



**Mecklenburg County
Department of Internal Audit**

Park and Recreation Department
Grady Cole Center Investigation
Report 1402

July 9, 2014

**Internal Audit's
Mission**

Through open communication, professionalism, expertise and trust, Internal Audit assists executive management and the Audit Review Committee in accomplishing the Board's objectives by bringing a systematic and disciplined approach to evaluate the effectiveness of the County's risk management, control and governance processes in the delivery of services.

Internal Audit Contacts

Joanne Whitmore, CPA, CIA, CFE, CFF, CRMA, Audit Director
(704) 336-2575 or joanne.whitmore@mecklenburgcountync.gov

Christopher Waddell, CIA, CRMA, Audit Manager
(704) 336-2599 or christopher.waddell@mecklenburgcountync.gov

**Staff
Acknowledgements**

Crystal Turner, CDFM, Auditor-In-Charge
Danielle Taylor, CFE, CRMA, Internal Auditor
Gewreka Robertson, Internal Auditor

**Obtaining Copies of
Internal Audit Reports**

This report can be found in electronic format at
<http://charmeck.org/mecklenburg/county/audit/reports/pages/default.aspx>



MECKLENBURG COUNTY Department of Internal Audit

To: James Garges, Director, Park and Recreation Department

From: Joanne Whitmore, Director, Department of Internal Audit

Date: July 9, 2014

Subject: Grady Cole Center Investigation Report 1402

On November 20, 2013, the Park and Recreation Department received notification of a payment to the Grady Cole Center and American Legion Memorial Stadium (the "Grady Cole Center", collectively) from the event services vendor (the "vendor") without indication of what the payment represented. A certain Grady Cole Center staff member was asked to provide support for the payment and on December 6, 2013 provided a list of facility events with a running balance of payments due to and from the Grady Cole Center and the vendor. The running balance contained events over a three-year period between July 1, 2009 and June 30, 2013. The payment in question was the first payment received from the vendor since the beginning of the running balance except for a \$96 payment received in 2010.

Management also had other concerns about the Grady Cole Center, such as unrecorded events and unauthorized promoter contracts. Management, therefore, contacted Internal Audit on December 9, 2013 requesting an internal investigation to determine whether there was indication of potential fraud or mismanagement by this Grady Cole Center staff member responsible for managing the Grady Cole Center events.

On December 10, 2013 the Park and Recreation Department contacted Human Resources requesting an investigation into potential County policy violations by this staff member, who was placed on administrative leave pending the results of the investigation.

Internal Audit reviewed the Grady Cole Center contract administration and event management contracts, processes, bank deposits, the running balance events, and supporting documentation to determine whether there were indicators of potential fraud.

INVESTIGATION CONCLUSION

The lack of valid contracts and supporting documentation did not allow auditors to determine with any certainty whether any fraud had occurred by the staff member in question or any other Grady Cole Center staff. There were, however, several weaknesses in the event contract administration process and management of the Grady Cole Center.

RISK OBSERVATION SUMMARY

The table below summarizes the risk observations identified during the course of the investigation, grouped by the associated risk factor and defined in Appendix A. The criticality or significance of each risk factor, as well as Internal Audit’s assessment of the design and operation of key controls to effectively mitigate the risks, are indicated by the color codes described in Appendix B.

| RISK OBSERVATION SUMMARY | | | |
|---|-------------|--------|-----------|
| Risk Factors and Observations | Criticality | Design | Operation |
| 1. Authorization Risk | ● | ● | ● |
| 1.1 Contract Approvals 1.2 Contract Fees 1.3 Contract Rates | | | |
| 2. Compliance Risk | ● | ● | ● |
| 2.1 Insurance Coverage 2.2 Code of Ethics | | | |
| 3. Contract Administration Risk | ● | ● | ● |
| 3.1 Authorized Contracts 3.2 Contract Fees | | | |
| 4. Accounting Risk | ● | ● | ● |
| 4.1 Recordation | | | |
| 5. Documentation Risk | ● | ● | ● |
| 5.1 Supporting Documents | | | |

The risk observations and management's risk mitigation strategies are discussed in detail in the attached document. Internal Audit will conduct a follow-up review at a later date to verify management's action plans have been implemented and are working as expected.

We appreciate the cooperation you and your staff provided during this investigation. Please feel free to contact me at 704-336-2575 if you have any questions or concerns.

