



**Joseph M. Centorino**, Inspector General

**TO:** Honorable Mayor and Members of the City Commission  
**FROM:** Joseph M. Centorino, Inspector General

**Re:** Professional Course Management II, LTD - Normandy Shores Golf Club Management Agreement Audit

## **EXECUTIVE SUMMARY**

The City of Miami Beach's Office of the Inspector General (OIG) performed an audit of Professional Course Management II Ltd. (PCM), the concessionaire managing the City-owned Normandy Shores Golf Club (NSGC), for the period from October 1, 2018, to September 30, 2020. The audit, requested by the Parks and Recreation Department, sought to evaluate PCM's compliance with the management agreement and the oversight provided by City departments. While NSGC has maintained an excellent reputation for the quality of its golf experience, the audit uncovered multiple concerns related to internal controls, financial transactions, and contractual compliance, many of which also apply to the Miami Beach Golf Club (MBGC), audited separately.

One of the audit's key findings was the allowance of PCM to withdraw up to \$100,000 daily from the NSGC operating account without prior approval from the City's Finance Department. This practice deviated from the management agreement and exposed the City to potential financial risk. Other significant financial discrepancies included overbilling for water meter usage, leading to \$51,723.68 in net overbilling, and reimbursement for questionable expenditures, including \$29,918.72 for payroll administrative services and \$18,950.85 related to food and beverage operations, which were contrary to the management agreement.

The audit further revealed that some individuals were granted golf membership discounts totaling \$13,183.64, and PCM charged locker fees amounting to \$2,552.00, neither of which was authorized by the City's approved fee schedules. In addition, the audit questioned the legitimacy of \$9,826.50 in discounts given during golf tournaments without sufficient documentation. A lack of oversight extended to golf lessons, where instructors, whose salaries were funded by the City, conducted private lessons during work hours, and the accuracy of related earnings was not verifiable, potentially impacting the City's entitlement to a 20% share of golf lesson revenues.

PCM also failed to provide the required documentation for golf course maintenance, as mandated by the management agreement. While NSGC appeared well-maintained, there was no evidence that the Parks and Recreation Department performed regular inspections or documented any

deficiencies, a long-standing issue first identified in a previous audit from 2010. Additionally, PCM did not remit the correct Florida State Sales tax on pro-shop rental payments, resulting in a \$735.61 underpayment to the City.

Despite these concerns, it was acknowledged that PCM exceeded financial benchmarks, and the overall operation of NSGC was well-regarded. However, the audit emphasized the need for stronger internal controls and better enforcement of the management agreement to protect the City's financial interests. Recommendations include revising procedures for financial transactions, ensuring proper documentation for all expenditures and discounts, and improving City oversight of PCM's operations.

The following report is structured to first present the audit findings in detail, followed by the auditees' responses to the identified issues. Finally, the Office of the Inspector General's reply to the auditees' responses is included.



**Joseph M. Centorino**, Inspector General

TO: Honorable Mayor and Members of the City Commission  
FROM: Joseph M. Centorino, Inspector General

DATE: September 18, 2024  
PROJECT: Professional Course Management II, LTD - Normandy Shores Golf Club  
Management Agreement - OIG No. 24-19  
PERIOD: October 1, 2018 – September 30, 2020

The City of Miami Beach Office of the Inspector General (OIG) conducted this audit at the request of the Parks and Recreation Department to determine the compliance of the concessionaire, Professional Course Management II, LTD (PCM), with the management agreement regarding the City-owned Normandy Shores Golf Club (NSGC). The audit scope also included whether the City Finance Department, Parks and Recreation Department, and others, sufficiently monitored the concessionaire, and performed selected tasks required in the management agreement.

Similar testing was performed on PCM's operations at the Miami Beach Golf Club (MBGC), and its results are presented in a separate audit report. Although the work was conducted separately, there may be some overlap between the two reports, as some of the identified deficiencies apply to the operations of both City-owned golf clubs. It is recommended that both audit reports be read concurrently to accurately measure the concessionaire's compliance and the City departments' oversight during the 24-month audit period.

In addition, an OIG Tax Auditor conducted Resort Tax audits to verify the accuracy and completeness of the concessionaire's monthly food and beverage filings for both the NSGC and MBGC over a three-year period in which no material variances were identified.

It should also be noted at the outset that this audit focuses only on specific issues raised related to compliance with and oversight of the management agreement. It does not purport to assess the quality standards of the golf courses but rather the status of compliance with the management agreement. The OIG is unaware of any serious deficiencies in overall golf club operations and is cognizant that both golf clubs enjoy an excellent reputation for the quality of the golfing experience offered.

The OIG shared any identified deficiencies with PCM management during the audit process, and the two related draft reports containing all findings were also disbursed to all affected parties during the latter months of 2021, including the City Administration. After several subsequent lengthy and contentious meetings to discuss the contents of the draft reports, OIG management agreed to meet separately with PCM staff to examine some additional documentation that may not have been originally presented to the auditors during the audit process and to consider that material prior to issuing a final report. Although some of the missing requested documentation

was made available to OIG management, there is little means to determine the cause of the delay in receiving the requested documentation, e.g., whether it was misfiled, overlooked, or otherwise unavailable, so some, but not all, PCM desired revisions were made to the original findings.

It is important to note that any corresponding revisions would have resulted in the removal or lessening of stated findings in the draft reports and would not have included the addition of any new deficiencies. Although the related examination and revision of the reports was delayed due to the need of OIG audit and management staff to complete the review of all information and revisions to the report as well as other time-sensitive responsibilities, all affected parties have been aware of the findings since at least the latter months of 2021, providing ample time to implement the necessary corrective actions to resolve the identified deficiencies.

This was a complex audit that involved a significant commitment of time and resources by multiple OIG Auditors. Much time was devoted to analyzing the available data and underlying issues. The responses of the City and contractor were taken seriously and resulted in useful additions and modifications that have enhanced the accuracy and value of the report.

## INTRODUCTION



The NSGC is located at 2401 Biarritz Drive in Miami Beach. The golf club was renovated from May 2007 through December 2008, and the new clubhouse was opened in May 2010.

The City's original management agreement with PCM to operate the NSGC, commencing in 2003, had a three-year term, with two one-year renewal options. The City Commission agreed to waive the competitive bidding process on September 5, 2007, and approved a new five-year management agreement with PCM beginning on October 1, 2007. Upon its conclusion, the management agreement was extended on a month-to-month basis until the City Commission accepted the recommendation of the Finance and Citywide Projects Committee to waive the competitive bidding requirement and to begin negotiations with PCM. As a result, new management agreements for the NSGC and MBGC were executed for a period of three years commencing on October 1, 2013, with the City having the sole option to extend them for two successive one-year terms.

The City issued Request for Proposal (RFP) No. 2018-186-WG on July 20, 2018, for the operation and management of the City's golf courses, clubhouses and related facilities (NSGC and MBGC).

Upon conclusion of the City’s procurement process, the City Commission adopted Resolution No. 2018-30573, accepting the recommendation of the City Manager, and authorizing the City Administration to negotiate a contract with PCM. Ultimately, PCM was granted the exclusive right to operate and manage (including Food and Beverage and Pro Shop Merchandise Sales) at the NSGC and MBGC and all related facilities for the period of October 1, 2018, through September 30, 2023. The management agreement was renewed, effective March 1, 2023, with the same terms, conditions, and pricing until September 30, 2025.

The management agreement in effect during the audit period stipulated that the City is to receive 100% of golf revenues and 5% of Pro Shop and Food and Beverage revenues. In addition, the City is to receive 20% of golf lesson revenues as required by Q&A #17 of Addendum No. 5 of RFP No. 2018-186-WG, which, according to the Procurement Department Director, is incorporated as part of the RFP and the resulting management agreement. Table 1 below lists the gross revenues earned by the City at the NSGC by major category, excluding 7% Florida State Sales tax and 2% Miami Beach Resort tax, for each fiscal year comprising the audit period (rounded to the nearest whole dollar):

**Table 1**

<b>Normandy Shores Golf Club</b>	<u>Oct 1, 2018 - Sep 30, 2019</u>	<u>Oct 1, 2019 - Sep 30, 2020</u>
Greens Fees	\$943,728	\$740,507
Cart Fees	\$931,973	\$841,773
Range Fees	\$38,033	\$22,034
Membership Fees	\$217,289	\$185,257
Lesson Revenues (20%)	<u>\$9,629</u>	<u>\$3,994</u>
Total Golf Gross Revenues	\$2,140,652	\$1,793,565
Pro Shop Revenues (5%)	\$12,966	\$8,095
Food & Beverage Revenues (5%)	<u>\$24,825</u>	<u>\$18,408</u>
Total Additional Revenues	\$37,791	\$26,503
<b>Total City Gross Revenues</b>	<b>\$2,178,443</b>	<b>\$1,820,068</b>

In return for providing the services required in the management agreement and collecting the associated revenues for the City, PCM is eligible to receive the following compensation:

- A Management Fee of \$125,000 for the initial business year (October 1, 2018, through September 30, 2019), to be increased and adjusted on October 1 of each subsequent business year by the percentage of change published by the Miami-Fort Lauderdale-West Palm Beach, FL, CPI-U twelve-month percent changes, all items index, not seasonally adjusted (“CPI”), or 3%, whichever is smaller.
- An Annual Incentive Fee of 13% for each business year, to be earned on gross revenues exceeding \$1,800,000.00. Revenue does not include gross revenues received by PCM as a concessionaire for the Food and Beverage and Pro Shop merchandise facility. Gross revenues include the 5% concession fee paid by PCM to the City for the use of the facilities.
- 95% of Pro Shop and Food and Beverage revenues.

Table 2 below lists the monies received by PCM in Management Fees, Annual Incentive Fees, Pro Shop revenues, and Food and Beverage revenues for each fiscal year comprising the audit period (rounded to the nearest whole dollar) based on an examination of the records provided to the OIG:

**Table 2**

<b>Normandy Shores Golf Club</b>	<b>Oct 1, 2018 - Sep 30, 2019</b>	<b>Oct 1, 2019 - Sep 30, 2020</b>
Management Fees	\$125,000	\$126,875
Incentive Fees	\$49,220	\$2,586
Pro Shop Revenues (95%)	\$246,410	\$191,536
Food & Beverage Revenues (95%)	\$471,670	\$349,755
<b>Total PCM Gross Revenues</b>	<b><u>\$892,300</u></b>	<b><u>\$670,752</u></b>

Lastly, the following City departments performed the listed functions in relation to the NSGC during the audit period:

- The Parks and Recreation Department supervised, directed, and evaluated the performance of PCM, and reviewed its monthly expenditure reports.
- The Public Works Department read, maintained, repaired, and replaced the water meters, as necessary, and calculated the impervious (not readily penetrable by groundwater) areas to determine the number of ERUs (equivalent residential usage units) to be billed.
- The Finance Department reviewed the monthly bank reconciliations, created any needed journal entries in the City Financial System, and prepared utility bills charging PCM based on the meter readings and ERUs received from the Public Works Department.

## **OVERALL OPINION**

City Parks and Recreation Department management informed the OIG that they are pleased with the overall performance of PCM in operating the NSGC and MBGC, and that the concessionaire has managed to exceed desired financial benchmarks despite some difficult economic times. The golf clubs appeared to the OIG Auditors to be in excellent condition, with a waiting list for new members to join, and few complaints received from its players.

With the support of the City, the concessionaire has maintained its contractual relationship with the City to operate its golf clubs since 2003, with competitive bidding being waived for two of the four management agreements awarded to PCM during the past 21 years. Although acknowledging the City's satisfaction with PCM, the OIG disagrees with the practice of waiving competitive bidding when there is no sole source supplier, emergency, or other substantial basis for the waiver.

In a similar vein, it is the impression of the OIG that the mutually supportive relationship between the Parks and Recreation Department and PCM over the years may have detracted from the City's enforcement and documentation of the tested requirements in the management agreement. For example, the repeated usage of verbal approvals, contrary to established best practices if not violative of the agreement itself, made it difficult for the OIG Auditors to determine how much instruction and oversight was actually furnished by City staff to PCM. It is strongly recommended that City staff prospectively provide only written advance approvals to PCM prior to its implementation of any related actions.

The OIG would also like to emphasize that the management agreement needs strengthening as it does not address some pertinent issues and some other provisions may not sufficiently inure to the benefit or protection of the City. The timely completion of these needed revisions should result in less confusion concerning the applicability of terms and increased accountability.

Although it has been contended that the City approved the golf club's annual budget and reimbursed PCM for all expenditures questioned in this report, the lack of documented approvals complicated the audit process and made it impossible for OIG Auditors to confirm that each related transaction was properly vetted. Given the large volume of information, the OIG has opted to include all findings in this report, including those disputed by management in order to provide the readers of this report with all known information and the broadest possible perspective on the issues raised.

The following deficiencies, identified during the audit period, should be addressed and corrective action taken:

1. PCM was permitted to withdraw up to \$100,000.00 daily from the NSGC operating bank account for expenditure reimbursements without prior authorization by the Finance Department or prior written approval of the Parks and Recreation Department for all monthly transactions.
2. Water meters were incorrectly billed, resulting in net overbillings of \$51,723.68, to the NSGC rather than to other responsible City entities.
3. The City approved the reimbursement of estimated payroll administrative service fees totaling \$29,918.72, which appears contrary to section 15.06 of the management agreement.
4. The City reimbursed PCM a total of \$18,950.85 in questionable expenditures related primarily to NSGC Food and Beverage operations and paper goods.
5. Some individuals purchasing NSGC golf memberships during the audit period received questionable discounts, totaling \$13,183.64, from the City Commission approved rates, and PCM charged and collected locker fees of \$2,552.00, which were not included in the approved Fee Schedules.
6. Sufficient supporting documentation was not furnished by PCM to justify \$9,826.50 in discounts given in NSGC golf tournament billings that were not specified in the management agreement.
7. \$700.00 related to the Pro Shop Assistants subsidized monthly payments is due to the City and Chris Jett Golf Sales, Inc. did not obtain the required approval of the City Manager or acquire valid business tax receipts.
8. PCM charged discounted golf rates from the City Commission approved Fee Schedule without documented approval from the City.
9. A discounted senior rate was given to NSGC customers by PCM, which was not included in the City Commission approved Fee Schedules and it was occasionally given to non-eligible recipients.
10. PCM employees, whose salaries are paid by the City through NSGC, provided private golf lessons to paying golf club customers during working hours, and OIG Auditors could not verify these earnings.
11. NSGC's Maintenance Repair Inspection and Golf Course Evaluation Reports were not documented by the Parks and Recreation Department, as required by Sections 8.09 and 22.01 of the management agreement.
12. \$735.61 in Florida State Sales tax is due to the City from PCM, stemming from its Pro-Shop rental payments.

In addition, a few distinct areas of NSGC operations are presented at the end of this report as

opportunities for improvement and/or financial benefit for the City.

## SCOPE, OBJECTIVES, AND METHODOLOGY

The scope of this audit was to determine whether PCM complied with selected provisions set forth in the management agreement related to NSGC, and whether the City Parks and Recreation Department and others adequately monitored the concessionaire. The audit focused on the following general objectives:

1. Confirm that the concessionaire's tested monthly deposits and withdrawals are correctly calculated based on verified gross revenues and expenditures.
2. Confirm that the City Parks and Recreation Department periodically inspects, evaluates, and documents NSGC's maintenance.
3. Confirm that tested NSGC golf professionals providing lessons to customers have obtained their annual Business Tax Receipts or BTRs.
4. Confirm that sufficient documentation was maintained to confirm that sampled concessionaire expenditures were made for approved business purposes.
5. Confirm that the concessionaire is current on all examined taxes, permits, licenses, etc.
6. Confirm that the concessionaire maintained sufficient insurance coverage during the audit period.
7. Confirm that the concessionaire complied with other selected provisions of the management agreement.
8. Other audit procedures as deemed necessary.

The audit methodology included the following:

- Reviewed applicable sections of the management agreement between the City and PCM;
- Interviewed and made inquiries of staff to gain an understanding of internal controls, assess control risk, and plan audit procedures;
- Performed substantive testing consistent with the audit objectives, including, but not limited to, examination of applicable transactions and records;
- Drew conclusions based on the results of testing, made corresponding recommendations, and obtained auditee responses and corrective action plans; and
- Performed other audit procedures as deemed necessary.

## FINDINGS, RECOMMENDATIONS AND AUDITEE RESPONSES

1. **FINDING: PCM WAS PERMITTED TO WITHDRAW UP TO \$100,000.00 DAILY FROM THE NSGC OPERATING BANK ACCOUNT FOR EXPENSE REIMBURSEMENTS WITHOUT PRIOR AUTHORIZATION BY THE FINANCE DEPARTMENT OR PRIOR WRITTEN APPROVAL FROM THE PARKS AND RECREATION DEPARTMENT FOR ALL MONTHLY TRANSACTIONS.**

Section 12.06 of the management agreement states as follows: *The City shall fund the Manager's designated account for the estimated expenses to be paid by the Manager on behalf of the City for the following month via a transfer approved by the City of Miami Beach Finance Department by the tenth of the month. Upon the City receiving and verifying the monthly report generated by the Manager as referenced in Section 12.01, the City shall fund the Manager's account, via a transfer, for all the payments to be made the following month on behalf of the City by the Manager, 95% of the Pro Shop Merchandise sales for the prior month and the monthly management fee. Regarding the advance*



*provided to the Manager for operating expenses, if there are any differences, the Manager shall add or subtract, as applicable, such difference from the following months funding request.*

Finance Department staff explained to the OIG Auditors during a Microsoft TEAMS meeting that they had established a procedure that differs from the management agreement. This procedure allows PCM to have full access to the City's golf club bank accounts, making PCM responsible for safeguarding all banking information, and for reimbursing itself by wire, not exceeding a daily limit of \$100,000.00, for any expenditures incurred.

The Deputy Finance Director stated that the new procedure was created during a meeting between the Finance Department, Parks and Recreation Department personnel, and PCM. When questioned as to who approved the new procedure, the Deputy Finance Director responded that, as it is a departmental procedure rather than a Citywide procedure, no approval was required.

PCM management confirmed that a PCM employee would request the withdrawal of monies from the related City bank account, while another PCM employee would approve the transaction and notify the Finance Department via email of the withdrawal. The e-mail would be sent after the withdrawal is approved by PCM and would not include any supporting documentation regarding the transaction for the Finance Department to review.

Finance Department staff acknowledged that they do not approve the withdrawals but stated that they request an e-mail to ensure that the withdrawal was made by PCM. Designated Finance Department employees review the bank transactions weekly to verify that the transactions were originated by PCM in accordance with the received e-mails.

At month's end, PCM provides a report with the detail of the amounts withdrawn and any payments made on behalf of the City to the Finance Department. Designated Finance Department employees then reconcile the bank account, but they do not verify that the transactions are allowable under the management agreement, as they claim it is the responsibility of the Parks and Recreation Department. However, no documentary evidence was provided confirming that reimbursed expenditures had been previously reviewed and approved by the Parks and Recreation Department.

Parks and Recreation Department staff provided a revenue workflow in an email to the OIG Auditors indicating that PCM provides a monthly revenue report to the Finance Department that is then reviewed by that department. The workflow does not contain references to any review by Parks and Recreation Department staff regarding any concessionaire's transactions. Parks and Recreation Department staff claim that they occasionally review the monthly reports, but the OIG Auditors were unable to corroborate these statements as no supporting evidence of these examinations was provided. Consequently, the OIG Auditors had no means to determine the frequency in which these reviews were performed, the depth or results of the analysis, or how quickly and appropriately any questioned transactions were addressed or resolved.

The OIG Auditors concluded that this procedure lacked sufficient internal controls, because PCM, an independent company, can make withdrawals up to \$100,000.00 daily from City accounts for payments, supposedly made on behalf of the City, without prior written approval. Furthermore, no documentary evidence was provided confirming that the PCM expenditures in the monthly reports were examined and approved by the Parks and

Recreation Department prior to being reimbursed, which increases the likelihood that expenditures contrary to the management agreement may have been reimbursed and not questioned.

Recommendation(s):

The Parks and Recreation Department should designate employees to review and approve all bank transactions before any reimbursements are made. If the City wants to change the procedure to allow PCM to withdraw money every month, then the management agreement should be amended, and a designated City employee should be assigned to review and approve the withdrawals in writing.

In addition, the Parks and Recreation Department should maintain evidence of its review of all monthly reports and adjustments, with a copy timely forwarded to the Finance Department prior to the completion of its monthly bank reconciliations. It is also recommended that the current procedures be revised with stricter internal controls to better facilitate compliance and to mitigate the associated risks to the City.

Parks and Recreation Department, Finance Department, and PCM Responses see Exhibits at the end of the report.

2. **FINDING: WATER METERS WERE INCORRECTLY BILLED, RESULTING IN NET OVERBILLINGS OF \$51,723.68 TO THE NSGC RATHER THAN TO OTHER RESPONSIBLE CITY ENTITIES.**

One of NSGC's largest expenditures is the monthly utility bill that includes water, sewer, and stormwater charges. OIG Auditors contacted the Public Works Department's Metered Services Supervisor, who provided the Utility Inventory Listing report for each water meter billed to NSGC during the audit period, as well as the applicable water utility rates.

**NSGC Water and Sewer Charges**

It was explained that NSGC had a total of twelve meters on its utility account, comprised of nine irrigation meters and three water meters. Irrigation meters are used exclusively for the outdoor watering of grass and plants, so NSGC is billed only for water consumption and not for sewer. Water meters are typically used inside buildings and both water and sewer charges are billed based on consumption. The NSGC contained three 6" meters, one 3" meter, six 2" meters, and two 1.5" meters on site. OIG Auditors also contacted the City Finance Department and requested copies of sampled meter invoices.

Upon reviewing this information, the OIG Auditors determined the following: (1) a few meters continuously had no consumption; (2) the Finance Department billed one additional meter (#02024345 Water 2") located at Fairway Park during the audit period, resulting in NSGC operations being overbilled by \$163,314.12; and (3) no earned credits were issued after it was determined that the monthly readings were incorrectly estimated. As a result, OIG Auditors performed a site visit with Public Works Department, Parks and Recreation Department and PCM staff to identify the location and functionality of all NSGC billed meters, whereby the following deficiencies were noted:

- 1) Meter # 02014005 serviced the old NSGC clubhouse and is considered obsolete (see the picture below). Consequently, it can be capped or removed to avoid the NSGC being invoiced future monthly base charges. Monthly base charges are the lowest possible fee and represent the minimum monthly charge. They equaled

\$60.75 and \$62.09 during the 2018/19 and 2019/20 fiscal years respectively.



- 2) Meter #09707005 was part of the old irrigation system no longer being used, so it can be capped or removed to avoid the NSGC being invoiced future monthly base charges.
- 3) Meter #09704592 is a bypass for meter #09707005 and can similarly be capped or removed to avoid the NSGC being invoiced monthly base charges. A water meter bypass is a connection made prior to the meter that allows the upstream section of the line to fill with water, minimizing the amount of air in the line and protecting the meter. Once the downstream line fills with water, the flow can be diverted from the bypass and sent through the water meter. In addition, the bypass allows for meter maintenance and replacement without disruption of service and will pick up low flows that large meters might not register.
- 4) Meter #21943987 is obsolete and can be capped or removed to avoid the NSGC being invoiced monthly base charges.
- 5) There were extreme fluctuations in the readings of the two main 6" irrigation meters, #02047104 and #02047105, that could not be fully explained. For example, the average monthly consumption for meter #02047104 from October 2018 through September 2019 was 34,416 units (high of 44,430 units, low of 22,967 units). Consumption of 100 gallons of water equals one unit.

The readings for the following year were similarly inconsistent, with a high reading of 101,460 units of consumption in April 2020 and a low reading of 2,120 units in June of 2020. Though some fluctuations are expected during normal golf course operations, such erratic changes may be indicative of water leaks. Public Works Department staff stated that, since the meter has a history of leaking, they manually adjusted the meter reading from 101,460 units to 45,000 units, which does not satisfactorily resolve the issue.



OIG Auditors also determined that meter readings are occasionally estimated or incorrectly read, in which case adjustments in subsequent readings should be made to reflect the accurate period usage and cumulative readings. However, such adjustments were not always made. For example, the table below shows that the June 4, 2020, cumulative reading for meter #02014005 was 18,153 units, while the next reading, occurring on July 20, 2020, was only 12,673 units, an obvious error. Consequently, the June 4, 2020, reading overbilled the NSGC by 5,4807 units (18,153 – 12,673). A review of the NSGC's subsequent invoices found that no credit was applied, and the account was overbilled \$4,027.80.

Utility Inventory Listing Report			Finance Department Invoices						OIG staff Analysis				
<a href="#">Meter #02014005</a>			Account #517016-00		Block 1		Block 2		Block 1		Block 2		
Meter Reading Date	Reading	Total Consumption	Bill Date	Usage Billed	Base	0.462	0.735	Water Total	Actual Consumption	Base	0.462	0.735	Water Total
5/11/2020	12673	0	5/31/2020	0	53.66	\$ -	\$ -	\$ 53.66	0	53.66	\$ -	\$ -	\$ 53.66
6/4/2020	18153	5480	6/30/2020	5480	53.66	\$ -	\$ 4,027.80	\$ 4,081.46	5480	53.66	\$ -	\$ 4,027.80	\$ 4,081.46
7/20/2020	12673	0	7/31/2020	0	53.66	\$ -	\$ -	\$ 53.66	-5480	53.66	\$ -	\$ (4,027.80)	\$ (3,974.14)
8/18/2020	12673	0	8/31/2020	0	53.66	\$ -	\$ -	\$ 53.66	0	53.66	\$ -	\$ -	\$ 53.66
								Total amount billed					\$ 4,242.44
									Correct amount as per consumption				\$ 214.64
									Overbilled				\$ 4,027.80

Irrigation charges are calculated by adding a base rate per meter size to the total units of consumption multiplied by the corresponding block rate. Block rates are volumetric charges whereby users pay different amounts for different consumption levels. The rate per unit of water increases as the volume of consumption increases. Consumers pay a low rate for the first block of consumption and a higher price for the second block, and so on, up to the highest block of consumption.

Irrigation Charges for General Service (Commercial, Multi-Family Residential, Government, etc.)

Irrigation General Service Base		
	Meter Size	Base Rate
ig.75	3/4"	\$ 8.50
ig1.00	1"	\$ 18.36
ig1.50	1 1/2"	\$ 35.01
ig2.00	2"	\$ 54.84
ig3.00	3"	\$ 105.90
ig4.00	4"	\$ 164.46
ig6.00	6"	\$ 329.47
ig8.00	8"	\$ 520.30
ig10.0	10"	\$ 746.88
ig12.0	12"	\$ 1,380.67

Irrigation General Consumption		
	Block 1 \$.457 (per unit)	Block 2 \$.736 (per unit)
3/4"	0 to 320	over 321
1"	0 to 800	over 801
1 1/2"	0 to 1,600	over 1,601
2"	0 to 2,560	over 2,561
3"	0 to 5,120	over 5,121
4"	0 to 8,000	over 8,001
6"	0 to 16,000	over 16,001
8"	0 to 25,600	over 25,601
10"	0 to 36,800	over 36,801
12"	0 to 68,800	over 68,801

Even though the base rates of the larger size meters are higher, the overall block rate charges will be lower because the rates become lower as consumption increases when a larger pipe is used. Since golf course operations require high irrigation consumption, the overall effect could result in substantial savings.

For example, consider the use of the above rates which were in effect during October 1, 2019, for a golf course with two 6" irrigation meters with monthly average consumption of 35,000 and 10,000 units respectively. The calculated cost would be \$21,625.47 (\$329.47 base + \$7,312 block 1 + \$13,984 block 2) for the first meter and \$4,899.47 (\$329.47 base + \$4,570 block 1) for the second meter, totaling \$26,524.94. On the other hand, using the same consumption (45,000 total) with one 12" meter instead of two 6" meters, the cost would be \$21,945.67 (\$1,380.67 base + \$20,565.00 block 1). A comparison of the cost of two 6" meters cost versus that of the 12" meter would result in a monthly cost savings of \$4,579.27. However, a complete cost/benefit analysis to determine long-term savings would require a professional estimation of the replacement cost of the meters.

**NSGC Storm Water Charges**

Finance Department personnel informed the OIG Auditors that the stormwater fees on the utility bill are provided by the Public Works Department. OIG Auditors then contacted the Public Works Department Project Engineer to better understand the methodology used to calculate the stormwater fee related to the NSGC.

The OIG Auditors examined Miami Beach City Code Article III Stormwater Utility Section 110-107, which provides that the stormwater fee is calculated by dividing the impervious area by 791 to identify the ERUs (equivalent residential usage units) rate and then multiplying that figure by the approved ERU unit rate. Impervious area is defined as the horizontal ground surface area that is not readily penetrated by rainwater. As such, it includes structures, slabs, patios, porches, driveways, sidewalks, parking areas, athletic courts, decks, etc. An ERU is a statistically estimated average of the impervious area of residential developed properties per dwelling unit within the City. The estimated average, which equals 791 square feet, is calculated by dividing the total estimated impervious area of residential properties by the estimated total number of dwelling units.

The stormwater fee per ERU for the 2018/19 fiscal year was \$24.12, and it remained unchanged for the 2019/20 fiscal year.

Stormwater Units X Stormwater Rate = Stormwater Utility Service

Stormwater Charges per ERU
Stormwater Utility Service
\$24.12

\*effective 10/1/2018

The OIG Auditors then contacted the Project Engineer to request the calculation of the impervious area for the NSGC in order to recalculate and determine the accuracy of the stormwater fee. The Public Works Department did not have any documentation calculating its impervious area, nor did it have the needed site plans to perform the calculation.

