



# **Glendoveer Golf Course Operating Contract:**

*Improve financial planning to achieve desired outcomes*

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August 2016

A Report by the Office of the Auditor

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August 31, 2016

To: Tom Hughes, Council President  
Shirley Craddick, Councilor, District 1  
Carlotta Collette, Councilor, District 2  
Craig Dirksen, Councilor, District 3  
Kathryn Harrington, Councilor, District 4  
Sam Chase, Councilor, District 5  
Bob Stacey, Councilor, District 6

From: Brian Evans, Metro Auditor 

Re: Audit of Glendoveer Golf Course Operating Agreement

The following report covers our audit of the Glendoveer Golf Course Operating Agreement. Our objectives were to determine if the operating agreement's financial, environmental sustainability and community outcomes were achieved. The audit was included in the FY2015-16 Audit Schedule.

We found mixed financial results during the first three years of the operating agreement. Enough revenue was generated to cover operating costs, but that revenue was less than what was spent on capital improvements. While that may have been expected due to a backlog of maintenance and other investments, Metro will need to improve financial planning to ensure these goals can be met in the future. The sustainability and community goals were mostly met, but additional work was needed to fully achieve them.

We have discussed our findings and recommendations with Scott Robinson, Deputy COO; Kathleen Brennan-Hunter, Director of Parks and Nature; and Tim Collier, Director of Finance and Regulatory Services. I would like to acknowledge their assistance and cooperation in preparing and reviewing the report.

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## Summary

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Glendoveer Golf and Tennis is a Metro-owned facility with several kinds of public recreation. In 2013, Metro selected a new company to operate the facility. This audit assessed progress on the financial, community and environmental sustainability goals contained in the operating agreement.

We found mixed financial results during the first three years of the agreement. The operator generated an average of about \$200,000 per year in net income during the first three years of the agreement. However, Metro spent an average of about \$277,000 per year on capital improvements during that time.

Improved planning would help Metro meet its financial goals. Long-term financial planning is the process of aligning financial capacity with long-term service objectives. Metro used the operating agreement and the operator's annual plan to guide decisions about Glendoveer. Neither provided a long-term outlook. Establishing more specific financial goals would help guide long-term planning.

Our analysis of Glendoveer's financial performance identified weaknesses in capital planning processes. The projects that were planned were not always the ones that were completed. Some capital projects cost more than expected due to inaccurate costs estimates. There was incomplete information about future maintenance needs. Metro and the operator identified different investments for the next five years.

Metro's ability to increase revenue and control costs will determine if it meets its financial goals in the future. The agreement did not provide incentives for controlling costs. As a result, Metro could be required to pay an incentive fee even if the operator spent more than it brought in. Better controls were needed to monitor complimentary rounds of golf and a review of the agreement for the point of sales system had not been completed.

Metro's investments, combined with the operator's management practices accomplished several of the environmental sustainability goals in the agreement. The result was decreased water and energy use, and increased recycling rates. Clarifying expectations for achieving SalmonSafe certification was the remaining issue related to environmental sustainability.

Most of the community benefits outlined in the operating agreement were met. Golf customers were generally satisfied and prices were in line with comparable facilities. More work was needed to get customer service information about tennis, clarify requirements for employee background checks, and resolve potential data security issues.

Our recommendations focus on improving financial planning, clarifying financial goals, and addressing the remaining environmental and community goals associated with the operating agreement.

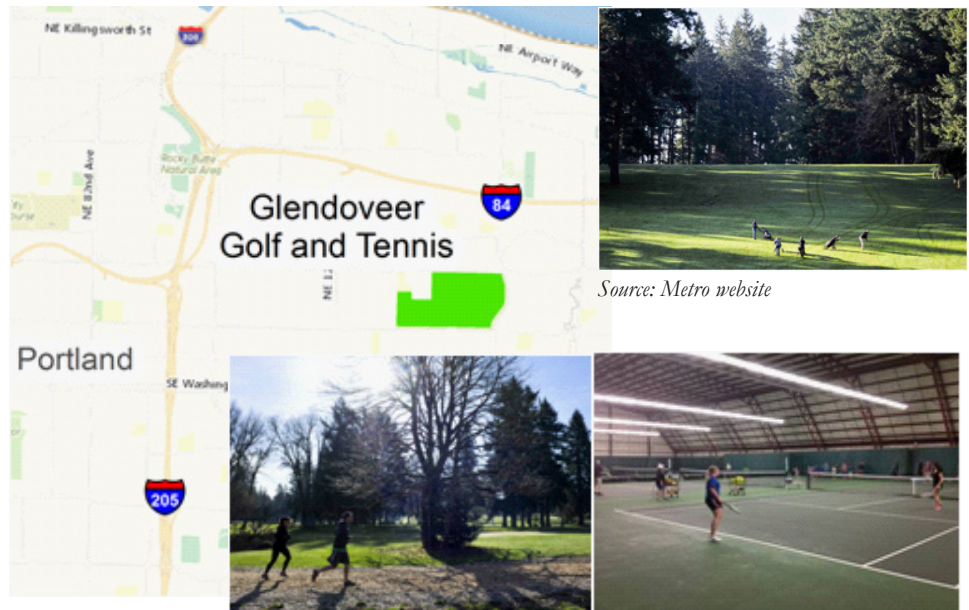
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# Background

