The Crossings at Carlsbad Golf Course
REPORT

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INTRODUCTION

Scope and Objectives

- Assess JC Management's compliance with sexual harassment policies and procedures and other mandated guidelines
- Research the current golf market and review The Crossings' overall financial health against other Southern California municipal golf courses to its assess financial sustainability
- Assess the financial performance of the pro shop and food and beverage
- Determine whether the responsible city divisions provide adequate oversight of and services to The Crossings

Methodology

- Interviewed JC Management and city staff
- Reviewed JC Management and city policies
- Researched federal and state laws, regulations, and best practices related to sexual harassment in the workplace
- Reviewed JC Management's human resources files of its employees at The Crossings
- Attended monthly Golf Course Steering Committee meetings including representatives from JC Management and the city
- Researched the current golf market and other municipal golf courses in the region
- Analyzed the Golf Course Enterprise Fund and The Crossings' finances

Summary of Conclusions

- At the end of fiscal year 2018-19, the city had advanced and transferred approximately $76.3 million from the General Fund to the Golf Course Enterprise Fund for The Crossings' construction, debt service payments, and a portion of its operating costs. Although operating revenues at The Crossings have grown in recent years, various factors indicate golf course revenues may not be sufficient to repay the city's General Fund for previously advanced funds.
- The golf course steering committee can enhance its oversight of The Crossings by requesting internal audits performed by JC Management and ensuring the city adheres to various requirements in the management agreement.
- JC Management largely complied with human resources laws related to the prevention, detection and investigation of sexual harassment. Although several former supervisors did not receive sexual harassment training in the required time frame, current supervisors are up-to-date with training requirements. The city's contract with JC Management includes appropriate language addressing sexual harassment prevention at The Crossings and providing additional liability protection for the city.

Background

In April 2000, the City Council of the City of Carlsbad and the Board of Directors of the Carlsbad Municipal Water District formed the Carlsbad Public Financing Authority, a joint powers authority, to assist with the financing, construction, and management of the daily operations of a municipal golf course. The city built the golf course using funds from both revenue bonds and the city's General Fund. The Crossings at Carlsbad opened to the public in the summer of 2007. Appendix B of this report provides a timeline of key historical events from inception of the golf course to the present day. Figure 1 below provides an at-a-glance summary of the property.

Figure 1: At-a-glance summary of The Crossings at Carlsbad

Property offerings	Public 18-hole championship golf course, golf shop, wedding venue, private event space, Canyons Restaurant, Player's Lounge Bar, practice facility
Property size	Approximately 400 acres including 6,835 yard course
Ownership	City owns all property and leases it to the Carlsbad Public Financing Authority
Management structure	Authority contracts with outside firm to manage operations
Current management company	JC Management, LLC
Current management fee structure	Fixed fee $135,000 / year Plus a percentage fee of 5.5% of total gross revenues in excess of $5 million, not to exceed the fixed fee amount*
Current debt service	None – 2006 revenue bonds paid off in FY 2016-17

Source: Historical city documents, The Crossings at Carlsbad website, and current management agreement.
*The fixed fee is adjusted by the Consumer Price Index annually.

Management Services

The authority has contracted with an outside firm to manage The Crossings since it opened. Management responsibilities involve the entire operations of The Crossings, including course maintenance, food and beverage services, administration, budgeting, marketing, and hosting tournaments and special events. The authority contracted with Kemper Sports Management Inc. for management and operations of The Crossings from 2006 to 2018. Although not part of the scope of this audit, some adverse events that occurred during Kemper's second contract term are summarized in Appendix C.

Near the end of the second contract term, the authority advertised for proposals to manage and operate the golf course instead of exercising an optional five-year term extension with Kemper. As a result of this process, the authority selected JC Management as the new management company. The authority favored JC Management due to its strong showing in areas such as financial processes and accounting, internal and external auditing, human resources culture, information technology and administration, tournament hosting experience, food and beverage capabilities, sales and marketing, course maintenance and regulatory compliance, local region industry experience, and a leading Southern California affinity program. The company manages several San Diego golf properties, including Encinitas Ranch Golf Course and Ranch Grill, Oaks North Golf Course, Rancho Bernardo Inn Golf Course, Reidy Creek Golf Course, Twin Oaks Golf Course, and Welk Resorts San Diego. JC Management offers centralized tee time booking and an affinity program—JC Player's Card—for its network of courses.

GOLF COURSE ENTERPRISE FUND

The Crossings' finances are set up as a separate city enterprise fund, the Golf Course Enterprise Fund, as it provides business-type services to external customers. By definition, enterprise funds report activity for which a fee is charged to external users for goods or services. The Golf Course Enterprise Fund generates revenue through its operations at The Crossings, including earnings from greens fees from golfers using the golf course, Canyons Restaurant, its practice facility, pro shop, and weddings and other private events. This section provides historical financial information but focuses on the past three fiscal years 2016-17 through 2018-19 for which the city had audited comprehensive annual financial reports.

History of General Fund contributions

The city built The Crossings using funds from both revenue bonds and the city's General Fund. The city has contributed funds from the General Fund to the Golf Course Enterprise Fund numerous times over the years since its initial construction. The city provided some General Fund contributions to the Golf Course Enterprise Fund as advances (i.e., interfund loans), which advance cash from one fund to another with the expectation of repayment. In more recent years, the city transferred money from the General Fund to the Golf Course Enterprise Fund, permanently moving money from one fund to the other. Table 1 on the following page provides a comprehensive picture of these transactions. The city's reasons to contribute these funds include to:

- Fund construction and pre-opening costs. The largest single contribution was a General Fund advance of $30.3 million in 2006.
- Make debt service payments on $18.54 million in 2006 bonds used to fund construction and pre-opening costs. The city's General Fund was required to provide funding if the golf course's net income was insufficient to make the bond payments.
- Pay off the remaining obligations associated with the 2006 bonds. In 2016 the city transferred $14.8 million from the General Fund to the Golf Course Enterprise Fund to pay off the remaining obligations associated with the 2006 bonds and eliminate any future debt service payments.[1]
- Cover operating costs. The management agreement requires that in the event gross revenues are insufficient to pay golf course expenses and the management fee, the authority shall remit the necessary funds to JC Management.
- Purchase equipment and machinery necessary for golf course operations. The General Fund advanced over $1.1 million total in 2013 and 2014 for this purpose and was subsequently repaid.

At the end of fiscal year 2018-19, total outstanding advances and transfers were approximately $55.5 million and $20.8 million, respectively, for a total of approximately $76.3 million in General Fund contributions.

[1] In the years leading up to the bond payoff, the Golf Course Enterprise Fund owed over $1.1 million per year on principal and interest on its debt. The city reported that paying off the debt would save nearly $8.4 million in debt-related interest over time.

