

City of Miami

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INDEPENDENT AUDITOR GENERAL



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May 8, 2019

Honorable Members of the City Commission
City of Miami
3500 Pan American Drive
Coconut Grove, FL 33133-5504

Re: Audit of Financial Matters Involving the Operations and Management of the City of Miami's
Melreese Golf Complex
Report No. 19-08

Executive Summary

We have completed an audit of financial matters involving the operations and management of the City of Miami's Melreese Golf Complex (Melreese), operated and managed by DeLucca Enterprises, Inc. (DE), primarily for the period 10/1/10 – 9/30/18. The audit was directed by a resolution of the Miami City Commission that was adopted on July 26, 2018.

The audit was performed to determine compliance with the Professional Services Agreement (Agreement) and whether the City of Miami Parks and Recreation Department (Parks Department) sufficiently monitored the operations of Melreese and management services provided by DE. We also performed follow-up procedures on a prior audit of Melreese; specifically, Report No. 17-08 issued on August 9, 2017. Total revenues reported over the eight-year audit period were \$25.5 million, with annual revenues ranging from \$2.8 million (FY 2010-2011) to \$3.8 million (FY 2017-2018).

Based on the results of our audit, we have concluded that the Parks Department should establish procedures and controls to effectively govern the Agreement between the City and DE as it relates to the management of Melreese. Accordingly, we noted the following:

1. Revenues and expenditures from City records were not reconciled to Melreese Audited Financial Reports.
2. City-paid utility bills were not reported to Melreese resulting in incentive compensation overpayments totaling \$28,109.
3. Various For-Profit and Non-Profit Entities registered the Melreese address as their primary place of business without informing the City.
4. DeLucca Enterprises did not provide requested financial and other information to the City for business entities registered at the Melreese address.
5. The City and Melreese did not unanimously select the Certified Public Accountant who prepared the Audited Financial Reports.

We wish to express our appreciation for the cooperation and courtesies extended to us by all personnel while conducting this audit.

Sincerely,



Theodore P. Guba, CPA, CIA, CFE
Independent Auditor General
Office of the Independent Auditor General

cc: The Honorable Mayor Francis Suarez
Emilio T. Gonzalez, City Manager
Joe Napoli, Deputy City Manager
Victoria Mendez, City Attorney
Todd Hannon, City Clerk
Sandra Bridgeman, Assistant City Manager/Chief Financial Officer
Fernando Casamayor, Assistant City Manager
Nzeribe Ihekweba, Assistant City Manager
Christopher Rose, Director, Office of Management and Budget
Lara Hamwey, Director, Parks and Recreation Department
Annie Perez, Director, Procurement Department
Erica Paschal, Director, Finance Department
Members of the Audit Advisory Committee
Audit Documentation File

Audit conducted by: Deming Zhang, CPA, Sr. Staff Auditor

Audit reviewed by: Mala Khilnani, CPA, CISA, Assistant to the Auditor General

**AUDIT OF FINANCIAL MATTERS INVOLVING THE OPERATIONS AND
MANAGEMENT OF THE CITY OF MIAMI'S MELREESE GOLF
COMPLEX**

**OCTOBER 1, 2010 THROUGH SEPTEMBER 30, 2018
Report No. 19-08**

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SCOPE, OBJECTIVES AND METHODOLOGY

The scope of the audit included a follow-up of the prior audit findings noted in our Audit Report No. 17-08 (Audit of the Professional Services Agreement (Agreement) between the City of Miami (Melreese Country Club) and DeLucca Enterprises). In addition, the scope included an examination of the Parks Department's procedures and controls as they relate to oversight of the Agreement between the City and DeLucca Enterprises (DE) and a review of the adequacy of the Agreement to protect the City's interests. The audit primarily covered the period October 1, 2010 through September 30, 2018 and focused on the following objectives:

- To determine whether the City and/or DE have implemented OIAG's prior audit recommendations.
- To determine whether the Melreese Audited Financial Reports were reconciled to the City's financial records.
- To determine whether DE reported all income from Melreese operations, including golf, tournaments, charitable events, online booking, pro-shop and the restaurant.
- To determine whether the Parks Department adequately monitored the entities with addresses registered at the Melreese address.
- To determine whether there were adequate internal controls in place at Melreese to process employees' payroll.
- Other procedures as deemed necessary.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit methodology includes the following:

- Interviews and inquiries of appropriate personnel within the City and DE.
- Tours of the Melreese Golf Clubhouse Complex.
- Reviews of written policies and procedures in order to gain an understanding of the internal controls.
- Observations of current practices and processing techniques.
- Tests of applicable transactions and records.
- Other audit procedures as deemed necessary.

BACKGROUND

Melreese is a City-owned 18-hole golf course located at 1802 N.W. 37th Avenue, Miami, Florida. It is situated on approximately 160 acres adjacent to the City's Grapeland Park site. In addition to the golf course, the property includes a driving range, two tennis courts, a pro-shop and restaurant. Total revenues reported over the eight-year review period were \$25.5 million with annual revenues ranging from \$2.8 million (FY 2010-2011) to \$3.8 million (FY 2017-2018). In June 2004, the City entered into an Agreement with DeLucca Enterprises, Inc. (DE) to manage the golf course, and the City's Parks and Recreation Department was assigned to monitor financial and operational activities. The third amendment of the Agreement, effective as of October 1, 2011, extended its term through September 2021, with an option to further extend the Agreement through September 2026.

