

|AGENDA Monday, December 8, 2008  
|Informational Sioux Falls City Council  
|  
| 4:00 p.m. at Carnegie  
|  
|Town Hall  
|  
| 235 West 10th Street

1. Call To Order
2. City Council Staff Report
  - A. Updates from Debra A. Owen, City Clerk
3. Mayor Munson
4. Audit Committee
5. Fiscal Committee
6. Land Use Committee
7. Public Services Committee
8. City Council Open Discussion
9. Presentations
  - A. Airport Overlay Ordinance by Jeff Schmitt, Assistant Director of Planning & Building Services
  - B. Golf Courses Management Agreement Audit Report by Rich Oksol, Lead Internal Auditor

Golf Courses Management Audit Report

10. Executive Session

A. Contract Negotiations

B. Personnel Item

11. Adjournment

Date: 2008-12-08  
SIRE Meeting ID: 954  
Meeting Type: Informational Meeting

YouTube:<https://youtu.be/FlxyVVRrYYc>  
Agenda Item: Not Assigned  
Item ID: 40621

The following document(s) are public records obtained from the  
City of Sioux Falls.

# **GOLF COURSES MANAGEMENT AUDIT**

## **INTERNAL AUDIT REPORT 08-11**

### **INTRODUCTION**

The City Council authorized this audit as part of the 2008 Annual Audit Program. This is the first internal audit of the management agreement between Dakota Golf Management, Inc. and the City of Sioux Falls.

### **BACKGROUND**

The City of Sioux Falls owns three public golf courses. Dakota Golf Management, Inc. operates the golf courses under a management agreement with the City. The City receives a portion of the gross revenue generated by the courses. Changes in course fees and other charges are proposed by the management company and approved by the Parks and Recreation Board of the City. The original contract term began January 1, 1998. The current management agreement began in 2008 and continues through 2011. The three courses include Elmwood, a 27-hole course that is a “user-friendly, traditional parkland style golf course.” The Kuehn Park course is an executive course and “well suited to juniors, beginners or any player looking for a quick nine holes”. The Prairie Green golf course is an 18-hole course which “offers modern design, increased length and more challenge for better golfers”.<sup>\*</sup> In 2007, there were over 103,000 rounds of golf played at the three courses.

### **OBJECTIVES**

The objectives of this audit were to determine if:

1. Management is using best efforts to operate the golf courses in an efficient manner and maintain a first class facility.
2. The City is receiving all revenue due according to the agreements.
3. Capital improvements are being financed from the 10 percent retention described in section eight of the agreements.
4. Proper insurance coverage is maintained.
5. Required reports are being submitted by management on a timely basis.
6. The City is performing its responsibilities according to the agreements with Dakota Golf.

### **SCOPE AND METHODOLOGY**

For most audit objectives the audit scope was the 2007 and 2008 golf season. A new four year agreement was entered into for 2008-2011. We audited both the 2004-2007 agreement and the current agreement. There were no major changes in terms between the current agreement and 2004-2007 agreement. We reviewed the two agreements and summarized the major points. We interviewed management including Dakota Golf’s

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<sup>\*</sup> All quotations are from the United State Golf Association Turf Advisory Service Report, July 29, 2004 p.

President and the City's contract manager. We reviewed financial records including Dakota Golf's financial statements and the City's general ledger accounts related to golf revenue. Dakota Golf's financial statements were audited by a Certified Public Accountant firm; we reviewed their audit reports. We reviewed the United States Golf Association Turf Advisory Service reports from 2004 and 2006. We inspected insurance documents to determine compliance with management agreement provisions. We compared the financial performance of Dakota Golf Management, Inc. to other municipal course in the United States. We reviewed the results of a survey of golfers about the conditions at the seven public golf courses in the Sioux Falls area. We conducted walk throughs of the three courses to get an impression of the overall condition of the courses and buildings. We did research on the golf industry and on the various models of operation for municipal golf courses in the United States.

## **RESULTS**

### **AUDIT OBJECTIVE ONE**

We determined that Dakota Golf is using best efforts to operate the golf courses in an efficient manner and maintain a first class facility. In order to come to a conclusion on this audit objective, we gathered a variety of evidence.

In order to form an opinion on efficient operation, we calculated the operating margin of the golf courses based upon information in the audited financial statements of Dakota Golf Management. Operating margin, a key indicator of management efficiency, is the percentage of revenue left after operating expenses are subtracted. We were able to make comparisons of Dakota Golf's performance to other municipal golf courses based on survey information in a 2001 publication published by the National Golf Foundation.\* Here is a summary of operating margin performance:

United States municipal courses average:	22% (2001)
Regional average for municipal courses:	23% (2001)
Dakota Golf (all 3 courses):	18% (2001)
	25% (2002)

Dakota Golf's efficiency was very comparable to courses in the region and the United States as a whole.

