

Meeting Date
July 25, 2017



Section	New Business
Item No.	VI F 2

AGENDA REPORT

BREVARD COUNTY BOARD OF COUNTY COMMISSIONERS

SUBJECT:	Board Discussion Regarding Disposition of County-owned Golf Courses
DEPT/OFFICE:	District 3, Commissioner John Tobia

Requested Action:

It is requested that the Board discuss options regarding the disposition of the Savannahs Golf Course, Habitat Golf Course, and Spessard Holland Golf Course.

Summary Explanation & Background:

On July 13th, 2017, the Board was informed that Integrity Golf Co., LLC was ceasing operations and breaching its contract with the County regarding managing and operating County-owned golf courses.

On April 9th, 2015, the Board was provided with various options regarding the disposition of County-owned golf courses.

Given the current predicament, it is prudent for the Board to discuss its options with these courses.

Clerk to the Board Instructions:

Exhibits Attached:

Contract /Agreement (If attached): Reviewed by County Attorney Yes No PR

Interim County Manager	Assistant County Manager Venetta Valdengo	Department Director / Extension Commissioner John Tobia, District 3
Frank Abbate	Interim Assistant County Manager John Denninghoff	



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July 26, 2017

MEMORANDUM

TO: Commissioner John Tobia, District 3

RE: Item VI.F.2., Board Discussion Regarding Disposition of County-Owned Golf Courses

The Board of County Commissioners, in regular session on July 25, 2017, authorized Request for Proposals (RFP) to advertise today for golf consultants to take a look at Savannahs, Habitat, and Spessard Holland Golf Courses independently; waived selection and negotiating committees, and authorized the County Manager to negotiate the contract; authorized the Chairman to sign the contract in lieu of bringing it back to the Board; and accepted International Golf Management's proposal to run the Golf Courses on a month-to-month basis, for a period of up to six months.

Your continued cooperation is always appreciated.

Sincerely,

BOARD OF COUNTY COMMISSIONERS
SCOTT ELLIS, CLERK

Tammy Rowe

Tammy Rowe, Deputy Clerk

cc: County Manager
Parks and Recreation Director



revard
C O U N T Y

Brevard County, Florida Internal Audit Report – Golf Course Operations – Breach of Contracts

July 24, 2017

V1.F.2





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TRANSMITTAL LETTER



July 24, 2017

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The Audit Committee of
Brevard County, Florida
Viera, Florida 32940

Pursuant to the approved internal audit plan for fiscal year ("FY") 2016-17 for Brevard County, Florida ("County"), we hereby present the internal audit of the breach of contracts regarding the Golf Course Operations under the Department of Parks and Recreation. Through the County Attorney we made a formal request for uniform action of the vendor on July 20, 2017, under on the audit rights outlined in the contract. The request was to gather information and audit evidence to determine potential current and future obligations / liabilities related to the breach. As of the date of this report we have received copies of several leases and contracts, but have not received accounts payable detail or a copy of the detailed general ledger of the contractor, Integrity Golf Company LLC ("Integrity or IGC"). Thus, without the general ledger detail and accounts payable listing, we are unable to determine the completeness of the information gathered or whether subcontractors and vendors have been paid. We will continue to update our analysis as we work with the County Attorney to receive additional information. We will be presenting this report to the Interim County Manager upon completion and to the Audit Committee of Brevard County at the next scheduled meeting on October 4, 2017.

Our report is organized into the following sections:

Overview	This provides an overview of the Golf Operations related to the three County owned golf courses.
Objectives and Approach	The internal audit objectives are expanded upon in this section as well as a review of our approach.
Analysis	This section provides analysis of the Financial History and Trends, a Timeline of events from March 23, 2017 through July 13, 2017 and listing of Potential Current and Future Obligations based on information gathered through the County Attorney and the Parks and Recreation Department.

We would like to thank the County's Attorney's Office and the Parks and Recreation Department and all those involved in assisting our firm with this internal audit.

