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Office of the City Auditor

Audit Report

**AUDIT OF BUSINESS PARTNER OVERSIGHT
FOR WHITE ROCK BOATHOUSE, INC.**

(Report No. A19-010)

March 29, 2019

Interim City Auditor

Carol A. Smith, CPA, CIA, CFE, CFF

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Executive Summary

The Department of Park and Recreation’s (PKR) Park Maintenance Services Division (Division) is responsible for contract oversight and monitoring for White Rock Boathouse, Inc. (Boathouse).¹ The Boathouse’s mission is to “*change lives by putting oars and opportunities in the hands of Dallas area youth by fostering teamwork and preparing our athletes for success in sport and in life*” (see textbox).

The Division does not have formal (written, approved, dated) policies and procedures in place for oversight and monitoring of Boathouse contracts (Contracts). In addition, Boathouse does not have adequate internal controls over expenses and does not obtain external assurances that their financial data is complete and accurate. As a result, the risk is increased that the Division may not readily: (1) identify contract noncompliance; and, (2) confirm required payments from Boathouse to the City of Dallas (City) are complete and accurate.

Background

The Department of Park and Recreation’s Park Maintenance Services Division oversees long-term facility contracts with White Rock Boathouse, Inc. (Boathouse), a business partner operating facilities owned by the City of Dallas (City).

The City formally entered into a contract with Boathouse in May 2003. The Boathouse operates three facilities on the southwest shore of White Rock Lake, the Filter Building, the Filter Building Boathouse, and the Boomerang Boathouse. The facilities are leased from the City through two separate contracts. Renovation and construction of these facilities were self-financed by Boathouse.

The City is obligated, contingent upon City Council resolutions, to collect a percentage of revenues generated from Boathouse contracts. From Fiscal Year (FY) 2016 through FY 2018, the City received an average of \$33,000 from Boathouse per year (see Exhibit I on page 7).

See Appendix I for additional details.

Sources: Boathouse Contracts and Boathouse website

Specifically, PKR’s contract oversight and monitoring did not identify the following instances of contract noncompliance:

- The Boathouse operated the Boomerang Boathouse under an expired contract from mid calendar year (CY) 2013 to late CY 2018²
- A required master plan to operate and maintain the “*Premises*”³ was never developed
- Funds received by the City of \$220,743 from Fiscal Year (FY) 2011 to FY 2018 were not maintained in a White Rock Beautification Trust Fund or an account designated by the City

¹ The White Rock Boathouse, Inc. is also referred to as White Rock Rowing.

² A renewal option for the expired contract was exercised effective November 6, 2018.

³ The recital to the Filter Building contract defines “*Premises*” as the Filter Building, the two sedimentation basins, rowing docks, and the grounds immediately surrounding the facilities.

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- From FY 2016 through FY 2018, neither the Division nor PKR Financial Services validated the accuracy and completeness of funds the City received from Boathouse
- Prior to November 2016, Boathouse did not maintain identifiable financial records
- From FY 2013 to FY 2017, Boathouse did not submit required annual financial statements prepared in accordance with Generally Accepted Accounting Principles

Further, Boathouse's payments made to the City may not comply with contract terms requiring payment based on "*gross revenues*."⁴ The Contracts also do not contain performance indicators or measures for PKR to effectively assess how Boathouse is performing against its contractual responsibilities to provide rowing opportunities to the youth of the City.

It is important to note that Boathouse underwent a reorganization beginning in March 2018. The Boathouse's Board of Directors hired an external consultant to assist with the reorganization and implement best practices for non-profit governance. During FY 2017 and FY 2018,⁵ Boathouse demonstrated efforts to achieve their mission to provide rowing and fitness opportunities to the youth of the City by:

- Attending rowing regatta sporting events that are focused on junior rower participation
- Assisting junior rowers with payment of participation fees by providing need-based financial aid, scholarships, and subsidies

In addition, audit procedures testing credit card and bank statements from FY 2017 through FY 2018 did not show that Boathouse purchased items unrelated to Boathouse's mission.

We recommend the Director of PKR improve contract oversight and monitoring controls by addressing the recommendations made in this report. We also recommend the Director of PKR work with Boathouse to agree on Boathouse's payments to the City and address the absence of performance indicators or measures in the Contracts.

⁴ Section 5.1 of the Filter Building Contract states that Boathouse shall pay to the City ten percent of its "*gross revenues*" collected from the rental of the Filter Building, or the minimum guaranteed amount, whichever is greater.

⁵ Fiscal Year (FY) 2017 and FY 2018 refers to the time period evaluated for this audit.

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The audit objective was to evaluate the financial, operational, and other risks for Boathouse operating facilities under the oversight of PKR and the City's oversight and monitoring responsibilities provided by the Division. The scope of this audit included management operations from FY 2017 through FY 2018; however, certain other matters, procedures, and transactions outside that period were reviewed to understand and verify information during the audit period.