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Glendoveer Golf and Tennis is a Metro-owned facility with several kinds of public recreation. The facility includes two 18-hole golf courses and four indoor tennis courts. Located in East Portland, the 242-acre property also includes a fitness trail and restaurant.

**Exhibit 1:** Map and photos of Glendoveer



*Source: Metro website*

*Source: Metro website*

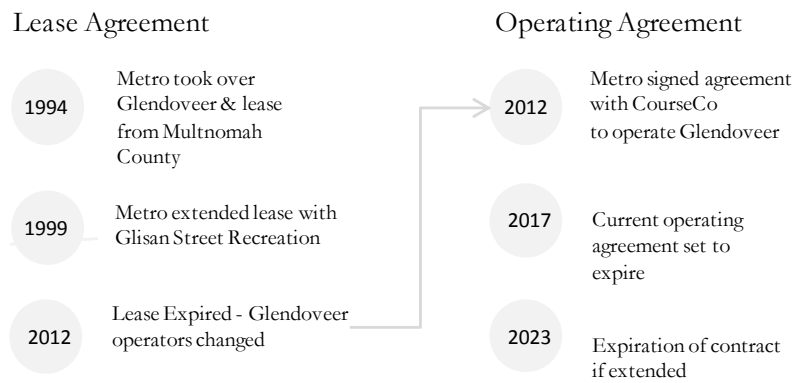
*Source: Glendoveer website*

*Source: Metro Auditor's Office, based on geographic data from the Regional Land Information System*

Metro took over Glendoveer from Multnomah County in 1994 and continued a lease agreement with Glisan Street Recreation (GSR) to operate the facility. Metro's involvement with the property was limited under the lease. GSR was responsible for operations, maintenance and capital improvements. Metro received 44% of gross revenue generated from golf fees.

In 1999, Metro extended the lease with GSR. As the lease was expiring in 2012, Metro issued a request for bids for a new operating agreement to manage the golf and tennis center. CourseCo won the bid and took over operations at the end of 2012. In 2013, CourseCo set up a subsidiary named Glendoveer Golf LLC to operate the facility. The current operating agreement is set to expire on December 31st, 2017, but can be extended for up to six years.

**Exhibit 2: Key dates of ownership and management**

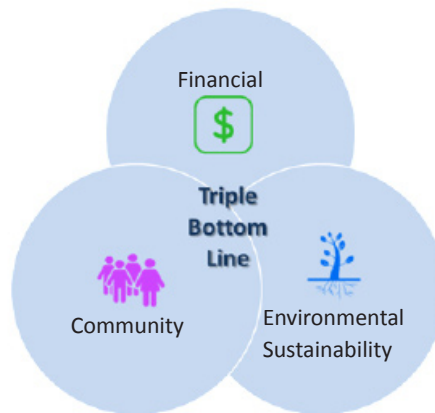


Source: Metro Auditor's Office

The current agreement is structured differently than the prior lease with GSR. Metro is now responsible for capital improvements. It pays Glendoveer LLC (operator) to manage the day-to-day operations of the facility. Metro collects all revenue from golf and tennis operations and reimburses the operator for direct expenses.

The agreement outlines outcomes and goals for Glendoveer in three areas: financial, community and environmental sustainability. These three categories are sometimes referred to as the triple bottom line.