Table 1: Summary of advances and transfers from the General Fund to the Golf Course Enterprise Fund

FY ended	Advance	Interest accrual	Repayment	Advance balance	Transfers in	Total net advances and transfers
1997	$1,765,200			$ 1,765,200		$1,765,200
1998	972,000			2,737,200		2,737,200
2003				2,737,200	$ 600,000	3,337,200
2005	1,400,000			4,137,200		4,737,200
2006	30,300,000	$2,457,101[1]		36,894,301		37,494,301
2007	7,886,174[2]	1,796,143		46,576,618		47,176,618
2008		2,070,983		48,647,601		49,247,601
2009	1,766,764	1,837,481		52,251,846		52,851,846
2010	1,370,000	1,332,194	$4,229,417[3]	50,724,623	266,390[3]	51,591,013
2011	1,640,000	1,062,747		53,427,370		54,293,760
2012		881,498		54,308,868	1,644,592[4]	56,819,850
2013	561,225[5]	622,984		55,493,077	409,605	58,413,664
2014	545,000[5]	583,647[6]	41,199	56,580,525	998,549	60,499,661
2015		7,684	229,108	56,359,101	1,031,240	61,309,477
2016		5,326	251,743	56,112,684	1,049,795	62,112,855
2017		2,590	480,401	55,634,873	14,811,100[7]	76,446,144
2018		1,015	108,980	55,526,908		76,338,179
2019			22,782	55,504,126		76,315,397
	$48,206,363	$12,661,393	$5,363,630	$55,504,126	$20,811,271	$76,315,397

Source: The city's accounting system and historical city documents.

1. The city and authority entered into an advance repayment agreement for eventual repayment of advances with interest; this is the first year interest began accruing.
2. The advance represents net proceeds from the $18.54 million revenue bond issuance after excluding expenses and several other short-term advances and repayments that occurred within the year.
3. This is not a cash repayment. The city transferred two land parcels at The Crossings recorded in the Golf Course Enterprise Fund to the General Fund. The transfer in represents an adjustment related to the land transfer amount.
4. This is the first year the city began contributing to the Golf Course Enterprise Fund through transfers instead of advances.
5. These two advances represent purchases for operational equipment. The Golf Course Enterprise Fund repaid the General Fund in full over subsequent years.
6. The authority and the city agreed to discontinue the accrual of interest on advances related to debt in this and all subsequent years, with the exception of interest on the short-term advances for operational equipment described in footnote five.
7. This transfer represents funds used to pay off the authority's remaining 2006 revenue bond obligations.

Status of repayment from the Golf Course Enterprise Fund

Several factors indicate the Golf Course Enterprise Fund may not be able to repay the General Fund for previously advanced funds. According to city records, the city originally intended to use revenues in excess of bond payments, after payment of all other expenses of the golf course, to repay General Fund advances. For example, in 2006 the city created an advance repayment agreement with the authority for eventual repayment of existing and subsequent advances with interest. However, the factors listed below indicate this is not likely:

- Although the golf course has been generating increasing operating revenues in recent years, these increases have not been enough to begin repaying the outstanding advances, aside from two short-term advances for operational equipment needs.
- The city's previous external financial auditor determined in 2011 that repayment of the advance with continued interest accrual is highly unlikely.
- The city stopped treating General Fund subsidies to the Golf Course Enterprise Fund as loans in 2012. Instead of recording these subsidies as advances, the city records them as transfers to the Golf Course Enterprise Fund.
- The city discontinued accruing interest on advances in 2014.[2]

The city does not have an interfund loan policy establishing guidelines in this type of situation. However, some best practices to implement when initiating interfund loans include to:

- Document the interfund loan along with a financial plan reflecting a repayment schedule
- Charge an appropriate borrowing interest rate
- Place a term limit on the loan
- Maintain appropriate accounting records that reflect the balances of loans in every fund affected by the transaction

The city's 2006 repayment agreement addressed both existing advances and any subsequent advances to be made by the city to the authority for the purpose of designing, constructing, maintaining and operating the golf course. However, it did not include a repayment schedule nor did it place a term limit on the General Fund's existing advances. Instead of containing a repayment schedule, the agreement stated repayment shall be made from available funds as determined annually. Similarly, several subsequent requests for advances did not provide supporting documents demonstrating the Golf Course Enterprise Fund's ability to repay the loans, repayment schedules, or term limits.

Given the information above, the city should consider whether historical advances are, in essence, permanent transfers.

Governmental accounting standards state that if repayment is not expected within a reasonable time, the interfund balances should be reduced and the amount that is not expected to be repaid should be reported as a transfer from the fund that made the loan to the fund that received the loan. According to the director of the Finance Department, the city and the city's external financial auditor annually assess reporting the $55.5 million advance in the city's comprehensive annual financial report, known as the CAFR. Additionally, the city's financial auditor has consistently provided the city with unmodified opinions on its CAFR in recent years, which include the outstanding advance. Although in the past the city has determined it's appropriate to present this advance in the CAFR, repayment still may be unlikely given the factors listed above.

The Finance Department should consider the information above and return to the City Council with its assessment of whether to continue reporting the Golf Course Enterprise Fund's advance balance. As part of this analysis, the Finance Department should evaluate if and when it anticipates golf course

[2] Excluding the two short-term advances for operational equipment needs in fiscal years 2013 and 2014.

cash flows to be adequate to begin repaying the General Fund. If so, it should estimate annual payments at that date and formalize a repayment plan. If not, it should record a special item reducing the interfund loan, as appropriate. This option does not preclude the city from transferring funds from the Golf Course Enterprise Fund to the General Fund in the future if cash flows are sufficient.

Lastly, if the city plans to initiate any significant advances or interfund loans in the future, the City Council should consider asking the Finance Department to create an interfund loan policy in keeping with best practices. At the very least, any subsequent requests for advances to the Golf Course Enterprise Fund should follow best practices.

Recommendation:

1. **Evaluate advance balance:** To ensure that the city is appropriately recording the advances to the Golf Course Enterprise Fund, the Finance Department should return to the City Council by the end of calendar year 2020 with its assessment and any proposed changes.

The golf market

Research indicates the golf industry is facing challenges with a decreasing number of golfers and an oversupply of golf courses. The city constructed The Crossings at the tail end of a 20-year golf supply expansion and more courses have closed than opened every year since 2006. According to the National Golf Foundation, golf participation remains well below the all-time high of 30-plus million golfers in 2003 – an estimated 24.3 million people played golf on a course in 2019. The Crossings' financial performance depends on more than just the golf market as its food and beverage department comprises nearly half of total operating revenues. For example, in fiscal year 2018-19, total operating revenues were nearly $8 million, and food and beverage revenues made up 46 percent of this total.

JC Management has continued its efforts to attract both new golfers and non-golfers to The Crossings. Research suggests a core group of highly committed golfers account for the majority of spending and rounds played, and older generations are playing golf at almost twice the frequency as younger generations. Accordingly, future golf growth is dependent on converting more people trying out the sport into committed players and making golf more welcoming and less intimidating for beginners. JC Management's sales and marketing plan for fiscal year 2019-20 focused on introducing the golf course to new players as one of its primary strategies. According to information provided by its marketing manager, JC Management increased the property's community events from 2017 to 2019 for this purpose: it increased its golf community events from nine to 13 and its food and beverage events from 12 to 19. For example, JC Management introduced Western Wednesdays, which provides live music on a weekly basis, and continued the property's other happy hour type events, like Buckets and Brews.

Research also shows rapid growth of "off-course" activities such as Top Golf and disc golf. In addition to the 24.3 million traditional golfers, 9.9 million people participated in off-course activities at places like driving ranges, indoor golf simulators or golf entertainment venues. In June 2018, JC Management and the golf course steering committee considered introducing driving range technology to The Crossings to grow the game and drive revenue with non-golfers. At the time, JC Management projected the return on investment would generate additional income. However, other capital improvements have since taken priority. JC Management's general manager stated they have continued to research different technology for an additional entertainment experience at The Crossings if this becomes an option in the future.

The local industry

According to the National Golf Foundation, golf is the No. 1 outdoor pay-for-play, individual participation sport in the United States and as a result, its revenues and spending are tied to outside factors such as the weather and economy. Although the region's weather is conducive to a year-round golf industry, more than 90 golf courses in San Diego offer many options for golfers. These courses may be public, private, require memberships, or allow golfers to pay each time they play.

