



CITY OF WINSTON-SALEM
FOLLOW-UP REPORT ON
CAROLINA THUNDERBIRDS, LLC
CONCESSIONS AGREEMENT

For the 6 Months Ended December 31, 2021

Submitted by:

Budget and Performance Management Department
Internal Audit Division
April 2022

Background of the Thunderbirds Concessions Contract Audit

In Fiscal Year 2020, the Internal Audit Division performed an audit of the contract agreement between the City of Winston-Salem (City) and Thunderbirds Concessions, LLC (Thunderbirds). The Thunderbirds Concessions Contract Audit concentrated on operations and transactions related to events occurring January 1, 2019 through July 31, 2019. Emphasis was placed on verifying the accuracy of Thunderbirds disbursements to the City for concession services and the adherence to Agreement Terms. Per the Internal Audit Division's Follow-up Program Policy, a follow-up audit is performed for any audit with findings considered to be significant. The following findings, observations, and their associated recommendations were included in the Thunderbirds Concessions Audit in Fiscal Year 2020:

Finding 1 - *Third party percentage of net profits and net profits payable were incorrectly calculated.*

During the audit period, Thunderbirds reported net profits of \$27,373 and total revenues payable to the City of \$2,798. The City was incorrectly paid 20% of the 30% of net profits retained by Thunderbirds. For example, net profits payable to the City were calculated as follows:

$$\begin{aligned} \text{Total Net Profits} &= \$1,000 \\ \text{Net Profits Retained by Thunderbirds} &= \$1,000 \times 30\% \text{ or } \$300 \\ \text{Net Profits payable to the City} &= \$300 \times 20\% \text{ or } \$60 \end{aligned}$$

Net profits payable to the City should be calculated as follows:

$$\begin{aligned} \text{Net Profits} &= \$1,000 \\ \text{Net Profits payable to the City} &= \$1,000 \times 30\% \text{ or } \$300 \end{aligned}$$

Sales tax was also incorrectly calculated for third parties; however, it was calculated correctly for all other events tested. For example:

$$\begin{aligned} \text{Gross Sales} &= \$1,000 \\ \text{Sales Tax} &= \$1,000 \times .0675 \text{ or } \$67.50 \\ \text{Net Profits} &= \$1,000 - \$67.50 \text{ or } \$932.50 \end{aligned}$$

Sales tax should be calculated as follows:

$$\begin{aligned} \text{Gross Sales} &= \$1,000 \\ \text{Sales Tax} &= \$1,000 / 1.0675 - \$1,000 \text{ or } \$63.23 \\ \text{Net Profits} &= \$1,000 - \$63.23 \text{ or } \$936.77 \end{aligned}$$

Based on this analysis, net profits payable to the City were underreported by approximately \$24,575 and the City is potentially entitled to approximately \$24,701 in unpaid revenue.

Recommendation: For the City to review the contract to examine the intention of the agreement and whether an amendment may be needed.

Finding 2 - *Thunderbirds does not provide a certified audit and profit and loss statement at the end of each fiscal year.*

Per contract section N.3., Thunderbirds shall provide a profit and loss statement at the end of each fiscal year. These statements shall be in a format approved by the City. Thunderbirds does not provide any certified statements or reports. Moreover, the only statement created is provided in the form of a spreadsheet printout.

Recommendation: For Thunderbirds to provide a profit and loss statement at the end of each fiscal year.

Finding 3 - *Thunderbirds does not use equipment properly to record sales.*

Per contract section N.5., each point of sale shall have equipment to record each sale. However, Thunderbirds only uses the equipment for credit/debit card sales. Currently, there are no automated receipts to provide independent proof/support for any point of sale activities. Thunderbirds documents cash drawer counts on paper with dual signatures that is discarded at the end of the event. All records of sales are based on inventory sheet documents managed by the Thunderbirds' concession personnel. The use of computer systems and computerized cash registers would ensure that numbered and controlled receipts are issued for every payment transaction.

Recommendation: For Thunderbirds to utilize the equipment to record sales and to maintain records of cash drawer counts.

Finding 4 - *Thunderbirds does not provide the City with daily report of sales and sufficient supporting documentation within 48 hours.*

Per contract section N.6., Thunderbirds shall provide the City with a daily report of sales within 48 hours of each event detailing inventory sales, case sales by item, sales by location, and staffing payroll by location. Thunderbirds does not provide a daily report of sales and has insufficient supporting documentation. The Annex Box Office stated that rarely has Thunderbirds ever provided a weekly report of sales.

Recommendation: For Thunderbirds to provide daily report of sales and sufficient documentation within 48 hours.

