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Audit Report

**AUDIT OF BUSINESS PARTNERS OVERSIGHT –
DEPARTMENT OF PARK AND RECREATION**

(Report No. A19-005)

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Interim City Auditor

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Executive Summary

The Department of Park and Recreation’s (PKR) Leisure Venue Destination Management (LVDM) Division has policies and procedures in place for oversight and monitoring of long-term facility contracts (Contracts).¹ Certain contract monitoring procedures, however, were either not performed or not fully completed.

The Office of the City Auditor’s risk evaluation² also identified some areas of financial risk for the Dallas Zoological Society/Dallas Zoo Management, Inc. (DZS/DZM) and the Dallas Arboretum and Botanical Society (DABS). As a result, PKR cannot ensure adequate oversight and contract monitoring of DZS/DZM and DABS and closer monitoring by PKR is warranted.

Background Summary

The Department of Park and Recreation (PKR) oversees various long-term facility contracts (Contracts) with business partners operating and/or using facilities owned by the City of Dallas (City). The City is obligated, contingent upon City Council resolutions, to pay certain business partners’ management fees, utilities, and cost reimbursements. The City also collects a percentage of revenues generated from certain business partner Contracts.

Within PKR, the Leisure Venue Destination Management Division is responsible for contract oversight and monitoring. This audit focused on the following two major PKR business partners:

- 1) *Dallas Zoological Society/Dallas Zoo Management, Inc.*
- 2) *Dallas Arboretum and Botanical Society, Inc.*

Contract monitoring activities for Contracts that generate revenue to the City, specifically Elm Fork Shooting Sports, Inc. and the golf courses and the tennis centers, were also evaluated during this audit.

Source: Business partner Contracts and audited financial statements

Specifically,

- The LVDM did not perform or did not fully complete certain oversight and contract monitoring procedures, such as: internal contract audits, field visits at business partner locations, and revenue audits
- Contract oversight and monitoring activities are fragmented among LVDM, other PKR divisions, and other City of Dallas (City) departments; making it difficult for LVDM to ensure proper execution of all necessary oversight and contract monitoring activities
- The City does not require DZS/DZM to contact a specific City department or PKR division; or to follow a consistent process when conveying new assets

¹ For this audit, long-term facility contracts included agreements between the City of Dallas (City) and Dallas Zoological Society/Dallas Zoo Management, Inc. (DZS/DZM), Dallas Arboretum and Botanical Society, Inc., Elm Fork Shooting Sports, Inc., and the contractors managing the golf courses and the tennis centers.

² The risk evaluation was based on analysis of financial and operational information for Fiscal Year (FY) 2014 through FY 2017 including: (1) audited financial statements, general ledger trial balances, and Federal tax returns (Internal Revenue Service Form 990), if available; (2) analysis of key non-profit financial ratios; (3) analysis of financial data from peer organizations (see Appendix I); and, (4) survey information (see Appendix III).

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- to the City. A new asset with a cost basis of nearly \$951,000 was conveyed to the City in January 2016 but never recorded in the City's fixed asset system.
- The City did not conduct an energy audit to determine DABS' optimum energy usage as required by the First Amended Contract between the City and DABS. For Fiscal Year (FY) 2015 through FY 2017, the City's payment of utilities for DABS was above the \$395,000 approximate amounts authorized by City Council resolution.
 - The City and DABS did not comply with contract terms specifying that a title of personal property must first pass to the City before the value of such property may be counted towards matching requirements (in connection with bond funding)
 - A complimentary ticket program did not meet the City's objective to provide all City residents equitable access to the Dallas Arboretum

In addition, revenues generated by Elm Fork Shooting Sports, Inc., and the golf courses and the tennis centers were not sufficiently validated to ensure complete and accurate revenues were received by the City.

Shortcomings with DZS/DZM and DABS Contracts were also noted:

- The absence of clear contract terms regarding land that DZS/DZM acquired before the private-public partnership was formed in 2009 resulted in non-conveyance of a parcel of property, used for Zoo purposes, to the City. This non-conveyance may be inconsistent with contract terms specifying that the City will retain ownership of all land, real property interests, buildings, and improvements comprising and utilized for the Dallas Zoo.
- The absence of performance indicators or measures in DZS/DZM and DABS Contracts resulted in the inability to effectively assess how DZS/DZM and DABS were performing against contractual performance indicators on a periodic basis

Finally, the following financial risks were identified:

- The DZS/DZM's trends of: (1) net operating losses; (2) high debt in relation to its current net asset base without donor restrictions; and, (3) heavy reliance on one revenue source, the City;³ may increase DZS/DZM's operational risk if the City significantly decreases support or if the City's support is no longer available

³ The one source of revenue refers to Section 3.01 of the DZS/DZM contract with the City, which states that the City will pay DZS/DZM an annual management fee, currently at \$13.8 million adjusted each year by the Consumer Price Index.

- The DABS' high debt may lead to insolvency if DABS continues to incur additional debt without increasing available liquid assets or generating more revenue from operations and donor funding

It is important to note both business partners exhibited strong partnerships with the City, increased attendance, and experienced high patron satisfaction. These two business partners incurred debt to fund infrastructure improvements needed to enhance the visitor experience and accommodate increasing attendance rates.

