



# Office of the Auditor General Examination of the Prospect Reef Management Company Ltd.



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# Contents

Executive Summary	2
Objectives and Methodology	3
Background	3 -4
Acquisition and Organisational Arrangements	4-5
Renovation and Improvement Plans	6-7
Resort Overheads and Operations	8-9
Current Property Usage	9
The Financial Control Environment	10-12
Vacation Club	12-15
Partnerships, Joint Ventures and Agency Pursuits	15
Subleasing and Divesting	16
Culinary Center	17-18
Conclusion	18
Recommendations	19
Appendices	20-21

## **Executive Summary**

1. In February 2005 the Government acquired Prospect Reef Resort for \$6 million with the intention of having this developed into a Culinary Institute and Hospitality Training Centre. The resort was to be transformed into a financially self-sustaining 3 -4 star hotel and a 5 star conference center. The culinary institute was to be administered by Johnson and Wales University and the Prospect Resort would be managed by Interstate Hotels. The initial estimates for the upgrade put the cost in excess of \$20 million.
  
2. A Government owned BVI company, Prospect Reef Resort Management Company Limited, was incorporated in April 2005, to manage the affairs of the Resort and Board members were appointed. A redevelopment plan was conceptualized by the architectural firm VOA out of Orlando, Florida in which some of the existing units would be renovated and others torn down and reconstructed. This would create facility that would house 150 guests and a conference centre to accommodate 250 persons. It would also include a new restaurant funded by the European Commission, to be used as a regional culinary arts training center. VOA's estimated cost for the upgrade was \$40 million.
  
3. After the acquisition, the Government sought to assist the former proprietor Mr Cyril Romney in securing a resolution with the Vacation Club investors who had been affected by the purchase and were threatening a negative public relations campaign on the resort and the territory.
  
4. During the period May 2005 to December 2006 the resort was closed to guests and the ongoing overheads and expenses were subsidized by the Government. In 2007 Government subventions were discontinued and the resort was required to be self-supporting. The tenure for the Management Board expired in 2010 and the Resort was left to function on its own under the management of the CEO/GM. Since that time the operations have continued without any accountability or direction.
  
5. The plan for the Culinary Centre at Prospect Reef was discontinued and the project to construct a culinary training centre at Paraquita Bay resumed in 2007 when the previous government administration was returned to office after general elections.
  
6. In 2013, Government decided to seek an investor to take on the responsibility of planned redevelopment.

## **Objective & Methodology**

1. The objective of this audit is to examine the operation of the Prospect Reef Hotel for the period 2005 to present to determine the issues and setbacks that contributed to the property not satisfying its intended purpose.
2. In carrying out this investigation, information was gathered from records and files from the Premier's Office, and the Chairman of the Prospect Reef Management Board, interviews with key persons related to the project and site visits to the property.
3. Emphases were placed on significant legislative authorities, organizational arrangement, accountability arrangements and the objective, mission and expected results of this project.

## **Background**

4. In November 2003 Mr Cyril Romney, the then proprietor of Prospect Reef Resort wrote to the Chief Minister, Dr the Hon Orlando Smith with a proposal for the Government's acquisition of Prospect Reef properties. This, Mr Romney suggested, could be developed and used as a hospitality training center and four star hotel with a niche focus on business tourism.
5. The resort which was built in 1960 -70's is situated on more than 10 acres of seafront property on the western edge of Road Town and comprised of 131 guest rooms, two restaurants, a gym, conference room, Olympic size pool, jetty and other amenities. The properties had been on the market for some time by the owners, Prospect Estates Limited, before being leased to Mr Romney. The owners, were at the time fielding other possible buyers, but expressed a preference to having the properties purchased by the Government. The proposed sale price of \$6 million came with the task of restoring and improving the premises which were outdated and in disrepair. It could cost several millions more to bring this to an acceptable standard.
6. Notwithstanding, the Prospect Reef option was an attractive one. It presented an existing facility in a central location that could cater to broad based hospitality training (not just in culinary arts) while providing improved accommodation to the growing industry of business tourism. A negotiation team from the Government met with representatives of the owners and performed a survey of the properties on 28 November 2003.
7. The negotiating team recommended that the resort should be considered as a general business hotel, the hillside property rights should be included as a part of the deal and an independent assessment of the property be performed. In addition, the team recommended

that the precise terms of the agreements between the owners and Cyril Romney be fully disclosed and other ancillary implications be considered, especially with regards to possible leasing/subleasing of the property by the Government should they chose to follow through on the acquisition.