Table 2 on the following page compares operating financial information between The Crossings and other city-owned golf courses in the region.[3] In fiscal year 2018-19, The Crossings generated the highest operating revenues compared to other 18-hole municipal golf courses. However, The Crossings had the largest operating loss of the group, in part due to having the highest total depreciation costs compared to the selection of golf courses.

Several cities' municipal golf courses listed below have faced similar financial challenges as The Crossings and received General Fund contributions to support their golf operations. For example, the City of Yorba Linda provided various advances from its General Fund to its Black Gold Golf Course Fund for capital projects and to pay off the remaining principal balance of its related revenue bonds; its fiscal year 2018-19 advance balance was approximately $20 million. Yorba Linda also stated in its fiscal year 2018-19 CAFR that it has evaluated its cash flows, estimated annual payments, and is working to formalize a repayment plan. In another example, the City of La Quinta transferred $450,000 to support golf course operations in fiscal year 2018-19. La Quinta's fiscal year 2018-19 CAFR also states the city evaluated repayment terms and collectability of the General Fund's outstanding $5.55 million advance to its Golf Course Enterprise Fund. As a result, it recorded a special item loss for the early retirement of this interfund loan.

[3] Privately owned courses do not provide publicly available financial information consistent with information presented in city comprehensive annual financial reports and were therefore excluded from this analysis.

Table 2: Comparison of FY 2018-19 operating financial information for a selection of Southern California municipal golf courses

City	Course (holes)	Rounds played	Operating revenues	Operating expenses before depreciation	Operating income (loss) before depreciation	Depreciation	Operating income (loss)
Carlsbad	The Crossings (18)	64,185	$7,978,896	$7,507,062	$471,834	$3,527,563	$(3,055,729)
Municipal Golf Courses JC Management considers part of its competitive set							
Encinitas	Encinitas Ranch (18)	68,190	4,994,117	3,715,510	1,278,607	346,579	932,028
Indian Wells	Indian Wells Golf Resort (36)	74,589	15,108,397	15,172,027	(63,630)	2,143,751	(2,207,381)
La Quinta	SilverRock (18)	44,949	3,773,396	4,304,239	(530,843)	254,683	(785,526)
Palm Desert	Desert Willow (36)	92,169	8,830,896	7,510,449	1,320,447	1,057,971	262,476
Palm Springs	Tahquitz Creek (36)	87,255	5,156,635	4,551,294	605,341	191,094	414,247
San Clemente	San Clemente (18)	80,567	2,300,476	1,806,350	494,126	334,988	159,138
Yorba Linda	Black Gold Golf Club (18)	59,237	6,042,347	5,409,052	633,295	753,536	(120,241)
Other municipal golf courses in the region							
Anaheim	Anaheim Hills and Dad Miller (36)	105,952	$4,306,000	4,462,000	(156,000)	495,000	(651,000)
Coronado	Coronado Golf Course (18)	88,203	3,410,058	3,755,962	(345,904)	233,951	(579,855)

Source: Fiscal year 2018-19 comprehensive annual financial reports for all cities listed

Note: JC Management provided a list of competitive golf courses in the region. Although most are presented above, the table does not include the cities of Chula Vista and Oceanside, The Vineyard in the City of Escondido, and Balboa Park in the City of San Diego. The comprehensive annual financial reports for these cities do not provide comparable information to include in this table. For example, the City of San Diego combines its financial information for Balboa Park and Torrey Pines with the city's other golf course in its comprehensive annual financial report. Additionally, cities that lease/rent their golf course properties to private companies do not present operating information in a comparable manner.

Financial Performance

The Crossings' major revenue sources are split up into two major categories, or "departments":

- Golf: Revenues earned primarily through green fees, the pro shop, driving range, member dues, and club rental.
- Food and Beverage: Revenues earned primarily through banquets, Canyons Restaurant, Player's Lounge, the snack bar, tournaments and the beverage cart.

Figures 2 and 3 below illustrate operating revenues and expenses for both departments for the past ten years. Expenses include all costs of sales, payroll, taxes and benefits, maintenance costs, and other operating expenses directly attributable to each department.

Figure 2: Golf revenues, expenses, and net income for the past ten years

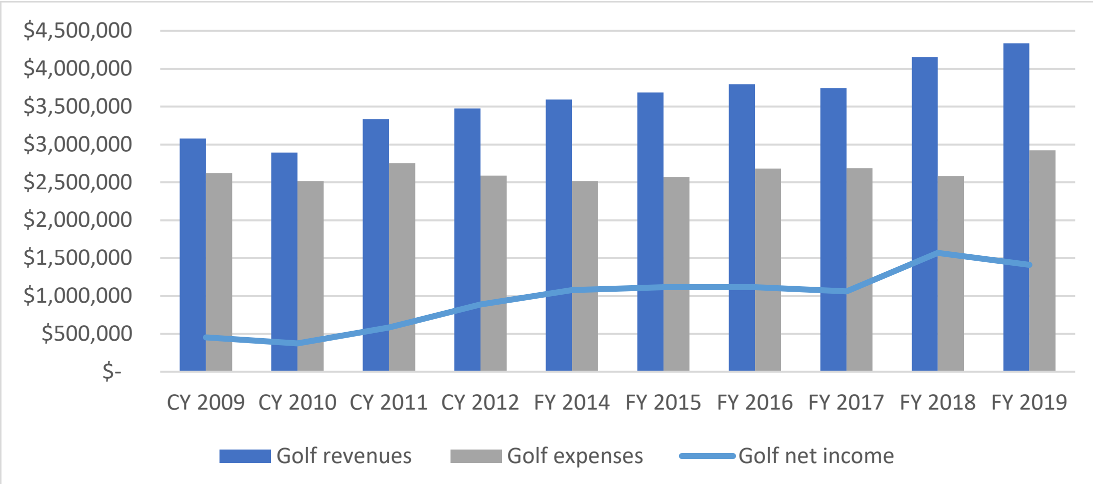
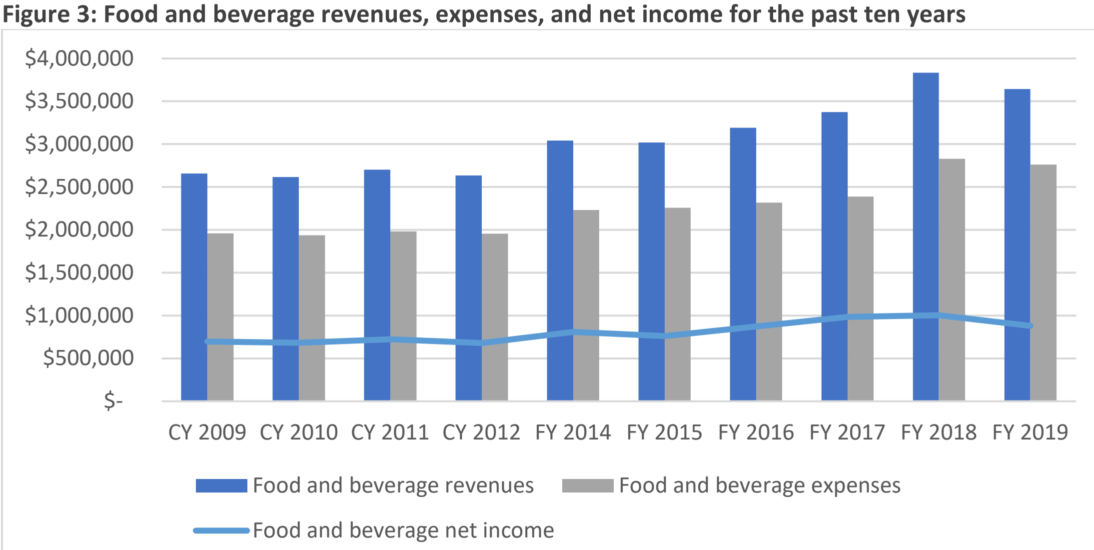


Figure 3: Food and beverage revenues, expenses, and net income for the past ten years



Source: Financial statements provided by JC Management and Kemper

Note: Financial information transitioned from a calendar year (CY) to a fiscal year (FY) basis beginning January 2013. Thus, the 6-month period beginning January 2013 is excluded from the table for continuity.

