

**Internal Audit Report 18-01
Great Bear Recreation Park
December 2018**



City of Sioux Falls
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Great Bear Recreation Park INTERNAL AUDIT REPORT 18-01

INTRODUCTION

The City of Sioux Falls (City) owns Great Bear Recreation Park (Great Bear). An agreement exists between the City and Great Bear Recreation Park, Inc. that Great Bear Recreation Park, Inc. will operate, manage, plan, and develop Great Bear. The purpose of the audit is to determine Great Bear Recreation Park, Inc.'s compliance with the management agreement and whether adequate controls are in place to monitor Great Bear operations. The audit focuses on Great Bear Recreation Park Inc.'s compliance, City controls over contract monitoring, Great Bear cash receipts and disbursements, and City fixed asset existence.

BACKGROUND

The City entered into a management agreement with Great Bear Recreation Park, Inc. for the management and development of Great Bear. Great Bear Recreation Park, Inc. operates the facility and the City is responsible for maintaining the grounds. The agreement that was reviewed under the scope of this audit was entered into on April 12, 2013 and expired on April 30, 2018. NOTE: A new contract was signed March 30, 2018 and is effective through April 30, 2023. This new agreement was not reviewed as a part of this audit. The general manager of Great Bear Recreation Park, Inc. reports to the Great Bear Board of Directors. A member of Parks and Recreation management staff sits on the Great Bear Board of Directors.

The over 220-acre nature park is open year round and features 14 downhill ski trails, a terrain park, a tubing park and cross country and snow shoe trails. In the summer, Great Bear features nearly four miles of trails to hike, including three distinct trail loops. Great Bear also rents out The Lodge for private events such as weddings and corporate events. Attendance varies at Great Bear, largely due to weather conditions that affect actual ski/tube days.

Total Great Bear Visitors by Season				
2012/2013	2013/2014	2014/2015	2015/2016	2016/2017
43,371	44,998	33,519	36,091	33,172
Potential Ski/Tube Days¹				
2012/2013	2013/2014	2014/2015	2015/2016	2016/2017
90 (Ski)	106 (Ski)	106 (Ski)	91 (Ski)	68 (Ski)
73 (Tube)	87 (Tube)	68 (Tube)	69 (Tube)	62 (Tube)
Actual Ski/Tube Days¹				
2012/2013	2013/2014	2014/2015	2015/2016	2016/2017
84 (Ski)	98 (Ski)	94 (Ski)	73 (Ski)	65 (Ski)
70 (Tube)	80 (Tube)	62 (Tube)	60 (Tube)	60 (Tube)

¹Potential days are the total available days of Great Bear's season (opening day to closing day). Actual days are the potential days less any days Great Bear was closed due to weather issues, mechanical issues, etc.

OBJECTIVES

The objectives of this audit were to:

1. Determine if Great Bear is compliant with the following major requirements of the management agreement:
 - i. Proper insurance coverage is maintained,
 - ii. Required financial reports are provided to the City on a timely basis,
 - iii. Verify operating funds are being used for their stated purpose.
2. Determine if the City has adequate internal controls in place to ensure Great Bear is compliant with the terms of the management agreement.
3. Determine if proper internal controls are in place to protect cash receipts and disbursements of Great Bear.
4. Determine if City fixed assets under the control of Great Bear truly exist and are properly safeguarded and reported.

SCOPE AND METHODOLOGY

The scope of this audit included a review of the terms of the agreement effective April 12, 2013 through April 30, 2018. It included a review of the transactions and activity that took place from May 1, 2016 through April 30, 2017 and internal controls as they are currently in place. Our audit work included the following:

- Interviews with Parks and Recreation management and staff and Great Bear management.
- Review of annual external audit reports.
- Review of Certificate of Insurance to verify coverage amounts.
- Testing of a sample of randomly selected expenses to verify funds are spent only on Great Bear operations, maintenance, and development.
- Testing of a judgmentally selected sample of monthly purchasing card statements to verify funds are spent only on Great Bear operations, maintenance, and development.
- Review of internal controls that are in place to ensure they are working properly and are in place as they were intended.
- Observation of cash control procedures on site.
- Review of written policies and procedures regarding cash handling and cash controls.
- Review of Internal Control Cash Point of Sale Questionnaire, completed by Great Bear management.
- Review of monthly Great Bear bank statements.
- Testing of a sample of City fixed assets under the control of Great Bear to verify existence and proper safeguarding against theft.

