



Equestrian Center Audit - #857

Executive Summary

Why CAO Did This Review

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, we conducted an audit of the Equestrian Center Services Contract (Contract) between the City of Jacksonville (City) and the Northeast Florida Equestrian Society/ H.O.R.S.E. Therapies, Inc. (NFES). The audit focused on the management and oversight of the Contract by the Parks, Recreation and Community Services Department (Parks Department).

Services provided by NFES include operating, maintaining, promoting, increasing the use of, and generating additional revenue streams at the Equestrian Center with the goal to make it self-sustaining. The Parks Department (its Director specifically) was designated as the City's representative and is responsible for being the primary point of contact with NFES, which includes distributing all information received from NFES to the correct City Department and/or personnel, monitoring the quality of the services being provided by NFES, and ensuring contract compliance.

As of September 30, 2020, the City has incurred \$2,630,929 in contractual service expenditures related to the Equestrian Center since the Contract's execution. This amount includes reimbursement payments, transition payments, and utility expenses.

What CAO Found

Overall, the Parks Department did not sufficiently monitor and enforce the terms of the Contract with NFES to ensure that reimbursement payments were properly supported, accurate, authorized, and made in a timely manner. We identified the following issues:

- The City did not request and review support for revenue collected by NFES. Revenue offsets the expenditures incurred by NFES and helps reduce the amount reimbursed by the City. Testing identified \$161,066.18 in revenue that was not utilized to offset the City's reimbursement that possibly should have been (i.e., potential overpayment) and \$15,323.39 that was utilized to offset the City's reimbursement that possibly should not have been (i.e., potential underpayment).
- Two offsetting errors (overpayment of \$74,590.40 and underpayments of \$70,754.28) were identified in reimbursements that resulted in a net overpayment to NFES of \$3,836. This contributed to the maximum indebtedness being exceeded in total by \$51,493 in FY 19/20.
- Expenses reported to the City for reimbursement did not always have proper support.
- Lack of contract monitoring to ensure terms were followed with regards to budget transfer authority, insurance requirements, inventory procedures, reporting requirements, and aspects of the naming rights agreement for the Equestrian Center arena ring.

What CAO Recommends

We recommend that the Parks Department begin reviewing support related to NFES revenue collections and consistently obtain and review support related to expenditures. This will help ensure the City is reimbursing the correct amount. The Parks Department also needs to routinely review the contract and address contract violations. This Department also needs to determine what actions need to be taken related to the items specifically noted in the report, especially related to the length of the naming rights agreement.



Council Auditor's Office

Equestrian Center Audit

October 25, 2021

Report #857

Released on: May 4, 2022

EXECUTIVE SUMMARY

AUDIT REPORT #857

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OFFICE OF THE COUNCIL AUDITOR
Suite 200, St. James Building



October 25, 2021

Report #857

Honorable Members of the City Council
City of Jacksonville

INTRODUCTION

Pursuant to Section 5.10 of the Charter of the City of Jacksonville and Chapter 102 of the Municipal Code, we conducted an audit of the Equestrian Center Services Contract (Contract) between the City of Jacksonville (City) and the Northeast Florida Equestrian Society/H.O.R.S.E. Therapies, Inc. (NFES). The audit focused on the management and oversight of the Contract by the Parks, Recreation and Community Services Department (Parks Department).

Pursuant to Ordinance 2014-331-E, the City executed the Contract with NFES for the operation and management of the City's Equestrian Center on July 1, 2014. On October 1, 2015, the Contract was amended and restated to authorize the City to execute additional amendments to approve annual budgets and amend the City's maximum indebtedness amount. Prior to the July 1, 2014, the Equestrian Center was managed by another entity. Contract services provided by NFES include operating, maintaining, promoting, increasing the use of, and generating additional revenue streams at the Equestrian Center with the goal to make it self-sustaining. The Parks Department (its Director specifically) was designated as the City's representative and is responsible for being the primary point of contact with NFES, which includes distributing all information received from NFES to the correct City Department and/or personnel, monitoring the quality of the services being provided by NFES, and ensuring contract compliance.

