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Office of the County Auditor

Shelly A. Banks, C.P.A.

Cook County Auditor

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March 3, 2016

The Honorable Toni Preckwinkle, President
And Board of Cook County Commissioners
118 N. Clark Street, Room 537
Chicago, Illinois 60602

Dear President Preckwinkle and Board of Commissioners:

We have conducted a Contract Compliance Audit for the Golf Course Facilities Management Agreement between the Forest Preserve District of Cook County and Billy Casper Management, Inc. This audit was conducted in accordance with the [Cook County Auditor Ordinance](#).

The scope of this audit was to evaluate the effectiveness of the District's oversight of the Golf Course Facilities Management Agreement.

Please refer to the following audit report for the results of the audit. The specific audit findings were provided to District management. An overview of the (6) main findings, recommendations and management responses is provided in the [Findings](#) section. The [Executive Summary](#) provides an overview of the audit.

We express our appreciation for the cooperation of all department staff extended to Tameika McDonald during the course of our audit. We have discussed our findings with the management team and would be pleased to discuss our recommendations in greater detail in order to assist management with their implementation of our recommendations.

Respectfully Submitted,

Shelly A. Banks, CPA
Cook County Auditor

cc: Arnold Randall, Superintendent FPDCC
Stephen Hughes, Chief Financial Officer FPDCC
Timothy Hicks, Comptroller FPDCC
Karen Vaughan, Director of Permits, Rentals, and Concessions FPDCC



COOK COUNTY GOVERNMENT
OFFICE OF THE COUNTY AUDITOR

Golf Contract Compliance Audit of the Forest Preserve District of Cook County

Internal Audit Report

Report Date: March 2016

Issued By:
Shelly A. Banks, County Auditor

Audit Conducted By:
Tameika McDonald, Field Auditor IV
Nancy Campanella, Audit Supervisor

EXECUTIVE SUMMARY

The Office of the County Auditor (OCA) has completed a Contract Compliance Audit for the Golf Course Facilities Management Agreement between the Forest Preserve District of Cook County (District) and Billy Casper Golf Management, Inc. (BCG). The audit covered the period between June 2014 and June 2015. We conducted this audit in accordance with generally accepted government auditing standards, which require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit findings and recommendations.

As a result of our testing we noted the following findings:

- BCG is not in compliance with the Golf Course Facilities Management Agreement Article VI, Section 6.1(E)(5) in regards to designating seasonal security employees for each Golf Facility. [\(Finding #1\)](#)
- BCG is not achieving the MBE/WBE goals stated in the Golf Course Facilities Management Agreement. [\(Finding #2\)](#)
- BCG does not provide an inventory and inspection report as required by the Golf Course Facilities Management Agreement. [\(Finding #3\)](#)
- District management does not have a process in place to verify the Gross Revenue Percentage Fee to ensure compliance with the Agreement and that the maximum revenue is submitted to the District. [\(Finding #4\)](#)
- There was no written approval from the District for the annual five-year Capital Improvement Plan as required by the Agreement, Article VI, Section 6.6. [\(Finding #5\)](#)
- Capital Improvements amounting to or exceeding the \$450,000 limit were being performed across the District's Golf Facilities; but the District was not in compliance with the Agreement terms for the Capital Improvement Funding. [\(Finding #6\)](#)

The findings noted were presented to the District's management team. Please refer to the [Findings](#) section for more detail on the findings with the management responses, corrective action plans and estimated completion dates.

BACKGROUND

The Forest Preserve District of Cook County (District) is the owner of ten (10) golf course facilities, two (2) driving ranges connected to golf courses, and two (2) free standing driving ranges. The District entered into an Agreement with BCG on August 1, 2002, whereby the District granted BCG the exclusive right to manage, operate, and maintain the golf courses. The initial Agreement had a ten-year term through December 31, 2012, with the option to renew for an additional ten-year term. The District and BCG renewed the Agreement effective September 30, 2008 through December 31, 2022.

BCG is a privately held firm, headquartered in Tysons Corner, Virginia, which specializes in professional management, consulting, and marketing services in the golf industry. Established in 1989 the firm was founded by Peter Hill and Robert Morris in cooperation with golf legend Billy Casper, two-time U.S. Opener Winner and Masters Champion. Under BCG's management services, all 10 golf courses owned by the District have obtained the Audubon Cooperative Sanctuary Certification which is awarded to golf courses that meet required standards for protecting the environment, conserving natural resources, and providing wildlife habitats.

