
City of Laredo, Texas

Internal Audit Division



Special Assignment: Audit of the Max Mandel
Municipal Golf Course Leasehold / Management
Agreements

August 12, 2016

EXECUTIVE SUMMARY

On December 1, 2014, the City of Laredo City Council, as a whole, requested that an audit be conducted on the Max Mandel Municipal Golf Course (The Max), as a result of operating losses that were generated from operations. Subsequently, on January 21, 2015, the Internal Audit Division presented an amended audit plan, which included this particular priority audit, for approval by the City Council. Specifically, the objective of this audit was to determine if the contract requirements noted in the Leasehold / Management Agreements between The Max's operator, Foresight Laredo Golf, LLC (Foresight) and the City of Laredo were being monitored and complied with. Additionally, the City of Laredo, at that time, was absorbing the operating losses of The Max, so another objective was to attempt to reconcile and verify the financial losses of the operations of the golf course. A brief summary of the audit results and recommendations follows below.

Non-Compliance with Reporting Requirements

- Most of the reports required as per the Permanent Leasehold / Management Agreement were not submitted by Foresight to City staff for review and analysis.
- Conversely, City staff did not follow-up with Foresight, in writing, to obtain the required reports.

We are recommending that the Operator meet with City staff responsible for contract management oversight of The Max on a regular basis to maintain an open dialogue regarding the reporting requirements of the Leasehold / Management Agreements.

Additionally, we are recommending that a Contract Management Plan be developed and implemented by designated City staff as a monitoring tool that will assist City staff with continuous verification and documentation of the Operator's performance. We would, also, recommend that either The Max's Operator or designated City staff provide regular updates to City Council on the performance of the golf course.

Unverified Net Losses

Operating losses noted for the sample time period of January 1, 2014 through December 31, 2014 could not be reconciled and verified as part of this audit since the supporting documentation requested was not submitted.

We would recommend that an independent audit be required every two years, at a minimum, to provide additional assurance of financial statements submitted.

Other Observation: Financial Statement Assurance

The financial statements submitted by Foresight's Certified Public Accountant (CPA) were noted as an Independent Accountant's Compilation Report which means that the CPA must comply with Statements on Standards for Accounting and Review Services (SSARS); however, does not obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

It is recommended that a level of service regarding the financial statements be agreed to between the City and The Max Operator that provides adequate assurance to both parties.

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BACKGROUND

The City of Laredo (City) solicited proposals from qualified golf operators with extensive experience in managing golf facilities back in 2010 in order to find an operator for the Max Mandel Municipal Golf Course (The Max). At the City Council meeting of April 19, 2010, Foresight Golf, LLC (Foresight) was selected and approved by City Council, from the submitted proposals, to operate The Max. Subsequently, on June 21, 2010, the City entered into a consulting agreement with Foresight where they advised the City on the selection of the design build team, the planning, design, construction, grow-in and opening of the municipal golf course. Thereafter, on September 4, 2012, City Council approved the following items:

- Foresight entered into an agreement with the City to perform the grow-in maintenance of the golf course at an estimated amount of \$180,000.

- A golf course Leasehold / Management Agreement (**Permanent**) with Foresight was approved by City Council for the operations of The Max and its amenities (to include a 9,040 square foot club house, with retail store, pro shop, restaurant, banquet room and all related operations of the golf course business). This agreement included the following provisions:
 - Lease rent based on net revenue with 50% due to City on an annual basis;
 - Lessee will contribute up to \$200,000 in capital funds;
 - Term of the lease for 10 years with three five-year options for renewal with mutual approval. Effective date of this agreement is date of certificate of occupancy for golf course clubhouse.

- A separate Leasehold / Management Agreement (**Temporary**) with Foresight was approved by City Council for the operations of The Max and its amenities for a time period not to exceed six (6) months of operation while the golf course clubhouse construction was completed. The council item presented at the time for the temporary leasehold / management agreement noted that *“given that the lessee based proforma revenues and expenses on a golf course equipped with a clubhouse, banquet facilities and not temporary facilities, the terms of the agreement have been modified to balance out risk by the lessee during this interim period.”*

As a result of the approval of this temporary agreement, certain sections of the permanent Leasehold / Management Agreement were modified. Specifically, the following sections were noted as modified:

- I. Leasehold and Rental
 - Section 1.1 Temporary Lease and Initial Term (Subsection 1.1.1)
 - Section 1.2 Rental (Subsections 1.3.1, 1.3.2)
- II. Scope of Services and Management Duties of Foresight
 - Section 2.1 General Scope of Services
 - Section 2.2 Capital Advances
- III. Duties of the City
 - Section 3.1 Communication with Foresight and Inspection
 - Section 3.2 Casualty Loss
 - Section 3.3 Capital Improvements

- Section 3.4 Payment of Costs (Subsections 3.4.1, 3.4.2)
 - IV. No Other Modifications
 - V. General Provisions
 - Section 5.1 Counterparts
 - Section 5.2 Controlling Law
 - Section 5.3 Contract Amendments
 - Section 5.4 Defined Terms and Entire Agreement

Under Section IV (No Other Modifications) of the temporary agreement, it states *“except as specifically modified or amended in this Temporary Agreement, all of the other terms, conditions and provisions of the Lease Agreement shall apply as the agreements of the parties pertaining to the Golf Course during the Temporary Term.”*

