



**Mecklenburg County
Department of Internal Audit**

Park and Recreation
Golf Facility Contract Management
Report 1966

July 1, 2020

Internal Audit's Mission To support key stakeholders in cultivating an environment of accountability, transparency, and good governance.

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MECKLENBURG COUNTY
Department of Internal Audit

To: Lee Jones, Director
Park and Recreation Department

From: Joanne Prakapas, Director
Department of Internal Audit

Date: July 1, 2020

Subject: Golf Facility Contract Management Report 1966

The Department of Internal Audit has completed its audit of Park and Recreation's golf facility contract management processes to determine whether internal controls effectively manage key business risks inherent to this activity. Internal Audit interviewed key personnel; reviewed and evaluated policies, procedures, and other documents; observed operations; and tested various contract management activities from July 1, 2015 through December 30, 2018. The audit did not include an assessment of contract planning, solicitation or award processes.

This audit was conducted in conformance with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing. These 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.

OVERALL EVALUATION

Overall, key risks inherent to the golf facility contract management process were managed to an acceptable level; however, opportunities exist to improve the design and operation of some control activities.

RISK OBSERVATION SUMMARY

The table below summarizes the risk observations identified during the audit, 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. Contract Management Risk	●	●	●
2.1 Contract Administration			
3. Human Resource Risk	●	●	●
3.1 Training			
4. Compliance Risk	●	●	●
4.1 Annual Audit Reports 4.2 Extension Notice 4.3 Minimum Rent 4.4 Tax Responsibility			
5. Segregation of Duties Risk	●	●	●
No risk observations noted			

The risk observations and management’s risk mitigation strategies defined in Appendix C are discussed in detail in the attached document. Internal Audit will conduct a follow-up review 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 audit. Please feel free to contact me at 980-314-2889 if you have any questions or concerns.

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

BACKGROUND

The Mecklenburg County Park and Recreation Department (the “Department”) is responsible for the operations, maintenance, and programming of 230 parks and facilities located on more than 21,000 acres of parkland throughout the County.

Golf Facilities

Mecklenburg County owns five (5) public golf facilities and one (1) free standing driving range. The Department contracts with three third-party vendors (“contractors”) to manage day-to-day operations, maintenance, and other management services such as concession sales, pro-shop operations, and special event management.

Golf Facility Contracts		
Facility Name	Description	Contract Term
Golf Depot	Driving range	May 24, 2010 – May 23, 2020
Sunset Hills	18-hole golf course and 9-hole learning course	July 1, 1991 through June 30, 2023 as amended/extended
Harry L. Jones, Sr.	18-hole golf course	April 1, 2008 through December 31, 2023 as extended
Charles T. Myers	18-hole golf course	
Dr. Charles L. Sifford	9-hole golf course	
Tradition	18-hole golf course	July 1, 1995 – June 30, 2025

Contract Lifecycle Management

Contract lifecycle management is a systematic process to manage the creation, execution, and analysis of contracts to maximize operational and financial performance and to minimize risk. Figure 1 below depicts a simplified contract lifecycle management process.

Figure 1: Contract Lifecycle Management



Contract Lifecycle Phases

The *pre-award phase* includes activities such as solicitation and procurement planning for the requesting County department. During this phase the County decides to provide or buy a product or service, and other parties decide whether to bid on the proposed contract. The *award phase* includes vendor selection, during which the County awards a contract, defining each party’s rights and responsibilities. The *post-award phase* includes contract administration activities, such as monitoring, contract closeout, and contract amendments. Once a contract is awarded, the requesting County department is responsible for post-award activities.

Contract Monitoring

Contract monitoring is a key post-award phase activity that helps ensure contract terms and objectives are met. A Park Operations manager monitors contract performance, which includes coordinating monthly facility maintenance inspections, conducting annual contract compliance reviews, and evaluating contractor performance.

