



DUBSDREAD GOLF COURSE  
MANAGEMENT AGREEMENT COMPLIANCE  
LIMITED REVIEW

Exit Conference Date: April 10, 2008

Release Date: April 30, 2008

Report No. 08-09

CITY OF ORLANDO

OFFICE OF AUDIT SERVICES AND MANAGEMENT SUPPORT

Beryl H Davis, CPA, CGFM  
Director

John T Sirak, CPA  
Audit Program Manager

Jessica Dlugolinski  
Senior Auditor

## **Audit Services and Management Support Project Summary**

**Dubsdread Management Agreement  
Compliance Limited Review**  
(Report # 08-09)

**Report Date:** April 30, 2008

At the request of the Families, Parks and Recreation Department (FPR), we performed a limited review of Kitson & Partners, LLC (Kitson) compliance with the management agreement for the operation of the Dubsdread Golf Course. Our objectives were to determine if FPR has adequate contract oversight, current operating spending is valid, and the financial interests of the City are being served by the management agreement.

### **Key Conclusions and Recommendations**

- During our disbursement testing, we noted several paid invoices included federal and state fuel taxes as well as sales and use taxes that the City generally does not pay because of its governmental exemption status. We recommended FPR take the necessary actions to apply the City's exemption status for fuel, sales and use taxes.
- During our disbursement testing, we also noted several invoices that were neither recorded nor paid on a timely basis. In addition to procedural deficiencies, the payment delays appear to have also resulted from delays in the replenishment of cash in the City's Dubsdread operating bank account. We recommended FPR take the necessary actions to ensure Dubsdread Golf Course invoices are both accounted for and paid in a timely matter.
- We noted several other financial issues including a lack of routine analysis of balance sheet accounts. We recommended FPR review Dubsdread financial practices and develop strategies to improve such practices.
- The current "incentive management fee" offered in the management agreement appears unattainable and thus ineffective. We recommended FPR develop more reasonably attainable financial and non-financial incentives designed to encourage profitability improvements, for inclusion in the next agreement.
- Previously, FPR had a Dubsdread oversight committee that met on a monthly basis to discuss golf course operational and financial issues. We recommended FPR re-establish a Dubsdread Golf Course oversight committee which meets at least quarterly and to consider expanding the committee to include a Kitson representative.

Our overall audit conclusion is that, on the whole, FPR has adequate contract oversight, current operating spending is valid, and the financial interests of the City are being served by the management agreement. We made five recommendations, summarized above, in this report to enhance the controls already in place. FPR staff has concurred with all five recommendations and management has either already implemented the recommendations or expressed its commitment to implementing the recommendations.

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# CITY OF ORLANDO

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## MEMORANDUM

To: Lisa Early, Director  
Families, Parks and Recreation

From: Beryl H Davis, CPA, CGFM, Director  
Audit Services and Management Support

Date: Exit Conference Date: April 10, 2008; Release Date: April 30, 2008

Subject: Dubsdread Golf Course Management Agreement Compliance Limited  
Review (Audit Report No. 08-09)

At the request of the Families, Parks and Recreation Department (FPR), we performed a limited review of Kitson & Partners, LLC (Kitson) compliance with the management agreement for the operation of the Dubsdread Golf Course. While our review covered the February 1, 2004 (agreement inception) through December 31, 2007 period, the course has been closed for renovations since March 2007 and we therefore performed our review with the limited objectives to determine if:

1. FPR has adequate contract oversight processes in place to ensure Kitson's compliance with the management agreement.
2. Current operating spending is valid and does not include spending related to current course renovation or other Kitson operations.
3. The financial interests of the City are being served by the management agreement.

We conducted this limited review in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our procedures included discussions with FPR and responsible Area Managers, a review of contract terms and evaluation of compliance, tests of the accounting records and other such auditing procedures as we considered necessary in the circumstances. Our scope did not include a review of controls over collecting revenue, but we did perform analyses of pre-closure reported revenues to ascertain reasonableness.

Based upon our tests and inquiries we determined that, on the whole, FPR has adequate contract oversight, current operating spending is valid, and the financial interests of the City are being served by the management agreement. The recommendations in this report are intended to enhance internal controls already in place. In particular, FPR should take the necessary actions to pay invoices on a timelier basis to take advantage of discounts and to avoid paying late fees. We also suggest that FPR re-establish the Dubsdread Oversight Committee as a vehicle to maintain a dialog with Kitson as well as to monitor its operational management of the golf course.