## Acquisition Organisational Arrangements

8. *The property was managed under an arrangement designed to provide autonomy for the Resort's operation as a business venture. There was however insufficient provision for Government input and oversight, especially during the formative months when it was crucial to ensure full understanding of the project's objective and timely implementation of the same.*

9. Prior to the acquisition, Heads of Terms were signed by the Government and the representative of Prospect Estates Limited, Mr Brian Young on 27 August 2004. At that point it was envisioned that after the properties were purchased, plans for construction of a culinary arts facility in Paraquita Bay would be discontinued and two sets of consultants would immediately be engaged to steer the project forward. The first, Johnson and Wales University, would be responsible for all aspects of training on the property while the other consultants, Interstate Management Company, would undertake management of the resort including running the hotel operations. The latter had already submitted a proposal to manage the facility on 12 May 2004 at \$15,000 per month.

10. Approval for the purchase was obtained from Executive Council on 26 January 2005 and the leases for the transfer signed on 11 February 2005. The composition of the properties were as indicated below.

Property Description	Interest Transferred	Registration Detail	Value	Size (Acre)
1. Property on the seaward side of the highway. Restaurants, Hotel, Reception, Pool, Dolphin Discovery	Leasehold	Road Town - Block 2936B Parcels 53/1 and 56/1	5,700,000	10.38 & 1.00
2. Not Defined	Freehold	Road Town - Block 2936B Parcel 84	200,000	0.18
3. Property on the other side of the highway - Gym/ Tennis Courts/ Swimming pool etc.	Leasehold - Option Parcels	Road Town - Block 2936B Parcels 52/1 and 54/1	100,000	Not Stated
			<b>6,000,000</b>	

11. An initial deposit of \$1 million was paid on signing of the agreement and the remaining \$5 million was to be paid in two installments of \$2 million each on 1 December 2005 and 1 April 2006 and a final payment of \$1 million on 1 April 2007.

12. With this purchase, the preliminary planning for construction of a culinary arts centre at the H Lavity Stoutt Community College was discontinued.

13. The Prospect Reef Resort Management Act, 2005 (the Act), passed by the Legislative Council on 22 March 2005, provided for the establishment of a limited liability company to manage and develop Prospect Reef Resort as a commercial undertaking for and on behalf of the Government. The Act empowered the entity to, among other things, establish a modern and efficient conference facility and develop a comprehensive infrastructure to provide a full and effective hospitality training program.

14. At the time that the legislation was passed, the "Prospect Reef Resort Management Company Limited" had already been incorporated as a BVI Limited Liability entity on 22 February 2005. The issued share capital of the Company vested 50% in the name of the Financial Secretary and 50% in the name of the Permanent Secretary in the Chief Minister's Office, both to be held on behalf of the Government.

15. A Board of Directors comprising of a Chairman, Mr Robert Mathavious, an Executive Director, Mr Mead Malone and three members Miss Alicia Penn, Mr Vincent Wheatley and Mr Michael Thomas was appointed on 21 February 2005 for a period of five years. Mr Russell Harrigan, then Director of the Tourist Board attended and contributed to Board meetings as an ex-officio member. The Board appointed Mr Allen O'Neal as CEO on 25 May 2005 to conduct the day to day management of the resort.

16. The Board commenced work immediately by pursuing plans for the improvement and redevelopment of the resort. Working in subcommittees, the Board tackled issues for the redevelopment, financing, management, Vacation Club and other related matters. It would however encounter challenges in each of these areas that would threaten the goal of the project.

## **Renovation and Improvement Plans**

17. *The property's advanced state of deterioration at the time of acquisition required major and costly redevelopment works to achieve the Government's desired standard of a four-star hotel. To mitigate financing challenges a decision was taken to phase the development and include a self financing element.*

18. Vacant possession of Prospect Reef properties was transferred to the Government's statutory board, Prospect Reef Resort Management Company Limited (PRMC) on 31 March 2005.

19. The properties showed extensive deterioration requiring major repairs and replacements. Much of the electrical, plumbing and mechanical equipment and infrastructure were almost thirty years old and were dated back to the initial construction of the buildings. Some of these presented ongoing maintenance and safety issues. Basic amenities like water heaters and air-conditioning systems were provided to most of the accommodation units but the systems were ad-hoc and aged. The condensing units were exposed to the elements and in a state of rust and degradation.