Management's response to this report is included as Appendix IV.

Audit Results

Contract Oversight and Monitoring Procedures Are Not in Place

The Department of Park and Recreation’s (PKR) Park Maintenance Services Division (Division) does not have formal (written, approved, dated) policies and procedures in place for oversight and monitoring of two business partner contracts (Contracts) with White Rock Boathouse, Inc. (Boathouse) [see textbox]. As a result, the risk is increased that the Division may not readily: (1) identify contract noncompliance; and, (2) confirm required payments from Boathouse to the City of Dallas (City) are accurate and complete.

Specifically, PKR’s contract oversight and monitoring did not identify the instances of contract noncompliance discussed below.

Contract Renewal

The Boathouse operated White Rock Lake Boathouse, also known as the “Boomerang” under an expired contract (Boomerang Contract) from mid calendar year (CY) 2013 to late CY 2018. The option to exercise the second renewal term of the Boomerang Contract was not authorized by the City Council until November 2018. The Division stated that the option to exercise the first renewal term was not executed timely, as the need to renew the Boomerang Contract was overlooked by PKR.

The City Council initially authorized the Boomerang Contract on May 28, 2003. Section 10 of the Boomerang Contract provides that the term of the contract is for ten years with two five-year renewal options to renew by mutual consent of both parties and upon approval of the City.

Master Plan

A Filter Building master plan (Master Plan) was never developed as required by the City’s contract with Boathouse to maintain the “Premises”⁶ (Filter Building Contract). Without a Master Plan, the Boathouse Board of Directors and City

Contracts with White Rock Boathouse, Inc.

The City of Dallas (City) has two business partner contracts (Contracts) with White Rock Boathouse, Inc. (Boathouse) for the following:

- (1) Filter Building Contract: This contract is to operate and maintain the “Premises,” which includes the Filter Building, the two sedimentation basins, the rowing, docks, and the grounds immediately surrounding the facilities. In 2008, a new boathouse was built on the “Premises.”
- (2) Boomerang Contract: This contract is to operate and maintain a 1930’s era boathouse known as the “Boomerang” which was restored in 2004.

The rental income from both Contracts support Boathouse programs.

Please see Appendix I for additional information regarding the Contracts.

Sources: Boathouse Contracts and Boathouse’s Website

⁶ The recital to the Filter Building Contract defines “Premises” as the Filter Building, the two sedimentation basins, rowing docks, and the grounds immediately surrounding the facilities.

management do not have a comprehensive plan to guide activities related to the “Premises.”

Per Section 2.1 of the Filter Building Contract, Boathouse is required to develop a master plan for the construction, renovation, operation and maintenance of the “Premises” during the term of the contract.

White Rock Lake Beautification Trust Fund

A White Rock Lake Beautification Trust Fund or an account designated by the City for funds received by Boathouse was never created. As a result, \$220,743 in funds received from Boathouse from Fiscal Year (FY) 2011 through FY 2018 were commingled with approximately \$931,000 in additional funds received from other sources.⁷ The PKR’s Financial Services took the initiative to transfer FY 2017 revenues from sources other than from Boathouse Contracts to a different account to comply with the Contracts; however, revenues from the other FYs remained comingled. According to PKR Financial Services, PKR has corrected for FY 2017 and plans to work with the appropriate City departments to correct the other FYs that remain comingled.

Section 5 of both Contracts requires the City to deposit funds received from Boathouse in a White Rock Lake Beautification Trust Fund or an account specifically maintained and designed for improvements to the facilities operated by Boathouse or White Rock Lake Park.

Validation of Funds Received

From FY 2016 through FY 2018, neither the Division nor PKR Financial Services validated the accuracy and completeness of funds the City received from Boathouse. In addition, Boathouse did not obtain external assurances that financial information reported to its Board of Directors and the City was accurate and complete. As a result, neither the Boathouse Board of Directors nor PKR could ensure that an accurate accounting of revenues was received from Boathouse, or that Boathouse remitted accurate and complete payments for the City’s share of revenues.

From FY 2016 through FY 2018, the following payments were made to the City by Boathouse for the Boomerang Contract and for the Filter Building Contract:

⁷ According to the Department of Park and Recreation (PKR), PKR has not used funds received from the White Rock Lake Boathouse, Inc. (Boathouse) contracts for any improvements or projects to date.

Exhibit I

**Fiscal Year 2016 through Fiscal Year 2018
 Revenues Generated by the Boomerang and Filter Building Contracts**

Fiscal Year	Boomerang Contract	Filter Building Contract	Total
2016	\$ 1,100	\$ 27,760	\$ 28,860
2017	1,100	28,872	29,972
2018	1,100	38,535	39,635
Total	\$ 3,300	\$ 95,167	\$ 98,467

Source: City of Dallas AMS Advantage Accounting System, Unaudited

Financial Records

Prior to November 2016, Boathouse did not maintain identifiable financial records. In addition, from FY 2013 to FY 2017, Boathouse did not submit required annual financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP). Specifically, Boathouse’s expenses, as shown on the financial statements, were not classified by functional expense (see textbox). As a result, during this time period, there was an increased risk that Boathouse did not provide relevant and transparent financial information to the Board of Directors or the City.