The Agreement also stipulates the following:

- Compensation to DE shall equal \$200,000 annually, increased by 3% annually during any fiscal year in which the City's general employees, police employees, fire employees, or sanitation employees receive any cost of living or across-the-board pay increases.
- The City shall also pay DE additional incentive compensation equal to 30% of any Net Operating Surplus derived from the operations beginning with fiscal year ended September 30, 2012. The surplus (if any) is determined annually via an audit performed by a certified public accountant.

There are approximately 45 full-time and part-time employees hired by DE, working at Melreese (Department of Administration, Department of Food and Beverage, Department of Golf Operations and Department of Maintenance).

Melreese hosts several large golf tournaments annually, such as the Shell LatinoAmerica Championship. In addition, Melreese hosts various corporate and charitable events, such as the City of Miami Golf Classic/Sandra DeLucca Center, and United Way. The First Tee Miami, which also operates out of the Melreese Golf Complex, is an International Youth Golf organization under the leadership and guidance of the DeLucca family. It is now part of the Dade Amateur Golf Association. The First Tee Miami has added mentoring programs, after school tutoring sessions, and college preparatory classes to prepare youngsters for advanced education utilizing the game of golf.

FINDINGS AND RECOMMENDATIONS

Overall Conclusions: Based on the results of our audit, we have concluded that the Parks Department should establish procedures and controls to effectively govern the Agreement between the City and DE as it relates to the management of Melreese. Accordingly, we noted the following:

1. Revenues and expenditures from City records were not reconciled to Melreese Audited Financial Reports.
2. City-paid utility bills were not reported to Melreese resulting in incentive compensation overpayments totaling \$28,109.
3. Various For-Profit and Non-Profit Entities registered the Melreese address as their primary place of business without informing the City.
4. DeLucca Enterprises did not provide requested financial and other information to the City for business entities registered at the Melreese address.
5. The City and Melreese did not unanimously select the Certified Public Accountant who prepared the Audited Financial Reports.

FINDING 1: REVENUES AND EXPENDITURES FROM CITY RECORDS WERE NOT RECONCILED TO MELREESE AUDITED FINANCIAL REPORTS

We noted that per the Agreement, Melreese was required to submit an Audited Financial Report of their operations on a yearly basis to the City. Although this information was provided, reported revenues and expenditures were not reconciled by City personnel to the same financial data recorded in City records, and we were informed that there were significant differences between City and Melreese financial information.

As a result, we performed a reconciliation of revenues and expenditures from the City's Oracle records to Melreese Audited Financial Reports from fiscal year 2011 (FY11) through fiscal year 2018 (FY18) (See Exhibit 1). For all eight years combined, Melreese and the City reported \$25.487 million and \$25.546 million in revenues respectively, and they both incurred \$24.488 million in adjusted expenditures. Overall, net unreconciled variances totaled \$58,902 for revenues and \$406 for expenditures for the eight-year period.

It should be noted that all yearly revenue variances were less than 1.2%; accordingly, we did not examine these any further. For expenses, yearly variances before adjustments ranged up to \$863,372 (FY 2018 adjusted to \$1,523). Accordingly, with the assistance of the Melreese Certified Public Accountant (CPA) and City staff, we reviewed the books and records in detail to determine the source of the differences. The notes to Exhibit 1 explain various adjustments that were made to reconcile expenses between City records and the Melreese Audited Financial Reports. These variances were primarily the result of timing differences, miscoded transactions, and different accounting treatments. Most adjustments, except for payroll and incentive pay, were the result of overstatements in City records mainly due to capital expenditures and other City park related expenses, incorrectly charged to Melreese operations. Over the eight-year period reviewed, Melreese operations contributed approximately \$1.1 million in funds to the City (revenues per City of \$25.5 million less expenses of \$24.4 million).

EXHIBIT 1

Reconciliation of Revenues and Expenses from City Records to Melreese Audited Financial Reports

	FY 2010-11 ¹	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	Total
REVENUE									
Revenue per City (Oracle)	\$ 2,772,848	\$ 3,074,801	\$ 3,154,790	\$ 2,190,355	\$ 3,445,485	\$ 3,521,436	\$ 3,599,805	\$ 3,786,230	\$ 25,545,749
Revenue per Melreese - CPA Audit	2,737,690	3,078,457	3,144,595	2,190,354	3,444,167	3,519,574	3,595,965	3,776,045	25,486,847
Difference (Revenue)	35,157	(3,656)	10,195	1	1,318	1,862	3,840	10,185	58,902
EXPENSE									
Expenses per City (Oracle)	2,521,679	3,093,681	3,497,141	2,874,209	3,101,820	3,418,232	3,732,738	4,436,016	26,675,518
Less: Other Park Expenses ²	-	(92,539)	(92,539)	(108,550)	(107,800)	(107,800)	(111,034)	(85,774)	(706,036)
Less: Net Change in Inventory ³	-	(37,254)	3,338	(11,134)	(22,441)	(40,029)	33,462	(7,762)	(81,820)
Less: Prior FY Expenses- Timing ⁴	(220,807)	(543,435)	(431,057)	(101,353)	(92,419)	(331,986)	(276,222)	(238,916)	(2,236,195)
Add: Current FY Expenses- Timing ⁴	543,435	431,057	101,353	92,419	331,986	276,222	238,916	-	2,015,388
Less: FEMA Reimbursement ⁵	-	-	-	-	-	-	-	(468,567)	(468,567)
Add: Payroll Accrual ⁶	-	23,140	-	19,901	20,647	62,544	63,876	-	190,108
Less: Payroll Accrual Reversal ⁶	-	-	(23,140)	-	(19,901)	(20,647)	(62,544)	(63,876)	(190,108)
Less: Allocation to CIP ⁷	-	-	-	(579,018)	-	-	-	-	(579,018)
Less: 30% Incentive Bonus ⁸	-	(40,905)	-	-	(42,379)	(28,508)	(364)	-	(112,156)
Less: Retroactive Pay ⁹	-	-	-	-	-	-	(18,545)	-	(18,545)
Adjusted City Expense	2,844,307	2,833,746	3,055,096	2,186,474	3,169,514	3,228,028	3,600,283	3,571,121	24,488,569
Expense per Melreese - CPA Audit	2,543,636	2,913,550	3,098,425	2,190,946	3,149,664	3,424,546	3,594,752	3,572,644	24,488,163
Difference (Expense)	\$ 300,671	\$ (79,804)	\$ (43,329)	\$ (4,472)	\$ 19,850	\$ (196,518)	\$ 5,531	\$ (1,523)	\$ 406