**Exhibit 3: Triple bottom line diagram**



Source: Metro Auditor's Office

Oversight and planning for the Glendoveer property primarily reside within the Visitor Services Division of Metro's Parks and Nature department. The Visitor Services' Director acts as a liaison between Metro and the operator, and reviews aspects of the operations for compliance with the operating agreement.

A staff member in Financial and Regulatory Services (FRS) reviews financial information including documentation for some reimbursements paid to the operator. The operator provides Metro with audited financial statements each year. Bank statements and other financial information are sent each month.

Metro reviews and approves an annual plan from the operator. In past years, this review has included a group of employees from FRS, Parks and Nature and the Metro Attorney's Office. The plan gives Metro information about the finances and operations of the facility. Among other things, it includes a direct expense budget, marketing plan and maintenance plan.

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## Scope and methodology

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The objectives for this audit were to determine if the operating agreement's financial, community and environmental sustainability outcomes were achieved. The audit scope included the first three calendar years of the current operating agreement, 2013 through 2015.

To determine if financial outcomes were achieved, we reviewed Metro's budget and capital improvement plans. We also reviewed Metro policies related to capital planning and budgeting as well as best practices for financial planning. We queried and analyzed financial data for Glendoveer. We also reviewed financial information from the operator's annual plans, audited financial statements, and Metro's financial and management reports.

To determine if environmental sustainability and community outcomes were achieved, we reviewed Metro's sustainability reports, and analyzed sustainability data. We compared pricing information for other nearby public golf courses. We also reviewed information about events held at the facility found in the operator's annual plans and online. We analyzed customer comment card data, secret shopper reports and survey data from the National Golf Foundation.

We interviewed Metro staff, conducted site visits and reviewed results from Metro's internal reviews of Glendoveer. We also interviewed the General Manager and staff at Glendoveer. We evaluated Metro's monitoring efforts of the operating agreement. We reviewed audits of other golf courses and interviewed staff who oversees another municipal golf course in the area.




This audit was included in the FY 2015-2016 audit schedule. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



# Results

Progress was made on the financial, community and environmental sustainability goals Metro has for Glendoveer Golf and Tennis. However, continued attention to each area is needed to fully achieve the desired outcomes.

**Exhibit 4:** Progress made on desired goals, but work remains

	Achievements	Work Remaining
<b>Financial</b> 	<input checked="" type="checkbox"/> Financial goals partially achieved  <input checked="" type="checkbox"/> Capital investments helped achieve environmental sustainability and community outcomes	<input type="checkbox"/> Improve financial planning <ul style="list-style-type: none"> <li>• Clarify financial goals</li> <li>• Strengthen controls for capital planning</li> </ul> <input type="checkbox"/> Increase net revenue <ul style="list-style-type: none"> <li>• Incentivize efficiency</li> <li>• Review complimentary golf</li> <li>• Assess the cost of the point of sale system</li> </ul>
<b>Environmental Sustainability</b> 	<input checked="" type="checkbox"/> Reductions in energy and water use; increased recycling	<input type="checkbox"/> Clarify expectations for SalmonSafe certification
<b>Community</b> 	<input checked="" type="checkbox"/> Golf customers generally satisfied <input checked="" type="checkbox"/> Golf and tennis prices similar to comparable facilities <input checked="" type="checkbox"/> Increased youth programs <input checked="" type="checkbox"/> Other community benefits offered	<input type="checkbox"/> Collect tennis customer service information <input type="checkbox"/> Clarify expectations for background checks and drug testing <input type="checkbox"/> Address data security concerns

*Source: Metro Auditor's Office*

We found mixed financial results during the first three years of the operating agreement. Enough revenue was generated to cover operating costs, but that revenue was less than what was spent on capital improvements. While that may have been expected due to a backlog of maintenance and other investments, Metro will need to improve financial planning to ensure these goals can be met in the future.

Environmental sustainability and community goals were mostly met, but additional work was needed to fully achieve them. It wasn't clear what work remained for Glendoveer to be certified as a SalmonSafe golf course. More information about the quality of the tennis program was needed. Clarifying expectations about background checks and addressing data security concerns were other areas of work remaining.