As shown in figures 2 and 3 on the previous page, both departments operated at a profit during the past ten years. However, food and beverage revenue decreased in the most recent fiscal year 2018-19. According to city records, this is due to a couple reasons:

- A liquor license transfer limited beverages sales for 59 days[4] and
- The Canyon's restaurant closed for 11 days due to a fire

The assistant finance director stated that based on comparative data from prior year sales during the same time, the limit on beverage sales caused a significant loss of revenue. Additionally, the assistant finance director estimated the closure because of a fire to have caused a loss of sales of approximately $27,000. However, this represents only the direct impact; the fire's impact was far greater than the direct sales impact because it affected banquets, holiday events and loyal customers returning to The Crossings.

The golf course incurs other expenses in addition to those directly associated with its golf and food and beverage operations presented in figures 2 and 3 that affect its operating income or loss. Examples of these expenses include the following:

- Administrative and general costs
- Sales and marketing costs
- The fixed and percentage management fees
- Expenditures related to capital improvements
- Depreciation expenses each year for its fixed assets. These expenses reduce the Golf Course Enterprise Fund's net income but do not represent an outflow of cash.

Table 3 below provides a summary of Golf Course Enterprise Fund operating activity over the past ten fiscal years while Table 4 on the following page provides a detailed look at the past three fiscal years.

Table 3: Summary of Golf Course Enterprise Fund operating revenues and expenses for the past ten fiscal years (in thousands)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Total operating revenues	$7,979	$7,973	$7,119	$6,988	$6,709	$6,635	$6,278	$6,127	$5,850	$5,625	$5,801
Operating expenses:											
Operations	7,507	6,992	6,619	6,320	6,302	6,228	5,983	6,043	6,170	6,264	6,582
Depreciation	3,528	3,567	3,488	3,502	3,492	3,469	3,296	3,478	3,478	3,478	3,744
Total operating expenses	11,035	10,559	10,107	9,822	9,794	9,697	9,279	9,521	9,648	9,742	10,326
Operating income (loss)	$(3,056)	$(2,586)	$(2,988)	$(2,834)	$(3,085)	$(3,062)	$(3,001)	$(3,394)	$(3,798)	$(4,117)	$(4,525)

Source: The city's comprehensive annual financial reports.

Note: The golf course operations expenses for fiscal years 2008-09 and 2015-16 include general and administrative expenses of $109,091 and $46,766, respectively.

[4] This time period encompassed not only a license transfer, but also adjusted the licensed premises areas of the clubhouse and golf course to comply with the California Department of Alcohol Beverage Control requirements.

Table 4: Detailed operating financial information for the Golf Course Enterprise Fund for fiscal years 2016-17 to 2018-19 (in thousands)

	2018-19	2017-18	2016-17	$ Change from FY 2016-17 to 2018-19	% Change from FY 2016-17 to 2018-19
Revenue:					
Course and ground	$3,555	$3,351	$3,093	$462	15%
Pro shop	536	538	438	98	22%
Practice center	243	250	214	29	14%
Food and beverage	3,645	3,834	3,374	271	8%
Total revenue	7,979	7,973	7,119	860	12%
Expense:					
Management fee	272	267	249	23	9%
Payroll and related	3,386	3,207	2,950	436	15%
Course and ground	1,145	1,043	1,185	(40)	(3%)
Pro shop	75	63	56	19	34%
Food and beverage	317	299	262	55	21%
General and admin.	882	780	656	226	34%
Cost of sales	1,186	1,276	1,093	93	9%
Depreciation	3,528	3,567	3,487	41	1%
Capital outlay (net)	244	57	169	75	44%
Total expense	11,035	10,559	10,107	928	9%
Operating income (loss)	$(3,056)	$(2,586)	$(2,988)	$(68)	2%

Source: The city's accounting system and financial statements from JC Management and Kemper.
Note: The expense item "Payroll and Related" encompasses salary and benefits expenses attributable to all operating segments (i.e., Pro Shop, Food & Beverage, etc.)

Revenues

As shown in Table 3 on the previous page, overall operating revenues and expenses have increased in the past ten years – revenues by 38 percent and expenses by seven percent. Course and ground revenues experienced the largest dollar increase in the past three fiscal years as demonstrated in Table 4. Course and ground revenues consist primarily of green fees. As shown in Table 5 below, from fiscal years 2016-17 to 2018-19, paid rounds increased by nine percent while green fees increased by double that at 18 percent. The golf rates at The Crossings did not increase until July 2019 after this three-year period and the resident rate did not increase at all. Therefore, the increase in greens fee revenue is entirely due to more paid rounds and higher rates paid to golf. According to the vice president of JC Management, this is because JC Management uses third party discount websites less (i.e., Golf Now), the JC Players Card on average yields higher green fee revenue than the previous "The Crossings" card, and because the mix of business when golfers are playing yields higher revenue.

Table 5: Paid rounds and greens fee revenue for fiscal years 2016-17 to 2018-19

	2018-19	2017-18	2016-17	% Change from FY 2016-17 to 2018-19
Paid rounds	58,770	54,486	53,964	9%
Greens fees	$3,402,722	$3,149,285	2,887,615	18%

Source: Financial and operating information from JC Management and Kemper

Expenses

As shown in Table 4 above, the most significant contributors to the overall increase in expenses from fiscal year 2016-17 to 2018-19 include:

- Payroll and related costs
- general and administrative costs

The payroll and related costs include salaries, bonuses, benefits, and any other compensation for all employees at The Crossings. This category is separate from the management fee paid to JC Management for operating the golf course; in both of the past two fiscal years JC Management's performance met the threshold to receive the full percentage management fee. According to the vice president of JC Management, bonuses and commissions are vital elements to attract and retain high-quality employees. Nonetheless, in the most recent budget discussions for the upcoming fiscal year 2020-21, the steering committee scrutinized these areas and removed all of the budgeted bonuses and budgeted approximately a third less for commissions compared to the prior year because of projected financial challenges the golf course may face as a result of the COVID-19 health emergency.

Table 6 below provides a detailed analysis of total payroll split up by operating segment. It shows the majority of the increase in payroll and related costs is within food and beverage and golf.