**Generally Accepted Accounting
 Principles for Non-Profits**

The Financial Accounting Standards Board’s (FASB) Accounting Standards Update, *Not-For Profit Entities (Topic 958)*, Section FAS 958-720-45-2, states that a statement of activities or notes to financial statements shall provide information about expenses reported by their functional expense classification such as major classes of program services and supporting activities.

Source: FASB

The Boathouse’s detailed financial records prepared prior to November 2016 were unavailable due to a computer failure.⁸ The Boathouse’s external accountant retroactively prepared financial statements from FY 2013 to FY 2017 and Boathouse provided the financial statements to the City in May 2018; however, as noted above, the financial statements were not prepared in accordance with GAAP for non-profit organizations.

⁸According to Boathouse’s: (1) Board of Directors’ Chair and Treasurer; and, (2) external accountant, Malnory, McNeal & Company, PC (MMC), MMC began providing full accounting services (including preparing Boathouse’s financial statements) in November 2016. Prior to this, MMC provided Boathouse payroll services, Internal Revenue Service Form 990 preparation, and maintained a general ledger for year-end accounting entries. The Boathouse lost detailed transaction ledgers prior to November 2016 due to a computer failure.

Section 8.15 of the Filter Building Contract requires Boathouse to:

Keep and maintain complete, accurate, and identifiable records for the Premises for two years following the last day of the fiscal year during which the record was generated. [The] City shall be entitled to inspect the records during the [t]erm of this Agreement and for three years thereafter.

Section 5 of the Boomerang Contract states:

- *[The] City shall be entitled to examine/audit the financial records or such other documents as [the] City may reasonably request of the licensee during the term of this Agreement and for [three] years thereafter*
- *Each document must be prepared in conformity with [GAAP].*

Administrative Directive 4-09, *Internal Control* (AD 4-09) Section 5.1.5, *Monitoring* states that it is the department directors' responsibility to:

Create a process to regularly assess the effectiveness of internal control by comparing actual results to expectations. Document the [decision-making] process used to determine the scope, materiality, and testing results... Remediate identified internal control deficiencies on a timely basis.

Administrative Directive 4-05, *Contracting Policy* (AD 4-05), Section 6.1.7, *Department Directors Responsibilities* states that it is the department directors' responsibility to:

Ensure that all contracts are properly executed prior to commencement of work or purchase (when applicable), and that the record copy of the executed contract has been submitted, including all exhibits, documents incorporated by reference, and necessary supporting documentation to the City Secretary upon execution of the contracts. Vendors and consultants should not be authorized to begin work until the contract, bonding (if bonding is required), and appropriate insurance, including amendments, have been fully executed and delivered.

Best Practices in Contracting for Service from the National State Auditors Association states that to properly monitor a contract, the agency [department] should track budgets and compare invoices and charges to contract terms and conditions.

Recommendation I:

We recommend the Director of PKR implement formal contract oversight and monitoring policies and procedures to reduce the risk of contract noncompliance. This includes:

- Ensuring contracts are timely renewed and properly executed
- Ensuring Boathouse develops a Master Plan approved by the Park and Recreation Board to operate and maintain the “*Premises*”
- Ensuring receipt and review of Boathouse financial statements prepared in accordance with GAAP
- Requiring Boathouse to maintain identifiable financial records needed to produce complete and accurate financial statements

Recommendation II:

We recommend the Director of PKR request the creation of a White Rock Lake Beautification Trust Fund or ensure that a designated account for funds received from Boathouse is maintained for improvements to the “*Premises*” operated by Boathouse or White Rock Lake Park and does not include funds from other sources.

Recommendation III:

We recommend the Director of PKR:

- Implement formal policies and procedures to ensure that Boathouse provides an accurate and complete accounting of revenues and remits correct payments to the City
- Request Boathouse to obtain and provide externally validated or audited financial information or develop and implement PKR procedures to periodically provide some assurance that gross sales and revenues reported are complete and accurate

Please see Appendix IV for management’s response to the recommendation.

Boathouse’s Payments Made to the City May Not Comply with Contract Terms

The Boathouse payments to the City did not include all revenues collected from the rental of the Filter Building as required by the Filter Building Contract (see textbox). As a result, the City may not have received all intended revenue.

The City currently does not receive any payment for revenues generated from Filter Building “Extras.” From FY 2015 through FY 2017, the total of the Filter Building “Extras” revenue was \$246,330. Had the City received ten percent of the Filter Building “Extras,” the City would have received an additional \$24,633 during that time period (see Exhibit II).