On October 19, 2012, the Max Mandel Municipal Golf Course was opened to the public without a clubhouse. At the time, provisions were made to have temporary facilities serve as a clubhouse while construction of the permanent clubhouse and banquet facility were completed. As part of the permanent Leasehold / Management Agreement approved, the responsibility for funding any negative cash flow each year fell solely on Foresight; however, one of the modifications made as per the temporary agreement stated that *“during the temporary term, Foresight shall not be solely responsible for negative cash flow, and in the event of negative cash flow, the parties will negotiate in good faith an allocation of responsibility for such negative cash flow”*(I. Leasehold and Rental, Section 1.2, Subsection 1.3.1). Due to this amendment, we were advised by City staff that the allocation of responsibility for any negative cash flow, at that time, fell solely on the City of Laredo.

Subsequently, on August 28, 2013, a ribbon cutting ceremony was held to mark the opening of the clubhouse, which included a restaurant, pro shop and banquet facility. Even after the permanent clubhouse was opened and operational, several items were presented to City Council for approval to extend the temporary leasehold / management agreement with Foresight and cover the negative cash flow generated. The first item was approved by City Council on April 7, 2014, and it read as follows:

“Consideration to extend the temporary leasehold / management agreement with Foresight Golf, LLC, for the operation of The Max A. Mandel Golf Course for a period of one (1) year from October 1, 2013 to September 30, 2014 for an amount of \$409,682.96 to cover estimated net losses for the 2014 fiscal year which include a \$56,250.00 management fee. Contract amount includes ratification of expenses in the amount of \$124,770.07 for the first quarter of FY 2014. Funding is available in General Fund (As Amended).”

The second item was approved by City Council on September 9, 2014, and it read as follows:

“Consideration to increase the temporary leasehold / management agreement with Foresight Golf, LLC by an amount of \$337, 511.00 for the operation of The Max A. Mandel Golf Course from October 1, 2013 to September 30, 2014 for a total of \$747,194.00 to cover estimated losses for the 2014 fiscal year. Funding is available in General Fund.”

AUDIT SCOPE AND METHODOLOGY

The scope of this audit included a compliance review of contract requirements noted in the Leasehold / Management Agreements authorized between the City of Laredo and Foresight Laredo Golf, LLC (Foresight). The time period reviewed for this audit covered October 1, 2013 through September 30, 2014; however, a modification was made during our audit to extend the time period to December 31, 2014, since Foresight's financial documentation was reflected by calendar year rather than fiscal year. Internal Audit obtained and reviewed the Permanent and Temporary Leasehold / Management Agreements approved by City Council on September 4, 2012. Pertinent City staff were interviewed regarding the Leasehold / Management Agreements and monitoring for reporting requirements. Additionally, the following source documentation was requested of Foresight, as part of our review for compliance with the **(Permanent)** Leasehold / Management Agreement.

- Net Cash Flow from Operations (Section 1.3.6 (of Leasehold / Management Agreement))

Following Reports Submitted Monthly as per Leasehold / Management Agreement (Section 2.4.4):

- Daily Summary Reports (should include Sales Reports, Tee Sheets, Concession Report & Play Report;
- Cost of Goods Sold / Inventory Reports;
- Prior Month's Profit & Loss Statements;
- Renewal & Replacement Fund Report;

Following Reports Submitted Annually Cumulative (based on Calendar Year) as per Leasehold / Management Agreement (Section 2.4.4):

- Profit & Loss Statement;
- Community Service Report;
- Marketing Report;
- Balance Sheet;
- Renewal & Replacement Fund Report;
- Proposed Operations & Capital Improvement Budget

Other Reports as Required by Permanent Leasehold / Management Agreement:

- Sales Tax Reports Submitted to Comptroller (Section 2.4.5);
- Youth Programs Development Plan Submitted (Section 2.6.5);
- Annual Marketing Plan (Section 2.12.1);
- Monthly Complaint Reports (Section 2.12.4);
- Certified Copies of All Insurance Policies (most current) (Section 2.14);
- Annual Review Report (Section 3.1.2)

A review of The Max operating revenue and expense documentation, reported by Foresight, was conducted in an effort to gain a better understanding of the overall revenue and expenditure streams that make up The Max operations, as well as, to attempt to reconcile the

operating losses reported for fiscal year 2014. The following source documentation was requested of Foresight.