Under the Agreement, BCG must pay the District on an annual basis the following fees: 1) Guaranteed base fee of \$450,000 2) 20% fee on gross alcohol sales 3) Gross revenue percentage fee based on the annual change in the Consumer Price Index. In addition, the Agreement requires BCG to contribute \$450,000 annually for Capital Improvement funding. Table 1 shows the annual payments that were made to the District for the last three (3) years.

Table 1				
Forest Preserve District of Cook County				
3-Year Annual Golf Revenue				
Fiscal Year	Guaranteed Base Fee	Alcohol Fee	Gross Revenue % Fee²	Total Golf Revenue
2012	\$350,000 ¹	\$124,178	\$538,882	\$1,013,060
2013	\$450,000	\$123,607	\$146,233	\$ 719,840
2014	\$450,000	\$122,829	\$ 12,160	\$ 584,989

¹ The guaranteed base fee per the original contract was \$350,000. The Contract was amended on September 30, 2008 which increased the guaranteed base fee to \$450,000 effective January 1, 2013.

² The significant fluctuation in the Gross Revenue % Fee is due to increased Consumer Price Index adjustments combined with significant declines in Gross Revenue due to adverse weather conditions in 2013 and 2014.

AUDIT SCOPE AND OBJECTIVES

The scope and objectives of this audit were designed to evaluate the effectiveness of the District’s oversight of the Golf Course Facilities Management Agreement, evaluate contract compliance with applicable rules and regulations, and identify possible inefficiencies and opportunities for improvement. In connection with golf course facility operations, BCG management is responsible for establishing and maintaining a system of internal controls to ensure assets are safeguarded, financial activity is accurately reported and reliable, and BCG employees are in compliance with all of the District, federal, state, and local laws, ordinances, and regulations.

In conducting this audit, we employed a number of audit techniques to ensure that the evidence obtained provided a reasonable basis for our audit findings and recommendations based on the audit objectives. Some of the key audit procedures performed to meet the audit objectives and to provide a basis for our conclusions were the following:

- Obtained and reviewed the Golf Course Facilities Management Agreement between the District and BCG.
- Performed interviews with District and BCG management to gain an understanding of the relevant control environment.
- Verified BCG was in compliance with the Agreement concerning: insurance requirements, facility maintenance, agronomic records, marketing plans, accounting and sales reports, and capital improvement funding.

AUDIT RESULTS

In addition to the findings below, we noted one observation. During the testing of Green Fees, the OCA discovered that BCG utilizes dynamic pricing to adjust rates (higher and lower) in real time, based on demand, competition, weather, etc. with the principle that rates are not to exceed those set by the Board of Commissioners.

During our testing, the OCA identified discrepancies between Regular Rate Green Fees advertised by BCG and those approved by the Board of Commissioners.

Subsequent to notifying the District of the discrepancy, the advertised rates were adjusted. We recommend that the District continue to monitor the website to ensure the advertised rates do not exceed those rates approved by the Commissioners.

FINDINGS

Finding #1:

BCG is not in compliance with the Golf Course Facilities Management Agreement Article VI, Section 6.1(E)(5) in regards to designating seasonal security employees for each Golf Facility.

Article VI, Section 6.1(E)(5), requires that at minimum, BCG shall designate one full-time and one seasonal security employee for each Golf Facility. In the event of any criminal activity, conditions involving imminent danger to persons or District property, or personal injury, BCG shall notify the District's Police Department. Costs associated with Security shall be borne by BCG. Charges for false alarm calls shall be the responsibility of BCG.

The BCG's Regional Vice President (VP) informed us that a security contract is not in place, but BCG has established a working relationship with the District's Police Department and all incidents that cannot be handled by BCG staff are reported to the District's Police Department for further assistance.

The BCG management staff that are handling the incidents are occupying free of charge the District owned housing on or adjacent to the Golf Facilities in exchange for serving as first responders to any emergency that may occur on the property. In other cases, the District owned housing is rented to District employees for their services with FPD activities.

Recommendation

We recommend that District management enforce compliance with the Agreement through implementation of the following controls:

- Require that BCG adhere to the terms of the contract and designate the security recommended rather than encumbering the District's Police Department's resources.
- Establish a process for BCG to track the incidents by facility and report such incidents to District management on a quarterly basis.
- Establish a process for the District's Police Department to work in coordination with BCG to make a determination of the need and level of security.