Table 6: Payroll by operating segment for The Crossings from fiscal years 2016-17 to 2018-19

	2018-19	2017-18	2016-17	Change from FY 2016-17 to 2018-19
Food and beverage payroll	$1,518,170	$1,550,586	$1,289,658	$228,512
Golf payroll	1,453,896	1,195,817	1,188,238	265,658
Administration and general payroll	266,154	307,571	281,759	(15,605)
Sales and marketing payroll	147,327	153,149	190,645	(43,318)
Total payroll	$3,385,547	$3,207,123	$2,950,300	$435,247

Source: Financial statements from JC Management and Kemper

The increase in both food and beverage and golf payroll is partially due rising minimum wage costs. California's minimum wage for employers like JC Management increased from $10.50 per hour in January 2017 to $13 per hour in January 2020, and will increase by $1 per hour again in January 2021 and 2022. In addition, golf payroll increased because of the city's decision to convert the starter and players assistant volunteer positions to paid employees for liability reasons. JC Management currently employs 24 additional part-time employees to fill these roles as a result of the city's decision.

Although these factors explain a large portion of the increase in hourly payroll costs, it is difficult to determine the cause of any remaining variances. Kemper managed the golf course for the majority of the three-year period presented above and JC Management reports management and salary costs differently than its predecessor. JC Management does not have access to detailed payroll records for the previous management company and past operating financial reports do not contain this detailed information. Therefore, available payroll information is either inconsistent or insufficient to perform additional analysis for management and salaried employees. This highlights the need for prompt expense analysis and oversight as mentioned later in this report.

General and administrative costs produced the second largest increase to expenses. Again, it is difficult to analyze this category due to the change in accounting for expenses that occurred when JC Management took over in late fiscal year 2018-19. The change in accounting for expenses may explain at least a small portion of the total increase. Some of the expense accounts that experienced the largest increases from fiscal years 2017-18 to 2018-19 included costs for credit card commissions, advertising, repair and maintenance of furniture and equipment, utilities, and legal expenses. These account variances appear to have resulted from normal increases to operating costs. For example, the vice president of JC Management asserted credit card commissions increased in alignment with the increase in revenues. Additionally, The Crossings incurred higher costs when it transitioned to a new credit card processing provider to improve PCI compliance, the level of security required to process credit card transactions. However, the increase in legal expenses was primarily due to a one-time occurrence explained later in this report.

In conclusion, at the end of fiscal year 2018-19, the city had not contributed money from the General Fund to the Golf Course Enterprise Fund since it paid off the remaining revenue bond obligations in fiscal year 2016-17. The Golf Course Enterprise Fund's operating revenues have increased in nearly every year since it has opened. Yet, the fund is still operating at a loss in part due to high depreciation costs. Although the Golf Course Enterprise Fund may yield a smaller operating loss or generate operating income in the future depending on operations at The Crossings, this isn't guaranteed and it may be years before and if it occurs. Therefore, the city should continue to diligently monitor the fund—with increased accountability and transparency measures discussed later in this report—to determine whether more significant changes to operations at The Crossings are necessary in the future.

Although it falls outside of the audit period, the City Council approved a $500,000 transfer from the General Fund to the Golf Course Enterprise Fund as part of the budget for fiscal year 2020-21 before this report was completed. This will be transferred if additional cash is needed to cover current operating expenses due to the financial effect of COVID-19.

OVERSIGHT OF THE CROSSINGS

Although this audit assessed the city's general oversight of the management of The Crossings, the review period focused on the two years beginning when JC Management's agreement with the city began in March 2018.

Golf course steering committee oversight

A golf course steering committee made up of city employees assists in oversight and management of the golf course. This committee is unlike the city's number of boards and commissions that provide input to the City Council in that its current members are not appointed, it does not hold public meetings and it does not have specific meeting requirements. City records indicate members generally include the following individuals:

- Deputy city manager, administrative services
- Director, Finance Department
- Director, Parks & Recreation Department
- Assistant director, Finance Department
- Parks services manager, Parks & Recreation Department
- Parks planning manager, Parks & Recreation Department

Although the committee does not take minutes for its monthly meetings, it retains agendas and monthly reports provided by the management company. The steering committee met and received updated summary reports from JC Management for every month since the company began managing The Crossings. JC Management provides these summary reports to the steering committee members prior to the meeting to allow time to review and prepare for discussion. The reports generally include both qualitative and quantitative information, including financial performance, food and beverage, sales and marketing, paid rounds, course maintenance, among other items. Further, the reports compare monthly financial information with prior year and budgeted figures. During these meetings, JC Management and the steering committee discuss the summary reports and other topics that may include updates on capital projects, personnel, special events, and improvements and repairs at the property. The steering committee also reviews the annual budget and capital improvement plan.

In addition to these regular monthly meetings, the city assesses compliance with golf course operations and maintenance standards on a monthly basis and documents the results quarterly. Currently, the Parks & Recreation Department's parks services manager performs these assessments. The city performed these assessments for every complete quarter that JC Management operated The Crossings during the audit period from March 2018 through March 2020. For the same period, JC Management's golf course superintendent also recorded standard pesticide application information that the city's Municipal Golf Course Turf and Pest Management Plan requires.

Although the steering committee has demonstrated consistent oversight, it does not keep record of significant analysis it performs and key decisions it makes. As mentioned earlier, the steering committee does not keep minutes for its monthly meetings with the management company. Based on observations of several steering committee meetings, members ask questions, challenge operational decisions, agree on specified outcomes, and approve plans and proposals. However, there is no record of these key responsibilities.

For example, the management agreement requires JC Management to obtain prior written consent if the actual amount expended per calendar month for golf course expenses is greater than 2 percent of the amount budgeted for that calendar month. The steering committee did not formally document its approval for four months' that exceeded this threshold since JC Management took over March 2018 through the end of calendar year 2019. Instead, the steering committee reviews the expenditures and revenues of the golf course on a monthly basis, after-the-fact, and requests that JC Management explain significant variances. Although the committee's current monthly monitoring controls appear to be effective tools to mitigate excessive spending, it does not document that it performed such analysis. Therefore, the steering committee should perform and document some type of short-term and more long-term trend analysis of expenses to recognize and monitor any undesirable changes to spending at The Crossings. Similarly, the committee should keep records of any other important decisions or agree-upon outcomes.

To complement its existing oversight, the steering committee could also benefit by requesting JC Management's internal audits of The Crossings. During the contract procurement process, the steering committee cited JC Management's strong internal audit program as one of its reasons for selecting the company. According to the JC Management, its audit program is intended to ensure all internal control and compliance policies are being following and financial compliance. Its audit procedures include a comprehensive assessment of accounting, golf operations, food and beverage, administration, golf course maintenance, among other areas. JC Management's internal audit program also offers a unique percentage scoring system, allowing users of the audit reports to easily interpret results.

Since JC Management took over operations in March 2018, its internal auditor performed three full property reviews and two reviews specifically on safety and security. These reviews include valuable information but were not shared with or requested by the steering committee in the past. The assistant finance director agreed that reviewing golf course related internal audits conducted by JC Management is best practice. Because these audits could provide important information to enhance the steering committee's oversight, the steering committee should request copies of and discuss internal audit results during monthly meetings as appropriate.

Recommendations:

2. **Document monitoring of golf course spending:** To more effectively monitor spending at The Crossings, the steering committee should immediately begin to perform and document its expense analysis and investigation and resolution of significant variances impacting the Golf Course Enterprise Fund's financial performance.

3. **Document decision-making:** To ensure proper oversight and adherence to the management agreement, the steering committee should immediately begin to document its formal approvals, significant analysis, and key decisions for its records.

4. **Request and act on internal golf course audits:** To enhance its oversight, the steering committee should immediately begin to request JC Management's internal audits pertaining to The Crossings and respond to results accordingly.