- QuickBooks backup (with an assigned user and password);
- Monthly Financial Statement Reports;
- Monthly Balance Sheet;
- Monthly Income Statements;
- Monthly Cash Flow Statements;
- Monthly Expense Reports;
- Monthly Bank Reconciliation Reports; and
- Complete Monthly Bank Statements

AUDIT RESULTS AND RECOMMENDATIONS (FORESIGHT)

As mentioned previously, the review to monitor for contract compliance consisted of testing certain provisions of the Leasehold / Management Agreements for compliance. Specifically, the following provisions of the permanent agreement were tested for compliance:

- Section 1.3.6 (Rental – Net Cash Flow from Operations prepared by Certified Public Accountant);
- Section 2.4.4 (Recording, Reporting & Inspection of Books – Report Submittal);
- Section 2.4.5 (Recording, Reporting & Inspection of Books – Sales Tax Reporting);
- Section 2.6.5 (Community Functions & Involvement – Youth Programs Development Plan);
- Section 2.12.1 (Marketing, Sales & Public Relations – Marketing Plans);
- Section 2.12.4 (Marketing, Sales & Public Relations – Complaint Report);
- Section 2.14 (Insurance – Insurance Requirements);
- Sections 2.15.1, 2.15.2, 2.15.3 (Fees & Pricing – Fee Structure / Annual Review), and
- Section 3.1.2 (Communication with Foresight & Inspections – Annual Review)

A. Non-Compliance with Reporting Requirements

While it was explained to us that Foresight and City staff were in constant communication as to the operations and financial status of The Max, most of the reports required as per the Permanent Leasehold / Management Agreement were not submitted by Foresight to City staff for review and analysis. As part of our review, some of the source documentation requested by Internal Audit was received, and some was not; however, we checked for compliance with what should have been submitted to City staff (i.e. Financial Services) as part of the terms of the Permanent Leasehold / Management Agreement signed October 11, 2012. The required reports not submitted to City staff are reflected below. A checklist of the reports requested for the compliance testing with dates received by Internal Audit is attached (Exhibit 1).

- Annual Net Cash Flow from Operations not submitted to City staff.
- Daily Summary Report (Monthly) not submitted to City staff.
- Monthly Cost of Goods Sold / Inventory Reports were not submitted to City staff.
- While the current monthly Profit & Loss Reports were submitted to City (Budget) staff, the prior month's Profit & Loss Reports were not submitted along with the current as per the permanent agreement.
- Monthly Renewal and Replacement Fund Reports not submitted to City staff.
- Profit & Loss Statement (Annually Cumulative) not submitted to City staff.
- Community Service Reports not submitted to City staff. These reports were not received by us as per our request; however, Foresight explained that any indications of Community Service Initiatives might be noted in the Marketing Reports, if any.
- Marketing Report not submitted to City staff.
- Annual Balance Sheet not submitted to City staff.
- Monthly Renewal & Replacement Fund Reports not submitted to City staff.
- Proposed Operations & Capital Improvement Budgets for Calendar Years 2013 and 2014 were not provided to Internal Audit by Foresight. The only Proposed Operations

& Capital Improvement Budget provided to us by City staff was for Calendar Year 2015.

- Sales Tax Reports not submitted to City staff.
- Youth Programs Development Plan not submitted to City staff. Additionally, we did not receive this item as per our request.
- Annual Marketing Plan not submitted to City staff as per permanent agreement.
- Monthly Complaint Reports not submitted to City staff. These reports were not received by us as per our request; however, according to Foresight, they indicated that they were not aware of any complaints other than those brought to their attention by City staff.
- Fee Structures as part of the Annual Review Report not submitted to City staff or Internal Audit as per our request. According to Foresight, annual review meetings were not scheduled so these items were not compiled.
- Operations and Performance Review as part of the Annual Review Report not submitted to City staff or Internal Audit as per our request. According to Foresight, annual review meetings were not scheduled so these items were not compiled.

Recommendation(s)

It should be noted that the permanent agreement was very specific in its reporting requirements to the City. For example, Section 2.4 (Recording, Reporting and Inspection of Books) clearly specified the submittal of reports by Foresight to City staff, and was not one of the areas modified by the Temporary Leasehold / Management Agreement. Specifically, subsection 2.4.4 stated that “*Foresight shall provide weekly, monthly and annual reports to the City’s Finance Director and the City Manager. Reports to be submitted by Foresight as requested:*

Monthly

- *Foresight Daily Summary Report;*
- *Sales Report (as shown on the Foresight Daily Summary);*
- *Tee Sheets (included in the Foresight Daily Summary);*
- *Concession Report (shown on the Foresight Daily Summary);*
- *Play Report (shown on the Foresight Daily Summary);*
- *Cost of Goods Sold / Inventory Report;*
- *Prior Month’s Profit and Loss Statement;*
- *Renewal and Replacement Fund Report*

Annually Cumulative (based on calendar year)

- *Profit and Loss Statement;*
- *Community Service Report;*
- *Marketing Report;*
- *Balance Sheet;*
- *Renewal and Replacement Fund Report;*
- *Proposed Operations and Capital Improvement Budget”*

Additionally, Subsection 2.4.5 stated that “*Foresight shall be responsible for preparing in a timely manner and submitting to the City’s Finance Director all reports regarding State sales*

tax reporting and payment to the Texas Comptroller of Public Accounts on forms acceptable to the State Comptroller.”

The importance of the submittal of these reports cannot be stressed enough. These reports submitted as required per the permanent agreement, serve to not only inform City staff, but also assist City stakeholders in making informed decisions regarding the operations and oversight of The Max. We are recommending that designated City staff meet with the Operator to go over the importance of the reporting requirements as per the authorized agreement currently in place. Furthermore, frequent meetings between City staff responsible for contract management oversight and the Operator must occur in order to maintain an open dialogue regarding the operations of The Max, as well as the contractual obligations of all parties involved.

