Audit Report

Parks and Natural Resources Department
United Park Services, Inc. Franchise License Agreement Audit

As of June 30, 2017
MANATEE COUNTY CLERK OF THE CIRCUIT COURT
INTERNAL AUDIT DEPARTMENT
PARKS AND NATURAL RESOURCES DEPARTMENT
UNITED PARK SERVICES, INC. FRANCHISE LICENSE AGREEMENT AUDIT

AUDIT REPORT

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The Internal Audit Department conducted a compliance audit of the franchise license agreements between Manatee County and United Park Services, Inc. for the period July 1, 2016 through June 30, 2017. The audit was performed in accordance with generally accepted government auditing standards (GAGAS), issued by the Comptroller General of the United States, and the International Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors.

BACKGROUND

Through the competitive bid process, United Park Services, Inc (United Park Services) was awarded exclusive rights for the operation and maintenance of the Manatee Beach and Coquina Beach concession facilities, which were officially transferred on July 20, 2010. During the initial term of the agreements, compensation to Manatee County was based on a combination of a fixed monthly fee, plus a percentage of revenue over specified thresholds. As of October 1, 2016 for Manatee Beach, and March 1, 2017 for Coquina Beach, there is no longer a fixed fee component to the compensation; payments to Manatee County are based solely on a percentage of the revenue generated from operations at both beach concession locations. Payments are received by Manatee County on a monthly basis, and it is United Park Services' responsibility to maintain supporting documentation to ensure that all monies remitted are in accordance with the terms of the franchise license agreements and their amendments. Contract oversight is provided by the Parks and Natural Resources Department.

PURPOSE/OBJECTIVES

The audit objectives included verifying the following:

- United Park Services was in compliance with selected terms of the agreements relating to compensation and reporting, including, but not limited to, Article 2: Compensation; Article 4: Cash Handling Requirements; Article 5: Reports, Records, Audit; Article 8: Capital Investment and Improvements by Licensee; and the amendments to the franchise license agreements.

- Proper documentation existed to support the contract payments received by Manatee County.

- Adequate controls were in place to ensure that all transactions were properly recorded.

SCOPE

The scope of the audit included verifying compliance with the compensation, capital improvement, and related reporting requirements included in the franchise license agreements for the period July 1, 2016 through June 30, 2017.

METHODOLOGY

Internal control evaluations and tests of compliance were accomplished through discussions with United Park Services' management and staff, as well as substantive testing of individual controls. Risk analysis was used to establish the priorities of the audit objectives.
STATEMENT ON INTERNAL CONTROL STRUCTURE

In planning and performing the audit of the United Park Services franchise license agreements for the period ending June 30, 2017, the internal control structure was considered in order to determine the auditing procedures for the purpose of this report. Internal control weaknesses involve matters relating to deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report on data consistent with management’s intentions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions. In addition, because of the inherent limitations in any internal control structure, deficiencies in the design or operation of the internal control structure may exist and not be detected. In this report, we identified one matter involving an internal control weakness (See Area for Improvement #2).

MANAGEMENT TEAM AND MANAGEMENT ACTION PLAN

A Management Action Plan has been provided for each Area for Improvement identified. Management Action Plans are corrective actions with implementation dates developed in cooperation with the management team of the Parks and Natural Resources Department and the Internal Audit Department. The management team included Charlie Hunsicker, Director; Debbie Voorhees, Contract Manager; Luz McQuiston, Fiscal Services Manager; and Jayne Roberts, Senior Fiscal Analyst.

MANAGEMENT SUMMARY

United Park Services manages all aspects of the Manatee Beach and Coquina Beach cafés. The Parks and Natural Resources Department is responsible for monitoring United Park Services’ performance and compliance with the franchise license agreements with Manatee County. Overall, our audit found that, in all material respects, United Park Services has properly compensated Manatee County in accordance with the provisions of the franchise license agreements, and adequate documentation existed to support the contract payments. Based on our test work, however, we did identify several areas where improvements could be made:

- Several types of transactions were not accounted for properly in the gross revenue totals reported by United Park Services; the compensation payments to Manatee County are based on these revenue totals. In total, these errors resulted in an underpayment to Manatee County of $882 for the audit period; this represents only .16% of the $554,059 paid by United Park Services during that time. The Management Team will request and review United Park Services’ supporting revenue tracking spreadsheets each month to ensure that all transactions are properly accounted for in the gross revenue calculations. In addition, management will determine what action, if any, will be taken regarding the unreported revenue and underpaid compensation from prior contract years. (Area for Improvement #1, page 4)