Respectfully Submitted,

RSM US LLP

INTERNAL AUDITORS



OVERVIEW

The County received a letter from Gene Garrote, CEO of Integrity Golf Company LLC on July 12, 2017. This letter represented all three entities including: IGC Habitat Golf Course, LLC, IGC Spessard Holland Golf Course, LLC, and IGC Savannahs Golf Course LLC, (collectively "Integrity"). The letter noted "termination of the leases" (Brevard County Management Agreements) for all three golf courses effective July 30, 2017. The objective of this review focused on addressing concerns the County has regarding potential obligations the County may choose to absorb as a result of the breach of contracts by Integrity.

County Golf Courses

Brevard County owns three golf courses. The Parks and Recreation Department gave a presentation to the Board of County Commissioners dated April 9, 2015, that we have utilized to summarize key data. Course maintenance was provided by International Golf Maintenance from 1995 through 2015. The General Fund continues to provide for Debt Service although the bonds were paid off and replaced with an inter-departments loan in 2016. General fund has not been used for operations since 2010. Collectively, prior to 2016, the courses were breaking even financially from operations excluding the debt service however projections were trending to negative cash flow beginning in 2016. As a result, the County entered into the arrangements with Integrity through a formal RFP process in February 2016. The terms of the contract were for five years with optional five year renewal.

Habitat Golf Course

In 1991, the County bonded \$5 million to construct the golf course. In 1992, the BOCC executed an agreement with Valkaria Aripport for use of airport property and opened the Golf Course in Malabar to the public. They pay Valakria Aripport approximately \$7,000 per month. There are restriction set forth in the lease as the land is owned by the Federal Aviation Authority ("FAA"). Habitat has traditionally operated in the black. Beginning February 2016, the County contracted with Integrity for Management Services.

Savannahs Golf Course

In 1988, the County entered into an agreement with the Savannahs at Sykes Creek Inn (HOA) and bonded \$4.8 million for the future operations of a golf course. In 1990, the golf course in Merritt Island was opened to the public with no financial support from the HOA. The Savannahs has traditionally operated at a deficit. Beginning February 2016, the County contracted with Integrity to Lease the Golf Course.

Spessard Holland Golf Course

In 1950, the Federal Government deeded 173 acres of land in Melbourne Beach to Brevard County for recreational use. In 1975, the County received a grant of \$390,250 from the Department of the Interior and bonded \$1 million to construct a golf course. In 1977 Spessard Holland opened an executive golf course open to the public. Spessard Holland has traditionally operated in the black. Beginning February 2016, the County contracted with Integrity to Lease the Golf Course.



OBJECTIVES AND APPROACH

The objective of this internal audit focused on addressing concerns the County has regarding potential obligations due to the breach of contracts by Integrity. Through the County Attorney, we made a formal information request of the vendor based on the audit rights outlined in the contract. The request was made on July 20, 2017 to gather information and audit evidence to determine potential current and future obligations / liabilities related to the breach.

We requested the following:

- General Ledger Backup files,
- Detailed Check Registers for the period of January 1, 2017 to date,
- Accounts Payable information as of July 20, 2017,
- Copies of all contracts related to vendors and subcontractors,
- A listing of any future obligations not currently recorded in the general ledger, and
- A listing of any unpaid wages through July 31, 2017.

This audit started July 19, 2017, with a meeting with the Interim County Manager and the Director of Parks and Recreation to understand the concerns of the Commissioners. The goal was to deliver a draft of our findings in a report by Monday July 24, 2017. We began our work with the Parks and Recreation Support Services Manager to pull together financial analysis of the contracts' period as well as a timeline of the last three months of the contracts activity. Through the County Attorney and the Parks and Recreation Department we were able to gather several contracts from Integrity. However, without the general ledger detail and accounts payable listing we are unable to determine the completeness of the information gathered or whether the subcontractors and vendors were paid. Through our review of correspondence and inquiry with County staff we are aware of certain items not provided. Timeliness of receiving the requested information from Integrity is critical to meet the expected timeline of this audit. We have compiled the information received and will continue to update as determined necessary by the County.