Revenues from Rental of the Filter Building

There are two streams of revenues from rental of the Filter Building:

- (1) Filter Building rental revenue for rental of the Filter Building for events
- (2) Filter Building “Extras” revenue, such as reimbursement fees for security officers or fees for rental of items to clients for events at the Filter Building

Sources: Boathouse Financial Statements and PKR Financial Services

Exhibit II

Fiscal Year 2015 through Fiscal Year 2017 Revenues Generated from Filter Building Rental and “Extras”

Fiscal Year	Filter Building Rental	Filter Building “Extras”	Total
2015	\$ 136,508	\$ 62,400	\$ 198,908
2016	272,221	96,278	368,499
2017	343,351	87,652	431,003
Total	\$ 752,080	\$ 246,330	\$ 998,410

Sources: Boathouse Financial Statements and PKR Financial Services, Unaudited

Section 5.1 of the Filter Building Contract states that Boathouse shall pay to the City ten percent of its “gross revenues” collected from the rental of the Filter Building, or the minimum guaranteed amount, whichever is greater. For the purpose of the contract, the term “gross revenues” as used in the contract “means all monies collected by Boathouse from the rental of the Filter Building less sales taxes.” In addition, Section 8.12 allows Boathouse, subject to the Director of PKR’s approval, to specify and control fees, deposits, charges, and other revenues for the purpose of equipping, operation, programming, and maintenance of the “Premises” and Boathouse’s appropriate activities.

According to PKR Financial Services, it is unclear as to whether the term “all monies” in the contract also includes other revenues generated from the rental of the Filter Building (filter building “Extras”). According to Boathouse’s Board of

Directors' Chair and Treasurer and their external accountants, Boathouse has always interpreted the contract terms to require their payment to the City to be based on gross receipts from rental of the Filter Building only and does not include a percentage of gross receipts derived from the Filter Building "Extras." In early 2018, PKR Financial Services questioned this interpretation and sought guidance from the City Attorney's Office. According to the City Attorney's Office, "Extras" arising out of the rental of the Filter Building may be includable in gross revenues and should require further inquiry.

Recommendation IV:

We recommend the Director of PKR, in consultation with the City Attorney's Office:

- Work with the Boathouse Board of Directors to agree on which portion of Filter Building "Extras" generated from the rental of the Filter Building should be included in "*gross revenues*" for purposes of calculating payment to the City
- Document the agreement of revenues generated from the rental of the Filter Building that will be included in "*gross revenues*"
- Require Boathouse to make payment to the City within a reasonable timeframe for any outstanding portion of "*gross revenues*" the City should have received, as applicable

Please see Appendix IV for management's response to the recommendation.

Performance Measures in Contracts Are Absent

The Contracts do not contain meaningful performance indicators or measures needed for PKR to appropriately monitor Boathouse's progress towards meeting the City's goal to provide rowing opportunities to youth in the City.⁹ Without specific indicators or measures, it is difficult for PKR to effectively monitor Boathouse. Specifically, PKR has not: (1) identified specific procedures to track Boathouse's mission achievement; (2) determined the relevant Boathouse information and availability of such information; and, (3) developed and implemented the associated policies and procedures for contract monitoring, including periodic performance analysis.

The Boathouse provides rowing opportunities to the youth of the City by:

- Attending rowing regatta sporting events that are focused on junior rower participation
- Assisting junior rowers pay for their participation fees by providing need-based financial aid, scholarships, and subsidies

The PKR, however, does not monitor such activities. For example, PKR did not retain documents related to Boathouse's financial aid criteria or a listing of the financial aid recipients, and PKR only reviewed limited documentation of Boathouse's activities during a meeting with Boathouse on February 7, 2018.

The AD 4-09, Section 5.1.3.1, *Control Activities* identifies management of human capital, top-level reviews of actual performance, and establishment and review of performance measures and indicators as typical control activities. Further, AD 4-05, Section 15.4.1B, *Department Responsibilities: Single Department Utilizing Vendor* states that "each City department has the primary responsibility for monitoring the performance of vendors providing goods or services solely to that department."

⁹ The recital to the Filter Building Contract states: "Whereas, the City desires to use the Filter Building...with the goal of providing rowing and fitness opportunities to the community, especially the Dallas Area high school and university students who are interested in community rowing programs." Section 9 of the Boomerang Contract states: "...Reasonable effort must be made by [Boathouse] to make rowing available as a leisure opportunity to all segments of the community with emphasis on youth residing in all areas of the City of Dallas without excluding specific areas."