- United Park Services is not in compliance with all of the cash handling requirements stipulated in Article 4 of the franchise license agreements. The areas of noncompliance pertain only to the Manatee Beach gift shop sales and umbrella/chair rentals. The Management Team will review the provisions of Article 4 with United Park Services to ensure compliance. Consideration will be given to amending the agreements in order to address any process or system limitations. (Area for Improvement #2, page 5)
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- The annual report submitted by United Park Services, as required in Article 5, did not meet the requirements that it be attested to by an independent CPA, and that it reference AICPA (American Institute of Certified Public Accountants) auditing standards. Additionally, the monthly income amounts included in the CPA’s annual report were not reported on the same basis (cash, accrual) as the revenue amounts reported each month by United Park Services. It was also noted that the gross revenue report requirements differed between the Manatee Beach and Coquina Beach agreements. The Management Team will ensure that United Park Services submits all required reports. Consideration will be given to amending the agreements in order to ensure consistency between the two locations. (Area for Improvement #3, page 6)

- Documentation was not retained to support all capital improvements completed by United Park Services during the initial 5 year franchise license agreements. Additionally, although no changes were made to those agreements, capital investments/improvements were not required during subsequent contract extension periods. The Management Team will consult with the County Attorney’s Office to determine whether any action is needed regarding capital improvement costs that could not be confirmed, any over/under investments identified, and to obtain an interpretation of capital improvement requirements during the contract extension periods. (Area for Improvement #4, page 7)

Other minor audit findings, not included in this report, have been communicated to management or corrected during the audit. We would like to thank United Park Services management and staff for the cooperation and courtesy afforded to our auditors throughout the audit. We appreciate the efforts and timeliness in addressing the issues raised during the audit and seeking solutions to these matters.

AUDIT REPORT AUTHORIZATION

This audit report has been reviewed and authorized by:

[Signatures]

Lori Stephens, CPA, CFE
Chief Audit Executive

Angelina “Angel” Cologneso
Clerk of the Circuit Court & Comptroller
AREA FOR IMPROVEMENT #1 ............................................................. Monthly Compensation Payments

United Park Services makes monthly percentage payments to Manatee County based on its total gross sales (less sales tax), and is required to provide a report of the gross receipts (revenues), applicable to the month for which the payment is being made. United Park Services calculates the reported revenues through monthly Excel revenue tracking spreadsheets, which are broken down by day, and are based on point-of-sale (POS) system reports and daily receipts.

For the audit period 7/1/2016 through 6/30/2017, United Park Services reported total gross revenues of $4,863,163 for Manatee Beach, and $623,349 for Coquina Beach. Payments were made to Manatee County in the amounts of $489,519 and $64,540, respectively.

Our test work included making a selection of dates during the audit period and verifying that documentation existed to support the revenues reported and payments made to Manatee County.

In reviewing the monthly revenue reports, and supporting spreadsheets and receipts, we identified several errors in the gross revenue calculations reported. These errors resulted in an understatement of revenue by United Park Services, and an underpayment to Manatee County of $882 (.16%). The errors identified included the following:

1. United Park Services added cash overages to, and deducted cash shortages from, the gross revenue amounts reported to the County. There is no provision in the agreement to adjust gross revenue for cash overages and shortages. These adjustments accounted for $698 of the underpayment to the County (Manatee Beach - $632; Coquina Beach - $66).

2. Gift card sales at Manatee Beach Café have not been included in the gross revenue reported to the County. Additionally, when gift cards are redeemed, those amounts have been deducted from the gross revenue total. Therefore, the County has not earned a percentage of any revenue generated from sales involving gift cards. These unreported gift card sales resulted in an underpayment to Manatee County of $184.

3. Gift shop refunds at Coquina Beach have not been properly reported and accounted for by United Park Services. Refunds were processed through the POS system at Coquina Beach; however, they were not included in the gross revenue calculations on the revenue tracking spreadsheets. This caused the amounts refunded to appear as cash shortages on the revenue tracking spreadsheets, rather than as reductions in revenue. This resulted in gross revenues being overstated; however, because all cash shortages had been incorrectly deducted from gross revenues (see above finding), there was no resulting overpayment to the County.

Management Action Plan

Parks and Natural Resources staff will ensure that United Park Services no longer adjusts monthly gross revenues for cash overages and shortages, and will request that United Park Services provide the supporting revenue tracking spreadsheets with the monthly gross revenue reports. Parks and Natural Resources will consult with United Park Services to determine how they plan to include gift card sales in gross revenue and ensure these sales are reported to the County. In addition, Parks and Natural Resources management will determine what action will be taken regarding the unreported gift card revenue and cash over/short adjustments from prior contract years.