As a result, the OIG Auditors then contacted the Building Department Director for assistance in locating the site plans, which were promptly provided and forwarded to the Public Works Department. However, the Project Engineer claimed that the plans were insufficient for this purpose and stated that she would research the public records to find the information necessary to compute the ERU calculation.

After approximately one month passed without response, the OIG Auditors contacted the City Engineer for assistance. The OIG Auditors then received an e-mail from the City Engineer, identifying the ERU calculations for NSGC with an impervious area of 158,785 square feet, that, when divided by 791, equals 201 ERUs, and indicating that the proper steps would be taken to correct the error. OIG Auditors calculated the stormwater fee due to NSGC based on the corrected ERU figure and compared it to the amounts billed during the audit period, resulting in an estimated underbilling of \$115,618.24.

Recommendation(s):

PCM and the Parks and Recreation Department should request that the Public Works Department timely address all NSGC billed water meters that are not in use, obsolete, or need to be re-assigned and/or billed to other account holders. Going forward, the City Public Works Department should be timely notified of any water leaks or other meter malfunctions, so that the needed repairs can be promptly performed.

The OIG Auditors recommend that the Finance Department create a \$51,723.68 credit invoice related to the identified net overpayment ( $\$163,314.12 - \$115,618.24 + \$4,027.80$ ) related to NSGC utility charges. The OIG agrees to make all related supporting documentation available to designated Finance Department staff, so that they can perform their own calculations based on the available data. Once completed, they should prepare the appropriate invoices to correct the identified deficient charges. All future monthly utility bills should be sent to PCM and the Parks and Recreation Department to allow both parties to actively monitor each meter's consumption and to promptly take any needed corrective actions.

A cost/benefit analysis should be conducted by the City to determine if replacing the two tested 6" irrigation meters (#02047104 and #02047105) with 12" meters would result in net cost savings for Golf Course Operations.

It is recommended that Public Works and Finance Department personnel create a procedure to follow when incorrect estimates are made, so that all affected customers, including both the NSGC and MBGC, are billed accurately. The Eden system, currently used by the City for utility billing, should be evaluated to identify a solution for the overcharging occurring when actual water consumption is lower than estimated consumption, rather than merely showing zero consumption for the next month, which fails to account for the overestimated consumption in the previous month.

The OIG Auditor's analysis covered only through September 2020, so the City should complete an additional evaluation to determine if there is any corrective action needed for any of the subsequent months. Also, the Public Works Department should maintain sufficient documentation to support the charging of all stormwater fees throughout the City as it should not be based on estimates.

Public Works Department staff should periodically request that the Information Technology Department generate a report from the EnerGov system, the City licensing and permitting system, of all commercial construction permits that may have modified the impervious areas and thereby affected its billing. This report should be used to update the stormwater fee billings, as necessary, along with any supporting documentation. Finally, sufficient documentation should be maintained in support of all storm water fee billings.

Parks and Recreation Department, Finance Department, and PCM Responses see Exhibits at the end of the report.

3. **FINDING: THE CITY APPROVED THE REIMBURSEMENT OF ESTIMATED PAYROLL ADMINISTRATIVE SERVICE FEES TOTALING \$29,918.72, WHICH APPEARS CONTRARY TO SECTION 15.06 OF THE MANAGEMENT AGREEMENT.**

Section 15.01 of the management agreement states: *The manager shall prepare and maintain an adequate set of records in detail and methodology satisfactory to the Director and the City's Chief Financial Officer, documenting all Golf Courses gross revenues and Operating Expenses pursuant to this Agreement. Section 15.06 states, Preparation of reports with respect to all financial aspects of the Golf Course, such as payroll data, daily cash register tapes, cash receipts, accounts receivable, budget reports, and detailed profit center information.*

PCM management explained to the OIG Auditors that they have an agreement with Paychex, an independent payroll service company hired to process the golf club payroll; and, that the associated fees are fully reimbursed by the City. The payroll services include calculating payroll and related taxes, filing returns, workers compensation, and medical insurance. OIG Auditors examined the Paychex Supplemental Employee Detail report dated October 14, 2020, and found that it charged a bi-weekly administrative fee of \$18.56 per employee (31 employees x \$18.56 estimated per employee x 26 bi-weekly periods per year x two years) for the audit period, which equates to \$29,918.72.

When questioned, both Parks and Recreation Department and PCM management stated that they had verbally approved the hiring of Paychex. In addition, the OIG Auditors were told that the corresponding expenditures were included in the annual budgets approved by the City Commission; that the hiring of Paychex was necessary because the previously approved accounting positions were not sufficient to complete all related work; and that the related monthly expenditures were fully reimbursed by the City.

Hiring Paychex may have been a less costly alternative than hiring another employee, assuming that the current approved PCM Administrative staff does not have the ability to perform these payroll functions. However, the OIG Auditors believe it may contradict Section 15.06, as payroll preparation is the concessionaire's responsibility and would have been factored into their bid to RFP No. 2018-186-WG and the management agreement.

Recommendation(s):

Although the OIG understands that the City approves the annual budget and reimburses PCM for its monthly golf club expenditures, it cannot be assumed that each transaction is properly vetted, given the large volume of expenditures and corresponding detail present. The OIG recommends that any new, revised or reoccurring expenditures, especially those exceeding a designated threshold set by the City, be separated and properly vetted before incurring the related spending. Once approved, the best practice would be for the terms agreed upon by all parties to be thoroughly documented to provide a sufficient audit trail.

Parks and Recreation Department, Finance Department, and PCM Responses see Exhibits at the end of the report.



4. **FINDING: THE CITY REIMBURSED PCM A TOTAL OF \$18,950.85 IN QUESTIONABLE EXPENDITURES RELATED PRIMARILY TO NSGC FOOD AND BEVERAGE OPERATIONS AND PAPER GOODS.**

Section 4.01.9 of the management agreement provides that the City must do the following: *provide or make provisions for all initial furniture, fixtures and equipment needed to operate the Food and Beverage and Pro Shop Merchandise Sales concession facilities to include: restaurant and bar tables and chairs, kitchen equipment, pots, pans, small wares, china, silver, glassware, pro shop display fixtures, banquet equipment, office furniture, point of sale system (with sufficient back office capabilities to support the financial reporting requirement of the Agreement, office equipment, telephone equipment, etc. Manager (PCM) shall be responsible for any and all replacement due to breakage, theft (unless documented by a City Police report) or employee negligence; all paper goods and disposable items such as plastic wares, cups; and costs related to printing of menus, display boards or other promotional material relating directly to the Manager's operations.* [Emphasis added.]

In addition, Section 10.04 states: *The manager (PCM) will be responsible for screening, interviewing, testing and training to include, but not be limited to; interviews that include experience, goals, interest, attitudes, motivation and other work related attributes; background checks as deemed appropriate by the City of Miami Beach Human Resources Department, as well as credit history for positions that may require the handling of City funds; verification that its employees are not convicted sex offenders; and training of employees on the City's Service Excellence program for those who interact with the general public as customer service representatives.*

Section 15.01 further states that, *The manager shall prepare and maintain an adequate set of records in detail and methodology satisfactory to the Director and the City's Chief Financial Officer, documenting all Golf Courses gross revenues and Operating Expenses pursuant to this agreement....*

Although each expenditure was included in the corresponding monthly reports and bank transactions, the OIG Auditors performed testing to determine if any sampled expenditures related to Sections 4.01.9 and 10.04 were fully paid by the City, instead of by PCM. As a result, the following expenditures totaling \$18,950.85 (\$10,976.10 Fiscal Year 2018/19 + \$7,974.75 Fiscal Year 2019/20) were questioned:

**Fiscal Year 2018/19 = \$10,976.10 (\$8,830.15 + \$1,837.95 + \$308.00)**

- The City paid for 32 restaurant operational expenditures related to repairs, a dish machine lease, and a grease trap cleaning totaling \$8,830.15, that appear contrary to Section 4.01.9.
- The City paid a total of \$1,837.95 for paper goods such as paper towels, that appear contrary to Section 4.01.9.
- The City paid \$308.00 for two employee trainings, that appear contrary to Section 10.04.

**Fiscal Year 2019/20 = \$7,974.75 (\$4,360.34 + \$3,547.87 + \$46.54 + \$20.00)**

- The City paid a total of \$4,360.34 for paper goods such as paper towels, that appears contrary to Section 4.01.9.
- The City paid \$3,547.87 for twelve restaurant operational expenditures related to repairs, a dish machine lease, and grease trap cleaning, that appears to be contrary to Section 4.01.9.



- The City paid \$46.54 for a QuickBooks online service expenditure, that appears contrary to Section 15.01.
- The City paid \$20.00 for an employee training, that appears contrary to Section 10.04.

When presented with the questioned expenditures, PCM management informed the OIG Auditors of its belief that the City was responsible for all repairs, even those related to the Food and Beverage operations (including the restaurant, bar and catering, as well as concessionaire staffed golf carts from which food and beverages are sold to golfers on the course), based on Section 7.05 of the management agreement. That provision states: *The manager shall perform acceptable day-to-day housekeeping and maintain and perform all repairs on the kitchens, dining rooms, bars and pro shops that are necessitated as a result of the Manager's or its agents' negligence. City shall be responsible for all other repairs and maintenance. All such maintenance shall be of quality equal to or better than the original in materials and workmanship.* The OIG believes that Section 7.05 refers to the Golf Course facilities equipment and improvements, and not to Food and Beverage operations.

In addition, PCM management claimed that the questioned expenditures related to paper goods were used in areas outside of the restaurants, such as in the building restrooms, which are the responsibility of the City. Although this may be a true statement, no supporting evidence was provided to the OIG Auditors.

Recommendation(s):

Designated Parks and Recreation Department staff should closely examine all future monthly expenditure reports and attest to each transaction's accuracy and alignment with the management agreement before PCM is reimbursed any related monies. Whenever appropriate, legal opinions should be obtained in advance from the Office of the City Attorney regarding interpretation of management agreement provisions.

In addition, discussions should be held between the City and PCM management to reach a consensus on the methodology (e.g. equitable allocation) to address the prospective purchase of paper goods and other related items which may be used concurrently in several areas of the golf clubs. Once a consensus reached, it should be documented and consistently followed by all parties.

Parks and Recreation Department, Finance Department, and PCM Responses see Exhibits at the end of the report.

5. **FINDING: SOME INDIVIDUALS PURCHASING NSGC GOLF MEMBERSHIPS DURING THE AUDIT PERIOD RECEIVED QUESTIONABLE DISCOUNTS TOTALING \$13,183.64 FROM THE CITY COMMISSION APPROVED RATES, AND PCM CHARGED AND COLLECTED LOCKER FEES OF \$2,552.00 WHICH WERE NOT INCLUDED IN THE APPROVED FEE SCHEDULES.**

The City Commission adopted Resolution No. 2018-30420 on July 25, 2018, approving a new Fee Schedule, which included the following NSGC membership dues, effective on October 1, 2018:

Membership Dues	Current Rate	Proposed Rate	Rate Increase	Estimated Revenue Impact
<b>Resident</b>				
Single	\$ 2,000.00	\$ 2,200.00	\$ 200.00	\$4,000
Husband & Wife	\$ 3,000.00	\$ 3,300.00	\$ 300.00	\$600
Each Dependent (Under 18 years of Age)	\$ 400.00	\$ 400.00	\$ -	-
<b>Non Resident</b>				
Single	\$ 3,000.00	\$ 3,300.00	\$ 300.00	\$2,700
Husband & Wife	\$ 4,500.00	\$ 4,800.00	\$ 300.00	-
Each Dependent (Under 18 years of Age)	\$ 600.00	\$ 600.00	\$ -	-
Junior	\$ 1,000.00	\$ 1,000.00	\$ -	-

Some of the benefits of purchasing a NSGC membership include the following: (1) 10-day advance tee time; (2) complimentary range balls; and (3) complimentary bag storage. In addition to the membership fee, NSGC members are charged a \$25.00 cart fee for 18 holes and \$15.00 for nine holes. Memberships are not refundable or transferable and all prices are subject to additional applicable Florida State Sales tax.

On September 25, 2019, the City Commission adopted Ordinance No. 2019-4299 creating Section 1-15, entitled “Fee Schedule” providing that all fees and charges established by the City Commission shall be set forth in Appendix A to the City Code, and to be effective October 5, 2019. In sum, 2019/20 fiscal year membership fees for the NSGC remained unchanged from the 2018/19 fiscal year approved rates.

Upon examination of the available documentation, OIG Auditors questioned the following discounts given by PCM related to the City Commission approved 2018/19 fiscal year NSGC membership rates totaling \$7,396.64 (excluding \$1,502.00 in locker fees):

- a. PCM created promotional data offered a Senior - 70 or over discounted membership rate (see below) that was not included in Appendix A “Fee Schedule”.



**2019-2020  
Normandy Shores Golf Club  
Resident Annual Membership Rates**

SINGLE GOLF	\$2,200
HUSBAND & WIFE or DOMESTIC PARTNERS	3,300
SENIOR - 70 OR OVER - MONDAY THRU FRIDAY - SINGLE	1,760
EACH DEPENDENT (UNDER 18 YEARS OF AGE)	400
JUNIOR - AFTER 2PM - WALKING ONLY	700
JUNIOR - SUMMER - After 2:00pm - Walking only (6/1-9/30)	150
• Dependent and Junior golfers walk for free after 12:00 noon	

ALL PRICES ARE SUBJECT TO AN ADDITIONAL 7% SALES TAX

Four tested members were charged the “Senior – 70 or over – Monday thru Friday – Single” membership rate, resulting in a total discount of \$1,896.64.

- b. PCM-created promotional data provided that Miami Beach residents must present a valid Florida Driver’s License, annual lease or proof of ownership of a Miami Beach residence or business, to receive the resident membership rates. When questioned, Parks and Recreation Department staff responded to the OIG Auditors during a Microsoft TEAMS meeting, that residents and business/property owners are eligible to receive the discounted resident rates. Despite being requested, no

written documentation authorizing the discounts given to business/property owners was provided.

PCM also did not provide sufficient evidence to enable the OIG Auditors to verify that the charging of the reduced Miami Beach resident rate to three NSGC members was appropriate. Without this documentation, it is unknown whether these individuals satisfied the criteria needed to receive the Miami Beach resident discount totaling \$3,300.00.

Furthermore, two other tested members did not qualify for the Miami Beach resident rate received, as the furnished addresses were not within the City's boundaries. No other evidence was provided during the audit process to justify the \$2,200.00 discount given to these two members.

- c. Although not addressed in the management agreement or in the Fee Schedule contained in Resolution No. 2018-30420, PCM charged individuals a \$175.00 locker fee, which was occasionally pro-rated depending on the month when the monies were paid. In total, it was calculated that PCM collected \$1,502.00 in locker fees during the 2018/19 fiscal year from nine individuals. All tested monies collected were properly deposited into the NSGC City Bank operating account.

OIG Auditors determined the following questionable discounts given by PCM related to the City Commission approved 2019/20 fiscal year NSGC membership rates totaling \$5,787.00 (excluding \$1,050.00 in locker fees):

- a. One tested membership was billed at the discounted "Junior Resident" rate resulting in a \$141.67 discount. The Junior Resident rate was not included in the management agreement or Fee Schedule, which provide only for a Junior Non-Resident rate.
- b. Similar to the 2018/19 fiscal year, five memberships were billed at the "Senior" rate, resulting in a \$2,345.33 discount. The Senior rate was not included in the management agreement or Fee Schedule, although it was included in PCM's promotional material.
- c. One Miami Beach resident membership was sold without evidence of residency on file; therefore, the OIG Auditors could not confirm whether the \$1,100.00 discount given was warranted.
- d. Two tested members did not qualify for the Miami Beach resident discount rate received, as their listed addresses were not located within the City's boundaries. No other evidence was provided during the audit process to justify the \$2,200.00 discount given to these two members.
- e. Although not addressed in the management agreement or the Fee Schedule (Appendix A), PCM charged six individuals a \$175.00 locker fee, which was occasionally pro-rated depending on when the monies were paid. In total, it was calculated that PCM charged and collected \$1,050.00 in locker fees during the 2019/20 fiscal year. All tested monies collected were properly deposited into the NSGC City Bank operating account.

Recommendation(s):

The City should provide PCM with specific written criteria that must be satisfied for members to receive a discounted rate, and clarifying whether, and under what circumstances, any membership monies paid are reimbursable and/or transferable. Once received, PCM should consistently follow this policy going forward. Exceptions to the stated criteria should only exist when the City gives advance written approval.

Evidence of residency should also be required at the time of each prospective membership renewal period and the corresponding supporting documentation should be maintained by PCM. Lastly, the locker fees should be added to future Fee Schedules (Appendix A) presented annually for approval to the City Commission or they should not be charged.

Parks and Recreation Department, Finance Department, and PCM Responses see Exhibits at the end of the report.

6. **FINDING: SUFFICIENT SUPPORTING DOCUMENTATION WAS NOT FURNISHED BY PCM TO JUSTIFY \$9,826.50 IN DISCOUNTS GIVEN THAT WERE NOT SPECIFIED IN THE MANAGEMENT AGREEMENT RELATED TO NSGC GOLF TOURNAMENT BILLINGS.**

Section 6.09.3 of the management agreement states as follows: *The manager {PCM} shall operate and maintain a tournament scheduling services, as deemed appropriate by the Director, including but not limited to reserving tournament dates; processing reservation agreements; arranging for tournament assistance; collecting green fees and other fees associated with tournament play; and supplying other services. Manager shall provide Director, monthly, with a complete list of all proposed tournaments. The Manager shall honor all contracts for tournaments and banquets as shall be scheduled and approved by the City. Any such events shall be coordinated and scheduled with the Manager so as to not conflict with tournaments scheduled by the Manager, and so as to minimize disruption to the Golf Course operations.*

PCM's Director of Sales and Marketing, who oversees the golf tournaments with the assistance of its Director of Golf, provided the following information: (1) the rack rate determines the tournament rate at the time of the tournament; (2) nonprofit organizations receive a 30% discount; (3) the tournament price does not include food and beverages; (4) insurance is included in the tournament price; and (5) a signed contract is required for groups of more than 20 players.

PCM provides food and beverages for sale, including beer, wine, and alcoholic beverages, as well as catering services for tournaments, events, or groups on the golf courses and within the clubhouse restaurant and bar, as required in the management agreement. In addition to the sponsorship tournaments, PCM also arranges tournaments for the members, who pay a tournament fee to participate that includes trophies, awards, and occasionally food and beverages.

OIG Auditors examined the tournaments held during the audit period and noted several unsubstantiated deficiencies, summarized below by fiscal year, from the stated criteria.

**2018/19 Fiscal Year = \$7,739.50**

- Eight tournament contracts on file were not signed, and another contract was missing and could not be located by PCM.

- Six instances were noted whereby NSGC customers paid a total of \$7,739.50 less than stated rates.

**2019/20 Fiscal Year = \$2,087.00**

- Three instances were noted whereby NSGC customers paid a total of \$2,087.00 less than stated rates. Also, some examined billings contained mathematical errors.

Recommendation(s):

Section 6.09.3 of the management agreement should be revised to require the City to provide advance written approval of any NSGC tournament rates given to customers that differ from those authorized.

In addition, the management agreement contains some ambiguous and/or contradictory language, as well as instances whereby specific rates are to be charged, with little room for adjustment. The OIG recommends that the management agreement be revised, where necessary, to include among other changes, an acceptable range of prices related to tournaments. For example, there could be a preferred tournament rate, but PCM staff would have flexibility to offer a discount (e.g. 5%) to event organizers, without obtaining prior documented City approval.

Although some of the missing requested tournament documentation may have been provided to OIG management at a later time, it was not provided to OIG Auditors when initially requested. Therefore, there is no means to determine the cause of the delay in receiving the requested documentation (e.g. was it misfiled, overlooked, obtained afterwards, etc.).

Parks and Recreation Department, Finance Department, and PCM Responses see Exhibits at the end of the report.

7. **FINDING: \$700.00 RELATED TO THE PRO SHOP ASSISTANTS SUBSIDIZED MONTHLY PAYMENTS IS DUE TO THE CITY AND CHRIS JETT GOLF SALES, INC. DID NOT OBTAIN THE REQUIRED APPROVAL OF THE CITY MANAGER OR ACQUIRE VALID ANNUAL BUSINESS TAX RECEIPTS.**

City Code Section 102-357 states, *The City Commission hereby levies a business tax for the privilege of engaging in or managing any business, profession, or occupation.*

In addition, Section 6.13.1 of the management agreement states, *the Concession Services Manager shall operate, stock and maintain the Food and Beverage and Pro Shop Merchandise Sales concessions for the Golf Courses (the "Concession Services") pursuant to the general scope for concession services contained in this Section 6.13 and this Agreement. The Manager may outsource the management of the Concession Services to a 3rd Party, subject to the prior written approval of the City Manager, in accordance with Article 23; however, the Manager shall remain responsible for all requirements outlined in this scope. Any approved 3rd party operator must meet all business requirements such as insurance, licenses and staffing as outlined in this scope.*

Furthermore, Section 10.06 of the management agreement requires that the manager (PCM) inform the Director, in writing, of the full name and specific assignment of each of

its “key personnel” at each Course used in performance of the agreement, including the Golf Club contractor(s).

Chris Jett is a former employee of PCM, who, after retiring, continued purchasing merchandise for the NSGC. It appears to the OIG that Chris Jett Golf Sales, Inc. is acting as a third party or subcontractor without a formal agreement and no evidence was provided indicating prior written approval of the City Manager. The informal agreement with Chris Jett’s company does not comply with Section 6.13.1 and Article 23 of the management agreement.

PCM staff informed the OIG Auditors that Chris Jett Golf Sales, Inc. purchases all Pro Shop merchandise for the NSGC, and that after the merchandise is sold, the company is reimbursed by PCM at an amount equal to its cost plus a designated mark-up. A review of the Florida Division of Corporation’s website, Sunbiz.com, determined that Christopher A. Jett is the Officer/Director and Registered Agent of an Active Florida Profit Corporation entitled Chris Jett Golf Sales, Inc. since November 6, 2002.

In addition, Section 6.13.4.3 of the management agreement states: *The manager (PCM) shall staff the facility (Pro Shop) in a manner consistent with a first-class operation. Said cost of staffing and all related costs shall be paid by the Manager.*

Although the management agreement is not clear about the portion that PCM should pay the City related to the Pro Shop staff, it is addressed in Addendum No. 5 Request For Proposal (RFP) 2018-186-WG. It states as follows in Question 13 and the City’s subsequent answer, incorporated into the agreement: *Q13 - It appears that F&B (Food and Beverage) labor is outsourced, but Pro Shop labor is a City expense, Is this correct? A13) – The Pro Shop Assistants are paid out of Professional Services (City funds) and they are golf operations employees who answer phones, ring up golfers, assist with tournament operations, etc. The Merchandising Assistant salary is outsourced (not paid by the City) which takes care of the concession portion of the Pro Shop. The management company pays the City \$2,400 per month towards the work that the Pro Shop Assistants do which covers the time they spend signing up a golfer for play or sell merchandise.*

It was determined that the monthly distribution of the Pro Shop Assistants’ salaries is \$400.00 for the NSGC and \$2,000.00 for the MBGC. When questioned by OIG Auditors, PCM staff stated that Chris Jett Golf Sales, Inc. is paying for that portion of the payroll covering the NSGC Pro Shop Assistants. In addition, Chris Jett Golf Sales, Inc. pays the annual liability insurance related to Pro Shop merchandise at both golf clubs.

OIG Auditors’ testing discovered that 14 monthly payments during the 24-month audit period were underpaid by \$50.00 (\$350.00 rather than the required \$400.00), resulting in a total underpayment of \$700.00 (\$50.00 per month x 14 months) to the City. Although the Pro Shop Assistants perform tasks other than those related to the Pro Shop, it was calculated that Chris Jett Golf Sales, Inc. pays 3.36% of the total Pro Shop Assistants labor expenditures ( $\$9,600.00/\$285,979.20 = 3.36\%$ ).

Recommendation(s):

PCM should create a contractual agreement with Chris Jett Golf Sales, Inc., to be submitted for approval to the City Manager as required under City Code Section 6.13.1.

Prospectively, the Parks and Recreation Department should more closely monitor its agreement with PCM and any subcontractors that have not been approved in advance

and/or have not obtained the required BTR's. The Code Compliance Department should be notified to investigate and determine whether any Notices of Violation should be issued to Chris Jett Golf Sales, Inc. for conducting a business within the City without obtaining a valid BTR pursuant to City Code Section 102-377.

If not already paid, it is recommended that PCM promptly remit the \$700.00 due to the City related to the underpayment of the subsidized Pro Shop Assistants' salaries during the audit period. Designated Parks and Recreation Department staff should periodically perform future monthly reviews to determine that the City is fully compensated regarding the Pro Shop Assistants' salaries.

The Parks and Recreation Department should also perform an analysis to determine whether the monthly PCM payments received are adequate considering the Pro Shop Assistants' daily tasks. If not justified, the management agreement and/or its addendum should be revised accordingly to reflect the results of this analysis upon approval of the City Commission.

Parks and Recreation Department, Finance Department, and PCM Responses see Exhibits at the end of the report.

8. **FINDING: PCM CHARGED DISCOUNTED GOLF RATES FROM THE CITY COMMISSION APPROVED FEE SCHEDULE WITHOUT DOCUMENTED APPROVAL FROM THE CITY.**

Section 6.12 of the management agreement states, *The Manager (PCM) shall charge and collect all Golf Course fees and charges according to a fee schedule approved by the Mayor and the City Commission. City reserves the right to keep or to change the fee schedule, in its sole discretion. The Manager shall have the authority to make temporary rate adjustments during slow periods and/ or high-profile events with prior approval from the City Manager or the Director.*

Slow periods typically occur during the "Summer" season, May 1 through October 31, although in some years there may be exceptions. Rates are higher for the "Shoulder" season, November 1 through December 15, with the highest published rates being for the "Peak" season, which is comprised of December 16 through April 30.

On July 25, 2018, the City Commission adopted Resolution No. 2018-30420, accepting the recommendation of the Finance and Citywide Projects Committee, to establish the following Fee Schedule for NSGC, effective October 1, 2018:

NEW Fee Schedule for Golf and Membership Dues Rates Normandy Shores Golf Club (NSGC)				
Golf Fees	Current Rate	Proposed Rate	Rate Increase	Estimated Revenue Impact
<b>Summer (5/1 - 10/31)</b>				
Rack Rate	\$ 80.00	\$ 85.00	\$ 5.00	\$6,000
Weekday (South Florida Resident)	\$ 50.00	\$ 60.00	\$ 10.00	\$11,000
Weekend (South Florida Resident)	\$ 65.00	\$ 70.00	\$ 5.00	\$5,500
Weekday (Miami Beach Resident)	\$ 40.00	\$ 50.00	\$ 10.00	\$6,000
Weekend (Miami Beach Resident)	\$ 50.00	\$ 60.00	\$ 10.00	\$5,000
Miami Beach Resident Jr.	\$ 5.00	\$ 5.00	\$ -	-
<b>Shoulder (11/1 - 12/15)</b>				
Rack Rate	\$ 95.00	\$ 95.00	\$ -	-
South Florida Resident	\$ 65.00	\$ 70.00	\$ 5.00	\$6,000
Miami Beach Resident	\$ 50.00	\$ 60.00	\$ 10.00	\$7,500
Miami Beach Resident Jr.	\$ 5.00	\$ 5.00	\$ -	-
<b>Peak (12/16 - 4/30)</b>				
Rack Rate	\$ 125.00	\$ 125.00	\$ -	-
South Florida Resident	\$ 75.00	\$ 80.00	\$ 5.00	\$23,000
Miami Beach Resident	\$ 60.00	\$ 65.00	\$ 5.00	\$11,500
Miami Beach Resident Jr.	\$ 5.00	\$ 5.00	\$ -	-
<b>Proposed Cart Rates</b>				
Cart Rate 18 Holes	\$ 20.00	\$ 25.00	\$ 5.00	\$7,600
Cart Rate 9 Holes	\$ 12.00	\$ 15.00	\$ 3.00	\$1,000

OIG Auditors compared the approved fees in Resolution No. 2018-30420 with the rates charged at NSGC during the 2018/19 fiscal year and found that the discounted rates listed in Table 3 below were not present. PCM was requested to provide formal approval by the City Manager or the Parks and Recreation Director for each identified rate not included on the approved fee schedule. In response, PCM claimed that it received verbal approvals and that written approvals were not required by Section 6.12. Although this statement may be accurate, the lack of documented evidence prevents the OIG Auditors from conclusively determining whether the Parks and Recreation Department agreed to any of these discounted rates given to NSGC customers during the audit period.

Discounted rates given to NSGC customers, as noted in Table 3 below, ranged from 8% to 68% of the approved rates listed in Resolution No. 2018-30420. The OIG realizes the possibility that some customers would not have played NSGC unless they received the discounted rate, and these lower rates may have been verbally approved in advance by the City; however, it is a best practice to maintain documented evidence confirming its advance approval.



