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CHESTERFIELD COUNTY
Internal Audit

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Includes Freedom of Information Act (FOIA) exempt material that will be redacted prior to public disclosure.

Parks and Recreation Concessions and Leases

October 30, 2020



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Parks and Recreation Concessions and Leases *Highlights*

Lease Approval and Payments

Parks and Recreation does not verify concession vendors' annual gross sales. Concession vendors use their annual gross sale percentages to provide Parks and Recreation payments. The department maintains a spreadsheet for monitoring lessor and lessee payments, status, and terms. We noted two instances where rent payment information did not agree with lease agreement amounts. Also, there were several instances where we could not verify spreadsheet review and approval occurred. Although an internal policy is present for concession leases agreements, we were unable to locate a policy for non-concession leases.

We noted the Department complied with VA Code and obtained Board approval for their six long-term concession leases without exception. Additionally, Parks and Recreation used their lease payment review process to locate and correct a \$450 payment error.

Commendation(s): Parks and Recreation followed policies related to long-term concession lease approval and used internal control to locate lease payment discrepancy.

Recommendation(s): Parks and Recreation require fixed annual fees upon concession vendor lease renewals. Develop a written policy regarding the approval process of non-concession related leases. Implement a periodic spreadsheet review/monitoring process to ensure lease agreement data is accurate and complete.

ActiveNet Updates and System Access

[REDACTED]

Lease Terms and Requirements Compliance

Inquiry with Parks and Recreation management identified short-term leases and lease term time periods are not defined in internal policies. We tested 46 requirements and noted the lessee/lessor complied with 40 of 46 requirements. We also noted Parks and Recreation has no written lease tracking/monitoring procedures. Due to unreliable data, the Parks Division no longer uses the internally developed performance tracking system to track maintenance records.

Action(s) Taken: IST authorized Parks and Recreation to proceed with system purchase process.

Recommendation(s): Parks and Recreation update Internal Policy 211 to define short-term leases and time periods. Develop process for monitoring/tracking compliance with lease requirements. Work with IST and Procurement to obtain and implement Parks Division Maintenance Management System.

Management concurred with 9 of 9 recommendations detailed in the report to be implemented from 11/30/2020 to 1/31/2023. Internal Audit performs annual follow-up with management to confirm implementation status.

INTRODUCTION

BACKGROUND

The Parks and Recreation department provides a comprehensive system of leisure programs, educational opportunities, and recreational facilities for County residents while conserving and protecting the County’s environmental, historical, and cultural resources. The department provides citizens certain services funded by annual real estate taxes. The department also provides classes, programs, and facilities for additional fees used to cover their cost. The department is advised by the Parks and Recreation Advisory Commission (PRAC), an 11-member, board-appointed committee that ensures continuous improvement in the cultural, athletic, and recreational opportunities in Chesterfield County. As of FY20, Parks and Recreation employs 115 full-time positions.

The department recognizes developing mutually beneficial partnerships with individuals, nonprofit organizations, private entities, public agencies, and community groups is a viable and appropriate way to increase the variety and quality of programs available to the citizens of Chesterfield. To achieve this, Parks and Recreation participates in several lease agreements (11 as lessor; five as lessee). Governmental Accounting Standards Board (GASB) Statement No. 87 defines a lease as a contract that conveys control of the right to use another entity’s nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. Two staff members are primarily responsible for lease management (one Finance Division employee manages long-term leases and one Athletics Division employee manages short-term concession leases).

OBJECTIVES

Objectives of the audit were to:

- Test a sample of leases (as lessee/lessor) to:
 - Determine compliance with lease requirements.
 - Evaluate controls in place for monitoring/tracking compliance with requirements.
- Evaluate ActiveNet software to determine if system is up-to-date, patches are installed, and user access controls are in place.
- Identify potential areas of improvement.
- Report results to management.

