



**Mecklenburg County
Department of Internal Audit**

Park and Recreation Department
Contract Management Investigation
Report 1401

September 22, 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.

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**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: September 22, 2014

Subject: Contract Management Investigation Report 1401

A recent Park and Recreation Department (the "Department") audit identified alleged fraudulent activity associated with one department employee's intentional misapplication of one vendor's payments to another vendor's account. Internal Audit began this investigation to determine whether similar activities were occurring elsewhere in the Department.

Internal Audit reviewed the Department's recurring revenue contracts for July 1, 2010 through June 30, 2013, with the exception of the Grady Cole Center and Memorial Stadium activity, which was reviewed in a separate audit. We reviewed a sample of executed recurring revenue contracts, supporting documentation, and contract payments processed by the Department. We also observed processes and conducted interviews with management and staff.

INVESTIGATION CONCLUSION

Internal Audit's review of recurring revenue contracts for July 1, 2010 through June 30, 2013 did not reveal any additional fraudulent activity. There were, however, several weaknesses in the contract management process that should be addressed immediately to improve operations and ensure risks are managed to an acceptable level.

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. Policies and Procedures Risk	●	●	●
1.1 Formal Documentation			
2. Documentation Risk	●	●	●
2.1 Contracts and Supporting Documents			
3. Reconciliation Risk	●	●	●
3.1 Instructor Contract Payments			
4. Authorization Risk	●	●	●
4.1 Contracts			
5. Accounting Risk	●	●	●
5.1 Recordation			

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

Contract management is a systematic process to manage contract creation, execution, and analysis, which also includes contract planning, administration, monitoring, and close-out.

The Park and Recreation Department (the “Department”) contracts with certain vendors for concessions, instructor-led programs, golf course management, and other services. During the period of July 1, 2010 through June 30, 2013, the Department executed 151 contracts.

Contracts			
Type	> \$2,000	\$1 to \$1,999	Total
Concessions	4	2	6
Instructor-led programs	31	88	119
Golf course management	6	0	6
Other services	10	10	20
Total	51	100	151

Source: Auditor analysis of Department of Park and Recreation data, unaudited

Contract Formation and Execution Process

Based on the County budget ordinance approved by the Mecklenburg Board of County Commissioners, the County Manager and the assistant county managers are authorized to approve contracts, agreements, and other County legal obligations. In some instances, the Board must approve contracts and cannot delegate this authority.

When the Park and Recreation Department needs goods or services, a division director or facility manager works with the contractor or vendor to draft a contract. Together they outline the contract terms, including County needs, contractor duties, and payment terms. The Department’s accounting function receives the contract and forwards it to the department director for review and signed approval before sending it to the County Manager and the County Attorney for their final approval and signatures.

Contract Administration and Monitoring

Once a contract is executed, monitoring and compliance activities are delegated to the division needing the contracted good or services. The Department’s accounting function involvement with contract monitoring is limited to providing assistance with vendor issues and contract amendments and renewals.

COUNTY MANAGER’S OVERALL RESPONSE

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

Risk Factor	Criticality	Design	Operation
1. Policies and Procedures Risk	●	●	●

Risk Observation

- 1.1 Formal Documentation—While the Park and Recreation Department has some informal procedures for contract administration, there are no formal, documented policies and procedures. Yet, policies and procedures are important control activities to help management ensure its directives are carried out while mitigating risks that may prevent the organization from achieving its objectives.

Recommendation

- 1.1 Internal Audit recommends management develop and implement formal, documented policies and procedures for a more robust contract administration process, which would include at a minimum:
- a. Contract planning, execution, monitoring, and close-out
 - b. Applicable County policies and procedures
 - c. Staff roles and responsibilities
 - d. Staff training requirements
 - e. Internal and external stakeholder communication requirements
 - f. Frequency of policy and procedure reviews and updates

Management’s Risk Mitigation Strategy

- 1.1 As of July 1, 2014 Park and Recreation began the new contract process which included the new electronic contract process, centralized policies and procedures and staff training. The new contract procedures will address all the recommendations outlined in 1.1. The Contract Compliance Analyst will monitor all contracts and conduct meetings to review contract terms with the appropriate management team members. Additionally, the Fiscal Administrator will provide updates during the Park’s Super Team meetings as least quarterly) regarding amendment, policy and procedures. The written policy and procedures will be reviewed at least twice year or whenever updates are needed.