The expected implementation date is June 30, 2018.
AREA FOR IMPROVEMENT #2 ........................................................................................................... Cash Register Controls

Article 4 of the franchise license agreements addresses cash handling requirements for United Park Services. The requirements include, but are not limited to, retaining daily register tapes or electronic transaction detail records, which are dated and number referenced, for at least 5 years; and utilizing registers that have a non-resettable grand total, visibly display the amounts to customers, and record the date and time the registers are opened. The cash registers must have sufficient keys for segregation of transactions and meet standards of accounting systems and cash control. In addition, all sales are to be promptly recorded in cash registers or other electronic or mechanical devices immediately upon sale.

Although United Park Services’ POS system meets all of the cash handling requirements stipulated in Article 4 of the agreements, not all sales at Manatee Beach are recorded in the POS system. As a result, several instances of noncompliance with Article 4 of the Manatee Beach Café agreement were identified.

1. Manatee Beach umbrella and chair rental sales are not recorded in a cash register or other electronic or mechanical device, as required. The sales are documented on handwritten, duplicate, pre-numbered paper receipts. Internal Audit tested umbrella and chair sales by performing an unannounced count and found that all items in use by customers on that day were properly supported by paper receipts. However, cash controls could be strengthened by utilizing an electronic cash register or other device to record these sales, as is the practice at Coquina Beach.

2. The cash registers utilized in the Manatee Beach gift shop are not connected to the POS system and therefore, do not have all of the functionality and controls of the POS system registers. The gift shop registers do not record the opening of the cash drawer, as required. In addition, there is no restriction on the processing of refunds and voids through the gift shop registers. United Park Services implemented a compensating control which required a manager to sign a copy of every void or refund receipt; however, during testing we reviewed several gift shop voids and refunds, and found none to be supported with a manager’s signature.

3. No daily register tapes or electronic transaction detail records are retained for the Manatee Beach gift shop, as required. Due to the length of the reports, United Park Services is not printing and retaining the daily register tapes; only daily register totals (z-tapes) are printed and maintained. Additionally, electronic transaction detail records are not available through the gift shop cash registers. We tested the completeness of the Manatee Beach gift shop register z-tapes and it appears that they have been properly retained.

Management Action Plan
Parks and Natural Resources will review the provisions of Article 4 with United Park Services and ensure compliance with the cash handling requirements contained in the agreement. If it is the desire of the County and United Park Services to deviate from these requirements, due to specific process or system limitations, consideration will be given to amending the agreements.

The expected implementation date is June 30, 2018.
AREA FOR IMPROVEMENT #3 ................................................................................................................................................. Financial Reports

Article 5 of the franchise license agreements requires that United Park Services submit various financial reports to the County. These reports include monthly financial accounting and gross receipts reports; an annual report prepared in accordance with AICPA auditing standards, and attested to by an independent Florida CPA as to the correctness of quarterly reports and subsequent gross receipts per month; annual financial reports, including a balance sheet and income statement; and gross revenue reports for the prior agreement years.

We examined the financial reports submitted during the audit period 7/1/16 through 6/30/17. We confirmed that United Park Services submitted monthly financial accounting reports, an annual report, and a gross revenue report certified by a CPA for Manatee Beach for calendar year 2016; however, several exceptions were noted.

- The annual report submitted was not completed by an independent CPA, and did not reference AICPA auditing standards, as required. Additionally, the monthly income amounts reported in the Statements of Profit and Loss included in the CPA’s annual report were not the same as the monthly gross receipt amounts reported to the County each month by United Park Services. The CPA’s statements were on a cash basis, while the reports provided by United Park Services were on the accrual basis.

- The contract language which requires the gross revenue report is not consistent between the Manatee Beach and Coquina Beach agreements. While both agreements require the report to be certified by a CPA, only the Coquina Beach agreement requires that the CPA be independent.

Management Action Plan
Management will monitor documentation submitted by United Park Services to ensure they submit all required reports. Additionally, management will review the financial reporting requirements listed in the Manatee Beach and Coquina Beach agreements to ensure they are consistent and reflect management’s intentions. If it is the desire of the County and United Park Services to deviate from these requirements, consideration will be given to amending the agreements.

The expected implementation date is June 30, 2018.
Article 8 of the franchise license agreements includes requirements for capital investment and improvements to be made by United Park Services. These requirements have varied between the different agreements and amendments that have been in place since the original agreements in July 2010. Our test work evaluated compliance with the capital investment and improvement requirements through the period ending June 30, 2017.