B. Unverified Net Losses

As we began to review the financial documentation submitted, we found that the reporting by Foresight was reflected by calendar year rather than fiscal year. With this in mind, we modified our sample on the financial review to coincide with calendar year 2014 rather than fiscal year 2014. As part of our financial review, we attempted to reconcile the monthly Profit & Loss (P & L) Reports submitted to the City with the Unaudited Statement of Income and Members’ Equity submitted to us for the year ended December 31, 2014, and an additional loss of \$5,079.34 was noted in the Statement of Income and Members’ Equity.

Summary Comparative Analysis between Monthly Profit & Loss Reports & Unaudited Statement of Income & Members Equity for the Calendar Year ended December 31, 2014			
	Monthly Profit & Loss (P&L) Reports Submitted to City	Unaudited Statement of Income & Members Equity from Operator’s CPA	Variance(s)
Gross Profit	\$1,608,805.27	\$1,605,807.64	(\$2,997.63)
Total Expenses	\$1,610,297.22	\$1,612,378.93	\$2,081.71
Net Income / (Loss)	(\$1,491.95)	(\$6,571.29)	(\$5,079.34)
Member’s Equity at Beginning of Year		(\$10,554.50)	
Member’s Equity at End of Year		(\$17,125.79)	

A complete comparative analysis reflecting all revenue and expenses recorded for calendar year ending December 31, 2014 is included under Exhibit 2. Unfortunately, we could not reconcile this additional loss because we were never provided with the QuickBooks export that was requested from Foresight. At one point, Foresight committed to providing us an Excel download of the QuickBooks data; however, that too was never provided to us.

In follow-up discussions with Foresight staff, it was explained to us that any differences on the expense side were due to invoices or entries that were made after the monthly P & L reports were submitted to the City but before Foresight finalized year end in an effort to get all expenses in to the correct year for tax filing purposes. On the revenue side, it was explained to us that any differences were most likely due to sales tax adjustments for tax collected incorrectly and for mixed beverage tax that was over and above the amount allowed to be charged as sales tax at the time of the sale.

Additionally, it should be noted that in the invoices submitted by Foresight to City staff for reimbursement of the monthly operating losses, no supporting documentation was submitted along with those invoices that would allow City staff to review and verify operating expenses.

Recommendation(s)

In an effort to verify future expenses submitted to the City for reimbursement of any operating losses, we would recommend that supporting documentation be submitted monthly along with any requests for reimbursement in an effort for City staff to review and question losses noted on the monthly Profit & Loss statements on a frequent basis. Additionally, we would recommend that an independent audit be required every two years, at a minimum, to provide additional assurance of financial statements submitted. All of these recommendations should be incorporated into the current leasehold / management agreement between the City and the Operator. More on Financial Statement Assurance is noted below on item C (Financial Statement Assurance).

Other Observation(s)

C. Financial Statement Assurance

As part of our financial review, we received an Independent Accountant's Compilation Report from Foresight's Certified Public Accountant (CPA) back on May 18, 2015, which included a Balance Sheet, Statement of Income and Members' Equity and Statement of Cash Flows for the year ending December 31, 2014 for Foresight Laredo Golf, LLC. While the Permanent Leasehold / Management Agreement required some financial statements to be submitted annually cumulative (such as the Profit and Loss Statement and Balance Sheet), it did not specify that said financial statements be prepared by a Certified Public Accountant (CPA); only the Net Cash Flow from Operations was specified to be prepared by a CPA.

Recommendation(s)

It is recommended that language be incorporated into future leasehold / management agreements with the Operator that annual financial statements be prepared by a Certified Public Accountant, and that said financial statements be submitted to the City no later than January 30 of each calendar year. Now, it should be noted that compiled financial statements prepared by a CPA are perfectly acceptable as per the American Institute of Certified Public Accountants (AICPA). The compilation of financial statements requires that the accountant is responsible for conducting the engagement in accordance with Statements on Standards for Accounting and Review Services (SSARS) issued by the AICPA; however, a compilation does not require performing inquiry, analytical procedures or other procedures performed in a

review or audit, so it is recommended that a level of service regarding the financial statements be agreed to between the City and The Max Operator that provides adequate assurance to both parties.

As a reference, according to the American Institute of Certified Public Accountants (AICPA), the level of service provided by a CPA with respect to financial statements is dependent on the client’s needs and what the client’s creditors and/or investors require. The AICPA states that “the higher the level of service required, the more time the CPA needs to complete the engagement and therefore the more costly the engagement. While privately held companies opt for compiled or reviewed statements, credit agreements with lenders often require audited statements.” The table below briefly explains the three (3) levels of service that can be provided by Certified Public Accountants with regard to financial statements.