According to the Contract, NFES is not paid a management fee for their services but is reimbursed by the City for qualified expenditures incurred each month. Expenditures qualified for reimbursement include actual and reasonable expenditures that are related to the Equestrian Center. In order for a reimbursement to be issued, there needs to be a revenue shortfall. Each "payment period" (generally a month but some reimbursement payments were issued for a shorter timeframe), NFES will report their revenue, expenditures, and net income/deficit to the Parks Department, along with applicable supporting documentation (e.g., invoices and receipts). These items sent by NFES are referred to as "transmittals" throughout this report. If there is a net deficit (revenue shortfall where total revenue is less than total expenditures) and Parks Department personnel have determined that the expenditures reported are qualified for reimbursement, the City will issue a payment to NFES for reimbursement equal to the net deficit amount. If there is a net surplus for the payment period, then no reimbursement will be issued, and the net surplus amount will be carried forward to subsequent periods to help offset any future deficits.

As of September 30, 2020, the City has incurred \$2,630,929 in contractual service expenditures related to the Equestrian Center since the Contract's execution. Of that amount, \$1,979,305 was

for reimbursement payments to NFES due to revenue shortfalls, \$553,896 was for utility payments to JEA, and \$97,728 was given to NFES at the beginning of the Contract's execution in order to arrange a smooth transition from the prior management entity to NFES.

STATEMENT OF OBJECTIVE

To determine whether the Parks Department was properly monitoring and enforcing the terms set forth in the Contract between the City and NFES, including that reimbursement payments from the City to the organization were properly supported, accurate, authorized, and timely.

STATEMENT OF SCOPE AND METHODOLOGY

The audit is of the Parks Department's management and oversight of the Contract for the period of October 1, 2018 through September 30, 2020.

We identified all payments made by the City to NFES per the City's Accounting System and obtained a listing of all transactions recorded in NFES' Accounting System applicable to the audit scope. We also obtained the Equestrian Reimbursement Spreadsheet created by the Parks Department that is used to calculate NFES reimbursement payments, all transmittals (revenue and expenditure report with supporting documentation) provided by NFES, and all of NFES' monthly bank statements for the audit scope.

We then conducted a series of tests in relation to reimbursement payments applicable to the audit scope. We first traced all 26 reimbursement payments recorded in the City's Accounting System to the Equestrian Reimbursement Spreadsheet to confirm that the spreadsheet was accurate and there were no discrepancies. We then recalculated the collective net surplus/deficit for fiscal years 2018/19 and 2019/20 to verify that the Parks Department's reimbursement calculations were accurate and the correct amounts were paid to NFES. For each payment, we confirmed that the calculated amount matched the actual amount reimbursed by the City to NFES (if there was a net deficit), or we carried forward the amount to add to/offset the following month's net surplus/deficit (if there was a surplus). For each reimbursement payment, a reimbursement request memo and a contract payment checklist had to be completed and signed by the Director of the Parks Department. We tested each reimbursement payment to verify that a memo and checklist was correctly completed and signed. We also verified that the total amount of reimbursement payments issued in FY 2018/19 and FY 2019/20 did not exceed the total budgeted amounts that were approved by City Council in those fiscal years.

We also performed testing regarding NFES' revenue and expenditure transactions related to the Equestrian Center that occurred during the audit scope. We traced each revenue and expenditure line-item in the Equestrian Reimbursement Spreadsheet to the respective transactions recorded in NFES' Accounting System and investigated any discrepancies. Next, we selected a sample of 10 monthly banks statements out of the 24 months within the audit scope from each of the four NFES bank accounts required by the Contract. We tested them to verify that the transactions were accurately recorded in NFES' Accounting System and included in the Equestrian Reimbursement Spreadsheet. We then identified all revenue transactions in NFES' Accounting System that were

not included in the Equestrian Reimbursement Spreadsheet and verified that they were properly and accurately excluded from the reimbursement calculation. We also identified all expenditure transactions from NFES' Accounting System that were included in the Equestrian Reimbursement Spreadsheet and verified that the expenditures were properly supported (with an invoice, receipt, etc.), were accurately calculated and recorded based on the support found, and were related to the operation of the Equestrian Center and therefore reimbursable. We then verified that NFES' actual line-item expenditures did not exceed the budgeted line-item expenditures by more than 10% and that NFES' actual total expenditures did not exceed the budgeted total expenditures at year-end of FY 2018/19 and FY 2019/20.

