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# CITY OF CORAL GABLES, FLORIDA

## Internal Audit of Management Agreement for Granada Golf Course

August 2020

Distribution:  
Mayor and City Commissioners

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# EXECUTIVE SUMMARY

## Overview

Crowe LLP (“Crowe” or “we”) performed internal audit procedures related to the City of Coral Gables’ Management Agreement (the “Management Agreement”) with The Biltmore Hotel Golf Management LLC (the “Manager”). Specifically, the internal audit procedures pertained to the requirements for the Granada Public Golf Course. The overall objective was to review revenue collection policies and procedures to determine if the Manager is calculating and remitting the correct revenue in accordance with their contract with the City. Crowe reviewed policies and procedures, conducted interviews of personnel, and sample tested payments made to the City.

## Summary of Results

The following is a summary of our observations as a result of our procedures. We listed the opportunity for improvement and corresponding risk rating. Supplemental information can be found on page 5 of this report.

Process	Observation #	Opportunity for Improvement	Risk Rating**
Review of Revenue Reports	1	The City should review revenue reports received from the Manager.	High
Posting of Membership Rates on City Website	2	All golf membership rates should be posted on the City's website.	Low
Record Retention	3	The City should retain a copy of the Management Agreement, including all exhibits.	High
Revenue Paid to City	4	The Management agreement should detail all revenues to be paid to the City.	Moderate
Monitoring Third-Party Service Agreement	5	The City should develop a policy with regard to monitoring third-party contracts.	High

\*\*For explanation of *Risk Rating* determination, refer to page 3.

# INTRODUCTION

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## ***Background***

The City entered into an agreement with The Biltmore Hotel Golf Management LLC (the “Manager”) on January 20, 2004 and amended on December 19, 2011. Through the agreement, the Manager is to provide management and maintenance of the Granada Public Golf Course. In addition, the Manager is to maintain complete and accurate financial records and is required to provide the City with certain reports related to monthly activity and revenues. The Manager is to pay the City on a monthly basis as defined in the Management Agreement.

## ***Objective and Scope***

The objective of the procedures performed was to determine if the Manager was properly upholding its responsibilities under the agreement and to evaluate if the City is properly monitoring the Manager for compliance with the agreement. The detailed procedures performed can be found starting on page 4 of the report.

The specific procedures performed were based on the concepts of selective testing and sampling. Although our testing was performed in some areas without exception, we can provide no assurance that exceptions would have been detected had procedures been changed or expanded.

It should also be recognized that internal controls are designed to provide reasonable, but not absolute, assurance that errors and irregularities will not occur, and that procedures are performed in accordance with management’s intentions. There are inherent limitations that should be recognized considering the potential effectiveness of any system of internal controls. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes on judgment, carelessness and other factors. Internal control procedures can be circumvented intentionally by management with respect to the execution and recording of transactions, or with respect to the estimates and judgments requirement in processing of data. Controls may become ineffective due to newly identified business or technology exposures. Further, the projection of any evaluation of internal control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, and that the degree of compliance with procedures may deteriorate.

## ***Granada Public Golf Course:***

The scope of procedures performed over the Manager involved Crowe performing interviews with key personnel and gaining an understanding of the revenue collection process at the golf course as well as understanding how the Manager upholds its responsibilities under the Management Agreement.

## ***City of Coral Gables Contract Monitoring***

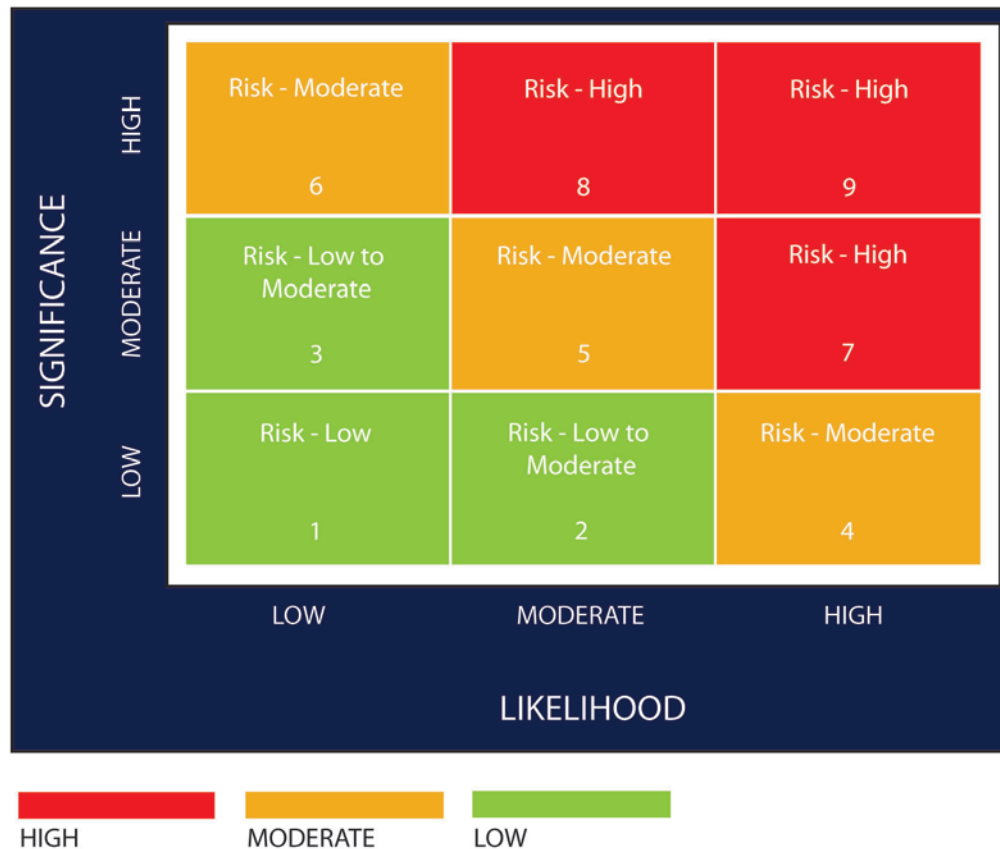
The scope of the procedures performed over the City was to determine if the City has controls and policies and procedures in place to effectively monitor the Management Agreement with the Manager.