ANALYSIS

Financial History

In April 2015, the Parks and Recreation Department presented to the BoCC regarding the current and forecasted future state of the three golf courses. At that time, the Commissioners were presented with 5-year fiscal trends as well as forecasted amounts for FY2015-2017, showing that the golf course operations would begin losing money as of FY2016, after exhausting any remaining balance forward.

As a result of that presentation, and subsequent procurement activities, the BOCC voted to outsource operations and golf course management to Integrity, as of February 2016. Below is an updated trend analysis to show the actual expenditures for the previously forecasted years, as well as illustrate the updated trend in operating net position after revenues and expenditures. The trend shows that the golf courses were in a positive net position until FY2014, when the negative net operating position began to grow.

Date of Integrity contract inception:
February 2016



	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017 YTD
Revenue	\$ 2,905,717	\$ 2,855,911	\$ 2,738,639	\$ 2,540,751	\$ 2,703,868	\$ 1,078,502	\$ 104,567
Expenses	\$ 2,746,954	\$ 2,701,741	\$ 2,648,221	\$ 2,602,435	\$ 2,929,537	\$ 1,114,079	\$ 166,347
Net	\$ 158,763	\$ 154,170	\$ 90,418	\$ (61,684)	\$ (225,669)	\$ (35,577)	\$ (61,780)
				\$	\$ 135,000	\$	\$ 77,516
				\$	\$	\$ 99,423	\$ 120,000
					Note 1		Note 2
						\$ 135,736	

Note 1: When Integrity was contracted in FY2016, the County had already entered into agreements to repair and replace the HVAC and duct work at Spessard Holland for approximately \$100,000, as well as replace the playground at Dolphin Park in the Savannahs for \$35,000. Those expenditures impacted the FY2016 net position, which would have been positive if not for those commitments made prior to the outsourced arrangement.

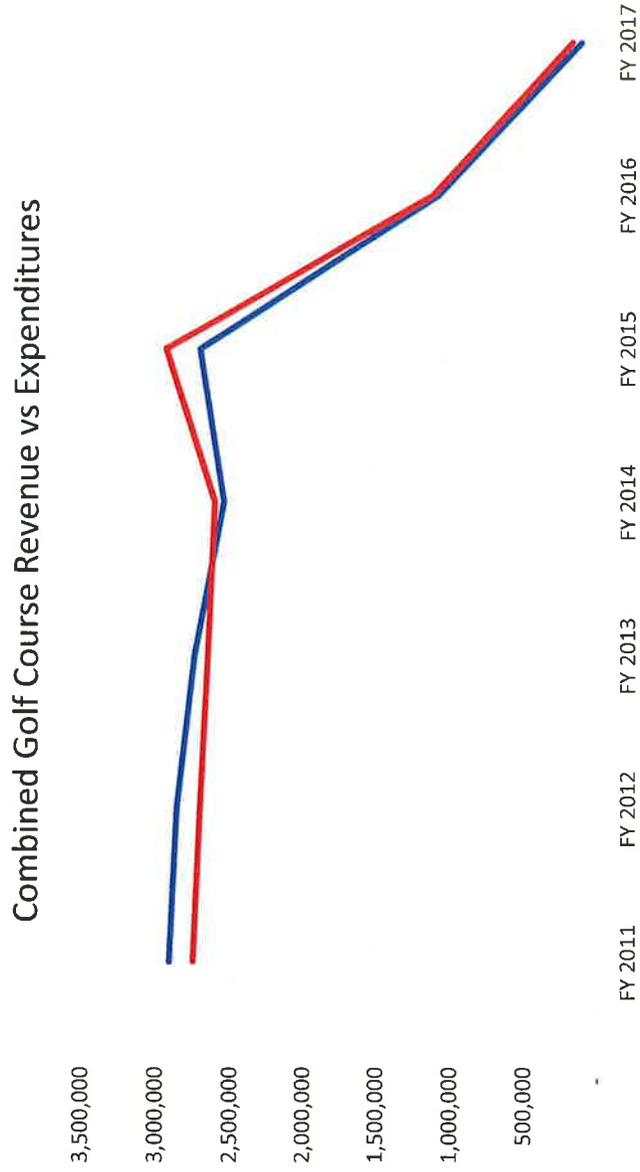
Note 2: As of FY2017 year-to-date, Integrity owes the County approximately \$77,500, as result of net reimburseables for various operating costs paid for by the County (primarily Valkaria lease payments for Habitat). Additionally, there is an outstanding insurance claim for approximately \$120,000, resulting from Hurricane Matthew damages to the Savannahs club house roof in October, 2016. These items are shown above as adjustments to net position, should they be collected in the future.

