



*METROPOLITAN GOVERNMENT OF NASHVILLE AND  
DAVIDSON COUNTY*

*INTERNAL AUDIT SECTION*

**Professional Audit, Advisory, and Consulting Services**

## **AUDIT REPORT**

### **Financial Control and Compliance Audit of Wave Country at Parks and Recreation**

Date Issued: November 21, 2006

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November 21, 2006

Mr. Roy Wilson, Director  
Centennial Park Office  
Nashville, Tennessee 37203

### **Report of Internal Audit Section**

Dear Mr. Wilson:

We have completed a financial control and compliance audit, which follows the procedural standards of a performance audit, of Wave Country at Metro Parks and Recreation, focusing on revenue collection and related transactions. *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States define performance audits as follows:

Performance audits entail an objective and systematic examination of evidence to provide an independent assessment of the performance and management of a program against objective criteria as well as assessments that provide a prospective focus or that synthesize information on best practices or cross-cutting issues. Performance audits provide information to improve program operations and facilitate decision-making by parties with responsibility to oversee or initiate corrective action, and improve public accountability. Performance audits encompass a wide variety of objectives, including objectives related to assessing program effectiveness and results, economy and efficiency, internal control, compliance with legal or other requirements, and objectives related to providing prospective analyses, guidance, or summary information.

A performance audit is different than a financial statement audit, which is limited to auditing financial statements and controls, without reviewing operations and performance. Internal control objectives relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal control includes the processes and procedures for planning, organizing, directing, and controlling program operations, and the system put in place for measuring, reporting, and monitoring program performance.

### **Auditors' Responsibility**

In order to maintain and broaden public confidence, auditors need to perform all professional responsibilities with the highest degree of integrity, professionalism, and objectivity when dealing with audited entities and users of the auditors' reports. Additionally, auditors should be

honest and candid with the audited entity and users of the auditors' work in the conduct of their work, within the constraints of the audited entity's confidentiality laws, rules, or policies.

Service and the public trust should not be subordinated to personal gain and advantage. Auditors should be objective and free of conflicts of interest in discharging their professional responsibilities. Auditors are also responsible for being independent in fact and appearance when providing audit and attestation services. Independence precludes relationships that may in fact or appearance impair auditors' objectivity in performing an audit or attestation engagement. The maintenance of objectivity and independence requires continuing assessment of relationships with the audited entities in the context of the auditors' responsibility to the public.

In applying *Generally Accepted Government Auditing Standards*, auditors are responsible for using professional judgment when establishing scope and methodologies for their work, determining the tests and procedures to be performed, conducting the work, and reporting the results. Auditors need to maintain integrity and objectivity when doing their work to make decisions that are consistent with the broader public interest in the program or activity under review. When reporting on the results of their work, auditors are responsible for disclosing all material or significant facts known to them which, if not disclosed, could mislead knowledgeable users, misrepresent the results, or conceal improper or unlawful practices.

### **Management's Role**

Wave Country process owners and managers are entrusted to properly manage the resources under their control. To meet their obligations, Wave Country process owners and managers are responsible for:

- Applying those resources efficiently, economically, effectively, and legally to achieve the purposes for which the resources were furnished or the program was established;
- Complying with applicable laws and regulations, including identifying the requirements with which the entity and the official must comply and implementing systems designed to achieve that compliance;
- Establishing and maintaining effective internal control to help ensure that appropriate goals and objectives are met; resources are used efficiently, economically, and effectively, and are safeguarded; laws and regulations are followed; and reliable data are obtained, maintained, and fairly disclosed;
- Providing appropriate reports to those who oversee their actions and to the public in order to be accountable for the resources used to carry out government programs and the results of these programs;
- Addressing the findings and recommendations of auditors, and for establishing and maintaining a process to track the status of such findings and recommendations; and
- Following sound procurement practices when contracting for audits and attestation engagements, including ensuring procedures are in place for monitoring contract performance.

## **Department Overview**

The mission of the Metropolitan Board of Parks and Recreation is to provide every citizen of Nashville and Davidson County with an equal opportunity for safe recreational and cultural activities within a network of parks and greenways that preserves and protects the region's natural resources.

Parks and Recreation consists of seven lines of business, consisting of several programs. A brief description of each is summarized below:

### Facilities Management and Development

The purpose of the Facilities Management and Development function is to provide parkland and recreational facility products to residents and visitors of Nashville so they can experience safe, clean, and enhanced facilities to recreate in the activity of their choosing.