# Introduction

## ***Risk Management***

Risks are evaluated based on its “significance” to management’s strategy and its “likelihood” to occur. This will result in a risk profile of the highest risks to the organization as presented below:

**Risk Model**



## PROCEDURES PERFORMED

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Procedure Performed	Result
1) Gain an understanding of the responsibilities of the Manager and City as outlined in the Management Agreement to ensure that the agreement is being adhered to.	<p>Crowe obtained a copy of the Management Agreement, including exhibits and amendments to gain an understanding of the responsibilities of each party.</p> <p><b>See Opportunity for Improvement 3</b></p>
2) Obtain information relating to revenue collection policies and procedures and perform interviews as necessary to gain an understanding of the Granada Golf Course revenue cycle.	<p>Crowe performed interviews with the Manager to obtain information regarding the revenue collection process.</p>
3) Perform interviews and obtain necessary policies and procedures with the City to gain an understanding of the City's role in monitoring compliance with the Management Agreement.	<p>Crowe performed interviews with the City to obtain information regarding the City's role in monitoring compliance with the Management Agreement.</p> <p><b>See Opportunity for Improvement 1, 2, 4 and 5</b></p>
4) We selected eight (8) monthly revenue reports and compared the fee received by the City to the Manager provided details to determine if the Manager is paying the City the proper fees, as outlined in the Management Agreement.	<p><b>See Opportunity for Improvement 4</b></p>
5) Crowe obtained a Sales Out By Item report from the Manager and recalculated the revenues received included in the report for accuracy. Crowe compared the rates charged on the report to the rates charged on the rate fee schedule and then recalculated for clerical accuracy.	<p>Crowe recalculated the fees without material exception.</p>

# OBSERVATIONS AND RECOMMENDATIONS

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## 1. OPPORTUNITY FOR IMPROVEMENT – Review of Revenue Reports: **HIGH RISK**

During our interview with the City, we noted that the City did not have a formal procedure in place to detail review the revenue reports that are received from the Manager on a monthly basis. The revenue reports are described in the Management Agreement, exhibit A Section 5.2. “The gross revenue report shall contain monthly revenue generated from the sale of hard and soft merchandise, driving range operations, waterway ball retrieval, club repair, custom made golf clubs, club storage, golf lessons and clinics, teaching school and rental of lockers, clubs, and hand carts”.

**Recommendation:** We recommend that the revenue reports from the Manager be detail reviewed for accuracy by a designated individual in the Parks and Recreation Department on a monthly basis. The review should be detailed enough to ensure that the revenue detail agrees to the revenue reported and paid to the City and a recalculation of the amount remitted is completed. After the Parks and Recreation Department reviews and approves the report, the approved report should be forwarded to the Finance Department to post the revenue receipt.

### **Management Response / Action Plan:**

The initial request to conduct this audit came from the Community Recreation Department {Department}, as staff felt that the Biltmore Hotel’s current golf activity software and the manually created monthly revenue collection Excel spreadsheets provided by the Manager are not adequate for an appropriate review by Department staff. In response to the audit findings, the Department developed a policy that outlines Manager and Department procedures for daily and monthly reconciliation procedures and cash handling, residency verification, etc. The Department recommends that the Manager implement and comply with this policy.

Even with these recommendations for improvement, the department still does not feel that the existing contracted structure enables staff to ensure compliance or reduction of risk. Currently each Community Recreation division supervisor directly supervises division staff and reconciles their respective daily revenues. With this management structure, supervisors are able to ensure/enforce City compliance at all times. Since this is not the case with the current third-party management contract, Department staff is having a hard time determining the validity of Manager reports, payments and registrations.