Lastly, we conducted testing to assess if the Parks Department has been effectively monitoring the services performed by NFES to ensure compliance with the Contract. This included testing contract compliance/monitoring procedures of the Parks Department, which included but was not limited to verifying:

- that an annual business plan and budget was submitted to the City on or before February 1st by NFES in FY 2018/19 and FY 2019/20.
- whether the amounts appropriated in FY 2018/19 and FY 2019/20 for reimbursement to NFES were reviewed and approved by the City Council.
- whether the inventory documents for FY 2018/19 and FY 2019/20 were signed off by both the City and NFES. We examined the inventory documents for reasonableness and for any missing assets or unauthorized asset disposal. We also confirmed whether any other inventory requirements according to the Contract were followed and completed.
- any purchases that exceeded the \$30,000 limit in a fiscal year followed the City's purchasing rules. We conducted testing by selecting up to 5 vendors with payments from NFES totaling \$30,000 or more during a fiscal year and verifying if NFES correctly observed the City's purchasing rules.
- that naming rights agreements were reviewed by the Office of General Counsel (OGC) and followed the other provisions mentioned in the Contract.
- that NFES achieved an average customer satisfaction rating of at least 80%. We collected all customer satisfaction surveys that were completed by a customer and returned to NFES in the 2020 calendar year and verified whether NFES achieved at least an average rating of 80%.
- whether NFES maintained specific insurance policy and coverage amounts specified in the contract. We requested NFES' current insurance policies to verify if the correct coverages and amounts were being maintained.

Unless specifically stated otherwise, based on our selection methods and testing of transactions and records, we believe that it is reasonable to project our results to the population and ultimately draw our conclusions on those results. Additionally, for proper context we have presented information concerning the value and/or size of the items selected for testing compared to the overall population and the value and/or size of the exceptions found in comparison to the items selected for testing.

REPORT FORMAT

Our report is structured to identify Internal Control Weaknesses, Audit Findings, and Opportunities for Improvement as they relate to our audit objective(s). Internal control is a process

implemented by management to provide reasonable assurance that they achieve their objectives in relation to the effectiveness and efficiency of operations and compliance with applicable laws and regulations. An Internal Control Weakness is therefore defined as either a defect in the design or operation of the internal controls or is an area in which there are currently no internal controls in place to ensure that management's objectives are met. An Audit Finding is an instance where management has established internal controls and procedures, but responsible parties are not operating in compliance with the established controls and procedures. An Opportunity for Improvement is a suggestion that we believe could enhance operations.

STATEMENT OF AUDITING STANDARDS

We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

AUDITEE RESPONSES

Responses from the auditee have been inserted after the respective finding and recommendation. We received these responses from the Parks, Recreation, and Community Services Department, via Daryl Joseph, Director of Parks, Recreation, and Community Services in a memorandum on April 26, 2022. Additionally, we received a letter from the Executive Director of NFES, Tim Jones, to Daryl Joseph that was requested to be included in the report, which has been included as Attachment A.

AUDIT CONCLUSIONS

Overall, the Parks Department did not sufficiently monitor and enforce the terms of the Contract with NFES to ensure that reimbursement payments were properly supported, accurate, authorized, and made in a timely manner.

AUDIT OBJECTIVE

To determine whether the Parks Department is properly monitoring and enforcing the terms set forth in the Contract between the City and NFES, including that reimbursement payments from the City to the organization were properly supported, accurate, authorized, and timely.