SCOPE

Our audit work covered FY19 and the current operating environment. We considered the following code, policies, and procedures during our audit:

<i>County Administrative Policy 7-3: Information Systems Technology (IST) Information Security</i>	<i>County Administrative Policy 7-5: IST Access to Distributed Systems</i>
<i>Parks and Recreation Administrative Policy 108: Accounts Receivable; Cash Receipts; Daily Deposits; Invoicing; Debt Collection and Accounts Review Process</i>	<i>Parks and Recreation Administrative Policy 211: Concession and Vendor Operations</i>

<i>Code of Virginia §15.2-1800 Purchase, Sale, Use, Etc., of Real Property</i>	<i>National Institute of Standards and Technology (NIST) Special Publication 800-53:</i> <ul style="list-style-type: none"> • <i>Account Management (AC-2)</i> • <i>Configuration Change Control (CM-3)</i>
<i>Committee of Sponsoring Organizations (COSO) Internal Control – Integrated Framework</i>	<i>Library of Virginia Public Records Management Manual</i>
<i>Auditing Standards Board (ASB) Statements on Standards for Attestation Engagements (SSAE) No. 18</i>	<i>Governmental Accounting Standards Board (GASB) Statement No. 87</i>

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those 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. Christian Wingfield, Staff Auditor, performed the audit work. Chesterfield County Internal Audit is a department within the organization of Chesterfield County/Schools.

METHODOLOGY

Detailed information regarding the methodology can be found in the individual findings listed in the report. Our methodology included personnel interviews, observations, data analysis, detail testing, and documentation review.

INTERNAL CONTROL CONCLUSION

According to Government Auditing Standards, internal controls, in the broadest sense, encompass the agency’s plan, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal controls include the processes for planning, organizing, directing, and controlling program operations. It also includes systems for measuring, reporting, and monitoring program performance. An effective control structure is one that provides reasonable assurance regarding:

- efficiency and effectiveness of operations;
- accurate financial reporting; and
- compliance with laws and regulations.

Based on the results and findings of the audit test work, auditors concluded that internal controls were in place, but not consistently followed which could impact their ability to assist management in meeting its missions, goals, and objectives. Recommendations specific to improving these controls can be found in detail further in the audit report.

CLOSING

We would like to thank Bob Smet, Jeannine McConnell, Karen Robinson, and the Parks and Recreation department for their cooperation and assistance during the audit.

FINDINGS, RECOMMENDATIONS, RESPONSES

Lease Approval and Payments

(Point Sheet 1)

CRITERIA:

Parks and Recreation Administrative Policy 108: Accounts Receivable; Cash Receipts; Daily Deposits; Invoicing; Debt Collection and Accounts Review Process outlines the terms for long-term concession lease billing and collections. Associations must submit annual payments in the amount of 10% of gross sales if submitted before December 31 and 12% if submitted after.

Parks and Recreation Administrative Policy 211: Concession and Vendor Operations defines the process for long-term concession lease approvals. Requesting organizations must submit long-term lease application letter to the Director or Designee no later than two months prior to a public hearing process. After department review, the application is sent to the Parks and Recreation Advisory Commission for recommendation of approval or rejection to the Board of Supervisors. The Board of Supervisors must approve all long-term lease agreements through a public hearing.

Code of Virginia §15.2-1800 Purchase, Sale, Use, etc., of Real Property requires localities leasing real property as lessor and/or lessee obtain Board of Supervisors approval.

The Library of Virginia establishes a public records management program for government-maintained documentation. The program is implemented to aid and assist custodians of public records, ensure documentation of government actions, and maintain good business practices.

The Committee of Sponsoring Organizations (COSO) Internal Control – Integrated Framework is recognized as the leading framework for designing, implementing, and conducting internal controls and assessing the effectiveness of internal controls. One component of internal control is control activities, which are actions established to ensure management’s directives to mitigate risks are carried out. Control activities include authorization, approval, and reconciliation.

CONDITION(S):

Inquiry with management identified Parks and Recreation does not verify a concession vendors’ annual gross sales. Concession vendors use their annual gross sales to calculate Parks and Recreation payments. The vendor submits a year-end financial report which lists gross annual sales and the amount due to Parks and Recreation.