Recommendation V:

We recommend the Director of PKR:

- Develop a process to annually define the specific performance indicators or measures and other relevant information agreed upon by Boathouse
- Identify how PKR personnel will evaluate Boathouse's performance including the specific performance information required for evaluation and when the information should be received by PKR personnel
- Develop and implement formal policies and procedures to ensure PKR contract monitoring procedures include periodic performance analysis

Recommendation VI:

We recommend the Director of PKR work with Boathouse to define the specific performance indicators or measures and other relevant information needed to allow PKR to appropriately monitor whether Boathouse is achieving the City's goal to provide rowing opportunities to youth in the City.

Please see Appendix IV for management's response to the recommendation.

Boathouse Does Not Have Adequate Controls Over Expenses

The Boathouse does not have adequate internal controls over expenses and does not obtain external assurances that their financial information is complete and accurate. Audit procedures testing credit card and bank statements did not show that Boathouse purchased items unrelated to Boathouse's mission. However, without adequate internal controls over expenses and periodic external assurances over the completeness and accuracy of information, the risk is increased that Boathouse's ability to meet the City's goal may be negatively affected.

Since early 2017, the Boathouse Board of Directors has proposed initiatives to improve internal controls over approval, monitoring of expenses and credit card usage, and audits of financial statements (see textbox). However, as of February 2019, Boathouse did not provide sufficient evidence that these initiatives have been formally implemented and used consistently.

Boathouse Initiatives to Improve Internal Controls

The Boathouse's Board of Directors:

- Approved a new expense policy on January 30, 2017. Expenses between \$500 and \$2,500 require approval from the Board Treasurer and expenses over \$2,500 require full Board approval.
- Proposed new credit card policies and procedures which require Boathouse's Treasurer to reconcile credit card statements and review and retain credit card receipts
- Adopted updated bylaws in April 2018 requiring a financial audit/review to be conducted annually by an independent auditor

Source: The Boathouse Board of Directors' Chair and Treasurer

According to Boathouse's former Board Treasurer, historically, the Board Treasurer reviewed credit card statements to ensure there were no charges that appeared not to be "*rowing related*". The former Board Treasurer also indicated that the Boathouse staff would informally seek approval from the Treasurer before making large purchases. The staff, however, was not required to submit supporting documents such as receipts related to credit card usage to support the expenses. Further, Boathouse indicated that in FY 2018, it came to the Board of Directors' attention that a staff employee who was responsible for writing checks was not retaining the receipts for the related expenses, which has since been addressed.

The AD 4-09, Section 6.4.3.1 Principle 15, *Communicate externally: Communication with external parties*, states:

Management should communicate with and obtain quality information from external parties using established reporting lines. External parties include suppliers, contractors, service organizations, regulators, external auditors, government entities, and the general public.

Recommendation VII:

We recommend the Director of PKR request Boathouse to:

- Adopt and implement formal policies and procedures or other internal controls over expenses and credit card usage to support Boathouse's mission
- Obtain and provide externally validated or audited financial information or develop and implement PKR procedures to periodically provide some assurance over the proper accounting and internal control for expenses and credit card usage

Please see Appendix IV for management's response to the recommendation.

Appendix I

Background, Objective, Scope, and Methodology

Background

The Department of Park and Recreation (PKR) Park Maintenance Services Division (Division) has contract oversight and monitoring responsibilities for the White Rock Boathouse, Inc. (Boathouse) contracts (Contracts). The City of Dallas (City) has two business partner Contracts with Boathouse, a 501(c)(3) charitable organization, for the following:

- Filter Building Contract: This contract is to operate and maintain the “Premises,” which includes the Filter Building, the two sedimentation basins, rowing docks, and the grounds immediately surrounding the facilities. In 2008, a new boathouse was built on the “Premises”.
- Boomerang Contract: This contract is to operate and maintain a 1930’s era boathouse known as the “Boomerang” which was restored in 2004.

The rental income from both Contracts support Boathouse programs. The “Premises” and the Boomerang are leased from the City and are managed, maintained, and administered by the Boathouse Board of Directors and staff. The renovation of the Filter Building and Boomerang and the construction of the Filter Building Boathouse were self-financed by Boathouse.

The Contracts state that the City retains title to the property and any fixed improvements to the property made by Boathouse. The City also receives a percentage of revenue generated from the Contracts.

As of Fiscal Year (FY) 2017, Boathouse had 33 employees, of which three were full-time employees. The Boathouse employs a number of part-time, hourly paid coaches, throughout the rowing season according to its needs. The Boathouse’s Board of Directors are not paid and perform their duties on a volunteer basis.

In March 2018, Boathouse’s Board of Directors hired an external consultant to assist with a reorganization with the intended goal of implementing best practices for non-profit governance. With the help of the consultant, Boathouse’s Board of Directors adopted updated bylaws in April 2018 and restructured.