Contract Changes

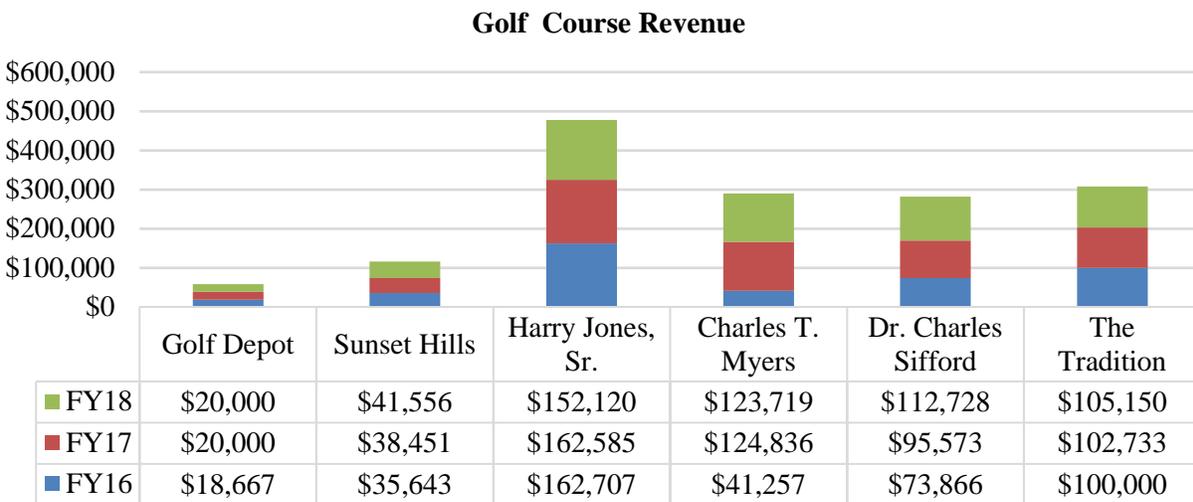
The Department and/or the contractors may initiate contract change requests, such as amendments. The Department will consult with County Legal to modify contract language as needed. County contracts and amendments are considered fully executed once all required approvals are obtained.

Contract Revenue

Golf facility operations receive no County funding; rather, they operate solely on revenue generated by the sale of goods and services at each location. The revenue received by the County differs with each contract based on contract terms.

Golf facility contracts require the contractor to pay the County regular rent consisting of either a) a prescribed percentage of gross receipts or minimum annual amount or b) a fixed annual amount. In addition to regular rent, contractors may also make capital reserve payments and pay additional rent for gross receipts exceeding a certain threshold.

The following chart provides golf facility operational revenue from July 1, 2015 through June 30, 2018.



Source: Department of Park and Recreation data, unaudited

Contract Billing and Payment

The Department’s Fiscal Administration staff invoices contractors based on the contractor’s monthly gross receipts report and contract terms. Payments received are recorded in ActiveNet, the Department’s accounting system.

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. Policies and Procedures Risk	●	●	●

Risk Observation

1.1 Formal Documentation—While the Department had documented procedures for some aspects of golf facility contract management activities, they did not reflect current and best practices, e.g. contract monitoring. Yet, policies and procedures are important control activities to help ensure management’s directives are carried out while mitigating risks that may prevent the organization from achieving its objectives

Recommendation

- 1.1 Internal Audit recommends management update its golf facility contract management procedures and train staff accordingly. The update should align with County policy and include, at a minimum:
- Key contract management activities including but not limited to contract monitoring and reporting; documentation of contract management actions and decisions; periodic contract reviews; contract closeout; contractor invoicing; document retention requirements, capital improvement management; and contract dispute resolution guidance
 - Staff roles and responsibilities
 - Staff training requirements
 - Frequency of procedure reviews and updates
 - Internal and external communication requirements

Management’s Response

1.1 **Risk Mitigation Strategy:** Reduce **Implementation Date:** July 2020

Action Plan: Park will work to create detailed procedures to cover golf facility management which will include contract monitoring and reporting, invoice processing, the role of each position (Accounting and Park Managers), training requirements, deadlines for reviews, amendment procedures, and other best practices recommendations as identified by Internal Audit.

Risk Factor	Criticality	Design	Operation
2. Contract Management Risk	●	●	●

Risk Observation

- 2.1 Contract Administration—The Department did not demonstrate consistent contract administration practices to ensure contracts complied with contractual agreements and remained in the best interests of the County. For example:
- The Department could not provide 176 of 216 or 81% of monthly maintenance inspection reports to evidence inspections were performed in accordance with contract terms.
 - Fourteen of 40 or 35% of the monthly maintenance inspection reports available for review lacked key information, such as inspection dates and evaluation scores for green fees, tees, fairways, sand traps, clubhouse, parking lot, structure, golf carts, and maintenance equipment.
 - Contract change processes were not consistently applied across the contracts reviewed. For example, Department staff indicated some contract changes, such as annual financial reporting requirements and regular rent calculations, were based on verbal agreements. As a result, the contracts were not formally amended to reflect the changes.

Recommendation

- 2.1 Internal Audit recommends management re-evaluate and strengthen its contract administration processes to include best practices, such as:
- Contract administration plans
 - Validation of self-reported golf facility revenues
 - A central repository or other method to maintain relevant documentation of contract activities, any identified issues, and issue resolutions
 - Periodic validation that document retention requirements are being met
 - Validation that inspection reports are complete and deficiencies are followed up in a timely manner

Management’s Response

2.1 **Risk Mitigation Strategy:** Reduce **Implementation Date:** July 2020

Action Plan: Current operation include shared electronic folders where relevant documentation, including inspection reports, can be accessed by staff. Inspections have been completed and contain all relevant information outlined in the contract. Quarterly reviews will be conducted by the appropriate staff members (Golf Course Team members for various division within PRK) to ensure timely review of inspection reports and discuss a timeline to resolve any outstanding issues. Additionally, PRK will complete a review of all revenues, procedures, training opportunities, and other best practices. The Golf Course Team will be the core review team for all aspects of golf course management.