1) For the FY 2010-11, the CPA performed a compilation as required by the Professional Services Agreement (PSA). An audit was not required for FY 2010-11. Timing differences were adjusted for the current FY, however the prior FY timing difference (\$220,807) could not be offset since the Parks Dept. was unable to provide records for the prior FY.

2) The Melreese Golf Course maintains other City owned parks. The cost of maintaining these parks are included in the expenses per City (Oracle). These expenses are not included in the Melreese Audit Reports.

3) Melreese performs physical inventory counts of its supplies at year-end which are reflected in the CPA Audit. However, the City does not perform physical inventory counts they record inventory purchases as expenses at the time of purchase. The net change in Inventory is an adjustment to reflect the difference in inventory between the two records.

4) Expenses per Melreese CPA are recorded when incurred and then submitted to the City for reimbursement. They are recorded by the City when paid and are not adjusted for the month the expense was incurred resulting in a timing difference. As a result, amounts processed by the City after year-end that pertain to prior year activity, need to be added back to City expenses. Amounts paid at the beginning of the fiscal year that pertain to prior year activity need to be subtracted from City expenses.

5) Damages caused by hurricane Irma and reimbursed by FEMA were incorrectly recorded as operating expenses by the City.

6) The City records a year-end accrual for the Melreese payroll. Payroll expenses are accrued at year-end and reversed in the following year, resulting in a timing difference. No payroll accrual for FY 2018 since the payroll period ended on September 30th 2018.

7) During the period of June 23, 2014 through October 1, 2014, the golf course was closed due to renovation and improvements. Capital Improvement Program expenses of \$579,018 were included in the expenses per City. These expenses were not included in the 2013-14 Audited Financial Reports as operating expenses.

8) A 30% incentive bonus was included in operating expenses by the City, the incentive bonus was not included in the Audited Financial Reports per the PSA.

9) Retroactive pay of a 3% Cost of Living Adjustment was included in operating expense by the City, but was not included in the Audited Financial Reports.

It should be noted that over the last 11 years, the City has invested over \$7 million in various capital projects at Melreese including: \$5.2 million to construct the Golf Clubhouse Complex (restaurant, pro-shop and youth activity center) and \$1.9 million for soil and grass remediation (see Exhibit 2).

EXHIBIT 2

Capital Expenditures at Melreese for the period (FY2007-FY2018)

Fiscal Year	Clubhouse Complex CIP#(40-B30566)	Soil & Grass Remediation CIP#(40-B40527A)	Soil & Grass Remediation – Extra CIP# (40-B40527B)	Soil & Grass Remediation – Adm CIP# (40-B40527)	Grand Total
2007-11 [1]	\$ 4,880,845	\$ -	\$ -	\$ -	\$ 4,880,845
2011-12	27,718	-	-	-	27,718
2012-13	77,924	-	-	-	77,924
2013-14	18,387	515,694	-	163,756	697,837
2014-15	12,500	356,727	-	-	369,227
2015-16	153,796	476,334	-	-	630,130
2016-17	-	32,865	-	-	37,435
2017-18	-	-	361,147	-	356,577
Total:	\$ 5,171,171	\$ 1,381,620	\$ 361,147	\$ 163,756	\$ 7,077,694

[1] CIP Project # (40-B30566) includes all expenditures from FY2007-08 through FY 2010-11 for the clubhouse, restaurant, etc.

RECOMMENDATION 1: Assistant City Manager/Chief Financial Officer

To ensure the accuracy of City records, we recommend that City’s Department of Parks and Recreation or the Department of Finance coordinate with Melreese personnel to reconcile the revenue and expenditures reported on the Melreese quarterly compiled and yearly audited financial reports with City’s Oracle records no later than 45 days after the end of each period.