**Table 3**

<b>Item #</b>	<b>Description</b>	<b>Discounted Rate</b>	<b>Fee as per City Schedule</b>	<b>Discount Percentage</b>
1040	Peak- Sr. Rate Mon-Fri	\$ 53.75	\$ 125.00	57%
1061	Summer- Sr. Rate Mon-Fri	\$ 40.00	\$ 60.00	33%
1158	Peak Replay (miami Beach)	\$ 45.00	\$ 65.00	31%
1160	Peak- Replay ( Rack Rate)	\$ 65.00	\$ 125.00	48%
1194	Peak-Twilight Mb Res	\$ 40.00	\$ 65.00	38%
1195	Peak - Twilight Sfl Res	\$ 50.00	\$ 80.00	38%
1220	Summer Twilight Mb Res	\$ 35.00	\$ 50.00	30%
1221	Summer Twilight South Fl	\$ 45.00	\$ 60.00	25%
1236	Shoulder-Member Guest Weekday	\$ 55.00	\$ 95.00	42%
1239	Shoulder Miami Beach Special Twilight	\$ 30.00	\$ 60.00	50%
1240	Shoulder Rack Twilight	\$ 80.00	\$ 95.00	16%
1250	Peak Premier Card	\$ 65.00	\$ 80.00	19%
1253	Peak - Rack Twilight	\$ 80.00	\$ 125.00	36%
1271	Summer- Twilight Rack Rate	\$ 65.00	\$ 85.00	24%
1277	Pga Jr. Practice Round	\$ 25.00	\$ 95.00	74%
1299	Shoulder-Member Guest Rate- Weekend	\$ 60.00	\$ 95.00	37%
1302	Shoulder - Twilight South Fl	\$ 45.00	\$ 70.00	36%
1308	Shoulder Miami Beach Sr. Rate	\$ 48.00	\$ 60.00	20%
1361	Shoulder Premier Twilight	\$ 40.00	\$ 95.00	58%
1393	Summer Canadian Rate Wd	\$ 60.00	\$ 85.00	29%
1432	Shoulder Can-Am Sp Wd/we After 11	\$ 49.00	\$ 95.00	48%
1435	Shoulder Can-Am Sp We Before 11	\$ 60.00	\$ 95.00	37%
1439	Shoulder Canadian Weekend	\$ 65.00	\$ 95.00	32%
1440	Shoulder Canadian Tw	\$ 40.00	\$ 95.00	58%
1447	Peak-Can-Am Green Fee	\$ 70.00	\$ 125.00	44%
1542	Shoulder Can-Am Sp Tw	\$ 39.00	\$ 95.00	59%
1564	Shoulder Premier Special Wd/we After 11	\$ 50.00	\$ 95.00	47%
1566	Shoulder Premier Special We Before 11	\$ 60.00	\$ 95.00	37%
1567	Shoulder Miami Beach Special Wd/ We Aft. 11	\$ 42.00	\$ 60.00	30%
1568	Shoulder Sf Special Wd & We After 11	\$ 55.00	\$ 70.00	21%
1570	Shoulder Miami Beach Twilight	\$ 35.00	\$ 60.00	42%
1571	Shoulder Sf Special Twilight	\$ 40.00	\$ 70.00	43%
1578	Peak-Canadian	\$ 70.00	\$ 125.00	44%

Item #	Description	Discounted Rate	Fee as per City Schedule	Discount Rate
1580	Peak Canadian Twilight	\$ 50.00	\$ 125.00	60%
1647	Shoulder Premier Weekend	\$ 65.00	\$ 95.00	32%
1648	Shoulder Premier Wd	\$ 55.00	\$ 95.00	42%
1649	Shoulder Canadian Sp Twilight	\$ 39.00	\$ 95.00	59%
1711	Summer Canadian Rate We	\$ 70.00	\$ 85.00	18%
1712	Summer Canadian Rate Twilight	\$ 45.00	\$ 85.00	47%
1713	Summer Can- Am We	\$ 70.00	\$ 85.00	18%
1714	Summer Can-Am Twilight	\$ 45.00	\$ 85.00	47%
1715	Summer Can-Am Wd	\$ 60.00	\$ 85.00	29%
1773	Shoulder Can Am Wd	\$ 55.00	\$ 95.00	42%
1774	Shoulder- Canam Tw	\$ 39.00	\$ 95.00	59%
1775	Shoulder Canam We	\$ 65.00	\$ 95.00	32%
1776	Shoulder Miami Beach Special We	\$ 55.00	\$ 70.00	21%
1777	Shoulder Canadian Sp Wd/we After 11	\$ 50.00	\$ 95.00	47%
1778	Shoulder Canadian Sp We Before 11	\$ 60.00	\$ 95.00	37%
1779	Shoulder Canadian Wd	\$ 55.00	\$ 95.00	42%
1796	Peak- Canam Twilight	\$ 45.00	\$ 125.00	64%
1883	Peak Mb Wd Special	\$ 60.00	\$ 65.00	8%
1885	Peak Prem. Special Wd	\$ 65.00	\$ 80.00	19%
1886	Peak Premier Special Tw	\$ 44.00	\$ 80.00	45%
1887	Peak Canam Special Wd	\$ 65.00	\$ 125.00	48%
1888	Peak Canam Special Tw	\$ 42.00	\$ 125.00	66%
1889	Peak Canadian Special Wd	\$ 65.00	\$ 125.00	48%
1890	Peak Canadian Special Tw	\$ 42.00	\$ 125.00	66%
1900	Peak Replay (canam/premier Card)	\$ 40.00	\$ 125.00	68%
1944	Senior Member 9 Holes	\$ 11.25	\$ 15.00	25%
1959	Peak South Florida Special Wd	\$ 64.00	\$ 80.00	20%
1960	Peak South Florida Special We	\$ 70.00	\$ 80.00	13%
1961	Peak South Florida Special Twilight	\$ 45.00	\$ 80.00	44%
1962	Peak Canadian Special We	\$ 70.00	\$ 125.00	44%
1963	Peak Canam Special We	\$ 70.00	\$ 125.00	44%
1965	Peak Premier Special We	\$ 70.00	\$ 80.00	13%
1966	Peak Miami Beach Twilight Special	\$ 39.00	\$ 65.00	40%
1967	Peak- Mb Senior Special	\$ 48.00	\$ 65.00	26%

Conversely, Table 4 below shows three rates approved by City Commission Resolution No. 2018-30420 that were charged differently by PCM.

**Table 4**

Item #	Description	Rate	Fee as per City Schedule	Difference
1053	Summer- Rack Rate	\$ 80.00	\$ 85.00	\$ (5.00)
1842	Rack Junior Rate	\$ 45.00	\$ 5.00	\$ 40.00
1843	Peak Junior Rate	\$ 40.00	\$ 5.00	\$ 35.00

On October 5, 2019, City Ordinance No. 2019-4299 was adopted, amending Chapter 1 of the City Code by creating Section 1-15, entitled, "Fee Schedule," to establish all fees and charges and to provide an annual adjustment for certain specified fees. The following approved NSGC rates were included in the Fee Schedule (Appendix A – FY 0 Fee Schedule).

	Golf Fees – Normandy Shores Golf Club:	
	Summer (5/1 – 10/31):	
	NSGC Summer Rack Rate (5/1 - 10/31)	85.00
	NSGC Summer Weekday (South Florida Resident)	60.00
	NSGC Summer Weekend (South Florida Resident)	70.00
	NSGC Summer Weekday (Miami Beach Resident)	50.00
	NSGC Summer Weekend (Miami Beach Resident)	60.00
	NSGC Miami Beach Resident Junior	5.00
	Shoulder (11/1 – 12/15):	
	NSGC Shoulder Rack Rate (11/1 - 12/15)	95.00
	NSGC Shoulder South Florida Resident	70.00
	NSGC Shoulder Miami Beach Resident	60.00
	NSGC Miami Beach Resident Junior	5.00
	Peak (12/16 – 4/30):	
	NSGC Peak Rack Rate (12/16 - 4/30)	125.00
	NSGC Peak South Florida Resident	80.00

<i>Section of this Code</i>	<i>Description</i>	<i>FY 2020 Fee</i>
	NSGC Peak Miami Beach Resident	65.00
	NSGC Peak Miami Beach Resident Junior	5.00
	Cart Rates:	
	NSGC Cart Rate 18 Holes	25.00
	NSGC Cart Rate 9 Holes	15.00
	Membership Dues – Miami Beach Golf Club:	
	Resident:	
	NSGC Resident Single	2,200.00
	NSGC Resident Husband and Wife	3,300.00
	NSGC Resident Each Dependent Under 18 Years of Age	400.00
	Non-Resident:	
	NSGC Non-Resident Single	3,300.00
	NSGC Non-Resident Husband and Wife	4,800.00
	NSGC Non-Resident Each Dependent Under 18 Years of Age	600.00
	NSGC Junior	1,000.00

Similar to the analysis performed above for the 2018/19 fiscal year, OIG Auditors compared the City Commission approved fees with the rates charged during the 2019/20 fiscal year and found that the rates listed in Table 5 below, were charged without documented prior approval. Questioned PCM and Parks and Recreation staff claimed that only verbal approvals were received. Noted discounted rates ranged from 7% to 68% of the approved documented rates. The OIG realizes the possibility that some customers may not have played NSGC unless they received the discounted rate. Although the rates may have been verbally approved in advance by the City, as required in the management agreement, the OIG maintains it is a best practice to maintain documented evidence indicating written approval of all rates charged that differ from the stated criteria.

**Table 5**

Item #	Description	Discounted Rate	Fee as per City Schedule	Discount Percentage
1220	Summer Twilight Mb Res	\$ 40.00	\$ 60.00	33%
1239	Shoulder Miami Beach Special Twilight	\$ 35.00	\$ 60.00	42%
1308	Shoulder Miami Beach Sr. Rate	\$ 48.00	\$ 60.00	20%
1567	Shoulder Miami Beach Special Wd/ We Aft. 11	\$ 42.00	\$ 60.00	30%
1570	Shoulder Miami Beach Twilight	\$ 39.00	\$ 60.00	35%
1776	Shoulder Miami Beach Special We	\$ 55.00	\$ 60.00	8%
1158	Peak Replay (miami Beach)	\$ 45.00	\$ 65.00	31%
1194	Peak-Twilight Mb Res	\$ 40.00	\$ 65.00	38%
1883	Peak Mb Wd Special	\$ 60.00	\$ 65.00	8%
1966	Peak Miami Beach Twilight Special	\$ 39.00	\$ 65.00	40%
1967	Peak- Mb Senior Special	\$ 48.00	\$ 65.00	26%
1221	Summer Twilight South Fl	\$ 45.00	\$ 70.00	36%
1302	Shoulder - Twilight South Fl	\$ 49.00	\$ 70.00	30%
1564	Shoulder Premier Special Wd/we After 11	\$ 52.00	\$ 70.00	26%
1566	Shoulder Premier Special We Before 11	\$ 60.00	\$ 70.00	14%
1568	Shoulder Sf Special Wd & We After 11	\$ 58.00	\$ 70.00	17%
1571	Shoulder Sf Special Twilight	\$ 40.00	\$ 70.00	43%
1572	Shoulder Premier Special Twilite	\$ 39.00	\$ 70.00	44%
1647	Shoulder Premier Weekend	\$ 65.00	\$ 70.00	7%
2005	Shoulder- Sf Twilight	\$ 49.00	\$ 70.00	30%
1159	Peak- Replay (south Florida)	\$ 50.00	\$ 80.00	38%
1195	Peak - Twilight Sfl Res	\$ 50.00	\$ 80.00	38%
1250	Peak Premier Card	\$ 70.00	\$ 80.00	13%
1579	Peak Premier Twilight	\$ 45.00	\$ 80.00	44%
1885	Peak Prem. Special Wd	\$ 65.00	\$ 80.00	19%
1886	Peak Premier Special Tw	\$ 44.00	\$ 80.00	45%
1959	Peak South Florida Special Wd	\$ 64.00	\$ 80.00	20%
1960	Peak South Florida Special We	\$ 70.00	\$ 80.00	13%
1961	Peak South Florida Special Twilight	\$ 45.00	\$ 80.00	44%
1965	Peak Premier Special We	\$ 70.00	\$ 80.00	13%
1061	Summer- Sr. Rate Mon-Fri	\$ 40.00	\$ 85.00	53%
1271	Summer- Twilight Rack Rate	\$ 65.00	\$ 85.00	24%

Item #	Description	Discounted Rate	Fee as per City Schedule	Discount Percentage
1393	Summer Canadian Rate Wd	\$ 60.00	\$ 85.00	29%
1711	Summer Canadian Rate We	\$ 70.00	\$ 85.00	18%
1712	Summer Canadian Rate Twilight	\$ 45.00	\$ 85.00	47%
1713	Summer Can- Am We	\$ 70.00	\$ 85.00	18%
1714	Summer Can-Am Twilight	\$ 45.00	\$ 85.00	47%
1715	Summer Can-Am Wd	\$ 60.00	\$ 85.00	29%
1238	Shoulder- Canam Sunday Football Special	\$ 45.00	\$ 95.00	53%
1240	Shoulder Rack Twilight	\$ 80.00	\$ 95.00	16%
1361	Shoulder Premier Twilight	\$ 40.00	\$ 95.00	58%
1432	Shoulder Can-Am Sp Wd/we After 11	\$ 52.00	\$ 95.00	45%
1435	Shoulder Can-Am Sp We Before 11	\$ 60.00	\$ 95.00	37%
1439	Shoulder Canadian Weekend	\$ 65.00	\$ 95.00	32%
1440	Shoulder Canadian Tw	\$ 40.00	\$ 95.00	58%
1542	Shoulder Can-Am Sp Tw	\$ 39.00	\$ 95.00	59%
1649	Shoulder Canadian Sp Twilight	\$ 39.00	\$ 95.00	59%
1773	Shoulder Can Am Wd	\$ 58.00	\$ 95.00	39%
1775	Shoulder Canam We	\$ 65.00	\$ 95.00	32%
1777	Shoulder Canadian Sp Wd/we After 11	\$ 52.00	\$ 95.00	45%
1778	Shoulder Canadian Sp We Before 11	\$ 60.00	\$ 95.00	37%
1779	Shoulder Canadian Wd	\$ 58.00	\$ 95.00	39%
1160	Peak- Replay ( Rack Rate)	\$ 65.00	\$ 125.00	48%
1253	Peak - Rack Twilight	\$ 80.00	\$ 125.00	36%
1447	Peak-Can-Am Green Fee	\$ 70.00	\$ 125.00	44%
1578	Peak-Canadian	\$ 70.00	\$ 125.00	44%
1580	Peak Canadian Twilight	\$ 45.00	\$ 125.00	64%
1796	Peak- Canam Twilight	\$ 45.00	\$ 125.00	64%
1887	Peak Canam Special Wd	\$ 65.00	\$ 125.00	48%
1888	Peak Canam Special Tw	\$ 42.00	\$ 125.00	66%
1889	Peak Canadian Special Wd	\$ 65.00	\$ 125.00	48%
1890	Peak Canadian Special Tw	\$ 42.00	\$ 125.00	66%
1900	Peak Replay (canam/premier Card)	\$ 40.00	\$ 125.00	68%
1962	Peak Canadian Special We	\$ 70.00	\$ 125.00	44%
1963	Peak Canam Special We	\$ 70.00	\$ 125.00	44%

In addition, the City Commission approved Peak Junior Rate was incorrectly billed (charged rate \$40.00 vs. rate approved \$5.00 = \$35.00).

Furthermore, the concessionaire used the FORE! Reservation point-of-sale system at the NSGC during the audit period, which has such features as the ability to track the pace of play; to flag reservations for concierge payments, rental clubs, etc.; as well as to create demographic and utilization reports. The OIG Auditors were informed that the Parks and Recreation Department staff did not have direct access to the FORE! Reservation point-of-sale system during the audit period, which would have enabled them, among other benefits, to timely review all rates charged and to question any non-approved rates given to NSGC customers.

As part of the discounted rates offered at the NSGC is the Golfnow Premier Golf Card Program. Its benefits include free green fees during summer (April 15 to November 15),

when members only pay a \$35 weekday cart fee which increases to \$40 on weekends and holidays, and 10% to 20% discount off lowest applicable rate during winter (November 16 to April 14), which may be purchased online anytime.

Upon request, PCM provided its contract with the Golfnow Premier Golf Card Program Marketing agreement for the period April 15, 2020, to April 14, 2021, which was signed by the PCM Managing Director but not by anyone from the City. Although this agreement was known to the City Parks and Recreation Department, and successfully generated revenues during the slower “Summer” season, OIG Auditors did not receive written evidence confirming that it was approved in advance by the City Parks and Recreation Department Director.

Recommendation(s):

Although the OIG realizes that PCM is trying to increase NSGC revenues which benefit both the City and the concessionaire, the concessionaire should not grant discounted rates from the fee schedule approved by the City Commission, without receiving prior written approval from the City Manager or the (Parks and Recreation Department) Director. Although Section 6.12 of the management agreement does not specifically require the approval to be in writing, it is a best practice and should be consistently followed to enhance transparency and to provide a sufficient audit trail.

The City should prospectively determine how much control it wants to have over NSGC charged rates or whether it opts to defer to the concessionaire’s expertise. For example, one option is to have PCM present a list of all future foreseeable discounted rates to the City Manager or Parks and Recreation Director to ensure prior documented approval and to facilitate the rate approval process. Another possible option is to submit and approve a maximum discounted percentage of the regular price based on the time of year, so new discounted prices that are within the stated parameters do not have to be individually approved every year. When a consensus is reached as to the optimal structure of the related rates, it should be presented to the City Commission for approval, and subsequently incorporated into the management agreement and/or the annual Fee Schedule.

Designated Parks and Recreation Department staff should be granted “read only” access to the software system used by PCM, so that it can perform such analysis as timely examining all rates paid by NSGC customers. Also, the City should provide PCM with written approval of the successful Golfnow Premier Golf Card Program and any other related agreements before they are implemented.

Parks and Recreation Department, Finance Department, and PCM Responses see Exhibits at the end of the report.

9. **FINDING: A DISCOUNTED SENIOR RATE WAS GAVE TO NSGC CUSTOMERS BY PCM, WHICH WAS NOT INCLUDED IN THE CITY COMMISSION APPROVED FEE SCHEDULES AND IT WAS NOT ALWAYS GIVEN TO QUALIFIED RECIPIENTS.**

Section 6.12 of the management agreement states: *The Manager (PCM) shall charge and collect all Golf Course fees and charges according to a fee schedule approved by the Mayor and the City Commission. City reserves the right to keep or to change the fee schedule, in its sole discretion. The Manager shall have the authority to make temporary rate adjustments during slow periods and/ or high-profile events with prior approval from the City Manager or the Director.*

Although it was not included in the City Commission approved Fee Schedules, PCM offered discounted senior rates to golfers over the age of 70. When asked, PCM responded that the City Commission had previously approved a 25% discount for senior Miami Beach residents through the passage of Resolution No. 2008-26902. The requirements to receive the discounted senior rate were as follows: “(1) must be a Miami Beach resident - proof of residency required; (2) must be 70 years or older at time of play - proof required; (3) Reduction for day play is based on resident rate in effect at time of play and includes green fees and cart; (4) daily play rate is in effect Monday - Friday and includes a 3 day advance tee time reservation; (5) Annual Memberships shall be limited to a maximum of 50; and (6) Senior Annual Membership play is in effect Monday - Friday and include a 10 day advance tee time reservation.”

Although the OIG agrees that Resolution No. 2008-26902 established the approved fees for the 2008/09 fiscal year, the City Commission approves the Fee Schedules annually, as the City reserves the right to keep or to change any golf fees, at its sole discretion. More importantly, Ordinance No. 2019-4299 including Appendix A FY 2020 Fee Schedule, was adopted effective October 5, 2020, and a senior rate was not included (refer to finding #8).

Despite the fact that the senior rate was not included in the approved Fee Schedules during the audit period, the OIG Auditors recalculated that even if the 25% discount pursuant to Resolution No. 2008-26902 was deemed applicable, the rates charged during the audit period were incorrectly calculated (as shown in the table below).

<b>Normandy 2019-2020</b>		25% Discount	Sr. Price	Difference
1967 Peak- Mb Senior Special	\$ 48.00			
1037 Peak- Miami Beach Rate	\$ 65.00	\$ (16.25)	\$ 48.75	\$ 0.75
1308 Shoulder Miami Beach Sr. Rate	\$ 48.00			
1048 Shoulder- Miami Beach Rate	\$ 60.00	\$ (15.00)	\$ 45.00	\$ (3.00)
1061 Summer- Sr. Rate Mon-Fri	\$ 40.00			
1057 Summer- WD Miami Beach Rate	\$ 50.00	\$ (12.50)	\$ 37.50	\$ (2.50)
1058 Summer- WE Miami Beach Rate	\$ 60.00	\$ (15.00)	\$ 45.00	\$ 5.00
Senior 70 or over Single	\$1,760.00			
Membership Resident Single Golf	\$2,200.00	\$ (550.00)	\$1,650.00	\$ (110.00)



Normandy 2018-2019				
1967 Peak- Mb Senior Special	\$ 48.00			
1037 Peak- Miami Beach Rate	\$ 65.00	\$ (16.25)	\$ 48.75	\$ 0.75
1308 Shoulder Miami Beach Sr. Rate	\$ 48.00			
1048 Shoulder- Miami Beach Rate	\$ 60.00	\$ (15.00)	\$ 45.00	\$ (3.00)
1061 Summer- Sr. Rate Mon-Fri	\$ 40.00			
1057 Summer- WD Miami Beach Rate	\$ 50.00	\$ (12.50)	\$ 37.50	\$ (2.50)
1058 Summer- WE Miami Beach Rate	\$ 60.00	\$ (15.00)	\$ 45.00	\$ 5.00
Senior 70 or over Single	\$1,760.00			
Membership Resident Single Golf	\$2,200.00	\$(550.00)	\$1,650.00	\$ (110.00)

In addition, the OIG Auditors were able to identify one known NSGC customer that did not comply with the age requirement but was charged the lower “Senior Rate” 46 times during the audit period, resulting in an estimated underbilling of \$1,997.30 (as shown below). Inadvertent mistakes may happen, but the OIG is concerned with the frequency in which this customer was repeatedly charged the undeserved discounted rate, and the possibility of similar mistakes in connection with other discount rates involving other ineligible customers.

Item #	Description	Qty	Rate paid by customer	Total paid by customer	Rate approved by the City	Total as per Appendix A	Difference
1040	Peak- Sr. Rate Mon-Fri	2	\$ 28.75	\$ 57.50	\$ 65.00	\$ 130.00	\$ (72.50)
1967	Peak- Mb Senior Special	44	\$ 21.25	\$ 935.20	\$ 65.00	\$ 2,860.00	\$ (1,924.80)
							\$ (1,997.30)

**Recommendation(s):**

The concessionaire should comply with Section 6.12 of the management agreement and the pertinent City Commission approved Fee Schedule. Advance approval in writing from the City should be received for any rates that deviate from those stated in the Fee Schedule. Any approvals received should only remain in effect until the next City Commission approved Fee Schedule or pending documented approval from the Parks and Recreation Department Director. Finally, it is recommended that the management agreement be revised to include the implementation of a Service Shopper program whereby PCM and its employees are held accountable for any unwarranted discounts given to ineligible customers.

Parks and Recreation Department, Finance Department, and PCM Responses see Exhibits at the end of the report.

10. **FINDING: NSGC EMPLOYEES PROVIDED PRIVATE GOLF LESSONS TO PAYING CUSTOMERS DURING WORKING HOURS PAID BY THE CITY, AND OIG AUDITORS COULD NOT VERIFY THE ACCURACY OF THE CORRESPONDING EARNINGS AND REMITTANCES, A PORTION OF WHICH MAY BE PAYABLE TO THE CITY.**



Section 6.14 of the management agreement states that a *Class A: P.G.A. Professional shall be on site at each Golf Course full time and shall provide lessons and perform all other similar and customary services offered for same at similar establishments in the South Florida area. The playing of the game of golf shall be taught only by qualified instructors whose qualifications have been approved by the Director. The Manager shall also seek to attract and retain a highly recognized Golf School for the provision of golf instruction at the Miami Beach Golf Club.* In addition, the City is to receive 20% of golf lesson revenues as required by the City's response to Question #17 of Addendum No. 5 to RFP 2018-186-WG.

It was determined that PCM employees, whose salary is paid solely with City funds to provide management and other operational activities at NSGC, were concurrently providing private golf lessons to paying customers. When questioned, PCM management provided the following October 6, 2020, email:

*Non-exempt employees do give lessons during working hours. Up to 2016, hourly employees were allowed to give lessons only during non-working hours. In the beginning of 2016 the U.S. Department of Labor, Wage and Hour Division conducted an audit of the Clubs. As result of this audit and its findings, and although there were no penalties imposed, we were mandated to implement several policy changes, one of which was to ensure that non-exempt employees were paid their hourly wage whenever they provided golf instruction. We argued that in our opinion that made no sense as the employee was receiving compensation well above his/her hourly wage (\$50 to \$80 an hour) for the service, and in our view, the opportunity of having teaching privileges was very much to the employee benefit and they would rather be given the opportunity to teach as much as they wished in their own time than receive their hourly wage while doing so. The employees' concern was that if we had to pay them to provide instruction, we would limit their ability to do so as not to conflict with their other responsibilities, which ended up being the case. Unfortunately, we did not prevail and had to implement the policy change.*

*Yesterday I contacted Ms. Jenny Vazquez, the DOL investigator who conducted the audit to confirm my recollection of their interpretation of this matter. She confirmed my recollection and emailed two links to DOL publications that she said apply to this case. I will forward you her email separately.*

Although it was verified that the tested PCM instructors providing golf lessons maintained valid BTRs during the audit period, internal control deficiencies prevented the OIG Auditors from verifying that the City was properly compensated for its 20% share of the lesson revenues. For example, the PCM employees/instructors only accept cash payments from customers, and the corresponding transactions are manually reported on the Normandy Shores Lesson Log Sheet, rather than being recorded in the FORE! System like other NSGC golf-related revenues. The procedure for manually recording the lesson is performed by the participating employees/instructors, and its completeness and accuracy could not be verified by the OIG Auditors.

At the end of each month, the PCM employee/instructor pays the City its required 20% share by personal credit card, with this transaction recorded in the FORE! System. In sum, the employee receives the monies in advance of the lessons, while the City waits until month's end to receive its 20% share, and the City pays the corresponding merchant fees associated with processing the related credit card transactions.

OIG Auditors also determined that the golf lesson revenues earned by the PCM employees/instructors are not reported on the corresponding issued paychecks and annual W-2 forms issued by PCM. A W-2 form, also known as the Wage and Tax Statement, reports employees' annual wages and the amount of taxes withheld from their paychecks. Therefore, the PCM employees/instructors are on the honor system in relation to reporting these golf lesson revenues to the Internal Revenue Service.

Recommendation(s):

It is recommended that the management agreement be amended to include an agreed upon procedure concerning golf lesson revenues. As the audit performed by U.S. Department of Labor, Wage and Hour Division approved the practice of having PCM employees provide golf instructions during working hours, the OIG opines that the Office of the City Attorney should evaluate the decision and determine its continued relevancy. Based on the outcome, PCM employees/instructors should be governed accordingly.

The OIG believes that another approach to consider is the usage of a third party, rather than workers paid concurrently by the City, to give lessons at NSGC, similar to Jim McLean Golf Academy at the MBGC. In the interim, all lesson related transactions should be recorded in the FORE! System with PCM collecting all payments, currency, or credit cards, rather than on the unsubstantiated manual log. The corresponding FORE! System entries should include such detailed information as the time of the lesson, the customer's name, and the rate charged and paid, to provide a sufficient audit trail. A designated PCM employee, one that is independent and does not give lessons, should reconcile the supporting documentation with the payments received and to attest to its completion.

Finally, all revenues earned by PCM employees at NSGC should be reported on the W-2 form and paid out through the payroll process to ensure that the appropriate taxing authorities are paid in full.

Parks and Recreation Department, Finance Department, and PCM Responses see Exhibits at the end of the report.

11. **FINDING: NSGC'S MAINTENANCE REPAIR INSPECTION AND GOLF COURSE EVALUATION REPORTS WERE NOT DOCUMENTED BY THE PARKS AND RECREATION DEPARTMENT, AS REQUIRED BY SECTIONS 8.09 AND 22.01 OF THE MANAGEMENT AGREEMENT.**

Section 8.09 of the management agreement states as follows:

*Regularly scheduled inspections of the Golf Courses and the Manager's operations authorized herein shall be made by the Director and/or other authorized City representatives. The written report of such inspections shall be recorded, retained for reference, and forwarded to Manager upon request.*

In addition, Section 22.01 states, *City and the Manager (PCM) agree that the overall condition and playability of the Golf Courses, the quality of service provided by Manager, and the condition of the Golf Courses is of primary importance to both parties. As this agreement specifies the minimum standards of performance deemed necessary for proper maintenance and services, the City and the Manager will develop a Golf Course Evaluation Report to document the Manager's performance pursuant to those standards. Furthermore, Section 22.04 states, The Director reserves the right to modify, update, and/or amend the general content and format of the Golf Course Evaluation Report form in order to provide for a suitable instrument for the documentation of the Manager's*

*performance.*

To validate PCM's compliance with Sections 8.09 and 22.01, OIG Auditors requested all inspection and evaluation reports performed by Parks and Recreation Department staff during the 24-month audit period of October 1, 2018 through September 30, 2020. In response, the OIG Auditors received 1) a Summary Business Evaluation of MBGC and NSGC by the National Golf Foundation completed in May 2018 (outside the designated audit period), and 2) an Onsite Visit report by the United States Golf Association performed on April 15, 2019.

Although these reports were comprehensive and contained valuable information regarding the overall quality of golf course operations, they are not a substitute for the ones required by Sections 8.09 and 22.01. In addition, Section 22.04 allows the Parks and Recreation Department Director the discretion to modify, update and/or amend the content and format of the evaluation form; but there is no provision for the elimination of the reports or for the substitution of reports done by outside entities unaccountable to the City.