### Recreational Enhancement

The purpose of the Recreational Enhancement function is to provide facility admissions and retail products to members, residents and visitors of Nashville so they can have an enriched recreational experience at Metro Park Facilities. Since we primarily focused on the Recreational Enhancement line of business, we have provided a brief summary of each program:

#### *Facility Admissions Program*

The purpose of the Facility Admissions Program is to provide membership and admission products to residents and visitors of Nashville so they can utilize various Parks and facilities at an established rate.

#### *Retail Program*

The purpose of the Retail Program is to provide concession and apparel products to Park Patrons so they can experience an enhanced visit through the purchase of convenience items.

### Park Police

The purpose of the Metro Park Police function is to provide safety and security products to park visitors so they can recreate in a safe environment.

### Community Recreation

The purpose of the Community Recreation function is to provide age and needs appropriate skill development, sports, exercise, and entertainment products to residents and visitors of Nashville so they can use their leisure time to pursue the recreational activities of their choice.

### Community Outreach and Resource Development

The purpose of the Community Outreach and Resource Development function is to provide information, education, volunteering, and partnership opportunity products to organizations, residents, and visitors so they can benefit from and/or contribute to an enhanced parks and recreational system.

Natural and Cultural Resources

The purpose of the Natural and Cultural Resources function is to provide environmental and cultural, education and recreation products to residents and visitors of Nashville so they can visit and participate in activities related to natural resource management, history, and cultural arts.

Support Services

The purpose of the Support Services function is to provide administrative support services to all of the Parks and Recreation Department divisions so they can effectively and efficiently deliver results to customers.

**Budgeted Financial Information**

Parks and Recreation had a total of 1,213 budgeted positions for fiscal year 2007. The fiscal year 2007 budget is summarized below:

Revenues and Transfers:

Program Revenue		
Charges, Commissions, and Fees	\$	9,286,400
Other Governments and Agencies		162,100
Other Program Revenue		<u>469,300</u>
Total Program Revenue		9,917,800
Non-program revenue		237,300
Transfer from Other Funds and Units		<u>500,000</u>
Total Revenues	\$	<u><u>10,655,100</u></u>

Expenditures and Transfers:

GSD General Fund	\$	31,978,800
Special Purpose Fund		<u>2,180,000</u>
Total Expenditures and Transfers	\$	<u><u>34,158,800</u></u>

**Other Financial Information**

The following financial highlights for Wave Country excludes other expenses (i.e., maintenance costs, payroll, etc.) not directly related to revenue generation and were prepared entirely by financial information provided to us by Parks and Recreation. We do not express an opinion on the financial information provided below.

Sales

User Fee's and Rental Fee's	\$	388,037.92
Small Equipment		1,102.25
Concessions		<u>107,829.43</u>
Total Sales	\$	<u><u>496,969.60</u></u>

Cost of Sales		
Small Equipment	\$	835.75
Concessions		<u>50,343.05</u>
Total Cost of Sales	\$	<u><u>51,178.80</u></u>

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

The primary objectives of this financial control and compliance audit included the following:

- An examination of the business processes employed by Wave Country at Parks and Recreation for revenue collection, purchasing and expenditures, payroll and personnel, and petty cash;
- Identification of weaknesses and strengths in the internal control environment and their impact on operations;
- Identification of the actual financial and/or operational impact on operations from weaknesses and strengths identified; and
- Provide recommendations to Wave Country management that can serve as a tool for improving the overall internal control environment.

Because Wave Country is only open for four months a year, our work focused primarily on the period April 1, 2005 through October 31, 2005 financial balances, transactions, and performance on the processes in place during the time of the audit. Certain analyses required the consideration of financial results, performance, and operations outside that time period.

The methodology employed throughout this audit was one of objectively reviewing various forms of documentation, including written policies and procedures, financial information and various forms of data, reports and information maintained by Wave Country and Parks and Recreation. Management, administrative and operational personnel, as well as personnel from other Metro departments and other stakeholders were interviewed, and various aspects of Wave Country were directly observed. We performed our procedures in accordance with generally accepted government auditing standards.