Finding 1 – Revenue Transaction Issues

The Parks Department did not perform procedures to review the support for the revenue that NFES reported to the City for accuracy and/or completeness. Each month, NFES sent the Parks Department an income statement of the company's total revenue and expenditures for the month. Along with the income statement, NFES sent the Parks Department the supporting documentation for the expenditures such as invoices and receipts; however, supporting documentation for the revenue was not requested and reviewed by the Parks Department to verify accuracy and completeness. Therefore, our testing related to revenue was limited to the testing described below.

In our testing to verify accuracy and completeness, we found the following issues regarding revenue transactions. In total, the results bring into question why \$161,066.18 in revenue was not utilized to offset the City's reimbursement (i.e., potential overpayment) and why \$15,323.39 was utilized to offset the City's reimbursement (i.e., potential underpayment). We were not provided information that could clear or explain why the items were either included in or excluded from the calculation to determine the City's reimbursement.

1. We reviewed 458 revenue transactions recorded in NFES' Accounting System that were not included in the City reimbursement calculation. Of the 458 transactions, we were unable to substantiate why 443 of the transactions totaling \$157,792.22 were excluded from the reimbursement spreadsheet and thus not utilized to offset the cost of expenditures. It is possible that the exclusion of these items was justified (nothing in the contract limits the accounting system from having transactions not related to the contract included); however, most of the transactions were in accounts that were included in other instances.
2. We selected a random sample of bank deposits and found that 35 out of 178 (19.7%) bank deposits tested were unable to be accurately traced to the Parks Department's Reimbursement Spreadsheet. Either the transactions were not included at all or the amounts in the spreadsheet did not match the amount per the bank statement. The 35 transactions that were not able to be traced to the reimbursement spreadsheet totaled \$3,740.71, and 9 of the transactions totaling \$3,273.96 were also unable to be found in NFES accounting system data. Of note, 23 out of 35 deposits were for monthly interest deposits from the bank. Because the revenue was not included in the Parks Department's Reimbursement Spreadsheet, it was not used to offset Equestrian Center expenditures, resulting in the City potentially over reimbursing NFES by \$3,740.71 (Note \$466.75 of this was also included in item 1).
3. We found that out of \$304,980.64 of revenue entered into the Parks Department's Reimbursement Spreadsheet within the sample of 10 months tested, we were unable to trace 17 transactions totaling \$15,323.39 (5%) back to the respective bank statements we were testing. We were unable to verify the \$15,323.39 was deposited into one of the Equestrian Center bank accounts. All of the transactions appear to be revenue from operating the Equestrian Center and, therefore, should have been deposited into the Equestrian Center Operating Account. If they were not associated with the Equestrian Center, then the revenue should not have been used to offset expenditures.

Recommendation to Finding 1

We recommend that the Parks Department require NFES to send supporting documentation for monthly revenue collected, and that the Parks Department review the support for accuracy and

completion, similar to how they review expenditures. Additionally, the Parks Department needs to request and review transactions within NFES accounting system for revenue and deposits on bank statements to ensure that all revenues related to the NFES contract are accurately reflected given that revenues help offset the amount ultimately reimbursed to NFES.

We also recommend that the City determine whether it needs to perform further research into the items noted above to determine whether any corrective action is needed.

Auditee Response to Finding 1

Agree Disagree Partially Agree

The Parks Department has modified their procedures to require NFES submit monthly bank statements and revenue lines will be reconciled for accuracy and completeness.

The Parks Department will perform additional research to determine if any corrective action is needed.

Finding 2 – Issues with Reimbursement Payments

We found various issues with the reimbursement payments to NFES made by the Parks Department.

- We found a reimbursement payment of \$74,590.40 in February 2020 to NFES that was made in error. The Parks Department erroneously treated a surplus of \$74,590.40 as a deficit that needed to be reimbursed to NFES and, as a result, paid NFES \$74,590.40 in error.
- We found that the City reimbursement payments were understated by a total of \$70,754.28 for two months (\$54,204.50 for August 2020 and \$16,549.78 for September 2020). These underpayments occurred because a prior City reimbursement payment of \$70,754.28 for the month of July 2020 was mistakenly included as revenue in the reimbursement calculation for August 2020. This overstatement in revenue caused a surplus and therefore a reduction in the amount to be reimbursed by the City.

