HONEY CREEK RESORT OPERATIONS ACCOUNT
MANAGED BY
CENTRAL GROUP MANAGEMENT, LLC
INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
U.S. GENERALLY ACCEPTED AUDITING STANDARDS
JUNE 30, 2012

Honey Creek Resort

Officials

Name	Title
State	
Honorable Terry E. Branstad	Governor
David Roederer	Director, Department of Management
Glen P. Dickinson	Director, Legislative Services Agency
Central Group Management, LLC	
Roberts H. Pace, Jr.	President - CEO
Linda Caird	Vice President Finance
Iowa Department of Natural Resources	
Chuck Gipp	Director

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David A. Vaudt, CPA
Auditor of State

Independent Auditor's Report on Internal Control over
Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with U.S. Generally Accepted Auditing Standards

To the Board Members of the Natural Resource Commission:

We have audited the financial statements of the Operations Account of Honey Creek Resort, Moravia, Iowa as of and for the year ended June 30, 2012, and have issued our report thereon dated November 14, 2012 under separate cover. We conducted our audit in accordance with U.S. generally accepted auditing standards.

The management of Honey Creek Resort is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Honey Creek Resort's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Honey Creek Resort's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Honey Creek Resort's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Honey Creek Resort's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings, we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Honey Creek Resort's response to the finding identified in our audit is described in the accompanying Schedule of Findings. While we have expressed our conclusion on Honey Creek Resort's response, we did not audit Honey Creek Resort's response and, accordingly, we express no opinion on it.

This report, a public record by law, is intended solely for the information and use of the officials and employees of Honey Creek Resort and other parties to whom Honey Creek Resort may report, including the Iowa Department of Natural Resources and the officials, employees and citizens of the State of Iowa. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Honey Creek Resort during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

DAVID A. VAUDT, CPA Auditor of State	WARREN G. JENKINS, CPA Chief Deputy Auditor of State

November 14, 2012

Honey Creek Resort

Schedule of Findings

Year ended June 30, 2012

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCY:

GM Comp Account – Central Group Management (CGM) is responsible for operation of the Lakeshore Grille and Lounge, a part of Honey Creek Resort (Resort). During our review, we identified a GM (General Manager) Comp Account. Through discussions with CGM Corporate Management Staff and employees at the Resort, the GM Comp Account is utilized for food and beverage expenses when Corporate Management Staff are at the Resort for business, meals for managers-on-duty (MOD's), customer complaints, employee appreciation and business meals and entertainment associated with the Executive Team Members of the Resort. The Executive Team Members consist of the General Manager, Human Resource Director, Golf Pro, Executive Chef, Front Office Manager, Director of Sales, Aquatics Manager and Chief Engineer.

We identified $7,336.12 of food, beverages, gratuities and tax written off to the GM Comp Account in fiscal year 2012. The retail price was $12,018.54 and $4,682.42 of discounts was applied prior to the write-offs. In addition, this amount included $1,412.05 of server gratuities.

We selected various transactions in the GM Comp Account for testing. Based on our review of the transactions, numerous instances were noted where CGM Corporate Management Staff and Executive Team Members of the Resort incurred expenses written off to the GM Comp Account, but there was not adequate documentation to determine who was in attendance and the business purpose of the event. Also, of the 18 transactions tested, 13 contained various amounts of alcoholic beverages.

For example:

- On Tuesday, July 12, 2011, $120.02 was written off to the GM Comp Account. The retail price was $168.44 prior to discounts and tax. Three CGM Corporate Management Staff and one Executive Team Member incurred the charges, which included 14 alcoholic beverages and a $30.32 gratuity.
- On Wednesday, September 7, 2011, $122.55 was written off to the GM Comp Account. The retail price was $171.41 prior to discounts and tax. Two CGM Corporate Management Staff, one Executive Team Member and one rental vendor of the Resort incurred the charges, which included 11 alcoholic beverages and a $30.85 gratuity.
- On Sunday, September 25, 2011, $76.27 was written off to the GM Comp Account. The retail price was $106.69 prior to discounts and tax. The General Manager and four individuals incurred the charges, which included four alcoholic beverages and a $19.20 gratuity. The receipt stated "Dinner w/ Family".
- On Saturday, March 10, 2012, $59 was reimbursed for a meal in Ottumwa, Iowa to 'observe a candidate for a restaurant manager position' at the Resort. The reimbursement included meals for other members of his family and two alcoholic beverages.