Risk Factor	Criticality	Design	Operation
2. Documentation Risk	●	●	●

Risk Observation

- 2.1 Contracts and Supporting Documentation—Management could not produce some contracts and supporting documentation to help verify all payments were received in accordance with contract terms and properly recorded in Class, the Department’s activities and facilities management system. Ten of 50 or 20% of contracts could not be provided. Of the remaining 40 contracts available for review, 11 or 28% lacked supporting documentation. Insufficient maintenance of contracts and

supporting documentation could result in lost revenues due to non-compliance with contract terms, errors, and/or fraud.

Recommendation

- 2.1 Internal Audit recommends management ensure they obtain and maintain all contracts and supporting documentation as necessary.

Management’s Risk Mitigation Strategy

- 2.1 As of July 1, 2014 Park Accounting utilized the e-contracts process to download fully executed contracts. The contracts are maintained in an electronic file on our Park Accounting Share Drive. Additionally, all related supporting documentation will be electronically filed within Park Accounting office. The supporting documentation includes but is not limited to invoices, copies of checks, Excel worksheet outlining the contact number, monthly payments received, contact name and the dates of the contract.

Risk Factor	Criticality	Design	Operation
3. Reconciliation Risk	●	●	●

Risk Observation

- 3.1 Instructor Contract Payments—The reconciliation process was not effective to ensure instructor contract payments were accurate. Of the 40 contracts reviewed, 25 were instructor contracts for classes, such as karate and cheerleading. Payments related to nine of 25 or 36% of the contracts reviewed could not be reconciled with the instructors’ monthly remittance statements and sign-in sheets, and three of 25 or 12% had incorrect payments based on contract terms. The inability to reconcile payments could cause a loss of revenues due to non-compliance with contract terms, errors, and/or or fraud.

Recommendation

- 3.1 Internal Audit recommends management ensure contract payments are appropriately reconciled against supporting documentation. In addition, class instructors should submit accurate and complete supporting documentation to facilitate reconciliation.

Management’s Risk Mitigation Strategy

- 3.1 As of April 1, 2014, Park staff provides monthly invoices to each instructor, which include the number of documented participants, the total amount due per class and the date the payment is due. The backup documentation (class roster) is signed by the instructor and a Park Staff, confirming the number of participants in each class. The invoice and supporting documentation are emailed to each instructor and the PRK-Accounting mailbox. The invoice, supporting documentation and payment received are reconciled monthly by Park Accounting Staff.

Risk Factor	Criticality	Design	Operation
4. Authorization Risk	●	●	●

Risk Observation

4.1 Contracts—Of 40 contracts reviewed, four did not have evidence of proper authorizing signatures and one contract’s terms did not reflect current activities. Yet, failure to properly authorize contracts and comply with contract terms could put the County at risk for over-committed resources, lost revenue, lawsuits, and/or reputational damage.

Recommendation

4.1 Internal Audit recommends management ensure all contracts are properly approved and signed and documentation is maintained to evidence those approvals. Further, contract terms should be followed or properly amended if necessary.

Management’s Risk Mitigation Strategy

4.1 As of October 1, 2013 all contracts are signed by the Department Director or his designee. Additionally, all Division Directors are required to sign each contract before it is submitted to the Contract Compliance Analyst for review and preparation for the Department Director signature. All contractual agreements require the approval and final signatures of the County Manager or his/her designee with the exception of Annual Field and Maintenance Agreements. The County Manager has given written signing authority to the Department Director for the Annual Field and Maintenance Agreements.

Risk Factor	Criticality	Design	Operation
5. Accounting Risk	●	●	●

Risk Observation

5.1 Recordation—Management did not ensure each golf course management company’s payments were properly recorded in Class. As a result, customer account balances may be incorrect, and revenues could be over- or understated. For example, over a period of three years, one management company’s payments totaling \$52,760 were posted to another management company’s account.

Recommendation

5.1 Internal Audit recommends management ensure contract payments are accurately recorded in the proper Class system accounts.

Management's Risk Mitigation Strategy




- 5.1 As of January 1, 2014 Park accounting created a separate unit to record all golf course payments. A key responsibility of the new Contract Compliance Analyst is to ensure all payments are recorded for the appropriate contract and posted to the correct unit/org[anization], as well as review all terms and conditions of the contracts.

APPENDIX A—Risk Factor Definitions




Risk Factor	Definition
Policies and Procedures Risk	Policies and procedures that are non-existent, ineffective, unclear, or outdated may result in poorly executed processes and increased operating costs.
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.
Reconciliation Risk	Failure to consistently and completely reconcile accounts, transactions, and other activities may prevent accounting errors or omissions from being timely detected and adjusted.
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.
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.

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.