The graph on the following page illustrates the table shown above.



ANALYSIS - CONTINUED

Financial History - continued



Sources: Presentation dated 4/9/15 to BoCC; SAP budget vs actual reports



ANALYSIS - CONTINUED

Timeline

To further our understanding of the actions leading up to the termination of the Integrity agreements, we have compiled a timeline of communication between the County and Integrity from March 23, 2017, (the Director of Parks and Recreations first day of employment at the County) through the notification to the BoCC on July 13, 2017.

Communication Timeline between the County and Integrity	
Date	Conversation Notes
July 13, 2017	BoCC Workshop Item IV. Other Business; Golf Course discussion of breach.
July 13, 2017	Parks and Recreation Director met with the Interim County Manager, County Attorney and staff to discuss golf termination letter.
July 13, 2017	Parks and Recreation Director received Notice from Integrity Golf that they were terminating the leases.
July 12, 2017	Assistant County Manager texted the Interim County Manager that Integrity intended to terminate the golf course leases.
July 12, 2017	Parks and Recreation Director went to the Assistant County Manager's Office to inform them of the telephone conversation with Integrity Golf and their intention to terminate the golf course leases.
July 12, 2017	CFO of Integrity telephoned and verbally told Parks and Recreation Director that Integrity was terminating the golf course leases / management agreement.
July 12, 2017	Special Projects Coordinator III received an email from the CFO of Integrity that Integrity was not going to make the pre Golf Advisory Board meeting that was scheduled for July 13, 2017 and that the CFO of Integrity would call Parks and Recreation Director to give an update on IGC and the future of the company.
July 12, 2017	Special Projects Coordinator III sent an email to the CFO of Integrity reminding them of our July 13, 2017 meeting.
July 12, 2017	Executive VP of Operations & Retail e-mailed the Special Projects Coordinator III that they had to let the employee go over the incident with the upset customer.
July 11, 2017	"Piles of Trees" Parks and Recreation Director sent an email to the District 2 aide to the Commissioner that the piles of trees were gone.
July 11, 2017	"Piles of Trees" the Executive VP of Operations & Retail emailed a picture that the piles of brush had been removed.
July 11, 2017	"Canal Dredging" Parks and Recreation Director received an email from a Savannah's homeowner stating that Integrity was going to dredge a water canal behind his house on July, 11, 2017.
July 10, 2017	Special Projects Coordinator III received a call from an upset customer. Special Projects Coordinator III attempted to reach out to Executive VP of Operations & Retail. Executive VP of Operations & Retail reached back out on July 11, 2017 about this to the Special Projects Coordinator III.
July 07, 2017	"Canal Dredging" Parks and Recreation Director received an email from the Executive VP of Operations & Retail stating that aquatic weed control product had been applied to a canal behind a golf course homeowner's house.
July 6, 2017	Special Projects Coordinator III e-mailed the CFO of Integrity asking about the Invoice cheque and the Insurance cheque.