- **Auditee Response:** The Parks and Recreation Department will work with the Finance Department who have more of the subject matter expertise, to identify a mechanism between the departments to establish a reconciliation procedure in accordance with accounting principles generally accepted in the United States.
- **Implementation Date:** Summer 2019

FINDING 2: CITY-PAID UTILITY BILLS WERE NOT REPORTED TO MELREESE RESULTING IN INCENTIVE COMPENSATION OVERPAYMENTS TOTALING \$28,109

The third amendment of the Agreement provides incentive compensation for DE in the amount equal to thirty percent (30%) of any Net Operating Surplus, which is defined as the excess of (i) the total gross revenue received during each fiscal year from the operations of the Golf Course Facilities over (ii) total direct operating expenses, including expenses paid directly by the City. The operating surplus is provided to the City by Melreese in the Audited Financial Report.

During our review, we noted that the Department of Parks and Recreation did not provide Melreese information regarding water and sewer bills paid directly by the City that were related to Melreese operations.

As a result, the net operating surplus was overstated, and incentive payments were overpaid for several years. The water and sewer bills that the City paid directly to the Miami–Dade Water and Sewer Department from FY 2011-12 through FY 2014-15 totaled \$202,035. We have confirmed with the City and DE that the Melreese’s Audited Financial Reports did not include these expenses, when calculating their incentive compensation request. Our recalculation of the incentive compensation for the period taking into account the utilities paid and the reduction of operating surplus, resulted in an overpayment of \$28,109.

It should be noted that the City correctly reported the City Water and Sewer bills related to Melreese operations for all fiscal years subsequent to FY 2014-15.

RECOMMENDATION 2: Department of Parks and Recreation

We recommend that Department of Parks and Recreation make arrangements to bill and collect the incentive overpayment due to the City from Melreese in the amount of \$28,109.

- **Auditee Response:** The Parks and Recreation Department will submit a letter to DeLucca Enterprises with the back-up showing the over payment and requesting the return of funds within 30 days.
- **Implementation Date:** April 2019

FINDING 3: VARIOUS FOR-PROFIT AND NON-PROFIT ENTITIES REGISTERED THE MELREESE ADDRESS AS THEIR PRIMARY PLACE OF BUSINESS WITHOUT INFORMING THE CITY

We were informed by City Management that various active and inactive for-profit and non-profit entities registered the Melreese address as their primary place of business without informing the City. As a result, we searched Sunbiz.com and noted that twenty-one (21) for-profit and non-profit organizations have used the Melreese address as their registered address with the State of Florida, during our scope period. None of these entities had lease, sublease or facility use agreements executed with the City. Melreese’s employees or related parties were listed as officers/directors with 17 of these entities.

While we were unable to obtain financial information for the for-profit entities registered with the Melreese address through public resources, we obtained financial information that included revenues and expenses through “ProPublica.com”, for two non-profit organizations, Dade Amateur Golf Association, Inc. (DAGA) and First Tee of Miami-Dade Foundation, Inc. (First Tee). Revenues for the period 2010 through 2016 ranged from \$688,551 to \$1,224,180 for DAGA, and from \$11,000 to \$152,265 for First Tee. (See Exhibits 3 and 4 on page 7). We also noted that key employees at Melreese had received salaries from DAGA, ranging from \$14,400 to \$48,000 annually, as part-time employees or contractors, in addition to the Melreese salaries ranging from \$46,880 to \$248,744. (See Exhibit 5 on page 7)

It should be noted that the Agreement between DE and the City did not address leases, subleases, facility use agreements, and permitting and insurance requirements for potential entities operating out of Melreese. Although the Agreement provided that “Golf Professionals employed at the Golf Course Facilities shall continue to give private lessons and retain payments, providing that the lessons in no way interfere with the Golf Professionals’ responsibilities as employees at the Golf Course Facilities”, it did not address Melreese employees working at outside entities.

EXHIBIT 3

Dade Amateur Golf Association (DAGA)

	Year 2010	Year 2011	Year 2012	Year 2013	Year 2014	Year 2015	Year 2016	Year 2017
Revenues	\$ 688,551	\$ 756,120	\$ 798,024	\$ 923,768	\$ 808,278	\$ 1,153,754	\$ 1,224,180	Not Filed
Expenses	653,695	817,216	791,540	883,785	848,336	1,036,542	1,445,291	Not Filed
Excess or (Deficit)	\$ 34,856	\$ (61,096)	\$ 6,484	\$ 39,983	\$ (40,058)	\$ 117,212	\$ (221,111)	Not Filed
Net Assets	\$ 471,669	\$ 410,576	\$ 394,758	\$ 434,740	\$ 394,682	\$ 511,897	\$ 290,786	Not Filed

EXHIBIT 4

First Tee of Miami Dade Foundation, Inc.

	Year 2010	Year 2011	Year 2012	Year 2013	Year 2014	Year 2015	Year 2016	Year 2017
Revenues	NA	NA	\$ 11,000	\$ 64,950	\$ 43,300	\$ 152,265	\$ 85,250	Not Filed
Expenses	NA	NA	3,323	27,916	14,033	116,400	31,021	Not Filed
Excess or (Deficit)	NA	NA	7,677	37,034	29,267	35,865	54,229	Not Filed
Net Assets	NA	NA	\$ 7,677	\$ 44,711	\$ 73,978	\$ 109,843	\$ 164,072	Not Filed