Finding 5 - *Thunderbirds does not maintain Workers Compensation coverage.*

Thunderbirds initially obtained most minimum insurance requirements and liquor liability except for Workers Compensation. Per the contract, the company is to obtain and maintain workers compensation coverage as required by North Carolina Law.

Recommendation: For Thunderbirds to obtain proper coverage as stated within the contract agreement.

Finding 6 - *Thunderbirds did not provide the City with the proper revenue for a Catering Event.*

Per the contract, Thunderbirds shall retain 80% of Catering Events' net profits, with the remaining 20% of net profits payable to the City at the end of every month. The City was invoiced \$2,190 reflecting the total net profits for the Blyth Safety Catering event; however, the City only received \$162 (20% of \$812). Net profits payable to the City should have been \$438 (20% of \$2,190). There is no documentation supporting the net profits payable to the City as being based on the amount of \$812.

Recommendation: For the difference of \$276 to be made payable to the City.

Observation 1 - *Create a system that ensures consistency in the inventory counting method.*

Per the Thunderbirds' General Manager of Food and Beverage, employees and non-profits often count the food items differently which can cause a variance in the inventory and sales numbers. For example, an employee may count an item as an assorted candy instead of a candy bar. Training is provided to emphasize the products' labels; however, variances still occur.

Recommendation: For Thunderbirds to find a consistent method to ensure all employees are following the same procedures.

Observation 2 - Certificates of Completion for Responsible Alcohol Seller Program not maintained.

Per the contract, Thunderbirds shall maintain records of all employees attending and completing the Responsible Alcohol Seller Program and provide to the City every six months an up-to-date list of all employees that have completed the program. Certificates of completion by employees were discarded and not maintained for the current audit period.

Recommendation: For Thunderbirds to maintain the certificates and submit an updated list of employees to the City as required.

Observation 3 - Thunderbirds does not adhere to segregation of duties relating to deposit slips.

After the event concludes, the monies are collected and counted. Depending on the amount of cash on hand, the funds are deposited normally the same night or following morning. Currently, there are no initials on the deposit slips. Acquiring dual signatures is a standard practice in a good internal control environment. The requirement of two signatures confirming the deposit amount helps reduce the likelihood of a person mismanaging funds and not depositing the full amount received.

Recommendation: For Thunderbirds to obtain dual signatures on the deposit slips for good internal control practices.

Observation 4 - The City should not accept funds until proper supporting documentation has been provided and reviewed by City staff.

Per the contract, the City is to receive supporting documentation such as inventory sales, case sales by item, sales by location, and staffing payroll by location from Thunderbirds with the daily report of sales. The City should review supporting documentation for accuracy to reduce the potential of receiving improper funds.

Recommendation: For the City to not accept funds until receiving proper supporting documentation has been provided by Thunderbirds.

Overview of Management Agreement

Effective February 2, 2017, the City entered into agreement with Thunderbirds for the outsourcing of concessions sales at various locations, which include: Winston-Salem Fairgrounds, Bolton Pool snack bar, Winston Lake Golf Course, and Jerry Jones Clubhouse.

Per the concessions agreement, Thunderbirds has been granted the exclusive right and privilege to sell, with certain exceptions, food and beverages, including alcoholic beverages, from specified City permanent and portable concession stands. This exclusive right allows Thunderbirds to provide concession services to all events conducted at the aforementioned locations during the term of the agreement.

The concessions agreement allows Thunderbirds discretion over management and staffing of events but limited discretion over setting prices, purchasing, and performing repairs and maintenance.

Scope of Audit Procedures Performed

The audit concentrated on operations and transactions related to events occurring June 1, 2021 through

December 31, 2021. Emphasis was placed on assessing corrective action taken toward issues identified in the Fiscal Year 2020 Thunderbirds Concessions Contract Audit.

Audit procedures were limited to verifying the following attributes:

- Was the proper percentage of net profits and net profits payable correctly calculated?
- Was a profit and loss statement completed and provided to the City at the end of each fiscal year?
- Was proper use of equipment in operation to record sales?
- Were daily report of sales and sufficient supporting documentation provided to the City within 48 hours?
- Was Workers Compensation coverage obtained by Thunderbirds?
- Was proper revenue provided to the City for Catering Events?
- Was there consistency in the inventory counting method?
- Was Completion for Responsible Alcohol Seller Program maintained?
- Was a segregation of duties established relating to deposit slips?
- Was there a review of supporting documentation completed by the City before accepting funds?

Corrective Actions Implemented

The following corrective actions from the Fiscal Year 2020 Thunderbirds Concessions Contracts Audit have been implemented:

The prior audit finding of "*Thunderbirds does not use equipment properly to record sales,*" was corrected and removed.

The prior audit observation of "*Create a system that ensures consistency in the inventory counting method,*" was corrected and removed.

