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June 6, 2019

AUDITOR’S LETTER

In keeping with generally accepted government auditing standards and Auditor’s Office policy, as authorized by city ordinance, the Audit Services Division has a responsibility to monitor and follow up on audit recommendations to ensure audit findings are addressed through appropriate corrective action and to aid us in planning future audits.

In our follow-up effort for the “Golf Enterprise Fund Management” audit issued in May 2017, we determined Denver Golf has implemented only five of the 14 recommendations made in the audit report. Auditors determined the risks associated with the audit team’s initial findings have not been fully mitigated. We are disappointed that Denver Golf did not recognize the importance of implementing the majority of our audit recommendations. As a result of Denver Golf not implementing all of these recommendations, the Audit Services Division may revisit these risk areas in future audits to ensure appropriate corrective action is taken.

The Highlights page in this report provides background and summary information about the original audit and the completed follow-up effort. Following the Highlights page is a detailed implementation status update for each recommendation.

I would like to express our sincere appreciation to the Denver Golf personnel who assisted us throughout the audit and the follow-up process. For any questions, please feel free to contact me at 720-913-5000.

Denver Auditor’s Office

Timothy M. O’Brien, CPA
Auditor
Golf Enterprise Fund Management
June 2019

Follow-Up Status
Denver Golf has implemented five of the recommendations made in the May 2017 audit report, while nine others remain partially implemented or not implemented.

Objective
The objective of the initial audit was to determine whether Denver Golf had a current and comprehensive strategic plan that supported its overall mission and whether Denver Golf had effective processes and controls to ensure that transactions were properly recorded in the City’s system of record and properly reported in the Comprehensive Annual Financial Report.

Background
The operation and maintenance of the City’s eight golf facilities is accounted for in the Golf Enterprise Fund and managed by Denver Golf, a division of the City’s Department of Parks and Recreation. Enterprise funds do not generally receive financial support from the general fund, so Denver Golf must generate sufficient revenue to cover expenditures. Revenue comes primarily from fees paid by golfers who use the golf facilities.

REPORT HIGHLIGHTS

Highlights from Original Audit
Our initial review of the Golf Enterprise Fund identified weaknesses in two broad areas—Denver Golf’s strategic planning efforts and its operational practices.

Strategic Planning – Regarding strategic planning, we found that Denver Golf did not have a current strategic plan in place and had not developed succession or contingency plans for several key staff positions. Although Denver Golf collected customer feedback through a variety of survey methods and followed up on negative feedback, the procedures for incorporating the feedback into operational changes and strategic planning efforts were not documented. Finally, we found that Denver Golf did not analyze financial data over multiple years by forecasting, trending, or performing ratio analysis on financial results. Conducting periodic financial condition analysis of the Golf Enterprise Fund, including financial trending and ratio analysis, would have enhanced Denver Golf’s ability to understand and assess its overall financial health and would have helped it assess and address negative trends as they emerged. We offered four recommendations to enhance Denver Golf’s strategic framework.

Operational Practices – In the second area, we found that Denver Golf generally had sound processes for recording and reporting financial transactions. However, we identified seven areas for improvement that could have enhanced the internal controls that were already in place, including but not limited to enhancing the documentation of strategies and internal procedures, documenting the prioritization of capital improvement projects, and tracking capital assets. We offered 10 recommendations related to Denver Golf’s practices to enhance existing financial controls.

For a copy of this report, visit www.denverauditor.org or contact the Auditor’s Office at (720) 913-5000.
RECOMMENDATION — STATUS OF IMPLEMENTATION

FINDING 1 – Denver Golf Has Not Developed a Current Long-Term Strategic Planning Framework that Incorporates Customer Feedback and Financial Analysis

Recommendation

1.1 Developing a Current Strategic Plan – Denver Golf should internally develop a strategic plan, including a schedule for updating the strategic plan approximately every four years. At minimum, the strategic plan should include the following elements:

- Mission statement
- General (strategic, long-term) goals and objectives
- A description of how goals and objectives contribute to local government priority goals
- A description of interagency collaboration to achieve the agency’s goals and objectives
- A description of the strategies and resources required to achieve the agency’s goals and objectives
- A description of how the agency’s goals and objectives incorporate input from stakeholders
- A description of how the agency’s performance goals and priority goals relate to the general goals and objectives
- Identification of external factors that could significantly affect the achievement of the agency’s goals and objectives
- Program evaluations used to establish or review the agency’s goals and objectives

Status: Not Implemented (Original target date for completion: December 31, 2018)

Agency Action

Denver Golf has not yet created a strategic plan, and agency officials offered an extended implementation date of December 31, 2020. This will be three and a half years from the time of our recommendation to the time when Denver Golf will complete—and be able to benefit from—an internally developed strategic plan.

Denver Golf provided two reasons for not yet creating its strategic plan. First, the Department of Parks and Recreation has yet to finalize its 10-year strategic plan, which Denver Golf’s strategic plan will rely on for goal-setting. Second, Denver Golf officials also said they were too busy with the music festival at Overland Golf Course and with various infrastructure projects to begin drafting their strategic plan.

However, by not developing its own strategic plan and documenting a schedule for regular updates, Denver Golf lacks a formalized long-term approach to managing strategic elements of agency operations, potentially inhibiting it from positioning the agency to better prepare for and meet day-to-day and long-term challenges.
**Recommendation**

1.2 **Succession and Contingency Planning** – Denver Golf should define key positions and, within the strategic plan, include a section that addresses succession and contingency planning for key positions, considering recommendations from best practice guidance.

**Status:** Not Implemented *(Original target date for completion: December 31, 2017)*

**Agency Action**

Because Denver Golf has not yet developed a strategic plan, the agency has not developed draft succession or contingency plans for its key positions, which would be incorporated in the strategic plan. In response to the status of this recommendation, Denver Golf referred to its response to Recommendation 1.1, saying other projects have dominated its attention. Denver Golf offered an extended implementation date of December 31, 2020.

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**Recommendation**

1.3 **Negative Survey Responses and Follow Up** – Denver Golf should document its procedure to address the trends noted within negative survey responses, as well as any lessons learned, into operational processes or future strategic planning efforts, as appropriate. Denver Golf should also consider a central repository for negative survey feedback and the actions taken to address customer concerns.

**Status:** Implemented *(Original target date for completion: December 31, 2017)*

**Agency Action**

Denver Golf updated its operations manual to include new procedures for how to address trends noted in negative survey responses. Denver Golf considered the use of a central repository, which satisfies our recommendation. After consideration, Denver Golf decided not to implement this optional portion of the recommendation because the actions taken in response to similar situations may differ depending on how a customer reacts.

Denver Golf does track customer survey responses and responds to negative feedback, but instead of using a central repository, responses are not canned replies and are dependent upon individual circumstances.
Recommendation

1.4 Financial Trending and Forecasting – Denver Golf should perform an evaluation of the Golf Enterprise Fund’s financial condition, which includes forecasting, trending, and financial ratio analysis, and identify a schedule for periodically updating this analysis. The utilization of Workday dashboard functionality should be considered as an opportunity to streamline this evaluation process.

Status: Implemented (Original target date for completion: December 31, 2017)

Agency Action

Denver Golf provided evidence of the financial evaluations it has performed, including the use of forecasting, trending, and financial ratio analysis. Denver Golf performs trending and forecasting monthly. The use of dashboards is still being considered as the City and County of Denver expands its use of Workday, the City’s system of record.
FINDING 2 – Documentation and Other Minor Improvements Could Further Improve Existing Financial Processes.

Recommendation

2.1 **Reconciliation and Financial Reporting Policies and Procedures** – Denver Golf should develop formally documented policies and procedures over periodic reconciliation and financial reporting processes for the Golf Enterprise Fund.

**Status:** Not Implemented (Original target date for completion: June 30, 2018)

**Agency Action**

Denver Golf provided an early draft of its newly developed procedures for periodic reconciliation. However, the draft document provided to auditors during follow-up did not include any instructions to inform staff as to how they should handle discrepancies found during the reconciliation process. Also, Denver Golf did not provide any policies or procedures regarding financial reporting processes; the agency said staff members did not need a policy to know how to complete financial reporting duties. Without formally documenting procedures, employees of Denver Golf may not fully understand essential processes and the agency risks losing valuable institutional knowledge when key employees leave their positions.

