


**FOR INFORMATION ONLY**

CITY OF LOS ANGELES  
Department of Recreation and Parks

October 1, 2003

**TO:** BOARD OF RECREATION AND PARK COMMISSIONERS

**FROM:**   
MANUEL A. MOLLINEDO  
General Manager

**SUBJECT:** AUDIT OF OPERATIONAL REVENUES AND EXPENSES  
FOR THE GOLF DIVISION

An interest in establishing an Enterprise System for golf has been expressed by the Mayor, City Council and the Council's Budget and Finance Committee, City Legislative Analyst, City Administrative Officer, and the Golf Advisory Committee at various points in the 03-04 budget process. A thorough and complete understanding of golf operational revenues and expenses which at this time can only be reported to a certain degree of accuracy, is essential to the development of an Enterprise System. However, many associated costs, such as overhead, benefits, and utility or other support costs, can only be estimated based on the City Controller's Cost Allocation Plan. Internal Department cost accounting reports do not currently provide sufficient accuracy on salary expenditures and material expenses. Department staff believes that the golf program is currently supporting the full cost of its operations and, through its Surcharge Fund, all capital improvements. However, the City Administrative Officer has reported that golf operations are subsidized by the general fund in the amount of \$4.5 million per year. At the July 9 Board meeting, staff was instructed by the Board to report on an implementation strategy for securing an audit of operational revenues and expenses for the Golf Division.

To help understand how the golf program will be able to meet future financial performance expectations and to determine the feasibility of establishing an Enterprise System, staff will be securing the services of an independent outside auditor through the City Controller's Office. Staff met with a representative from Macias, Gini & Company (MGC) on September 16th to discuss the development of a comprehensive 2-year Profit and Loss Statement for the Golf Division and to analyze operational revenues and expenses. MGC is on contract with the City for auditing services and has previously performed the City's own annual audit. Staff will work closely with MGC to further define the scope of work, but it is anticipated that the end product will be a two-tiered analysis of the golf program as follows:

- 1) "Compilation" of the past two fiscal years that fairly and accurately reflect the revenues, expenses and change in net assets of the golf program under governmental accounting standards. Statements will be used to determine whether or not the Golf Division has been supporting itself

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and can support itself under an Enterprise System. Staff will work with MGC to develop an industry friendly reporting format that can be used to compare the City's golf operation against other similar organizations.

If required for the establishment of an Enterprise System, MGC may also be required by the City Controller, City Administrative Officer, or City Legislative Analyst to render "Audited Statements" for Fiscal Years 00/01, 01/02 and 02/03.

2) Provide an SAS 75 "Agreed Upon Procedures Engagement" involving the performance of procedures to determine whether the internal control framework is satisfactory and where it is not, to make recommendations for improvement.

At the meeting of September 16th, MGC indicated that analysis of golf operations could begin in early October with a report completed in four months. The price estimated for this audit service is \$65,000. If a forecast of revenue and expense for 2003-2004 through 2007-2008 is required to establish an Enterprise System, another \$10,000 would be required. Funding is available in the Golf Surcharge Account (321K) Unallocated Balance.


This report prepared by John L. Mallon II, Golf Manager.

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**FROM:**   
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General Manager

**SUBJECT:** FEASIBILITY OF ASSUMING OPERATIONS OF LOS ANGELES WORLD  
AIRPORT (LAWA) GOLF COURSES

At the July 9, 2003, Board meeting, the Board instructed staff to report back on the Department assuming operations of the golf courses on LAWA property.

In late 1999, the Mayor and City Council requested the Department of Recreation and Parks and the LAWA to conduct an analysis on the economic and operational feasibility of the City taking over the operations and maintenance of the Van Nuys and Westchester Golf Courses. Staff from Recreation and Parks proceeded to draft a proposal and Memorandum of Understanding with LAWA to operate those facilities and initiated a review process through appropriate community advisory groups and commissions.

The Golf Advisory Committee reviewed the proposal on September 25, 2000, and concurred with the Department's plan to operate the Van Nuys Golf Course but withheld a decision on Westchester pending additional information.

The Van Nuys Community Advisory Council did not concur with the Department proposal, citing the fact that they previously approved renewal of the current operator's agreement. Further, due to overwhelming public sentiment, they approved a Motion recommending the renewal of the existing contractor's agreement with a one-time exception to the City's competitive bid process. The Department also encountered significant opposition from the Westchester community. Faced with overwhelming opposition from both communities, the Department dropped its efforts to operate the LAWA golf courses.

Assistant General Manager Jim Combs and Golf Manager John Mallon met with Airport staff (Paul Green, Chief Operating Officer, Richard M. Janisse, Deputy Executive Director and Mary Albers, Executive Assistant) on September 11, 2003, at which time LAWA officials were quite willing to discuss the Van Nuys and Westchester golf courses and potential management by the Department. Among the topics that were discussed at the meeting were the 2000 attempt to transfer the courses, community and golfer support, amount of capital improvement dollars needed, FAA restrictions, method of transfer (i.e. RFP/MOU), communication between our

Boards, and the possibility of a \$1.00 annual lease. Airport staff indicated that both courses are currently being operated on month to month leases. At the conclusion of the meeting Mr. Janisse asked that the Department submit a letter outlining its proposal so they could review and respond.

Having the Department operate Van Nuys and Westchester golf courses would provide benefits to the entire City of Los Angeles. Both facilities address service needs in their respective communities and are located in very strong market areas (median household incomes are 17% to 20% higher than County average). Van Nuys provides an affordable Par 3 (18 hole, 2,181 yards) and 9-hole Executive course (par 30 of 1,691 yards) with a 42 station night lighted range with synthetic turf. Westchester consists of a 15-hole executive-length course and an eighty-stall driving range, clubhouse and support facilities. Both facilities develop future customers for the City golf system by providing non-intimidating settings for juniors, beginning golfers, as well as seniors. The number of juniors in the Van Nuys and Westchester Golf Course vicinities is among the highest in Southern California.

The Analysis of Economic Performance for Van Nuys and Westchester golf courses completed by Economic Research Associates in April 2000 concluded that both courses could be profitable operations provided the MOU was structured appropriately. Projected costs to renovate Van Nuys were from \$4.5 to \$5.5 million and from \$9 to \$13 million at Westchester which could be financed through various methods.

Staff proposes to update the Economic Analysis of April 2000, and make new projections using City Ownership/Maintenance/Operations and Fees versus an Outside Management firm and Market Rates versus a Facility Lease with Market Rates. Staff would thereafter send a letter of proposal to the Airport and meet with representatives from both communities.

As previously demonstrated, community support for the assumption of LAWA golf operations by the Department is critical to the success of this effort.

This report prepared by John L. Mallon II, Golf Manager