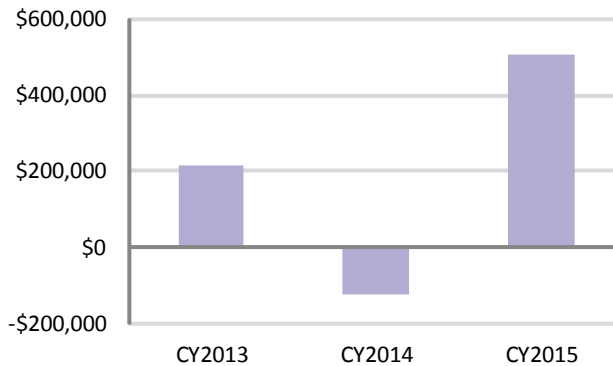
## Financial goals partially achieved

Financial objectives were partially met during the first three years of the agreement. The agreement outlined two primary financial goals. The first was to generate enough revenue to cover operating expenses. The second was to generate enough net income to allow for continued capital improvements.

The operator generated an average of about \$200,000 per year in net income during the first three years of the agreement. This indicates the first financial objective was met. We calculated net income as gross revenues minus operating expenses. Operating expenses included ongoing maintenance and repair projects completed by Metro.

Although the average during the first three years was positive, net income varied widely between years. Income in 2015 was more than twice what was generated in 2013. In 2014, operating expenses were larger than revenue due to higher operating costs.

**Exhibit 5:** Net income varied during the first three years of the agreement and totaled about \$600,000

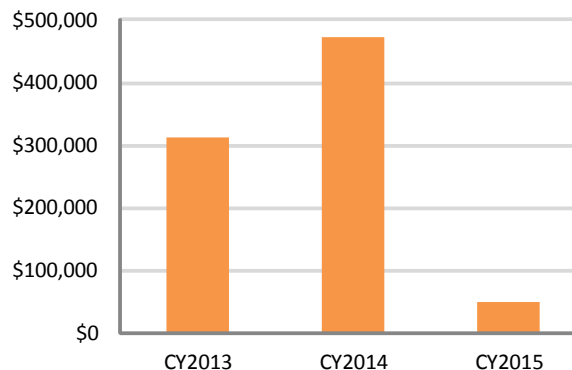


Source: Auditor's Office analysis of PeopleSoft data (adjusted for inflation)

The second financial objective, to generate enough net income to make capital improvements, was not met. On average, Metro spent about \$277,000 per year on capital improvements. This was more than the average net income (\$200,000).

Capital investments varied during the first three years. Most capital expenditures were made in 2013 and 2014. Lower capital investments and higher net income in 2015 brought Metro closer to reaching the second financial goal.

**Exhibit 6:** Metro spent about \$833,000 on new capital improvements during the first three years of the agreement



Source: Auditor's Office analysis of PeopleSoft data (adjusted for inflation)

## Improved financial planning needed to guide future investments

Improved planning would help Metro meet its financial goals. Long-term financial planning is the process of aligning financial capacity with long-term service objectives. Best practices from the Government Finance Officers Association (GFOA) state that long-term financial planning should look five-to-ten years in the future, and forecast revenue and expenditures under different future scenarios.

Metro used the operating agreement and the operator's annual plan to guide decisions about Glendoveer. Neither provided a long-term outlook or complete financial overview of the property. The annual plan only forecasted revenue and operating expenditures for the coming year. It did not include Metro's expenses for ongoing maintenance projects or new capital projects. The operating agreement was not specific enough to determine when, or the extent to which, the financial goals were expected to be achieved.

The annual plan did not consider future scenarios such as the possibility that golf could decline in popularity. Following a trend in the golf industry, the number of rounds of golf played at Glendoveer dropped by over half since the 1990's. Some publically-owned golf courses have operated at significant losses. This was due in part to the declining popularity of the sport.

Establishing more specific financial goals would help guide long-term planning for Glendoveer. Clackamas County's municipal golf course, Stone Creek, had clear financial goals for its operator. One goal was to generate enough operating income to cover 20% of its parks budget. It also established a goal of contributing \$100,000 per year for capital improvements. Specific goals make it easier for decision-makers to gauge progress and results.

Prior to the new operator taking over, Metro was unsure about how Glendoveer would perform financially. Under the previous lease agreement, Metro received an average of about \$800,000 in revenue per year since the mid-1990s. At that time, the operator was responsible for all maintenance and capital improvements. Expecting the same level of operating income may not be reasonable given an apparent backlog of maintenance and other capital improvements. More than three years into the current agreement, Metro has financial information to project net income and capital needs for the next five-to-ten years.