- c: County Manager
- Deputy County Manager
- Assistant County Managers
- Deputy County Attorney
- Senior County Attorney
- Board of County Commissioners
- Audit Review Committee

BACKGROUND

The Park and Recreation Department (the “Department”) manages two public assembly facilities, the Grady Cole Center and the American Legion Memorial Stadium (the “Grady Cole Center”, collectively), which hosts athletic and non-athletic civic events. The Department has contracted with an event services vendor (the “vendor”) to coordinate and staff events, while the Department remains responsible for day-to-day operations of the Grady Cole Center.

Event Contracting

When an event promoter decides to host an event at the Grady Cole Center, the promoter completes a rental application and, when ready to reserve a date, pays a deposit to the Grady Cole Center. Once event details are determined, a designated staff member works with the vendor to develop a staffing estimate and related rental fees¹ to draft the event contract. The draft contract details the promoter’s needs and the estimated event costs, including parking and staffing, and whether the event will have beer, and wine sales and concessions. Once the contract is discussed with and agreed to by the promoter, the contract should be sent for the appropriate approvals. Prior to the event, the Grady Cole Center should collect the facility rental fees and documentation of required insurance coverage. The vendor should collect the other estimated event costs from the promoter.

Event Responsibilities

The event promoter is responsible for promoting and setting up the event, and tearing down the event.

Grady Cole Center staff members are responsible for assisting with event set-up and tear-down as needed, as well as verifying parking and money room activities.

The event services vendor is responsible for:

- Staffing, e.g., security, medic, and event staff
- Staffing supervision
- Contracting with concession vendors
- Renting or purchasing other event needs, e.g., extra security lighting, furniture rental, ice, and/or beer and wine
- Overseeing revenue collection for parking, onsite ticket and token sales, concessions at Memorial Stadium, and/or beer and wine sales
- Obtaining final invoices from other vendors hired to perform operational support during the event, e.g., facility cleaning, lighting, and furniture rental

Event Final Settlement

At the conclusion of an event, the vendor should prepare a final settlement statement based on contract terms, detailing the Grady Cole Center’s share of event revenue. Per the vendor’s contract, final event settlement and payment should take place within five days of the event conclusion, including all supporting reports of revenue collected and receipts for expenses.

¹ Rental fees are approved annually by the Park and Recreation Fees and Charges subcommittee.

COUNTY MANAGER'S OVERALL RESPONSE

The County Manager concurs with all risk mitigation strategies and timeframes for implementation.

RISK OBSERVATIONS AND MITIGATION STRATEGIES

| Risk Factor | Criticality | Design | Operation |
|-----------------------|-------------|--------|-----------|
| 1. Authorization Risk | ● | ● | ● |

Risk Observations

- 1.1 Contract Approvals—Contracts with the promoter were not always created and authorized for all events and by all parties prior to the event dates.

| Running Balance Contracts | |
|--|------------------|
| No contract present | 17 of 125 or 14% |
| Contract not signed by appropriate parties | 10 of 125 or 8% |
| Contract approved after the event start date | 5 of 125 or 4% |

Failure to timely create and authorize contracts could result in unenforceable contracts and the potential for lost revenue, litigation costs, and/or reputational damage.

- 1.2 Contract Fees—Promoter rental rates in the contract and rates in the Department's accounting system do not reflect facility rental rates approved by the Board of County Commissioners.
- 1.3 Contract Rates—The Department did not document approval for waived or reduced facility rental rates given to organizations, such as non-profit organizations and public schools. Seventy-five of 125 or 60% of the running balance for events held between July 1, 2009 and June 30, 2013 had reduced or waived rental fees totaling approximately \$294,000.

Recommendations

- 1.1 Internal Audit recommends management ensure promoter event contracts are created and authorized for all events by all parties prior to the event dates.
- 1.2 Internal Audit recommends management annually verify the Board of County Commissioner's approved rates are updated in the Department's accounting system and facility rental rates offered to promoters are consistent with the approved rates.
- 1.3 Internal Audit recommends management ensure waived or reduced facility rental rates given to organizations, such as non-profit organizations and public schools, be approved at the appropriate level of management and supporting documentation is properly maintained.

Management’s Risk Mitigation Strategy

- 1.1 Park and Recreation Management agrees with the above recommendations related to authorization of contracts, using the Board of County Commissioner’s approved rates and providing the appropriate approval for all waived or reduced facility rental rates. Management implemented the above recommendations on January 11, 2014.
- 1.2 See response 1.1.
- 1.3 See response 1.1.

| Risk Factor | Criticality | Design | Operation |
|--------------------|-------------|--------|-----------|
| 2. Compliance Risk | ● | ● | ● |

Risk Observations

- 2.1 Insurance Coverage—Insurance coverage provided by the promoter was neither consistent with the terms of the facility rental agreement, nor with the Department’s minimum coverage requirements.

| Running Balance Insurance | |
|---------------------------------------|------------------|
| Insufficient insurance coverage | 82 of 125 or 66% |
| No evidence of any insurance coverage | 32 of 125 or 26% |

Inadequate insurance coverage could result in financial loss and reputational damage to the County due to unmitigated insurance losses from property damage, bodily injury, medical payments, and/or defense costs associated with business operations.

