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March 9, 2011

Tim D. Fernau, Director
Salt Lake County Golf
2001 South State Street #S4900
Salt Lake City, UT 84190

RE: Auditor's Office Review of New Club Fitting Service

Dear Tim:

At your request, our office has reviewed operations for the newly contracted club-fitting service at South Mountain Golf Course to determine whether proposed procedures related to cash handling and revenue distribution comply with Countywide policy and best business practices. We also reviewed the **Agreement between Salt Lake County and Skeletgolf** (the Contract), dated September 20, 2010. On December 1st, Larry Decker met with head professional, Jerry Brewster, and the Contractor, Mike Lewis, at South Mountain Golf Course to view operations and discuss fee collection. Mike does business as SkeletGolf, the named party in the Agreement with Salt Lake County. This followed our initial meeting on November 17th that also included Paul Ross, Jerry Brewster, Brian Schramm, and from the Auditor's Office, Larry Decker and me.

With initiation of this service, all six County golf courses will essentially eliminate the investment in club inventory for re-sale to the public. Customers wanting to purchase golf clubs now have the option of consulting with Mike Lewis, a contracted golf professional, at South Mountain where facilities have been set up for this purpose. With the aid of computerized equipment, Mike performs the club fitting process. He analyzes the golfer's technique, position, and motion while swinging at the golf ball; and, based on this analysis recommends golf clubs for purchase.

The analysis takes place in a performance lab at South Mountain licensed by golf merchandise retailer, TaylorMade. A room at South Mountain was recently remodeled and outfitted according to TaylorMade's specifications and design, including cabinetry, a net to stop the trajectory of the ball, and cameras and computer equipment to aid in the analysis. The cost of these modifications was borne solely by the Contractor.

As part of the club fitting service, golfers wear a sensor-filled suit and cap. They also use a club attached with sensors which help analyze their golf swing. Six cameras situated throughout the room capture and transmit the image and data from the sensors to a computer. A 3-D moving image of the customer's swing is saved and can be viewed on a monitor. Also, a separate sensor placed close to the golf ball records speed, distance, angle and other related factors.

During the process, Mike experiments with different club heads to determine which one best suits the customer's play.

The club fitting service currently costs \$150, a fee that will increase to \$200 in March, 2011. The contractor retains the entire amount except when the purchase is made by gift card at one of the County golf courses. In these cases the Golf Courses retain 50%. The 50% share is designed to recover some of the loss incurred from unspent money charged to gift cards that would ordinarily be spent in the pro shop.

Golf course management has established the following procedures to help ensure correct remittance of this 50% share to the contractor.

- At the point of sale for gift card transactions, the golf-course cashier, at the County golf course where the transaction takes place, provides the customer a receipt for \$150. The transaction posts to an SKU number set up in Active Golf for club fitting payments. Management should ensure that this SKU is set up to track these transactions.
- The customer presents the receipt to the Contractor for the club fitting service at South Mountain golf course.
- The Contractor submits an invoice to the County for payment of his 50% share. He attaches supporting receipt copies collected from customers during that month, along with a spreadsheet listing and providing a summary total of the receipts.
- The head professional submits the invoice and supporting documentation to Parks & Recreation fiscal management for processing through the purchasing system.
- For record's retention purposes, the Contractor provides the original receipts to the South Mountain head professional for retention on file. The head professional makes copies of the receipts for submission with the invoice.
- Aside from club fittings charged to gift cards, no club fitting transactions will be processed through point-of-sale terminals at the golf courses. For payments made by any other means, customers will pay the Contractor directly at South Mountain.

In addition to the club fitting service, the contractor will sell golf clubs and provide golf instruction. Golf equipment the Contractor sells may be from any vendor, including TaylorMade, though he does receive a 5% spiff (sales incentive) from TaylorMade on the total sales price of their merchandise. The Agreement with the Contractor specifies remittance of a commission to the County for these sales and services, plus a monthly rent on facilities, based on the following:

- 10% of monthly gross sales on golf clubs
- 20% of earnings from lessons
- \$75 monthly room rental fee to offset utilities costs

Currently, the Contractor tracks sales in an Excel spreadsheet and summarizes data from the spreadsheet on a transmittal document submitted to the South Mountain head professional. The Contractor also calculates the share due to Salt Lake County based on the percentages shown above.

As an added control, we recommend that the Contractor include the Excel spreadsheet of sales detail. However, the spreadsheet provided to the County by the Contractor should be modified from its current format to include only information relevant to remittances he gives the County and payments from the County he requests for 50% of club fitting fees. Therefore, information that should be included is as follows:

1. A listing of all individual golf club sales, with a separate column indicating a numerically consistent customer-receipt number associated with each sale.
2. A listing of all club-fitting services paid on gift cards, supported by receipts submitted by customers.
3. The names of customers associated with these transactions may be included on the spreadsheet as agreed by County golf management and the Contractor. However, any type of customer personal identifiers, e.g., address, phone number, payment card number, etc., must not be listed.

To comply with #1 above, the Contractor must obtain a receipt book, with sequentially numbered receipts, and list golf club sales receipts issued, by number, on the spreadsheet. Compliance with #2 above has been previously discussed. A copy of our recommended spreadsheet format is attached to this letter as Exhibit A.

All golf lesson fees, including those provided by the Contractor, should be paid and processed through the point-of-sale cash registers at South Mountain, or other County golf course, as the case may be. The Contractor will be issued his 20% share by the head professional at South Mountain, as is the practice with lessons provided by other County golf professionals.

We also noted that the Contract does not specify that the Auditor's Office may have free access to contractor records. Such a provision should be included to allow the Auditor's Office, at its discretion, to verify whether remittances were complete and accurate.

Both the Contractor and Salt Lake County golf professionals see this new service as not only providing additional revenue but also preventing theft that might otherwise occur from golf club inventory on the sales floor.

We concur with the above outlined procedures for handling golf club-fitting receipts and remitting payment to the contractor for these services paid with a gift card. We also concur with the procedure described above whereby the Contractor remits payment to the County for commission on sales and space rental, subject to the minor recommendation noted. The latter procedure essentially follows the one currently set forth in contracts with other Golf Course concessionaires.

Finally, we have also been assured by the parties that the Contractor's records will be made available to Golf Course personnel and the Auditor's Office for review. We appreciate your proactive request for a review of these procedures. Please feel free to contact us with any further questions.

Sincerely,

James B. Wightman, C.P.A., Director
Compliance and Performance Assessment

Cc: Michelle Nekota
Nilsa Carter
Lori Okino
Paul Ross
Jerry Brewster
Brian Schramm