Park and Recreation Department staff assured the OIG Auditors that, although inspections were routinely performed, they were not documented. In addition, NSGC appeared to be in excellent condition, and Parks and Recreation Department management claimed that complaints are rarely received concerning the maintenance of the golf course. However, OIG Auditors could not verify the frequency in which required inspections were performed by Parks and Recreation Department staff, and whether any identified deficiencies were timely corrected by PCM.

Furthermore, a prior internal audit report dated October 15, 2010, stated that, *Golf course evaluation reports are not prepared listing any deficiencies noted after physical inspections by the Parks & Recreation Department in accordance with the signed management agreement. Instead, all noted maintenance deficiencies were verbally communicated to PCM and the Parks and Recreation Department management stated that all had been corrected.*

The Parks and Recreation Department's response to the audit report included the following statement: *Effective immediately, the Parks and Recreation Director or his designee will inspect the site and document these inspections. The Department has prepared an inspection form to report any deficiencies and the finding of such report to PCM for compliance. All inspection forms will be kept by the Department and PCM.*

Based on the finding of the prior internal audit, the OIG concluded that the lack of required documented inspection reports is a long-standing concern that has not been properly resolved.

Recommendation(s):

OIG Auditors could not verify the Parks and Recreation Department's assertions that maintenance inspections/evaluations were timely completed as required in Sections 8.09 and 22.01 of the management agreement. Despite the apparent excellent condition of the golf course, it is recommended that written reports be completed prospectively and kept by the Parks and Recreation Department to ensure that the NSGC continues to be properly maintained, and that any noted deficiencies are timely resolved by PCM. This practice will increase accountability and offer the City more options for redress if the concessionaire does not timely or satisfactorily make any prospective requested improvements.

Parks and Recreation Department, Finance Department, and PCM Responses see Exhibits at the end of the report.

12. **FINDING: \$735.61 IN FLORIDA STATE SALES TAX IS DUE TO THE CITY FROM PCM, STEMMING FROM ITS PRO-SHOP RENTAL PAYMENTS.**

Florida State Sales tax, plus any applicable discretionary sales surtax, is due on the total rent charge for renting, leasing, or granting a license to use commercial real property in Florida, unless the rent is specifically exempt. The rate of discretionary sales surtax is the tax rate imposed by the County where the real property is located. There is no limitation on the amount of surtax for the rental, lease, let, or license to use commercial real property.

The total rent charge includes all consideration due and payable by the tenant to the landlord for the privilege or right to use or occupy the real property. Rentals, leases, and licenses to use or occupy commercial real property by related persons, as defined in Section 212.02(12) of the Florida Statutes, are subject to sales tax and surtax.

The Florida State Sales tax rate imposed under Section 212.031, Florida Statutes, on the total charged for renting, leasing, letting, or granting a license to use real property has decreased as follows:

<b>Year</b>	<b>Effective Date</b>	<b>State Sales Tax</b>	<b>Discretionary Sales Surtax</b>	<b>Total</b>
2018	January 1, 2018	5.8%	1%	<b>6.8%</b>
2019	January 1, 2019	5.7%	1%	<b>6.7%</b>
2020	January 1, 2020	5.5%	1%	<b>6.5%</b>

Section 6.13.2 of the management agreement states: *The City shall receive five percent of the monthly gross sales revenues generated by the Concession Services, plus the required Florida State Sales and Use Tax (sales tax).*

OIG Auditors re-calculated the Florida State Sales tax due on the amounts paid by PCM to the City and concluded that (1) PCM did not remit Florida State Sales tax to the City for the period of October 2018 to May 2019; and (2) the tax rate paid to the City from June 2019 to September 2020 was incorrect, as the Florida State Sales tax was overpaid. As a result, the OIG Auditors concluded that a net total of \$735.61 in Florida State Sales tax was due to the City from the concessionaire.

Recommendation(s):

The OIG agrees to provide all its supporting documentation related to the charging and collection of Florida State Sales tax at the NSGC during the audit period available to the Finance Department. If its staff agrees with the corresponding calculations, the Finance Department should create a City Bill invoicing PCM \$735.61 for the identified Florida State Sales tax underpayments. Once received, PCM should timely remit the funds to the City, so that all monies due can be promptly forwarded to the State of Florida Department of Business and Professional Regulation. Additionally, the designated Finance and/or Parks and Recreation Department employees should ensure that future Florida State Sales tax

transactions are accurately and completely charged, collected and remitted.

Parks and Recreation Department, Finance Department, and PCM Responses see Exhibits at the end of the report.

**ADDITIONAL AREAS IN NSGC OPERATIONS THAT NEED IMPROVEMENT AND/OR PRESENT OPPORTUNITIES FOR THE CITY TO FINANCIALLY BENEFIT:**

No matter how proficient the PCM may be at maintaining and operating the NSGC, and/or how closely City staff oversee the concessionaire’s related performance, there are always opportunities for improvement. But to do that, all parties must first become aware of any areas in need of improvement, which is an additional benefit of audits completed by independent third parties.

1. *The management agreement is detailed in most areas; however, the following identified areas are not clearly addressed, and current practices do not sufficiently benefit or protect the City’s interests:*

a. Section 6.13.2 of the management agreement states: *The City shall receive five percent of the monthly gross sales revenues generated by the Concession Services, plus the required Florida State Sales and Use Tax (‘Florida State Sales tax’)*. Section 4.01.10 provides that the City is responsible for providing for utilities needed to operate the Food and Beverage and Pro Shop Merchandise Sales concession facilities, including electric, gas, water and sewer, stormwater, telephone, waste removal and pest control. Therefore, the OIG Auditors concluded that PCM is primarily responsible for only the Food and Beverage operation’s associated labor costs and cost of goods sold (excluding the items addressed in finding #4).

After deducting the stated allowable expenditures, OIG Auditors estimated that the City suffered a loss of 2.41% from NGSC’s Food and Beverage operations (\$20,877.61 loss incurred by the City divided by \$864,658.41 in Food and Beverage revenues) during the audit period as shown in Exhibit A located at the end of this report.

OIG Auditors examined the City accounting records maintained for NSGC to calculate its Operating Income/Loss before debt service for each fiscal year of the audit period. The following table shows that the City’s total net loss before debt service for the audit period was (\$579,633.00).

	<b>Oct 1, 2018 - Sep 30, 2019</b>	<b>Oct 1, 2019 - Sep 30, 2020</b>	<b>Total</b>
Gross City Revenues	\$2,178,443.00	\$1,820,068.00	\$3,998,511.00
General & Administrative Expenses	(\$289,374.00)	(\$235,512.00)	(\$524,886.00)
Golf Course Maintenance	(\$1,373,060.00)	(\$1,282,873.00)	(\$2,655,933.00)
Pro Shop Operations	(\$730,781.00)	(\$666,544.00)	(\$1,397,325.00)
Gross City Expenditures	(\$2,393,215.00)	(\$2,184,929.00)	(\$4,578,144.00)
<b>Operating Loss<sup>1</sup> Before Debt Service</b>	<b>(\$214,772.00)</b>	<b>(\$364,861.00)</b>	<b>(\$579,633.00)</b>

Next, OIG Auditors attempted to compute PCM's profitability at NSGC for the same period for comparability purposes. The OIG Auditors were provided all the concessionaire revenues and expenditures, except for labor costs, needed to perform this analysis. The concessionaire refused to provide its labor costs, as it claimed that this information is proprietary in an email to the OIG Auditors, and the analysis was completed with the available records (see below).

	Oct 1, 2018 - Sep 30, 2019	Oct 1, 2019 - Sep 30, 2020	Total
Total Gross PCM Revenues	\$892,300.00	\$670,752.00	\$1,563,052.00
Cost of Goods Sold	(\$127,350.90)	(\$94,433.85)	(\$221,784.75)
Labor Costs	\$0.00	\$0.00	\$0.00
Total Gross PCM Expenditures	(\$127,350.90)	(\$94,433.85)	(\$221,784.75)
<b>PCM Gross Profit<sup>1</sup></b>	<b><u>\$764,949.10</u></b>	<b><u>\$576,318.15</u></b>	<b><u>\$1,341,267.25</u></b>

The concessionaire earned 39.09% (\$1,563,052 / \$3,998,511) of the City's gross revenues, while the City paid an overwhelming majority of the NSGC's expenditures. Although the concessionaire refused to provide its labor costs to determine its gross profit<sup>1</sup> by claiming that the information is proprietary, it is likely that the City is not adequately benefiting financially based on the above analysis.

- b. Section 11.02.1 states, "The Manager (PCM) will earn an annual initial Incentive Fee of 13% for each Business Year, that will be earned on gross revenue over \$1,800,000. Revenue shall not include gross revenues received by the Manager as a concessionaire for the Food and Beverage and Pro Shop Merchandise facility. Gross revenues will include the 5% concession fee paid by the Manager to the City for the use of the latter facilities."

As written, Incentive Fees are calculated based on gross revenues rather than on gross profit<sup>1</sup> before debt service, which incentivizes the concessionaire to emphasize increasing NSGC revenues rather than simultaneously reducing expenditures. However, the City would also be concerned with gross profit<sup>1</sup> before debt service since it also pays most of the golf club's operating expenditures.

- c. NSGC's Pro Shop accepts currency as well as credit, such as Visa, Master Card, and American Express. All monies earned are to be deposited in a designated City Bank operating account. There is an associated monthly merchant fee charged for processing these credit card payments. The Parks and Recreation Department and PCM management had previously agreed that the average monthly credit card fee percentage, to be applied prospectively, was 2.25%.

At the end of each month, PCM withdraws 95% of Pro Shop revenues minus the 2.25% related to merchant fees stemming from credit card payments. OIG Auditors recalculated the average merchant fee for October 2019 through September 2020 and found that it was 2.40%, and not 2.25%. Consequently, the City paid more than it owed in merchant fees during this period.

<sup>1</sup> These terms were updated on 09/16/2024

- d. Section 15.01.3 of the management agreement states as follows:  
*The City Manager or Director {Parks and Recreation Director} may, at their sole discretion request an annual financial statement audit of the Golf Course operations (excluding the Manager's expense records related to the Concession Services) to be conducted by an independent Certified Public Accountant {CPA}, which must be submitted to the City within 90 days following the receipt of the written request by Manager.* Although the Parks and Recreation Department requested the completion of this audit by the OIG, the scope of this audit varies in some ways from the completion of a financial audit by an independent CPA, which should be periodically performed in the future to determine the related compliance of the concessionaire.
- e. PCM allows its employees to play at the NSGC using a golf cart at no charge, a practice which is not addressed in the management agreement. However, the City still incurred expenses related to the 287 golf carts used by PCM employees during the audit period related to maintenance, electricity, etc. Although no documentation was provided verifying that the City had ever approved the practice, questioned PCM management stated that it is an industry standard, and it allows employees to better familiarize themselves with the golf course. OIG Auditors contacted the Miami-Dade County Parks, Golf Division, which allows all departmental employees to play with a golf cart at no charge. By contrast, the City of Miami Beach does not extend this privilege to its own employees.
- e. The City paid \$6,493.24 and \$7,383.06 in commissions on NSGC booking fees during the 2018/19 and 2019/20 fiscal years respectively. These booking fee commissions incentivize selected Miami Beach concierges to recommend its hotel guests play golf at the NSGC. Although this practice increases revenues for both PCM and the City, it is not addressed in the management agreement. The OIG has additional concerns that if sufficient internal controls are not documented and followed, it could result in potential future abuse.

Recommendations:

The Parks and Recreation Department should strongly consider amending the NSGC management agreement to include the issues below, and then perform the necessary oversight, so that the City benefits accordingly:

- a. Increase the City's share to more than 5% or increase the concessionaire's responsibility related to the Food and Beverage expenditures. It is difficult to determine the optimal amount since PCM did not provide all the requested documentation needed to complete the analysis. In lieu, the City should decide on the appropriate action(s) to take.
- b. PCM's earned Incentive Fees for NSGC should be calculated based on gross profit before debt service rather than the current gross revenues.
- c. The monthly credit card fee percentage for the current year should be based on the prior year's actual merchant fees. The percentage charged should be more accurate in order to better ensure that both parties are fairly compensated.
- d. The results of any prospective completed financial audits by an independent CPA should be promptly shared with City and PCM Management so that any needed

corrective action(s) can be implemented sooner.

- e. Explicitly identify in writing, which individuals, if any, will be permitted to play NSGC with a golf cart at no charge or a reduced fee.
- f. The Parks and Recreation Department should draft agreed upon procedures detailing the booking fee commission process (e.g., the basis by which commissions paid to concierges are calculated, and what supporting documentation is required to be maintained). Designated PCM management, separate of the booking fee commission process, should also attest that each commission payment is aligned with the agreed upon procedures prior to issuing the payment. Finally, Parks and Recreation Department personnel should periodically perform testing to verify the accuracy of the commission payments with all results documented.

Parks and Recreation Department, Finance Department, and PCM Responses see Exhibits at the end of the report.

- 2. *Concessionaire employee health insurance benefits were reimbursed by the City despite not being clearly addressed in the agreement.*

Question 15's Addendum No. 5 of RFP No. 2018-186-WG issued on July 20, 2018 and incorporated into the management agreement, states: *What benefits does the City provide to the employees at both golf courses?*. The corresponding answer provided by the City states that, *The City does not provide the golf course employees with benefits. Employee benefits are the responsibility of the management company {PCM}*. As a result, all companies bidding on this contract would have factored this statement into their bid, as offered employee benefits could be expensive.

Based on the City's answer to Question #15, the OIG was unsure whether PCM or the City is responsible for payment of the concessionaire's employee benefits. Although it may have been made in error, poorly worded or incomplete, it was included as part of the executed management agreement.

OIG Auditors noted that the monthly NSGC payroll paid by the City includes such employee benefits as group health insurance (Professional Employer Organization "PEO" Benefits Administration). The insurance is optional, as not all PCM employees have chosen to receive the benefit. Using the data in the Payroll Journal report dated October 14, 2019, it was estimated that the medical insurance expense paid during the audit period by the City was \$93,912.00 (\$1,806.00 per pay period x 26 pay periods per year x 2 years).

As such, OIG Auditors emailed the Procurement Department Director for his related opinion and he responded: *In Question 15, Addendum 5, the bidder asks, "[w]hat benefits does the City provide to golf course employees."*

*The correct response is none. The City responded properly to the question as there are important implications for the City between City-provided benefits versus benefits provided by a private contractor (e.g., risk, tax implications, self-funding concerns, etc.). There is no current City contract for which the provides benefits to employees of contractors, nor would it be advisable to do so.*



However, even if one assumes that it was the intent of the bidder submitting the question to seek information on the components of labor cost for which the City was willing to reimburse the contractor, its question would have been satisfied by other portions of Addendum 5 in which the City provided detailed financial statements to all bidders that clearly indicate health insurance is reimbursed.

The sole focus on one word (“provide”), while ignoring the context in which it was utilized, other portions of the document from which it was extracted, and the detailed financial data provided to bidders, is unfortunate. When one considers the totality of the information provided to bidders, it is clear that health insurance benefits are not “provided” but are reimbursed.

Notwithstanding, this matter will be further reviewed during the next solicitation phase to ensure clarity.

Given the Procurement Director’s opinion, the OIG Auditors relied on his expertise that the City properly reimbursed PCM for the health insurance benefits granted to its employees.

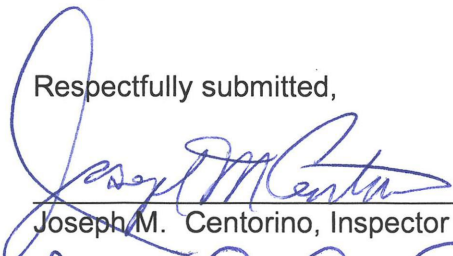
Recommendation(s):

When issuing the next Request For Proposals or revising/finalizing future golf club management agreements, it should be clearly stated as to which party is responsible for paying for the benefits offered to concessionaire employees, which should be adhered to by all parties. PCM staff should also request and obtain advance written documentation from the City for any future expenditures not clearly stated in the management agreement or risk not being reimbursed for uncovered expenditures. The OIG also recommends that the City provide written documentation confirming its approval of any additional benefits offered to specific PCM employees.

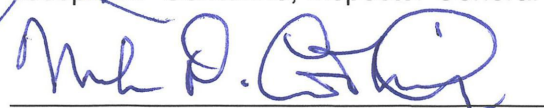
Parks and Recreation Department, Finance Department, and PCM Responses see Exhibits at the end of the report.

All responses received within the thirty working days required under City Ordinance No. 2019-4239, were included in this final report.

Respectfully submitted,

  
\_\_\_\_\_  
Joseph M. Centorino, Inspector General

09/18/2024  
Date

  
\_\_\_\_\_  
Mark D. Coolidge, Chief Auditor

09/18/2024  
Date

  
\_\_\_\_\_  
Norman Blaiotta, Deputy Chief Auditor

9/18/2024  
Date

cc: Eric Carpenter, City Manager  
Mark Taxis, Assistant City Manager  
David Martinez, Interim Assistant City Manager  
John Rebar, Parks and Recreation Department Director  
Jason Greene, Chief Financial Officer  
Bradford Kaine, Interim Public Works Department Director  
Kristy Bada, Interim Procurement Department Director  
Johnny LaPonzina, PCM, President & CEO

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**Audit Report**

Professional Course Management II, LTD – Normandy Shores Golf Club Management Agreement Audit

Exhibit A

Period	Revenues		Expenditures								Net Loss
	PCM F&B Sales	Food and Beverage 5% to the City	Water & Sewer Meter #20094638	Estimated Electricity 20%	Pest Control	Gas	Grease trap cleaning	Equipment Rental	Miscellaneous	Repairs and Maintenance	
FY 2018-19	\$ 496,495.45	\$ 24,824.77	\$ (5,311.50)	\$ (12,571.60)	\$ (1,699.00)	\$ (8,160.99)	\$ (1,921.50)	\$ (1,939.45)	\$ (601.48)	\$ (4,367.72)	\$ (11,748.47)
FY 2019-20	\$ 368,162.96	\$ 18,408.15	\$ (4,174.52)	\$ (10,763.20)	\$ (1,783.00)	\$ (5,280.48)	\$ (650.00)	\$ (1,192.88)	\$ (1,988.21)	\$ (1,705.00)	\$ (9,129.14)
<b>TOTALS</b>	<b>\$ 864,658.41</b>	<b>\$ 43,232.92</b>	<b>\$ (9,486.02)</b>	<b>\$ (23,334.80)</b>	<b>\$ (3,482.00)</b>	<b>\$ (13,441.47)</b>	<b>\$ (2,571.50)</b>	<b>\$ (3,132.33)</b>	<b>\$ (2,589.69)</b>	<b>\$ (6,072.72)</b>	<b>\$ (20,877.61)</b>

# Professional Course Management Responses to OIG No.21-38 Draft Report Normandy Shores Golf Club

## Summary

Before we respond in detail to each of the Draft Report Findings, we would like to take a moment to acknowledge the comprehensive and strenuous nature of this process, and recognize the dedication, hard work, and zeal the auditor exhibited throughout the forty-four months that have elapsed since this audit began in August 2020.

PCM and its employees are gratified that after this exhaustive, detailed and lengthy process the audit findings are limited to several billing errors amounting to some \$26,815, of which \$4,152 are over billings and \$22,723 are underbilling (roughly one tenth of one percent of the revenues and expenses for the audit period), several processes and procedures that require improvement and contract language that needs to be clarified. In other words, no fraud, no abuse, no waste or other improprieties.

Having said that, PCM has very strong disagreements with some of the findings and serious concerns with the way they are presented in this report. In fact, many of these “Findings” are the result of erroneous interpretations of the contract language. As a clear example: Finding # 4 in the MBGC report, which also appears as Finding # 4 in the NSGC report. Section 7.05 of the contract reads as follows:

***“The manager shall perform acceptable day to day housekeeping and maintain and perform all repairs on the kitchens, dining rooms bars and pro shops that are necessitated as a result of the Manager’s or its agent’s negligence. City shall be responsible for all other repairs and maintenance”.***

Inexplicably, the auditor states in the report: “The OIG believes that Section 7.05 refers to the Golf Course facilities equipment and improvements, and not to Food and Beverage operations”. This is just one of many unsupported conclusory statements in the audit report by which the auditor attempts to bend the contract language to fit their conclusions.

As the reader will see when reviewing our detailed responses, there are several other instances such as the aforementioned that demonstrate a lack of knowledge and understanding of the industry and either confusion or lack of basic accounting knowledge, which completely mislead the reader.

PCM will maintain its accustomed high level of professionalism and cooperation and is amenable to discuss with the City the implementation of those recommendations it has control over and those the City deems necessary. As a matter of fact some of the former, such as the credit card fee calculation (the credit card fee percentage has been adjusted quarterly based on the prior 3 months statements since April 2022), the

managers cell phone allowance (a flat \$50 stipend went into effect in FY23), advance written approval for any rate changes, reconciliation of the Jim McLean Golf School monthly reports, POS access for the Parks and Recreation Dept., removal of obsolete water meters, new membership billing procedures, sales tax issues, etc. have already been implemented or corrected.

### **Responses to Individual Findings**

1. PCM strongly disagrees with the Finding. Please refer to Sections 12.01, 12.05 and 12.06. The contract calls for the City to fund all budgeted expenses for the following month by the tenth of the month. The current method, instituted by the Finance Department in October 2018 requires PCM to request transfers for each payroll only after it is processed and reimbursements for payments made on behalf of the City only after checks have been cut. These transfers are initiated by the Clubs controller with notification to the Finance Dept., once the notification is sent to Finance, one of three PCM executive level managers approves the transfer request. At the end of the month a completed expense report is submitted to the Finance and Parks and Recreation Departments with a detailed back-up for the transfers.

It is important to note that in this process PCM assumes potential liabilities exceeding \$400,000 per month covering payroll, payroll taxes liabilities and merchandise sales which are deposited in the City's bank accounts and reimbursed to PCM only at the beginning of the following month.

PCM follows the procedures established by the City regarding funding of payroll and payments made on behalf of the City and will adjust if the policy is changed, provided payroll is funded by Wednesday following the end of the pay period (Sunday)

2. Per Public Works Dept., obsolete meters were removed from clubs' bill. PCM requests that monthly water bills be sent to each golf course for review and approval prior to being posted on Munis by the Finance Department. PCM cannot comment on meter readings procedures or storm water charges calculation.

The Finance, Public Works and Parks departments are performing a cost /benefit analysis regarding the replacement of the two six-inch meters for one twelve-inch meter to take advantage of the lower block rates.

3. PCM strongly disagrees with the Finding. Sections 15.01 and 15.06 address the Manager's responsibility regarding records maintenance and preparation of reports. They do not address who is responsible for the costs associated with the preparation of those reports; Sections 4.01 and 12.01 do. PCM presents the city with a budget request for every fiscal year. This request is reviewed and modified through the City's budget process and then approved by the Mayor and City Commission.

Given the number of employees at the golf courses, using the services of one of the largest and most respected payroll services company in lieu of in-house staff is the most effective, cost-efficient method to ensure the transparency, accuracy, tax and regulatory compliance of the payroll and benefits

administration function. The costs of performing these tasks in house would require the addition of personnel and result in significantly higher costs for the city. Please refer to Sections 4.01 and 12.01.

4. PCM strongly disagrees with the Finding.

Section 7.05 of the contract specifically addresses kitchen, dining room, bars, and pro shops repairs and maintenance to wit: ***“The manager shall perform acceptable day to day housekeeping and maintain and perform all repairs on the kitchens, dining rooms bars and pro shops that are necessitated as a result of the Manager’s or its agent’s negligence. City shall be responsible for all other repairs and maintenance”***. The auditor’s belief that this section refers to the golf course facilities, equipment and improvements and not to Food and Beverage operations when it specifically mentions kitchens, dining rooms, bars and pro shops is incomprehensible and defies logic. PCM pays for the replacement of china, glassware, silverware, etc. and all repairs due to the negligence of its employees.

- The paper goods in question cover paper towels and toilet paper for the locker rooms and golf course restrooms. PCM purchases paper and disposables for the kitchen, bar and dining room, using biodegradable products in concert with City ordinances.
- We cannot identify the \$308.00 expense. We identified a \$304.23 expense for the purchase of training aids for the NSGC Free Junior Clinic program.
- The City’s IT Dept. requested we change the Clubs accounting software from Desk-Top Pro to a cloud-based version. Quick Books charged \$46.54 in consulting fees to discuss alternatives. Please refer to sections 4.01 and 12.01.
- The \$20.00 expenditure covered the registration fee for a Golf Handicap seminar. Please see Sections 4.01 and 12.01

5. Membership Findings. In FY 2018/2019 five memberships were erroneously given the Miami Beach resident rate, in FY 2019/2020 three memberships were given the resident rate erroneously. The resulting unrealized revenue amounts to \$8,800 for the audit period.

Pursuant to this Finding a new SOP was implemented and went into effect for the 2021/2022 FY to ensure all membership files are complete and no mistakes occur. The new procedure establishes that the membership director will be the only authorized person to process membership payments and only after the membership file has been reviewed and approved for payment processing by the General Manager or Controller. Please see summary below addressing the Finding:

**2018/19**

- a) Senior rates. Please see Resolution 2008-26902, which created a 25% discount for golf and membership dues rates for Senior residents 70 and older.
- b) Please see enclosed email exchange with Mr. Kevin Smith (CMB Parks and Recreation Director at the time) addressing eligibility for resident rates pursuant to Findings from a prior audit in 2010. All membership proof of residency is in the files except for two files.

- c) The locker rental fee was established in 2010 when the NSGC clubhouse opened. It has been part of the revenue budget since. Please see below correspondence from Mr. Kevin Smith (former Parks and Recreation director) approving the membership application which lists the locker fee.

**2019/20**

- a) Junior rate sold in January, thus the lower prorated amount. The resident Junior membership was established pursuant to City of Miami Beach Mayor and City Commission Resolution 2008-26902.
  - b) Senior rates. Please see Resolution 2008-26902, which created a 25% discount for golf and membership dues rates for Senior residents 70 and older.
  - c) All membership proof of residency is in the files except for one file.
  - d) Two members were erroneously given the Miami beach resident discount.
  - e) The locker rental fee was established in 2010 when the NSGC clubhouse opened. It has been part of the revenue budget since. Please see below correspondence from Mr. Kevin Smith (former Parks and Recreation director) approving the membership application which lists the locker fee.
- 6 Please see below explanations to the tournament Findings and refer to Sections 6.12 and 6.18. Please note that any rate deviations had prior approval. The five tournaments that were given rate considerations generated \$15,211 in golf revenue that the Club would not have had if we had not requested authorization to revise the pricing.

DATE	GROUP	COMMENTS
2/24/19	JP Morgan	Contract signed but was lost when computer crashed.
6/13/19	Prudential	Contract signed but was lost when computer crashed
7/17/19	SF PGA	Contract signed but was lost when computer crashed
7/18/19	SF PGA	Contract signed but was lost when computer crashed
10/5/18		Barry Alumni Customers paid the contracted rates approved by General Manager. There were 35 rounds at \$55, 13 Barry team golfers at \$25 and one member at \$25.
11/1/18	Grint	Customers paid the contracted rates approved by G.M. Local group who gets negotiated prices at all golf courses in South Florida.
11/12/18	Riane West	Contracts not required for groups less than 20. Originally expected to be ten players, went up to 19 and then they showed up with 21 players. The rate charged was correct as it was the twilight rate (after 2pm) for 9 holes.
1/7/19	Smart City	Cart fee was collected. Rate was negotiated and approved by GM to secure the business on a Monday during what is always a very slow business period.

4/7/2019	Tri Delta	Contract signed but was lost when computer crashed. Negotiated rate per GM to secure the business away from a competitor.
5/10/19	Atlantic	Contract signed but was lost when computer crashed. Customer charged contracted amount. Business booked on 9/27/18
5/13/19	Atlantic	Contract signed but was lost when computer crashed. Customer charged contracted amount. Business booked on 9/27/18
7/29/19	SF PGA	Contract signed but was lost when computer crashed. All participants are PGA Professionals and they were given the PGA Professional rate.
11/11/19	Riane West	Rate charged was correct as it was the twilight rate (after 2pm) for 9 holes. Typo was corrected and initialed on contract.
11/21/19	Grint Tour	Customers paid the contracted rates approved by GM. Local group who gets negotiated prices at all golf courses in South Florida.
11/23/19	Hurricane	Rate charged is correct as the \$45 included tax, thus the 42.06 rate (junior golfers)
11/24/19	Hurricane	Rate charged is correct as the \$45 included tax, thus the 42.06 rate. (Junior golfers)
12/6/19	Golfcareos	Negotiated rate approved by GM to secure the business with the knowledge that players had premier cards. Premier cards checked by pro shop staff.

Following the Auditors recommendation, from January 2022 on, any changes to approved Tournament fees have advance written approval from the Director or his designee.

- 7 Chris Jett is the merchandise purchasing agent for PCM. PCM has paid the BTR for merchandise sales as billed and on a timely basis. If the City decides a contract between PCM and Chris Jett Inc. is required, we will review and evaluate the relationship with Chris Jett.

The contract does not require PCM to make these payments. PCM determined these payment allocations to be fair and commenced the practice on its own for MBGC. In 2010 the auditor questioned the practice and noted that no payments were made at NSGC. Following that determination PCM agreed to extend the payments to NSGC as well and in an amount of \$400 for the Dec. to April period and \$350 a month from May to Nov. given the low volume of merchandise sales at that location.

Since the RFP response erroneously indicated that the total payments are \$2,400 for both locations, PCM has issued and delivered to the City a check in the amount of \$700. PCM also pays for one full time merchandiser who in addition to their merchandise duties also assists Pro Shop staff answering phones, ringing up golf transactions and helps golf professionals in tournament operations.