## Weaknesses in capital planning should be addressed

Metro's Capital Asset Management Policy establishes a framework to plan for future investments at Glendoveer. The policy could help guide long-term planning, but it was not always followed. The policy requires Metro to annually prepare a Capital Improvement Plan (CIP). The CIP should identify all new capital and maintenance projects with a budget over \$100,000 to be constructed for the next five years. The CIP includes an aggregate total for capital projects under \$100,000.

Metro has identified about \$362,000 worth of new capital and maintenance projects for the next five years at Glendoveer. However, our review of the past CIPs shows that figure may not accurately reflect long-term capital investments at Glendoveer. Each of the following issues limited the value of using the CIP for long-term planning.

**Planning for projects below \$100,000 was unclear.** For projects estimated to cost under \$100,000, Metro policy allows managers the discretion to initiate new or defer planned projects. This means that the projects listed in the CIP may not be the ones that were completed. We reviewed the list of projects under \$100,000 and found that at least 20 projects had not been included. The total cost of these projects was about \$935,000. Flexibility to change projects reduced clarity about long-term capital needs.

**Some projects had inaccurate cost estimates.** Four Glendoveer projects had cost estimates totaling \$61,500, but final costs totaled about \$193,000. For example, one project was budgeted for \$14,000, but the final cost was just over \$100,000. Some project costs were less than expected too, but those savings were smaller than the projects that were over budget.

**There was incomplete information about future maintenance.** Inventories of buildings and equipment were required by Metro's policy to plan for maintenance of these assets. Metro and the operator provided three different lists. Metro's equipment lists did not include tag numbers that were required for each piece of equipment. One of the lists did not include the recently-built golf cart building, which cost about \$421,000.

We also found that information about maintenance needs had not been established. Metro policy requires departments to determine the level of ongoing maintenance on a scale of low to high. The scale can be used to plan for maintenance costs. A low level of maintenance indicates that costs will be minimal. In contrast, a high level of maintenance indicates costs are likely to be more significant and may need to be planned well in advance.

**Metro and the operator have identified different future investments for the next five years.** The operator's 2016 annual plan identified nearly \$3 million in capital improvements. In contrast, Metro's five-year plan only included about \$362,000 in capital improvements. It was not clear how the different plans would be reconciled. Both Metro staff and the operator stated that the responsibility for identifying future investments was shared.

## Opportunities exist to increase net revenue

Metro's ability to increase revenue and control costs will determine if it meets its financial goals in the future. The following approaches could help increase net revenue:

- create incentives for efficient operations;
- assess the cost of the point of sale system; and
- develop controls to better monitor complimentary rounds of golf.

## Agreement does not incentivize efficiency

Under the agreement, Metro paid the operator in three ways. It reimbursed direct costs. It paid fixed fees for accounting, website support and general management. There was an incentive fee paid if gross revenue exceeded certain thresholds.

The incentive fee was based on gross revenue rather than net revenue, which meant costs were not considered. As a result, Metro could be required to pay an incentive fee even if the operator spent more than it brought in. This has not occurred, but the operator's direct costs have increased by about 19% during the first three years while revenues have only increased by 13%. Metro paid just over \$100,000 in incentive payments during the first three years of the agreement.

Metro did not measure the operator's financial efficiency. The annual plan included information on the gross revenue per round but this measure does not consider costs. Another local municipal golf course used efficiency measures such as the net revenue per round and utilization rate of available tee times. The municipality created targets for each of these performance measures and tracked them over time.

Based on data from Metro's accounting system, the operator's net revenue per round decreased by about 30% since 2013. During that same time, gross revenue and the number of rounds of golf played increased. These trends show the importance of including expenditures when evaluating the operator's performance.

One local municipal golf course, Stone Creek, based its incentive fee on net revenue generated by the operator. Any net revenue that exceeded \$600,000 during each year was split between the local government and the operator. The municipality received 70% of the excess and the operator received the remaining 30%. An incentive fee structure similar to this one could help ensure more efficient operations because it considers both revenues and expenses.

If Metro decides to structure the incentive fee in a similar way, it will need to evaluate what costs should be included in the calculation, and develop a way to ensure the financial information provided by the operator is accurate. During the first three years of the agreement, Metro paid some costs that were not counted as direct costs for the operator. These costs were primarily credit card fees, which totaled about \$156,000 during that period. Ensuring that these costs are reflected as operator's expenses would help Metro accurately calculate net revenue.