20. In addition to addressing the renovation issues, there was also a need to modernize the amenities to include internet access, a larger and improved conferencing centre and improvements to the general aesthetics of structures and grounds to meet the standard required by the Government.

21. The firm VOA of Orlando, Florida was selected to provide the architectural and engineering services for the development in June 2005. Locally based ADC (Dion Stoutt) was retained to act as project manager and perform onsite architectural services as needed.

22. Conceptual drawings presented to the Board by VOA on 18 August 2005 showed a number of changes including a relocated reception, relocated and enlarged conference center, rerouting of the waterway/lagoon, demolition of some units and expansion of others. The new layout would increase the number of hotel rooms to 150.

### **Renovation/Redevelopment Costs**

23. Based on the estimates provided by VOA, the sprawling property would require approximately \$40 million for the desired upgrade. VOA's professional fees were submitted as \$2.975 million.

24. The Board decided in October 2005 on a phased development. This would commence with replacing the conference centre on the western end of the property with condominium units. These would be sold to provide capital for the rest of the works thereby reducing the amount of outside financing required.

25. An estimated initial capital of \$11 million would be required to construct the condominiums. The Government would be asked to inject \$5 million and provide a guarantee for bank financing of the balance. The \$5 million government contribution would cover the cost of the new convention centre and other public spaces. Additionally, financing of €1 million (one million Euros) was expected from the European Development Fund to refurbish the two restaurants which would be used for culinary training.

26. The funding request sent to the Government dated 15 November 2005, made a case for a cash injection of \$5.434 million to commence the project. The request detailed plans to redevelop the most eastern block to provide guest rooms, as well as renovation of the restaurants, the service and shops building and construction of the new conference centre in the area now known as La Piazza.

### **Loan Financing**

27. In addition to the funding request made to the Government, applications for financing were submitted to four commercial Banks in early 2006 to cover the balance needed for the initial phase of the project. In October 2006 the Board decided to accept the financing proposal submitted by First Caribbean Bank for a combined loan of \$2 million to cover soft costs and \$10 million for development expenses.

28. This would be pursued in concurrence with a line of credit from Banco Popular for a \$1 million overdraft facility which received preliminary approval from the bank in December 2006. Both the Banco and First Caribbean instruments would require charges on the Prospect Reef property and a Government guarantee.

29. Since the final purchase installment of \$1 million had not yet been paid by the Government (due on 1 April 2007) permission of the previous owners would be needed to place a charge on the property. To avoid this, the Board made an application to the Government to secure early payment of the outstanding balance and to obtain approval from the Legislative Council for the Government guarantee.

30. None of the financing pursuits (government or banks) were finalized. This was due in part to a change in the Government administration that occurred in August 2007.



## **Resort Overheads and Operation**

31. *Throughout the period that the properties were closed, the Government provided subventions to cover ongoing overheads. After reopening the property has generated enough revenue to be self supporting but the continued state of deterioration of the premises has resulted in a lower standard of clientele.*

### **Operational Costs**

32. The Financial Secretary's contribution to the Executive Council decision paper that sought approval for the Prospect Reef acquisition indicated that it presented no financial implications for the Government. This was not to be.

33. The resort was closed on 31 March 2005, initially to mark the changeover of ownership and thereafter to allow for renovations to be undertaken.

34. In March 2005, the Government provided an initial subvention of \$200,000 that was intended to meet urgent and critical startup costs including security of the property, fencing and retention of a skeleton upkeep crew.

35. For the period March 2005 to December 2006 while the resort was closed to guests, funds were needed to cover ongoing overheads including salaries, utilities, insurance and upkeep. Subvention of \$790,000, issued in installments, was advanced during this period. In addition, an amount of \$250,000 was issued in 2007 for a total of \$1.04 million for operational costs.

36. In September 2005 the Chief Minister initiated talks with the Chairman of HLSCC and Chairman of PRMC to secure a partnership for the hospitality training centre at Prospect Reef. The parties identified January 2006 as the date for New England Culinary Institute to take over operations of Prospect Reef restaurants. A month later in October 2005 the Chief Minister requested that the Board undertake renovation of the hotel rooms in four of the blocks so that these could be ready for the market in January 2006. Neither of these events would be realised.

37. In August 2006 the Resort remained closed and the renovation works had not yet commenced. The Chief Minister again requested that the Board take steps to secure the reopening of the Resort. The Government advanced a contribution of \$500,000 to cover the renovation costs and the Board, via the CEO, undertook an expedited programme of works to prepare rooms and the Resort for reopening to guests.