ANALYSIS - CONTINUED

Timeline - continued

Communication Timeline between the County and Integrity - continued	
Date	Conversation Notes
June 30, 2017	"Piles of Trees" Parks and Recreation Director sent an email to Michael Neumann, Integrity asking for information as to what was the plan to have the tree debris removed
June 29, 2017	"Piles of Trees" Parks and Recreation Director sent an email to Michael Neumann, Integrity asking for an update regarding tree debris
June 26, 2017	Received payment for the Fuel re-imbusement. Special Projects Coordinator III also e-mailed the CFO of Integrity again regarding the cheque for the Invoices and the Insurance.
June 22, 2017	Special Projects Coordinator III e-mailed the CFO of Integrity asking about the Invoice cheque and the Insurance cheque.
June 21, 2017	Special Projects Coordinator III e-mailed the CFO of Integrity asking about the Invoice cheque and the Insurance cheque.
June 19, 2017	"Weed Control" Weeds were growing in the lake near Hall Rd. After discussion it was agreed that this was a County issue to take care of not Integrity's.
June 19, 2017	"Kitchen at Savannah's" The kitchen at Savannah's was completed and awaiting final inspection.
June 15, 2017	Special Projects Coordinator III e-mailed the CFO of Integrity regarding that the cheque has not yet been received.
June 14, 2017	Executive VP of Operations & Retail e-mailed the Special Projects Coordinator III to confirm dates and times for meetings. Special Projects Coordinator III responded with all dates through January 2018.
June 9, 2017	"Merger" Telephone conversation with Integrity's attorney regarding the possible merger of Integrity Golf Management with Cypress Golf Management. Present: Brevard County Attorney, Assistant County Manager, and Parks and Recreation Director. Integrity stated that there would not be a merger, but it had not yet been decided how the companies would join together
June 9, 2017	Parks and Recreation Director asked about the Savannah's roof re-imbusement cheque from the Integrity's insurance company and the CFO of Integrity replied "it's in the mail". Present: Brevard County Attorney, Assistant County Manager, and Parks and Recreation Director as well as the Integrity attorney.
June 9, 2017	CFO of Integrity e-mailed the Special Projects Coordinator III regarding Integrity transitioning Cypress Golf Management into Operations.
June 6, 2017	CFO of Integrity e-mailed the Special Projects Coordinator III in response to the voicemail left. Payment was processed and you should expect payment this week.
June 1, 2017	Integrity owes the County \$77,516.33 the CFO of Integrity's response to the Special Projects Coordinator III's email of May 31, 2017 regarding the \$77,516.33 Integrity owes the County Note: in the CFO's of Integrity's response email they state "things are going well with our merger with Cypress Golf Management".
June 1, 2017	Special Projects Coordinator III received an e-mail from the CFO of Integrity confirming payment for the invoices. They are currently in queue to go out this week. BTW... things are going well with our merger.



ANALYSIS - CONTINUED

Timeline - continued

Communication Timeline between the County and Integrity - continued	
Date	Conversation Notes
May 31, 2017	Special Projects Coordinator III e-mailed the CFO of Integrity invoices again regarding the previous outstanding balance.
May 24, 2017	"Piles of Trees" Just an email to show that we were trying to be responsive to the piles of trees and that the Parks and Recreation Director was in contact with Integrity. Also keeping the D2 Commission office informed.
May 18, 2017	"Merger" County Attorney following up with Integrity regarding the possible merger.
May 18, 2017	Special Projects Coordinator III and the Parks and Recreation Director received an e-mail from the Executive VP of Operations & Retail regarding Savannahs HOA meeting on 5/17/17.
May 16, 2017	Special Projects Coordinator III E-mailed Invoices (Total \$77,516.13) to the CFO of Integrity and the Executive VP of Operations & Retail.
May 10, 2017	Special Projects Coordinator III Received Gift Card Reports from the Executive VP of Operations & Retail.
May 4, 2017	Executive VP of Operations & Retail e-mailed the County Staff that Brevard Fire is going out to inspect Savannahs. Special Projects Coordinator III also e-mail the Executive VP of Operations & Retail regarding old junior clinic brochures as Integrity was looking to start up Junior Clinics.
April 26, 2017	Parks and Recreation Director met with the Executive VP of Operations & Retail at Savannahs Golf Course. Executive VP of Operations & Retail also provided the Special Projects Coordinator III with pictures of painters painting the exterior at Spessard Holland clubhouse.
April 24, 2017	Savannah's kitchen not being open with added timeline provided during discussion.
April 20, 2017	Quarterly Golf Advisory Board meeting
April 13, 2017	Pre-meeting with Integrity in preparation for the April 20, 2017 Golf Advisory Board meeting. At this meeting the Parks and Recreation Director specifically asked about rumors we were hearing that Integrity Golf was divesting themselves of golf courses. CFO of Integrity said that they were letting go of less profitable golf courses but were going to keep Brevard County's courses. He then mentioned that he was looking to merge with another golf company
April 10, 2017	"Piles of trees" Homeowner contacted Integrity about trees that needed to be cut down. The county and Integrity decided it was Integrity's responsibility.
March 24, 2017	Executive VP of Operations & Retail, Executive VP of Operations and Retail for Integrity Golf contacted Parks and Recreation Director to introduce himself and welcome her to the County.
March 23, 2017	This is the start date for the Timeline as the Parks and Recreation Director started employment on this date.