EXHIBIT 5

Salaries of Officers / Employees of Melreese and DAGA

Name	Title	Year 2010	Year 2011	Year 2012	Year 2013	Year 2014	Year 2015	Year 2016	Year 2017
Charles DeLuca, Jr. *	Melreese: President	\$ 200,000	\$ 200,000	\$ 240,905	\$ 206,000	\$ 206,180	\$ 248,744	\$ 235,064	\$ 207,120
	DAGA: President	39,600	39,600	39,600	39,600	39,600	39,600	39,600	39,600
	TOTAL	\$ 239,600	\$ 239,600	\$ 280,505	\$ 245,600	\$ 245,780	\$ 288,344	\$ 274,664	\$ 246,720
Charles DeLuca, III	Melreese: Director	\$ 52,200	\$ 52,200	\$ 52,200	\$ 58,200	\$ 58,200	\$ 58,200	\$ 64,000	\$ 69,000
	DAGA: Vice President	24,000	48,000	48,000	48,000	48,000	48,000	48,000	48,000
	TOTAL	\$ 76,200	\$ 100,200	\$ 100,200	\$ 106,200	\$ 106,200	\$ 106,200	\$ 112,000	\$ 117,000
John Reed	Melreese: Director	\$ 46,880	\$ 46,880	\$ 46,880	\$ 52,880	\$ 52,880	\$ 52,880	\$ 62,000	\$ 67,000
	DAGA: Vice President	14,400	24,400	24,000	24,000	24,000	24,000	24,000	36,400
	TOTAL	\$ 61,280	\$ 71,280	\$ 70,880	\$ 76,880	\$ 76,880	\$ 76,880	\$ 86,000	\$ 103,400

*Salary includes management fee and incentive bonus

RECOMMENDATION 3: Department of Parks and Recreation

We recommend that the Department of Parks and Recreation consult with the City Attorney's Office to amend the Professional Services Agreement with DeLucca in order to address entities listing the Melreese address as their primary place of business and/or operating out of Melreese including dual employment by Melreese employees. Also, we recommend that Department of Parks and Recreation ensure that Melreese representatives unregister any business or non-profit that does not provide material support or enhance its Golf course operation. Finally, we recommend that the City arrange a formal lease agreement or facility use agreement with any entity that continues to use the Melreese address and facilities.

- **Auditee Response:** The Parks and Recreation Department will open an LSR for assistance from the City Attorney's Office on modification to the current language included in the Professional Services Agreement. Specifically including language limiting the use of the Melreese address for any entity not covered by the agreement. Once completed then City Commission approval would be sought to approve the updated conditions of the Professional Services Agreement.
- **Implementation Date:** LSR will be submitted April 2019.

FINDING 4: DELUCCA ENTERPRISES DID NOT PROVIDE REQUESTED FINANCIAL AND OTHER INFORMATION TO THE CITY FOR BUSINESS ENTITIES REGISTERED AT THE MELREESE ADDRESS

Beginning in July 2018, several requests for information regarding the 21 entities with registered addresses at Melreese were made by City Management and the City Attorney's Office to DE's representative. The information requested included 14 specific items that included whether the City authorized the outside entity to use Melreese as its principal place of business; insurance information; the business relationship to Melreese; employee information; payroll and tax records; and all financial records. To date, the only information provided by DE in response to City requests have been general business descriptions of most entities and limited insurance information. A summary of each entity that registered the Melreese address as their principal place of business, officer names of the entity and key information the City requested is provided in Exhibit 6 on page 9. It should be noted that a brief business description for the entities provided by DE's attorney is presented following Exhibit 6 (see page 10).

EXHIBIT 6

Information Requests for Entities that Registered the Melreese Address as Principal Place of Business

#	Name of Entity	Names of Common Principal Officers & Melreese Employees	Does entity maintain insurance listing City as additional insured?	Is there an agreement holding City harmless for any liability for use of site?	Common employees between the entity and Melreese. Provide employee list	Provide Payroll Records	Provide Tax Returns	Provide Bank Statements	Provide Financial Statements	Provide Business description
1	Bunkers, Inc.	DeLucca, Charles A., Jr., DeLucca Charles, III	N	N	N	N	N	N	N	Y
2	Tina's Touch, Inc.	DeLucca, Charles A.	N	N	N	N	N	N	N	Y
3	DeLucca Enterprises, Inc. Charlie DeLucca School of Golf, Inc.	DeLucca, Charles A., Jr.	N	N	N	N	N	N	N	Y
4		DeLucca, Charles III	N	N	N	N	N	N	N	N
5	Florida Footgolf Association, Inc	DeLucca, Charles A., Jr., DeLucca Charles, III, John Reed	N	N	N	N	N	N	N	Y
6	JJ Custom Golf, LLC	None	N	N	N	N	N	N	N	Y
7	Junior Golf Academy, LLC	Carlos M. Rodriguez	N	N	N	N	N	N	N	Y
8	Law Office of Carlos M. Rodriguez, P.A.	Carlos M. Rodriguez	N	N	N	N	N	N	N	Y
9	DeLucca Services, Inc.	DeLuca, Charles A, Jr, DeLuca Charles, III	N	N	N	N	N	N	N	Y
10	Stern Learning , LLC	None	N	N	N	N	N	N	N	Y
Florida Not for Profit Corporation - Active										
11	Dade Amateur Golf Association, Inc.	DeLucca, Charles A., Jr., DeLucca Charles, III, John Reed, Carlos M. Rodriguez	Y	N	N	N	Y	N	N	Y
12	First Tee of Miami-Dade Foundation, Inc	DeLucca, Charles A., Jr., DeLucca Charles, III	N	N	N	N	Y	N	N	Y
13	The First Tee of Miami-Dade, Inc. (formed in 2018; no public information)	DeLucca, Charles A., Jr., DeLucca Charles, III, John Reed, Carlos M. Rodriguez	N	N	N	N	NA	N	N	Y
Florida for Profit Corporation - Inactive										
14	Bunkers II, Inc	DeLucca, Charles	N	N	N	N	N	N	N	N
15	DeLucca Mini-Soccer Management, LLC	DeLucca, Charles, Jr.	N	N	N	N	N	N	N	N
16	Charlie DeLucca, Inc	DeLucca Charlie	N	N	N	N	N	N	N	N
17	Bunkers Management Group, Inc	DeLucca Charlie	N	N	N	N	N	N	N	N
18	3C Golf, LLC	Carlos M. Rodriguez	N	N	N	N	N	N	N	N
19	SMGA63 LLC	None	N	N	N	N	N	N	N	N
20	Prestige Golf Performance Corp.	None	N	N	N	N	N	N	N	N
21	Bunkers V, LLC	DeLucca, Charles A.	N	N	N	N	N	N	N	N