- 2.2 Code of Ethics—Several email communications were reviewed where the staff member in question made statements which appeared to suggest he or she was using his or her position to influence the event service vendor as a quid pro quo to obtain sponsorship of a sports team for the child of another County employee. These statements, as written, suggest activity that conflicts with the spirit, if not the written Code of Ethics.

Recommendations

- 2.1 Internal Audit recommends management ensure all promoter event contracts contain the minimum insurance guidelines established by the Park and Recreation Department and the promoter has obtained and provided the Department evidence of such coverage prior to event start date.
- 2.2 Internal Audit recommends management re-emphasize to staff the importance of following the County’s Code of Ethics, both in action and in appearance, in the discharge of their duties as County employees.

Management’s Risk Mitigation Strategy

- 2.1 On December 11, 2013 Management reinforced County guidelines to ensure all event contracts contain the minimum insurance requirements as outline by County Policy.
- 2.2 Regular meetings are held with the Grady Cole staff to review all related policy and procedures. On September 17, 2014, the management team will conduct a meeting with all employees to discuss the County’s Code of Ethics.

| Risk Factor | Criticality | Design | Operation |
|---------------------------------|-------------|--------|-----------|
| 3. Contract Administration Risk | ● | ● | ● |

Risk Observations

- 3.1 Authorized Contracts—There was no valid current vendor contract between the Grady Cole Center and the event service vendor to dictate the correct terms to use for event settlements. Rather, the vendor was using a 2008 contract amendment that had not been authorized. Thus, parking revenues and commissions for staffing, beer and wine sales, concessions, and tokens were calculated using invalid terms. An unauthorized contract is unenforceable and could result in a loss of revenue.
- 3.2 Contract Fees—The Grady Cole Center staff member in question neither followed the Department’s standards and guidelines for collecting promoter rental fees prior to the event nor the vendor contract terms for collecting the County’s share of revenue from the vendor after an event.

The staff member often accepted promoter checks that included amounts due to the vendor and the vendor often accepted promoter checks that included amounts due to the County. The staff member began a running balance between the Grady Cole Center and the vendor for events that occurred between July 1, 2009 and June 30, 2013 to record the net balance due the County, but no payments were made to the County until November 14, 2013.

Moreover, the running balance did not reflect all events for that period and the calculations used to determine the net due to the County were not accurate. As a result, the County was underpaid approximately \$43,000, at a minimum based on the supporting documentation available.

Failure to properly identify and timely collect revenues when due reduces cash available for County operations, and increases the opportunity to conceal errors or fraud.

Recommendations

- 3.1 Internal Audit recommends management re-evaluate its event services vendor relationship and establish an arrangement and contract, if desirable, that best meets the needs of the Grady Cole Center and the County.
- 3.2 Internal Audit recommends management ensure all Grady Cole Center staff follows the Department’s standards and guidelines and event services vendor contract, where applicable, for collecting promoter rental fees prior to an event and collecting County revenue from the vendor after an event.

Management’s Risk Mitigation Strategy

- 3.1 By July 1, 2014, the management team will submit a revised contract for the event services vendor to the Executive Management Team for review and approval. The new contract will outline the agreed upon revenue percentages, clearly define the responsibilities for the vendor as well as Park and Recreation.
- 3.2 Since January 11, 2014, the facility staff began entering all rental fees into the county’s current CLASS Accounting System. Rental fees are collected prior to the event. A \$500.00 deposit is required to reserve the facility and the final balance is collected prior to the event. The revenue from the event services contractor is collected after each event. The department has also been working with the event service vendor to ensure a seamless process to remit all revenue that is due to the County for each event. In addition, the \$43,000 in arrears has been collected from the service provider.

| Risk Factor | Criticality | Design | Operation |
|--------------------|-------------|--------|-----------|
| 4. Accounting Risk | ● | ● | ● |

Risk Observation

- 4.1 Recordation—Revenue earned from event service vendor contracts was not always recorded in Class, the Department’s accounting system, when earned. Failure to record revenue when earned results in inaccurate financial and management reporting and creates an opportunity to conceal errors or fraud.