Levels of Service Provided by Certified Public Accountants*			
	Compilation	Review	Audit
Level of Assurance Obtained that the Financial Statements are not Materially Misstated	Accountant does not obtain or provide any assurance that there are no material modifications that should be made to the financial statements.	Accountant obtains limited assurance that there are no material modifications that should be made to the financial statements.	Auditor obtains a high, but not absolute, level of assurance about whether the financial statements are free of material misstatement.
Assurance Provided to the User of the Financial Statements	None – The report states that no assurance is provided.	None – The report provides a statement that the accountant is not aware of any material modifications that should be made to the financial statements.	None – The auditor provides an opinion as to whether the financial statements present fairly, in all material respects, the company’s financial position, results of operations and cash flows.
The Accountant is Required to Obtain an Understanding of the Entity’s Internal Control & Assess Fraud Risk	No	No	Yes
The Accountant is Required to Perform Inquiry & Analytical Procedures	No	Yes	Yes

The Accountant is Required to Perform Verification & Substantiation Procedures	No	No	Yes
Situations Requiring Different Levels of Service	Generally appropriate for privately held companies and are often prepared for simple situations (i.e. the lender needs the comfort provided by knowing that an accountant read the financial statements).	Often prepared for privately held companies because of the requirements of outside third parties (such as banks, creditors and potential purchasers) that are looking for comfort that the financial statements are not materially misstated.	Often prepared to companies because outside third parties (such as banks, creditors, potential purchasers and outside investors) require an auditor's opinion on the financial statements.
Differences in Costs for Each Level of Service	Involves the lowest amount of work and as a result is far less costly than a review or audit.	More costly than a compilation but substantially lower in cost than an audit.	Involves the most work and therefore the cost is substantially higher than a review or compilation.

**Source: American Institute of Certified Public Accountants (AICPA).*

AUDIT RESULTS AND RECOMMENDATIONS (CITY)

A. Non-Compliance with Reporting Requirements

While our compliance review of Foresight Laredo Golf, LLC reflected that many of the required reports as per the permanent Leasehold / Management Agreement were not submitted to City staff, it seems that City staff did not follow-up with Foresight, in writing, to obtain the required reports.

Recommendation(s)

In reviewing the Permanent Leasehold / Management Agreement, we interpreted the purpose of the report submittal to City staff to be about the City having oversight regarding the performance of The Max's Operator. We are recommending that a Contract Management Plan be developed and implemented by designated City staff as a monitoring tool that will assist City staff with continuous monitoring, verification and documentation of the Operator's performance. As mentioned previously, designated City staff must hold frequent meetings with the Operator to maintain an open dialogue regarding the operations of The Max, through review and discussion of the required reporting. Ultimately, this oversight by City staff serves to keep all City stakeholders informed on the operations and financial status of The Max on a regular basis. In turn, we would recommend that either The Max's Operator or designated City staff provide regular updates to City Council on the performance of the golf course.

APPENDIX A – STAFF ACKNOWLEDGEMENT

Veronica Urbano-Baeza, Internal Auditor

Elia Rodriguez, Auditor II

EXHIBIT 1
City of Laredo
Internal Audit Division
Leasehold / Management Agreement (Permanent) Compliance Review Framework

Section #	Section Title	Section Language	Sample Time Period Requested	Date Request Made to Foresight	Report Submittal to Internal Audit	Compliance Checklist	
						Date Reports Received from Foresight	Finding(s) / Observation(s), if applicable
1.3.6	(Rental) - Net Cash Flow from Operations	"Foresight shall utilize the services of a Certified Public Accountant to calculate the Net Cash Flow From Operations and provide City with such records no later than January 30 of each calendar year."	As of January 30, 2014, January 30, 2015	January 15, 2015	Internal Audit only received January 30, 2015 (Calendar Year 2014) Net Cash Flow Report; Operator did not submit January 30, 2014 (Calendar Year 2013).	May 18, 2015	Annual Net Cash Flow from Operations not submitted to City staff.
2.4.4	Reporting & Inspection of Books) - Report Submittal	"Foresight shall provide weekly, monthly and annual reports to the City's Finance Director and the City Manager." <i>Breakdown of Required Reports Noted Below:</i>					
		Daily Summary Report (Includes Sales Reports, Tee Sheets, Concession Report and Play Report) (To be Submitted Monthly)	FY 2014 (Oct 2013 - Sept 2014)	January 15, 2015	Internal Audit received October 2013 - September 2014	February 12, 2015	Daily Summary Report (Monthly) not submitted to City staff as per Agreement.
		Cost of Goods Sold / Inventory Report (To be Submitted Monthly)	FY 2014 (Oct 2013 - Sept 2014)	January 15, 2015	Internal Audit received October 2013 - September 2014	April 7, 2015	Monthly Cost of Goods Sold / Inventory Reports were not submitted to City staff as per Agreement.
		Prior Month's Profit & Loss (P & L) Statements (To be Submitted Monthly)	FY 2014 (Oct 2013 - Sept 2014)	January 15, 2015	NOT PROVIDED BY FORESIGHT; Received Monthly P & L Statements from City Budget Office		Agreement stipulates that P & L's were supposed to be submitted with Prior Month's Profit & Loss Statements, only the monthly P&L's were submitted to Budget without the prior month's for verification of any adjustments.
		Renewal & Replacement Fund Report (To be Submitted Monthly)	FY 2014 (Oct 2013 - Sept 2014)	January 15, 2015	Internal Audit received a QuickBooks export into Excel on the Renewal & Replacement Fund for totals reflected from October 2013 through September 2014	April 7, 2015	Monthly Renewal and Replacement Fund Reports not submitted to City staff as per Agreement.
		Profit & Loss Statement (To be Submitted Annually Cumulative)	Certified by CPA for Calendar Year 2013; Calendar Year 2014	January 15, 2015	Internal Audit received the Annual Profit & Loss Statement for Calendar Year 2014 only; Foresight did not provide for Calendar Year 2013	May 27, 2015	Profit & Loss Statement submitted Annually Cumulative not submitted to City staff as per Agreement.
		Community Service Report (To be Submitted Annually Cumulative)	Calendar Year 2013; Calendar Year 2014	January 15, 2015			No Community Service Reports submitted to Internal Audit or City staff as per Agreement. Operator explained that only Community Service initiatives may be noted in the Marketing Reports, if any.
		Marketing Report (To be Submitted Annually Cumulative)	Calendar Year 2013; Calendar Year 2014	January 15, 2015	Internal Audit received Marketing Report for FY 2015 only.	February 12, 2015	Marketing Report not submitted to City staff as per Agreement