We would like to express our appreciation to the officials and employees of FPR and Kitson for their courtesy and cooperation during this review.

BHD/

- c: Honorable Buddy Dyer, Mayor
- Byron W. Brooks, Chief Administrative Officer
- Brie Turek, Chief of Staff
- Rebecca W. Sutton, Chief Financial Officer
- Jon Somsen, Chief Assistant City Attorney
- Rodney I. Williams, Recreation Division Manager
- Denise M. Aldridge, Parks Assistant Division Manager
- Brenda R. March, Assistant to the Director, Families, Parks & Recreation
- Richard A. Casolino, Purchasing Agent Senior

## **BACKGROUND**

Dubsdread Golf Course (Dubsdread) is a par 72, 18-hole public golf course located in College Park. The course was built in 1926 as a private club and operated as such until 1978 when the City of Orlando acquired the course. The City operated the golf course for the next twenty years, until March 1998, when the City entered into a lease agreement with American Golf Corporation (AGC) to lease the golf course and related operations (driving range, pro shop, restaurant, etc.) The lease agreement extended until December 31, 2003.

On February 1, 2004, the City entered into a five-year management agreement with Kitson & Partners LLC (Kitson) to "...direct and control the management, accounting, marketing and operation..." of Dubsdread for a fee of \$87,000 per annum. Kitson operated the course until March 2007 when the course was closed for major renovations. The course was originally scheduled to reopen early summer 2008 but the schedule is now delayed with a current restart date planned for early August 2008; the actual date will be subject to weather conditions effect on the growth of the new grasses.

As part of the management agreement, a separate "In Trust For" (Kitson & Partners ITF City of Orlando) City bank account was opened to allow Kitson to deposit all revenues and to issue checks for payment of invoices and other expenses. Also in accordance with the management agreement, Kitson submits a monthly comprehensive report to the City (activity summary, statistical data, financial statements, check register, payroll details, and bank statements). This report is utilized by Accounting staff to record Dubsdread activities in the City's accounting system and by Families, Parks and Recreation management to monitor operations.

## SUMMARY OF RECOMMENDATIONS AND RESPONSES

<b>RECOMMENDATIONS</b>	<b>RESPONSES</b>
<p>Each recommendation is classified with a “Criticality Factor,” defined as:</p>	
<p><b>HIGH</b>            represents a control risk or needed improvement requiring immediate attention.</p>	
<p><b>MEDIUM</b>       represents a control risk or needed improvement requiring attention in the next year.</p>	
<p><b>LOW</b>             represents a process improvement that can be addressed at management’s discretion.</p>	
<p>The Families, Parks and Recreation Department should:</p>	
<p>1. Take the necessary actions to apply the City’s exemption status for sales, use and fuel taxes. (MEDIUM)</p>	<p>Concur</p>
<p>2. Take the necessary actions to ensure Dubsdread Golf Course invoices are both accounted for and paid in a timely manner. (HIGH)</p>	<p>Concur</p>
<p>3. Review Dubsdread financial practices and develop strategies to improve such practices as well as to update the names of individuals authorized to conduct business with financial institutions. (MEDIUM)</p>	<p>Concur</p>
<p>4. Monitor post-renovation operations with a view to modifying/developing both financial and non-financial incentives designed to encourage profitability improvements for inclusion in the next agreement. (MEDIUM)</p>	<p>Concur</p>
<p>5. Re-establish a Dubsdread Golf Course oversight committee that meets at least quarterly to review transactions and finances affecting the course. (HIGH)</p>	<p>Concur</p>

## **ISSUES AND RECOMMENDATIONS**

### **Objectives, Scope, Methodology and Conclusions**

The objectives of this review were to:

1. Determine if the Families, Parks and Recreation Department (FPR) has adequate contract oversight processes in place to ensure Kitson & Partners, LLC's (Kitson) compliance with the management agreement.
2. Ensure operating spending is valid and does not include spending related to current course renovation or other Kitson operations.
3. Ensure the financial interests of the City are being served by the management agreement.

