It is a logical assumption that most of the 83 golfers recorded in the City register at the \$22 twilight rate should have been entered at the \$25 18 hole rate. It is also a logical assumption that golfers playing 18 holes should be entered into the system as using the cart for 18 holes and not the 9 hole rates KGM entered. We estimate these errors in recording City revenue cost the City between \$1,000 and \$2,000 and those funds were retained by KGM since they collected the tournament fees. KGM was not in compliance with the contract provisions by not accurately reporting and depositing with the City their revenue.

Conclusion

We have found in the few tournaments we reviewed a consistent pattern of underreporting power cart rental revenue and using a greens fee rate lower than required. Therefore the City is not receiving revenue it is entitled to and because KGM has collected revenue from the participants they are retaining City revenue. This is a serious violation of the contract provisions.

We were specifically asked by the City's Office of Internal Audit to verify that revenues earned during the weeks of May 22, 2015 and August 8, 2016 were accurately and completely reported and deposited with the City. These weeks were randomly selected for testing.

Finding

We were asked to determine if revenues earned during the two weeks selected by the City's Internal Audit Division, were accurately and completely reported and deposited with the City. The weeks selected include the days of May 17, 2015 to May 23, 2015 and August 7, 2016 to August 13, 2016.

The Department of Parks, Recreation, and Building Management maintains an excel spreadsheet that tracks golf revenues on a daily basis throughout the golf season. The spreadsheets, maintained separately for each golf course, list the date, the amount of cash and credit card revenue received, the number of golf rounds by category of golfer, and the cart revenue broken down by category. The source of the information recorded on the spreadsheets is the Daily Cash Receipt (DCR) reports that are completed daily at each course by the Golf Pros. The DCR reports are manually prepared each day and they are reconciled to the daily cash register tapes referred to as the "Z Tapes". The DCR's, the daily Z Tapes, color coded golf tickets for greens fees, and the bank and credit card deposit slips are turned over to the Parks Department several times each week all season.

The DCR's are the source documents used to post revenue to the City's Munis financial reporting system.

We obtained all of the documentation discussed above for the two weeks selected from the Department of Parks, Recreation, and Building Management. Note that the documentation for the week of May 17, 2015 to May 23, 2015 was included with the documents seized by the Internal Revenue Service and our examination of this detail took place at the IRS office in Springfield, Massachusetts.

The following comments summarize the results of our testing:

- For the week of August 7, 2016 to August 13, 2016, the Z Tapes printed from the cash register at the Veterans Golf Course were virtually blank. The printer was apparently not working properly during this timeframe and all that could be read was faint printing on the far left hand side of the tape. We were unable to verify the revenue recorded on the DCR's for this week against the Z Tapes.
- The Z Tape for the day of May 22, 2015 at the Franconia Golf Course could not be located. The manually prepared DCR for this day had unexplained changes made to the dollar amounts and to the number of golfers and the number of carts. The daily total of \$5,248 was changed to \$5,003. There was no explanation of why this was changed by \$245.
- During our examination of the Z Tapes we noted that the posting times on the tapes didn't always correspond with normal business hours. Many of the tapes contained

postings that began just after midnight and continued through the early morning hours, well before the opening of the golf courses. At other times we noticed gaps of time between postings; for example one day the first posting was at 6:25am and the next post wasn't until 10:02am. We noted these gaps of time for several of the days tested.