EXHIBIT 1
City of Laredo
Internal Audit Division
Leasehold / Management Agreement (Permanent) Compliance Review Framework

Section #	Section Title	Section Language	Sample Time Period Requested	Date Request Made to Foresight	Report Submittal to Internal Audit	Compliance Checklist	
						Date Reports Received from Foresight	Finding(s) / Observation(s), if applicable
		Balance Sheet (To be Submitted Annually Cumulative)	Certified by CPA for Calendar Year 2013; Calendar Year 2014	January 15, 2015	Internal Audit received report as of January 30, 2015 (Calendar Year 2014; Foresight did not submit for January 30, 2014 (Calendar Year 2013).	May 18, 2015	Annual Balance Sheet not submitted to City staff as per Agreement.
		Renewal & Replacement Fund Report (To be Submitted Annually Cumulative)	Calendar Year 2013; Calendar Year 2014	January 15, 2015	Internal Audit received a QuickBooks export into Excel on the Renewal & Replacement Fund for totals reflected from October 2013 through September 2014	April 7, 2015	Monthly Renewal and Replacement Fund Reports not submitted to City staff as per Agreement.
		Proposed Operations & Capital Improvement Budget (To be Submitted Annually Cumulative)	Calendar Year 2013; Calendar Year 2014	January 15, 2015	NOT PROVIDED BY FORESIGHT; Internal Audit received FY 2014 Operating Budget from City Budget staff only		Not provided by Operator as per our request.
	(Recording, Reporting & Inspection of Books) - 2.4.5 Sales Tax Reporting	"Foresight shall be responsible for preparing, in a timely manner, and submitting to the City's Finance Director all reports regarding State sales tax reporting and payment to the Texas Comptroller of Public Accounts on forms acceptable to the State Comptroller. "	FY 2014 (Oct 2013 - Sept 2014)	January 15, 2015	Internal Audit received FY 2014 (October 2013 - September 2014) from Foresight	March 23, 2015	Sales Tax Reports not submitted to City staff as per Agreement.
	(Community Functions & Involvement) - Youth Programs Development 2.6.5 Plan	"Promote and grow the game of golf with the youth and adults in the community in accordance with the terms and provisions of the Youth Programs Development Plan attached hereto as Exhibit "E" and incorporated by reference." (Request Original Youth Programs Development Plan submitted and any amendments)	Calendar Year 2013; Calendar Year 2014	January 15, 2015			No Youth Programs Development Plan provided as per Agreement.
	(Marketing, Sales & Public Relations) - Marketing Plans 2.12.1	"Foresight will work together with the City and mutually agree on an annual marketing, sales and public relations plan." (Request Marketing Plan approved by both parties; monthly report on results to City Manager)	Calendar Year 2013; Calendar Year 2014	January 15, 2015	Internal Audit received FY 2015 Marketing Plan only. No additional fiscal years submitted by Foresight	February 12, 2015	Marketing Plans not submitted to City staff as per Agreement
	(Marketing, Sales & Public Relations) - Complaint Report 2.12.4	"Foresight will report public complaints monthly in writing (hereinafter referred to as "Complaint Report") to the City Manager." (Request Monthly Complaint Reports)	FY 2014 (Oct 2013 - Sept 2014)	January 15, 2015			According to Foresight, they were not aware of any complaints other than those brought to their attention by City staff, so no Monthly Complaint Reports were provided to City staff as per Agreement.
	(Insurance) - Insurance Requirements 2.14	Expense of the Golf Course insurance at its sole cost and expense (except as indicated otherwise): Commercial General Liability, Workers Compensation, Commercial Automobile Liability, General Liability Policy (herbicide, pesticide & fertilizer application & storage coverage), Umbrella Liability Insurance, Liquor Liability Insurance, Property Insurance, etc.	Most Current Certified Copies of Insurance Policies	January 15, 2015	Internal Audit received copies of certificates of insurance covering the term of February 12, 2015 through February 12, 2016.	March 20, 2015	

EXHIBIT 1
City of Laredo
Internal Audit Division
Leasehold / Management Agreement (Permanent) Compliance Review Framework