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The new bylaws included the following provisions that were not required by the previous bylaws:

- A financial audit/review will be conducted annually by an independent auditor
- Term limits for Board of Directors: Each Director should serve a three-year term but can be re-elected for one more term of three years. As a result, Boathouse's Board went through major turnover in March 2018. This led to three long-standing board members either resigning or retiring.
- The Treasurer is now required to monitor expenditures of funds and oversee budget development. On a monthly basis, the Treasurer should monitor Boathouse's financial records.

Further, Boathouse provides services to the youth of the City of Dallas by:

- Assisting junior rowers with payment of participation fees by providing need-based financial aid, scholarships, and subsidies. In addition, according to Boathouse's Board of Directors' Chair and Treasurer, Boathouse provides over 50 percent of the actual cost of rowing activities to their junior rowers regardless of any financial aid/scholarships requested in the form of a subsidy.
- Attending rowing regatta sporting events that are focused on junior rower participation. During Calendar Year (CY) 2017 and CY 2018, Boathouse attended 27 regatta sporting events. Out of these regatta sporting events, 85 percent of the events included junior rower participation and activities.

Contract Oversight and Monitoring

Contract oversight and monitoring is the process that ensures contracted organizations comply with contract terms, performance expectations are achieved, and any problems are identified and resolved. According to the National Association of State Auditors, best practices for contract oversight and monitoring include the following:

- Responsibility and authority should be clearly assigned to one or more staff with the proper skill set, time, and resources
- Procedures (such as a synopsis of contract performance requirements, checklists, inspection reports, or other methods) should be established to ensure that deliverables are received on time, comply with the contract performance requirements, and properly document the acceptance or rejection of deliverables

- Contract documentation should be well organized in a centralized location accessible to authorized staff and cover all aspects of the contract relationship, such as general correspondence, compliance with contract performance requirements, performance reviews, and, approved/verified payments made to/from the organization contracted with
- Periodic performance reviews of the contracted organization should be completed, and the results of the review reported to the proper level of management
- Sufficient ramifications should be available and used for non-compliance with contract performance requirements, such as withholding payments and/or assessing penalties

Objective, Scope, and Methodology

This audit was conducted under the authority of the City Charter, Chapter IX, Section 3 and in accordance with the Fiscal Year 2018 Audit Plan approved by the City Council. The audit objective was to evaluate the financial, operational, and other risks for Boathouse. operating facilities under the oversight of PKR and the City's oversight and monitoring responsibilities provided by the Division.

The scope of this audit included management operations from FY 2017 through FY 2018; however, certain other matters, procedures, and transactions outside that period were reviewed to understand and verify information during the audit period. This performance audit was conducted 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

To achieve the audit objective, we performed the following procedures:

- Interviewed staff and/or management of PKR on procedures followed and the extent of contract oversight and monitoring for Boathouse
- Reviewed policies and procedures for contract oversight and monitoring, and coordination of monitoring activities across PKR
- Reviewed and tested, as appropriate, documents that evidence PKR's oversight and monitoring of Contracts
- Interviewed Boathouse's Board of Directors' Chair and Treasurer and external accountants

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- Obtained and reviewed:
 - Contracts
 - Financial statements for the last three fiscal year-ends
 - General ledger trial balances for the last three fiscal year-ends when available
 - Credit card and bank statements
 - Federal tax returns (Internal Revenue Service Form 990) for the last three years, when available
 - Documentation to support Boathouse’s regatta rowing event attendance
 - Boathouse’s Board of Directors’ minutes of meetings, bylaws, and other governance documents
- Obtained available financial data and performed ratio analyses for the last three fiscal year-ends
- Surveyed the Boathouse regarding transactions, relationships, activities, and current or former situations that could indicate a possible inability to fulfill the contract requirements or could place the City in a compromising situation (see Appendix II)

Appendix II

Business Partner Analysis Survey Request

White Rock Boathouse, Inc. was asked to complete and return Attachments A and B below. The responses, along with other audit procedures, were used to evaluate their financial viability and determine operational, financial, or other risks.



CITY OF DALLAS

Attachment A

**Office of the City Auditor
Audit of Business Partner Oversight for White Rock Boathouse
Financial Information**

Please provide the following financial information for the Organization for the last three Fiscal or Calendar years:

1. Federal Tax Returns (including IRS Form 990-T)
2. Financial Statements
3. Profit and Loss Statement “by class”
4. List of White Rock Boathouse bank accounts
5. Bank statements and reconciliation reports
6. Copies of cancelled checks
7. Trial balance, as available. Please reconcile the trial balance transactions to the line items in the Organization’s financial statements.
8. Accounts Payable aging reports

**Attachment B
(Response Template)**

**City of Dallas Office of the City Auditor
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Survey**

Insert the Name of Your Organization Here

Please provide a response to each of the following requests for information. If the requested information does not apply indicate such by writing “N/A” as the response. Use as many lines as needed to provide the requested information.