N - No information provided

Y - Information obtained through "ProPublica.com" for non profits

NA - No tax returns since non-profit commenced in 2018

SUMMARY OF EACH BUSINESS DESCRIPTION PROVIDED BY DE'S ATTORNEY

1. Bunkers, Inc., is owned by Charlie DeLucca. Like DeLucca Services, Inc., Bunkers is generally inactive. However, Bunkers has purchased used golf balls, cleaned and packaged the newer ones that could be resold, and striped the older ones for use as range balls. Bunkers sold the balls to Melreese Country Club for resale in the Melreese pro shop or for use on the Melreese range. Bunkers made a small profit on the balls and the City received all profits on their resale in the pro shop or their use on the range. This has already been addressed in the independent auditor's report and DeLucca's response. If the City wants DeLucca Enterprises to stop purchasing the used balls from Bunkers, then DeLucca Enterprises will in the future have to purchase the range balls for Melreese Country Club elsewhere and will stop selling cleaned, repackaged used balls in the pro shop at a profit to the City. Please note the cost of the range balls to be purchased in the future from unrelated sellers will cost the City more than the balls purchased from Bunkers. Bunkers has no other activity.
2. Tina's Touch, Inc., was organized by Charlie DeLucca in 2011 for his daughter (Tina), for purposes of conducting a consulting business in Palm Beach County. The company has never had any activity and, in any event, was not organized to conduct any business at or with Melreese Country Club; Mr. DeLucca used the Melreese address only as the mailing address for the company when filing its annual reports with the Florida Secretary of State's office. Although his daughter abandoned her plan for the company, Mr. DeLucca has kept the company open as a shell company and currently has no plans for its future use. To avoid any future confusion, Mr. DeLucca will change the mailing address when he files the company's next annual report.
3. DeLucca Enterprises, Inc., manages Melreese Country Club under a professional services agreement with the City of Miami. The City already has all pertinent information about the company, including documentary evidence of all receipts and disbursements. DeLucca Enterprises also provides the City annually with audited financial statements of the operations prepared by an independent certified public accountant. Moreover, last year, the City's independent auditor general conducted an audit of the professional services agreement. On May 5, 2017, the auditor general issued his audit report no. 17-06.
4. Charlie DeLucca School of Golf, Inc. – not addressed
5. Florida Footgolf Association, Inc., was organized as part of an effort to promote foot golf throughout the State of Florida. Footgolf is the game of golf played with a soccer ball; the players kick the ball through the green until the ball is holed in a large hole. Melreese Country Club hosted some footgolf tournaments, with all proceeds (greens fees, etc.) paid directly to the golf course operations. In fact, Florida Footgolf Association has had no activities itself and probably will remain inactive for the foreseeable future.
6. JJ Custom Golf, LLC, is a custom golf fitter that uses some space at Melreese to custom fit golf clubs. It pays \$1,250 monthly for use of the space and those revenues are included in their entirety as golf course revenues. Neither Charlie DeLucca nor any of his companies nor any members of his family owns any direct or indirect interest in JJ Custom Golf, LLC.

7. Junior Golf Academy, LLC, was recently organized by Carlos Rodriguez to assist junior golfers in connection with The First Tee of Miami-Dade, Inc.
8. Law Offices of Carlos M. Rodriguez, P.A., is owned by Mr. Rodriguez.
9. DeLucca Services, Inc., owns certain equipment, purchased by Charlie DeLucca with his own funds many years ago, which was used in the company's separate tree-trimming service. The company has not operated its tree-trimming service for many years. However, the company still owns the equipment and permits the Melreese Country Club to use it at no cost to the City. The City's recent use of the equipment was addressed in the auditor general's report and DeLucca's response. In summary, DeLucca Services hired some day laborers for a major tree-trimming job at Melreese because the permanent employees at Melreese could not handle the job along with their other responsibilities. DeLucca Services charged the Melreese golf course operations only for the direct costs of the day laborers; DeLuca Services did not earn any profit on the job or even recoup its cost of insurance. DeLucca Services has no other activity.
10. Stern Learning, LLC - not addressed
- 11-13. Dade Amateur Golf Association, Inc.; First Tee of Miami-Dade Foundation, Inc.; The First Tee of Miami-Dade, Inc. - are non-profit corporations and are represented by Carlos Rodriguez. Those companies operate the non-profit educational activities of The First Tee at Melreese Country Club. I believe that the City is already fully aware of those charitable activities
- 14-21. Business Descriptions were not provided for all inactive For-Profit entities