We also found differences between the operating expenses in the operator's annual plan and in its audited financial statements. There may be legitimate reasons for the discrepancies, but neither Metro nor the operator could explain the difference. The size of the discrepancy grew over the last three years. Having complete and accurate financial information will be critical when the contract is up for renewal at the end of 2017.

## Metro has not assessed the cost of its point of sale system

Glendoveer uses a point of sale (POS) system that tracks all retail transactions and reservations at Glendoveer. To pay for the system, Glendoveer trades eight rounds of golf, including carts, per day to a company that sells those tee times to the public. We calculated that if the company sold the eight rounds of golf and cart rental at the lowest rate advertised, Metro may have forgone at least \$70,000 per year in revenue to pay for the system.

We found that other local golf courses used similar arrangements to pay for their POS system. However, staff from two local golf courses said they evaluated their arrangements and made changes to get a better deal.

Metro indicated they were going to review the arrangement prior to it being renewed in 2015, but the review was not done. During the first three years of operation, Metro could have spent at least \$210,000 for its POS system without evaluating whether the arrangement was cost effective.

## Better controls needed for complimentary rounds of golf

Most golf courses offer free or complimentary (comp) rounds of golf. There may be business reasons for using comp rounds such as marketing and employee retention. The operator provided comp rounds to employees, golf instructors, charities and others. We calculated that at least \$45,000 in revenue may have been foregone in 2015 for comp rounds unrelated to the POS system.

Best practices recommended that municipalities review the use of comp rounds. For example, the operator should track the types of comps used and report on a monthly basis to the municipality the reasons for them. The municipality should periodically review this information for reasonableness and to identify possible abuses.

Metro had no policy in place to control comp rounds and the reports did not clearly indicate who received comp rounds and an explanation of why they were given. The General Manager and one other employee at Glendoveer had the ability to approve comp rounds. Without a policy to control comp rounds, Metro may be unnecessarily foregoing revenue.

## Several environmental sustainability goals accomplished, but one remains

Metro's investments, combined with the operator's management practices accomplished several of the environmental sustainability goals in the agreement. For example, Metro's purchase of better irrigation controls allowed the operator to use less water to maintain the golf courses. Estimates of how much less water was used varied. Similarly, a switch from gas-powered golf carts to electric carts contributed to an overall decrease in energy consumption. We estimate that reduction to be about 10%. The operator increased the recycling rate as well.

Glendoveer made progress, but has not attained SalmonSafe certification. The certification was a stated goal for the course and referred to in the operating agreement. The certification would provide additional assurance that Glendoveer's management practices minimized negative impacts on fish habitat. It would also be a potential marketing opportunity, since few golf courses in the Northwest appear to have the certification.

In 2009, Metro hired SalmonSafe to evaluate Glendoveer for certification. SalmonSafe reported that certain practices and projects needed to be implemented prior to certification. Progress was made in some of these areas. For instance, the operator developed an Integrated Pest Management Plan aimed, in part, at minimizing pesticide use. To help ensure safe and effective chemical application, the operator also kept detailed information about chemical use and licenses with the Oregon Department of Agriculture.

Despite progress, it was not clear how much work remained to become certified or what the expected timeline was for certification. We were told nearly all SalmonSafe recommendations had been accomplished, but neither Metro nor the operator kept track of the progress. One remaining project was repaving and improving the drainage around the maintenance yard. The operator estimated the cost of the project to be \$65,000.

## Most community goals met, but some issues remain

Most of the community benefits outlined in the operating agreement were achieved. Golf customers were generally satisfied. Glendoveer hosted a national youth cross-country race drawing thousands of participants and spectators. Prices for tennis and golf were in line with comparable facilities. Glendoveer hosted other recreation opportunities such as holiday events and free movie nights in summer.

**Exhibit 7:** National youth cross country event at Glendoveer



*Source: Metro Parks and Nature Department*

A few areas related to community benefits needed additional attention. The operator had a comprehensive way to assess golf quality, but it did not collect information about tennis. A Metro review of Glendoveer in 2014 recommended the secret shopper and customer comment card programs used for golf be expanded to include tennis. The operator told us they tried to collect comment cards, but no customers filled them out. If comment cards were not effective, secret shoppers could be used to gather feedback about the quality of the tennis facility.