List and describe all:

- 1. Loss Contingencies.** A loss contingency occurs when it appears reasonably possible that a liability has been incurred or an asset has been impaired.
INSERT RESPONSE HERE

- 2. Related party transactions.** A related party transaction is a deal or arrangement between the Organization and another party who has a special relationship with the Organization, such as a board member or executive management of the Organization or one or more of a board member’s or executive management’s family members who contract with the Organization to provide goods or services to the Organization. Also, an entity controlled by the Organization that provides goods or services to the Organization would be a related party transaction.
INSERT RESPONSE HERE

List the following:

- 1. All family members of the board or executive management that work at the Organization.** Include the family member’s position title and years of employment at the Organization.
INSERT RESPONSE HERE

- 2. All key employees who perform the contracted services (include years of experience working on the contract).** A key employee is someone who has a specific expertise or level of knowledge about the Organization’s operations related to the contract with the City of Dallas (City) who would be difficult to replace and still achieve the same level of service in the short term.
INSERT RESPONSE HERE

- 3. All key employees who perform fundraising (include years of experience).** A key fundraising employee is one who is responsible for over 20 percent of the

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funds raised or has a level of knowledge about the Organization’s fundraising operations, who would be difficult to replace, and still achieve the same level of contributions in the short term.

INSERT RESPONSE HERE

- 4. All sub-contractors and minority owned businesses used.**

INSERT RESPONSE HERE

- 5. All payments made to the City from the Organization over the last three City fiscal years (October 1, 2015 through September 30, 2018). Please provide supporting detail as applicable.**

INSERT RESPONSE HERE

Respond to the following:

- 1. Is there a formal succession plan for any key employees and management?**
If so, please describe the succession plan.

INSERT RESPONSE HERE

- 2. Describe how the Organization tracks and manages all City owned property.**

INSERT RESPONSE HERE

- 3. Provide a self-assessment of how the Organization has met each of the Organization’s contract responsibilities.**

INSERT RESPONSE HERE

Preparer’s Name:

Preparer’s Title:

Date Prepared:

Appendix III

Major Contributors to the Report

Shino Knowles, CPA – Project Manager
Holly Hart, CPA – Acting Audit Manager
Theresa Hampden, CPA – Interim First Assistant City Auditor

Management's Response

Memorandum

RECEIVED

MAR 28 2019

City Auditor's
Office



CITY OF DALLAS

DATE: March 27, 2019
TO: Carol A. Smith, Interim City Auditor
SUBJECT: Response to Audit Report:
Audit of Business Partner Oversight for White Rock Boathouse, Inc.

PKR anticipates completing most of the implementation steps during 2019 but will need to determine the results of those 2019 efforts in 2020 and show sustainability of improvements through the following year. Because the Boathouse operates on a calendar year basis and annual reports are due in 120 days, final testing will be complete by June 30, 2021. For contract monitoring, PKR intends to enter their contracts in the Salesforce contract management application to increase contract compliance. Final testing of contract monitoring related to the Salesforce contract management application may take until June 30, 2022.

Our responses to the audit report recommendations are as follows:

Recommendation 1

We recommend the Director of PKR implement formal contract oversight and monitoring policies and procedures to reduce the risk of contract noncompliance. This includes:

- Ensuring contracts are timely renewed and properly executed
- Ensuring Boathouse develops a Master Plan approved by the Park and Recreation Board to operate and maintain the "Premises"
- Ensuring receipt and review of Boathouse financial statements prepared in accordance with GAAP
- Requiring Boathouse to maintain identifiable financial records needed to produce complete and accurate financial statements

Management Response / Corrective Action Plan

Agree Disagree

- Park Maintenance and Operations Division plans to enter these contracts in the Salesforce contract management software application so that PKR can monitor, timely renew, and help ensure proper execution of Contracts

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- PKR will discuss with Boathouse and ensure that a Master Plan for the operation and maintenance of the Filter Building Premises will be developed for Park and Recreation Board approval.
- PKR will rely on an independent CPA's opinion on Boathouse's annual financial statements for assurance that the financial statements were prepared in accordance with GAAP.
- PKR will require Boathouse to maintain identifiable financial records needed to produce complete and accurate financial statements, as specified in the Contracts

Implementation Date

June 30, 2022

Responsible Manager

Park Maintenance Assistant Director

Recommendation II

We recommend the Director of PKR request the creation of a White Rock Lake Beautification Trust Fund or ensure that a designated account for funds received from Boathouse is maintained for improvements to the "Premises" operated by Boathouse or White Rock Lake Park and does not include funds from other sources

Management Response / Corrective Action Plan

Agree

Disagree

Since FY 2017, the account designated for the Boathouse revenues has not included funds from other sources. Once the City Council approves amending the original Council Resolution, PKR will work with other departments as necessary to establish the White Rock Lake Beautification Fund.