Executive director oversight

The authority has designated the executive director (i.e., the city manager) as the individual responsible for administering the agreement on behalf of the authority. The executive director's responsibilities outlined in the agreement are fairly extensive and require consistent attention. The executive director should consider formally designating—in writing—a member of his or her staff to serve as the project manager to help carry out the responsibilities of administering the agreement. Designating a project manager will help ensure the city is adhering to requirements in the agreement and that operating results receive the appropriate level of attention from city leadership. The executive director should consider selecting a designee from the steering committee who has historical knowledge of The Crossings, given that the steering committee meetings meet several requirements described in the operating agreement. For example:

- The agreement requires that every three months, the executive director meet with JC Management to discuss the operating results of The Crossings. Although the executive director does not currently meet with JC Management quarterly, the meetings between JC Management and the steering committee on a monthly basis exceed this requirement.
- The agreement requires that JC Management deliver monthly profit and loss statements and annual sets of financial statements to the authority. Although these monthly statements are not currently delivered to the executive director, the steering committee members review operations and financial information monthly with JC Management.

Previously, the former city manager issued a memorandum selecting the former administrative services director as his authorized designee in affairs of the golf course. According to the director of the Parks & Recreation Department, the presumption is that the recently reclassified position of deputy city manager, administrative services now serves as the authorized designee. However, this is not a formal designation and may lead to confusion with the management company as to the main point of contact. The agreement also requires that JC Management be notified of any changes to the designated project manager. The executive director could write a new memorandum selecting his designee and promptly notify JC Management.

Recommendations:

5. **Officially designate a project manager:** To assist with the executive director's responsibilities described in the management agreement, the steering committee should ensure that one of its members is formally designated by the executive director to be the authorized project manager through a written memorandum.

Board of directors of the authority oversight

The Carlsbad Public Financing Authority Board of Directors is currently made up of the City Council members. The agreement requires that on or before April 1 of each year, JC Management submit to the authority – subject to the written approval of the executive director – the annual plan for the next operating year, consisting of the following:

- An operating budget containing bona fide good faith estimates of all golf course expenses
- A capital improvement plan
- Recommendation for all fees and charges
- Course maintenance plan
- Marketing and business plan
- Hours of operation

During the first seven years of golf course operation, staff brought the individual golf course budget to the board on a calendar year basis for discussion and approval during a City Council meeting. In 2013, the city transitioned the budget process for the golf course from a calendar year to a fiscal year basis and stopped bringing forward the golf course budget as a separate item, instead including the golf course budget in the city budget process. There were no resolutions from the authority approving the golf course budgets after this transition period until recently for the city's fiscal year 2019-20 budget.

Additionally, there is no evidence that for the past three fiscal years 2017-18, 2018-19, and 2019-20 the steering committee submitted all components of the annual plan to the executive director and obtained written approval as required. The steering committee must do this to comply with the agreement and ensure the annual plan receives appropriate attention from leadership. Before this audit was published, the steering committee brought all components of the fiscal year 2020-21 annual plan to the executive director and received appropriate approval in June 2020.

SEXUAL HARASSMENT PREVENTION AND TRAINING

On several occasions, people made public comments at City Council meetings regarding JC Management and the larger network of JC-affiliated companies. The chief executive officer of JC Management is involved in several other business enterprises. Specifically, records indicate JC Management's affiliate company is invested in Terranea Resort—a luxury resort in Rancho Palos Verdes. Recent news reports quote staff at this resort raising allegations of supervisory misconduct. Terranea Resort is managed by a separate hotel management company from JC Management. Although this portion of the audit assessed JC Management's compliance at The Crossings with key laws related to sexual harassment, JC Management is neither an investor, employer, nor the hotel operator for Terranea.

The City's Responsibility

The city does not provide management or supervision of JC Management's employees at The Crossings. According to guidance from the U.S. Equal Employment Equal Opportunity Commission, an employer is liable for sexual harassment by non-employees over whom it has control (e.g., independent contractors or customers on the premises), if it knew, or should have known about the sexual harassment and failed to take prompt and appropriate corrective action.[5] Although the city does not act as an employer of JC Management's employees with respect to workplace matters, the nature of any allegation of sexual harassment and the context in which an alleged incident occurred impacts the city's potential liability.

Neither the city's agreement with JC Management nor its template for service agreements require that contractors adopt or implement the city's Administrative Order No. 45, Respectful Workplace and Non-discrimination Policy.[6] The City Attorney's Office stated that the city would not typically require contractors to adopt or implement the city's specific policy because contractors often work for multiple entities with their own specific policies, which may differ in detail from the city's policy. Requiring a contractor to adopt or implement the city's specific policy may create joint liability risk because the more control the city exercises over the details of the contractor's policy, the more likely the city will be found to be a joint employer. However, the city currently takes certain other measures to help prevent sexual harassment at The Crossings and provide additional protection for the city. The list below summarizes the city's key efforts to prevent and respond to any potential allegations of misconduct at The Crossings:

- The city's agreement with JC Management addresses indemnification, liability, insurance, and covenants against discrimination with a requirement to include a similar provision in all subcontracts entered into by JC Management in connection with work being performed under the agreement. The city's template for service agreements contain comparable provisions. According to the City Attorney's Office, sexual harassment is a form of sex discrimination and would therefore be prohibited under this covenant against discrimination.

[5] The U.S. Equal Employment Opportunity Commission is responsible for enforcing federal laws that make it illegal to discriminate against a job applicant or an employee because of the person's race, color, religion, sex (including pregnancy, gender identify, and sexual orientation), national origin, age, (40 or older), disability or genetic information.

[6] The city's Administrative Order No. 45 Respectful Workplace & Non-discrimination Policy outlines: 1) the behaviors, practices and activities that are expected in the workplace, 2) the responsibilities of employees, managers/supervisors and the Human Resources Department, and 3) the actions that will be taken to ensure the policy is affirmed.

- A provision in the agreement states, "JC Management shall comply with all applicable laws of governmental bodies having jurisdiction with respect to the Golf Course site and JC Management performance of this Agreement." This provision seeks to require vendors to comply with relevant provisions of local, state, or federal law and covers all updates to law, including those pertaining to sexual harassment.
- A provision in the agreement requires that "JC Management shall notify the Authority and its General Counsel of any claims or lawsuits relating to the Golf Course within two (2) business days after JC Management receives notice of such claims or lawsuits" which helps ensure that the city is notified and can provide prompt action in response, if appropriate.
- According to a manager in the city's Human Resources Department, if the city received any sexual harassment-related complaints at The Crossings, city staff would directly investigate them immediately, as appropriate. Specifically, if the city's Human Resources Department received a complaint about the contract workers within their own group, the department would immediately reach out to the contract management to ensure they are aware, that they are creating a safe work environment and that they will be taking necessary steps to investigate and correct the situation as needed. The department would continue to work closely with the contract management and follow up to confirm the complaint has been addressed.

Although every incident is highly situational, based on the reasons summarized above, the city has taken steps to prevent misconduct at The Crossings and reduce the city's likelihood of facing joint or indirect liability for allegations of misconduct brought by an employee against JC Management.

JC Management's compliance with state law

As described above, the city's agreement with JC Management includes a covenant against discrimination and states JC Management shall comply with all applicable laws of governmental bodies having jurisdiction with respect to the golf course site and JC Management's performance of the agreement, including those pertaining to harassment. The internal auditor assessed the company's compliance with key human resources laws related to harassment.[7] Table 7 on the following page provides a summary of this detailed review.