- 8 The discussions regarding the need to create discounted and promotional golf rates for the golf courses date back to 2008/2009 when Normandy re-opened amid the financial crisis and golf participation hit its nadir. PCM faced the unenviable task of creating 35,000 golf rounds during one of the worst financial crises the nation has experienced; while ensuring we did not cannibalize rounds from the higher priced MBGC. These discussions involved all levels of the City's prior administrations and even the Finance and Budget Advisory Committees.

Over the years and as conditions shifted there have been dozens if not hundreds of meetings and phone calls discussing the nature of these promotions and discounts. As a result, the new contract signed in September 2019 (which was retroactive to Oct. 1, 2018) gave the Manager (PCM) the authority to make temporary rate adjustments during slow periods and/or high-profile events with approval from the City Manager or the Director (Section 6.12). Please note that the contract does not read FORMAL or WRITTEN APPROVAL is required.

As we understand it, Resolution No. 2018-30420, and others prior and since, intended to address base or regular rates, not specials, discounts, or promotions. For proper context, it is critical to note that the golf industry is changing its business model from static, set rates to dynamic pricing adjusting rates in response to daily and oftentimes hourly demand, as the airline and hotel industries have done.

While conducting business PCM managers have regular and extensive contact with the supervisors in the Directors office to address problems, review performance, request authorizations, obtain assistance from other City departments, discuss policies, procedures, and business trends, and seek or recommend direction. Given time constraints, most of these interactions take place over the phone, in-person, and lately virtual meetings.

The discounts cited in the Finding also include industry wide practices such as same day replay rates, one time PGA member courtesy rate, guest of a member and booking fees from wholesalers, online aggregators, travel agents, etc.

The Premier Golf Card program is part of the contract (it has been the subject of multiple Letters to Commission over the years) please refer to Section 6.18. The contract does not address who should sign the Premier agreement.

Notes in reference to Table 4: the Peak Junior Rate was not overbilled, \$40.00 is the correct Junior non-resident rate, item #1842 was never used. Item 1053 Summer Rack rate was not changed until May 20<sup>th</sup>, resulting in \$535 underbilled.

Lastly, these special rates generated over \$1,300,000 in revenue for the Club (21.5% of total cart and green fee revenue) over the audit period, most of which would not have been realized in the absence of these rates.

PCM is open to discuss and provide input regarding whatever policy the City wishes to institute regarding rates.

Read only access to the POS has been granted to the Parks and Recreation Dept.

- 9 Resolution No. 2008-26902 approves base rates for FY 2009 and a policy granting MB resident Seniors 70 years and older a 25% discount off the applicable Miami Beach resident rates which would be adjusted accordingly as the approved resident base rate changed:

***“Whereas at the conclusion of the golf rates discussion held at the September 17, 2008 Commission meeting the Mayor and City Commission amended the proposed golf rates for the Normandy Shores golf Club to include discounted rates for resident seniors under the conditions as added and delineated in Exhibit A as amended”***

*Exhibit A also creates a Resident Junior membership.* Additionally, the purpose of Ordinance No. 2019-4299 is to codify the annual indexing of the City’s rates. Since the NSGC Senior resident fees are based on a discount off the applicable Miami Beach resident rate, they are automatically indexed.

PCM acknowledges that there was an error in the calculation of the 25%. (the errors amounted to undercharges of \$680 and overcharges of \$1,237 for the audit period) and that one regular golfer who plays with a group of 70 and older seniors was erroneously granted the senior discount. The resulting underbilling from this discount is **\$847.50 NOT \$1,997.30** as the auditor states, as she fails to consider the cart fee revenue. The calculation errors were corrected and the player profile of the golfer who received the discounted senior rate was changed in the POS system to regular resident rate immediately after the auditor brought the issue to our attention.

- 10 This policy was instituted pursuant to a U.S Department of Labor audit in 2016. Prior to that audit, employees were not allowed to provide instruction while on the clock, only in their own time. The DOL informed PCM that employees must be on the clock irrespective of the function they are performing (please see Finding narrative for more details).

PCM will follow the City’s direction regarding instruction. Please note that in the event staff are not allowed to provide instruction, we will have to adjust compensation for those affected employees to make up for their loss of income which will increase operating costs. PCM will wait for direction on this matter.

- 11 Parks and Recreation Dept. staff members regularly visit the facility and inspect not only the golf course but also the maintenance facility, clubhouse and grounds, dining rooms and kitchens. After each of these visits they review their observations with PCM managers and make requests for changes and improvements if necessary.
- 12 The prior contract did not address the sales tax issue on merchandise sales as the merchandise is taxed at the point of sale and PCM did not pay rent directly but rather received a 95% refund on the

merchandise sales. Although the current contract effective date is Oct 1, 2018, it was not finalized and executed until Oct. 1, 2019. When the sales tax issue was brought up as part of the new contract negotiation, PCM immediately began to remit the corresponding sales tax. PCM has issued and delivered to the City a check in the amount of \$735.61.

**ADDITIONAL AREAS IN NSGC OPERATIONS THAT NEED IMPROVEMENT AND/OR PRESENT OPPORTUNITIES FOR THE CITY TO FINANCIALLY BENEFIT:**

Since all these recommendations are a matter of policy for the City to decide, PCM cannot offer comments; however, we must point out that the Auditors attempt to calculate PCM's profitability is just not flawed but plainly erroneous:

1. As anyone with basic accounting or business knowledge is aware **TOTAL GROSS REVENUES MINUS COST OF GOODS SOLD DOES NOT RESULT IN NET INCOME. THE CORRECT ANSWER IS GROSS PROFIT.**
2. The auditors' number for Cost of Goods Sold is 14% of Revenues. It is impossible for any restaurant/retail operation to operate with 14% cost of Goods Sold margin anywhere in the country and we dare say in the world. Multiple industry trade associations and public company filings will corroborate this statement. The auditors' numbers are wrong.
3. The definition of Net Income is the result of the subtraction of Revenues minus all Operating Expenses, not just Labor Cost and Cost of Goods Sold.

**The City of Miami Beach contracted the services of the National Golf Foundation to perform a business analysis of the Miami Beach Golf Club operations and its management in 2018. The National Golf Foundation is one of the preeminent independent authorities with respect to golf operations, its metrics, benchmarks, and policies; having conducted hundreds of analyses for public and municipal golf courses over the last thirty years. We have included excerpts from the report (which was given to the Auditor) below.**

- **NGF key findings on recordkeeping and reporting:** We have done hundreds of operations reviews and have found the reporting and recordkeeping at MBGC to be among the most organized, concise, and useful that we've come across. Additionally, when we made requests for documentation during the course of our study, the data and information was readily available and quickly sent to us.
- **NGF key findings on concessions:** Though the clubhouse size at Miami Beach Golf Club is limiting in terms of revenue maximization and customer service (e.g., facilitating large outings and meetings), PCM appears to be doing a good job with both the pro shop and food and beverage concessions. NGF believes that food and beverage operations located at golf courses should strive to cover their costs and even make a profit, **but their primary purpose is to serve golfers.** Because private vendors have a profit imperative, service to golfers can sometimes become secondary. This is not the case at

MBGC, where the vendor also happens to manage the entire golf facility for the City. The most important aspects for serving golfers include providing space for golfers to feel comfortable being served in golf attire after playing a round (hats, golf shoes, etc.), and providing rapid “walkup” service for golfers still on the course (MBGC has ahead service).

- NGF Consulting ‘s principals have visited and analyzed hundreds of municipal and daily fee golf operations over the last three decades. Our overriding finding from our tour and summary business analysis is that MBGC is one of the top municipal golf operations in the country, with an outstanding, very well-maintained golf course and net operating income performance that places the facility in the top 2% of municipal golf facilities in the U.S., even considering the revenue constraint resulting from resident green fees that are well below ‘market’ rates.
- NGF’s independent review and analysis revealed no obvious weaknesses, with best business practices adhered to in all of the aspects of the operation that we observed.
- NGF Consulting concludes that Professional Course Management is doing an excellent job of *managing the experience* at the premier “country club for a day” facility the Miami Beach Golf Club represents. Entrusted with a topflight golf facility, PCM appears to have been good steward of the City’s asset, while at the same time actively engaging the community and accomplishing the public policy goals established by the City with the reinvention of the club in 2002.
- With average golf fee (green + cart + membership per round of \$83. MBGC was easily the highest among the competitive set, about \$23 higher than International Links and \$30+ higher than both Plantation Preserve and direct competitor Crandon Golf Key Biscayne. The gap with Crandon and International Links is especially impressive given the relative closeness in peak season rack rates and is a sign of the City and golf course staff doing an excellent job of maintaining rate ‘integrity’.
- In FY 16 and FY 17, PCM’s total management compensation was \$250,000 and \$234,603, respectively. The effective percentage compensation in these years was 6.4% and 6.3% of total facility gross revenues (City perspective), respectively. ***Based on NGF experience, both the structure of the City’s management agreement with PCM (base management fee plus incentive) and the effective compensation are within expectations for a premier municipal golf course at this price point and revenue level.***
- All in all, MBGC has been a very consistent performer since its rebirth, with negative variations in performance largely – or perhaps entirely – due to external factors. Rounds played have been in the range desired by the City to preserve the asset and the golf experience, and the public policy of subsidizing resident rates below ‘market rate’, while constraining revenues, has allowed the majority of resident golfers to enjoy this premier public golf offering.

- **NGF overall takeaway:** Globally, NGF found MBGC to be in very good condition, befitting its price point and golfer expectations of “country club for a day”. This opinion is validated by the very strong ratings that MBGC garners through its Golf Outing Evaluation Forms, where ‘excellent’ ratings are generally in the 80% to 100% range (depending on golf course component and year). And not a single rating was just ‘fair’ or ‘poor’ among 65+ responses over a 5-year period.
- **NGF key findings on customer service:** Though maintaining an excellent customer service culture and profile is important for all businesses, including golf courses, it is especially critical for a premier municipal golf facility in a market with many golfing choices such as greater Miami. Bad experiences reflect poorly on the City (golfers associate the golf course and employees directly with the City). The key to successful customer service at a facility such as MBGC is **managing the experience**, and NGF believe that the City and facility management have effectively achieved that objective, as borne out by the consistent economic performance and measurement vehicles like the outing forms and secret shopper.
- We note that operating a high-end municipal golf course with established public golf can be a difficult balancing act. For example, at MBGC management must juggle the needs of several different user groups, including city residents, tourists, members, and groups, each wanting to play this premier golf course during their preferred playing times. Another challenge with respect to golf operations in south Florida is trying to equalize activity levels during the year, in the face of extreme seasonality of demand. PCM has effectively done this by cultivating the facility’s annual membership and Premier Card program.

**From:** Smith, Kevin <KevinSmith@miamibeachfl.gov>

**Sent:** Friday, August 20, 2010 4:43 PM

**To:** Alberto Pozzi <apozzi@miamishoresgolf.com>

**Subject:** RE: Resident Rates Eligibility

yes

## MIAMIBEACH

**Kevin Smith, Director**

Parks & Recreation Department

2100 Washington Avenue, Miami Beach, FL 33139

Tel: 305-673-7730 / Fax: 786-394-5447/ [www.miamibeachfl.gov](http://www.miamibeachfl.gov)

*We are committed to providing excellent public service and safety to all who live, work and play in our vibrant, tropical, historic community.*

**From:** Alberto Pozzi [<mailto:apozzi@miamishoresgolf.com>]  
**Sent:** Friday, August 20, 2010 4:27 PM  
**To:** Smith, Kevin  
**Subject:** RE: Resident Rates Eligibility

Kevin,

Just to clarify. We should continue using the same criteria and documents to verify residency that we have used up to now. Correct?

Thanks,

Alberto

---

**From:** Smith, Kevin [<mailto:KevinSmith@miamibeachfl.gov>]  
**Sent:** Friday, August 20, 2010 2:28 PM  
**To:** Alberto Pozzi  
**Subject:** RE: Resident Rates Eligibility

Yes

**MIAMIBEACH**

**Kevin Smith, Director**

Parks & Recreation Department

2100 Washington Avenue, Miami Beach, FL 33139

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**From:** Alberto Pozzi [<mailto:apozzi@miamishoresgolf.com>]  
**Sent:** Friday, August 20, 2010 9:08 AM  
**To:** Smith, Kevin  
**Cc:** [stevf@miamibeachgolfclub.com](mailto:stevf@miamibeachgolfclub.com); 'Jackie Ryden'; 'Andy Forbes'; DaCruz, Carlos; [j\\_19@bellsouth.net](mailto:j_19@bellsouth.net)  
**Subject:** Resident Rates Eligibility

Kevin,

We are finishing the membership billing for the upcoming year. Pursuant to our meeting with the auditors; should we maintain the eligibility criteria and the documents that we can accept as proof of residency? We plan to mail the statements with the corresponding back up documents next Friday, August 27. Please let me know how you wish us to proceed.

Alberto

**From:** Smith, Kevin <KevinSmith@miamibeachfl.gov>

**Sent:** Monday, August 3, 2009 3:33 PM

**To:** Jackie <jackier@miamibeachgolfclub.com>; Alberto Pozzi <apozzi@miamishoresgolf.com> **Subject:**  
FW: Club Rules and Regulations

Jackie

Please note the changes in the member letter.

Thanks

## MIAMIBEACH

Kevin Smith, Director

Parks & Recreation Department

2100 Washington Avenue, Miami Beach, FL 33139

Tel: 305-673-7730 / Fax: 305-673-7725 / [www.miamibeachfl.gov](http://www.miamibeachfl.gov)

*We are committed to providing excellent public service and safety to all who live, work and play in our vibrant, tropical, historic community.*

---

**From:** Jackie [<mailto:jackier@miamibeachgolfclub.com>]

**Sent:** Monday, August 03, 2009 2:40 PM

**To:** Smith, Kevin

**Cc:** [apozzi@miamishoresgolf.com](mailto:apozzi@miamishoresgolf.com)

**Subject:** Club Rules and Regulations

Kevin,

Per Alberto's request, attached are the Club Rules and Regulations, a MB resident application and the thank you for joining letter. Please let me know if you need any further information. Jackie





**Miami Beach Golf Club™**  
*The Premier Golf Destination in the Heart of Historic Miami Beach.*

**MIAMI BEACH RESIDENT MEMBERSHIP APPLICATION**

*I HEREBY APPLY FOR MEMBERSHIP AT MIAMI BEACH GOLF CLUB*

Date: \_\_\_\_\_

Name: \_\_\_\_\_

Name of Spouse or Domestic Partner: \_\_\_\_\_

Dependent: \_\_\_\_\_

(Under 18 years of Age)

Permanent Address \_\_\_\_\_

(Street) (City) (State) (Zip)

Home Telephone: \_\_\_\_\_ Business Telephone: \_\_\_\_\_ E-mail

Address: \_\_\_\_\_

References: Please give two.

Name \_\_\_\_\_ Telephone # \_\_\_\_\_

Name \_\_\_\_\_ Telephone# \_\_\_\_\_

**Proof of Miami Beach Residency Required.**

Type of membership applied for (please check one):

Single Golf - \$3500 + \$245 tax = \$3745 \_\_\_\_\_

Husband & Wife or Domestic Partner - \$4500 + \$315 tax = \$4815 \_\_\_\_\_



Dependent – \$450 + \$31.50 tax = \$481.50

\_\_\_\_\_

Locker Rental - \$175 + \$12.25 tax = \$187.25

\_\_\_\_\_

**Please enclose your check with tax included.**

**MEMBERSHIPS ARE NOT TRANSFERABLE OR REFUNDABLE.**

**I hereby state that if I am accepted as a member, I agree to comply with the Club's By-laws and Rules and Regulations, as they may be in effect now or as they may be amended from time to time, and by my signature attest, thereto.**

Sign Here \_\_\_\_\_

**Director of Marketing**

Date \_\_\_\_\_

**Date** \_\_\_\_\_

*2301 Alton Road, Miami Beach, FL 33140  
(305) 532.3350 Main • (305) 532.3840 Fax • [www.miamibeachgolfclub.com](http://www.miamibeachgolfclub.com)  
Managed by PCM. President, Johnny LaPonzina*

# **MIAMI BEACH GOLF CLUB CLUB RULES AND POLICIES**

No subscription paper, advertisement or notice shall be displayed in the Clubhouse except by consent of the management.

Dogs are not allowed within the Clubhouse area, or on the Golf Course with the exception of Seeing Eye or other disability assistance working dogs.

Appropriate attire must be worn in the Clubhouse and on the Golf Course properties. Articles not approved include; Tee shirts, gym shorts or sweat pants, no blue jeans/denim, tank tops, (men) sleeveless shirts, tube tops, short shorts, cut offs or medical scrubs. The use of metal spikes on the golf course and in the clubhouse is prohibited.

## **GENERAL POLICIES**

Members and their guests are expected to abide by all by-laws, rules and regulations of the Club as well as be guided by the customary and traditional Miami Beach properties.

Complaints or suggestions regarding Club service should be made in writing over the members' signatures and addressed to the Director of Golf.

Membership dues are not refundable or transferable.

Complaints concerning other members or guests' failure to abide by club by-laws, policies or standards of conduct must be directed to the Director of Golf, who has the sole responsibility for considering any disciplinary action should it prove necessary.

Management of the Club may, at any time and from time to time, restrict or suspend any member or guests right to use any facility or facilities of the Club if Management determines that such restrictions or suspension is in the best interest of the Club, and such suspended guest or restricted member shall not be entitled to any refund of any fees or dues.

The Club will not be responsible for personal property lost, misplaced or missing under any circumstances.

# RULES OF THE GOLF COURSE

## 1. CONDUCT OF PLAY:

- A. All golfers shall register in the Pro Shop and be cleared before teeing off. All play begins at the 1<sup>st</sup> tee unless otherwise authorized by the starter.
- B. To ensure access to the golf course, advance tee times reservations are recommended. Members may call for starting times ten (10) days in advance, public five (5) days. **Starting time reservations must be canceled at least 24 hours in advance or the members will be charged for that starting time.** Members may reserve advance tee times for up to 3 guests at the applicable guest rate.
- C. Foursomes ONLY are allowed to play on Saturdays, Sundays, Holidays or on busy days, except when, in the judgment of the Starter, a lesser number can start without impairing the maximum utilization of the course.
- D. Each player must have a bag and set of clubs, including a putter. Rental sets are available at the Pro Shop.
- E. No person shall direct vulgar or abusive language toward any employee. Complaints regarding employees shall be taken to the Director of Golf.
- F. Food and Beverages consumed by players must be purchased at the Club. Personal coolers or food containers may not be brought onto the course.
- G. Damage to Club property either intentional or unintentional will result with the responsible party being fiscally liable.
- H. Golf Rangers are authorized to enforce Club rules at all times.
- I. The Golf Rangers may order a violator of these rules to terminate play and leave the golf course. Failure to comply with the instructions of the Ranger may result in suspension of the player's privileges.

## **2. GUEST PLAY**

- A. The sponsoring members shall be responsible for the conduct of their guest(s) and shall insure their guest(s) abide by the rules of Miami Beach Golf Club.
- B. All tee times must be reserved in the member's name and the member must accompany the guest. Members are limited to a maximum three (3) accompanied guests with an advance tee time reservation on any given day at the preferred guest of a member rate. Applicable rates would apply for any additional guests.
- C. Violations other than those personally witnessed by the Director of Golf or the Head Golf Professional shall be dealt with upon the basis of a written complaint, signed by the person observing the violation. The Director of Golf or the Head Golf Professional shall investigate the complaint, interview the alleged violator, and take whatever action he deems appropriate, up to a limited suspension of privileges.

## **3. RULES OF PLAY**

- A. All players and members must pay applicable cart fees. If a golfer pays greens fee and cart fees, at his discretion, he may walk.
- B. No children under the age of 5 will be permitted on the golf course. All youth under 16 years of age must be accompanied by an adult when in the Clubhouse or on golf course premises.
- C. Slower players are expected to allow faster players to play through.
- D. Players must use care not to scuff greens. Care must be used in removing and replacing the pin so as not to damage the cup lip or green surface. All players are required to repair their own ball marks on the greens and one other ball mark, if present. Players must rake sand traps.
- F. The use of driving range balls on the golf course is prohibited. Any Member or Guest violating this policy will be suspended until further notice.

## **4. ELECTRIC CARTS**

- A. Electric carts are restricted to use by no more than two (2) persons and two (2) sets of clubs.

- B. Electric carts shall travel on the golf course exclusively as directed by the Golf Shop and Starter. Signs containing information will be posted in the Golf Shop and on the #1 and #10 tees.
- C. Electric carts shall not be driven on slopes on the tees and greens.
- D. The full amount for 18 holes and for 9 holes shall be collected in the Pro Shop before the cart key will be given out for cart use. Cart lease agreements must be signed.
- E. Rain Check Policy – In the event a member is unable to complete (9) holes of play as a result of rain, a (9) hole Rain Check will be issued after a 30-minute “waiting period”. No rain check will be issued after TEE OFF at #10 hole.
- F. The golfer is responsible for any damage to the cart.
- G. Carts may not be taken onto the parking lot area for any reason. All carts must be returned to the Pro Shop after completion of play.
- H. The applicable cart fee rate (\$20.00) will be charged to non-playing guests riding in a cart.
- I. No one under the age of 16 may operate a golf cart at any time.

## 5. TOURNAMENTS

The Men’s and Ladies Golf Associations, subject to the approval of the Director of Golf may schedule tournaments. The Director of Golf may also schedule tournaments for the general golf public and allocate the required starting times. **There will be times when the golf course has been booked for tournaments and the course will be closed to all other play, Management will use its best efforts to accommodate members at Normandy Shores Golf Club or other neighboring courses.**

## 6. DRIVING RANGE

- A. Operating hours are as follows:
  - Monday from 12:00 PM to 8:00 PM
  - Thursday from 9:00 AM to 8:00 PM
  - Tuesday, Wednesday, Friday, Saturday, and Sunday from 6:30 AM to 8:00 PM

One complimentary warm- up bucket of range balls will given to each member for every 18 hole round of golf (to be used day of play).

MEMBERSHIPS ARE NOT REFUNDABLE OR TRANSFERRABLE

## **MEMBER MISCONDUCT POLICIES AND PROCEDURES**

### **POLICY**

It is the policy of the Miami Beach Golf Club that all club members conduct themselves at all times while on the club's premises in accordance with all laws, all rules and regulations of the club and the club membership as a whole. In particular, insulting, offensive, abusive or disruptive behavior of any kind directed towards any of the club's employees, members or guests, or exhibited generally, cannot be tolerated. In the event that the Director of Golf or Club Management Company, after compliance with the notice and hearing procedures set forth below, finds that any member's behavior is not consistent with the best interests of the club, such member's membership shall, in the Director of Golf or Club Management Company's discretion, be revoked ("Revocation") without refund of membership fees or any portion thereof, or suspended for any period of time which the Director of Golf or Club Management Company deems appropriate, without refund of membership fees or any portion thereof ("Suspension").

## **PROCEDURES**

In the event an oral or written complaint regarding any member's behavior (an "Accused Member") is made, prior to any Revocation or Suspension, the club shall provide to the Accused Member written notice of the matters complained of and shall set a hearing not earlier than 10 days following the giving of such notice (which shall be set forth in the notice to the Accused Member), at which time the Accused Member may respond to the complaint made against him. The complaining party or the Director of Golf or Club Management Company shall, at the hearing, state the nature of the complaint, following which the Accused Member shall have a period not exceeding twenty (20) minutes to respond; provided, however, that the Hearing Officer (as defined below) may decide, in his discretion, to allow the Accused Member additional time to respond. Following the Accused Member's response, the complaining witness or any other person with knowledge of the facts may, in a time-period not to exceed ten (10) minutes, rebut the Accused Member's response; provided, however, that the Hearing Officer may decide in his discretion to allow additional time for rebuttal. The Accused Member may, within his 20-minute time limitation, proffer the testimony of any other person with knowledge of the facts. The Hearing Officer shall have the discretion to determine whether or not the interested parties (including the Accused Member) shall have the right to have counsel present at the hearing, however, the Hearing Officer's refusal to allow any counsel to be present at the Hearing shall not affect the Accused Member's right or ability to consult with counsel prior to the hearing or to engage counsel to assist in the Accused Member's preparation for the hearing. The hearing officer at the hearing (the "Hearing Officer") shall be a Senior Manager of the Club Management Company. If the complaining witness (i.e., the actual witness to the accused Member's complained-of behavior) is a Senior Manager of the Club Management Company, then the Director of Golf shall appoint an impartial person to be the Hearing Officer to preside over the hearing. At any time after the conclusion of the hearing, the Hearing Officer may, in his discretion, order Revocation or Suspension of the Accused Member's Membership, rule that Suspension, Revocation or other sanction is not warranted, or impose whatever sanctions the Hearing Officer deems appropriate under the circumstance. All decisions of the Hearing Officer (whether relating to the conduct of the hearing, Revocation or Suspension or other sanctions) shall, in all events, be binding, final, conclusive and unappealable, with only the following exception. If the Hearing Officer is not a Senior Manager, and the hearing Officer has determined that Revocation or Suspension of the Accused Member's membership, or some other sanction, should be imposed, the Director of Golf or Club Management Company may, in his or its sole and absolute discretion, reverse the Hearing Officer's order of Revocation or Suspension or imposition of sanctions, and impose whatever sanction, if any, the Director of Golf or Club Management Company deems appropriate.

Adherence to the policies set forth above is an express condition to every member's right to hold and enjoy a membership (of any kind) at the club.

**MIAMI BEACH GOLF CLUB  
RULES AND REGULATIONS  
SIGNATURE PAGE**

I hereby state that as a member of the Miami Beach Golf Club, I have read and agree to comply with the Club's Rules and Regulations, and by my signature attest, thereto.

Sign Here \_\_\_\_\_

Date \_\_\_\_\_

**Dear Miami Beach Golf Club Member:**

Thank you very much for joining us for the 2008-2009 membership year, we are delighted to have you as a member. The entire staff of the Miami Beach Golf Club is at your service.

Please find enclosed your membership cards. We ask that you carry your cards with you while you are at the club.

**Our hours of operation are:**

Golf Pro Shop - 7:00 AM to 8:00 PM daily.

Driving Range - Monday - 12:00 PM to 8:00 PM,

Thursday - 9:00 AM to 8:00 PM.

Tues., Wed., Fri., Sat., Sun. - 7:00 AM to 8:00 PM.

Dining Room - 7:00 AM to 8:00 PM daily

We would ask for your cooperation when reserving tee times. Please give the pro shop attendants the names of the players comprising your foursome when you are making your tee time. This will help us eliminate duplicate reservations and thus insure proper management of the first tee. Additionally, we ask our members if they are not going to use their tee time to



please cancel at least 24 hours in advance or else be subject to possible charges. As I am sure you know, tee times are a valuable commodity to our members and guests and we want to ensure that we maximize the utilization of our available tee times. Our professional golf staff, headed by Director of Golf EITHER CHANGE TO STEVE OR JUST LEAVE IT BLANK is available to make your starting times, or to answer any golfing questions you may have. Just call (305) 5323350

**On behalf of the City of Miami Beach and Professional Course Management (operator of Miami Beach and Normandy Shores Golf Clubs), its President, Johnny LaPonzina, and all our staff; welcome to the Club. We hope you have a great year and fully enjoy the services and amenities here at the Miami Beach Golf Club.**

Sincerely,

**Jackie Ryden  
Director of Marketing**

## EXECUTIVE SUMMARY

### PARKS AND RECREATION, FINANCE AND PUBLIC WORKS DEPARTMENT RESPONSES TO THE OFFICE OF THE INSPECTOR GENERAL'S (OIG) AUDIT OF THE MIAMI BEACH GOLF CLUB AND NORMANDY SHORES GOLF CLUB

The Administration via the Parks and Recreation Department (Department) solicited an audit of golf course operations from the Office of the Inspector General (OIG) in 2020. The request was made in furtherance of the Department's continuous review of practices, internal controls, business methodology, etc. to ensure all are in line with industry standards and meeting or exceeding best management practices. This initiative is supported by prior self-directed reviews of golf course operations initiated by the Department in 2018 and 2019. Said reviews were carried out by the National Golf Foundation (NGF) in 2018 and the United States Golf Association (USGA) in 2019, both independent golf industry experts at the national level. Golf operations are also subjected to review through the City's annual external audit process. Contrary to the practice, the Department opted not to extend Professional Course Management II's (PCM) contract, and instead issued a solicitation for a competitive request for proposals (RFP) in 2018, inviting 341 firms to compete for the management of the courses. These actions are representative of the Department's commitment to proper governance and financial efficacy, which has ultimately resulted in the successful operation of both the Miami Beach and Normandy Shores Golf Clubs.

The final audit report presented to the Department contains several reasonable recommendations, which the Department committed to addressing promptly. In some instances, actions were already implemented in furtherance of the auditor's suggestions. However, many of the items referenced in the report as "findings" or contract violations were not accurately represented. In those instances, they were recommendations from the auditor based on subjective thoughts or opinions, as said individual does not possess expertise in the golf industry. It should be noted that many of the statements in the report are in direct conflict with the findings of the review of golf course operations conducted by the National Golf Foundation, an industry expert at the national level, in 2018. In addition, the OIG Chief Auditor involved in this review, conducted an in-depth audit of both golf courses in 2010. Many of the practices raised during this audit, which were in effect when the 2010 review took place, were not raised as an issue then. However, they are now being raised.