RESULTS

Great Bear Contract Compliance

We interviewed management, reviewed insurance documentation, financial reports, expenses, and purchasing card statements. Following are the results of our testing:

- Insurance type and coverage amounts were verified and agree with Section Nine of the management agreement.
- A judgmental sample of expenses was reviewed. It was determined that funds from the operating account are being spent on Great Bear operations, maintenance and development.
- A sample of purchasing card statements was reviewed. It was determined that funds from the operating account are being spent appropriately.
- We verified that Great Bear did, in fact, file the major required financial reports with the City.
- We did note two missing purchasing card receipts as well as two recurring online purchases where the documentation was not printed off to include with the purchasing card statement for verification.

We determined that proper insurance coverage is maintained by Great Bear and operating funds are being used for their stated purpose. All required financial reports were provided to the City, however it is unclear whether or not the required reports were submitted to the City within the stated timeframes in the contract. The individual from Parks and Recreation who was responsible for overseeing this piece during the scope of the audit retired and is no longer employed by the City. **See Opportunity for Improvement on page eight.**

City Internal Controls over Contract Compliance

Based on our interviews with City management, we determined that the Parks and Recreation Administrative Manager has begun to maintain a contract checklist to ensure that Great Bear is meeting the terms of the management agreement. This checklist was implemented in 2018 and will be updated throughout the course of the year, each year the contract is in place. During our review of the checklist, we had noted a few sections where we were unsure how the City planned to monitor compliance. After meeting with Parks and Recreation management staff, we determined that the Parks and Recreation Administrative Manager will ultimately be responsible for updating the checklist & ensuring both parties are compliant with the terms of the contract. However, there are some pieces of the checklist that will be maintained by the Business Analyst assigned to Parks in Finance. This working relationship, along with the working relationship with the District Park Supervisor, should ensure that this contract is being monitored and followed as expected by both parties. The District Park Supervisors are responsible for documenting any meetings or visits they have with contract managers and also any work that has been done in relation to the maintenance pieces on the contract.

This checklist is what the City currently has in place to monitor contract compliance. The contract checklist is a working document, meaning changes will be made by the Parks and

Recreation Administrative Manager to improve it whenever necessary. Previously, contract compliance was the responsibility of the Assistant Director of Parks and Recreation, who has since retired and is no longer with the City. It is unclear how contract compliance was being monitored prior to the establishment of the checklist in 2018. There was a prior contract checklist from 2014, but it appears to be incomplete in our review of it.

Based on the evaluation performed, we determined that adequate internal controls are in place to monitor compliance. At the time of our review, we noted that the checklist listed employee names under the 'Responsible Party' heading. Also, it was not stated on the checklist when specific items are to be received and/or reviewed for compliance. At the time of our final meeting with management at the end of the audit, some of these updates had been made to the checklist. The checklist now includes a 'Frequency' column, which indicates how often each item should be received and/or reviewed. **See Opportunity for Improvement on Page eight.**

Cash Receipts and Disbursements

We interviewed management, reviewed cash control procedures with Great Bear management on site, reviewed written policies and procedures, and external audit reports, analyzed bank statements, and reviewed a questionnaire filled out by Great Bear management. We determined that the following internal controls exist to protect cash receipts and disbursements.

- The Board of Directors has oversight over monthly financial statements. They receive and review monthly financial statements.
- Cameras are located on each point of sale register.
- An individual, independent of Great Bear, reviews monthly bank statements and does a monthly bank reconciliation.
- Point of Sale (POS) register drawers are counted and verified the previous night by the manager on duty and again the following morning prior to the start of the business day.
- Each user of the POS system has a unique ID and password that they use to sign on to the system.
- Checks over \$5,000 require two signatures.
- Deposits are made timely and frequently.