[7] Sexual harassment is a form of sex discrimination that violates Title VII of the Civil Rights Act of 1964 and California's Fair Employment and Housing Act. Unwelcome sexual advances, requests for sexual favors, and other verbal or physical conduct of a sexual nature constitute sexual harassment when this conduct explicitly or implicitly affects an individual's employment, unreasonably interferes with an individual's work performance, or creates an intimidating, hostile, or offensive work environment. Sections of the California Government Code and California Code of Regulations address sexual harassment prevention and training.

Table 7: Summary of JC Management's compliance with key laws related to sexual harassment

Question	Analysis performed	Conclusion
Did JC Management provide its supervisors at The Crossings with sexual harassment training as required by California law?	Reviewed personnel files for 24 employees JC Management considers supervisory to determine whether they received training appropriate in content, length, and frequency.	See writeup below
Did JC Management develop a written policy covering harassment, discrimination, and retaliation as required by California law?	Reviewed JC Management's personnel handbook and addendum packet, including its written harassment, discrimination, and retaliation prevention policy.	Yes
Did JC Management ensure employees at The Crossings acknowledge receipt of aforementioned policy as required by California law?	Reviewed JC Management's personnel files for 34 employees for evidence they received the company policy and appropriate pamphlet related to sexual harassment.	Yes*
Did JC Management handle any internal complaints or allegations of misconduct at The Crossings in accordance with California law and its own policy?	Reviewed all complaint/investigation files provided by JC Management and assessed that documentation supports JC Management followed key principles of an effective complaint system including prompt response and thorough investigation.	Yes
Did JC Management post employment notices related to harassment at The Crossings as required by California law?	Observed notices posted at The Crossings during a visit to the property.	Yes

*This conclusion only applies to the selection of 34 personnel files reviewed.
Source: State and federal laws, JC Management's policies, personnel files, auditor observation, and city documents.

As demonstrated in Table 7 above, JC Management complied with key California laws related to sexual harassment prevention, detection, and investigation assessed as part of this audit, with the exception of meeting the training requirements for several supervisors. At the time of the review in March 2020, California law requires an employer such as JC Management to provide at least two hours of sexual harassment training and education to all supervisory employees within six months of their assumption of a supervisory position and once every two years.[8] Of the 24 employees JC Management considers supervisory that work(ed) at The Crossings between March 2018 and March 2020, four former employees did not receive the required training.

- JC Management promoted one employee to a supervisor position shortly after it began managing the golf course in March 2018 who did not receive the two-hour training. It appears this was an oversight, as the employee later attended a one-hour sexual harassment training JC Management provides for its non-supervisor employees.
- Three employees assumed supervisor positions and subsequently separated from the company between the dates JC Management provided in-person group trainings in May 2018 and September 2019. Nonetheless, JC Management did not ensure they took its alternative online training within six months of assuming their supervisor positions.

[8] California law defines a supervisor as an individual having the authority, in the interest of the employer, to hire, transfer, suspend, lay off, recall, promote, discharge, assign, reward, or discipline other employees, or the responsibility to direct them, or to adjust their grievances, or effectively to recommend that action, if, in connection with the foregoing, the exercise of that authority is not of a merely routine or clerical nature, but requires the use of independent judgment. JC Management provided a list of 24 individuals that worked at The Crossings during March 2018 to March 2020 that it determined meet this definition.

According to the company's director of human resources, this was unfortunately an oversight while the human resources team was in transition. The city's internal auditor did not find any records in the personnel files for these four supervisors indicating they were associated with an incident of sexual harassment. Additionally, JC Management's director of human resources asserted that the current process to ensure supervisors receive role-appropriate training includes having the human resources team assess and approve required trainings for each employee hired or promoted in a role, assigning and tracking deadlines, logging completed training in the human resources information system once completed, and auditing training reports generated from the system on a monthly basis. With the exception of the employees noted above, the remaining supervisors met training requirements as of the March 2020 review date, indicating JC Management has since corrected this deficiency.

JC Management representatives confirmed the company did not require employees at The Crossings to sign mandatory arbitration clauses as a condition of employment. According to California law, effective January 1, 2020, a person shall not, as a condition of employment, require any applicant for employment or any employee to waive any right to file and pursue a civil action or a complaint with any court or other governmental entity of any alleged violation. To review all of JC Management's personnel files for documentation including this type of clause would have been ineffective, because there were hundreds of files and no guarantee that such documentation would be included in those files if it existed. Therefore, this topic was discussed with several JC Management representatives, including its human resources director and vice president. Both confirmed no such clause existed as a condition of employment for any of JC Management's employees at The Crossings.

Requirement to notify the city of any claims or lawsuits

During the review of JC Management's human resources files, the city's internal auditor identified an out-of-court settlement payment made in August 2018 to a former employee for $15,000 in response to a wrongful termination claim. JC Management's files demonstrate that it conducted a related investigation before the claim was filed that followed both its company policy and best practices for conducting a workplace investigation.[9]

The city did not receive formal notice of this claim as required by the management agreement. The agreement requires that JC Management notify the authority and its general counsel of any claims or lawsuits relating to the golf course within two business days after JC Management receives notice of such claims or lawsuits. Additionally, the City Attorney's Office should have had the opportunity to reasonably approve any legal counsel retained by JC Management in connection with such matters and the legal fees. Yet, current representatives from the City Attorney's office were unaware of the claim. Current city employees from the steering committee were also unaware of this incident.

Key city employees who may have known about this incident are no longer employed with the city. According to JC Management's vice president, he discussed this incident and its resolution at length with the city's former parks and recreation director and member of the golf course steering committee. However, given the agreement's language, JC Management should have formally notified the City Attorney's Office within two days of receiving the claim. In the future, a member of the steering committee or the executive director's designee should ensure that JC Management fulfills this requirement within the time frame.

Additionally, the vice president of JC Management explained that legal costs to handle this lawsuit in court could have far exceeded the cost of settling out of court. For reference, the $15,000 in legal

[9] Best practices referenced are those published by the Society for Human Resources Management (SHRM)—the world's largest human resource management association. The purposes of SHRM include promoting the use of sound and ethical human resource management practices in the profession, and establishing, monitoring and updating standards for the profession.

costs incurred are minor compared to the approximately $7.5 million in total golf course operations expenses incurred in fiscal year 2018-19. According to the agreement, all costs and expenses, including attorneys' fees relating to the handling of claims (including employment related lawsuits), shall be a golf course expense. Therefore, it is in the city's best interest to pursue the lowest cost option to save the city money.

SUMMARY OF RECOMMENDATIONS

Golf Course Steering Committee

1. **Evaluate advance balance:** To ensure the city is appropriately recording the advances to the Golf Course Enterprise Fund, the Finance Department should return to the City Council by the end of calendar year 2020 with its assessment and any proposed changes.

   Management response: Management agrees with the recommendation and analysis. We concur with the factors highlighted in the report and agree that the golf course advances are not likely recoverable at this point. Therefore, the advances should no longer be recognized as an asset for financial reporting purposes. Management plans to continue tracking all advances and transfers made from the General Fund to the golf course to ensure the data is available. Management has also consulted with its external auditors and they are in agreement with the proposed accounting treatment. We are proposing to eliminate the advances from our accounting records.

2. **Document monitoring of golf course spending:** To more effectively monitor spending at The Crossings, the steering committee should immediately begin to perform and document its expense analysis and investigation and resolution of significant variances impacting the Golf Course Enterprise Fund's financial performance.

   Management response: Management analyzes spending at The Crossings through monthly meetings, detailed reviews of the monthly profit and loss statement, and investigations of significant variances; however, the associated documentation of such activities was not well maintained. Management agrees with the recommendation and is now maintaining better documentation of its monitoring control.