Recommendation

2.2 **Segregation and Rotation of Duties** – Denver Golf should develop internal controls surrounding the segregation and rotation of duties at pro shops, including (1) segregating the nightly drawer close from the morning drawer opening, (2) segregating responsibility for the daily bank deposit, (3) rotating the change fund custodian duties, and (4) rotating the monthly inventory count duties, according to established procedures. If it is not practical to enact these changes, Denver Golf should create and document compensating controls that can lower the risk to the City.

**Status:** Not Implemented (Original target date for completion: March 31, 2018)

**Agency Action**

Regarding the recommendations to segregate the nightly drawer close from the morning drawer opening and to also segregate responsibility for the daily bank deposit, Denver Golf did not develop any further internal controls for either process. The director of Denver Golf said an informal cost-benefit analysis found there were no cost-effective ways to mitigate the risks identified by the audit team. The
original audit found these responsibilities are properly segregated during peak seasons.

Regarding the recommendation to rotate change fund custodian duties, Denver Golf has rotated them, as required by City Fiscal Accountability Rule 3.3.

Regarding the recommendation to rotate monthly inventory count duties, Denver Golf now requires rotation of inventory counters in its operations manual. However, after reviewing inventory count sheets, we found that Denver Golf was not regularly rotating inventory counters, even during the peak season—with some employees counting the same sections multiple months in a row. A lack of rotating duties can increase the risk of employee theft, because an employee may feel they can get away with waste, fraud, or abuse if no one else is aware of the inventory levels.

**Recommendation**

2.3 **Improve Golf Lesson Revenue Policy and Procedure** – Denver Golf should update the golf lesson policy to better segregate the responsibilities laid out in the policy. Additional prevention and monitoring control processes should also be added to strengthen the control environment around the golf lesson process.

**Status: Not Implemented (Original target date for completion: September 30, 2017)**

**Agency Action**

Denver Golf did update its golf lesson policy in the operations manual to add that instructors are no longer allowed to enter lesson fees into the point-of-sale system—further segregating responsibilities, as recommended.

However, golf instructors can still circumvent the controls in place and avoid reporting the proper amount of revenues from golf lessons, because they still have the responsibility of handling cash payments from students, which may happen outside the range of the pro shop’s security cameras. For example, there is no control to prevent instructors from charging a customer extra for the lesson and then not reporting excess funds earned to the point-of-sale system or not reporting unauthorized discounts given.

Denver Golf also decided not to include any additional prevention and monitoring control processes—such as posting signs outside of the clubhouses explaining that customers should pay for lessons inside or adding reviews of employee schedules and earnings to ensure honest reporting occurs. The director of Denver Golf said he believed any added controls would not be cost-effective or effective at stopping someone with malintent.
Recommendation

2.4 Onboarding Checklist for New Employees – Denver Golf should develop and utilize an onboarding checklist to help train new employees and document their progress throughout the training.

Status: Implemented (Original target date for completion: March 31, 2018)

Agency Action

Denver Golf developed one onboarding checklist for maintenance employees and one for pro shop employees. The agency also provided evidence of the checklists being used during new employee training.

Recommendation

2.5 Operations Manual – Denver Golf should include the merchandise inventory policies and procedures document in their operations manual and in the employee onboarding checklist.

Status: Partially Implemented (Original target date for completion: June 30, 2017)

Agency Action

Denver Golf added the merchandise inventory policies and procedures to its operations manual. However, it did not add the topic of merchandise inventory to either employee onboarding checklist. Without including the topic of merchandise inventory on the new pro shop employee checklist, new employees may be unaware they are expected to review the inventory policies and procedures in the operations manual prior to counting inventory for the first time. This oversight could result in inaccurate inventory counts.

Recommendation

2.6 Operations Manual Should be Updated – Denver Golf should update the organization’s operations manual and set a schedule for periodic reviews and updating of the manual, as well as any relevant policies, procedures, or training documents.