ANALYSIS - CONTINUED

Potential Current and Future Obligations

To understand and quantify the potential current and future obligations related to the breach, the County Attorney made a formal request of Integrity based on the audit rights outlined in the contract. Through this inquiry and requests made by the Parks and Recreation Department we have gathered the contracts noted below. However, without the general ledger detail and accounts payable listing from Integrity we are unable to determine the completeness of the information gathered or whether those subcontractors and vendors have been paid. For example, we suspect from correspondence that Cypress Golf is operating the golf courses and we have not received a contract for those services. Through inquiry with County Staff we understand the County has paid \$2,905.50 to the Florida State Golf Association for GHIN to continue operations of the handicap system. In addition through a Commissioners office we have been provided information from an irrigation service provider that Integrity owes them \$3,000.

Integrity Agreements				
	Service	Contract Date	Contract Length	Contract Amount
Habitat CEFI Jacobsen Lease	Equipment Lease	08/30/2016	40 Months	\$6,220 / month
Habitat PNC Cushman Hauler Lease	Gas Vehicles	05/20/2016	48 Months	\$486 / month
Habitat Western	Jacobsen Truckster	10/01/2015*	60 Months	\$100 - \$288 based on month
Savannahs CEFI Jacobsen Lease	Equipment Lease	08/30/2016	40 Months	\$6,495 / month
Savannahs PNC Cushman Hauler	Gas Vehicles	05/20/2016	48 Months	\$486 / month
Savannahs Western	Jacobsen Mower and Truckste	10/01/2015*	60 Months	\$100 - \$1,366 based on month
Spessard Equip Lease	Jacobsen Mgas Mower, Mower, AR522 and Blower	09/30/2015*	60 Months	\$250 - \$4,011 Based on Month
IGC-CM to Habitat Cart Lease	Golf Carts	05/15/2015*	48 Months	\$6,781/ month
MW Lease-Spessard Cart	Golf Carts	06/02/2016	42 Months	\$6,953/ month
TP to Savannahs Cart Lease	Golf Carts	01/15/2016*	48 Months	\$5,635/month
Crooked Creek Golf Club to Spessard	Office Contract	07/23/2015*	24 Months	\$1,508.64 / Year – Paid in Full first 12 months
Ring Central for Habital	Office Contract	07/01/2016	24 Months	\$1,658.64 / Year – Paid in Full first 12 months
Ring Central for the Savannahs	Office Contract	07/01/2016	24 Months	\$1,658.64 / Year – paid in Full first 12 months
Spessard Copier Lease	Copier	03/21/2016	39 Months	\$148 / month
Spessard Marlin Ice Machine	Ice Machine	03/10/2016	60 Months	\$92 / month

*contract term in effect prior to Integrity contract with the County.

Payroll - Through inquiry with Integrity staff, it is our understanding pay checks were issued on July 21, 2017, and that employees have been 'promised' pay through July 30, 2017. Our estimate of payroll based on the July 7, 2017, payroll registers for the two-week pay cycle is \$39,000, for 58 full time employees and approximately 3,000 hours worked.