38. The Government owned Prospect Reef Resort reopened in January 2007 with 76 renovated rooms. This allowed for guest accommodation on the western part of the property and for work on the redevelopment plan to commence on the eastern side.

39. The territory wide general elections which followed in August 2007 resulted in a change in government administration and change in direction. Plans for the redevelopment of the resort were suspended and efforts refocused on constructing a new Culinary Arts centre near the H. Lavity Stoutt Community College in Paraquita Bay. This was in concurrence with a report submitted by the College dated 16 October 2007.

### **Current Property Usage**

40. The decision to return the culinary arts centre and hospitality training program to the original Paraquita Bay location created a void of purpose for the Prospect Reef properties that had been purchased for this reason.

41. The Resort continued to function accepting guests and renting commercial space as its major source of income, with CEO Allen O’neal performing as General Manager and a minimum compliment of staff. For the major part of 2009 the conference centre was used as by the Magistrate’s Court after the Magistrate’s building was damaged by fire. This was done without compensation to the hotel. In 2010 it was also used to house the Commercial Court. In compensation, the Government agreed to perform renovation works on the roof of the building which was in disrepair. Since 2007 the building has undergone other uses, including serving as a church.

42. The intention on acquisition had been to upgrade the facilities to a four star hotel and target the business tourism and a higher level market. The renovation works carried out in 2006 fell short of achieving this standard.

43. Increasingly, the hotel assumed the role of a lower standard of accommodation. During the period 2009-2011 while the New Peebles Hospital was being constructed, some of the rooms were used to accommodate construction workers from the Dominican Republic over the long term. The rooms were also regularly used by hourly patrons and occasional overnight residents from sister islands.

44. Contained within the grounds of the Resort are number of commercial spaces which are rented to various businesses. In addition to the two restaurants, the jetty and the dolphin discovery the grounds accommodated a hair salon, a PR company, a trust company, tattoo parlor, boutique and other small businesses. During the period 2005 to 2010 the reported

rental income (unaudited) ranged from \$189,000 to \$909,000 per annum as indicated in the Appendix 1 of this report.

45. There has been no major or ongoing works on the properties since the 2006 renovations. This is reflected in the neglected and at times overgrown grounds and deterioration of the premises which now repeatedly suffer weak reviews on the travel blogs and social media.

46. An onsite inspection performed by the auditors with a senior staff member of Prospect Reef Hotel indicated that there are ten buildings on the compound housing 131 rooms. Of these 56 rooms are deemed suitable for guest accommodation. These comprised 7 two-bedroom villas, 4 one-bedroom townhouses, 16 Admiral studios, 19 Reef studios and 10 Garden Rooms. The remaining 78 rooms were reported as not suitable for guests.

### **The Entity's Financial Control Environment**

47. *There is a general absence of accountability and limited internal controls over financial activity of the Resort.*

48. The Prospect Reef Management Company Act requires the Company to submit annual reports to the Board together with financial statements. The Company's memorandum and articles also require that annual financial statements be prepared and audited.

49. The last known meeting of the Board was on 19 September 2007. The Board appointments expired in 2010 and were not renewed, nor were replacements appointed. Since this time there has been no reporting by the Resort's management.

50. A review of the internal control systems which support the financial and operational functions was performed and these were found to be unsatisfactory. The review indicated a weak control environment, the absence of checks and balances, insufficient separation of function and no upwards accountability. Some of the weaknesses identified included:

- i. The software which can be used to promote internal controls and accountability is not being used fully. The hotel operates a front office computer programme called Micros Opera which is used to control guests check in and out activity. The stand-alone programme which provides room occupancy reports and room cleaning schedules for house-keeping also has the capacity to provide accounting information based on occupancy but it is not used for this purpose.

- ii. No independent reconciliation is performed to match the bank deposit against the cash collections. A weekly cash report is compiled manually in MSWord by the front desk personnel which lists receipts and petty cash activity. The report and net collections are given to the CEO and the latter is deposited into the bank. There is no subsequent verification of the bank deposits against the receipts.
- iii. No reconciliations are performed for the credit card receipts. Credit card transactions are entered into Opera and a daily revenue report is printed and used as a backup for all credit card transactions. This is not used for any other purpose. Visa/Master Card transactions are direct deposited into Banco Popular account, while American Express transactions are direct deposited into a First Caribbean International Bank Account. The bank activity is not verified against the office records.
- iv. All bank accounts are accessed and controlled exclusively by the CEO. Cheques are required to be signed by two authorized signatories, and this is made possible by the former Chairman periodically pre-signing batches of cheques to be used by the CEO. No report is prepared or presented on how these are applied.
- v. Book-keeping for the resort is done by the CEO using quick-books accounting software. There is no separation of function or built in checks to ensure the integrity of the transactions.