**Exhibit 8:** Customer service information gathered at Glendoveer

Golf	Tennis
✓ Comment Cards	
✓ Secret Shopper	⊘ No formal means to gather customer feedback
✓ Customer Survey	

*Source: Auditor's Office analysis*

Metro did not know the quality of the tennis program or if customers were satisfied. Based on 2015 audited financial statements, tennis represented about 14% of gross revenue at Glendoveer. This was a missed opportunity to improve tennis and potentially earn more revenue.

We found a lack of clarity or documentation in two areas related to community safety. The operating agreement was not clear about who was required to have background checks and drug tests. Metro was entitled to the results of background checks, but staff had not reviewed related documentation. We requested documentation for six individuals working at Glendoveer. One of those individuals had not had a background check. We were told that person was not required to have one because they did not work with children. In addition, the agreement did not specify what type of background check was required. Different types of checks could provide different levels of assurance.

In 2014, Metro staff identified concerns about data security with the various information technology systems used at Glendoveer. Some of the concerns had not been resolved. The primary concern was the part of the Glendoveer website selling gift certificates. It appeared to lack some security requirements. Despite the relatively low dollar value of gift certificate sales, weak security could increase fraud and reputational risks.

Documentation for other systems at Glendoveer showed they were generally in compliance with security requirements. In some cases, details about physical security and maintenance of devices were not provided. Obtaining additional information could provide Metro a higher level of assurance that the systems at Glendoveer adequately protect customer data.



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# Recommendations

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To improve financial planning for Glendoveer Golf and Tennis, Metro should:

1. Forecast revenues, expenses and capital investments five-to-ten years in the future.
2. Improve controls for capital project planning by:
  - a. increasing the accuracy of project cost estimates,
  - b. developing an accurate asset list for the facility, and
  - c. establishing maintenance levels for each asset.

To meet the objectives of the operating agreement Metro should work with the operator to:

3. Establish an annual target for net income and contributions to capital improvements.
4. Renegotiate the incentive fee to encourage efficient operations.
5. Assess the cost of the point of sale system.
6. Improve controls for complimentary rounds of golf.
7. Clarify expectations regarding SalmonSafe certification.
8. Collect customer service information about tennis.
9. Clarify expectations for background checks and drug testing.
10. Ensure information technology systems meet security requirements.

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# Management response

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Date: August 26, 2016

To: Brian Evans, Metro Auditor

From: Kathleen Brennan-Hunter, Parks and Nature Director  
Tim Collier, Finance and Regulatory Services Director

Cc: Martha Bennett, Chief Operating Officer  
Scott Robinson, Deputy Chief Operating Officer  
Brian Kennedy, Parks and Nature Asset Management Program Director  
Justin Patterson, Parks and Nature Visitor Services Program Director

Subject: Management response – Glendoveer Golf Course Operating Contract audit

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Thank you for the opportunity to respond to the audit of the Glendoveer Golf Course operating contract. The audit provides a valuable review of the operating contract and the business processes that are essential to the operations of the golf course. We appreciate that the audit recognizes many of the areas in which the performance of the Glendoveer Golf Course has improved since the management structure changed in 2013, specifically improvements in financial, sustainability and community goals. We appreciate recognition of the community value.

We agree that more clarity is needed around the financial goals for the golf course and that improved capital planning is important for long-term success and stability. It is also important to note that changing the management structure of an aging golf course in the midst of a national decline in the popularity of golf was always going to be a challenging task. Parks and Nature management value adaptive management and work to incorporate lessons learned into our work and Glendoveer Golf Course is no exception.

The Glendoveer Golf and Tennis facility is an important park amenity comprised of multiple functions including golf, tennis and a fitness trail, in a part of the region of that is underserved. Staff view Glendoveer as an important site to connect people to nature and provide access to affordable recreation opportunities.

Our response addresses how staff will implement the audit's recommendations.

**1. Forecast revenues, expenses and capital investments five-to-ten years in the future.**

Operating revenues and expenditures have been forecasted as part of the agency five-year forecast that is prepared in the beginning of the budget process each year. That five-year forecast was based initially on projections provided by the operator. The forecasts have been refined each year based on historical actuals.

Metro's Capital Improvement Plan includes funded projects for a five-year time horizon. Few projects for Glendoveer appear on the Capital Improvement Plan due to the lack of a source of funding for new capital investment. The annual capital requests provided by the operator are not constrained by a requirement for funding availability. The Capital Improvement Plan only includes those projects that are funded.