- The activity posted on the Z Tapes doesn't always contain detail. We noted times where batches of rounds were posted as one transaction; i.e. 100 at \$25 and 50 at \$28.24 for totals of \$2,500 and \$1,412, respectively. The DCR's don't identify why these transactions were posted in batches. It does appear that the 100 and the 50 were for golfers and carts, respectively. We also noted other times where batches of transactions were posted as a single line item, with no indication of what the transaction consisted of, i.e. golfers or carts but not both.
- We noted some of the Z Tapes contained just totals with no detail. It appears that totals only were posted to the Z Tapes to match the DCR reports.
- We compared the prices charged as recorded on the DCR reports with the published prices as determined by the Park Commissioners and we found them to be in agreement. We noted that the cart prices are halved where the published prices make no mention of this. For example one rider is charged half of the published cart price.
- We noted various times on the Z Tapes where transactions on the tapes would be voided and re-entered at different amounts, or not re-entered at all. The voiding and re-entering of transactions occurred quite frequently on the Z Tapes we examined.
- For the two weeks that we tested we calculated the ratio of carts taken to the number of golf rounds and the results are shown in the table below. Note that the weekly averages increased approximately 94% at Franconia and 42% at Veterans from 2015 to 2016. These results are consistent with a fuel usage analysis that the City's Director of Internal Audit performed at the Franconia Golf Course. Actual revenue from carts was well below expectations when compared to actual fuel usage for the four years prior to 2016. This analysis was only done for the Franconia course because historical fuel usage is not available at the Veterans course prior to 2016.

Four of the seven days tested at Franconia Golf Course in May of 2015 had ratios of golf cart rentals to golfers that were much lower than expectations. Three days were below 20% and on Friday the 22nd of May the ratio was only 7%. Normal expectations would be in the 60% to 70% range.

Ratios of Golf Cart Rentals to Total Golfers Playing

Week of May 17, 2015 to May 23, 2015

	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Average
Franconia	16%	67%	19%	19%	52%	7%	49%	33%
Veterans	47%	59%	54%	45%	37%	46%	49%	48%

Week of August 7, 2016 to August 13, 2016

	Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	
Franconia	47%	72%	77%	70%	56%	58%	69%	64%
Veterans	75%	82%	70%	52%	70%	57%	70%	68%

Overall conclusion

For the two weeks tested we were able to verify that the revenues reported on the Daily Cash Reports (DCR) were accurately and completely reported and deposited with the City. We were not able to match the revenues reported on the DCR's to the Z tapes for the day of May 22, 2015 at the Franconia Golf Course or for the entire week of August 7, 2016 to August 23, 2016 at Veterans Golf Course. Although the Z Tapes tested did agree to the amounts reported on the DCR reports we noted unusual transactions on the tapes, postings of batches, and unusual posting times. We do want to highlight the very low golf cart rental ratios at the Franconia Golf Course during the week of May 2015 that we tested. These lower than expected ratios are consistent with other findings mentioned in this report where it appears that cart rentals have not been accurately reported to the City.

Eligibility of Expense Reimbursements made by the City of Springfield to Kennedy Golf Management, Inc.

Section VII. Compensation, Budget, and Expenses

The following information is contained in both the 2015 and 2016 Contracts relating to compensation of Kennedy Golf Management, Inc.

“The amounts set forth in this section are the maximum amount the City will be liable to pay for services of the Golf Pro and for reimbursement for Golf Pro staff expenditures for the time period of March 1, 2015 up to and including December 31, 2015”. The same language appears in the 2016 Contract.

Golf Pro Budget

“For all of the services contemplated by this Agreement, it is expressly agreed and understood that the liability of the City shall not exceed the following maximum amounts”:

<u>2015 KGM Budget per Contract</u>	<u>"Budget"</u>	<u>Payment Schedule per Contract</u>	
Golf Pro Compensation	\$ 67,000.00	March 1st	\$ 57,741.98
Assistant Pro Compensation	25,715.00	May 1st	57,741.98
Starters and Rangers Salary	113,600.00	July 1st	57,741.98
Futa	1,512.00	September 1st	57,741.98
SUI	3,582.48	November 1st	10,000.00
Er FICA	12,822.53		\$ <u>240,967.92</u>
ER Medicare	2,998.82		
Payroll Service	1,988.00		
Workers Comp	4,357.89		
Accounting Service	7,391.20		
	\$ <u>240,967.92</u>		

<u>2016 KGM Budget per Contract</u>	<u>"Budget"</u>	<u>Payment Schedule per Contract</u>	
Golf Pro Compensation	\$ 67,000.00	March 1st	\$ 64,996.78
Assistant Pro Compensation	25,715.00	May 1st	64,996.78
Starters and Rangers Salary	139,600.00	July 1st	64,996.78
Futa	1,668.00	September 1st	64,996.78
SUI	5,056.68	November 1st	10,000.00
Er FICA	14,434.53		\$ <u>269,987.12</u>
ER Medicare	3,375.82		
Payroll Service	1,988.00		
Workers Comp	4,357.89		
Accounting Service	6,791.20		
	\$ <u>269,987.12</u>		

Payments

“Subject to any refunds due to the City, the City shall pay the compensation due to the Golf Pro and the reimbursement of staff expenditures as follows”, see the payment schedules in the tables above.