The last three years (2005-2007), the operating margin of Dakota Golf averaged 21%.

In a recent survey of local golfers, two of the three courses managed by Dakota Golf were rated highly. Willow Run golf course management commissioned a survey in 2007 of golfers about the eight public courses in the Sioux Falls area. Here is a summary of one of the questions:

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\* Operating & Financial Performance Profiles of 18-hole Golf Facilities, Municipal Edition, 2001

Question: Pick and rate the courses you have played in 2007

<u>Course</u>	<u>Excellent or Very Good</u>	<u>Did Not Play</u>
<b>Prairie Green</b>	68%	14%
<b>Elmwood</b>	64%	10%
Willow Run	53%	30%
Brandon	36%	38%
Spring Creek	35%	36%
Bakker Crossing	31%	33%
<b>Kuehn Park</b>	9%	51%
Northern Links	7%	66%

NOTE: 893 golfers answered this question

Kuehn Park golf course may have been rated lower than most of the other courses because it is considered a course for beginners or junior players. (See **background** section on page one of this report).

In 2004 and 2006 Dakota Golf Management arranged for a turf inspection by the United States Golf Association (USGA) Green Section. We reviewed both reports and noticed that there had been an improvement in conditions from 2004 to 2006. Both reports had recommendations related to such things as weed control and aeration procedures. The introduction to the 2006 report said “the golf courses all were found to be offering excellent playing conditions at the time of the visit.”

On the basis of walk-throughs in September of this year, all three courses appeared to be in very good condition. We noted that the clubhouse at Prairie Green appears inadequate in size. The clubhouse at Kuehn Park was small, old, and in poor condition. Management plans to replace both clubhouses in 2012 according to the City of Sioux Falls Capital Program. See page four of this report for more information on the clubhouses.

We noted that the management company maintains close ties to the patrons of the golf courses by means of a Golf Advisory Board. The Golf Advisory Board (GAB) was formed in 2000. The GAB consists of 13 members and meets several times a year to discuss such things as rate increases, maintenance programs, and capital projects.

**AUDIT OBJECTIVE TWO**

We determined that the City of Sioux Falls is receiving all revenue due according to the agreements. Section eight of Agreement 04-0078 between Dakota Golf and the City states that 10% of the gross revenue will be paid to the City. The City received the following revenue:

<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
\$ 232,529	\$ 238,103	\$ 259,983	\$ 261,376

**AUDIT OBJECTIVE THREE**

Section eight of the agreement states that an additional 10% of the gross revenue will be set aside in a management account reserved for repairs and maintenance and capital improvements at the golf courses. Section ten of the agreement states that with the exception of capital expenses related to the City’s Americans with Disabilities Act (ADA) transition plan, all capital improvements shall be financed from the 10% retention set aside in the management account. We determined that the 10% is being set aside in a bank account called the “Dakota Golf Improvement Fund” and is being used for such purposes as seeding, bunker reconstruction, paving of cart paths, et cetera, as required by the management agreement.

**AUDIT FINDING ONE**

Capital improvements, specifically improvements at Prairie Green, are being funded through the second penny sales tax. The Prairie Green project is included in the 2009-2013 Capital Program of the City of Sioux Falls. Preliminary engineering work for the project will begin in 2011 and the project is scheduled for completion in 2012. The bulk of the improvements involve construction of a new and larger clubhouse. The Kuehn Park course is also scheduled for a clubhouse replacement in 2012. However, because this project is part of the City’s 2002 ADA transition plan, the City is required to fund this project according to the terms of the management agreement. See recommendation one on page six of this report.

**AUDIT OBJECTIVE FOUR**

This audit objective was to determine if proper insurance coverage is being maintained per the management agreement. Proper insurance coverage is being maintained for automobile liability, the employee fidelity bond, and the management company president fidelity bond.

**AUDIT FINDING TWO**

Dakota Golf is maintaining \$1 million of coverage for aggregate products and completed operations under the commercial general liability policy. Under the terms of the management agreement, Dakota Golf is required to have \$2 million in coverage. The workers’ compensation policy had each accident at \$100,000 coverage and the disease for each employee coverage at \$100,000. Dakota Golf is required to have \$1 million in coverage. The management company does carry an umbrella policy that would provide the necessary coverage. However, the City could potentially be at risk if several

incidents happened simultaneously and the limits of the regular and the umbrella coverage were reached. See recommendation two on page six of this report.