We also recommend that the District, as a revenue generating source, review the arrangement with BCG for utilizing the District owned housing to determine if the District owned housing should be rented to BCG management rather than allowing them to occupy the premises rent free. The arrangement should be reviewed in comparison with the arrangement made with District employees who are required to sign a rental agreement and pay rent to occupy the District owned housing.

Management Response / Finance Administration

Since contract inception, BCG has contracted for security and fire monitoring equipment with automated alerts. These security systems create an audible and visible signal in the event of a breach, and are monitored 24 hours per day by a remote security firm at BCG's expense.

In the event of an alarm, the monitoring security firm immediately notifies the onsite BCG watchmen and the manager of each property of the breach. In turn, the BCG watchmen and manager provide the security firm with direction on whether to notify emergency services.

Overall, FPD Police has confirmed that the golf courses use their resources on an infrequent basis. BCG does not ask the FPD police to perform any routine security checks of the buildings. BCG staff does notify the FPD police in instances of criminal activity which would require law enforcement intervention regardless of the security system or security personnel BCG has in place. After reviewing this audit finding with FPD's Chief of Police, he is in agreement with the security arrangement currently in place at the golf courses.

Moving forward, BCG will maintain a log to track incidents by facility and will report incidents to the District on a quarterly basis. Also, it should be noted that the 2016 golf capital plan includes an upgrade to security cameras.

Estimated Completion Date

April 1, 2016

Finding #2:

BCG is not achieving the MBE/WBE goals stated in the Golf Course Facilities Management Agreement.

According to Article IV, Section 4.7, of the Golf Course Facilities Management Agreement, the District has adopted goals which further the objective of encouraging the establishment of and contracting with minority and female owned businesses. The District seeks to achieve goals of not less than 25% Minority Business Enterprise (MBE) participation and 5% Women Business Enterprise (WBE) participation in goods and services related to this Agreement. BCG adopts said MBE/WBE goals and shall enter into contracts with businesses certified as MBE/WBE.

BCG informed our staff that they do not solicit MBE/WBE participation. BCG stated that their main obstacle in achieving MBE/WBE compliance is that certain goods, equipment, or services exclusive to the golf industry are not available through qualified MBE/WBE firms or participation of such firms is unfeasible or excessively costly. We were also informed that a significant percentage of capital improvement projects are completed by a BCG employee eliminating the need to contract with outside vendors.

Recommendation

We recommend that District management encourage BCG to solicit MBE/WBE participation and provide to the District a plan with updates on their efforts for soliciting MBE/WBE participation. The District should provide BCG a master listing of County MBE/WBE certified vendors to assist BCG with due diligence in adhering to the MBE/WBE goals.

In addition, we recommend that the District require BCG to submit a cost/benefit plan for approval to utilize BCG employees in lieu of using a contractor for capital improvement projects.

Management Response / Finance Administration

BCG has expressed their commitment to work with the District to meet the MBE/WBE participation goals outlined in the contract. The District's Contract Compliance Officer and BCG have already met to discuss reviewing BCG's operating and capital budgets in order to identify opportunities for MBE/WBE participation. BCG has agreed to have an MBE/WBE commitment plan in place by the end of the second quarter. We will also evaluate BCG's in-house versus outside contractor cost/benefit analysis prior to work commencing.

Estimated Completion Date

July 1, 2016

Finding #3:

BCG does not provide an inventory and inspection report as required by the Golf Course Facilities Management Agreement. BCG informs the District of any newly purchased equipment via email through submission of an invoice or purchase order.

According to Article VI, Section 6.4(C), of the Golf Course Facilities Management Agreement, BCG shall keep proper records of the maintenance and repairs of the District's equipment, as well as replacement equipment. No piece of equipment will be removed from the inventory without the express written consent of the District. It is agreed by the parties hereto that an annual inventory and inspection report shall be made on or about January 1 of each year during the life of the Term.

Recommendation

We recommend that District management require BCG to submit the past due Annual Inventory and Inspection Report and ensure going forward that the Annual Inventory and Inspection Report is submitted timely. The report should identify acquisitions, location and disposals of District inventory.

In addition, we recommend that the District document approval for any changes to the Annual Inventory and Inspection Report.

Management Response / Finance Administration

BCG submitted an asset inventory to the District in January 2016. We are in the process of acquiring asset tags that can be placed on all District equipment at the golf courses. Tag numbers will be entered into the District's online facility management program to keep track of the equipment on an ongoing basis.