Implementation Date

December 31, 2020

Responsible Manager

Park Maintenance Assistant Director

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Recommendation III

We recommend the Director of PKR:

- Implement formal policies and procedures to ensure that Boathouse provides an accurate and complete accounting of revenues and remits correct payments to the City
- Request Boathouse to obtain and provide externally validated or audited financial information or develop and implement PKR procedures to periodically provide some assurance that gross sales and revenues reported are complete and accurate

Management Response / Corrective Action Plan

Agree Disagree

PKR will implement formal policies and procedures which include requirements for Boathouse to annually furnish detailed revenue reports to ensure that Boathouse provides accurate revenues and remits correct payments to the City.

PKR will: (1) request Boathouse to obtain and provide externally validated or audited information, such as annual financial statements audited by an independent certified public accountant; or (2) develop and implement policies and procedures to periodically provide some assurance that gross sales and revenues reported are complete and accurate.

Implementation Date

June 30, 2021

Responsible Manager

Park Maintenance Assistant Director

Recommendation IV

We recommend the Director of PKR, in consultation with the City Attorney's Office:

- Work with the Boathouse Board of Directors to agree on which portion of Filter Building "Extras" generated from the rental of the Filter Building should be included in "gross revenues" for purposes of calculating payment to the City
- Document the agreement of revenues generated from the rental of the Filter Building that will be included in "gross revenues"
- Require Boathouse to make payment to the City within a reasonable timeframe for any outstanding portion of "gross revenues" the City should have received, as applicable

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Management Response / Corrective Action Plan

Agree Disagree

PKR will work with the Boathouse Board of Directors to agree on which portion of the Filter Building "Extras" generated from the rental of the Filter Building should be included in "gross revenues" for purposes of calculating payment to the City. Once agreement has been reached, PKR will document: (1) the agreement, including the portion of Filter Building "Extras" included in "gross revenues"; and, (2) the timeframe in which Boathouse will pay any outstanding portion of "gross revenues" the City should have received.

Implementation Date

June 30, 2021

Responsible Manager

Park Maintenance Assistant Director

Recommendation V

We recommend the Director of PKR:

- Develop a process to annually define the specific performance indicators or measures and other relevant information agreed upon by Boathouse
- Identify how PKR personnel will evaluate Boathouse's performance including the specific performance information required for evaluation and when the information should be received by PKR personnel
- Develop and implement formal policies and procedures to ensure PKR contract monitoring procedures include periodic performance analysis

Management Response / Corrective Action Plan

Agree Disagree

PKR agrees with the need for performance indicators within its partnership agreements and will discuss with Boathouse the development of performance indicators or measures.

When the performance indicators or measures are developed, PKR will develop a process to evaluate and conduct performance analysis, including the specific performance information required for evaluation and when the information should be received from Boathouse.

PKR will implement formal policies and procedures to ensure PKR contract monitoring procedures include periodic performance analysis.

Implementation Date

June 30, 2021

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Responsible Manager

Park Maintenance Assistant Director

Recommendation VI

We recommend the Director of PKR work with Boathouse to define the specific performance indicators or measures and other relevant information needed to allow PKR to appropriately monitor whether Boathouse is achieving the City's goal to provide rowing opportunities to youth in the City.

Management Response / Corrective Action Plan

Agree Disagree

Once the process of developing performance indicators or measures is developed and agreed to by PKR and Boathouse, PKR will appropriately monitor whether Boathouse is achieving the City's goal.

Implementation Date

June 30, 2021

Responsible Manager

Park Maintenance Assistant Director

Recommendation VII

We recommend the Director of PKR request Boathouse to:

- Adopt and implement formal policies and procedures or other internal controls over expenses and credit card usage to support Boathouse's mission
- Obtain and provide externally validated or audited financial information or develop and implement PKR procedures to periodically provide some assurance over the proper accounting and internal control for expenses and credit card usage

Management Response / Corrective Action Plan

Agree Disagree

- PKR will request Boathouse to adopt and implement formal policies and procedures or other internal controls over expenses and credit card usage to support Boathouse's mission.

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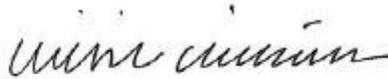
- PKR will: (1) request Boathouse to obtain and provide externally validated or audited information, such as annual financial statements audited by an independent certified public accountant; or (2) develop and implement policies and procedures to periodically provide some assurance over the proper accounting and internal control for expenses and credit card usage.

Implementation Date

June 30, 2021

Responsible Manager

Park Maintenance Assistant Director



Willis Winters, Director
Park and Recreation

Joey Zapata
Assistant City Manager

C: T.C. Broadnax, City Manager
Kimberly Bizer Tolbert, Chief of Staff
Christopher J. Caso, Interim City Attorney
Elizabeth Reich, Chief Financial Officer
Robert Abtahi, President - Park and Recreation Board
John Jenkins, Deputy Director, Department of Park and Recreation
Oscar Carmona, Assistant Director, Park Maintenance Services

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