According to the Internal Control checklist completed by management, a background check is not completed on all new employees who handle cash. Based upon our interview with management, most of the employees are teenagers and this is their first job. A background check would be an expense and not practical given the nature of the typical employee. It was also noted during our review that there are times that a cash drawer is not assigned to only one employee and is not shared among employees during a shift. In our discussion with management, it was stated that this is limited by management, but is necessary at times when it is busy. Unless things are very busy, cash drawers are not shared by multiple employees.

The following audit findings were noted during the audit. **See Recommendations on pages seven and eight.**

Audit Finding 1:

Due to the relatively small size of staff at Great Bear, practical internal control cannot be achieved as it relates to segregation of duties. Job duties are segregated to the extent possible, given the small staff structure. This has been recognized and is stated in the annual external audit report. Great Bear does have board oversight to address and mitigate this risk. In regards to check signing, the General Manager, Great Bear Recreation, Inc. is the signing authority and signs all checks, including payroll. Great Bear does not have direct deposit for their payroll. It was found, in reviewing the bank statements, that the General Manager signs all checks, including checks made out to the General Manager. In addition to payroll checks, there are cases when the General Manager would write a check to be reimbursed for a Great Bear expense that was paid for personally. This is rare, and happened only five times during the audit scope, totaling \$1,154.33. After a discussion with Parks & Rec management, it was determined that going forward, there will be board oversight for this process in order to mitigate the risk of inappropriate cash disbursements. See **Audit Recommendation One** and management response on page seven.

Audit Finding 2:

The Great Bear Operations Manual serves as the sole policy and procedure documentation for Great Bear and is currently under further development. In reviewing the Great Bear Operations Manual and interviewing the General Manager, we found that Great Bear does not have written instructions for cash receipt procedures or point of sale register procedures. There are also no start of day or end of day procedures documented for staff to follow. There are no policies and procedures that specifically address the purchasing card program in the Operations Manual. We reviewed a sample of monthly purchasing card statements and found that the General Manager and the Director of Indoor Operations and Events are the only two employees with purchasing card authority. In discussing the purchasing card program with the General Manager, we found that the General Manager reviews the monthly purchasing card statement and pays the purchasing card bill. There is no independent party that reviews each monthly purchasing card statement. A sample of monthly purchasing card statements is taken during the annual external audit. See **Audit Recommendation Two** and management response on page eight.

City Fixed Assets

We judgmentally selected a sample of assets from MUNIS, the City's accounting system, and went out to Great Bear to verify their existence. We verified one of the following for each asset from the information obtained in MUNIS: Asset Number, Serial Number, or Lic/Reg Number. We determined that the City assets in our sample do truly exist and are located at Great Bear. They are properly safeguarded to the extent possible. The buildings that assets are stored in are locked. The only assets out in the open are the snow guns, snow makers, and trucks. The snow guns and snow makers are large items that can only be moved by being pulled by another vehicle. Vehicles are locked and keys kept in a locked building. Based on the testing performed,

we determined that City fixed assets under the control of Great Bear do truly exist and are properly safeguarded and reported.