We also found that the Parks Department reimbursed \$51,493.91 more than the maximum indebtedness amount for FY 19/20 based on the actual payments made, which includes a net overpayment of \$3,836.12 from the items noted above. The maximum indebtedness for FY 19/20 per the fourth amendment to the contract was \$371,597.93 while \$423,091.84 was actually reimbursed. One of the payments for FY 19/20 operations occurred in FY 20/21 and that appears to be a contributing factor in enabling the maximum indebtedness to be exceeded.

Recommendation to Finding 2

We recommend that going forward a second employee from Parks Department review the reimbursement calculation to ensure NFES reimbursement payment is accurate and properly supported. The Parks Department should also consider reviewing the design of their

Reimbursement Calculation Spreadsheet to avoid any mistake on whether there is a deficit or a surplus for the period being calculated and prevent payments in excess of maximum indebtedness.

As it relates to past issues, the Parks Department needs to review whether contract amendments can be made for the part paid in excess of the maximum indebtedness or whether the amount paid in excess needs to be recovered.

Auditee Response to Finding 2

Agree Disagree Partially Agree

The Parks Department has modified their procedures to require a secondary review of all submitted reconciliations. The Contract Administration Supervisor will conduct the secondary review.

In addition, the Parks Department has updated their reimbursement calculation spreadsheet and incorporated an additional invoice tracking sheet to assist in the reconciliation. This will provide a complete and accurate list of how each deficit or surplus is calculated.

Parks Department will work with OGC for a contract amendment to ensure the amounts paid are correctly listed under the appropriate fiscal years' maximum indebtedness.

Finding 3 – Expenditures Without Proper Support Reimbursed by the City to NFES

We found that out of the 1,410 expenditure transactions included on the reimbursement spreadsheet, 93 (or 6.6%) were not properly supported. Specifically:

- 73 expense transactions valued at a total of \$130,111.59 did not have any supporting documentation included in the transmittal documents, and
- 20 expense transactions valued at a total of \$1,979.47 had unreadable electronic documentation due to low picture quality or the documentation did not provide enough information to substantiate reimbursement.

The City reimbursed a total amount of \$132,091.06 for these 93 expense transactions.

Recommendation to Finding 3

We recommend the Parks Department review all supporting documents received from NFES, ask questions about questionable items, and request further support as needed to ensure the City only reimburses proper expenditures.

We also recommend that the City determine whether it needs to perform further research into the items noted above to determine whether any corrective action is needed.

Auditee Response to Finding 3

Agree Disagree Partially Agree

The Parks Department has modified their procedures to fully integrate all revenue and expenditure documentation.

In addition, the Parks Department has implemented a new invoice tracking sheet to assist in the reconciliation and identification of all submitted documents.

Parks Department will perform additional research to determine if any corrective action is needed.

Finding 4 – Overall Lack of Contract Monitoring

We found multiple issues where there appears to be a lack of contract monitoring being performed by the Parks Department. Specific issues we found were:

1. Per the contract, NFES is to create a line-item budget, and NFES may expend up to 10% additional of any line-item specified in their approved annual budget. The Parks Department indicated it was not monitoring or tracking expenditures reimbursed on a line-item basis to ensure NFES did not exceed the line-item budgeted amounts by more than 10%. Additionally, we found that in FY 2018/19, the actual amounts for 2 out of 16 line-items at year-end were more than 10% over the budgeted amounts (\$5,256.90 in total over the maximum 10% amount). In FY 2019/20, the actual amounts for 3 out of 16 line items at year-end were more than 10% over the budgeted amounts (\$13,710.07 in total over the maximum 10% amount).
2. Per the contract, NFES is required to maintain specific insurance policies with minimum coverage amounts at all times during the life of the Contract. During our preliminary review, the Parks Department provided us with NFES’s Certificate of Insurance (COI). In our review, we found various required coverages were not maintained (liquor liability, sexual molestation, and various crime coverages) were missing from the COI. The Parks Department provided us with an updated COI which included the Crime Coverage and a statement from NFES stating that they do not serve alcohol on the premise that is not already covered by the event host or provide operations where minors are not supervised by their parents/guardians. Additionally, the Parks Department was not able to provide support showing that the original COI was approved by the Risk Management Division. However, the updated COI showed approval by Risk Management.
3. We found that the Parks Department was not following annual inventory procedures as specified in the contract for the Equestrian Center. Issues included:
 - a City representative did not assist NFES with the inventory as it was being performed,
 - a representative from the City did not provide a signature on the inventory documents attesting to the accuracy of the inventory count since they did not assist with the inventory, and
 - expendable supplies and NFES-owned inventory were not included in the inventory count.