“The Golf Pro shall not make any advance payments to staff and shall be entitled to seek reimbursement only for actual payments made for services already rendered in accordance with the hourly rates and maximum hours of work per week which have been approved by the Executive Director of the DPBRM”.

“On the following dates, the Golf Pro shall provide to the Executive Director of DPBRM an itemized report of all compensation and staff expenditures made by the Golf Pro”:

- May 15 covering the period of March 1 to April 30th
- July 15 covering the period of May 1 to June 30th
- September 15 covering the period of July 1 to August 31st
- November 15 covering the period of September 1 to October 31st
- December 31 covering the period of November 1 to December 31st

“If the compensation and staff expenditures actually paid by the Golf Pro are less than the amounts received by the Golf Pro as provided in the Agreement, then the Golf Pro shall refund the excess amount to the City. At the sole option of the City, any refund due to the City shall be paid by the Golf Pro in accordance with the Agreement or by a deduction of the amount of the refund from the next due payment under the Agreement. In no event shall the City be liable to reimburse the Golf Pro for any amount or any charges in excess of the amounts provided in the annual budget”.

2015 Contract Year

For the 2015 Contract year the City of Springfield paid Kennedy Golf Management, Inc. the full \$240,967.92 on the scheduled payment dates.

KGM did not provide the itemized reports mentioned above during the 2015 Contract year.

In August of 2016 KGM did provide a one page summary of expenses related to the Contract that totaled \$230,944.80. Without performing any analysis of these amounts to determine eligibility of these expenses against the Contract this indicates that KGM was over paid for the 2015 Contract by \$9,973.12 and this amount should have been refunded to the City by KGM.

This assumes that the expenses listed on the summary were all eligible for reimbursement under the Contract. We have been unable to verify that these costs were eligible for reimbursement because the required itemized reports were not provided. We are not aware that KGM made any attempt to reconcile the annual payments made by the City to the actual eligible costs agreed upon in the Contract.

The City's Director of Internal Audit did obtain some payroll information for KGM for the 2015 Contract year and this information was analyzed against the budgeted line items in the Contract.

The analysis performed by the City's Director of Internal Audit estimates that the total reimbursable expenses for 2015 are in the amount of \$180,055.55. This indicates that KGM was overpaid by \$60,912. The Internal Auditor's analysis appropriately disallowed approximately \$49,000 of payroll and related payroll taxes that exceeded the budgeted amounts in the Contract and it disallowed approximately \$12,000 of worker's compensation insurance and accounting fees that were not supported as actually having been paid from the information provided by KGM.

2016 Contract Year

For the 2016 Contract year the City has paid KGM the first two scheduled payments totaling \$129,993.56, plus another \$14,809.60 for the minimum wage differential that was agreed to in the 2016 Contract.

Again, KGM has not provided itemized reports supporting their expenses for the 2016 Contract year.

Again for 2016 the City's Director of Internal Audit was provided with limited payroll information which was analyzed against the budgeted line items in the Contract in a similar fashion that was done for 2015. This analysis estimates that the reimbursable expenses through June 30, 2016 amounted to \$93,030.30. This would indicate that the City's first two installments exceeded the reimbursable expenses by \$36,963.

Conclusion

Based on the lack of timely and itemized reporting that KGM is required to provide, we can only conclude that the Expense Reimbursements paid by the City to Kennedy Golf Management, Inc. were not made in accordance with the Contracts for 2015 and 2016. The payments made were the scheduled advance payments and we are not aware that KGM provided any detail to the City that would allow these payments to be compared to actual expenses of KGM that were contained in any certified financial statement of that organization.