



# City of Chattanooga

INTERNAL AUDIT

City Hall

Chattanooga, Tennessee 37402

Stan Sewell  
Director

Ron Littlefield  
Mayor

March 06, 2006

Honorable Ron Littlefield  
Mayor, City of Chattanooga  
City Hall  
Chattanooga, TN 37402

RE: Chattanooga Skate Park, Audit 06-01

Dear Mayor Littlefield:

Attached is the Internal Audit Department's report on the Chattanooga Skate Park. The Parks and Recreation Department has already taken positive actions in response to our recommendations. We thank the various Department heads and staff for their cooperation and assistance during this audit.

Very truly yours,

Stanley L. Sewell  
Director of Internal Audit

Enclosure

cc: Dan Johnson, Chief of Staff  
Rob Healy, Parks and Recreation Administrator  
Daisy Madison, Chief Financial Officer  
Brian Smart, Manager of Financial Operations  
Dan Kral, Parks Director

**PARKS AND RECREATION DEPARTMENT  
SKATE PARK  
AUDIT 06-01  
MARCH 03, 2006**

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A handwritten signature in black ink, appearing to be 'John', written over a horizontal line.

**Director**

**PARKS AND RECREATION DEPARTMENT  
SKATE PARK  
AUDIT 06-01**

**INTRODUCTION**

The Parks and Recreation Department built and is responsible for the operation and maintenance of the Chattanooga Skate Park. The park is located at 1825 Carter Street, behind the First Tennessee Pavilion. The park provides visitors with multiple opportunities for skating and biking, along with a roller hockey area. Prior to 2005, the park was operated by Sanctuary Skateparks. However, the contract with Sanctuary ended 09/30/2004. A new contract, known as the "Skate Park Concession Agreement" was entered into with CG Skates, Inc on December 21, 2004, with an effective date of January 01, 2005. The agreement covers a period of two years, and is renewable for an additional two year period, upon satisfactory performance by Concessionaire.

**STATEMENT OF OBJECTIVES**

The Audit was conducted due to concerns expressed by Management. Parks and Recreation Department administration noted that payments from the concessionaire seemed late. Inquiry and discussions with the concessionaire raised suspicions of missing and late payments. This further raised the administrations suspicions relative to the concessionaire's good faith in executing the agreement. The objectives of this audit were to ensure that:

1. The terms of the agreement between the City and CG Skates, Inc. were being adhered to by the concessionaire.
2. All amounts due the City were being remitted as required by the terms of the Skate Park Concession Agreement.

**STATEMENT OF SCOPE**

Internal Audit staff reviewed contracts and other documents and conducted interviews and on-site inspections to verify and ensure the accurate collection of revenues due the City. The audit period was from January 01, 2005 through February 28, 2006.

**STATEMENT OF METHODOLOGY**

Internal Audit staff reviewed the agreement between the City and CG Skates, Inc., talked with Purchasing Department staff, Treasurer's office staff, County Clerk's office, State Department of Revenue, reviewed City accounting records from the BANNER system, actual collection reports, and made on-site visits to the park to obtain a working knowledge of the operation of the Park and verify the terms were being adhered to by the concessionaire.



## **STATEMENT OF AUDITING STANDARDS**

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity, or function under audit. An audit also included assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

## **AUDIT CONCLUSIONS**

Based upon the testwork performed and the audit findings noted below, we conclude that:

1. The concessionaire has failed to perform as per the terms of its agreement with the City.
2. The concessionaire has failed to remit all amounts due to the City as per the terms of its agreement.

## **CONTRACT VIOLATIONS**

The agreement under audit has forty separate provisions. It appears that the concessionaire is in violation of at least twelve provisions. Among the more serious violations is the failure to remit monthly payments to the City. The agreement requires that the concessionaire remit eight (8) percent of gross revenues (and 50% of certain revenues) by the fifteenth of the following month as consideration for the agreement, along with a statement of total receipts for the period covered by the remittance. There have been only six payments made during the last calendar year, and all have been after the fifteenth. The last payment received from the concessionaire was in October 2005, for revenues generated in the month of August 2005.

Inquiries made to the City Treasurer's Office and County Clerk's office revealed that the concessionaire does not have and has had no business licenses issued in its name, as required by the agreement. The concessionaire also does not have a sales tax account with the State. It also appears the concessionaire has not provided proof of Commercial General Liability insurance or a ten thousand dollar performance bond, as required by the agreement.

The concessionaire does not have the hours of operation posted conspicuously and easily readable by park visitors, and it appears the concessionaire has been operating the park after hours without permission from the City, as required by the agreement.

The agreement stipulates that the concessionaire will keep the park clean and that the employees are to wear shirts with the concessionaire logo or other identifying markings. During site visits, Internal Auditors noted the employee was not wearing a shirt and trash was scattered throughout the park.

### **RECOMMENDATION 1**

We recommend the Administrator exercise the rights given him under Part 32 of the contract, and terminate the agreement immediately due to multiple violations of the terms and conditions of the agreement. According to the agreement, the City may terminate the agreement immediately for cause, with the City having sole judgment of non-performance. Also, the City shall have full authority to re-enter and take possession of the concession premises, as well as any personal property within the premises (with limitations), without the necessity of obtaining any legal process.

### **AUDITEE RESPONSE**

We concur. The concessionaire will be notified and Department staff will take possession of the facility immediately.

### **RECOMMENDATION 2**

We recommend the Administrator take immediate action to recover monies owed the City by the concessionaire. This includes all past due monthly payments along with late charges and interest, as allowed by the agreement. To this end, we recommend that Internal Audit perform additional procedures utilizing any records obtained at the skate park to aid in determining amounts due.

### **AUDITEE RESPONSE**

We concur. We would appreciate any assistance that Internal Audit can provide in determining and documenting amounts due the City by CG Skates, Inc.

### **CONTRACT MANAGEMENT**

Upon termination of the City's previous concessionaire agreement, a bidding process was initiated by Parks and Recreation Department through the Purchasing Department. However, this process was halted by the former Parks and Recreation Department Administrator. Upon halting this process, the Department Administrator entered into the current agreement with CG Skates, Inc. Therefore, the current contract was developed without the benefits that are often obtained in a competitive bidding process. The City made all capital investments to construct the Skate Park, including the building. Further, the City pays the utilities for the facility and is responsible for building maintenance. Under the current agreement, the concessionaire keeps 92% of revenues collected at the Skate Park (the City receives 8%). It would appear that a competitive bidding process would have resulted in a savings to taxpayers.



The current contract with CG Skates, Inc. is a revenue sharing agreement. CG Skates, Inc. is to manage the facility and collect all revenues. Due to the large volume of small cash transactions at the Skate Park, it is impossible for the City to ensure the concessionaire is fully reporting all revenues.

### **RECOMMENDATION 3**

We recommend Parks and Recreation Department administration seriously consider self management of the City's Skate Park. Should this decision be made, we recommend the Department work closely with the Finance Department and if necessary consult with Internal Audit to ensure strong internal controls are in place relative to cash collections.

Should the Department choose to contract management of the Skate Park, a competitive bid process should be utilized. Further, the contract should incorporate a flat fee. With regard to this possibility, the Administration should consider the legal issues of what may be considered a lease, should repossession become necessary.

### **AUDITEE RESPONSE**

We concur. Our Department will conduct an extensive review of the management possibilities relative to the Skate Park. It should be noted that the current agreement with CG Skates, Inc. was entered into by the previous Administration.