Section #	Section Title	Section Language	Sample Time Period Requested	Date Request Made to Foresight	Report Submittal to Internal Audit	Date Reports Received from Foresight	Compliance Checklist	
							Findings(s) / Observation(s), if applicable	
2.15.1; 2.15.2; (Fees & Pricing) - Fee Structure / Annual Review		"Foresight will propose and recommend to the City all fee structures on an annual basis during the Annual Review." "Foresight shall provide a geographic and industry competitive analysis of fee structures for review by the City." "All set fees shall be mutually agreeable by the City and Foresight." (Request Fee Structures submitted and approved by both parties)	FY 2014 (Oct 2013 - Sept 2014)	January 15, 2015	No Annual Review (Fee Structure) provided by Foresight		According to Foresight, annual review meetings were not scheduled so these items were not compiled. No Annual Review Report was provided to Internal Audit or City staff as per agreement.	
3.1.2	(Communication with Foresight & Inspections) - Annual Review	"Annually, representatives of Foresight and the City Manager or City Manager's designee shall meet at the offices of the City or such other mutually acceptable location, to review the operations and performance of Foresight under this lease for the prior year (the "Annual Review")." Annual Review encompasses examination of (1) financial performance; (2) operations of the golf course; (3) Foresight's performance under the "Performance Stds"; (4) proposed capital improvement projects (to be funded by Renewal & Replacement Fund); (5) any other information deemed material to operations. (Request Annual Review Report)	FY 2014 (Oct 2013 - Sept 2014)	January 15, 2015	No Annual Review (Communication with Foresight & Inspections) provided by Foresight		According to Foresight, annual review meetings were not scheduled so these items were not compiled. No Annual Review Report was provided to Internal Audit or City staff as per agreement.	

EXHIBIT 2

Reconciliation of Monthly Profit & Loss Reports Submitted to the City of Laredo with Unaudited Financial Statements for the Calendar Year Ending December 31, 2014

	Foresight Monthly Profit & Loss (P&L) Reports	Unaudited Stmt of Income & Members Equity from Foresight CPA	Variance(s)
REVENUE			
Golf Course Sales	\$ 741,148.62	\$ 739,590.69	\$ (1,557.93)
Grill Revenue	\$ 319,862.47	\$ 318,579.70	\$ (1,282.77)
Banquet Revenue	\$ 16,280.12	\$ 16,236.44	\$ (43.68)
Reimbursed Expenses	\$ 740,867.75	\$ 740,816.70	\$ (51.05)
Total Revenue	\$ 1,818,158.96	\$ 1,815,223.53	\$ (2,935.43)
COST OF GOODS SOLD			
Golf Course	\$ 58,464.61	\$ 58,464.61	\$ -
Food and Beverage	\$ 150,889.08	\$ 150,951.28	\$ 62.20
Total Cost of Goods Sold	\$ 209,353.69	\$ 209,415.89	\$ 62.20
GROSS PROFIT	\$ 1,608,805.27	\$ 1,605,807.64	\$ (2,997.63)
EXPENSES			
General Administration			
Payroll Expense	\$ 163,395.40	\$ 162,882.48	\$ (512.92)
Amortization	\$ -	\$ 543.00	\$ 543.00
Bank Service Charges	\$ 715.51	\$ 697.51	\$ (18.00)
Charitable Contributions	\$ 3,280.50	\$ 3,280.50	\$ -
Credit Card Fees	\$ 19,287.25	\$ 19,287.25	\$ -
Dues & Subscriptions	\$ 1,059.06	\$ 1,059.06	\$ -
Employment Expense	\$ 2,289.04	\$ 2,289.04	\$ -
Fuel and Mileage	\$ 7,220.62	\$ 7,355.02	\$ 134.40
Insurance	\$ 16,153.28	\$ 16,153.28	\$ -
IT Expense	\$ 6,637.82	\$ 6,890.52	\$ 252.70
Miscellaneous	\$ 711.46	\$ 711.46	\$ -
Office Expense	\$ 665.16	\$ 665.16	\$ -
Postage	\$ 2,216.25	\$ 2,216.25	\$ -
Management Fee	\$ 75,000.00	\$ 75,000.00	\$ -
Printing	\$ 241.57	\$ 241.57	\$ -
Professional Fees	\$ 4,632.73	\$ 4,632.73	\$ -
Software Lease	\$ 5,196.00	\$ 5,196.00	\$ -
Property Taxes	\$ 825.29	\$ 825.29	\$ -
Telephone	\$ 1,475.39	\$ 1,475.39	\$ -
Training	\$ 338.07	\$ 338.07	\$ -
Travel	\$ 18,874.88	\$ 18,861.37	\$ (13.51)
Total General Administration	\$ 330,215.28	\$ 330,600.95	\$ 385.67
Golf Course Maintenance			
Payroll Expenses	\$ 402,018.82	\$ 402,323.74	\$ 304.92
Automobile Expense	\$ 1,019.18	\$ 1,019.18	\$ -
Chemicals	\$ 16,246.42	\$ 16,246.42	\$ -
Dues and Subscriptions	\$ 180.00	\$ 180.00	\$ -
Fertilizer	\$ 27,873.22	\$ 27,873.22	\$ -
Gasoline and Fuel	\$ 31,559.58	\$ 31,559.58	\$ -
Licenses	\$ 122.95	\$ 122.95	\$ -
Miscellaneous	\$ 2,310.92	\$ 2,310.92	\$ -
Office Expense	\$ 769.73	\$ 769.73	\$ -
Rental and Leases	\$ 100,271.89	\$ 100,271.89	\$ -
Repair and Maintenance - Equipment	\$ 59,330.28	\$ 58,611.89	\$ (718.39)
Repair and Maintenance - Irrigation	\$ 7,462.53	\$ 7,462.53	\$ -
Sand	\$ 6,522.05	\$ 6,522.05	\$ -
Security	\$ 1,913.58	\$ 1,913.58	\$ -
Seed, Sod, and Plants	\$ 729.86	\$ 729.86	\$ -
Signage - Golf Course	\$ 329.73	\$ 329.73	\$ -