Parks and Recreation participates in several long-term lease agreements as both lessor (11 leases totaling \$59,463 for FY19) and lessee (five leases totaling \$14,800 for FY19). For the 11 leases with the County as lessor, six are concession leases totaling \$13,663 during FY19 and five are non-concession leases (sports facilities, historical society program, and boathouse operation) totaling \$45,800 during FY19. The leases with the County as lessee are also non-concession (church buildings for elderly programs, real property, and a skateboard park). Internal policy states long-term concession lease agreements must obtain final approval from the Board of Supervisors. We received a list of active long-term leases from management and compared to Board of Supervisor meeting minutes to verify policy compliance. We noted:

- All six long-term concession leases were approved by the Board without exception.
- An internal policy regarding approval of non-concession lease agreements is not present.

FINDINGS, RECOMMENDATIONS, RESPONSES

Lease Approval and Payments

(Point Sheet 1)

We selected 11 leases with County as lessor and three with County as lessee (two leases had no payments involved) and compared lease payments made to the amount approved in the lease agreement. We noted one 9/1/2018 lease renewal (County as lessee) increased monthly rent payments from \$700/month to \$850/month, but three payments (8/21/2018, 9/19/2018, and 10/18/2018) were made using prior contract agreement amount (\$700/month). However, Parks and Recreation's review process performed October 2018 located and corrected the \$450 error. No other findings were noted for remaining leases.

Parks and Recreation maintains a spreadsheet for monitoring lessor and lessee payments, status, and terms. We compared lease agreement data to the lease spreadsheet. We noted two instances (one lessor, one lessee) where the spreadsheet's payment information did not agree with approved lease agreement amounts. Also, there were several instances where we could not verify spreadsheet review and approval occurred.

CAUSE(S):

- A process to ensure gross concession sales amounts are accurate is not present.
- Parks and Recreation has effective internal control procedures for long-term concession lease approvals.
- A policy regarding approval of non-concession leases is not present.
- The lease spreadsheet is not being reviewed for completeness and accuracy.

EFFECT(S):

- Gross sales could be inaccurate leading to incorrect collection amounts.
- Parks and Recreation complied with long-term concession lease approval policy.
- County property could be used without payment, or damage could be caused to County property, without recourse to recover losses.
- County could be unaware of expired contracts, which could create legal issues if problems arise.

COMMENDATION(S):

We commend Parks and Recreation for following policy and procedure related to long-term concession lease approval and using their internal controls to locate payment discrepancy.

RECOMMENDATION(S):

We recommend Parks and Recreation:

1. Revise percentage of gross sales requirement from concession lease agreements and replace with fixed annual fee requirement upon lease renewal (**repeat finding #35 from report dated 05/24/2011**).
2. Develop a written policy regarding the approval process of non-concession related leases.
3. Implement a periodic spreadsheet review/monitoring process to ensure lease data is accurate and complete.

FINDINGS, RECOMMENDATIONS, RESPONSES

Lease Approval and Payments

(Point Sheet 1)

MANAGEMENT'S RESPONSE(S):

1. *Concur. Chief of Finance, Jeannine McConnell, and Administrative Analyst, Karen Robinson, are responsible for implementing 1/31/2023. Lease language will be revised upon renewal in 2022.*
2. *Concur. Administrative Analyst, Karen Robinson, implemented 10/20/2020. Policy 215, Non-Concession Leases, issued and implemented on 10/20/2020.*
3. *Concur. Chief of Finance, Jeannine McConnell, is responsible for implementing 12/31/2020. Procedures drafted and approved 10/20/2020. The Senior Accounting Technician will update a lease compliance checklist as required items are confirmed. The Chief of Finance will review this checklist quarterly and digitally sign confirming review.*

FINDINGS, RECOMMENDATIONS, RESPONSES
ActiveNet Updates and System Access
CONFIDENTIAL, FOIA EXEMPT §2.2-3705.2(2): System Security
(Point Sheet 2)

CRITERIA:

County Administrative Policy 7-3: Information Systems Technology (IST) Information Security describes reducing information-security risks with accurate, complete, and reliable electronic information maintenance and segregation of duties requirements for system access and security administration.

County Administrative Policy 7-5: IST Access to Distributed Systems establishes organizational requirement for reporting personnel changes to reduce information security risks.