51. Triad Management compiles the financial statements using information obtained from the CEO. CCP Accountancy Services has conducted financial audits for years 2005-2007. Audits for 2008-2013 remain outstanding.

52. The debt to the Social Security Board and Inland Revenue Department at the end of 2013 was approximately \$145,000. The outstanding Social Security Board balance can potentially affect payment of benefits to the staff.

53. To facilitate the audit process the documents pertaining to the bank accounts were requested from the CEO but were not made available. These included:

- i. All banking information, statements, cancelled cheques and documents. We were told that all documents were with the auditors of Prospect Reef and could not be seen. No valid reason was provided for their non-submission or non-availability.
- ii. Requests for a confirmation from the commercial banks to whether there were any accounts held for Prospect Reef Resort was not granted by the CEO.
- iii. Sales data entry, bank deposits, and bank reconciliations.

54. This meant that a crucial part of the examination could not be completed. In light of the foregoing the Government should consider having a forensic examination performed on the banking activity of the resort for the period 2007-2015.

55. In addition there was a reported absence of adequate supervision of the maintenance and ground staff as the compound is largely unkempt despite having fulltime personnel. Concern was expressed that some of the maintenance and upkeep staff were engaging in other/private jobs during working hours.

## **Vacation Club**

56. *The Government agreed to assist the former proprietor Mr Cyril Romney in securing a resolution to the Vacation Club issue that threatened to escalate into a negative public relations campaign against the resort and the territory.*

57. The November 2003 correspondence in which Mr Romney proposed the Government's acquisition of Prospect Properties to the Chief Minister alluded to the hotel's participation in a time share programme. This was done in partnership with Interval International of Miami Florida.

58. Further discussions with Mr Romney leading up to the acquisition of the properties revealed that Prospect Reef had sold "guaranteed occupancy" to approximately 400 individuals for up to 70 years to use the hotel as guests. The guests were required to pay a maintenance fee of \$500 to \$600 per week for room occupancy and use the facilities each year during the guaranteed time. Mr Romney advised that the individuals had paid a capital sum from \$12,000 and upwards for the privilege. As part of the property transfer, Mr Romney requested that the Government accommodate the participants in the time share programme.

59. The Government responded to Mr Romney in December 2004 that it would accept no responsibility or liability whatsoever for any arrangements that was entered into with the time

share scheme. But it would however be prepared to accept the guests who had already bought the time shares subject to availability and payment of the current hotel rates.

60. One month after the Government signed the leases for acquisition of the properties the Government received a letter on 11 March 2005 from one of the Vacation Club members (purporting to act on behalf of the group) which offered three proposals to resolve the vacation club issue. These were:

- i. The Government maintain the vacation club by allowing the contracts held by the members to transfer to the BVI company as is for an estimated 540 club members.
- ii. The Government dissolves the vacation club but trades the remaining weeks for weeks in the new Prospect Reef Resort. This would allow members to continue to use the hotel but sever the relationship with Interval International resorts.
- iii. The Government dissolves the vacation club and reimburses the club members the prorated balances of their investments.

61. The letter also advised that should the Government fail to reach a mutually agreeable settlement, the vacation club members would form a legal class action suit and seek redress in the US federal courts against the BVI government for expropriating their properties. In addition the story would be taken to the US national media (television, print and travel) in a story alleging that a former government official and the BVI Government had swindled millions from the club members.

62. The Government responded by advising the member that the Club's legal remedy was not with the Government but elsewhere. The response also alluded to the Government assisting in achieving a resolution to the issue.