We also observed the maintenance of buildings and did a walk through with the General Manager. Great Bear is responsible for daily maintenance and repairs up to \$250 of all property and equipment inside the lodge, including the lodge itself, per the management agreement. In our walk through, we found that the roof leaks and there is water damage in places. The General Manager also stated that the carpet is scheduled to be replaced in 2019. We subsequently met with Parks and Recreation staff to discuss how the City operates in regard to maintenance out at Great Bear. The City is responsible for repairs in excess of \$250 to City property and equipment inside the lodge that is not covered by a third party maintenance contract, including the lodge itself, per the management agreement. The City has a contract with a third party to do furnace/HVAC inspections and maintenance as well as elevator inspections and maintenance on all City-owned buildings. Any time there is a significant weather event, such as a storm that produces hail, the City's Risk Management division coordinates a damage assessment on all City buildings. The District Park Supervisor does a physical walk through with the General Manager quarterly and they are in regular communication. The General Manager calls with any maintenance issues that need to be addressed throughout the year. Parks and Recreation staff do not currently keep maintenance records nor do they have a system to track the maintenance at Great Bear. There are maintenance logs of the ski lift. Parks staff typically operate off of a weekly work plan where they note things that need to be addressed and work on maintenance related issues as they surface. Parks and Recreation management stated that the City will be implementing a new asset management system in the near future that will include the buildings and assets located at Great Bear. All maintenance will be tracked in this system as well as manufacturer recommendations for maintenance and replacement. This new system should help ensure that accurate maintenance records are kept.

RECOMMENDATIONS

We made the following recommendation(s) that address the above referenced result(s).

- 1) We recommend that a designated member of the Great Bear Board of Directors sign all checks made out to General Manager, Great Bear Recreation Park, Inc. Due to the relatively small staff size at Great Bear, it is recognized that ideal internal control cannot be achieved as it relates to separation of duties. In light of this, best practices recommend board oversight surrounding cash disbursements.

Management's Response: All checks made out to the Great Bear Recreation Park Inc. general manager are now being signed by a designated member of the Great Bear Board of Directors.

Management Representative Responding: Dan Grider, General Manager, Great Bear Recreation Park, Inc. Don Kearney, Director of Parks and Recreation

Date of expected implementation: 10/01/2018

- 2) We recommend that Great Bear management, along with the Great Bear Board of Directors, create and document policies and procedures for their purchasing card program. These policies and procedures should be kept current and the board should ensure that they are consistently followed by staff. We also recommend that an independent review of the monthly purchasing card statement be done as well, to ensure oversight over the purchasing card program.

Management's Response: All purchase card transactions will have receipts matched to statements and will be reviewed by an independent party effective 11.14.2018. We will have our Operations Manual updated by 11.20.2018 to include above and Guest Services procedures.

Management Representative Responding: Dan Grider, General Manager, Great Bear Recreation Park, Inc. Don Kearney, Director of Parks and Recreation

Date of expected implementation: 11/14/2018 and 11/20/2018

OPPORTUNITY FOR IMPROVEMENT

We identified the following opportunity for improvement to the Contract Monitoring Checklist that Parks and Recreation management may want to implement in the future.

We recommend that the contract monitoring checklist list specific job titles under the 'Responsible Party' heading. Often, employees change positions or leave the company entirely, which would leave the checklist out of date and unclear as to whose responsibility it is to monitor that piece of the contract checklist.

CONCLUSION

Overall, Great Bear Recreation Park Inc. is in compliance with the major points of the management agreement and the City has established controls to monitor the compliance of the management agreement. Based upon our audit design and tests, we did not identify unusual activity and do not have reason to believe Great Bear is out of compliance with the management agreement. The recommendations above, which are based on industry best practices, will provide additional controls designed to protect cash and cash disbursements and mitigate the risk of errors or fraud. We would like to thank the Parks and Recreation Department as well as Great Bear management staff for their cooperation and assistance provided during this audit.

AUTHORIZATION

The Sioux Falls City Council approved this audit by resolution in February 2018 as part of the 2018 Annual Audit Plan. The Internal Audit Division operates under the authority of an Internal Audit Charter adopted by City Council resolution 11-13.

AUDIT STANDARDS

We conducted this audit in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

STATEMENT OF INDEPENDENCE

Internal Audit is administratively and operationally independent of the programs and departments it audits, both in appearance and in fact. The Internal Audit Manager is accountable to an Audit Committee appointed by the City Council per section 32.022 of the Code of Ordinances of Sioux Falls, SD.

DISTRIBUTION OF REPORT

This report is intended for the information and use of the Mayor and City Council, management, and others within the City of Sioux Falls. However, the report is a matter of public record and its distribution is not limited.

PERFORMED BY

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