Status: Implemented (Original target date for completion: September 30, 2017)

Agency Action

Denver Golf updated its operations manual to include several new topics, including inventory, golf lessons, capital improvement projects, concession operations, surveys, and a policy requirement that the manual be reviewed and revised annually.
Recommendation

2.7 Prioritizing Capital Improvement Projects – Denver Golf should develop criteria for prioritizing capital improvement projects and ensure that project prioritization is well-documented. Strategies for developing criteria should be aligned with the agency’s strategic plan.

Status: Partially Implemented (Original target date for completion: March 30, 2018)

Agency Action

Denver Golf formalized the criteria for prioritizing capital improvement projects in its operations manual—which includes projects being scored based on Denver Golf’s values, such as safety, customer service, sustainability, etc. However, upon reviewing Denver Golf’s spreadsheets, the prioritization of past and upcoming projects was not well-documented.

Without documenting prioritization decisions and the methodologies those decisions are based on, Denver Golf does not have a written record of reasoning for the mix of projects selected at a given time and, thus, management cannot properly weigh all factors to ensure the best use of capital improvement dollars. Having such documentation provides future employees an opportunity to understand why particular projects were selected or passed over. It also provides transparency for taxpayers, especially in circumstances when Denver Golf deviates from its planned list of projects.

Denver Golf provided draft versions of spreadsheets it uses to help determine the priority of upcoming projects, but those spreadsheets do not give reasons for the instances when Denver Golf deviates from the scores. There were also a few instances when data was missing from the spreadsheets, including priority numbers and information about why a project was important.

Recommendation

2.8 Review Capital and Controlled Asset List – Denver Golf should work with the Controller’s Office to identify which assets on the annual capital asset list are no longer present and in use, including removing items unable to be identified, and identifying unknown assets that should remain on the asset listing.

Status: Partially Implemented (Original target date for completion: September 30, 2017)

Agency Action

Denver Golf worked with the Controller’s Office to identify and remove assets on the capital asset list that were no longer present and in use. However, follow-up testing showed that not all assets on the cleaned-up list were able to be identified, and therefore, we find that more could have been done to ensure an accurate annual inventory count was conducted in 2018.

For example, one of the capital assets sampled during follow-up is named “Wellshire Golf Bridge #2,” but auditors were unable to identify this bridge “#2” during a tour of the facility. There are only two
bridges on Denver Golf’s capital asset list with the location of Wellshire Golf Course. But there are at least six bridges on the golf course, and none are labeled as “#2” or had a unique identifier that matched one on the asset list. We also had difficulties matching other infrastructure assets to their respective entries on the capital asset list, such as an electrical upgrade and an irrigation system.

Our testing results show that if one of these assets had to be removed or replaced, Denver Golf would not know which existing asset record to remove from the list. It also means that in 2018, Denver Golf employees continued to certify that they physically located each asset during annual inventory counts despite not being able to match items like the bridges, irrigation installations, electrical upgrades, and others we noted during follow-up testing.

Since we brought this condition to the attention of Denver Golf, the agency has worked with the Department of Public Works to match bridges on its capital asset list to Public Works’ unique identifiers shown on the bridge, which are not currently listed anywhere on the asset listing. Denver Golf should continue to improve the information in Workday about assets that are difficult to identify and should decide how employees should approach the physical inventory process for these types of untagged assets for the remainder of the assets’ useful lives.

Recommendation

2.9 Capital and Controlled Asset Naming Convention – Denver Golf should establish a naming convention for capital asset descriptions.

Status: Implemented (Original target date for completion: March 31, 2018)

Agency Action

A recent update to Workday, the City’s system of record, meant that the implementation of a naming convention was no longer required. Workday can create asset descriptions and names of any length, whereas the previous system limited name and description data fields to 30 characters. Workday also links procurement information to the asset record—meaning employees conducting future reviews in Workday will be able to find invoices and receipts for each asset, even if the name happens to be unclear.