Risk Factor	Criticality	Design	Operation
3. Human Resources Risk	●	●	●

Risk Observation

3.1 Training—While the Department provided some informal contract management training, staff did not receive formal training on golf facility contract management activities.

Recommendation

3.1 Internal Audit recommends management develop and implement formal training for all staff performing golf facility contract management duties.

Management’s Response

3.1 **Risk Mitigation Strategy:** Reduce **Implementation Date:** July 2020

Action Plan: The Contract Specialist and the Park Manager will have the opportunity to attend contract management training to better understand best practices. Additionally, the Park Manager will attend the Golf Course Superintendents Association of America where information will be shared regarding best practices for golf course management.

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

Risk Observations

4.1 Annual Audit Reports—Contractors did not consistently provide annual audited reports certifying the percentage of rental fees paid to the County was in accordance with contract terms.

4.2 Extension Notice—The Department did not provide contractors written notice of intent to extend contract terms within 180 days of contract termination for three contracts. Failure to timely extend expiring contracts limits management’s ability to ensure contract terms remain in the best interest of the County.

4.3 Minimum Rent—The County was underpaid or overpaid for regular rents due in three of six contracts, resulting in a net underpayment of approximately \$38,376.

4.4 Tax Responsibility—While one golf facility contract required the County to pay the property taxes, management stated this was not the Department’s intent. Regardless, the contractor paid the taxes for 2013 through 2016 and the County had to reimburse the contractor approximately \$203,268 in taxes and interest.

Recommendations

- 4.1 Internal Audit recommends management enforce contract requirements for golf facility contractors to provide annual audited reports.
- 4.2 Internal Audit recommends management establish a mechanism to identify and comply with key contract terms, such as written notification of intent to extend for terminating contracts.
- 4.3 Internal Audit recommends management correctly invoice golf facility contractors according to contract provisions.
- 4.4 Internal Audit recommends management, in consultation with County Legal, review contract language related to property tax payments and, if appropriate, document and amend the agreement between the County and the contractor.

Management's Responses

- 4.1 **Risk Mitigation Strategy:** Reduce **Implementation Date:** March 2020
Action Plan: The Department will require the Contractor to conduct an annual financial report audited by a CPA that the rental payments to the County are following the contract.
- 4.2 **Risk Mitigation Strategy:** Reduce **Implementation Date:** July 2020
Action Plan: Develop a contract compliance checklist that is reviewed with the Contractor on a quarterly basis. Checklist will include important dates and deadlines.
- 4.3 **Risk Mitigation Strategy:** Reduce **Implementation Date:** July 2020
Action Plan: Currently, reviewing all contract provisions to ensure the vendors are invoiced accurately.
- 4.4 **Risk Mitigation Strategy:** Reduce **Implementation Date:** October 2020
Action Plan: Currently, reviewing the contract language and consulting with Legal to determine what actions is needed to amend (if possible) the current terms.

APPENDIX A—Risk Factor Definitions

Risk Factor	Definition
Compliance Risk	Failure to comply with established policies, procedures, and/or statutory requirements may result in unacceptable performance that impacts financial, operational, or customer objectives.
Contract Management Risk	Failure to have adequate processes in place to efficiently manage contracts may result in vendor performance that does not meet the contract agreements, potentially impacting financial, operational, or strategic objectives.
Human Resources Risk	Failure to attract, train, develop, deploy, and/or empower competent personnel may inhibit the organization’s ability to execute, manage, and monitor key business activities.
Policies and Procedures Risk	Failure to have formal, documented, clearly stated, and updated policies and procedures may result in poorly executed processes and/or increased operating costs.
Segregation of Duties Risk	Failure to adequately segregate duties may allow an employee or group of employees to perpetrate and conceal errors or irregularities without timely detection.

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 significant 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 moderate 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 minimal 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 process and system design to mitigate risks to an acceptable level.

Assessment	Design of Key Controls	Operation of Key Controls
	The process and system designs do 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 designs 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 designs 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.

APPENDIX C—Risk Mitigation Strategy Definitions

Risk Mitigation Strategy	Definition
Reduce	Risk response where actions are taken to reduce a risk or its consequences.
Accept	Risk response where no action is taken to affect the risk.
Transfer	Risk response where a portion of the risk is transferred to other parties.
Avoid	Risk response to eliminate the risk by avoiding or withdrawing from the activity giving rise to the risk.