3. **Document decision-making:** To ensure proper oversight and adherence to the management agreement, the steering committee should immediately begin to document its formal approvals, significant analysis, and key decisions for its records.

   Management response: Management agrees with the recommendation and began documenting its formal approvals and key decisions in July 2020.

4. **Request and act on internal golf course audits:** To enhance its oversight, the steering committee should immediately begin to request JC Management's internal audits pertaining to The Crossings and respond to results accordingly.

   Management response: Management agrees with the recommendation and in July 2020 requested all previous JC Management internal auditor documents involving The Crossings as well as all future reports.

5. **Officially designate a project manager:** To assist with the executive director's responsibilities described in the management agreement, the steering committee should ensure that one of its members is formally designated by the executive director to be the authorized project manager through a written memorandum.

   Management response: Management agrees with the recommendation and plans to execute a formal designation of the Executive Director's responsibilities.

THE CROSSINGS AT CARLSBAD AUDIT REPORT

APPENDICES

JC GOLF®

TO: Brigid Okyere, Internal Auditor, Administrative Services, City of Carlsbad

FROM: John McNair, Vice-President JC Resorts

SUBJECT: Management Response to the City of Carlsbad's The Crossings at Carlsbad Golf Course Audit

DATE: July 23, 2020

Thank you for undertaking this audit and assisting in providing feedback on the operation and management of The Crossings at Carlsbad Golf Course.

We concur with the recommendations and have already began implementation as they relate to the onsite management of the operation. JC Resorts will work with the Steering Committee to track and report specific budget variances, improve oversight by distributing the company conducted internal audit reports, and work closely with the designated Project Manager to better able to service the city of Carlsbad and its residents.

We look forward to providing an update on the progress made as we enter the new fiscal year.

Appendix B: Historical Timeline of The Crossings

Calendar Year	Description
1989	The citizens of Carlsbad approved Proposition G allowing the city to spend more than $1 million of tax revenue on the construction of a public golf course and other recreational facilities.
1994	The City Council approved the first purchase of land for the potential future development of a municipal golf course.
2000	The City Council of the City of Carlsbad and the Board of Directors of the Carlsbad Municipal Water District formed the Carlsbad Public Financing Authority, a joint powers authority to finance, construct and operate the golf course.
2003	The California Coastal Commission approved negotiated revisions to the project to produce the final entitlement/permit for the golf course project.
	The authority approved proceeding with the development of the golf course project.
2005	The authority approved the final construction documents and awarded key construction contracts.
	The authority approved a transfer from the General Fund balance to the Golf Course Enterprise Fund up to $30.3 million for the project and a bond sale.
2006	The authority approved agreements with Kemper Sports Management Inc. for consulting and grow-in services prior to the golf course's opening date and for operations and management commencing on the opening date for a five-year term and one five-year extension option.
	The authority approved the issuance and sale of $18.54 million in revenue bonds to finance a portion of the costs of acquiring and constructing the golf course.
	The city and the authority entered into an advance repayment agreement for the eventual repayment of advances with interest to the city for funds the city advanced to for the purpose of designing, constructing, maintaining, and operating the golf course.
2007	The Crossings opened to the public in the summer.
2013	The authority awarded a new five-year operations and management agreement to Kemper with one five-year extension option.
2014	Kemper identified irregularities in The Crossings' bank account and notified the city.
2015	The authority and the city agreed to discontinue the accrual of interest on the advance between the city and the authority, effective retroactively to July 1, 2014.
2016	The authority authorized a $14,811,000 appropriation of funds to prepay its remaining obligations associated with the revenue bonds issued in 2006.
2018	The authority approved a new five-year agreement for golf course management and operations with JC Management, LLC.

Source: The current and previous management agreements, reports on internal investigations, bond documents, and other city records.

Appendix C: Previous management company

Kemper operated the golf course from 2006 until the end of the second agreement term in the beginning of 2018. In late 2014, a Kemper employee identified irregularities in The Crossings' bank account. In response, Kemper hired an external audit firm to conduct internal investigations which resulted in the following findings:

- $319,378 in misappropriated funds including transactions from 2007 to 2014.
- $313,974 in suspicious activity involving deposits made from 2009 to 2014.

Kemper's general manager also contacted the Police Department to report the incident. The Police Department conducted an investigation, arrested the former employee responsible, and forwarded the case to the District Attorney for prosecution. The individual was formerly charged and eventually plead guilty to embezzlement.

In late 2015, Kemper paid the city the total of $633,352 that was identified by the firm as misappropriated funds and suspicious activity. The city took several additional actions in response to the findings:

- In 2015, the city contracted with a firm to perform an engagement for the period 2006-2014, the objectives of which were to review internal controls and transactions. The firm identified and reported on a number of issues.
- Later in 2015, an employee of the city's Finance Department wrote a follow-up report summarizing whether Kemper resolved any of the issues identified in the prior engagement. The report concluded that Kemper corrected many deficiencies, but some corrective actions were still under consideration.
- In 2017, an employee of the city's Finance Department reviewed internal controls at The Crossings for fiscal year 2016-17. Specifically, the employee tested the approvals and validity of cash disbursements and key controls for appropriate design and operational effectiveness. The report concluded cash disbursements were appropriate and valid, but found that several key controls were not operating as designed.

Based on these reports, Kemper corrected many identified deficiencies and planned to consider implementing several others corrective actions. As part of this audit, the city's current internal auditor looked for but was unable to locate any additional documentation demonstrating whether Kemper did, in fact, implement corrective actions for several outstanding recommendations before its management agreement terminated. Despite this, these engagements demonstrate city staff's prompt response once they were made aware of the misappropriated funds. These engagements also highlight repeated efforts on the city's part to improve internal controls and operations at The Crossings.

Appendix D: Assessment of data reliability

In performing this audit, the city's internal auditor relied on the city's integrated financial accounting system, or IFAS, to assess the golf enterprise fund's revenue and expenses for fiscal years 2016-17 through 2018-19. To verify completeness of the data, the internal auditor compared it to the city's audited financial statements for fiscal years 2016-17, 2017-18, and 2018-19 and determined that the data were materially complete. The internal auditor verified the accuracy of the revenue and expense totals by selecting revenue and expense categories from the data and tracing totals to supporting financial reports provided by the management companies. The internal auditor found that the Finance Department had not always grouped and reported specific revenue and expense items in categories consistently. For example, the Finance Department recorded the incentive management fee in the general and administrative expense category in one year and in the management fee expense category the following year. To help account for this issue, the internal auditor manually adjusted several totals, as appropriate, for presentation in the audit report. Although this may affect the precision of the numbers presented, there is sufficient evidence in total to support the findings, conclusions, and recommendations. The internal auditor also used historical data from this system for fiscal background or contextual information that does not materially affect findings, conclusions, or recommendations. Thus, the internal auditor determined a data reliability assessment of those data was not necessary.

The internal auditor also reviewed a selection of JC Management's personnel records to assess compliance with key human resources laws related to sexual harassment. The internal auditor interviewed JC Management employees knowledgeable about the records. The internal auditor verified completeness of the records by haphazardly selecting personnel files from JC Management's paper files and ensuring that each employee existed in JC Management's human resources information system and verified accuracy of the records by tracing key information against sources of corroborating documentation from personnel records. Consequently, the internal auditor found JC Management's personnel records to be sufficiently reliable for the purposes of analyzing its compliance with key human resources laws related to sexual harassment.