We recommend the Director of PKR improves contract oversight and monitoring controls by addressing the recommendations made in this report. We also recommend the Director of PKR works with applicable business partners and the City Attorney's Office to address the noted shortcomings in the Contracts.

The audit objective was to evaluate the financial, operational, and other risks for major business partners operating City-owned facilities under the oversight of PKR and the City's oversight and monitoring controls. 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 V.

Auditor Follow-up Comments

Nine of the ten audit recommendations for which City management agreed contain implementation dates ending either September 30, 2020, June 30, 2021, or September 30, 2021. City management did not provide corrective actions that include interim controls to mitigate the risks identified by the recommendations.

Although City management disagreed with two of the 12 recommendations in this report (Recommendations IV and XI), the response stated PKR would take certain steps to address the identified risks; however, an estimated timeline for implementation of a solution was not provided.

The Office of the City Auditor encourages City management to: (1) consider applying interim controls until full implementation of the nine recommendations can be achieved; and, (2) define an implementation timeline and interim controls, if appropriate, for Recommendations IV and XI.

AUDIT RESULTS

Section I - Contract Oversight and Monitoring of Selected Park and Recreation Business Partners

Contract Oversight and Monitoring Procedures Were Not Performed or Not Fully Completed

Leisure Venue Destination Management (LVDM), the division responsible for the contract oversight and monitoring of the Department of Park and Recreation's (PKR) long-term facility contracts (Contracts),⁴ did not perform or did not fully complete certain contract monitoring procedures specified by LVDM policies and procedures. As a result, PKR cannot ensure adequate contract oversight and monitoring to reduce the risk of contract noncompliance and financial loss.

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 (see Appendix II).

Source: National State Auditors Association

Examples of contract monitoring procedures that were not performed or fully completed include:

- *Internal Contract Audits* – The LVDM compliance checklists associated with Contracts for the Dallas Zoological Society/Dallas Zoo Management, Inc. (DZS/DZM) and the Dallas Arboretum and Botanical Society, Inc. (DABS) were not fully completed. The LVDM created these contract compliance checklists as a tool to identify relevant contract sections for internal contract audits.
- *Field Visits (Spot Checks)* – The LVDM did not conduct field visits at DZS/DZM or DABS. The LVDM procedures specify that the Senior Contract Compliance Administrator will conduct four impromptu field visits per fiscal year to ensure contract requirements are met.
- *Revenue Audits* – The LVDM revenue audit procedures were not completed for Elm Fork Shooting Sports, Inc. (Elm Fork) and the golf courses and the tennis centers. *Revenue Audits* ensure contractors provide an accurate accounting of revenues and remit correct payments to the City of Dallas (City).

⁴ For this audit, long-term facility contracts included agreements between the City of Dallas (City) and Dallas Zoological Society/Dallas Zoo Management, Inc. (DZS/DZM), Dallas Arboretum and Botanical Society, Inc., Elm Fork Shooting Sports, Inc., and the contractors managing the golf courses and the tennis centers.

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The LVDM's policies and procedures for contract monitoring were effective July 14, 2016. According to management, LVDM did not maintain adequate personnel to fully implement the policies and procedures. Cited causes for the understaffing of LVDM include a lengthy hiring and recruitment process and a small talent pool of qualified contract administrators.

Best Practices in Contracting for Service, from the National State Auditors Association (NSAA) states:

To properly monitor a contract, the agency [department] should assign a contract manager with the authority, resources, and time to monitor the project and ensure that the contract manager possesses adequate skills and has the necessary training to properly manage the contract.

Recommendation I

We recommend the Director of PKR:

- Ensures LVDM performs and fully completes contract oversight and monitoring procedures as specified by LVDM policies and procedures
- Maintains adequate and qualified personnel by working with the City's Department of Human Resources to evaluate and streamline the recruiting and hiring process for LVDM contract administrators

Please see Appendix V for management's response to the recommendations.

Contract Oversight and Monitoring Activities Are Fragmented Across the Department of Park and Recreation

Fragmentation

Fragmentation occurs when more than one organization within a department is involved in the same broad area of need (such as contract monitoring) and opportunities exist to improve service delivery. Agencies [divisions] can enhance and sustain their collaborative efforts by agreeing on roles and responsibilities and establishing compatible policies, procedures, and other means to operate across agency boundaries.

Source: U.S. Government Accountability Office, April 2015 Report - *Fragmentation, Overlap, and Duplication: An Evaluation and Management Guide*

Contract oversight and monitoring activities are fragmented among LVDM, other PKR divisions, and other City departments, making it difficult for LVDM to ensure proper execution of all necessary oversight and contract monitoring activities. As a result, LVDM cannot evaluate the extent or adequacy of oversight and contract monitoring activities that occur outside its division.