The audit report fails to recognize the overall positive outcome of the inquiry. None of the alleged "findings" as presented by the auditor involve fraud, abuse, waste, or any violation of law by either party. However, the underlying tone of the report is not representative of that. All of this, contrary to the NGF's findings, which state, "NGF's independent review and analysis revealed no obvious weaknesses, with best business practices adhered to in all of the aspects of the operation that we observed." The auditor did not mention that extensive internal controls are in place requiring the majority of all golf related financial transactions take place through the City's enterprise resource planning (ERP) system, currently Munis, with approval levels similar to all other City general governmental functions. Said approvals include review by Parks and Recreation Department, Office of Management and Budget, Finance Department, Procurement Department and Office of the City Manager staff for items ranging from minor purchases, such as buying golf balls for the driving ranges, to major expenses, including multi-year golf cart leases. The review and approval process takes place prior to any transaction taking effect. In addition, all golf revenue is deposited into a bank account owned and managed by the City of Miami Beach.

The auditor states the business model of the golf courses, which has generally been in place since the early 2000's, may not offer sufficient benefit toward the City. To support the assertion, the auditor

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created profitability models without actual expense data. Meaning, an entire breakdown of business earnings based on expense assumptions, rather than actual expenses incurred. No documentation was provided supporting the expense assumptions. In accordance with Article 18 of the agreement, the vendor, Professional Course Management II (PCM), did not disclose expense information as it is deemed proprietary in nature. The Department finds it concerning for the auditor, whose expertise is not in the golf industry, to make strong recommendations regarding a successful and profitable operation based on unsupported assumptions. The Miami Beach Golf Club and Normandy Shores Golf Club collectively outperformed comparable competitors in South Florida during the audit period. The NGF also yielded findings contradicting the auditor, as supported by the following excerpt from their final report, "NGF Consulting's principals have visited and analyzed hundreds of municipal and daily fee golf operations over the last three (3) decades. Our overriding finding from our tour and summary business analysis is that MBGC is one of the top municipal golf operations in the country, with an outstanding, very well maintained golf course and net operating income performance that places the facility in the top 2% of municipal golf facilities in the U.S., even considering the revenue constraint resulting from resident green fees that are well below 'market' rates."

The auditor makes further questionable suggestions such as recommending PCM's incentive fee should be calculated based on the adopted budget at the beginning of the fiscal year, instead of the end-of-year actual revenue generated. The concept of paying a vendor based on what they predict earnings will be, versus actual earnings (results) attained is irresponsible. If the Department were to apply the payment methodology suggested by the auditor, the vendor could ultimately be paid a bonus during periods of underperformance.

It is also important to note the Parks and Recreation Department requested supporting documentation from the auditor for each of the specific items presented as a "finding" in the audit report. To date, the auditor has not provided all of the requested information detailing the alleged infraction(s). Such failure to provide information supporting the auditor's position makes the process of researching and responding a difficult and at times impossible task. It is unreasonable for an auditor to spend approximately 44 months performing an audit, covering a 24-month period of transactions, and deliver a report containing alleged contract violations, with insufficient documentation to support said allegations and a demand for prompt response. Nevertheless, in a spirit of cooperation and transparency, the Department conducted exhaustive work researching notes from the countless hours of meetings with the auditor over the course of the audit period. Based on that research, the Department's responses were formulated and submitted.

Through the successful efforts of the Department and PCM, the Miami Beach Golf Club and Normandy Shores Golf Club collectively outperformed comparable competitors in South Florida during the audit period. Miami Beach Golf Club is ranked as a top public golf course in the nation, and customer reviews of the courses have been excellent. In fact, the primary complaint the Department receives regarding golf operations is the fact that more individuals want to become members of the Miami Beach Golf Club and Normandy Shores Golf Club than there is availability for. Meaning, conditions are favorable and user experiences are so positive, that demand is extremely high – both emblematic of a successful operation. That success is evidenced by the fact that only approximately \$27,000 in transactions were erroneously processed, out of approximately \$24,000,000 in total transactions during the two-year audit period, yielding a 0.1% error rate. The error rate is in line with Section 18.03 of the agreement, as

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well as generally accepted accounting principles. Further supporting the success of the operation is NGF's statement which reads, "NGF Consulting concludes that PCM is doing an excellent job of managing the experience at the premier 'country club for a day' facility that Miami Beach Golf Club represents. Entrusted with a top flight golf facility, PCM appears to have been a very good steward of the City's asset, while at the same time actively engaging the community and accomplishing the public policy goals established by the City with the reinvention of the club in 2002."

As previously stated, the Department agrees with certain positions and recommendations of the auditor, as expressed in the responses to the individual findings. Those recommendations will be implemented. In some cases, changes were already enacted.

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**RESPONSES PERTINENT TO THE MIAMI BEACH GOLF CLUB (MBGC):**

- 1) PCM WAS PERMITTED TO WITHDRAW UP TO \$100,000.00 DAILY FROM THE MBGC OPERATING BANK ACCOUNT FOR EXPENDITURE REIMBURSEMENTS WITHOUT PRIOR AUTHORIZATION BY THE FINANCE DEPARTMENT OR PRIOR WRITTEN APPROVAL FROM THE PARKS AND RECREATION DEPARTMENT FOR ALL MONTHLY TRANSACTIONS.**

**Parks and Recreation & Finance Department Response:**

The Departments disagree with the finding, in part. The current financial procedure in place was implemented by the Finance Department. In 2019, the Finance Department advised the Parks and Recreation Department of its desire to implement changes to the financial processes for golf course operations. Thereafter, multiple meetings took place between Finance Department, Parks and Recreation Department and PCM staff, in order to review all financial procedures. The final recommendations by the Finance Department were agreed upon by PCM and the Parks and Recreation Department, and implemented effective October 1, 2019. The current process in place is consistent with the terms delineated in Article 12 of the agreement, and therefore does not represent a finding or violation. Pursuant to Section 12.01 of the agreement, the City shall make available to PCM all funds necessary to pay all operating expenses incurred or accrued. The current process also provides the added benefit of financial transfers being derived from actual expenses, versus projections, which is a more conservative approach than the prior methodology. Previously, expense projections were made and funds were provided to PCM prior to actual expenses being incurred.

The Parks and Recreation Department and Finance Department will revisit existing financial procedures in place, as they relate to golf course operations. Some of the recommendations made by the auditor are reasonable and will be considered as part of that process.

- 2) THE CITY APPROVED THE REIMBURSEMENT OF ESTIMATED PAYROLL ADMINISTRATIVE SERVICE FEES TOTALING \$45,360.64, WHICH APPEARS CONTRARY TO SECTION 15.06 OF THE MANAGEMENT AGREEMENT.**

**Parks and Recreation Department Response:**

The Department disagrees with the finding. The City approved the efficient avenue of utilizing a professional firm to provide payroll processing services, in lieu of paying the salary of in-house golf course staff to process payroll for the workforce at both courses. The average annualized combined cost of roughly \$37,000 for the service is lower than annual salary and benefit costs for an employee qualified to process payroll for both golf courses. The cost of said salary and benefits would have to be funded by the City. This is a smart and efficient business decision, which has yielded savings to the City. Pursuant to Article 12 of the agreement, the City authorized the use of the services, as evidenced by the fact that the expense is funded within the annual budget submitted for Mayor and City Commission approval. To state the City did not approve the expense is erroneous, as further evidenced by the fact the expense is explicitly listed in the detailed

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financial reports submitted monthly by PCM to the Parks and Recreation Department and Finance Department for review, in accordance with Article 15 of the agreement. Pursuant to Section 12.01 of the agreement, the City shall make available to PCM all funds necessary to pay all operating expenses incurred or accrued. Payroll management is an essential function and a clear operating expense. Section 15.06 delineates PCM is responsible for processing payroll, but nowhere does it state they are responsible for the associated expenses. The same section (15.06) contains a myriad of other tasks and duties PCM is responsible for, but not required to fund, such as the preparation of cash receipts, accounts receivable, budget reports, etc., which are all prepared by the Controller, a position funded entirely by the City, to which the auditor expressed no disagreement over.

This is a prime example of the auditor failing to recognize the nature of the agreement between the City and PCM. The City receives 100% of the revenue associated with golf operations, and therefore covers 100% of the expenses associated with golf operations. Thereby, processing payroll for employees that are solely and exclusively employed 100% for the benefit of Miami Beach Golf Club and Normandy Shores Golf Club is a reasonable and justifiable expense within the confines of the agreement.

**3) PCM DID NOT FURNISH SUFFICIENT SUPPORTING DOCUMENTATION TO JUSTIFY \$33,151.50 IN DISCOUNTS GIVEN THAT WERE NOT SPECIFIED IN THE MANAGEMENT AGREEMENT RELATED TO TESTED MBGC GOLF TOURNAMENT BILLINGS.**

**Parks and Recreation Department Response:**

The Department disagrees with the finding, in part.

- In accordance with Sections 6.12 and 6.18, as well as Article 25, discounted rates were approved by the City in order to maximize profitability of the golf courses. The agreement is constructed in a manner that allows for rate changes to be implemented in order to compete in the golf industry's dynamic pricing arena, requiring fee adjustments or discounts issued in order to maximize profit, as well as the establishment of promotional fees. Such decisions are necessary to remain competitive in the field, and have proven essential toward introducing new players to our courses, and repeat visitors. For that reason, the agreement contains Section 6.12, which explicitly gives the City Manager or the Director of Parks and Recreation the ability to implement rate adjustments. As well as Section 6.18.1, that clearly states the manager may propose discounted services and memberships.

No provision of the agreement requires rate changes or promotional discounts be memorialized in writing, contrary to the auditor's position. Nevertheless, during numerous discussions, the auditor was presented with or made aware of various documents provided by PCM to the City containing discounted or promotional fee information. The documents serve as evidence the City was well aware of and supportive of the discounted or promotional rates, in accordance with the agreement. Emails have also been provided which show written approval by the Department for some of the discounted rates challenged by the auditor. Further, as explained to the auditor, frequent

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meetings, telephone calls, emails, etc. are exchanged between PCM and City staff in the course of managing the day-to-day operations of our golf clubs. During these conversations, a myriad of topics are discussed which include rates, maintenance activities, revenue projections, customer service, capital projects, etc. Both PCM and City staff have confirmed discounted or promotional rates were approved by the City in accordance with the agreement. The auditor has yet to provide a contractual provision supporting her position. The Department has already implemented the recommendation from the auditor to further memorialize fee adjustments.

The auditor provides the amounts of the discounts issued, but fails to provide the amount of revenue generated as a result of the discounts, which is misleading. In this particular instance, the tournament or group discounts generated over \$62,000 in revenue, which would not have otherwise been realized. An additional important point is that the agreement is designed in a manner where PCM is discouraged from issuing discounts unless absolutely necessary, as the lower revenue gained per round keeps them further from earning their incentive fee. Meaning, each time a discount is issued, PCM is negatively impacted financially.

- The City agrees with the auditor in that a limited number of instances resulted in tournament or group fees being incorrectly charged in the City’s benefit, yielding roughly \$2,800 in net surplus revenue to the City. The errors were not captured by PCM or the City as part of the monthly financial review process. The City has been continuously working with PCM to ensure staff is properly trained and accurate in cashiering input. In addition, the City also installed a new point-of-sale system that took effect February 2021, which provides additional built-in safeguards to prevent user error, such as the ones referenced by the auditor.

**4) THE CITY REIMBURSED PCM A TOTAL OF \$31,484.20 IN QUESTIONABLE EXPENDITURES RELATED PRIMARILY TO THE MBGC FOOD AND BEVERAGE OPERATIONS AND PAPER GOODS.**

**Parks and Recreation Department Response:**

The Department disagrees with the finding. The Parks and Recreation Department has requested supporting documentation from the auditor for each of the specific items presented as a “finding” within this report. To date, the auditor has failed to provide all the requested information detailing the alleged infraction(s). Such failure to provide information supporting the auditor’s position is unacceptable and makes the process of researching and responding to such allegations a difficult and at times impossible task. It is unreasonable for an auditor to spend approximately 44 months performing an audit, covering a 24-month period of transactions, and deliver a report containing alleged contract violations, with insufficient documentation to support said allegations and demand a prompt response.

Nevertheless, in a spirit of cooperation and transparency, the Department has conducted exhaustive work researching notes from the countless hours of meetings with the auditor over the course of the 44-month audit period. Based on that research, the below responses have been formulated.

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- The transactions referenced by the auditor during discussions with Parks and Recreation Department staff were approved by the City in accordance with Sections 4.01.9 and 7.05 of the agreement. Section 4.01.9 states that PCM shall be responsible for any and all replacement due to breakage, theft or employee negligence. Section 7.05 states PCM shall perform acceptable day-to-day housekeeping and perform all repairs on the kitchens, dining rooms, bars and pro shops that are necessitated as a result of their (PCM's) negligence. The City shall be responsible for all other repairs and maintenance. The list of expenses discussed with the auditor for items such as grease trap cleanings, light bulbs, repairs to the fryer and beverage station, etc. were not due to breakage, theft or employee negligence. They are simply purchases being made to maintain the City's assets, in accordance with the provisions of the agreement. This is an example of the auditor misrepresenting her disagreement with a provision in the contract as a finding. The auditor fails to recognize the provisions in the agreement are constructed in such manner to ensure City assets remain in excellent condition at all times, and if PCM were to be dismissed, could be operated immediately by the City or another vendor. Further, the annual budget, as approved by the Mayor and City Commission in compliance with Section 12.03 of the agreement, includes a line item for the payment of specific items the auditor disagrees with, including the dish washer lease.
- Section 4.01.9 requires PCM to pay for paper goods associated with food and beverage and pro shop operations. PCM has complied with those provisions. The City authorized the payment, through City funds, of the paper goods referred to by the auditor as they were utilized in the locker rooms and public restrooms throughout the golf course. No contractual provision exists prohibiting the payment of paper goods by the City for non-restaurant or pro shop areas. When explained to the auditor, her position is that restaurant patrons could access the restroom areas and utilize the paper goods. The City's position is that it is possible for restaurant patrons to use the restrooms, but tracking the toilet paper used in a restroom would be more costly than the cost of the paper good itself. Further, the annual budget, as approved by the Mayor and City Commission in compliance with Section 12.03 of the agreement, includes a line item for the purchase of paper goods and cleaning supplies.
- Section 10.04 states PCM's responsibilities as it pertains to employee related processes, however, nowhere does it stipulate that PCM would be responsible for payment of those services. In fact, many other processes delineated in Section 10.04 are carried out by the City's Human Resources Department at no cost to PCM, to which the auditor had no objection. The positions of the employees who received training are 100% funded by the City and work solely and exclusively for the benefit of the Miami Beach and Normandy Shores Golf Clubs. Covering these costs is not unreasonable, especially when the training obtained is of benefit to the City as well. Further, the annual budget, as approved by the Mayor and City Commission in compliance with Section 12.03 of the agreement, includes a line item for employee education expenses.



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- 5) WATER METERS WERE INCORRECTLY BILLED, RESULTING IN NET OVERBILLINGS OF \$17,126.35 TO THE MBGC RATHER THAN TO OTHER RESPONSIBLE CITY ENTITIES.**

**Parks and Recreation, Finance & Public Works Department Response:**

The Departments disagree with the finding, in part. Water and sewer bills are not provided to the Parks and Recreation Department; they are processed by the Finance Department. The Parks and Recreation Department requested the Public Works Department remove all inactive meters from billing cycles, and the task was completed. Stormwater calculations are made by the Public Works Department, and billing handled by the Finance Department. This is not a finding or contract violation, rather a recommendation from the auditor.

The Finance Department continues to work with the Public Works Department in order to ensure meters are charged to the appropriate accounts and perform any necessary adjustments. The Public Works Department confirmed that all inactive meters were not incorrectly billed, but rather charged a water and sewer general service base fee for having a meter present with or without usage, and ERUs (equivalent residential unit storm water fee) that is charged to every account.

- 6) SOME TESTED INDIVIDUALS PURCHASING MBGC GOLF MEMBERSHIPS DURING THE AUDIT PERIOD RECEIVED QUESTIONABLE DISCOUNTS TOTALING \$14,348.55 FROM THE CITY COMMISSION APPROVED RATES, AND PCM CHARGED AND COLLECTED LOCKER FEES OF \$22,546.60 WHICH WERE NOT INCLUDED IN THE APPROVED FEE SCHEDULES.**

**Parks and Recreation Department Response:**

The Department disagrees with the finding, in part.

- The City has approved the longstanding practice of extending resident discounts to Miami Beach property and business owners. For the auditor to state the City has not approved the practice or is unaware of its existence is disingenuous, particularly since the point was raised during the 2010 audit. Since said audit, the City made the determination to continue the practice. An email from Kevin Smith, former Director of Parks and Recreation, from August 20, 2010 approved the continuation of the practice.
- The City agrees with the auditor in that five instances resulted in the membership resident rate potentially being incorrectly granted without proper proof of residency on file, yielding unrealized revenue in the amount of \$11,800 for the audit period. The errors were not captured by PCM or the City as part of their respective financial review processes. To prevent this from happening in the future, PCM has amended their process in that only the Director of Membership can process membership payments, and must have prior written approval of the General Manager or Controller.

The Parks and Recreation Department places a high level of importance on proper governance and financial efficacy, as evidenced by its request, and payment, for this audit to take place by the Office of the Inspector General. In addition to this audit, requested

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in 2020, the Parks and Recreation Department also solicited, in a self-directed manner as well, two additional reviews of golf operations in 2018 and 2019 by independent industry experts, the National Golf Foundation and United States Golf Association, respectively. In doing so, the Department guarantees the best operation of the courses, and proper stewardship of public funds. Golf operations are also subjected to review through the City's annual external audit process.

- The City approved and supports the reimbursement referenced by the auditor. This is a prime example where the auditor fails to recognize a paramount factor, which is the primary objective in the operation of the City's public golf courses – the delivery of excellent customer service to all patrons. That objective is one the City takes very seriously, as the golf experience is not only representative of the golf courses, it has significant bearing on Miami Beach as a brand and destination. In this instance, a spousal membership was cancelled before a single round of golf was played, and before the membership period commenced. The next available person on the waitlist was given the membership. This resulted in a net revenue gain to the City. The decision yielded positive results from both customer satisfaction and business standpoints.

From a contractual standpoint, nowhere in the agreement, or City policy, does it state that reimbursements on memberships shall not be issued. PCM has adopted the practice as a measure to preserve the integrity of the membership process, and as a good business practice, but the City has never relinquished its right to make ad hoc decisions regarding memberships. This is an example of the auditor misrepresenting her disagreement with a practice as a contract violation or finding.

- Locker fees have been collected since 2005 at Miami Beach Golf Club and 2010 at Normandy Shores Golf Club. To state the fees are not approved is erroneous, as both the City and PCM have confirmed approval. The fees were not found to be inappropriate during the 2010 audit of both golf courses conducted by the Chief Auditor in this audit (2020). This is yet another example of the auditor unreasonably, and without contractual basis, admonishing the City and PCM for maximizing profitability.

Locker fees have been added to the official schedule of fees updated annually by the Parks and Recreation Department, with a proviso that the fees cannot be adjusted automatically based on CPI, but rather require annual review by the Department, to ensure they remain reasonable within market conditions. In addition, adjustments to the fees in the form of discounts should be allowed in order to remain competitive in the dynamic golf market.

**7) WRITTEN DOCUMENTATION WAS NOT PROVIDED TO THE OIG VERIFYING THE CITY'S ADVANCE APPROVAL OF THE DIRECTOR OF AGRONOMY POSITION; AND THE CITY PAID \$13,699.40 IN RELATED CAR ALLOWANCE EXPENDITURES.**

**Parks and Recreation Department Response:**

The Department disagrees with the finding. The Director of Agronomy position was discussed at length between PCM and City staff. The City approved the creation of the position, as a retention

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method for existing talent, and as a future recruitment tool. The Superintendent at Miami Beach Golf Club was moved to the Director of Agronomy position, and the Assistant Superintendent was moved to Superintendent. The Assistant Superintendent position was eliminated remained vacant for a period of time; therefore, the change resulted in no addition to head count during that period. Only the Director of Agronomy received a salary increase as a result of the change. The salary adjustment was funded within the adopted budget, as approved by the Mayor and City Commission pursuant to Section 12.03 of the agreement, meaning it did not trigger a budget increase. The Superintendent title is critical toward attaining certification, which the Assistant Superintendent was pursuing. By effectuating the title change, the employee was not only retained, but also afforded the opportunity to qualify for certification. This is an example of a smart business decision that resulted in positive benefits to the City, with negligible cost impacts.

The Director of Agronomy position provides services exclusively to the benefit of the City at both golf clubs. It is industry standard to provide a vehicle or vehicle allowance for similarly situated positions. The incumbent at the time had worked at Miami Beach golf clubs since 1996. He was essential toward the success of the operation. The position's compensation and vehicle allowance are appropriate for the role, and necessary to remain competitive in a specialized niche. The 2010 audit, performed by the same Chief Auditor in this audit, recommended the Director of Agronomy, formerly Superintendent, receive a vehicle allowance in the form of a payroll stipend, which was the practice during the audit period. This is a clear employment benefit, part of the compensation package for the Director of Agronomy, and as such shall be funded by the City. The Director of Agronomy is funded 100% by the City and works solely and exclusively for the benefit of the Miami Beach Golf Club and Normandy Shores Golf Club. The auditor has failed to provide a contractual provision that prohibits such action. This is another example where the auditor misrepresents her disagreement with a practice as a contractual violation or finding.

- 8) PURSUANT TO SECTION 11.02 OF THE MANAGEMENT AGREEMENT, THE GRADUATED INCENTIVE FEE PAID TO THE CONCESSIONAIRE FOR FISCAL YEAR 2018/19 WAS \$6,093.75 MORE THAN DUE, BASED ON THE FACT THAT THE REPORTED NET OPERATING INCOME BEFORE DEBT SERVICE WAS 4.875% LESS THAN \$800,000.00.**

**Parks and Recreation Department Response:**

The Department disagrees with the finding. The incentive fee was properly calculated in accordance with the spirit and intent of the language in the agreement. The auditor indicates PCM's incentive fee should be calculated based on the adopted budget at the beginning of the fiscal year, instead of the end-of-year actual revenue generated. The concept of paying a vendor based on what they predict earnings will be, versus actual earnings (results) attained is irresponsible. The City agrees the language in the agreement is nebulous and should be clarified in a future agreement, but is vehemently opposed to the concept of paying an incentive fee based on a vendor's projection, versus their actual performance. The same payment methodology was utilized prior to the 2010 audit, which was performed by the Chief Auditor in this audit, and no issues were raised. The agreement language at the time, as it pertains to the basis for incentive fee calculations, was generally the same. This is a clear example of the auditor failing to use a common sense approach to the interpretation of the agreement.

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The Parks and Recreation Department places a high level of importance on proper governance and financial efficacy, as evidenced by its request, and payment, for this audit to take place by the Office of the Inspector General. In addition to this audit, requested in 2020, the Parks and Recreation Department also solicited, in a self-directed manner as well, two additional reviews of golf operations in 2018 and 2019 by independent industry experts, the National Golf Foundation and United States Golf Association, respectively. In doing so, the Department guarantees the best operation of the courses, and proper stewardship of public funds. Golf operations are also subjected to review through the City's annual external audit process.

**9) PCM CHARGED DISCOUNTED GOLF RATES FROM THE CITY COMMISSION APPROVED FEE SCHEDULES WITHOUT DOCUMENTED APPROVAL FROM THE CITY.**

**Parks and Recreation Department Response:**

The Department disagrees with the finding. In accordance with Sections 6.12 and 6.18, as well as Article 25, discounted rates were approved by the City in order to maximize profitability of the golf courses. The agreement is constructed in a manner that allows for rate changes to be implemented in order to compete in the golf industry's dynamic pricing arena, requiring fee adjustments or discounts issued in order to maximize profit, as well as the establishment of promotional fees. Such decisions are necessary to remain competitive in the field, and have proven essential toward introducing new players to our courses, and repeat visitors. For that reason, the agreement contains Section 6.12, which explicitly gives the City Manager or the Director of Parks and Recreation the ability to implement rate adjustments. As well as Section 6.18.1, that clearly states the manager may propose discounted services and memberships.

No provision of the agreement requires rate changes or promotional discounts be memorialized in writing, contrary to the auditor's position. Nevertheless, during numerous discussions, the auditor was presented with or made aware of various documents provided by PCM to the City containing discounted or promotional fee information. The documents serve as evidence the City was well aware of and supportive of the discounted or promotional rates, in accordance with the agreement. Emails have also been provided which show written approval by the Department for some of the discounted rates challenged by the auditor. Further, as explained to the auditor, frequent meetings, telephone calls, emails, etc. are exchanged between PCM and City staff in the course of managing the day-to-day operations of our golf clubs. During these conversations, a myriad of topics are discussed which include rates, maintenance activities, revenue projections, customer service, capital projects, etc. Both PCM and City staff have confirmed discounted or promotional rates were approved by the City in accordance with the agreement. The auditor has yet to provide a contractual provision supporting her position. The Department has already implemented the recommendation from the auditor to further memorialize fee adjustments.

The auditor provides the amounts of the discounts issued, but fails to provide the amount of revenue generated as a result of the discounts, which would not have otherwise been realized. An additional important point is that the agreement is designed in a manner where PCM is discouraged from issuing discounts unless absolutely necessary, as the lower revenue gained per round keeps them further from earning their incentive fee. Meaning, each time a discount is issued, PCM is negatively impacted financially.

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Ordinance 2019-4299 was adopted by the Mayor and City Commission with the intent of creating a centralized fee schedule, as well as indexing the fees contained therein. By indexing the fees, periodic adjustments take effect ensuring the cost of services rendered by the City are adjusted to account for inflation. The Parks and Recreation Department has a multitude of fees listed in the ordinance, including regular golf fees. However, promotional or discounted golf fees are not listed in the ordinance. The primary reason for promotional or discounted golf fees not being included is due to their volatility, through increased propensity for amendment based on market conditions, demand for play, etc. In addition, the focus during all prior fee discussions at all levels, as they relate to golf, has been establishing maximum fee thresholds to ensure residents and patrons are not charged heavily. Contrary to the auditor's suggestion, the ordinance does not stipulate the City is limited to only charge fees listed therein. The ordinance and the agreement must be applied in conjunction with one another.

All golf fees, including promotional or discounted fees, have been added to the official schedule of fees of the Parks and Recreation Department, with a proviso that the fees cannot be adjusted automatically based on CPI, but rather require periodic review by the Department, to ensure they remain reasonable within market conditions. In addition, adjustments to the fees in the form of discounts should be allowed in order to remain competitive in the dynamic golf market.

The City's participation in the Golfnow Premier Golf Card Program dates to 2009. The City's enrollment in the program has been very fruitful in providing revenue generation for both golf courses during otherwise slow periods. Participation in the program is in compliance with Section 6.18 of the agreement. Contrary to the auditor's claim, Section 6.14 of the agreement does not require the Director to sign the agreement with the Golfnow Premier Golf Card Program. This is another example where the auditor misrepresents her opinion as a contract violation or finding.

**10) NINE JIM MCLEAN GOLF ACADEMY PROFESSIONALS, WHO PROVIDED PRIVATE LESSONS TO PAYING CUSTOMERS, DID NOT OBTAIN THE REQUIRED ANNUAL BUSINESS TAX RECEIPTS DURING THE AUDIT PERIOD, RESULTING IN THE CITY NOT RECEIVING \$4,527.00 IN PERMIT FEES DUE, EXCLUDING LATE CHARGES.**

**Parks and Recreation & Finance Department Response:**

The Departments disagree with the finding, in part. The agreement does not contain a provision requiring the verification of business tax receipts for golf instructors. Therefore, this is not a violation of the agreement. As a good management practice, the Department works closely with PCM to ensure all required licenses are maintained on an annual basis. Based on the information discussed between the auditor and Department staff, it appears nine visiting instructors performed lessons at the Miami Beach Golf Club during a limited period without an active business tax receipt issued by the City of Miami Beach. PCM and all permanent instructors possessed the required licensures during the audit period.

The practice of visiting instructors providing service under both golf courses' business tax receipts will continue, as it makes sense from a business and customer service perspective. Requiring a one-time or limited visiting instructor to obtain an individual business tax receipt to provide lessons is unrealistic and impractical. It would adversely affect our business and drive away major

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clientele, often celebrities and other VIPs, as competing courses do not have similar requirements. The practice is not prohibited in the agreement.

**11) THE JIM MCLEAN GOLF ACADEMY PROVIDED PRIVATE GOLF LESSONS DURING THE AUDIT PERIOD WITHOUT WRITTEN APPROVAL BY THE CITY OF INSTRUCTORS' QUALIFICATIONS AND ITS INSTRUCTORS CHARGED INCONSISTENT RATES THAT WERE NOT VERIFIED BY PCM.**

**Parks and Recreation Department Response:**

The Department disagrees with the finding. All contractual obligations pursuant to Section 6.14 of the agreement have been met by both the City and PCM. The auditor has failed to provide a contractual requirement for an agreement to take place between the City and the golf instruction provider. Section 6.14 does not require the Director to sign an agreement with a provider, it only stipulates the Director must approve the qualifications of said provider. The Director has approved the provider, which is a nationally recognized golf instruction firm. The agreement is silent as it pertains to instruction fees. The agreement does not establish minimum guarantees or profit from instruction, as the goal behind the provision is ensuring golf instruction is available to aid in the growth of the sport, provide an amenity to customers and remain competitive with other courses that provide instruction. Therefore, as it pertains to fees charged, or the manner in which they are collected, there is no violation of the agreement. Dynamic rates for instruction are reasonable and industry standard, as instructors vary in degree of experience and skillset, and market conditions fluctuate. This is another example where the auditor admonishes the City and PCM for generating revenue beyond what is stipulated in the agreement. As well as an example of the auditor misrepresenting her disagreement with a practice as a contract violation or finding.