Therefore, the Department recommends that in place of the Excel spreadsheets, the Manager provide daily and monthly itemized revenue reports from an acceptable golf management software. The Department currently uses a hosted global recreation software (RecTrac). The City is willing to implement either RecTrac or a similar software at the Granada Golf Course at the City’s expense.

In summary, the Department recommends that the operations of the Granada Golf Course follow the same structure as all other Department facilities and be managed by City staff with the general structure of a Division Supervisor and part time staff to run the day to day operations of the pro shop. Not only will this allow for continuity of operations but also an increased level in customer service as is expected from our residents at all Community Recreation facilities. The Department will provide a separate decision package that will outline the cost of providing City staff in comparison to paying the Biltmore for their contract staff.

## OBSERVATIONS AND RECOMMENDATIONS

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### 2. **OPPORTUNITY FOR IMPROVEMENT – Posting of Membership Rates on City Website:** **LOW RISK**

The City has the responsibility to approve greens and cart fees. The City also posts the greens fees and other fees related to the Granada Golf Course on its Parks and Recreation website. During testing, Crowe noted that the fees for quarterly memberships were not listed on the site.

**Recommendation:** In order to maintain transparency regarding the fees charged at the golf course, the Parks and Recreation Department should ensure that all of the fees charged by the course are posted on the City website and are updated in a timely manner. This will help customers know the rates that should be charged by the golf course.

#### **Management Response / Action Plan from the Community Recreation Department:**

As part of the draft policy attached, the Community Recreation Department recommends that the Manager complies with the City/Department five-year fee plan for all fees of services and goods. As the cost of goods fluctuate frequently, the Manager can introduce a percent markup on the cost of those goods within the fee plan. Any new fees outside the plan will require the approval of the Department Director and an addendum to the five-year fee plan. The Department will maintain those approved fees on the City website and verify the correct rates during the monthly reconciles in addition to an annual internal audit on the compliance of all approved fees.

### 3. **OPPORTUNITY FOR IMPROVEMENT – Record Retention:** **HIGH RISK**

The City has the responsibility to properly retain all records related to the Management Agreement. During our testing, it was noted that the City was unable to provide a copy of all of the exhibits that accompanied the Management Agreement.

**Recommendation:** In order to properly monitor the Management Agreement, the City Clerk and the Parks and Recreation Department should have a complete copy of the Management Agreement that includes all related exhibits.

#### **Management Response / Action Plan from the Office of the City Clerk:**

In an effort to increase compliance and standardize our business processes the City of Coral Gables has adopted the use of DocuSign Agreement Lifecycle. This software allows for all contracts to be routed throughout the City electronically, this will ensure that every interested party in the City signs off on the document ensuring completeness and accuracy. Additionally, at the conclusion of the contract routing process, the fully executed document is saved in Laserfiche, the City's document retention software. This will ensure a fully electronic seamless process through the entire document lifecycle.



## OBSERVATIONS AND RECOMMENDATIONS

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### 4. OPPORTUNITY FOR IMPROVEMENT – Revenue Paid to City: MODERATE RISK

Per the Management Agreement, the Manager is to pay the City 5% of revenues relating to the Granada Pro Shop. However, the Management Agreement does not specify the detail for payment associated with other revenues (such as concessions or driving range revenues) generated by the Granada Golf Course that are due to the City.

**Recommendation:** We recommend that the City review the Management Agreement to address all of the revenue streams that the Manager is to pay to the City. The City should consider amending the Management Agreement to provide for documentation for all applicable fees to be paid to the City specific to the Granada Golf Course.

#### **Management Response/Action Plan from The City Manager and City Attorney:**

The recommendation of the internal auditors to renegotiate the Management Agreement has been discussed with the City Manager and the City Attorney. Both have reviewed the pertinent provision and opined that the provision is clear that 100% of green fees and 5% of Granada Pro Shop revenues are to be paid to the City on a month-by-month basis. In addition, given that the Biltmore has been paying the 100% of the green fees and the 5% of Pro Shop revenue to the City, it is evident that they also clearly understand the provision. Based on that, the decision has been made to not renegotiate the Management Agreement at this time.

### 5. OPPORTUNITY FOR IMPROVEMENT – Monitoring Third-Party Service Agreement: HIGH RISK

During our interviews with the City's Finance Department and Parks and Recreation Department, we noted that there is not a written policy or procedure that provides clear guidance on the department(s) that is(are) responsible for monitoring the different aspects of the third-party service agreement with the Manager.

**Recommendations:** We recommend that the City develop a policy and procedures for all third-party service agreements to provide clear responsibility for both the operational and financial monitoring aspects of all third-party service agreements that are entered into by the City.

#### **Management Response / Action Plan from The Community Recreation Department:**

The Community Recreation Department has developed a draft policy that will identify the responsibilities between both parties.