Estimated Completion Date

June 1, 2016

Finding #4:

District management does not have a process in place to verify the Gross Revenue Percentage Fee to ensure compliance with the Agreement and that the maximum revenue is submitted to the District. OCA verified that in 2014 all fees listed in the Agreement were properly paid by BCG; however, the Gross Revenue Percentage Fee was not verified and approved by District management.

According to Article IX, Section 9.1 of the Golf Course Facilities Management Agreement, BCG's Fee to the District for the granting of the rights set forth herein to BCG shall consist of a Base Fee plus a Percentage of Gross Revenues, as well as a fee from the sale of alcohol.

Recommendation

We recommend that District management review and sign-off on the Gross Revenue Percentage calculation to ensure the fee received is accurate. We also recommend that management document the procedures for calculating the Gross Revenue Percentage Fee to increase the transparency of the calculation for outside reviewers or District staff.

Management Response / Finance Administration

In the past, the District received BCG's percentage fee amount and verified their calculation after the funds had been sent. The District concurs with the audit recommendation and will perform the percentage calculation prior to receipt of funds. Also the District will segregate duties so that an accountant calculates the percentage fee and the manager verifies and formally signs off on the calculation.

Estimated Completion Date

March 1, 2016

Finding #5:

There was no written approval from the District for the annual five-year Capital Improvement Plan as required by the Agreement. The five-year plan was developed by BCG, but there was no documented review and approval by the District.

According to Article VI, Section 6.6, of the Golf Course Facilities Management Agreement, Capital Improvements are defined as that which has a useful life of more than two years and a cost exceeding one thousand five hundred dollars (\$1,500). BCG shall develop an annual five-year plan for Capital Improvements for the Golf Facilities. BCG will submit the Plan to the District for the District's review and written approval.

Recommendation

We recommend that District management develop a formal review and approval process for the five-year Capital Improvement Plan. The process should ensure approval is documented prior to any capital expenditure purchases or projects, and include coordination with the District's Department of Planning and Development to leverage any projects that may be combined for the purpose of cost savings.

In addition, we recommend that District management consider amending the Agreement criteria to increase the minimum cost from \$1,500 to \$5,000 to better distinguish Capital Improvements from the routine operation and maintenance expenditures.

Management Response / Finance Administration

BCG submitted a proposed one and five year capital plan to the District in January 2016 and the District will approve by the end of February. Moving forward, BCG will submit this plan to the District by mid-November each year for approval by December 31.

Increasing the capitalization dollar threshold will be considered under any contract amendment or new agreement.

Estimated Completion Date

March 1, 2016

Finding #6:

Capital Improvements amounting to or exceeding the \$450,000 limit were being performed across the District's Golf Facilities; but the District was not in compliance with the Agreement terms for the Capital Improvement Funding. The following were the areas of noncompliance: projects and funds were controlled by BCG and not the District; BCG was not making quarterly payments to the District; and there was no separate account set-up for Golf Capital Improvement Funds.

According to the Golf Course Facilities Management Executed Amended Agreement, Article IX - Section 9.1(D), annual payments by BCG to the District for Capital Improvement Funding for year 2013 through year 2022 = \$450,000 each year with the following requirements: Capital Improvement Funding shall be paid to the District in equal amounts not less frequently than quarterly commencing March 31 of each year. Failure of BCG to pay the capital improvement funds in full by December 31st of each year during the Term shall be a material breach of said Agreement. Capital Improvement Funding shall be kept in a separate account held by the District. The District shall retain control over the Capital Improvement funds; said funding shall be dispersed according to the Plan for Capital Improvements.

Recommendation

We recommend that District management implement the following controls to enforce BCG's compliance with the Agreement terms for Capital Improvements:

- Upon District management approval and authorization, BCG shall purchase capital equipment and/or perform or contract to perform the required capital improvements to the Golf Facilities.
- BCG shall be reimbursed only for approved capital expenditures upon receipt and approval of invoices and required supporting documentation.
- The District should establish a separate bank account to properly track capital improvement funds for the Golf Facilities as stipulated within the Agreement.

Management Response / Finance Administration

The District concurs with the first two audit recommendation and has begun working with BCG to implement them. To minimize banking fees and simplify internal processes, the District may choose not to establish a separate bank account but instead continue to segregate and account for the BCG capital funds separately. We would be willing to discuss further if this is a concern for the Auditor.

Estimated Completion Date

April 1, 2016

Auditor's Note

We concur.