The processes in place by the City and PCM at the time of the audit, in relation to instruction, were based on recommendations from an audit conducted in 2010 by the Chief Auditor in this audit. During the previous audit (2010), issues were raised regarding lack of procedures and controls at the time. Since then, a new vendor was hired, and additional internal controls were created. For instance, the Director of Golf reviewed schedules periodically to ensure they correlated with instruction activities reported. Provider schedules are available online and easily accessible, making the monitoring process less complex. In addition, the school provided detailed monthly reports with lesson and revenue information.

As a result of this audit, additional internal controls have been implemented, where now expanded accounting information is shared by the instruction provider, including profit and loss statements and complete access to their QuickBooks data. Also, the Department may propose an amendment to future agreements to include some of the additional language suggested by the auditor. The City must proceed cautiously in this process, as guarantees must be reasonable and sustainable in all market conditions.

**12) CHRIS JETT GOLF SALES, INC. IS REGISTERED AS A FLORIDA FOR PROFIT CORPORATION, WITH MBGC LISTED AS ITS PRINCIPAL ADDRESS, AND OPERATED AS A MBGC SUBCONTRACTOR DESPITE NOT OBTAINING THE REQUIRED APPROVAL OF THE CITY MANAGER OR ACQUIRING VALID ANNUAL BUSINESS TAX RECEIPTS.**

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**Parks and Recreation Department Response:**

The Department disagrees with the finding. Chris Jett Golf Sales, Inc., is the company that PCM purchases their pro-shop merchandise from. The company does not provide any direct services on behalf of or for the City. As verified in our monthly review of golf course financial reports, PCM meets its contractual obligation by providing the City with the required percentage of pro-shop sales proceeds, in accordance with Section 6.13.2 of the agreement. In addition, PCM provides the City with a monthly payment of \$2,400 toward payroll expenses. PCM provides the payment to the City in order to account for time spent by employees conducting sales of pro-shop items. Chris Jett Golf Sales does not make payments or contributions toward the City, including payroll, and vice versa.

The owner of Chris Jett Golf Sales, Christopher Jett, is a former PCM employee. Upon his retirement in 2009, he continued to provide services for PCM through his company, Chris Jett Golf Sales. When we learned through this audit process that his company's sunbiz.org profile shows the principal address as 2301 Alton Road, Miami Beach, Florida, we immediately notified Alberto Pozzi, General Manager for PCM, that his vendor needed to change the address to the correct one. According to Mr. Pozzi, Mr. Jett was unaware he still had that address listed with the State and would change it promptly. Since then, we accessed sunbiz.org and verified the address was corrected. According to Mr. Jett, he has resided in Ocala, Florida and Boynton Beach, Florida since retirement, and conducts business from his residence.

**13) MBGC'S MAINTENANCE REPAIR INSPECTION AND GOLF COURSE EVALUATION REPORTS WERE NOT DOCUMENTED BY THE PARKS AND RECREATION DEPARTMENT, AS REQUIRED BY SECTIONS 8.09 AND 22.01 OF THE MANAGEMENT AGREEMENT.**

**Parks and Recreation Department Response:**

The Department disagrees with the finding. The Parks and Recreation Department employs a very hands-on approach to the management of the golf courses. While the language in the agreement describes a more high-level relationship, the actual engagement is one where City staff is directly involved in the operations of both courses on a daily basis. Every month, multiple inspections of the golf courses take place by Parks and Recreation Department staff members, ranging from the grounds to the clubhouses, restrooms, dining areas, etc. Any deficiency identified through said inspections is communicated directly to PCM staff on site or via telephone for immediate correction. This methodology removes lag time and ensures the fastest response. The Department also performs follow-up inspections to verify compliance. The world class conditions of the courses are proof that addressing deficiencies immediately with PCM is the most effective and efficient way to maintain the courses.

In accordance with Section 22.04 of the agreement, the Director reserves the right to modify, update, and/or amend the general content and format of the Golf Course Evaluation Report form in order to provide for a suitable instrument for the documentation of the Manager's performance. The Director has not found the need to perform annual written evaluations due to the fact that inspections are performed so frequently by Parks and Recreation Department staff.

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Written reports are reserved for serious deficiencies identified or deficiencies not corrected after notice to the contractor, neither of which took place during the review period. Further satisfying the evaluation and inspection provisions of the agreement, the Parks and Recreation Department hired external independent consultants to evaluate the conditions and operations of the courses in 2018 and 2019, National Golf Foundation and United States Golf Association, respectively. Both entities provided very favorable comprehensive reports for the courses, which were discussed extensively between Parks and Recreation Department staff and PCM management. Said reports also satisfy the requirements of the agreement.

To satisfy the auditor's recommendation, since 2021, the Parks and Recreation Department has been memorializing golf course inspections in a specialized report form.

**14) MBGC'S BUSINESS TAX RECEIPT NUMBERED RL-10004359 WAS INCORRECTLY BILLED DURING THE AUDIT PERIOD, RESULTING IN \$572.00 DUE TO THE CITY.**

**Parks and Recreation & Finance Department Response:**

The Departments disagree with the finding, in part. The agreement does not contain a provision requiring the verification of business tax receipt fees or anything related to such. Therefore, this is not a violation of the agreement. The Parks and Recreation Department does not play a role in the City's function of calculating or collecting fees associated with business tax receipts, as the function is handled by the Finance Department. The Finance Department issued an invoice for the under billed amount, and payment to the City was already made by PCM on April 6, 2021.

**15) \$2,000.63 IN FLORIDA STATE SALES TAX IS DUE TO THE CITY FROM PCM, STEMMING FROM ITS PRO-SHOP RENTAL PAYMENTS.**

**Parks and Recreation & Finance Department Response:**

The Departments agree with the finding. The Departments agree with the auditor's position in that PCM did not provide payment for sales tax during a limited period. The reason for the missed payments was due to the transition from one agreement to another. The new agreement provides for the payment of sales tax by PCM, while the prior did not. The Parks and Recreation Department issued an invoice for the sales tax payments due, and payment to the City was already made by PCM.



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**MIAMI BEACH GOLF CLUB (MBGC) ADDITIONAL RECOMMENDATIONS FROM AUDITOR:**

**1. The management agreement is detailed in most areas; however, the following identified areas are not clearly addressed, and current practices do not sufficiently benefit or protect the City's interests.**

- a. The auditor's recommendations are based on assumptions, and not actual expense data, since PCM did not release expense information for proprietary reasons, in accordance with the agreement pursuant to Article 18. The auditor's assumptions represent an uninformed opinion, not supported by fact. The figures provided by the auditor cannot be relied upon, as they are entirely presumptive. The auditor lacks the credentials or expertise in the golf industry to make such drastic business level recommendations.

In 2018, the City engaged the services of the National Golf Foundation (NGF) in order to perform an in-depth analysis of golf course operations, as well as the structure of the agreement between the City and PCM. The NGF is an independent golf industry expert at the national level. The audit yielded very positive results, determining the contractual relationship between the City and PCM is favorable to the City. Per the NGF, both the structure of the City's management agreement with PCM and the effective compensation are within expectations for a premier municipal golf course. The NGF rendered findings contradicting the auditor, as supported by the following excerpt from their final report, "NGF Consulting's principals have visited and analyzed hundreds of municipal and daily fee golf operations over the last three decades. Our overriding finding from our tour and summary business analysis is that MBGC is one of the top municipal golf operations in the country, with an outstanding, very well maintained golf course and net operating income performance that places the facility in the top 2% of municipal golf facilities in the U.S., even considering the revenue constraint resulting from resident green fees that are well below 'market' rates."

The Parks and Recreation Department will solicit another study, to be performed by an independent industry expert in the golf, food and beverage and/or specialty retail market, in order to assess the structure of the arrangement in place. This study would be forward looking, and if any recommendations are implemented, would apply to future contracts.

- b. The Department agrees with the recommendation of the auditor and have been annually adjusting the credit card fee percentage to reflect the average amount of the fee charge during the prior quarter. This change was applied, as suggested by the auditor.
- c. Golf courses are part of the City's annual external audit process.
- d. As agreed to by the auditor, and confirmed by the findings of her research, allowing golf course employees to play golf without charge is an industry norm. The practice

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yields benefits to the courses ranging from unfettered feedback on course conditions and playability, to employee recruitment and retention. Employees are only allowed to play when tee times are available and outside of their regular work periods, with the exception of golf professionals, whose job responsibilities include playing with club members. The golf courses benefit from the employment of individuals who partake in the sport, and utilize the courses, making them more relatable to the patrons they serve, thereby greatly impacting customer relations. The practice has negligible impact on course operations, as evidenced by the fact that during the two-year audit period, only 481 rounds were played by employees, representing 0.5% of the 87,840 rounds played at Miami Beach Golf Club.

- e. The City authorized the expenditure of booking commission fees. The City finds this to be a smart business decision, as through these services, we obtain rounds of golf during otherwise slow periods. The auditor shows the cost of the fee (\$4,280), but fails to report that as a result, the City earned \$80,550 in golf revenue, that would have not otherwise been gained. In furtherance of Section 6.17 of the agreement, in order to maximize profitability of the courses, PCM works with concierges, travel agencies, online services, etc., many of whom provide their services through commission. This is standard in the golf industry across the nation. Booking fees are also listed and recorded as part of the detailed financial reports submitted monthly by PCM to the Parks and Recreation Department and Finance Department for review, in accordance with Article 15 of the agreement. There is no contract provision that prevents the practice, and all transactions are properly recorded. This is an example of the auditor unreasonably, and without contractual basis, admonishing the City and PCM for maximizing profitability. This longstanding practice has been in effect prior to 2010, and was not raised as a contract violation by the Chief Auditor in this audit (2020), who conducted an in-depth audit of both golf courses in 2010. At the time, the Chief Auditor raised questions over the tracking of payments, but not over the practice of paying booking fees or commissions.

**2. Concessionaire employee health benefits were reimbursed by the City despite not being clearly addressed in the management agreement.**

- The Department of Parks and Recreation agrees with the position of the auditor and the Procurement Director, in that payment for employee health benefits are the responsibility of the City, based on the agreement. The Department will further clarify this position in future solicitations or agreements.
- The Director of Golf is essential toward the operation and profitability of the golf courses. The incumbent is required to speak with hotel concierges, travel agents, event groups, etc. throughout the day. To that end, the most effective and efficient method of communication is cellular telephone. In addition, Section 8.03 of the agreement requires a minimum of two PCM staff members be available by telephone around the clock in the event City representatives need access to them. For those reasons, the City has authorized payment for the Director of Golf's cellular telephone since 2009. In addition, the Director of Golf is 100% funded by the City, and works solely and

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exclusively for the benefit of the Miami Beach and Normandy Shores Golf Clubs. Payment for cellular telephone coverage is also considered part of the benefits associated with the position. Pursuant to the agreement, the City is responsible for employee benefit costs. The City will continue to provide the benefit to the employee, which serves a valuable business advantage to the City. This longstanding practice has been in effect since 2009, and was not raised as a contract violation by the Chief Auditor in this audit (2020), who conducted an in-depth audit of both golf courses in 2010. Further, the annual budget, as approved by the Mayor and City Commission in compliance with Section 12.03 of the agreement, includes a line item for the payment of telephone services for the Director of Golf.

Effective upon the hiring of the current Director of Golf, a monthly payroll stipend has been issued in lieu of reimbursement.

- The City authorized the payment of a cellular telephone case as it is in the City's best interest to protect its asset. The cellular telephone case was purchased for a City owned cellular telephone. No provision of the agreement prohibits the purchase of a cellular telephone case. This is an example of the auditor misrepresenting her disagreement with a practice as a contract violation or finding.

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**RESPONSES PERTINENT TO THE NORMANDY SHORES GOLF CLUB (NSGC):**

- 1) PCM WAS PERMITTED TO WITHDRAW UP TO \$100,000.00 DAILY FROM THE NSGC OPERATING BANK ACCOUNT FOR EXPENSE REIMBURSEMENTS WITHOUT PRIOR AUTHORIZATION BY THE FINANCE DEPARTMENT OR PRIOR WRITTEN APPROVAL FROM THE PARKS AND RECREATION DEPARTMENT FOR ALL MONTHLY TRANSACTIONS.**

**Parks and Recreation & Finance Department Response:**

The Departments disagree with the finding, in part. The current financial procedure in place was implemented by the Finance Department. In 2019, the Finance Department advised the Parks and Recreation Department of its desire to implement changes to the financial processes for golf course operations. Thereafter, multiple meetings took place between Finance Department, Parks and Recreation Department and PCM staff, in order to review all financial procedures. The final recommendations by the Finance Department were agreed upon by PCM and the Parks and Recreation Department, and implemented effective October 1, 2019. The current process in place is consistent with the terms delineated in Article 12 of the agreement, and therefore does not represent a finding or violation. Pursuant to Section 12.01 of the agreement, the City shall make available to PCM all funds necessary to pay all operating expenses incurred or accrued. The current process also provides the added benefit of financial transfers being derived from actual expenses, versus projections, which is a more conservative approach than the prior methodology. Previously, expense projections were made and funds were provided to PCM prior to actual expenses being incurred.

The Parks and Recreation Department and Finance Department will revisit existing financial procedures in place, as they relate to golf course operations. Some of the recommendations made by the auditor are reasonable and will be considered as part of that process.

- 2) WATER METERS WERE INCORRECTLY BILLED, RESULTING IN NET OVERBILLINGS OF \$51,723.68 TO THE NSGC RATHER THAN TO OTHER RESPONSIBLE CITY ENTITIES.**

**Parks and Recreation, Finance & Public Works Department Response:**

The Departments disagree with the finding, in part. Water and sewer bills are not provided to the Parks and Recreation Department; they are processed by the Finance Department. The Parks and Recreation Department requested the Public Works Department remove all inactive meters from billing cycles, and the task was completed. Stormwater calculations are made by the Public Works Department, and billing handled by the Finance Department. The Parks and Recreation Department engaged the Public Works Department to study the potential benefits of replacing existing meters with a larger capacity meter. This is not a finding or contract violation, rather a recommendation from the auditor.

The Finance Department continues to work with the Public Works Department in order to

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ensure meters are charged to the appropriate accounts and perform any necessary adjustments. The Public Works Department confirmed that all inactive meters were not incorrectly billed, but rather charged a water and sewer general service base fee for having a meter present with or without usage, and ERUs (equivalent residential unit storm water fee) that is charged to every account.

- 3) THE CITY APPROVED THE REIMBURSEMENT OF ESTIMATED PAYROLL ADMINISTRATIVE SERVICE FEES TOTALING \$29,918.72, WHICH APPEARS CONTRARY TO SECTION 15.06 OF THE MANAGEMENT AGREEMENT.**

**Parks and Recreation Department Response:**

The Department disagrees with the finding. The City approved the efficient avenue of utilizing a professional firm to provide payroll processing services, in lieu of paying the salary of in-house golf course staff to process payroll for the workforce at both courses. The average annualized combined cost of roughly \$37,000 for the service is lower than annual salary and benefit costs for an employee qualified to process payroll for both golf courses. The cost of said salary and benefits would have to be funded by the City. This is a smart and efficient business decision, which has yielded savings to the City. Pursuant to Article 12 of the agreement, the City authorized the use of the services, as evidenced by the fact that the expense is funded within the annual budget submitted for Mayor and City Commission approval. To state the City did not approve the expense is simply erroneous, as further evidenced by the fact the expense is explicitly listed in the detailed financial reports submitted monthly by PCM to the Parks and Recreation Department and Finance Department for review, in accordance with Article 15 of the agreement. Pursuant to Section 12.01 of the agreement, the City shall make available to PCM all funds necessary to pay all operating expenses incurred or accrued. Payroll management is an essential function and a clear operating expense. Section 15.06 delineates PCM is responsible for processing payroll, but nowhere does it state they are responsible for the associated expenses. The same section (15.06) contains a myriad of other tasks and duties PCM is responsible for, but not required to fund, such as the preparation of cash receipts, accounts receivable, budget reports, etc., which are all prepared by the Controller, a position funded entirely by the City, to which the auditor expressed no disagreement over.

This is a prime example of the auditor failing to recognize the nature of the agreement between the City and PCM. The City receives 100% of the revenue associated with golf operations, and therefore covers 100% of the expenses associated with golf operations. Thereby, processing payroll for employees that are solely and exclusively employed 100% for the benefit of Miami Beach Golf Club and Normandy Shores Golf Club is a reasonable and justifiable expense within the confines of the agreement.

- 4) THE CITY REIMBURSED PCM A TOTAL OF \$18,950.85 IN QUESTIONABLE EXPENDITURES RELATED PRIMARILY TO NSGC FOOD AND BEVERAGE OPERATIONS AND PAPER GOODS.**

**Parks and Recreation Department Response:**

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The Department disagrees with the finding. The Parks and Recreation Department has requested supporting documentation from the auditor for each of the specific items presented as a "finding" within this report. To date, the auditor has failed to provide all the requested information detailing the alleged infraction(s). Such failure to provide the information supporting the auditor's position is unacceptable and makes the process of researching and responding to such allegations a difficult and at times impossible task. It is unreasonable for an auditor to spend approximately 44 months performing an audit, covering a 24-month period of transactions, and deliver a report containing alleged contract violations, with insufficient documentation to support said allegations and demand a prompt response.

Nevertheless, in a spirit of cooperation and transparency, the Department has conducted exhaustive work researching notes from the countless hours of meetings with the auditor over the course of the 44-month audit period. Based on that research, the below responses have been formulated.

- The transactions referenced by the auditor during discussions with Parks and Recreation Department staff were approved by the City in accordance with Sections 4.01.9 and 7.05 of the agreement. Section 4.01.9 states that PCM shall be responsible for any and all replacement due to breakage, theft or employee negligence. Section 7.05 states PCM shall perform acceptable day-to-day housekeeping and perform all repairs on the kitchens, dining rooms, bars and pro shops that are necessitated as a result of their (PCM's) negligence. The City shall be responsible for all other repairs and maintenance. The list of expenses discussed with the auditor for items such as grease trap cleanings, repairs, etc. were not due to breakage, theft or employee negligence. They are simply purchases being made to maintain the City's assets, in accordance with the provisions of the agreement. This is an example of the auditor misrepresenting her disagreement with a provision in the contract as a finding. The auditor fails to recognize the provisions in the agreement are constructed in such manner to ensure City assets remain in excellent condition at all times, and if PCM were to be dismissed, could be operated immediately by the City or another vendor. Further, the annual budget, as approved by the Mayor and City Commission in compliance with Section 12.03 of the agreement, includes a line item for the payment of specific items the auditor disagrees with, including the dish washer lease.
- Section 4.01.9 requires PCM to pay for paper goods associated with food and beverage and pro shop operations. PCM has complied with those provisions. The City authorized the payment, through City funds, of the paper goods referred to by the auditor as they were utilized in the locker rooms and public restrooms throughout the golf course. No contractual provision exists prohibiting the payment of paper goods by the City for non-restaurant or pro shop areas. When explained to the auditor, her position is that restaurant patrons could access the restroom areas and utilize the paper goods. The City's position is that it is possible for restaurant patrons to use the restrooms, but tracking the toilet paper used in a restroom would be more costly than the cost of the paper good itself. Further, the annual budget, as approved by the Mayor and City Commission in compliance with Section 12.03 of the agreement, includes a line item

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for the purchase of paper goods and cleaning supplies.

- Section 10.04 states PCM's responsibilities as it pertains to employee related processes, however, nowhere does it stipulate that PCM would be responsible for payment of those services. In fact, many other processes delineated in Section 10.04 are carried out by the City's Human Resources Department at no cost to PCM, to which the auditor had no objection. The positions of the employees who received training are 100% funded by the City and work solely and exclusively for the benefit of the Miami Beach and Normandy Shores Golf Clubs. Covering these costs is not unreasonable, especially when the training obtained is of benefit to the City as well. Further, the annual budget, as approved by the Mayor and City Commission in compliance with Section 12.03 of the agreement, includes a line item for employee education expenses.
- The QuickBooks purchase was approved by the City and made in accordance with the agreement, as stipulated in Article 12. The program is installed and accessed in City owned computers, and it's use is solely for the benefit of Miami Beach and Normandy Shores Golf Clubs.

**5) SOME INDIVIDUALS PURCHASING NSGC GOLF MEMBERSHIPS DURING THE AUDIT PERIOD RECEIVED QUESTIONABLE DISCOUNTS TOTALING \$13,183.64 FROM THE CITY COMMISSION APPROVED RATES, AND PCM CHARGED AND COLLECTED LOCKER FEES OF \$2,552.00 WHICH WERE NOT INCLUDED IN THE APPROVED FEE SCHEDULES.**

**Parks and Recreation Department Response:**

The Department disagrees with the finding, in part.

- The City has approved the longstanding practice of extending resident discounts to Miami Beach property and business owners. For the auditor to state the City has not approved the practice or is unaware of its existence is disingenuous, particularly since the point was raised during the 2010 audit. Since said audit, the City made the determination to continue the practice. An email from Kevin Smith, former Director of Parks and Recreation, from August 20, 2010 approved the continuation of the practice.
- The City agrees with the auditor in that eight instances resulted in the resident rate potentially being incorrectly granted without proper proof of residency on file, yielding unrealized revenue in the amount of approximately \$8,800. The errors were not captured by PCM or the City as part of their respective financial review processes. To prevent this from happening in the future, PCM has amended their process in that only the Director of Membership can process membership payments, and must have prior written approval of the General Manager or Controller.

The Parks and Recreation Department places a high level of importance on proper governance and financial efficacy, as evidenced by its request, and payment, for this

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audit to take place by the Office of the Inspector General. In addition to this audit, requested in 2020, the Parks and Recreation Department also solicited, in a self-directed manner as well, two additional reviews of golf operations in 2018 and 2019 by independent industry experts, the National Golf Foundation and United States Golf Association, respectively. In doing so, the Department guarantees the best operation of the courses, and proper stewardship of public funds. Golf operations are also subjected to review through the City's annual external audit process.

- Locker fees have been collected since 2005 at Miami Beach Golf Club and 2010 at Normandy Shores Golf Club. To state the fees are not approved is erroneous, as both the City and PCM have confirmed approval. The fees were not found to be inappropriate during the 2010 audit of both golf courses conducted by the Chief Auditor in this audit. This is yet another example of the auditor unreasonably, and without contractual basis, admonishing the City and PCM for maximizing profitability.

Locker fees have been added to the official schedule of fees updated annually by the Parks and Recreation Department, with a proviso that the fees cannot be adjusted automatically based on CPI, but rather require annual review by the Department, to ensure they remain reasonable within market conditions. In addition, adjustments to the fees in the form of discounts should be allowed in order to remain competitive in the dynamic golf market.

**6) SUFFICIENT SUPPORTING DOCUMENTATION WAS NOT FURNISHED BY PCM TO JUSTIFY \$9,826.50 IN DISCOUNTS GIVEN THAT WERE NOT SPECIFIED IN THE MANAGEMENT AGREEMENT RELATED TO NSGC GOLF TOURNAMENT BILLINGS.**

**Parks and Recreation Department Response:**

The Department disagrees with the finding. In accordance with Sections 6.12 and 6.18, as well as Article 25, discounted rates were approved by the City in order to maximize profitability of the golf courses. The agreement is constructed in a manner that allows for rate changes to be implemented in order to compete in the golf industry's dynamic pricing arena, requiring fee adjustments or discounts issued in order to maximize profit, as well as the establishment of promotional fees. Such decisions are necessary to remain competitive in the field, and have proven essential toward introducing new players to our courses, and repeat visitors. For that reason, the agreement contains Section 6.12, which explicitly gives the City Manager or the Director of Parks and Recreation the ability to implement rate adjustments. As well as Section 6.18.1, that clearly states the manager may propose discounted services and memberships.

No provision of the agreement requires rate changes or promotional discounts be memorialized in writing, contrary to the auditor's position. Nevertheless, during numerous discussions, the auditor was presented with or made aware of various documents provided by PCM to the City containing discounted or promotional fee information. The documents serve as evidence the City was well aware of and supportive of the discounted or promotional rates, in accordance with the agreement. Emails have also been provided which show written approval by the



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Department for some of the discounted rates challenged by the auditor. Further, as explained to the auditor, frequent meetings, telephone calls, emails, etc. are exchanged between PCM and City staff in the course of managing the day-to-day operations of our golf clubs. During these conversations, a myriad of topics are discussed which include rates, maintenance activities, revenue projections, customer service, capital projects, etc. Both PCM and City staff have confirmed discounted or promotional rates were approved by the City in accordance with the agreement. The auditor has yet to provide a contractual provision supporting her position. The Department has already implemented the recommendation from the auditor to further memorialize fee adjustments.

Further, the auditor provides the amounts of the discounts issued, but fails to provide the amount of revenue generated as a result of the discounts, which is misleading. In this particular instance, the tournament or group discounts generated over \$15,000 in revenue, that would not have otherwise been realized. An additional important point is that the agreement is designed in a manner where PCM is discouraged from issuing discounts unless absolutely necessary, as the lower revenue gained per round keeps them further from earning their incentive fee. Meaning, each time a discount is issued, PCM is negatively impacted financially.

**7) \$700.00 RELATED TO THE PRO SHOP ASSISTANTS SUBSIDIZED MONTHLY PAYMENTS IS DUE TO THE CITY AND CHRIS JETT GOLF SALES, INC. DID NOT OBTAIN THE REQUIRED APPROVAL OF THE CITY MANAGER OR ACQUIRE VALID ANNUAL BUSINESS TAX RECEIPTS.**

**Parks and Recreation Department Response:**

The Department disagrees with the finding. This is not a violation of the agreement, as a contractual provision requiring payroll subsidies by PCM does not exist. The information

provided as part of the responses during the RFP process was not all inclusive, in that it failed to mention that payroll subsidies voluntarily paid by PCM for the Normandy Shores Golf Club were seasonally adjusted, ranging from \$350 to \$400 per month. Nevertheless, when the issue was raised as part of the audit process, PCM did not object and has agreed to pay the \$700 fee recommended by the auditor, as the monthly \$50 difference is negligible. This is an example of PCM providing compensation to the City beyond what is contractually mandated.

The Parks and Recreation Department issued an invoice for the payroll subsidy payment adjustments, and payment has been made to the City by PCM.

Chris Jett Golf Sales, Inc., is the company that PCM purchases their pro-shop merchandise from. The company does not provide any direct services on behalf of or for the City. As verified in our monthly review of golf course financial reports, PCM meets its contractual obligation by providing the City with the required percentage of pro-shop sales proceeds, in accordance with Section 6.13.2 of the agreement. In addition, PCM provides the City with a monthly payment of \$2,400 toward payroll expenses. PCM provides the payment to the City in order to account for time spent by employees conducting sales of pro-shop items. Chris Jett Golf Sales does not make payments or contributions toward the City, including payroll, and vice versa.

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The owner of Chris Jett Golf Sales, Christopher Jett, is a former PCM employee. Upon his retirement in 2009, he continued to provide services for PCM through his company, Chris Jett Golf Sales. When we learned through this audit process that his company's sunbiz.org profile shows the principal address as 2301 Alton Road, Miami Beach, Florida, we immediately notified Alberto Pozzi, General Manager for PCM, that his vendor needed to change the address to the correct one. According to Mr. Pozzi, Mr. Jett was unaware he still had that address listed with the State and would change it promptly. Since then, we accessed sunbiz.org and verified the address was corrected. According to Mr. Jett, he has resided in Ocala, Florida and Boynton Beach, Florida since retirement, and conducts business from his residence there.

**8) PCM CHARGED DISCOUNTED GOLF RATES FROM THE CITY COMMISSION APPROVED FEE SCHEDULE WITHOUT DOCUMENTED APPROVAL FROM THE CITY.**

**Parks and Recreation Department Response:**

The Department disagrees with the finding. In accordance with Sections 6.12 and 6.18, as well as Article 25, discounted rates were approved by the City in order to maximize profitability of the golf courses. The agreement is constructed in a manner that allows for rate changes to be implemented in order to compete in the golf industry's dynamic pricing arena, requiring fee adjustments or discounts issued in order to maximize profit, as well as the establishment of promotional fees. Such decisions are necessary to remain competitive in the field, and have proven essential toward introducing new players to our courses, and repeat visitors. For that reason, the agreement contains Section 6.12, which explicitly gives the City Manager or the Director of Parks and Recreation the ability to implement rate adjustments. As well as Section 6.18.1, that clearly states the manager may propose discounted services and memberships. In addition, Resolution 2008-26902 of the Mayor and City Commission approved senior discounts at the Normandy Shores Golf Club, and authorized the City Manager to issue other discounts and promotional rates, as needed.

No provision of the agreement requires rate changes or promotional discounts be memorialized in writing, contrary to the auditor's position. Nevertheless, during numerous discussions, the auditor was presented with or made aware of various documents provided by PCM to the City containing discounted or promotional fee information. The documents serve as evidence the City was well aware of and supportive of the discounted or promotional rates, in accordance with the agreement. Emails have also been provided which show written approval by the Department for some of the discounted rates challenged by the auditor. Further, as explained to the auditor, frequent meetings, telephone calls, emails, etc. are exchanged between PCM and City staff in the course of managing the day-to-day operations of our golf clubs. During these conversations, a myriad of topics are discussed which include rates, maintenance activities, revenue projections, customer service, capital projects, etc. Both PCM and City staff have confirmed discounted or promotional rates were approved by the City in accordance with the agreement. The auditor has yet to provide a contractual provision supporting her position. The Department has already implemented the recommendation from the auditor to further memorialize fee adjustments.

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In this particular instance, the discounts in question generated over \$1,300,000 in revenue, most of which would not have otherwise been realized. An additional important point is that the agreement is designed in a manner where PCM is discouraged from issuing discounts unless absolutely necessary, as the lower revenue gained per round keeps them further from earning their incentive fee. Meaning, each time a discount is issued, PCM is negatively impacted financially.