The scope of this review was limited to the activity of the Dubsdread Golf Course (Dubsdread) for the period of February 1, 2004 (management agreement inception) through December 31, 2007.

In order to review the above objectives, we: conducted interviews with FPR as well as Kitson staff; obtained and reviewed the management agreement between the City and Kitson; and performed tests of the accounting records and other such auditing procedures as we considered necessary in the circumstance.

We determined that FPR has generally adequate contract oversight, current operating spending is valid, and the financial interests of the City are being served by the management agreement. We did recommend FPR instruct Kitson to take greater advantage of the City's fuel, sales and tax exemption status as well as to pay invoices on a timelier basis to take advantage of discounts and to avoid late fees. FPR should also re-establish the Dubsdread Oversight Committee to better monitor operations as well as maintain a dialog with Kitson.

**Fuel, sales and use tax exemptions**

During our disbursement testing, we noted several paid invoices included federal and state fuel taxes as well as sales and use taxes. State and local governments are exempt from federal fuel excise taxes and local governments can obtain partial refunds of State fuel taxes paid. While local governments are generally exempt from sales and use taxes, there is some murkiness when such purchases are made by third parties, e.g., for public works projects, the State Department of Revenue has said that municipalities must order, pay and take responsibility for construction materials used in projects in order to be exempt from the tax. We believe that the Dubsdread operation qualifies for sales tax exemption since the facilities are owned by the City, purchases are made on behalf of the City and payments are made from a bank account in the City's name with Kitson functioning as an agent for the City.

While the tax amounts involved are not large (our test of 40 disbursement checks revealed fuel and sales taxes paid of \$1,495, or 1.4% of the total payments reviewed), operating costs and cash flow would both be helped if such taxes were not paid. We suggest FPR explore the possibility of allowing Kitson to use the City's Sales Tax Exemption Certificate for purchases made on its behalf. In addition, we suggest FPR instruct Kitson to purchase fuel from the City's supplier as that should already exclude the federal excise tax, is likely less expensive than the current provider's pricing and would also provide data necessary for computing any State refund requests.

**Recommendation 1.**

We recommend that the Families, Parks and Recreation Department take the necessary actions to apply the City's exemption status for fuel, sales and use taxes.

**Response**

Concur. Completed. FPR Management has met with the General Manager and verified that a tax exempt certificate exists in Dubsdread name. The current certificate expires December 2008. The General Manager has been advised that on all purchases made on behalf of Dubsdread the sales tax exemption certificate is to be provided to the vendor. If at any

time tax is charged on an invoice in error, the General Manager will advise the Kitson and Partners corporate office to deduct the sales tax amount before paying the invoice.

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**Timely recording  
and payment of  
invoices**

During our disbursement testing, we also noted several invoices that were neither recorded nor paid on a timely basis.

Specifically, we noted 54 of 119 invoices tested (45%) were recorded in the Dubsdread accounting records maintained by Kitson more than 30 days past the invoice date and that all 40 of the disbursement checks tested included the payment of at least one invoice which was past due. Invoices not recorded on a timely basis could result in misleading monthly reporting to the City. In addition, Kitson has been paying assessed late fees and has not taken full advantage of available discounts.

Local Kitson staff indicated its prior invoice-processing procedures did not result in timely recording, but Kitson has recently implemented new procedures, which should improve timeliness. In addition to procedural deficiencies, local Kitson and FPR staffs indicate payment delays were also the result of insufficient cash in the Dubsdread operating account to pay the invoices due. According to the management agreement, Kitson is to determine whether there is an operating account cash shortfall and submit a payment request to FPR to replenish the operating bank account. The FPR staff approves the payment request and submits to the City's accounts payable department, which generates a check payable to Kitson. Kitson deposits the check into the Dubsdread operating account and processes accounts payables. It appears this process could function on a timelier basis.

Timely recording and payment of invoices are good practices that provide accurate financial information, establish reputable relationships with vendors, avoid late fees, take advantage of discounts, and are required by the Florida Prompt Payment Act. We suggest FPR notify Kitson that the City expects invoices to be recorded and paid according to the invoice terms or within 30 days and that Kitson will be responsible for any late fees or

missed discounts. We also suggest FPR explore alternative operating account funding arrangements (e.g., pre-funding, wire transfers) to ensure adequate funds are in the operating account to pay invoices in a timely manner.