In discharging our professional responsibilities, we observed the principles of serving the public interest and maintained the highest degree of integrity, objectivity, and made decisions that were consistent with the broader public interest. Additionally, we were free both in fact and appearance from personal, external, and organizational impairments to independence. In applying *Generally Accepted Government Auditing Standards*, we used professional judgment when establishing scope and methodologies for our work, determining the tests and procedures to be performed, conducting our work, and reporting results.

### **Audit Findings, Recommendations, and Management Responses**

We have listed below the reportable findings and recommendations for the objectives listed above. If an objective is not discussed below, no issues were identified or the issues identified

were not to the level of a reportable condition and were verbally communicated through the course of fieldwork. Management has responded with “We Agree”, “We Agree with exception”, or “We Do Not Agree” and supplied an explanation along with a high level action plan, if applicable.

### **Revenue - Wave Country**

We reviewed the internal controls and general accounting and record keeping processes involved with receiving revenue at the Wave Country facility. Because we could not obtain reliable revenue information regarding concessions and retail items through EBS we used information obtained from Parks which consisted of quarterly inventory count reports, quarterly spoilage count reports, and quarterly cost of sales reports for the period April 1, 2005 through October 31, 2005. We reviewed these reports for accuracy. Based on our review, we noted the following deficiencies:

1. The mark-up percentage on retail items (sun tanning products) needs to be reviewed. Based on the information we obtained from Parks, reported sales in 2005 for retail items was approximately \$1,202 with a cost of sales of approximately \$836. When expressed as a percentage of sales, the mark-up percentage in 2005 was 24 percent. Based on the testing we performed, (obtained retail pricing from CVS Pharmacy and Walgreen’s) we determined that the retail items are being sold on average about 27 percent less than local retailers.

#### **Audit Recommendation**

The mark-up percentage for retail items needs to be analyzed by Wave Country management on a regular basis. In order to improve the mark-up percentage, the retail prices should be increased to reflect, at a minimum, what local retailers are selling similar products for.

#### **Management Response**

*We agree.* Mark-up of items will be reviewed more frequently. However, the example used by the auditor is from a chain that is known to be expensive and our mark-up is based on making our facilities reasonably priced for our patrons.

2. The total food cost in the concession area is too high. Based on the information we obtained from Parks, reported sales in 2005 for the concession area was approximately \$107,829 with a concession cost of sales of approximately \$50,343. Using sales and the cost of sales from 2005, food cost was approximately 47 percent. Considering most of the inventory on hand in the concessions area is frozen or non-perishable, a 47 percent food cost is excessive. The total food cost in the food service industry is generally between 20 to 30 percent.

#### **Audit Recommendation**

The total food cost percentages in the concession area needs to be analyzed by Wave Country management on a regular basis. In order to reduce the total food cost in the concessions area, analysis needs to be completed on a regular basis to improve ordering trends eliminating excessive amounts of inventory which would decrease total food cost. By using standard inventory techniques and ratio analysis, further improvements can be implemented to isolate potential problems with waste or abuse and determine the proper menu sales mix.



### Management Response

*We agree.* Inventory and pricing will be positively affected by the implementation of the new Point of Sales (POS) next spring. Additionally, we are moving into a new concession facility onsite as part of the implementation of Parks Master Plan and are preparing to reassess our menu offerings. At the same time, we will assess the mark-up and volume of prepared items.

3. Inventory is only completed on a quarterly basis decreasing the accuracy of inventory counts and reducing controls related to managing costs. In order to track sales, spoilage, and cost inventory should be counted at least once a month. Additionally, costs of sales should be expensed monthly instead of quarterly to coincide with the monthly analysis. If regular monthly inventory counts are taken, inventory and sales analysis can be performed and used to compare actual sales to remaining ending inventory increasing the likelihood of identifying any material variances. Performing monthly inventory procedures and analysis can also help prevent potential problems such as theft and accounting errors or identify problems with individual inventory balances.

### Audit Recommendation

An inventory count should be completed with the corresponding cost of sales journal entry on a monthly basis.

### Management Response

*We agree.* The new Point of Sales system will allow us to effectively and efficiently conduct more frequent (monthly) inventory counts. The quarterly inventory count was implemented at the recommendation of a previous audit.