National Institute of Standards and Technology (NIST) Special Publication 800-53 provides technology best practices for physical, logical, and software application security, including:

- **Account Management:** Includes user permission controls for organizational information systems and outlines account disabling/termination procedures. ([AC-2](#))
- **Configuration Change Control:** Includes organized processes to monitor and approve system changes and upgrades. ([CM-3](#))

The Auditing Standards Board (ASB) created Statement on Standards for Attestation Engagements (SSAE) 18, which is the attestation standard used for reporting on controls at services organizations. SSAE 18 includes the Service and Organization Controls (SOC) 2 report which focuses on security, availability, processing integrity, confidentiality and privacy.

CONDITION(S):

[Redacted content]

FINDINGS, RECOMMENDATIONS, RESPONSES
ActiveNet Updates and System Access
CONFIDENTIAL, FOIA EXEMPT §2.2-3705.2(2): System Security
(Point Sheet 2)

[Redacted]

CAUSE(S):

[Redacted] separated.

EFFECT(S):

[Redacted]

RECOMMENDATION(S):

- We recommend:
4. [Redacted]
 5. [Redacted]
 6. [Redacted]

FINDINGS, RECOMMENDATIONS, RESPONSES
ActiveNet Updates and System Access
CONFIDENTIAL, FOIA EXEMPT §2.2-3705.2(2): System Security
(Point Sheet 2)

MANAGEMENT'S RESPONSE(S):

4.	
5.	
6.	

FINDINGS, RECOMMENDATIONS, RESPONSES

Lease Terms and Requirements Compliance

(Point Sheet 3)

CRITERIA:

Governmental Accounting Standards Board (GASB) Statement No. 87 describes information requirements for financial statement users and provides guidance for leases including lease terms, lessee and lessor accounting, and lease modifications and terminations.

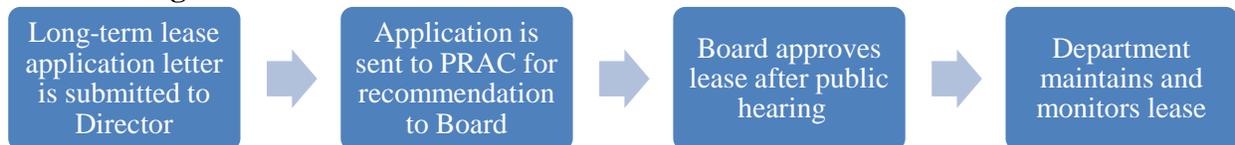
Code of Virginia §15.2-1800 Purchase, Sale, Use, etc., of Real Property establishes Chesterfield County's ability to participate in lease agreements upon the Board of Supervisors' approval. Each agreement contains specific requirements for the lessor and lessee.

Parks and Recreation Administrative Policy 211: Concession and Vendor Operations requires permittees comply with all applicable Chesterfield County Health Department Guidelines (i.e. at least two members of each concession or three members of each association must participate in a Food Safety Training class while maintaining a current training status).

CONDITION(S):

Parks and Recreation participates in 16 leases (11 as lessor; five as lessee) for various County buildings and properties (See Point Sheet 1 for Lease Approval and Payment testing). The lease process begins when an applicant submits a long-term lease application letter to the Director or designee. The letter is a preliminary application which provides proposed long-term lease details. After Director review, the application is sent to the Parks and Recreation Advisory Commission (PRAC) for recommendation to the Board of Supervisors. All long-term lease agreements must obtain final approval from the Board of Supervisors after holding a public hearing. Parks and Recreation maintains the lease and is responsible for monitoring lease terms, payments, status, and requirement compliance.

Lease Management Process



Inquiry with Parks and Recreation Management identified short-term leases and lease-term time periods (seasonal, short-term, long-term) are not defined in internal policies.