#### **AUDIT OBJECTIVE FIVE**

Some of the reports required by the management agreement include:

- The operating budget.
- The marketing plan.
- The monthly summary of revenues and expenses.
- The annual report.

We determined that Dakota Golf is submitting required reports on a timely basis.

#### **AUDIT OBJECTIVE SIX**

We determined that the City is performing its responsibilities according to the agreement with Dakota Golf. The City's contract manager, the Director of Parks and Recreation, is monitoring performance. The Park and Recreation Board approve the rates and fees. The City is approving capital improvements as suggested by Dakota Golf management and the contract manager.

#### **AUDIT FINDING THREE**

While reviewing the approved rates and fees approved by the Park and Recreation Board, we noted that advertised fees for two items were less than the approved fees.

Specifically, the golf car rental is advertised as \$8.40 for 9 holes at Prairie Green but was approved at \$8.50. (Management told us that \$8.50 was actually being charged). The driving range daily token price (all courses) are advertised at \$5.75 for 2 tokens but was approved at \$6.00. The effect is that the management company is losing potential revenue and the City is losing their portion of that revenue.

See recommendation three on page six of this report.

#### **OBSERVATIONS**

During the course of our audit work we became aware that Dakota Golf was awarded their current contract with no Request for Proposals (RFP) being offered to the public. It appears that no RFP process has been done since the original agreement was awarded in January 1998. Because the management of the golf courses is a professional service, bids or RFP's are not required under state law. The contract manager indicated that the performance and responsiveness of Dakota Golf Management has been excellent and that it was unlikely that any other management companies would be interested in managing the courses. It was also thought that even if a large out-of-state management company would be interested, they would not be as responsive as a local company like Dakota Golf. See recommendation four on page six of this report.

During our background research on the subject of municipal golf courses, we became aware of several different ways that local governments manage their public golf courses. Some municipalities operate their golf courses as an enterprise fund. The user fees are intended to cover all the operational expenses and capital improvements. As an



enterprise fund, the golf courses are a city department operated by city employees. The City of Sioux Falls operated their golf courses as an enterprise fund in the 1980's. A common model of operation is to use a golf management company to operate the municipal courses with the management company sharing a portion of the revenues with the local government. This is the current model for Sioux Falls. Baltimore, Maryland has an unusual model for its golf operations. A not-for-profit corporation was formed to manage the city's courses. All profits from golf operations go back into the courses and no tax money is used for operating costs or capital improvements. See recommendation five on page six of this report.

## **RECOMMENDATIONS**

1. Capital improvements should be funded from the revenue generated by the golf courses instead of the second penny sales tax. There appears to be sufficient revenue generated from the golf courses to fund operating expenses and capital improvements if the City's general fund does not receive any portion or a much smaller portion of gross profits. We recommend that the City consider not receiving revenue from the golf courses or a much smaller share of gross profit when a new management agreement is negotiated.

**This issue has been discussed at length as a result of determining how best to fund the relocation of the existing club house at Prairie Green to Kuehn Park and replace the existing club house at Prairie Green. The following are some of the factors we considered prior to recommending the use of sales tax to fund these club house improvements:**

- **This was looked at as a one time source of funding for this project**
  - **All non-enterprise City capital projects are funded out of the sales tax fund.**
  - **The Kuehn Park club house is listed as a project in the ADA transition plan. This transition plan implementation is the responsibility of the City per the management agreement. The transition plan is currently funded out of the general fund.**
  - **Part of the funding in the prairie green CIP project is for work on the storm drainage ponds**
  - **To implement the recommendation a corresponding general fund budget reduction of 10% of the gross revenue would be required.**
2. We recommend that either the management agreement be amended to allow the insurance coverage currently being used by Dakota Golf or that the management company changes their insurance coverage to the requirements specified in the agreement.
    - **The insurance coverage has been modified to match the requirements in the agreement. (Additional premium \$289/year)**

3. We recommend that management review both the advertised rates and fees and the actual rates and fees charged so that they match the Park board approved rates and fees.
  - **The two advertised fee corrections have been made.**
4. We recommend that a Request for Proposal be prepared and advertised near the end of the current agreement to determine if there are any interested management companies besides Dakota Golf Management willing to perform this service for the City.
  - **This could be taken into consideration during the next option to renew based on performance of the Dakota Golf Management. We are not aware of any contacts by other parties inquiring about or requesting to submit a proposal to manage the courses.**
5. We recommend that the City reevaluate the operational structure of the golf courses before the end of the current agreement to determine if the current model is still in the best interests of the City and the golfing public. Such a reevaluation should be made up of interested parties such as members of the Golf Advisory Board, the Director of Parks and Recreation, the Director of Finance, and a member of the City Council.