4. We found that the Parks Department did not properly monitor naming rights agreements for the Equestrian Center to ensure the provisions of the contract were followed. The contract gives NFES the right to accept donations in exchange for the naming of the Equestrian Center and any component facility under specified circumstances. We identified one naming rights agreement for an arena ring in exchange for a \$50,000 contribution. For this agreement, we found that the Parks Department did not perform the following items which are required by the contract:
 - verify OGC reviewed and approved the agreement,
 - ensure the agreement had a term limit not to exceed twenty (20) years, and
 - document that they received a copy of the executed agreement from NFES within five days of the agreement’s execution.
5. We found that the Parks Department did not receive any of the following reports from NFES during the audit scope period that are required to be sent to the City per the contract:
 - Short-term and long-term cash flow projections on a semi-annual basis.
 - Any national volume discounts or most-favored client status for goods and services procured by NFES on the City’s behalf.
 - Reports of NFES’ system of internal controls to prevent waste, fraud, and theft with respect to their services for the Equestrian Center on an annual basis.

Recommendation to Finding 4

We recommend that the Parks Department routinely review the contract and monitor for contract violations to ensure that both NFES and the City are following all of the contract’s provisions. We also recommend that the Parks Department work with the Office of General Counsel to determine whether any actions need to be taken related to the naming rights agreement issue, specifically related to the term limit on the agreement.

Auditee Response to Finding 4

Agree Disagree Partially Agree

The Parks Department has modified their reimbursement calculation spreadsheet to include the annual approved budget amounts by line-item for contract compliance monitoring. The Parks Department will reach out to the Office of General Counsel for a determination.

We appreciate the assistance and cooperation we received from the Parks, Recreation, and Community Services Department throughout the course of this audit.

Respectfully submitted,

Kim Taylor

Kim Taylor, CPA
Council Auditor

Audit Performed By:

Brian Parks, CPA, CIA
Chedly Broche, CPA, CIA
Kyle Thorpe, CPA
Louis Lepore, CPA

Attachment A



March 29, 2022

Mr. Daryl Joseph,

Regarding recent changes in our monthly reporting procedures to Parks, we have initiated the following:

- We will continue to provide the monthly bank statements, on which we will denote which accounts are unrelated to the NFES contract with the City. All relevant accounts will be identified as such.
- All revenue deposits will be reconciled, numbered, and indexed for each bank statement in order to easily identify the source of line item deposits.
- We will continue to provide all invoices and receipts to match line item expenditures with each transmittal and bank statement.
- We will then institute any further changes that are unforeseen at this time in order to report our activity accurately and reliably to the Parks accounting team.

We have had to overcome some challenges relating to our internal accounting, in that our original accountant and Treasurer of the Board passed away unexpectedly in the fall of 2019. His extensive experience and deep familiarity with the City procedures have been irreplaceable. After some interim steps, we have now engaged a new firm that has so far demonstrated the ability to align our needs more closely with those of Parks. Of course, we will closely monitor the information that is provided to Parks and will respond in a timely manner to any questions or concerns arising from the month to month exchange of information in order to ensure both parties are able to maintain a high level of accuracy and are receiving the information appropriate to our on going relationship.

Please let me know if you have any questions or require any additional information.

Best Regards,

Tim Jones

Executive Director

NFES/HORSE THERAPIES, INC.

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