4. Spoilage was not accurately documented in the concessions area at Wave Country. We identified several items where spoilage amounts listed by item on the quarterly spoilage reports completed in the concession area did not match what was entered as actual spoilage by the Administrative Office for the quarters ending June 30, 2005 and September 30, 2005. For example, the concession area spoilage report for the quarter ended June 30, 2005 stated that 218 souvenir cups were written off as spoilage. When we reviewed the spoilage report for accuracy at the Administrative Office, actual spoilage reported for souvenir cups for the quarter ended June 30, 2005 was 326, (difference of 108). The spoilage reported for both quarters by the Administrative Office was 9,358 items (cost: \$4,454.81, retail: \$12,470.13). We counted the reconciled items turned in on the spoilage sheet completed in the concession area for a total of 5,242 items (cost: \$3,036.48, retail: \$7,015.00). The unexplained difference of 4,116 items (cost: \$1,418.34, retail: \$5,455.13) items can only be attributed to an accounting error or theft.

### Audit Recommendation

Spoilage needs to be accurately documented in the concession area as it happens and reported with the deposit information on a daily basis. Daily spoilage should also be included with the daily revenue report and Wave Country managers and supervisors should review the daily spoilage sheets at least weekly to identify any patterns of which can be an indicator of theft.

### Management Response

*We agree.* Spoilage counts will be added to reports and management on-site and in the administrative office will take a more active role to ensure that spoilage sheets are accurately documented.

5. Break-ins at the concession stand are not properly documented and stolen items were not accounted for. According to the concession area spoilage reports we reviewed, certain inventory items had “break-in” written under the individual inventory item without an amount listed as missing. We were verbally told by the Administrative Office of one break-in that occurred during June 2005 where the concession stand was broken into and several items were stolen. We contacted Park Police and were told that during 2005, all reports were forwarded to the Metro Police Department and were not kept on file. We contacted the Metro Police Central Records Division to inquire about break-ins at Wave Country during 2005. We were told that no break-ins had been reported for 2005.

### Audit Recommendation

When a break-in occurs, managers should notify Park Police, and if applicable Internal Audit, and an inventory count should be immediately taken to determine how many items were actually stolen. A report should be filled out listing by inventory item, how many items were in fact stolen. This report should be kept on file to support the differences identified as a theft.

### Management Response

*We agree.* Park Police are called when break-ins occur and reports are made of missing items. The alarm system is being upgraded in the new facility and the POS system should permit us to ensure that the police reports properly list the missing inventory items more accurately.

## **Revenue - Administrative Office**

We reviewed the deposit process and made a non-statistical selection of 18 deposits made by Wave Country from April 1, 2005 through October 31, 2005 and tested for general internal controls and compliance with applicable Metro policies and procedures. From the review completed we noted the following deficiencies:

6. Accounting procedures need to be improved to track all revenue and related expenditures by type and program (or operating unit) for all retail lines of business. Currently, only admission revenue and rental fees are reported through the Metro general ledger for Wave Country. By not tracking all transactions in enough detail, financial management products are not being delivered to other Park departments and other stakeholders preventing managers from effectively managing their financial resources. For example, we asked division managers at the start of our fieldwork if they could provide us financial data (revenue and expenditures) for Wave Country and they only had a general idea about the financial condition and operational effectiveness of the retail programs, including Wave Country. Their lack of solid financial knowledge is caused by not having financial information by operating unit for analysis and decision making. We do understand that while Parks has classified Wave Country as a retail operation, their goal is to provide moderately priced services to taxpayers and not to derive a large profit. However, we do believe that a

balance can and should be obtained between operating effectiveness and providing an enjoyable experience to patrons. As evidenced by our findings above, several improvements need to be made to improve the operational and financial effectiveness of Wave Country so that Parks can deliver the maximum amount of benefits to patrons with the lowest possible burden to the tax payers.

#### Audit Recommendation

All transactions should utilize a subsidiary ledger structure to track revenue and expenditures for all retail programs. Currently, sub ledgers are used to track only a few revenue streams and are not used for expenditure transactions. We recommend that all object accounts have appropriate subsidiary ledgers assigned to facilitate budgeting, analysis, and financial reporting.

#### Management Response

*We agree with exception.* We agree that there should be a Metro approved methodology of tracking revenue and expense for each of our retail programs as well as any other program or sub-program that we have within the Parks Department. We continue to work with the Finance Department to determine the “best” method for tracking financial data at a greater level of detail using the Enterprise Business System.