Ordinance 2019-4299 was adopted by the Mayor and City Commission with the intent of creating a centralized fee schedule, as well as indexing the fees contained therein. By indexing the fees, periodic adjustments take effect ensuring the cost of services rendered by the City are adjusted to account for inflation. The Parks and Recreation Department has a multitude of fees listed in the ordinance, including regular golf fees. However, promotional or discounted golf fees are not listed in the ordinance. The primary reason for promotional or discounted golf fees not being included in the ordinance is due to their volatility, through increased propensity for amendment based on market conditions, demand for play, etc. In addition, the focus during all prior fee discussions at all levels, as they relate to golf, has been establishing maximum fee thresholds to ensure residents and patrons are not charged heavily. Contrary to the auditor's suggestion, the ordinance does not stipulate the City is limited to only charge fees listed therein. The ordinance and the agreement must be applied in conjunction with one another.

All golf fees, including promotional or discounted fees, have been added to the official schedule of fees of the Parks and Recreation Department, with a proviso that the fees cannot be adjusted automatically based on CPI, but rather require periodic review by the Department, to ensure they remain reasonable within market conditions. In addition, adjustments to the fees in the form of discounts should be allowed in order to remain competitive in the dynamic golf market.

The City's participation in the Golfnow Premier Golf Card Program dates to 2009. The City's enrollment in the program has been very fruitful in providing revenue generation for both golf courses during otherwise slow periods. Participation in the program is in compliance with Section 6.18 of the agreement. Contrary to the auditor's claim, Section 6.14 of the agreement does not require the Director to sign the agreement with the Golfnow Premier Golf Card Program. This is another example where the auditor misrepresents her opinion as a contract violation or finding.

- 9) A DISCOUNTED SENIOR RATE WAS GIVEN TO NSGC CUSTOMERS BY PCM, WHICH WAS NOT INCLUDED IN THE CITY COMMISSION APPROVED FEE SCHEDULES AND IT WAS NOT ALWAYS GIVEN TO QUALIFIED RECIPIENTS.**

**Parks and Recreation Department Response:**

The Department disagrees with the finding, in part. In accordance with Sections 6.12 and 6.18, as well as Article 25, discounted rates were approved by the City in order to maximize profitability of the golf courses. The agreement is constructed in a manner that allows for rate changes to be implemented in order to compete in the golf industry's dynamic pricing arena,

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requiring fee adjustments or discounts issued in order to maximize profit, as well as the establishment of promotional fees. Such decisions are necessary to remain competitive in the field, and have proven essential toward introducing new players to our courses, and repeat visitors. For that reason, the agreement contains Section 6.12, which explicitly gives the City Manager or the Director of Parks and Recreation the ability to implement rate adjustments. As well as Section 6.18.1, that clearly states the manager may propose discounted services and memberships. In addition, Resolution 2008-26902 of the Mayor and City Commission approved senior discounts at the Normandy Shores Golf Club, and authorized the City Manager to issue other discounts and promotional rates, as needed.

No provision of the agreement requires rate changes or promotional discounts be memorialized in writing, contrary to the auditor's position. Nevertheless, during numerous discussions, the auditor was presented with or made aware of various documents provided by PCM to the City containing discounted or promotional fee information. The documents serve as evidence the City was well aware of and supportive of the discounted or promotional rates, in accordance with the agreement. Emails have also been provided which show written approval by the Department for some of the discounted rates challenged by the auditor. Further, as explained to the auditor, frequent meetings, telephone calls, emails, etc. are exchanged between PCM and City staff in the course of managing the day-to-day operations of our golf clubs. During these conversations, a myriad of topics are discussed which include rates, maintenance activities, revenue projections, customer service, capital projects, etc. Both PCM and City staff have confirmed discounted or promotional rates were approved by the City in accordance with the agreement. The auditor has yet to provide a contractual provision supporting her position. The Department has already implemented the recommendation from the auditor to further memorialize fee adjustments.

An additional important point is that the agreement is designed in a manner where PCM is discouraged from issuing discounts unless absolutely necessary, as the lower revenue gained per round keeps them further from earning their incentive fee. Meaning, each time a discount is issued, PCM is negatively impacted financially.

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All golf fees, including promotional or discounted fees, have been added to the official schedule

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of fees of the Parks and Recreation, with a proviso that the fees cannot be adjusted automatically based on CPI, but rather require periodic review by the Department, to ensure they remain reasonable within market conditions. In addition, adjustments to the fees in the form of discounts should be allowed in order to remain competitive in the dynamic golf market.

Senior discounts have been in effect since 2008 at Normandy Shores Golf Club and have proven effective toward providing an affordable amenity for our senior residents, while increasing play. The instance with one player erroneously being issued the senior discount was corrected by PCM, and the player has since paid the applicable resident rate. The Department agrees with the auditor's position in that some fees were charged incorrectly, resulting in less than \$600 in net over billing, which is negligible, compared to the millions of dollars in revenue during the audit period. PCM and City staff did not capture the entry errors during financial reviews. The City installed a new point-of-sale system that took effect February 2021, which provides additional built-in safeguards to prevent user error, such as the ones referenced by the auditor.

**10) NSGC EMPLOYEES PROVIDED PRIVATE GOLF LESSONS TO PAYING CUSTOMERS DURING WORKING HOURS PAID BY THE CITY, AND OIG AUDITORS STAFF COULD NOT VERIFY THE ACCURACY OF THE CORRESPONDING EARNINGS AND REMITTANCES, A PORTION OF WHICH MAY BE PAYABLE TO THE CITY.**

**Parks and Recreation Department Response:**

The Department disagrees with the finding, in part. Pursuant to Section 6.14 of the agreement, full-time PGA certified professionals shall be on site, provide lessons and perform all other similar and customary services offered at similar establishments in the South Florida area. PCM has met the requirements of this contractual provision; therefore, the practice referenced by the auditor does not represent a violation of the agreement.

Prior to the 2016 audit by the United States Department of Labor (DOL), employees were not compensated (asked to clock out) during all periods in which they rendered for-profit instruction to patrons. The DOL determined the practice of withholding compensation for those periods was against federal employment law, and thereby instructed PCM to cease the practice immediately. In turn, PCM complied with the DOL's mandate, and has since compensated employees (does not ask them to clock out) for the periods of instruction. The hourly rate for the golf professionals in question is roughly \$17, which is below market rate. The reason for the low rate is due to their wages being supplemented by instruction income, which they split with the City. The Department finds the current expense and profit margins to be acceptable, since net revenue generated by this practice is in the City's interest, yielding over \$13,000 in revenue to the City during the audit period. In addition, the low hourly rate guarantees the City will not incur losses during periods of low demand for instruction. Nonetheless, the Department accepts the auditor's recommendation to work with the Office of the City Attorney to determine if the DOL ruling is still applicable, and if so, what variations of application exist within the confines of federal employment law. The City must proceed cautiously in this process, as modifications to the current methodology may trigger additional

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payroll expenses adversely affecting the profitability of the course. Per the Department's instruction, PCM has commenced recording all lessons in the Chronogolf System to aid the reconciliation process, as suggested by the auditor.

**11) NSGC'S MAINTENANCE REPAIR INSPECTION AND GOLF COURSE EVALUATION REPORTS WERE NOT DOCUMENTED BY THE PARKS AND RECREATION DEPARTMENT, AS REQUIRED BY SECTION 8.09 AND 22.01 OF THE MANAGEMENT AGREEMENT.**

**Parks and Recreation Department Response:**

The Department disagrees with this finding. The Parks and Recreation Department employs a very hands-on approach to the management of the golf courses. While the language in the agreement describes a more high-level relationship, the actual engagement is one where City staff is directly involved in the operations of both courses on a daily basis. Every month, multiple inspections of the golf courses take place by Parks and Recreation Department staff members, ranging from the grounds to the clubhouses, restrooms, dining areas, etc. Any deficiency identified through said inspections is communicated directly to PCM staff on site or via telephone for immediate correction. This methodology removes lag time and ensures the fastest response. The Department also performs follow-up inspections to verify compliance. The world class conditions of the courses are proof that addressing deficiencies immediately with PCM is the most effective and efficient way to maintain the courses.

In accordance with Section 22.04 of the agreement, the Director reserves the right to modify, update, and/or amend the general content and format of the Golf Course Evaluation Report form in order to provide for a suitable instrument for the documentation of the Manager's performance. The Director has not found the need to perform annual written evaluations due to the fact that inspections are performed so frequently by Parks and Recreation Department staff. Written reports are reserved for serious deficiencies identified or deficiencies not corrected after notice to the contractor, neither of which took place during the review period. Further satisfying the evaluation and inspection provisions of the agreement, the Parks and Recreation Department hired external independent consultants to evaluate the conditions and operations of the courses in 2018 and 2019, National Golf Foundation and United States Golf Association, respectively. Both entities provided very favorable comprehensive reports for the courses, which were discussed extensively between Parks and Recreation Department staff and PCM management. Said reports also satisfy the requirements of the agreement.

To satisfy the auditor's recommendation, since 2021, the Parks and Recreation Department has been memorializing golf course inspections in a specialized report form.

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**12) \$735.61 IN FLORIDA STATE SALES TAX IS DUE TO THE CITY FROM PCM, STEMMING FROM ITS PRO-SHOP RENTAL PAYMENTS.**

**Parks and Recreation Department Response:**

The Department agrees with the finding. The Department agrees with the auditor's position in that PCM did not provide payment for sales tax during a limited period. The reason for the missed payments was due to the transition from one agreement to another. The new agreement provides for the payment of sales tax by PCM, while the prior did not. The Parks and Recreation Department issued an invoice for the sales tax payments due, and payment to the City was already made by PCM.

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**NORMANDY SHORES GOLF CLUB (NSGC) ADDITIONAL RECOMMENDATIONS FROM AUDITOR:**

**1) The management agreement is detailed in most areas; however, the following identified areas are not clearly addressed, and current practices do not sufficiently benefit or protect the City’s interests.**

- a. The auditor’s recommendations are based on assumptions, and not actual expense data, since PCM did not release expense information for proprietary reasons, in accordance with the agreement pursuant to Article 18. The auditor’s assumptions represent an uninformed opinion, not supported by fact. The figures provided by the auditor cannot be relied upon, as they are entirely presumptive. The auditor lacks the credentials or expertise in the golf industry to make such drastic business level recommendations.

In 2018, the City engaged the services of the National Golf Foundation (NGF) in order to perform an in-depth analysis of golf course operations, as well as the structure of the agreement between the City and PCM. The NGF is an independent golf industry expert at the national level. The audit yielded very positive results, determining the contractual relationship between the City and PCM is favorable to the City. Per the NGF, both the structure of the City’s management agreement with PCM and the effective compensation are within expectations for a premier municipal golf course. The NGF rendered findings contradicting the auditor, as supported by the following excerpt from their final report, “NGF Consulting’s principals have visited and analyzed hundreds of municipal and daily fee golf operations over the last three decades. Our overriding finding from our tour and summary business analysis is that MBGC is one of the top municipal golf operations in the country, with an outstanding, very well maintained golf course and net operating income performance that places the facility in the top 2% of municipal golf facilities in the U.S., even considering the revenue constraint resulting from resident green fees that are well below ‘market’ rates.”

The Parks and Recreation Department will solicit another study, to be performed by an industry expert in the golf, food and beverage and/or specialty retail market, in order to assess the current structure of the arrangement in place. This study would be forward looking, and if any recommendations are implemented, would apply to future contracts.

- b. The Parks and Recreation Department will take into account the auditor’s suggestion relating to the incentive fee calculation for Normandy Shores Golf Club while negotiating prospective agreements. However, the concept of incentivizing a manager to focus on reducing expenses could have adverse effects on the appearance, playability, service and overall operation of the course. Instead, the focus of the agreement is incentivizing the manager to maximize revenue generation, and provide the best customer experience possible. The auditor proposes a similar fee structure to that of Miami Beach Golf Club, but fails to recognize both courses are not parallel in many ways. Normandy Shores Golf Club was designed as the overflow course for the Miami Beach Golf Club, in order to offer an elevated golf experience for residents and



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patrons at an affordable cost, without adversely impacting the profitability of the Miami Beach Golf Club, a world-renowned destination course and major economic driver. As previously stated, the City engaged the services of the National Golf Foundation (NGF) in order to perform an in-depth analysis of golf course operations, as well as the structure of the agreement between the City and PCM. The NGF is an independent golf industry expert at the national level. The audit yielded very positive results, determining the contractual relationship between the City and PCM is favorable to the City. Per the NGF, both the structure of the City's management agreement with PCM and the effective compensation are within expectations for a premier municipal golf course. The Parks and Recreation Department places a high level of importance on proper governance and financial efficacy, as evidenced by its request for this audit to take place by the Office of the Inspector General. This is in addition to two separate reviews of golf operations in 2018 and 2019 by the National Golf Foundation and United States Golf Association, respectively. In doing so, the Department guarantees the best operation of the courses, and proper stewardship of public funds. Golf operations are also subjected to review through the City's annual external audit process.

- c. The Department agrees with the recommendation of the auditor and have been annually adjusting the credit card fee percentage to reflect the average amount of the fee charge during the prior quarter. This change was applied, as suggested by the auditor.
- d. Golf courses are part of the City's annual external audit process.
- e. As agreed to by the auditor, and confirmed by the findings of her research, allowing golf course employees to play golf without charge is an industry norm. The practice yields benefits to the courses ranging from unfettered feedback on course conditions and playability, to employee recruitment and retention. Employees are only allowed to play when tee times are available and outside of their regular work periods, with the exception of golf professionals, whose job responsibilities include playing with club members. The golf courses benefit from the employment of individuals who partake in the sport, and utilize the courses, making them more relatable to the patrons they serve, thereby greatly impacting customer relations. The practice has negligible impact on course operations, as evidenced by the fact that during the two-year audit period, only 287 rounds were played by employees, representing 0.4% of the 68,113 rounds played at Normandy Shores Golf Club.
- f. The City authorized the expenditure of booking commission fees. The City finds this to be a smart business decision, as through these services, we obtain rounds of golf during otherwise slow periods. The auditor shows the cost of the fee in the amount of \$13,876.30, but fails to report that as a result, the City earned roughly \$156,000 in golf revenue, that would have not otherwise been gained. In furtherance of Section 6.17 of the agreement, in order to maximize profitability of the courses, PCM works with concierges, travel agencies, online services, etc., many of whom provide their services through commission. This is standard in the golf industry across the nation. Booking

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fees are also listed and recorded as part of the detailed financial reports submitted monthly by PCM to the Parks and Recreation Department and Finance Department for review, in accordance with Article 15 of the agreement. There is no contract provision that prevents the practice, and all transactions are properly recorded. This is an example of the auditor unreasonably, and without contractual basis, admonishing the City and PCM for maximizing profitability. This longstanding practice has been in effect prior to 2010, and was not raised as a contract violation by the Chief Auditor in this audit (2020), who conducted an in-depth audit of both golf courses in 2010. At the time, the Chief Auditor raised questions over the tracking of payments, but not over the practice of paying booking fees or commissions.

**2) Concessionaire employee health benefits were reimbursed by the City despite not being clearly addressed in the management agreement**

- a. The Department of Parks and Recreation agrees with the position of the auditor and the Procurement Director, in that payment for employee health benefits are the responsibility of the City, based on the agreement. The Department will further clarify this position in future solicitations or agreements.

## **OIG REPLY TO RESPONSES TO DRAFT AUDIT REPORT FROM PCM AND THE CITY**

### General Observations

The OIG would like to commend PCM and Parks and Recreation Department management for its passion regarding golf course operations, which was expressed repeatedly throughout the audit process and is further exemplified in the detailed responses received, and which contributed to the delays in completing this audit. Although the OIG was appreciative that many of its recommendations were implemented prior to the completion of this audit, it is disappointed and concerned at the tone, and the unduly combative nature of some of the responses received, some of which are not completely factual or accurate and misconstrue some of the observations detailed in the report.

It is important to note that the OIG audits do not assert that the Miami Beach Golf Club (MBGC) and/or Normandy Shores Golf Club (NSGC) are not well-maintained or that its players are dissatisfied with their golfing experience. In fact, the audit report recognizes the overall excellence of the reputation of the golf clubs. Instead, this audit focuses on whether PCM and the City Parks and Recreation Department complied with selected terms in the executed management agreement, which both parties agreed to follow. To our knowledge, the National Golf Foundation or any other outside entity, including the City's external auditor, has not conducted any other detailed compliance examination of these terms.

The auditees' repeated personal attacks on the auditors as not having expertise in golf sets up a falsely constructed strawman (and not an original one) and reflects a poor understanding of the audit process. At no time do the auditors claim to have such expertise, nor is such expertise required in a contract compliance audit such as this one.

In the responses received to these audit reports, the auditees frequently focus on the positive increase in revenues due to some of its actions taken, which were questioned in this audit. Revenue receipts are important to the City as it owns and funds the golf course as well as to PCM, which earns annual incentive fees based on the achievement of revenue-based benchmarks, but that is far from the end goal in a contract compliance audit. The OIG contends that the establishment and following of effective internal controls, including sufficient, documented supervisory oversight, is just as important, if not more so. Having one without the other is most likely not a sustainable and conducive environment. Again, the auditees have misconstrued as unwarranted and intrusive several suggested improvements based on established best practices and auditing standards.

### Findings

Since many of the responses received from PCM and Parks and Recreation Department management have similar underpinnings, the OIG has chosen not to reply to each furnished response to the stated findings. Instead, the OIG maintains there are several overarching facts, presented below which will enable readers of this report to better understand most of the underlying issues within the Findings.

Prior to the adoption of the combined management agreement representing both golf clubs, which was the subject of the OIG audits, there were three separate management agreements: (1) PCM for food and beverage and pro shop merchandise sales at the MBGC; (2) PCM for food and beverage and pro shop merchandise sales at the NSGC; and (3) operation and management of MBGC (including the par 3 golf course) and the NSGC. The combined agreement does not sufficiently address some issues and in other areas it contains some ambiguous and/or poorly

defined terms which could cause confusion and be interpreted differently by different individuals. The City has acknowledged some of these contractual deficiencies.

The OIG identified several such terms in need of revision during this report, with the intention that each could be prospectively amended to help prevent confusion by the affected parties so that each party understands what is expected and what constitutes compliance with the management agreement (e.g., finding #s 2, 3, 4, among others). Very simply put: the clearer the stated terms in the management agreement, the easier it is for all parties to determine compliant behavior as well as the ramifications of non-compliance.

As one would expect, affected parties, would typically interpret these unclear terms in a manner beneficial to its operations and objectives. No evidence was provided to the OIG Auditors at any time during the audit process by the auditees indicating that related discussions were held regarding the interpretation of any of these unclear terms, and that mutually agreed upon and documented decisions were reached and implemented. Nor were any amendments to the approved management agreement presented to the Mayor and the City Commission for ratification. In absence of such documented evidence, the OIG is unable to determine whether any of these issues were discussed beforehand and what actions were agreed upon. The OIG finds this concerning, especially given the importance and financial implications of some of the actions taken in response to the unclear terms in the agreement.

Both PCM and Parks and Recreation Department management repeatedly defend their decisions, claiming that verbal approvals were given in support of the corresponding actions subsequently taken. However, the management agreement specifically requires written advance approval in multiple areas (e.g., Sections 2.04, 3.04.5, 4.01.4, 5.02, 6.10.1, 6.10.2, 6.13.1, 6.13.5.6.2, 6.13.5.6.3, 7.04, 8.06, 12.01, 20.11, Article 23, and Article 32). Although the concessionaire's compliance with many of these sections was not tested by the OIG Auditors in lieu of other tested sections, those tested found that many decisions made did not comply with the written advance approval provision. Instead, both questioned parties asserted that verbal approvals were given, which was contrary to the management agreement, and could not be verified or relied upon by the auditors.

Conversely, there were other instances in which the management agreement states that advance approval is required but does not explicitly require the approval to be in writing. When it is not documented, as was the case in multiple findings in this audit report, it raises possible doubts and concerns to the OIG as to whether the advance approvals were made, as there are no means to prove or disprove the statement, and the lack of documentation is contrary to best practices. The defensive posturing claiming that some underlying decisions were beneficial completely misses the point.

Although the OIG understands that the City approves the annual budget of the golf clubs, which may contain some new related expenditures, it is unfair to believe that each corresponding line item is thoroughly vetted, given the large volume of expenditures and corresponding detail present. As such, it does not necessarily constitute advance written approval of the expenditures.

The OIG continues to recommend that any new, revised, or reoccurring expenditures, especially those exceeding a designated threshold set by the City, be separated and properly vetted before incurring the related expenditures. Once approved, the best practice would be for the terms agreed upon by all parties be sufficiently documented to provide an appropriate audit trail that cannot be easily refuted.

Finding #1 represents a material internal control weakness, that requires prompt corrective action, if not already taken. A condensed version of this finding follows:

*Parks and Recreation Department staff provided a revenue workflow in an email to the OIG Auditors indicating that PCM provides a monthly revenue report to the Finance Department that is then reviewed by that department. The workflow does not contain references to any review by Parks and Recreation Department staff regarding any concessionaire's transactions. Parks and Recreation Department staff claim that they occasionally review the monthly reports, but the OIG Auditors were unable to corroborate these statements as no supporting documentary evidence of these reviews was provided. Consequently, the OIG Auditors had no means to determine the frequency in which these reviews were performed, the depth or results of the analysis, or how quickly and appropriately any questioned transactions were addressed or resolved.*

*The OIG Auditors concluded that this procedure lacked sufficient internal controls, because PCM, an independent company, can make withdrawals up to \$100,000.00 daily from City accounts for payments supposedly made on behalf of the City without prior written approval. Furthermore, no documentary evidence was provided confirming that the PCM expenditures in the monthly reports were examined and approved by the Parks and Recreation Department prior to being reimbursed which increases the likelihood that expenditures contrary to the management agreement may be reimbursed and not questioned.*

In sum, the City Finance Department is not responsible for monitoring the concessionaire's compliance with the management agreement, as its staff are unfamiliar with all the related terms and responsibilities of each party. Clearly stated, determining whether the concessionaire is compliant with the management agreement is the responsibility of the Parks and Recreation Department. The established practice of the City Finance Department's reimbursement of PCM for its submitted expenditures without first requiring that designated Parks and Recreation Department staff review, approve, and provide written attestation verifying that submitted expenditures are eligible for reimbursement is concerning to the OIG.

The OIG Auditors performed limited testing of PCM expenditures during the audit period, whereby it identified several questionable expenditures that it believed could be contrary to or not clearly addressed in the management agreement. Furthermore, Parks and Recreation Department management did not provide any evidence to the OIG Auditors that it questioned any expenditures prior to their reimbursement by the Finance Department. The OIG steadfastly maintains that the established internal controls, if not promptly changed, could result in impermissible expenditures not being questioned and thereby improperly reimbursed.

The OIG believes that neither of the responses received from PCM or the Parks and Recreation Department sufficiently address this internal control deficiency. It is imperative that Parks and Recreation Department management immediately designate selected staff, if not already done, as its management was alerted to this deficiency many months earlier, to examine and to document its approval of all bank transactions before any reimbursements are made by the Finance Department. The status of any questioned expenditures should be timely resolved so that similar future expenditures are consistently and uniformly handled.

This audit report contains several findings that golf customers received discounted rates, but no evidence was provided by the auditees to verify that the City properly approved these discounts in advance for the examined period. In response, PCM indicated that some approvals were received by former City employees, with a few furnished emails dating back to 2008.

The OIG responds that these documented discounted rates were applicable for that period. Afterward, they should have been included in subsequent Fee Schedules, Appendix A, etc., with the other approved annual golf club rates, but they were not included during the audit period. These discounted rates were not intended to continue indefinitely or until the Parks and Recreation Department became aware and notified PCM to stop offering this discount to golf customers. The OIG finds PCM's logic to be erroneous.

The OIG has no means to determine how many golfers who received discounted rates would have still played the City-owned golf clubs at the higher City-approved rates. Nonetheless, the auditees' response to these findings centers on the related increase in golf revenues stemming from the offering and acceptance of these discounted rates. As noted above, increased revenues are important to the City as it owns and funds the golf course as well as to PCM, which earns annual incentive fees based on the satisfaction of stated financial objectives. However beneficial the generated revenues, they cannot be guaranteed to always be the case and represent an issue outside the scope of this audit. The bypassing of established City Commission-approved rates remains problematic. If rate changes prove to be in the best interest of the City, they should be documented and reflected in the rates approved annually by the City Commission.

The auditees also list Section 6.12 of the management agreement as support for its offered discounted rates. Section 6.12 states, *The Manager (PCM) shall charge and collect all Golf Course fees and charges according to a fee schedule approved by the Mayor and the City Commission. City reserves the right to keep or to change the fee schedule, in its sole discretion. The Manager shall have the authority to make temporary rate adjustments during slow periods and/or high-profile events with prior approval from the City Manager or the Director.*

The OIG's interpretation of Section 6.12 is that PCM must charge and collect all Golf Course fees and charges according to a **fee schedule** approved by the Mayor and the City Commission. Multiple fee schedules have been approved by the Mayor and City Commission since PCM was awarded its first contract, and, therefore, there has been ample time and opportunity for the related fees to be included. Unapproved discounted rates should not be charged by PCM.

Furthermore, Section 6.12 states that PCM has the authority to make **temporary rate adjustments** during slow periods and/or high-profile events **with prior approval of the City Manager or the Director**. The OIG does not agree with PCM that prior approval, sometimes dating back to 2008 from former City employees, is aligned with the intent of Section 6.12 to permit **temporary** rate adjustments.

Finding #13 explains that the Parks and Recreation Department did not document its required maintenance repair inspections and golf course evaluation reports pursuant to Sections 8.09 and 22.01 of the management agreement. This is a repeat finding from a prior audit report issued by the Office of Internal Audit on October 15, 2010 (prior to the creation of the OIG).

Although the management agreement specifically requires the completion of these reports, no evidence was provided to the OIG Auditors that any were prepared during the audit period. Due to that absence, the OIG Auditors could not verify the frequency in which required inspections were performed by Parks and Recreation Department staff, and whether any identified deficiencies were timely corrected by PCM.

Furthermore, the Parks and Recreation Department claims in its response that it performed multiple monthly inspections, and that any noted deficiencies were communicated to PCM staff either on-site or by telephone. An auditor is ill-equipped to divine whether unrecorded personal or

telephone communications did or did not occur. If they did, it should be documented pursuant to the executed management agreements.

The Parks and Recreation Department also claims that there was no need to perform the annual written evaluations required in the management agreements due to its frequently performed inspections, which, as noted in the report, the OIG could not confirm because of the lack of corresponding documentation. The terms in the management agreement are to be unilaterally enforced unless an amendment is properly approved by all parties and follows the required protocols. Neither PCM nor the Parks and Recreation Department should be permitted to selectively follow only certain desired terms of the management agreement, as this noncompliant behavior only diminishes its importance and future enforceability.

#### Opportunities For Improvement

Although the audit comments regarding payment for labor costs associated with food and beverage operations was not a finding and was discussed only in the “Opportunities for Improvement” section of the audit report, both PCM and the Parks and Recreation Department opted to respond to them. PCM was not legally obligated to provide records of its labor costs for its food and beverage operations to the OIG upon request, but its continued refusal to provide them surprised the OIG.

In the absence of such records, the OIG Auditors performed its computations on the records provided by PCM, and the corresponding results were furnished to all auditees. Despite having these results for multiple months while receiving more than one draft report that included these computations, PCM did not inform the OIG Auditors that its calculations could be incorrect or provide any additional related documentation. The OIG questions the accuracy and completeness of the records provided by PCM and its openness and cooperation level with the City.

The Parks and Recreation Department should prospectively obtain all necessary information to compute the cost of goods sold from the concessionaire’s food and beverage operations to ensure that it falls within the industry standard range, typically its between 30% and 40%. If the computations result in a lower or higher percentage than the industry standard range, then the Parks and Recreation Department should determine the reasons for the difference (e.g., the related management agreement terms may need to be amended and/or the City is paying for some food and beverage expenditures that the concessionaire should be responsible). Another possibility is to have the food and beverage operations treated the same as all other golf club operations in prospective management agreements to help avoid future confusion or disagreements related to which party is responsible for paying for the associated food and beverage expenditures.

The OIG has accepted PCM’s suggestion that its denomination of “PCM Net Income” may be more accurately described as “PCM Gross Profit,” but that change does not alter OIG’s observation that PCM is not incentivized to control expenditures when its additional “incentive payment” is based solely on achieving designated revenue benchmarks. A better incentive from the City’s perspective would be for PCM’s incentive fee to be determined by Gross Profit or at least by some other agreed-upon measure that includes both revenues and expenditures. Gross Profit is calculated by subtracting the cost of goods sold from total revenue as reported on an organization’s income statement. The adoption of this recommendation and its subsequent inclusion in the management agreement would ensure that the concessionaire also focuses on ways to increase revenues and/or reduce expenditures.

### Conclusion

In conclusion, it is well-established that even minor lapses in internal controls may create risk of serious compromise. All parties should strictly follow the terms of the management agreement. If sections are unclear and/or confusing, then each should be promptly amended so that all parties are more aware of expectations and what constitutes compliant behavior. If differences are permitted to exist under the current format, as the established internal controls are not necessarily sufficient or strictly followed, and there is inadequate documentation of supervision and approvals by the Parks and Recreation Department, then confirmation that the desired actions were taken is not possible. Compounding matters include the large volume of monthly golf club transactions and the City's inability to access PCM's FORE system and its related source documentation. The OIG strongly emphasizes the need to implement changes to correct the identified deficiencies, and by working in tandem with the City's current concessionaire.