63. On 31 March 2005, Mr Romney, at the request of the Board, signed an "Agreement to Take Specified Action in the Event of Government Intervention." In this letter Mr Romney agreed to enter into an agreement with the Government to provide consideration in the form indicated therein, if the Government took action or intervened to resolve the Vacation Club Issue. The steps to be taken by Mr Romney included:

- i. Transfer to the Government free from all encumbrances and within 90 days of written demand his leasehold interest in Parcel 52/1 Block 2936B Road Town Registration Section to make whole any loss or expense incurred by the Government as a result of its action or intervention;

- ii. Settle in full or enter into binding arrangements for the full payment of all outstanding debts due and obligations payable to the Government and BVI statutory corporations;
  - iii. Promptly settle staff severance and vacation issues to the satisfaction of the Labour Commissioner;
  - iv. Grant to the Board, full access to all information, books, records or other documents relating to the business and operations of Prospect Reef enterprises.
64. Meanwhile, the club members were advised that Lambert Beach Resort would honour their accommodation requests in keeping with their agreement until November of same year.
65. The Prospect Reef Resort Management Board set up a subcommittee to consider the vacation club issue and recommend a plan of action to deal with the matter. The subcommittee recommended that the Board honour the vacation club members under a new contract and redevelopment plan when the hotel reopened. A recommendation was also made for possible shortening of the terms by extending the number of weeks used in a calendar year (instead of one week per year allow two or three thus reducing a 70 year term to half or a third).
66. Since the vacation club contracts were primarily related to accommodation in 20 studio villas and 20 one-bedroom villas the subcommittee recommended that provision be made in the redevelopment plan for at least 20 basic studio units and 20 one-bedroom units that would allow for easy accommodation. Implementation of these recommendations would be contingent on the parties (Cyril Romney and the Government) concluding the agreement for transfer of the properties across the street from the resort.
67. An independent valuation was performed on the properties identified as Parcel 52/1/1 and 54/1/1 Block 2936B Road Town Registration Section located across the street from the Prospect Reef Hotel. The resulting report dated 17 October 2005 placed the fair market value of the property at approximately \$5 million whereas the vacation club debt was estimated at \$5.2 million. By this time both the US and the UK governments were insisting that the BVI Government secure a resolution in the interest of the affected parties who had invested in the programme.
68. A negotiation team comprising of representatives from the Government and Members of the Board (including the Chairman) met Mr Romney and other members of his family on 24 January 2006 and 13 April 2006 to work out terms of a mutually agreeable arrangement for

resolution of the vacation club issue. The matter was never resolved as disagreements arose as to the valuation, calculation and identity of the relevant stakeholders. By July 2006 Mr Romney had declared that the negotiations had broken down due to irreconcilable differences on these fundamental issues. Other meetings were held between the parties but with no result.

69. The properties in question were never transferred to the Government. These now bear signage of "Romasco Park" and are being put to other use by the Romneys.

### **Partnerships, Joint Ventures and Agency Pursuits**

70. *Efforts were pursued, unsuccessfully, to attract a suitable partner that could provide financing and industry expertise to assist the project in achieving the desired standard.*

71. The initial intention was for the Government to partner with Interstate Hotels and Resorts which would manage the redevelopment of the property and undertake running of the hotel.

72. Before acquiring the properties, the Government engaged Interstate Hotels and Resorts (IHR) to perform an assessment of the premises and submit renovation options and costs. IHR presented four redevelopment options in their submission dated September 2004 which ranged in cost from \$21 million to \$29.5 million. They also recommended that, in addition to upgrading the premises, the hotel should be renamed before reopening to overcome the negative perceptions caused by the existing facilities.

73. After the properties were acquired and the Board put in place, it was decided that the properties would be renovated rather than redeveloped. This decision was communicated to IHR in May 2005 resulting in the consultants' withdrawal from the project. The Consultants felt that the renovated properties would not be sufficient to elevate the hotel to the 3 to 4 star standard desired and attract the targeted client base that the Government had envisioned.

74. With the withdrawal of IHR from the project the Board actively sought to attract another suitable partner that could bring expertise and financing to the project. Discussions commenced in December 2005 with Elite Island Resorts which has a presence in Antigua, St Lucia, Barbados, the Grenadines and the BVI at Long Bay Hotel. The initial proposal was that Elite would contribute financing of \$1million and provide assistance/expertise in management, marketing, sales and the Vacation Club issue. Negotiations would subsequently break down between the parties over fees, construction and the proposed development. Other entities indicated a passing interest in the development but no serious offers were proffered.



## **Sub-leasing / Divesting**

75. *With the relocation of the Culinary Arts centre back to Paraquita Bay, the Government actively sought suitable investors to undertake the task of upgrading and operating the resort.*

76. After the administration changed in 2007 and a decision was taken to change focus for the property, the Government established an ad-hoc committee in July 2010 to advise on the viability and future use of the Prospect Reef Resort. The records indicate that the committee met once, on 16 September 2010, during which the members requested additional information regarding the properties. There is no record of subsequent meetings or any recommendations made with respect to the Resort.