RECOMMENDATION 4: Department of Parks and Recreation

We recommend that the Department of Parks and Recreation consult with the City Attorney's Office to determine any legal remedies available to the City due to DeLucca's refusal to provide financial and other information to the City for the entities with registered addresses at Melreese. Further, the City should evaluate each entity and determine whether or not to formalize the arrangement through an agreement. Overall, the City should take steps to ensure its interests are protected, including providing for limitations of any liability, due to these entities being registered and possibly conducting business within City property.

- **Auditee Response:** The Parks and Recreation Department will open an LSR to have the City Attorney provide guidance on how to address the refusal of DeLucca Enterprises to submit the requested information on the additional entities discovered. Until more information is obtained on these entities, the Parks and Recreation Department will not be able to determine if any of them should be incorporated into the modifications to be done to the current Professional Services Agreement.
- **Implementation Date:** LSR to be entered April 2019

FINDING 5: THE CITY AND MELREESE DID NOT UNANIMOUSLY SELECT THE CERTIFIED PUBLIC ACCOUNTANT WHO PREPARED THE AUDITED FINANCIAL REPORTS

Although the City implemented improved procurement procedures as a result of our prior audit which is noted in the follow-up section of this report, the following issue was not corrected from the prior report: (Report No. 17-08, page 4)

“the City does not have documentation evidencing that the independent Certified Public Accountant (CPA) utilized by Melreese was selected by both DE and the City as required by the Agreement. We noted that average monthly accounting fees have increased from \$2,472 to \$4,372 from FY11 through FY15, respectively; or from almost \$30,000 to more than \$50,000 per year. These are significant service fees that require a competitive bidding process to ensure that the City is paying the fair market price for services received.”

For the last eight years, DE retained Vargas, Piedra & Co. for their accounting and auditing services. The accounting/auditing fees are currently approximately \$50,000. The firm charges \$10,000 each quarter for accounting and financial statement preparation, and another \$10,000 for the year-end audit. Based on inquiry of the Department of Parks and Recreation and Melreese, the City and Melreese have not sought competitive bidding for these professional services.

RECOMMENDATION 5: Department of Parks and Recreation

We recommend that the City and DE seek competitive bidding for the accounting and auditing services provided to Melreese.

- **Auditee Response:** The City will recommend a pre-qualified vendor for accounting and auditing services pool to assist DE. Once provided, DE may proceed with a Request for Quotation that will include requirements from DeLucca Enterprises and the Finance Department that meet the accepted financial principles for the services to be rendered.
- **Implementation Date:** May 2019

FOLLOW-UP ON PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

As part of our review procedures, we follow-up on prior audit findings and recommendations to determine their current status of implementation. On August 9, 2017 we issued Report No. 17-08, Audit of the Professional Services Agreement between the City of Miami (Melreese) and DeLucca Enterprises, Inc. Audit Report No. 17-08 can be accessed on the OIAG website at www.miamigov.com/internalaudits.

Our review procedures consisted of obtaining management’s representations of the current status of corrective action; and inquiries and examination of documentation provided by the Department of Parks and Recreation (the Department).

Based on our review, we have concluded that the Department has resolved Audit Findings No. 1 through No. 3 by implementing our recommendations. Finding No. 4 is still in the process of being

implemented. Details of the findings, recommendations, action plans and their current status are listed below:

FINDING 1: THE VENDOR SELECTION AND PAYMENT PROCESS WAS NOT IN ACCORDANCE WITH BEST PRACTICES

RECOMMENDATION 1:

Since the procurement and payment processes at Melreese Country Club are executed with City funds, we recommend that the City of Miami Parks Department, in coordination with the Procurement Department, establish and implement policies and procedures to govern/control the vendor selection and payment process in accordance with best practices. A complete review of all vendors utilized by DE should be performed to ensure that only established, licensed and insured vendors are hired to perform work on City-owned property. Alternatively, as the City Attorney's Office proposes, the City may achieve these goals by amending the Agreement with the contractor to require compliance with the Procurement Code or implement other procedures to preclude a recurrence of the previously-cited or other potential exceptions.

Department's Action Plan:

We will meet with Procurement professionals to establish general language regarding best practices and processing techniques within industry standards for the vendor selection and payment process.

Current Status - Implemented

- Parks and Recreation met with the Law Department and Procurement Department to clarify what procurement procedures DeLucca Enterprises are required to follow. In their opinion, it was determined that DeLucca Enterprises operates in accordance with their management agreement.
- The Parks Department has prepared a guideline for DeLucca Enterprises establishing a threshold for significant expenses, over \$25,000, to be reviewed by the Department prior to the engagement of services for any purchase or repair. The Procurement Department was consulted in the preparation of this guideline.
- In January 2018, the Parks Department and Procurement Department worked with DeLucca Enterprises to assist in obtaining quotes for an air conditioning replacement due to the cost anticipated to be near \$80K. Through this process, DeLucca developed a scope of work and obtained their own quotes and were able to engage a vendor who could provide a better warranty on the installed equipment.
- In February 2018, the Parks Department worked with DeLucca Enterprises to replace the awning at the driving range due to a severe weather event. Parks confirmed it would not be eligible under the City of Miami's Insurance policy; and validated the choice of vendor due to it being the original manufacturer, therefore able to provide the best prices for the replacement.