### **Procurement Card**

We reviewed ten of the 47 procurement card transactions from the period April 1, 2005 through August 1, 2006 obtained from Paymentnet and compared them to departmental source documentation for compliance with Metro procurement card policies. From the review completed, we noted the following deficiencies:

7. Of the ten transactions tested, five (\$768.91) did not have enough support to document the business purpose. Of the five, two (\$555.00) were spent on food for an end of season employee picnic. Of the two transactions spent on food, one occurred in July 2005 and was approved by the Assistant Director, and one occurred in July 2006 and was approved by the Superintendent of Parks. The yearly occurrence of these employee picnics establishes a trend, and according to Civil Service Policy 5.10 III, titled Employee Recognition Activities; “The type and frequency of recognition events will be documented in writing, and should be designed to highlight work-related excellence, such as volunteering for an extraordinary time consuming, one-time project, or providing extraordinary customer service.” Of the five, one (\$78.46) was spent on a camera. By not supporting transactions with the appropriate business purpose documentation, that fully explains how the expenditure is related to the goals of Wave Country, questions could be raised about the business relationship of each transaction.

#### Audit Recommendation

We recommend that Parks and Recreation follow Civil Service Policy 5.10 III, in regards to employee recognition activities. Parks and Recreation should exercise proper judgment and require the following process for all employee recognition activities:

- The type and frequency of recognition events will be documented in writing; plans may specify opportunities for individual and/or group recognition;

- Plans will be submitted to Human Resources for review and approval, and will be based on eligibility criteria and type of event or program. Human Resources will have the discretion to discuss or propose changes to the plan prior to approval;
- Human Resources will forward the proposed plan, along with their recommendation, to the Finance Department Office of Management and Budget (OMB);
- OMB will determine availability of funds and submit the plan to the Director of Finance for approval; and
- Once all approvals are complete, the plan may be implemented.

We also recommend that the business purpose be clearly defined and documented for each transaction.

#### Management Response

*We agree.* The department does have an Employee Recognition Plan in place that has been approved by the Human Resources and Finance Departments in August of 2005. We will ensure that steps are taken to prevent employee recognition activities that are not in accordance with the approved plan.

#### Payroll

We reviewed the payroll records for 10 part-time employees from April 1, 2005 through October 31, 2005, and matched the supporting documentation obtained from Parks to the Metro payroll and accounting system (EBS) for accuracy. In addition, we reviewed the general process for preparing payroll entries. From the review completed, we noted the following deficiencies:

8. As required by Wave Country managers, weekly time schedules are supposed to be filled out by the supervisor of each area at Wave Country and notations are required to be made by each area supervisor throughout the work week to document the actual time being worked by each employee. We identified seven part-time employees whose time schedules did not match what was reported on their timesheets for a total of 29 occurrences within seven pay periods for a total variance of 134 hours (40.5 over, 93.5 under). Wave Country managers were unable to provide us with the weekly time schedules for the other three part time employees selected for testing. If weekly time schedules are not properly documented and reviewed by each area supervisor before an employee's time sheet is filled out, discrepancies between time actually worked and time scheduled can occur which can result in an employee being under or over paid.

#### Audit Recommendation

Weekly time schedules must be accurately filled out for each employee by their area supervisor. When changes are made to the time schedule it should be clearly notated on the time schedule and should include the area supervisor's initials after the notation. By accurately recording employee time worked on the time schedules, time sheets will accurately reflect what the employee has actually worked and the risk associated with an under or over payment can be reduced.

Management Response

*We agree.* All supervisors will check schedules and accurately reflect the time on the employees' timecards. In addition, all schedules shall be kept as a file for a period of up to three years in case there are questions related to an employee's work record.

**Wave Country Policies and Procedures**

We reviewed Wave Country's policies and procedures manual in order to determine if employee conduct observed at the Wave Country facility was in compliance with Wave Country's stated policies and procedures. From the review completed the following deficiencies were noted:

9. As stated in Wave Country's cash handling policies and procedures manual, "all over rings must be initialed by the cashier and a supervisor." It was noted during our revenue testing that most "over rings" were only initialed by the supervisor of that area.

Audit Recommendation

The Wave Country cash handling policies and procedures manual should be followed at all times.

Management Response

*We agree.* The denotations of over rings will follow procedure as we have outlined in the operational manual.

\* \* \* \* \*

We greatly appreciate the cooperation and help provided by all of Wave Country and Parks and Recreation management and staff.

This report is intended for the management and policy makers of the Metropolitan Government of Nashville and Davidson County. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Internal Audit Section

*Signature on File*

Don Dodson  
Internal Audit Director

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