We tested ten leases with County as lessor and three with County as lessee for compliance with individual lease requirements. We obtained lease agreements, ranked requirements based on perceived risk, and selected requirements based on the following categories: rent, insurance, facility improvements, maintenance, utilities, and other lease-specific requirements. We tested 46 requirements to determine if lessors/lessees complied, and noted the following:

- Parks and Recreation has no written lease tracking/monitoring procedures.
- Lessee/Lessor complied with 40 of 46 (87%) lease requirements. See noncompliance listed in table below:

FINDINGS, RECOMMENDATIONS, RESPONSES

Lease Terms and Requirements Compliance

(Point Sheet 3)

Lease	Requirement	Condition
Concessions	Lessee must adhere to the Chesterfield Health Department guidelines for youth athletic organizations.	Youth and food concessions organizations do not participate in the Health Department food safety training program. Parks and Recreation does not have a process or procedure to monitor vendor compliance with Policy 211.
Huguenot Road Baptist Church	No insurance requirements listed in lease.	The lease does not mention County insurance requirements. Also, the Parks and Recreation is not aware if the lessor (Huguenot Road Baptist Church) maintains their own insurance.
Midlothian Mines	Tenant shall be responsible for operational, maintenance and repair activities, and remediating damage on the premises.	Parks maintenance staff perform routine maintenance tasks in accordance with Parks Maintenance Standards. Maintenance records were recorded in the Parks Performance Tracking System (Excel spreadsheet); however, the tracking system produces unreliable information and is no longer used by Parks maintenance staff. The department has inquired with IST regarding system issues, with no current solutions.
Richmond First Tee	To the extent there are any revenues in excess of operating expenses derived from the facility, 100% must be used for capital improvements to the Facility or for reducing the fees charged to the public.	Per management inquiry, Parks and Recreation currently has no process to determine if revenues exceed operating expenses and if excess revenues are used in accordance with the lease agreement.
Richmond First Tee	Any net revenues derived from the sale of timber or soil shall be used for the cost of construction or for capital improvements for the Facility.	Per management inquiry, Parks and Recreation currently has no process to determine if net revenues derived from sale of timber/soil are used in accordance with lease agreement.
Chesterfield Historical Society	Historical Society shall retain ownership of the artifact collection and maintain an up to date inventory of the collections located on or in the properties.	One Historical Society employee maintains the artifact inventory listing (approximately 7,000 artifacts totaling over \$1,000,000). Access to the listing is restricted and only available to the employee.

FINDINGS, RECOMMENDATIONS, RESPONSES

Lease Terms and Requirements Compliance

(Point Sheet 3)

CAUSE(S):

- Parks and Recreation Policy 211 does not define short-term leases and lease term time periods.
- A process to monitor and track lessee/lessor lease requirement compliance is not present.
- A system is not being used to track maintenance costs.

EFFECT(S):

- Parks and Recreation may not be prepared for future short-term leases.
- Without a process for tracking requirement compliance, County assets may not be protected and subjected to unnecessary liabilities.
- Parks and Recreation no longer uses the internally developed performance tracking system to track maintenance records since the system produces unreliable data.

ACTION(S) TAKEN:

As of 9/24/2020, IST has authorized Parks and Recreation to proceed with maintenance management system purchase process.

RECOMMENDATION(S):

We recommend Parks and Recreation Management:

7. Update Parks and Recreation Policy 211 to define short-term leases and define time periods for short and long-term leases.
8. Develop process for monitoring and tracking lessee/lessor compliance with lease requirements to protect County assets from unnecessary risks.
9. Work with IST and Procurement to obtain and implement Parks Division Maintenance Management System that allows accurate maintenance performance and cost tracking.

MANAGEMENT'S RESPONSE(S):

7. *Concur. Administrative Analyst, Karen Robinson, is responsible for implementing 11/30/2020. Department will add language to policy 211 to define short-term leases and define time periods for short and long-term leases.*
8. *Concur. Chief of Finance, Jeannine McConnell, is responsible for implementing 12/31/2020. Procedures drafted and approved 10/20/2020. The Senior Accounting Technician will update a lease compliance checklist as required items are confirmed. The Chief of Finance will review this checklist quarterly and digitally sign confirming review.*
9. *Concur. Administrative Analyst, Karen Robinson, is responsible for implementing 2/28/2021. Parks and Recreation is in the process of submitting a purchase requisition for this software. Implementation is expected to take approximately three months.*