FINDING 2: RELATED PARTY TRANSACTIONS WERE NOT DISCLOSED ON THE CPA AUDITED STATEMENT OF INCOME

RECOMMENDATION 2:

If related party transactions are permitted after being properly vetted via procurement policies and procedures, they should be disclosed; if applicable, in accordance with accounting standards.

Department's Action Plan:

In the Statement of Income and Supplementary Information for the Year Ended September 2016, the currently selected Independent Certified Accountant included the following under Notes to Financial Statement, Transactions with Affiliate: Management purchases its range golf balls from and contracts an affiliate, related by common ownership, for the trimming of the golf course trees and other maintenance. The Parks and Recreation Department will continue to require this disclosure as part of the annual audited statement prepared by the Independent Certified Accountant.

Current Status – Implemented

Auditor General Staff reviewed the audit reports for FY 2016 and FY 2017 and noted that the related party transactions information was properly disclosed in the Statement of Income and Supplementary Information sections of the report.

FINDING 3: DELUCCA ENTERPRISES FAILED TO SUBMIT AN ANNUAL BUDGET FOR THE MELREESE COUNTRY CLUB OPERATION AS REQUIRED BY THE AGREEMENT

RECOMMENDATION 3:

We recommend that City management require DE to prepare and submit an annual budget for approval. DE should adhere to the budget to ensure that public monies are spent appropriately.

Department's Action Plan:

For FY16, FY17 and FY18 the Parks and Recreation Department provided to DeLucca Enterprises the format in which to submit their budget request with instructions to submit their fiscal year request prior to February 28th of the current year. DeLucca Enterprises has complied with this requirement and the Parks and Recreation Department has submitted the Melreese Country Club budget in the same format as all other departments follow for consideration during the annual budget process.

Current Status – Implemented

- The Parks and Recreation Department does provide to DeLucca a set template to submit their annual budget request.
- DeLucca Enterprises is currently compliant and has been compliant in submitting their proposed budget for FY16, FY17, FY18 and FY19 to the department and City Manager in the provided format requested.
- The submittal of their FY19 budget was submitted to the Parks Department on February 27, 2018, four days past the due date and to the City Manager on March 7, 2018, 12 days past the due date specified in the contract which is February 23rd.

Auditor General staff has reviewed the supporting documentation provided by the Department and concurred with the Department.

FINDING 4: CREDIT CARD REVENUE WAS NOT REMITTED TO THE CITY ON A TIMELY BASIS

RECOMMENDATION 4:

1. The City, subject to Commission approval, make a one-time capital contribution to MCC to be used as an imprest fund. These funds should be used to create an operating account that will be only used to pay for MCC operating expenses—not capital project or major repair expenses; and, a payroll account, which will be used to pay for MCC wages/salaries and payroll taxes. The amount to be funded should be based on an analysis of their operating/payroll expense and reimbursement history.
2. Unless adequately controlled by another acceptable method, all credit card transactions should be processed using a City-designated credit card merchant code so that all such transactions are deposited directly into a City bank account. These funds can be used to periodically replenish MCC operating and payroll accounts as needed; however, such cash needs should be controlled and supported by timely prepared cash flow documentation.
3. MCC capital project and major repair expenses should require prior written approval by the City and be paid with properly authorized capital project funds along with appropriate vendor selection procedures.

Department's Action Plan:

1. The Parks and Recreation Department will work with the Office of Management and Budget and Department of Finance to identify the mechanism to establish an imprest fund. This will require amending the current Agreement to establish policies and procedures regarding the utilization of the imprest fund and associated changes in the depositing of credit card transactions.
2. Finance Department and the Chief Financial Officer (CFO) will work with DeLucca Enterprises to establish and secure best practices, policies and procedures to ensure credit card proceeds are remitted within 30 days.
3. The Parks and Recreation Department will request from DeLucca Enterprises as part of the annual budget proposal, any capital needs for the Melreese Country Club, to be submitted in the same manner of all capital requests for City departments. If funded, we will establish as part of the amendment to the Professional Services Agreement, the mechanism for expenditures of approved capital improvements.

Current Status – In Process:

- A meeting with the Finance Department, Budget Department and DeLucca Enterprises concluded that a city issued merchant code for the handling of credit card transactions would not be effective due to the volume of processing refunds and reconciliation required and the inability for DeLucca to have access to those actions as an outside provider. Moving the capabilities of management of the reconciliation of credit card transactions from

DeLucca Enterprises would in the long run be more cumbersome and delay fund collection further.

- The Finance Department and DeLucca Enterprises representatives work together continuously to better align credit card reconciliations and posting of revenue collection to reduce the reported outstanding balances. DeLucca Enterprises provides the Accounts Receivable Division of the Finance Department with daily cash receipt deposit slips in order to create invoices at month end for revenues collected.
- An agreement addendum is pending, and an LSR will be opened to commence the process with involvement by the Chief Financial Officer, Finance Department and Procurement Department.
- As part of the FY19 budget preparation process, the Parks and Recreation Department requested a separate form to filled out for Capital Projects. To date no capital requests were received.