77. In the meantime various entities and individuals had already made contact with the Premier's Office indicating an interest in developing the properties. Six proposals received by September 2010 ranged from setting up a medical school, to developing an international resort, to building a hospitality training institute. No action was taken on any of the proposals and the Resort continued under the management of Mr O'Neal, accepting guests in the declining rooms and with monthly tenancies for the commercial spaces.

78. A more concerted attempt to lease the properties was made in 2013 after the government administration had again changed. The Government determined that the Prospect Reef properties would be best developed into a four star hotel and conference centre and sought to attract suitable investors to undertake the development.

79. On 5 April 2013, Government issued terms of reference to potential investors for the redevelopment of Prospect Reef Resort. The required standards included a 130 guest room facility with a conference centre to accommodate 200 delegates to be developed with a 4 star rating and an affiliation with a top brand hotel chain.

80. One prospective developer was identified in October 2013 but by May 2014, the investor decided that a feasibility study was needed and the project subsequently stalled and reverted to management by Mr Oneal.

81. The challenge has been attracting investors who share the same vision of Prospect Reef being developed into a 4-5 star hotel and conference center. This is evident as none of the prospective investors have committed to the project.

## **Culinary School and Hospitality Training Center**

82. *The Government's primary goal for acquiring the property (provision of a Culinary School and Hospitality Training Centre) was not short listed as a priority for immediate pursuit.*

83. The development of a culinary arts centre at HLSCC was first put forward in 1996 when a proposal was made for a State of the Art Food Service Facility (Teaching Kitchen) at HLSCC. In 2000 the college signed a 10 year agreement with the accredited NECI to provide training in culinary arts. In keeping with this agreement the college would embark on a phased development to provide a culinary center, hospitality training facility and a 40 room hotel which would serve as a training institute for local students and those from the sub-region.

84. Plans were initially pursued to build a culinary centre near HLSCC campus in Paraquita Bay across the street at the old Colonial Manor site. Those plans were abandoned after the Prospect Reef properties were acquired in 2005.

85. Shortly after the members of the Prospect Reef Management Board were appointed in March 2005, the Board decided to postpone discussions with HLSCC and NECI to focus on how the properties were to be developed.

86. In mid-2005 the Chief Minister sought to regain focus by spearheading talks between the relevant parties for reopening of the hotel and relocation of the culinary arts centre to the restaurants at Prospect Reef.

87. At this time the College was undergoing an internal review of the culinary programme and its relationship with NECI. Due primarily to cost considerations the HLSCC Board of Governors decided that the 10 year agreement with NECI should be terminated by December 2007 and replaced with an alternative programme to meet the long term needs of the territory.

88. With the Prospect Reef properties now an option, the Chief Minister encouraged the parties to re-negotiate the arrangement with NECI for an enhanced culinary/hospitality programme using the Prospect facilities. To this end, the Chief Minister pressed, unsuccessfully, for the January 2006 occupation of the Prospect Restaurant by NECI and reopening of the hotel.

89. From May 2005, when the properties were transferred to the Government, to August 2007, when the Board ceased to function, little was achieved with respect to preparing the properties as a hospitality training facility. The absence of a representative from HLSCC and a member from the Ministry on the Board to ensure that the requirements of the College and

intentions of the Government were understood and pursued may have contributed to this lapse.

90. The Board focused primarily on redevelopment of the properties, funding pursuits and resolution to the Vacation Club issues.

91. Meanwhile Prospect's hotel and restaurants, which had been operational prior to the Government's acquisition, were closed to guests and incurring ongoing overheads. By late 2005 the NECI/HLSCC arrangement was showing signs of financial strain and suffering significant losses. Without viable options the College proceeded with early termination of the arrangement in 2008.

92. Demolition works at the old Colonial Manor site commenced in October 2009. The architectural firm Roger Downing and Partners was selected for the design and engineering in May 2009 and the plans were finalized and approved by the Planning Authority in October 2010. Quality Construction was contracted in August 2010 from an amended tender to complete the building. The first stage of the Culinary Arts center which comprised of a teaching facility and kitchen was completed at the old Colonial Manor site and officially opened on 9 October 2012.

## **Conclusion**

93. The acquisition of the Prospect properties was viewed by the Government as an opportunity to advance culinary arts and hospitality training in the territory on an expedited basis and at a lower cost.

