



Internal Audit Report - USSSA Contract Compliance Follow-up

August 7, 2019, as updated May 26, 2020

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Audit Committee of Brevard County
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We hereby present the follow-up procedures related to the United States Specialty Sports Association (“USSSA”) Contract. This project was a limited-scope review of room nights and a portion of related capital expenditures as a result of an observation issued in our October 2017 internal audit report, for the monitoring and oversight of the Room Night Guaranty. This was not a full scope contract compliance review.

Brevard County’s Space Coast Stadium Complex includes an 8,100 seat baseball stadium and other recreational facilities. In April 2016, the complex was leased for 20 years to USSSA, and was later amended to commence on January 1, 2017. USSSA is responsible for the management and operation of the complex, including ticket sales and concessions, applicable taxes, maintenance, and capital improvements of the facilities. The County also contributes to the cost and management of the capital improvements.

Rather than remitting lease payments to the County, USSSA guarantees an amount of “room nights” per year of operation. Room nights are defined as hotel stays in Brevard County, booked specifically for stadium complex events. In the first two years of operation, USSSA guarantees 75,000 room nights, and 100,000 room nights for each year after. Per the lease agreement, if the room night guaranty is not met, USSSA shall make additional capital investment based upon a formula. The room nights are reported to the County’s Tourism Department Office (“TDO”), the County’s designated contract administrator for the lease agreement.

Objective and Scope - The primary scope and objective of the review was to verify the room nights as reported by USSSA against available documentation; and if a shortfall in room nights compared to stated goals is observed, then to verify USSSA’s capital expenditures during the lease year to determine if the contractually required increase in capital investment was made. Our approach consisted of the following methods:

- Conducted interviews with County personnel and USSSA to understand reports received, reviewed and verifications done to date.
- Requested source data from USSSA and their travel vendor, Anthony Travel, and obtained copies of the lease agreements and any amendments to-date.
- Reviewed USSSA provided report “County Room Night Analysis – USSSA Space Coast Complex April 1, 2018 – March 31, 2019”, published July 12, 2019.
- Reconciled source data from Anthony Travel Pacer Reports against USSSA reported hotel nights in County Room Night Analysis.
- Reconciled USSSA provided Housing Forms data against County Room Night Analysis.
- Reviewed USSSA capital expenditures supporting documentation, as well as County records, as needed.

At the conclusion of our analysis, we summarized the results of our procedures and presented to County Management. Since that date, contract amendment information has been incorporated and discussed with management, thus a revised report date is shown.

We would like to thank the County and USSSA staff and all those involved in assisting our firm in connection with the follow-up internal audit of the USSSA contract.

Respectfully Submitted,

Internal Auditors

RESULTS

1. Room Nights Analysis

The Second Amendment to the Stadium Complex Lease agreement between the County and USSSA requires generation of 75,000 room nights in Brevard County hotels for the period April 1, 2018 through March 31, 2019. In any period that the room night guaranty is not met, USSSA is required to invest an additional amount of capital expenditure, increased by a percentage equal to the shortfall of room nights divided by the guaranteed number of room nights.

The following represents the findings of our verified rooms against room nights reported in USSSA's County Room Night Analysis report.

	USSSA Reported	Internal Audit Verified	Difference
Anthony Travel Pacing Report	27,806	27,777	29
USSSA Housing Forms	31,653	30,898	755
Total Room Nights	59,459	58,675	784

The variance can be attributed to:

Anthony Travel Pacing Report provided directly from Anthony Travel did not agree to Anthony Travel Pacing Report numbers reported in the County Room Night Analysis report, as prepared by Kreshmore Group on behalf of USSSA. Without seeing source data used in the Kreshmore report, we are not able to determine cause of variance.

Housing Forms variance resulted from:

- Deductions due to housing owned by USSSA and its CEO included as Staff Rooms
- Housing Form totals provided by USSSA did not agree to summary totals on provided spreadsheet
- Deductions due to duplicate housing counted in housing forms (i.e., same lodging appeared to be counted for one or more attendees)

Using either scenario, USSSA did not meet the 2019 room night guaranty, requiring an additional capital investment. Internal Audit's verified room night calculation would result in an additional required investment of \$54,425 ($\$250,000 \times 21.77\%$). The contract does not specify when the additional investment must be made.

RESULTS – CONTINUED

2. Capital Expenditure Analysis and Required Investment

USSSA has two contractual requirements related to annual expenditures for capital improvements and capital maintenance, and contributions to the Asset Renewal and Replacement Fund (ARR Fund).

- A. Article 7 “Fund for Asset Renewal, Replacement, Capital Improvement or Capital Repairs”, establishes a joint ARR account “for the purpose of serving as a segregated asset renewal, replacement, and capital improvement fund”. Section 7.3.1 defines the requirement for USSSA to deposit \$250,000 into the fund on the anniversary date of the Commencement Date for each Lease Year during the first ten years of the lease term. The lease term year is January – December, per the agreement, as amended. The County also contributes \$250,000 to the ARR Fund. In order to receive reimbursement from the ARR Fund, USSSA must first expend the funds and then submit reimbursement requests to TDO. These expenditures are accounted for separately by USSSA and submitted to TDO for approval and payment. As of the testing date, the most recent ARR reimbursement was processed by the County in July 2018, for \$490,886.80.
- B. Section 5, Paragraph 4 of Exhibit D of the Second Amendment also requires USSSA to expend the base amount of \$250,000 each year during the term of the lease for capital improvements and capital maintenance. This annual requirement is exclusive of the annual deposit into the ARR Fund. Per the definitions in the agreement, these would not include routine operational repairs and maintenance of the facilities.

For item B above, USSSA reported leasehold improvements of \$290,738.59 that are considered additional capital expenditures items. Internal Audit reviewed supporting documentation and verified \$203,836.18 for the period tested. An adjustment of \$86,902.41 was removed for invoices that were previously reimbursed to USSSA by the ARR Fund on July 18, 2018, Check #1038224.

As a result of this deduction, USSSA did not fully meet the requirements of Section 5, Paragraph 4 of Exhibit D, by an amount of \$46,163.82.

It should be noted that the County has allowed for some uncertain expenditures to be deemed eligible as Capital Repairs or Capital Maintenance, as defined in the current agreement, due to ambiguity in the lease agreement definitions. The County and USSSA are currently working through a lease amendment that will further clarify the requirements.

RESULTS – CONTINUED

3. Asset Renewal and Replacement “ARR” Fund Contributions

Article 7 Fund for Asset Renewal, Replacement, Capital Improvement or Capital Repairs, establishes a joint ARR account “for the purpose of serving as a segregated asset renewal, replacement, and capital improvement fund”. Section 7.3.1 defines the requirement for the Tenant to deposit \$250,000 into the fund on the anniversary date of the Commencement Date for each Lease Year during the first ten years of the lease term. As of the first contract amendment, the commencement date is January 1, 2017, and therefore payments are due on January 1 of each Lease Year (Article 3.1 of the amended agreement).

Payments for lease years ending 2018 and 2019 were paid by USSSA to the County on July 31, 2018, and October 1, 2019, respectively. Previous TDO management authorized USSSA to pay the \$250,000 by the County’s fiscal year end of September 30 in fiscal year 2018, and therefore that was allowed again in fiscal year 2019. Due to COVID-19, USSSA requested the payment due date to be September 30 in fiscal year 2020, as well. Going forward, a lease amendment is under negotiation that will clarify the payment date, as well as other items such as methodology of measuring room nights. Once the due date is clarified, the County TDO should issue the invoice with the proper due date indicated, in accordance with the updated lease agreement.



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