Findings and Recommendations

1. *Thunderbirds does not provide the City with daily report of sales and sufficient supporting documentation within 48 hours.*

Per contract section N.6., Thunderbirds shall provide the City with a daily report of sales within 48 hours of each event detailing inventory sales, case sales by item, sales by location, and staffing payroll by location. Thunderbirds does not provide a daily report of sales within 48 hours and has insufficient supporting documentation. It is recommended for the Thunderbirds to provide daily report of sales and sufficient documentation within 48 hours.

Thunderbirds Management Response: Sales reports have been sent every Monday following weekend events. Future recommends changing from 48 hours to 7 days.

2. *Thunderbirds does not maintain Workers Compensation coverage.*

Per the contract, Thunderbirds shall obtain and maintain workers compensation coverage as required by North Carolina Law. It is recommended for Thunderbirds to obtain proper coverage as stated within the contract agreement.

Thunderbirds Management Response: Workers Comp policy is currently being quoted and once bound COI will be sent.

3. *Responsible Alcohol Seller Program Certificates were expired.*

Per the contract, Thunderbirds shall maintain records of all employees attending and completing the Responsible Alcohol Seller Program and provide to the City every six months an up-to-date list of all employees that have completed the program. Three employees did not renew their certificates of completion and were therefore expired for the current audit period. Internal Audit reviewed recent certificates of completion outside of the audit period. It is recommended for Thunderbirds to ensure employees' Responsible Alcohol Seller Program Certificates do not expire. It is also recommended that Thunderbirds submits an updated list of employees to the City as required.

Thunderbirds Management Response: All alcohol certificates have been renewed and are current.

Observations and Recommendations

1. *Thunderbirds does not provide a profit and loss statement at the end of each fiscal year.*

Per contract section N.3., Thunderbirds shall provide a profit and loss statement at the end of each fiscal year. These statements shall be in a format approved by the City. Thunderbirds did not provide a profit and loss statement to the City at the end of the fiscal year. Thunderbirds was able to provide proof of a profit and loss statement to Internal Audit upon request. It is recommended for Thunderbirds to provide a profit and loss statement to the City at the end of each fiscal year.

Thunderbirds Management Response: Profit loss statement will be sent at the end of each fiscal year.

2. *Thunderbirds does not adhere to segregation of duties relating to deposit slips.*

After the event concludes, the monies are collected and counted by the Concessions Manager while another employee supervises the count. Depending on the amount of cash on hand, the funds are deposited normally the same night or following morning. Currently, there are no initials on the deposit slips. Acquiring dual signatures is a standard practice in a good internal control environment. The requirement of two signatures confirming the deposit amount helps reduce the likelihood of a person mismanaging funds and not depositing the full amount received. It is recommended for the Thunderbirds to obtain dual signatures on the deposit slips for good internal control practices.

Thunderbirds Management Response: Two Initials will be obtained for all deposits going forward.

3. *The City does not maintain evidence of supporting documentation review.*

The City currently receives a spreadsheet from Thunderbirds showing inventory sales and sales by event and location. It was noted that the City reviews supporting documentation for accuracy to reduce the potential of receiving improper funds, however, there are no controls in place to provide evidence of the review. It is recommended that the City maintains proof of review of the documentation submitted by Thunderbirds.

City Management Response: The City has requested that the Thunderbirds provide hard backup documentation with the check that represents their accounting on the provided spreadsheet. Whoever with the City receives the check will also need to receive and initial the hard backup associated. Note that we are not requiring all 80 pages of documentation but rather just an electronic or bank receipt of representation. The Thunderbirds have provided access to further back up as needed.

4. *Thunderbirds did not calculate sales tax for third party vendors prior to paying the City's percentage of profit.*

Per the contract and new amendment, the Company shall retain seventy percent (70%) of any fees charged by the Company to third-party vendors at the Operations, with the remaining thirty percent (30%) of such fees, less any applicable taxes, payable to the City. Thunderbirds did not subtract sales tax from gross sales before paying the City's percentage of profit. It is recommended for Thunderbirds to calculate and subtract sales tax from gross sales before allocating profits.

Thunderbirds Management Response: Sales tax for Third party vendors has been corrected as of Jan 2022.

5. *Thunderbirds reported incorrect net sales for a Catering event to the City.*

Net sales for one Catering event were reported incorrectly to the City resulting in an overpayment of twenty dollars. It is recommended that Thunderbirds accurately report invoiced amounts for Catering events to properly disburse funds.

Thunderbirds Management Response: Will document catering invoices correct.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Francesca Adams", written over a horizontal line.

Francesca A. Adams
Internal Auditor

A handwritten signature in black ink, appearing to read "Heather D. Smith", written over a horizontal line.

Heather D. Smith
Internal Audit Administrator

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