- On Tuesday, June 12, 2012, $161.35 was written off to the GM Comp Account. The retail price was $225.66 prior to discounts and tax. Four CGM Corporate Management Staff and two insurance agents of the Resort incurred the charges, which included 16 alcoholic beverages and a $40.62 gratuity.

Pursuant to the contract between the Iowa Department of Natural Resources (DNR) and CGM, "Operator's (CGM) Corporate Management Staff may reside and dine at the Hotel when at the Hotel on Owner's (DNR) business, and such reasonable lodging and reasonable dining expenses shall be paid by the Owner, but shall be accounted for by the Operator on a monthly basis." No additional clarification is provided documenting what is considered reasonable regarding dining expenses or the reimbursement of alcoholic beverages.

In addition, as documented in CGM Manager on Duty (MOD) meal procedures, guests are allowed to dine with the Manager on Duty when business levels allow. These procedures also allow for alcohol to be consumed in accordance with local laws and guidelines for responsible alcohol consumption.

<u>Recommendation</u> – Although a CGM policy allows the General Manager and others to consume alcohol as part of their meals, CGM and DNR should consult legal counsel and consider including additional clarification in the Hotel Management Agreement between CGM and DNR regarding reasonable dining expenses, including maximum amounts, and alcohol consumption. Adequate documentation should be maintained to support who ate the meals and the business purpose of the meals.

<u>Response</u> – CGM has had an employee alcohol consumption policy in place since February 27, 2009. CGM has also had a written employee discount policy for meals, a manager on duty (MOD) meal and beverage policy while on and off duty, general manager meal and beverage policy while dining with guests for regular evaluation of our restaurant and lounge service, and for other business purposes and meal and beverage policy for other managers as directed by the GM. The policy has been in effect since January 30, 2010.

CGM is also tracing the GM account for each fiscal year (including who the participants were) as they include meals and beverage for:

- Manager on Duty, Executive team members
- General Manager
- Guest Satisfaction/resolution costs
- Sales and Marketing personnel dining with prospects
- Central Group Management corporate personnel
- Sales and Marketing directed meals and beverages for guests and prospects
- Employee recognition meals and beverages

CGM has language in its Management Contract with the DNR allowing for consumption of meals and beverages according to CGM's policies, while on the resort premises, for CGM's corporate staff. It should be noted that meals are consumed at the property's cost, not at retail, while meals consumed off premises while on resort business are reimbursed at 100% of retail. This is standard operating procedure in the full service hotel and resort industry.

The management agreement also allows for reasonable entertainment expense. The dinner on June 12, 2012 with staff and insurance agents was preceded by a meeting regarding the insurance renewals and recommendations. The agents that attended are also regular guests at the resort.

Pursuant to last year's audit comment, alcoholic beverages for CGM staff are not charged to the GM Comp account for monthly dinner meetings. This change took place after September of 2011.

Corporate staff from CGM attend the owners meeting each month for two to three business days, with the President, VP of Finance, and Director of Marketing traveling to the resort. Accounting/Administrative and Human Resources personnel also travel to the resort periodically and additional travel days are incurred for staff training and inspections. The VP of Finance is also on site for two weeks during the annual audit. Executive team members meet with CGM staff to discuss operations during extending working meal periods.

Of the total charged to the GM Comp account, 34% or $2,494 of the annual expense relates to CGM corporate staff.

Conclusion – Response acknowledged. Additional clarification should be added to the Hotel Management Agreement between CGM and DNR regarding reasonable dining expenses, including maximum amounts and alcohol consumption.