



# City of Chattanooga

Stan Sewell  
Director

INTERNAL AUDIT  
City Hall  
Chattanooga, Tennessee 37402

Ron Littlefield  
Mayor

November 6, 2009

Mayor and City Council  
City of Chattanooga  
City Hall  
Chattanooga, TN 37402

RE: Concessions Contracts, Audit 09-03

Dear Mayor Littlefield and Council Members:

Attached is the Internal Audit Division's report on the Parks and Recreation Department's Concessions Contracts.

We thank the management and staff of the Parks and Recreation Department for their cooperation and assistance during this audit.

Sincerely,

Stan Sewell, CPA, CGFM  
Director of Internal Audit

cc: Dan Johnson, Chief of Staff  
Larry Zehnder, Parks and Recreation Administrator  
Audit Committee Members

**PARKS AND RECREATION DEPARTMENT  
CONCESSIONS CONTRACTS  
AUDIT 09-03  
September 10, 2009**

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Auditor

  
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Audit Director

**PARKS AND RECREATION DEPARTMENT  
CONCESSIONS CONTRACTS  
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**INTRODUCTION**

The Waterfront Concessionaire Contracts program was started with Ordinance 11878, dated 08/29/2006, with an effective date of 01/01/2007. This ordinance put the program in the care and oversight of the Administrator of Parks and Recreation. In May of 2008, the City entered into a "Waterfront Event Management Agreement." This agreement called for Friends of the Festival to manage the waterfront activities for the City for a fee of forty thousand (\$40,000.00) dollars per annum. The parties to this agreement included the City and Friends of the Festival, with RiverCity Company joining in at a later date. This was executed on May 8, 2008. Prior to the management agreement, concession vendors had to apply directly through the Parks and Recreation Department. However, the 2007 and 2008 concessionaire agreements were between the vendors, the City and Friends of the Festival. The vendor contracts covered the dates of April 1 through November 30, 2007 and April 1 through September 30, 2008. There is mention of possibly some special events, but the agreed to contract terms are from April through September.

**STATISTICS**

<u>Revenue Received</u>	<u>Contract Period</u>
\$3,000.00	04/01/07 – 11/30/07
\$5,400.00	04/01/08 – 09/30/08

**STATEMENT OF OBJECTIVES**

This audit was conducted in accordance with the Internal Audit Division's 2009 Audit Agenda. The objectives of this audit were to:

1. Determine that a system is in place to ensure the City is aware of all contracts that have been entered into;
2. Verify that the contract terms are being fully complied with; and
3. Determine that the City is receiving all the revenues it has due.

## **STATEMENT OF SCOPE**

Based on the work performed during the preliminary survey and the assessment of risk, the audit scope will cover the contracted periods of 04/01/2007 through 11/30/2007 and 04/01/2008 through 09/30/2008. The audit covered all the transactions made related to the covered periods.

## **STATEMENT OF METHODOLOGY**

The BANNER accounting system was accessed to determine the total number of transactions made during the audit period. It was determined that there were only twenty-one payments received on fifteen collection reports during the period, so the entire population was chosen for review. The entire population was tested. Source documentation was obtained from the Finance Department, with Parks and Recreation personnel providing other records as needed to formulate a conclusion as to the objectives of this audit. Original records as well as copies were used as evidence and verified through physical examination.

## **STATEMENT OF AUDITING STANDARDS**

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

## **AUDIT CONCLUSIONS**

Based upon the test work performed and the audit findings noted below, we conclude that:

1. There is no system in place to ensure the City is aware of all contracts that have been entered into,
2. The contracts are not being fully complied with, and
3. It appears that the City did not receive all the revenue due.

While the findings discussed below may not, individually or in the aggregate, significantly impair the operations of the Parks and Recreation Department, they do present risks that can be more effectively controlled.



## **THE CONTRACT TERMS ARE NOT BEING ADHERED TO**

A review of the collections received by the City for vendor fees revealed that all twenty-one remittances were late. The contracts included a specific date when each payment was due. The contract also specifically stated that payments made after the due date must be made either in cash or a cashier's check. None of the late payments were remitted per the contract terms. Also, it appears the City is still owed thirty-nine hundred dollars for the audit period due to two vendors not having paid the total due. Furthermore, one of the vendors with arrearages was allowed to participate in later years.

## **RECOMMENDATION 1**

We recommend the contract language and terms be fully complied with, all violations be enforced, and all delinquent rental fees be demanded immediately.

## **AUDITEE RESPONSE**

At the time of this occurrence as well as currently, the office or department that initiates the contract has the responsibility for contract management. The contracts for waterfront vending are particularly difficult for Parks and Recreation to manage because the responsibility for contract oversight and enforcement belongs to Friends of the Festival Inc. Recently, Parks and Recreation has increased the level of involvement to insure that Friends of the Festival holds vendors accountable to the terms of their contracts. As a result of this audit we are taking a closer look at the way contracts are managed with the Parks and Recreation Department and will be making needed adjustments to insure designed contract performance.