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	Foresight Monthly Profit & Loss (P&L) Reports	Unaudited Stmt of Income & Members Equity from Foresight CPA	Variance(s)
Small Tools	\$ 6,050.29	\$ 6,632.68	\$ 582.39
Supplies	\$ 9,675.09	\$ 9,675.09	\$ -
Telephone	\$ 1,530.61	\$ 1,530.61	\$ -
Training	\$ 1.60	\$ 1.60	\$ -
Trash Removal	\$ 1,747.85	\$ 1,747.85	\$ -
Water Rights - Irrigation	\$ 601.34	\$ 601.34	\$ -
Total Golf Course Maintenance	\$ 678,267.52	\$ 678,436.44	\$ 168.92
Golf Pro Shop			
Payroll Expenses	\$ 214,459.04	\$ 214,650.50	\$ 191.46
Dues and Subscriptions	\$ 900.25	\$ 900.25	\$ -
Fuel	\$ 994.35	\$ 994.35	\$ -
Golf Cart Lease	\$ 74,009.66	\$ 74,009.66	\$ -
Licenses	\$ 515.00	\$ 515.00	\$ -
Marketing	\$ 47,365.65	\$ 47,365.65	\$ -
Miscellaneous	\$ 418.43	\$ 1,579.83	\$ 1,161.40
Office Expense	\$ 595.65	\$ 595.65	\$ -
Paper Supplies	\$ 1,297.90	\$ 1,297.90	\$ -
Postage	\$ 169.26	\$ 169.26	\$ -
Range Balls	\$ 2,772.00	\$ 2,772.00	\$ -
Rental and Leases	\$ 1,523.88	\$ 1,523.88	\$ -
Repair and Maintenance - Equipment	\$ 3,058.51	\$ 3,058.51	\$ -
Security	\$ 1,164.77	\$ 1,164.77	\$ -
Signage	\$ 82.27	\$ 82.27	\$ -
Supplies	\$ 8,827.89	\$ 8,827.89	\$ -
Telephone	\$ 5,785.40	\$ 5,785.40	\$ -
Television	\$ 2,249.43	\$ 2,249.43	\$ -
Tournament Expenses	\$ 983.59	\$ 983.59	\$ -
Training	\$ 1,045.20	\$ 1,045.20	\$ -
Trash Removal	\$ 1,215.28	\$ 1,215.28	\$ -
Total Golf Pro Shop	\$ 369,433.41	\$ 370,786.27	\$ 1,352.86
Food and Beverage			
Payroll Expenses	\$ 178,742.80	\$ 178,812.38	\$ 69.58
Fixtures and Decorations	\$ 1,887.85	\$ 1,887.85	\$ -
Dues and Subscriptions	\$ 126.50	\$ 126.50	\$ -
Licenses	\$ 6,277.00	\$ 6,277.00	\$ -
Marketing - Banquet	\$ 32.41	\$ 32.41	\$ -
Miscellaneous	\$ 2,006.73	\$ 2,006.73	\$ -
Office Expense	\$ 1,279.12	\$ 1,279.12	\$ -
Pest Control	\$ 546.56	\$ 546.56	\$ -
Rental Equipment	\$ 6,133.26	\$ 6,234.15	\$ 100.89
Repair and Maintenance - Equipment	\$ 3,804.72	\$ 3,804.72	\$ -
Security	\$ 902.73	\$ 902.73	\$ -
Supplies	\$ 16,514.26	\$ 16,518.05	\$ 3.79
Telephone	\$ 235.16	\$ 235.16	\$ -
Utilities - Propane Gas	\$ 12,676.63	\$ 12,676.63	\$ -
Trash Removal	\$ 1,215.28	\$ 1,215.28	\$ -
Total Food and Beverage	\$ 232,381.01	\$ 232,555.27	\$ 174.26
Total Expenses	\$ 1,610,297.22	\$ 1,612,378.93	\$ 2,081.71
Net Income/(Loss)	\$ (1,491.95)	\$ (6,571.29)	\$ (5,079.34)

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Reconciliation of Monthly Profit & Loss Reports Submitted to the City of Laredo with Unaudited Financial Statements for the Calendar Year Ending December 31, 2014

	<u>Foresight Monthly Profit & Loss (P&L) Reports</u>	<u>Unaudited Stmt of Income & Members Equity from Foresight CPA</u>	<u>Variance(s)</u>
MEMBER'S EQUITY AT BEGINNING OF YEAR		\$ (10,554.50)	
MEMBER'S EQUITY AT END OF YEAR		<u>\$ (17,125.79)</u>	