Long-term forecasting is an important part of the Metro budget process and staff recognizes that more accurate forecasting of revenues, expenditures and capital investments for Glendoveer is critical for the ongoing success of the golf course. Given the new nature of the contracted relationship we fully anticipated needing to tune our approach based on our actual experiences over time.

**2. Improve controls for capital project planning by:**

**a. Increasing the accuracy of project cost estimates.**

We have already started improving our processes around capital project planning. To improve the accuracy of project cost estimates, we are engaging in robust project planning that involves obtaining more detailed project plans and cost estimating prior to beginning projects. Often, that project planning will take place in time to incorporate those improved project cost estimates in the Capital Improvement Plan.

**b. Developing an accurate asset list for the facility.**

Finance and Regulatory Services is in the process of selecting a contractor to update Metro's asset lists across the agency. Parks and Nature will be in the first group to update the asset list. That work is expected to begin in Fall 2016.

**c. Establishing maintenance levels for each asset.**

Parks and Nature is in the process of developing an Operations Plan that will establish maintenance levels across the department's portfolio. The Operations Plan is anticipated to be completed in 2017.

**3. Establish a target amount for annual net income and contributions to capital improvements.**

Metro's adopted budget included targets for net income based on projections provided by the operator. For departments with business-like activities, such as Parks and Nature, Finance and Regulatory Services holds the department accountable to achieving those revenue targets or adjusting spending in other areas.

However, we recognize that these targets could be more clearly stated. It is also complicated to measure success as the financials for Glendoveer are tracked with the rest of the Parks and Nature General Fund. Finance and Regulatory Services and Parks and Nature staff will be moving Glendoveer golf and tennis operations into a separate fund in FY 2017-18 in order to more clearly track the financial performance of the enterprise operations at Glendoveer.

We also agree that setting targets for contributions to capital improvements is important. In fiscal years 2013-2014 and 2014-15 staff budgeted for a transfer of \$250,000 from the General Fund to the Renewal and Replacement Fund. That transfer was intended to help replenish the Renewal and Replacement Fund and was to be funded from net income from Glendoveer. The transfer amount was projected to be available based on estimated net revenue from the operator. However, net revenue was not sufficient to fund the transfer and in FY 2015-16 the transfer was eliminated from the budget as staff no longer believed it was reasonable to forecast that level of net revenue. Parks and Nature staff will continue to work with Finance and Regulatory Services to forecast annual expenditures from the Renewal and Replacement Fund at Glendoveer and will run requests for new capital expenditures through the Metro budget process.

**4. Renegotiate the incentive fee to encourage efficient operations.**

We agree with this recommendation and will work to update the incentive fee structure when the current contract expires. It is important to note that part of the reason for the current incentive structure is that the previous lease structure only provided Metro with data about gross revenue. Operating costs were not easily determined from the previous operator's financial statements and the different operating structure made it difficult to compare. The incentive fee structure was based on available data and the intent that close supervision of the contract by Metro staff could ensure efficient operations.

**5. Assess the cost of the agreement for the point of sale system.**

We agree with this recommendation and will review the agreement.

**6. Improve controls for complimentary rounds of golf.**

We agree with this recommendation and will be working with the operator to implement better controls for complimentary rounds of golf.

**7. Create an action plan to achieve SalmonSafe certification.**

Progress has been made towards achieving this goal, including being recertified as an Audubon Sanctuary in 2015. The last remaining project to achieve SalmonSafe certification is reconstruction of the maintenance facility yard. As part of efforts to improve capital project planning, staff is evaluating the current design and cost estimate and reviewing the priority of this project in relation to other projects within Parks and Nature. As noted above, there is no dedicated funding source for capital improvements at Glendoveer.

**8. Collect customer service information about tennis.**

We agree with this recommendation and will be working with the operator to implement it.

**9. Clarify expectations for background checks and drug testing.**

We agree with this recommendation and will be working with the operator to complete any missing background checks and develop a more robust policy for this in the future. Staff will also evaluate whether existing contract language needs to be refined or updated to achieve this.

**10. Ensure information technology systems meet security requirements.**

We agree with this recommendation and will continue to work with the operator and Metro Information Services to ensure that all systems meet required compliance standards. Staff will also evaluate current contract language and propose any amendments as necessary.

Again, thank you for the opportunity to respond to the Auditor's recommendations.



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