However, to avoid unclear names altogether, Denver Golf officials said they also will begin simplifying the names used in asset records—seeking plain language to make future asset inventory counts easier and, therefore, more accurate.
Recommendation

2.10 **Ensure Accurate Counts of Capital and Controlled Assets** – Denver Golf should adhere to Fiscal Accountability Rule 4.3 by ensuring that it completes the annual capital asset physical count, including physically verifying each item on the Controller’s Office capital asset list.

**Status: Not Implemented (Original target date for completion: June 30, 2017)**

**Note:** Recommendation 2.10 from the original report mistakenly referenced Fiscal Accountability Rule 4.3, which is about the rules for capital projects. The original report intended to reference Fiscal Accountability Rule 4.2 in this recommendation. Denver Golf’s response to the original audit shows it understood auditors were speaking about the rule for physical inventory of capital assets, not the rule for capital projects. Therefore, follow-up procedures verified adherence to Fiscal Accountability Rule 4.2, not 4.3.

**Agency Action**

Based on auditors’ tests of assets’ existence and unique identifiers during follow-up procedures, it appears Denver Golf did not successfully verify each asset on its list during the 2018 inventory count, which is a requirement of Fiscal Accountability Rule 4.2. We have no direct evidence that assets are missing or misrepresented on the asset list. However, without verifying each asset using a unique identifier or another detailed description of the asset’s location, Denver Golf is unable to know with 100% certainty that some items physically present at its golf courses are the same items on the capital asset list reported out of the financial system of record.

To assess the quality of Denver Golf’s 2018 annual inventory count, we used our professional judgment to choose a sample from Denver Golf’s entire cleaned-up list of capital assets, looking to verify the existence of the oldest assets that had unclear descriptions. We found that all equipment assets, like vehicles and turf care equipment, in our testing sample could be physically verified using unique identifiers.

However, as previously mentioned in the status of Recommendation 2.8, we found it difficult to identify some infrastructure assets that were purchased a long time ago, such as buildings, electrical and irrigation systems, and landscaping work. Assets without tags or other unique identifiers may be difficult, if not impossible, to identify—especially when the employees involved in an asset’s acquisition no longer work at the site or for the City.

Many of the errors we found related to infrastructure assets installed long ago were the result of the assets having been acquired at a time of a less-stringent accounting and operating environment for local governments. Therefore, the risk that these types of issues will happen again is much lower, as Denver Golf now uses a more thorough system of record and relies on updated accounting rules for tracking capital assets. Even so, as previously stated in the status of Recommendation 2.8 above, Denver Golf should work to identify all the remaining assets on the list and add new unique identifiers or more thorough descriptions to the asset records in Workday. Only then can Denver Golf ensure the physical count of inventory is 100% accurate.
CONCLUSION

While Denver Golf implemented five recommendations made in the “Golf Enterprise Fund Management” audit report, nine others have yet to be acted upon or fully implemented. Auditors determined the risks associated with the audit team’s initial findings have not been fully mitigated.

For example, without a strategic plan, Denver Golf cannot ensure it makes decisions based on a well-defined direction. Further, without financial policies and procedures, employees may not fully understand how to perform certain processes and the agency risks losing institutional knowledge with the loss of key employees. As a result of the remaining risks, the Audit Services Division may revisit these areas in future audits to ensure appropriate corrective action is taken.

On behalf of the citizens of the City and County of Denver, we thank staff and leadership from Denver Golf and the Department of Parks and Recreation for their cooperation during our follow-up effort and for their dedicated public service.
The **Auditor** of the City and County of Denver is independently elected by the citizens of Denver. He is responsible for examining and evaluating the operations of City agencies and contractors for the purpose of ensuring the proper and efficient use of City resources. He also provides other audit services and information to City Council, the Mayor, and the public to improve all aspects of Denver’s government.

The **Audit Committee** is chaired by the Auditor and consists of seven members. The Audit Committee assists the Auditor in his oversight responsibilities regarding the integrity of the City’s finances and operations, including the reliability of the City’s financial statements. The Audit Committee is structured in a manner that ensures the independent oversight of City operations, thereby enhancing citizen confidence and avoiding any appearance of a conflict of interest.

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