**ORIGINAL FRANCHISE LICENSE AGREEMENTS**

**July 2010 – July 2012**
During the first 24 months of the franchise license agreements, United Park Services was required to complete predetermined capital improvements within specified time periods. In addition, the agreements required United Park Services to furnish performance bonds that were conditioned upon its full and faithful performance of those capital improvements.

*In reviewing documentation maintained by the Parks and Natural Resources Department, we could not find any records to support the improvements that had been made. However, based on inquiries with County staff, and verification that the County released the performance bonds on August 14, 2014, it does appear that United Park Services completed the improvements, as required.*

**July 2012 – July 2015**
During the remaining 36 months of the initial franchise license agreements, the requirements for capital improvements varied between the Manatee Beach and Coquina Beach locations. At Manatee Beach, $50,000 per year was required to be expended ($150,000). At Coquina Beach, 2% of gross revenues of the preceding year was required to be earmarked to be expended ($14,844).

According to a listing of capital improvement expenditures and completed projects provided by United Park Services to Parks and Natural Resources, $117,710 was expended on 13 capital improvement projects at Manatee Beach for this period; and $51,663 was expended on 10 capital improvement projects at Coquina Beach.

*While the total amount invested ($169,373) exceeds the CIP requirements for the two agreements combined ($164,844), individually, the amount expended at Manatee Beach is not in compliance with the Manatee Beach agreement; it is $32,290 less than what was required to be expended at that location. Based on interviews and a review of documentation, it appears that this distribution of capital improvement expenditures between the two locations was approved by Parks and Natural Resources management.*

During testing we also found that documentation had not been maintained to support several of the expenditures reported. We could not locate records to support 4 of the 13 improvements completed at Manatee Beach; and 2 of the improvements were only partially supported. Additionally, two of these projects also lacked documentation that they had been approved by the Parks and Natural Resources Department, as required. We also could not locate any records to support 5 of the 10 improvements completed at Coquina Beach. One of these projects was lacking documentation that it had been approved by the Parks and Natural Resources Department.

*In total, we could only locate documentation to support $143,228 of the expenditures reported. Per inquiry with Parks and Natural Resources staff, they have been aware of all capital improvement activity at both locations.*
AGREEMENT EXTENSION PERIODS

July 2015 – September 2016 – Manatee Beach
July 2015 – February 2017 – Coquina Beach

Through a series of contract amendments, the original franchise license agreement for Manatee Beach was extended through September 30, 2016; the agreement for Coquina Beach was extended through February 28, 2017. These amendments did not specifically address capital improvements; however, they did state that “all other terms and conditions set forth in the original concession agreement shall remain in full force and effect.”

During these extension periods, Parks and Natural Resources did not require United Park Services to invest in any capital improvements at either location. According to Parks and Natural Resources staff, the original agreements only specified capital investment requirements through the original 5 year term (60 months); therefore, they did not feel additional investments were required beyond that date. A legal interpretation was not obtained to ensure this interpretation was correct.

AMENDED AND RESTATED AGREEMENTS

October 2016 – June 2017 – Manatee Beach
March 2017 – June 2017 – Coquina Beach

In accordance with the amended and restated franchise agreements, United Park Services was required to remit a percentage of total gross sales to the County to be held for capital improvements (Manatee Beach - 0.5%; Coquina Beach – 1.5%). Upon completing capital improvements and supplying documentation supporting the cost of the assets, United Park Services would request reimbursement from Parks and Natural Resources.

During these time periods United Parks Services remitted $23,756 to Manatee County for future capital improvements (Manatee Beach - $19,334; Coquina Beach - $4,422). These amounts were calculated accurately as per the terms of the agreements. Also during these time periods, Manatee County reimbursed United Park Services a total of $4,584 for 2 completed improvement projects, one at each location (Manatee Beach - $4,200; Coquina Beach - $384). These reimbursements were fully supported by invoices and payment documentation.

Management Action Plan

It appears that the current reimbursement format has improved controls over documentation of the capital investments and improvements at the Manatee Beach and Coquina Beach Cafés. Management will consult with the County Attorney’s Office to determine whether any action is needed regarding the following: capital improvements and costs that could not be confirmed, capital improvements that were not required during the contract extension periods, and over/under capital investments identified. Additionally, Parks and Natural Resources will ensure that approval is provided and documented for all capital improvements.

The expected implementation date is June 30, 2018.