## **AUDITOR COMMENT**

Friends of the Festival was responsible for the solicitation of Proposals, reviewing and making recommendations on those proposals, and site management. However, the contracts called for Parks and Recreation to handle the collection of funds. The Parks and Recreation Department was also responsible for the final approval of the concessionaires and executing vendor contracts as an agent of the City. Therefore, it is and was clearly the responsibility of Parks and Recreation to manage the contract receivables/collections.

## **RECEIPTS ARE NOT ALWAYS ISSUED FOR PAYMENTS REMITTED**

Out of twenty-one payments remitted by vendors, nine (42.9%) were not issued receipts. This is a violation of TCA § 9-2-103, which requires that receipts be issued for each payment

received by a municipal official. This same issue was previously addressed in a prior audit, dated March 30, 2006. Also, some receipt books could not be found by management. This is also a violation of Section F-26 of the Records Management for Municipal Governments, a Reference Guide for City Officials and Municipal Public Records Custodians, which was drafted by MTAS and adopted by the City, and states that “receipt books must be retained for seven years after the last entry.”.

## **RECOMMENDATION 2**

We recommend that all payers of monies be issued, per state law, a pre-numbered receipt or equivalent, referencing the collection report number the monies will be submitted on, and collection reports for said monies received have a copy of the issued receipt attached as additional support, with the receipt number notated on the collection report. We also recommend that all receipt books be kept per the record retention guidelines from MTAS and adopted by the City. To ensure such compliance, we recommend management enforce procedures to document custody of receipt books and take appropriate disciplinary action when they are missing.

## **AUDITEE RESPONSE**

Parks and Recreation will adhere to the recommendation provided related to this finding. The information stated in this recommendation is included in the Parks and Recreation Cash Policy and procedures. Attached is a copy of the current Parks and Recreation Cash Policy. We will also record all known receipt books and their location, and maintain this list within the Administration division.

## **THREE DAY DEPOSIT RULE VIOLATED**

Out of the thirteen collection reports reviewed during this audit, seven (53.9%) were in violation of the 3 day deposit rule. This is a violation of TCA § 6-56-111, which requires all municipal officials to submit collected funds to the Treasurer’s office within three business days of initial receipt. This deficiency was previously brought to management’s attention with the Cash Collections Policy and Procedures Audit 06-02, dated March 30, 2006.

## **RECOMMENDATION 3**

We recommend that all handlers and collectors of funds be made aware of the requirements for depositing funds received and the timeline to follow in depositing such funds and abide by the law in depositing those funds in a timely manner. Management should take appropriate disciplinary action when violations occur.

### **AUDITEE RESPONSE**

Parks and Recreation will adhere to the recommendation provided related to this finding. The information stated in this recommendation is included in the Parks and Recreation Cash Policy and procedures. See attached Parks and Recreation Cash Policy. All staff responsible for handling the collections of funds has been provided a copy of the policy.

### **COPY OF CONTRACTS NOT IN FINANCE**

City Code § 20-548(b) states “the original of all contracts shall be delivered to and kept by the City Finance Officer.” The City Finance Officer never received any of the subject contracts.

### **RECOMMENDATION 4**

We recommend that all contracts entered into, regardless of the amount, be forwarded to Finance as required by City Code. We also recommend that the department begin keeping a copy in their files.

### **AUDITEE RESPONSE**

Parks and Recreation will adhere to the recommendation provided related to this finding. Copies of the 2009 concessions contracts were provided to the Finance Department, and copies are on file at the Parks and Recreation Administrative Office.

### **LACK OF ADEQUATE POLICY**

The Parks and Rec Department has no process in place to manage Contracts. There was no schedule of receivables and/or aging, no way to verify FOF was fulfilling its obligations, P&R had no copies of the contracts, and no enforcement of the contract terms was being done.

### **RECOMMENDATION 5**

We recommend the department put into place a comprehensive system to manage all contracts. This system should ensure that the contract terms are fully adhered to, each contract is maintained in a organized file, a detail of contract receivables is maintained, an aging of receivables is periodically reviewed, and collection efforts are made for past due amounts.



**AUDITEE RESPONSE**

Parks and Recreation will adhere to the recommendation provided related to this finding. See response to Finding #1.

**LACK OF SECURITY FOR FUNDS**

During the audit period the Parks and Rec Department lost one collection for \$300.00 and had one, also for \$300.00, stolen from the Asst. Director's office. The lost collection was eventually found two months after the initial receipt.

**RECOMMENDATION 6**

We recommend that all monies received by the department should be kept secured until the collection report is prepared and taken to the Treasurer's office. We also recommend the department follow the recommendations set out by Internal Audit 06-02, dated 03/30/2006, which addressed, among other issues, the safeguarding of assets.

**AUDITEE RESPONSE**

Parks and Recreation will adhere to the recommendation provided related to this finding. This specific finding was also present in a previous audit, and was addressed by management. Procedures have been implemented which should minimize the reoccurrence of this audit finding. Parks and Recreation Cash Policy addresses the handling and security of funds. Several safes have also been purchased for the Watkins Street Office in an effort to provide secure locations to store funds.