94. The framework established for managing the properties was designed to provide autonomy in operations and encourage a business approach in moving the project forward. This may have resulted in efforts focused on redeveloping and upgrading the property rather than on facilitating and preparing the Resort to accommodate the training, in the first instance, followed by a phased development plan. In the end the Government lost the opportunity to provide for, and build on, its hospitality/tourism industry in a significant way by making available broad based training in its second largest revenue earning sector.

## **Recommendations**

- i. The Government should insist on full and regular accountability of the entity's operations. Steps should be taken to introduce improved controls and transparency especially in the management of the entities income, expenditure and bank accounts. A forensic examination should be commissioned on the activity of the Resort for the period 2007 to 2015.
- ii. Efforts should continue to secure an investor/developer for the properties. Greater flexibility may be required to secure interest. If possible, the negotiations should include a liaison with HLSCC for collaboration, in the short or medium term, to facilitate hospitality training or internships.
- iii. Attempts should be made to recruit a manager for the property to improve the conditions and standards, address issues with staffing delinquency and arrest the constant decline of the Government's investment. The role of manager should be properly defined and secured by a contract. Management of the property has defaulted to the CEO for a period of 10 years and no attention or focus has been given to reviewing this status.

Sonia M Webster  
Auditor General  
Office of the Auditor General  
British Virgin Islands

APPENDIX 1

Spending Levels and Revenues

Prospect Reef Resort Management Company Ltd.  
Profit and Loss Comparative Accounts for the years 2005 to 2010  
(unaudited)

	2010	2009	2008	2007	2006	2005
	\$	\$	\$	\$	\$	\$
<b>REVENUE</b>						
Fee Income					51,217.00	
Rental Income Receipts	492,137.00	600,930.00	909,246.00	533,868.00	301,390.00	189,347.00
Sales Revenue	456,946.00	511,530.00	351,129.00	434,739.00	-	-
Subvention	-	-	-	100,000.00	860,438.00	450,000.00
<b>Total Revenue</b>	949,083.00	1,112,460.00	1,260,375.00	1,068,607.00	1,213,045.00	639,347.00
<b>EXPENSES</b>	1,319,172.00	1,359,117.00	1,433,566.00	1,714,172.00	1,126,216.00	755,512.00
<b>Net Profit/Loss</b>	<b>(370,089.00)</b>	<b>(246,657.00)</b>	<b>(173,191.00)</b>	<b>(645,565.00)</b>	<b>86,829.00</b>	<b>(116,165.00)</b>

APPENDIX 2

Prospect Reef Resort Management Company Ltd.  
Profit and Loss Comparative Accounts for the years 2005 to 2007  
(audited)

	2007	2006	2005
	\$	\$	\$
<b>REVENUE</b>			
Hotel Sales Revenue	433,118.00	-	-
Fee Income	1,621.00	36,438.00	-
Rental	533,868.00	292,904.00	190,453.00
Government Subsidy	100,000.00	840,000.00	450,000.00
Other Income	-	10,824.00	2,555.00
<b>Total Revenue</b>	1,068,607.00	1,180,166.00	643,008.00
<b>EXPENSES</b>	1,539,945.00	1,026,254.00	773,494.00
<b>Net Profit/Loss</b>	<b>(471,338.00)</b>	<b>153,912.00</b>	<b>(130,486.00)</b>
<b>Difference</b>	<b>174,227.00</b>	<b>67,083.00</b>	<b>(14,321.00)</b>

**APPENDIX 3**

**The Entity Clients**

NAME	SQ FT	MTHLY RENT	YLY RENT	EXPIRATION	OWNER
RAINBOW VISIONS	350	\$600	\$7,200	YEARLY	AARON /STACY MATHER
L'AMBIANCE	350	\$600	\$7,200	YEARLY	ROSEMARY
CCM TRADING LTD	350	\$600	\$7,200	YEARLY	MARLON CHOUCOUTOU
BARNES PR	400	\$525	\$6,300	YEARLY	SACHIA BARNES
PLUMROSE CATERING	2300	\$1,500	\$18,000	31-Mar-25	IMRAN ASHTON
DOLPHIN DISCOVERY-BVI	4000	\$15,000	\$180,000	YEARLY	CARLOS GUERRERO
GLOBAL DIRECTORIES	270	\$900	\$2,700	YEARLY	COLLIN FRANCIS
NANCY BEAUTY SALON	350	\$600	\$7,200	YEARLY	NENCY DELEON
CARIBBEAN SAILING BVI LTD	507	\$750	\$9,000	YEARLY	CHANDI SINGH
LONG TERM ROOMS RENTAL		\$19,000	\$228,000		
			\$472,800		