**Recommendation 2.** We recommend that the Families, Parks and Recreation Department take the necessary actions to ensure Dubsdread Golf Course invoices are both accounted for and paid in a timely manner.

**Response** Concur. Completed. FPR Management has met with the General Manager and advised of the appropriate procedures for requesting funds from the City to ensure adequate cash flow is available in the Dubsdread operating account so that invoices may be recorded and paid in a timely manner.

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**Other Issues** During our review of payroll, disbursements, and finances we noted several miscellaneous financial issues that should be evaluated by FPR for possible actions, including:

- Kitson employee bonuses charged to Dubsdread operating expenses are included within the “wages” account and not reviewed or approved by FPR either during the budget process or when actual results are reported. Reporting bonuses as a line item within budget and actual results would highlight such for management review.
- Salaried employees working at Dubsdread are not required to track or attest to their hours worked. The practice of salaried employees tracking and reporting hours worked would be consistent with other City employee time reporting.
- Kitson apparently paid several invoices from copies, faxes and statements and was unable to locate six (6) requested invoices, including those supporting about \$1.7k in prepaid expenses on the September 30, 2007 balance sheet. Only original invoices should be paid to

provide some assurance that invoices have not been previously paid and the invoices should be retained in a location allowing easy retrieval.

- The Kitson prepared September 30, 2007 Dubsdread operations balance sheet included a \$6.5k receivable due from Kitson for reimbursement of payroll expenses. Further investigation revealed the receivable involved reimbursement to Dubsdread for paying a Kitson manager-in-training that occurred prior to December 2006. Receivables should be regularly reviewed to determine collections occur timely and, if not collected, are appropriately followed-up.
- Individuals currently authorized to conduct Dubsdread operating bank account transactions include the former Chief Financial Officer who retired from the City in June 2005. Only current City employees should be authorized to conduct bank and other financial account transactions.
- The current “incentive management fee” offered in the management agreement (section 3.3) appears unattainable and may therefore be ineffective. Attainable incentive arrangements, both financial and non-financial (e.g., incremental management fees based on budget percentage targets, increased rounds, additional tournaments), might encourage better fiscal discipline even if financial incentives are not attained.

While the above items do not individually cause much concern, their preponderance indicates a disinterest in exercising good financial practices which could negatively impact overall results. Good financial practices, such as routine analysis of balance sheet accounts, coupled with appropriate incentives encourage desired behavior in operating management.

We suggest FPR fiscal management review the above issues with Kitson management and develop appropriate strategies to improve financial practices and to update the names of

individuals authorized to conduct transactions with financial institutions. We also suggest FPR staff closely monitor post-renovation operations and consider revising the incentives, to include both financial and non-financial incentives, for incorporation in a new agreement (current contract expires December 31, 2009).

**Recommendation 3.** We recommend that the Families, Parks and Recreation Department fiscal management review Dubsdread financial practices and develop strategies to improve such practices as well as to update the names of individuals authorized to conduct business with financial institutions.

**Response** Concur. A documented plan of action will be developed by FPR Management and Kitson and Partners staff to address each item specifically described above.

**Recommendation 4.** We recommend that Families, Parks and Recreation Department management monitor post-renovation operations with a view to modifying/developing both financial and non-financial incentives designed to encourage profitability improvements for inclusion in the next agreement.

**Response** Concur.

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**Oversight Committee** Families, Parks and Recreation previously had an internal Dubsdread oversight committee that met on a monthly basis to discuss golf course operational and financial issues. Regular interaction between FPR and Kitson staffs keeps both parties apprised of issues and allows for a more direct exchange of ideas.

The reopening of the course in late summer will require the hiring/rehiring of staff and more focused attention to course renovation conditions while the financial issues noted in the prior comments will require resolution. It would therefore appear to be an opportune time to re-establish, and perhaps expand the committee to include a Kitson representative, to

adequately address the issues as they arise.

**Recommendation 5.** We recommend that the Families, Parks and Recreation Department re-establish a Dubsdread Golf Course oversight committee that meets at least quarterly to review operational activities and finances affecting the course.

**Response** Concur. FPR Management will re-establish the Dubsdread Golf Course oversight committee meeting at least quarterly to review operational activities and finances affecting the course.

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