Recommendation

- 4.1 Internal Audit recommends management ensure staff properly and timely records contract revenue in Class when earned.

Management’s Risk Mitigation Strategy

- 4.1 As of January 11, 2014 revenues have been timely posted to Advantage and reconciled in our CLASS System. On July 1, 2014 the accounting team will began reviewing the settlement worksheets and documentation to ensure the appropriate revenue was collected and recorded for each event in a timely manner.

| Risk Factor | Criticality | Design | Operation |
|-----------------------|-------------|--------|-----------|
| 5. Documentation Risk | ● | ● | ● |

Risk Observation

5.1 Supporting Documentation—The Grady Cole Center staff members did not ensure they received the necessary supporting documentation from the event services vendor to enable reconciliation between the revenues received and the revenues due per contract terms. Missing documentation included support for revenue from concessions, beer and wine, admission tickets, and parking. A total 117 of the 125 or 94% of events recorded on the running balance lacked the appropriate supporting documentation.

Because reconciliations were not conducted, staff could not ensure the proper revenues were received, nor could they identify missing events on the running balance and errors in the calculations used to determine the net balance due to the County. For the period of the running balance the County was underpaid by approximately \$43,000, at a minimum, based on the supporting documentation available.

Inadequate supporting documentation could result in loss of revenue or an opportunity to conceal errors or fraud.

Recommendation

5.1 Internal Audit recommends management ensure Grady Cole Center staff receives and reviews all the appropriate supporting documentation and reconcile against revenues received.

Management’s Risk Mitigation Strategy




5.1 As of January 11, 2014 the department began the collection and retention of all supporting documentation for each event. On July 1, 2014 upon the installment of Active Net, the accounting team will begin a full reconciliation of the supporting documentation, the funds deposited and the terms of the contract. Regular meetings between the accounting team and the Grady Cole staff will be scheduled to review/discuss results of the reconciliations.

APPENDIX A—Risk Factor Definitions




| Risk Factor | Definition |
|------------------------------|--|
| Authorization Risk | Failure to clearly communicate authority may result in employees carrying out their responsibilities in a manner that is inconsistent with management’s expectations. |
| Compliance Risk | Lack of compliance with established policies, procedures, and/or statutory requirements may result in unacceptable performance that impacts financial, operational, or customer objectives. |
| Contract Administration Risk | Lack of centralized, consistent contract administration and management may result in lost or unrecoverable contracts and/or inadequate contract oversight. |
| Accounting Risk | Failure to accurately and timely record transactions may result in untimely or inaccurate compilation and reporting of information needed for financial analysis, external financial reporting, or internal analysis of operating results. |
| Documentation Risk | Failure to adequately collect, file, and retain documentation may impair the organization’s ability to sufficiently support cash receipt activities, financial reporting, and/or disclosure requirements. |

APPENDIX B—Color Code Definitions

The criticality of a risk factor represents the level of potential exposure to the organization and/or to the achievement of process-level objectives before consideration of any controls in place (inherent risk).

| Criticality | Significance and Priority of Action |
|---|---|
|  | The inherent risk poses or could pose a <i>significant</i> level of exposure to the organization and/or to the achievement of process level objectives. Therefore, management should take immediate action to address risk observations related to this risk factor. |
|  | The inherent risk poses or could pose a <i>moderate</i> level of exposure to the organization and/or to the achievement of process level objectives. Therefore, management should take prompt action to address risk observations related to this risk factor. |
|  | The inherent risk poses or could pose a <i>minimal</i> level of exposure to the organization and/or to the achievement of process level objectives. Risk observations related to this risk factor, however, may provide opportunities to further reduce the risk to a more desirable level. |

The assessment of the design and operation of key controls indicates Internal Audit’s judgment of the adequacy of the process and system design to mitigate risks to an acceptable level.

| Assessment | Design of Key Controls | Operation of Key Controls |
|---|--|---|
|  | The process and system design does not appear to be adequate to manage the risk to an acceptable level. | The operation of the process’ risk management capabilities is not consistently effective to manage the risk to an acceptable level. |
|  | The process and system design appear to be adequate to manage the risk to an acceptable level. Failure to consistently perform key risk management activities may, however, result in some exposure even if other tasks are completed as designed. | The operation of the process’ risk management capabilities is only partially sufficient to manage the risk to an acceptable level. |
|  | The process and system design appear to be adequate to manage the risk to an acceptable level. | The operation of the process’ risk management capabilities appears to be sufficient to manage the risk to an acceptable level. |