For example, multiple PKR divisions and City departments were involved in the following oversight and contract monitoring activities:

- Processing the conveyance of new capital assets from DZS/DZM to the City involved two separate divisions within PKR and one other City department, and the process differed on each occasion (discussed in more detail on page nine)
- Calculating the contractual Consumer Price Index adjustment and management fee cap for DZS/DZM as specified by the contract was performed by PKR Financial Services
- Overseeing and monitoring the development of a new comprehensive *Facility Master Plan for the Dallas Zoo* was performed by PKR Planning, Facility, and Environmental Services
- Budgeting and excess payment of certain utilities for DABS was performed by PKR Financial Services and the Building Services Department (discussed in more detail on page eleven)

The *Standards for Internal Control in the Federal Government* by the Comptroller General of the United States⁵ states that management should establish and operate monitoring activities to monitor the internal control system and evaluate the results. Management should remediate identified internal control deficiencies on a timely basis.

⁵ As required by City Council Resolution 88-3428, departments will establish internal controls in accordance with the standards established by the Comptroller General of the United States ... which are stated in the *Standards for Internal Control in the Federal Government* established by the United States Government Accountability Office in September 2014.

Recommendation II

We recommend the Director of PKR ensures all necessary contract monitoring activities are properly executed by:

- Minimizing the fragmentation and increasing coordination among PKR's divisions and other City departments which may include:
 - Defining and agreeing upon roles and responsibilities
 - Establishing compatible policies and procedures across PKR divisions with contract oversight and monitoring responsibilities
 - Reinforcing LVDM's role as the centralized oversight function within PKR to monitor and evaluate the adequacy of contract monitoring activities performed by PKR divisions and other City departments
- Confirming personnel have the specialized skills and experience to oversee specific contract oversight and monitoring activities, such as conveyance of capital assets and analysis of financial data to ensure contract compliance

Please see Appendix V for management's response to the recommendations.

Process to Convey Assets from Dallas Zoological Society/Dallas Zoo Management, Inc. to the City Is Inconsistent and Lacks Oversight

The City does not require DZS/DZM to contact a specific City department or PKR division; or to follow a consistent process when conveying new assets to the City (see textbox). The process to convey new assets from the Dallas Zoo is also fragmented across PKR divisions and other City departments with no central oversight from LVDM, the division responsible for oversight and monitoring of the DZS/DZM contract.

As a result, there is an increased risk that the LVDM and the City Controller's Office may not receive timely notification that DZS/DZM conveyed a new asset, and the City's financial records may not be updated to reflect the new asset's value. For example, a new DZS/DZM asset with a cost basis of approximately \$951,000, was conveyed to the City in January 2016; however, the asset was never recorded in the City's fixed asset system.

The contract does not specify which City department or division DZS/DZM should contact to convey a new asset or the process DZS/DZM is to follow. In addition, the City does not have policies and procedures that define roles and responsibilities for City departments, LVDM, or other PKR divisions involved in the asset conveyance process.

Since January 2016, DZS/DZM's requests to convey assets to the City were processed by City personnel in (1) PKR Administration and Business Services; (2) the City Controller's Office; and, (3) the PKR Planning, Facility, and Environmental Services. Because the process to convey an asset to the City is inconsistent, LVDM does not receive the information needed to fulfill its contract monitoring responsibilities related to conveyance of assets from DZS/DZM.

The City's Administrative Directive 4-09, *Internal Control* (AD 4-09), states that control activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system. Monitoring of the internal control system is essential in helping internal control remain aligned with changing objectives, environment, laws, resources, and risks.

Dallas Zoological Society/Dallas Zoo Management, Inc. Contract Terms

Section 2.01 of the Dallas Zoological Society/Dallas Zoo Management (DZS/DZM) contract with the City of Dallas (City) states the following:

"The City has and will retain ownership of any and all land, real property interests, buildings, and improvements comprising and utilized for the Zoo. Any new, expanded or additional land, real property interests, buildings and improvements acquired for or to become a part of the Zoo during the term of this Agreement shall belong to and be owned by the City upon City's acceptance of same."

Source: DZS/DZM Contract

Recommendation III

We recommend the Director of PKR in coordination with the City Manager:

- Develops a consistent process for receiving DZS/DZM requests to convey new assets; identifies the City department or division to receive such requests; and communicates the process to DZS/DZM
- Develops and implements policies and procedures to ensure new assets acquired by DZS/DZM are consistently conveyed to the City. This may include:
 - Defining and agreeing upon roles and responsibilities
 - Establishing compatible policies and procedures to operate across departments and PKR divisions
 - Centralizing oversight by LVDM to ensure receipt of information needed to fulfill contract monitoring responsibilities related to conveyance of assets

Please see Appendix V for management's response to the recommendations.

The City Did Not Establish Appropriate Limitations on Dallas Arboretum and Botanical Society, Inc.’s Utility Costs Paid for by the City

The City did not conduct an energy audit to determine DABS’ optimum energy usage as required by the First Amended Contract between the City and DABS (see textbox). The energy audit was intended to establish a ceiling on gas, water, and sewer (utility) costs paid by the City on behalf of DABS. Utility costs that exceed the optimum energy use are the responsibility of DABS. In addition, LVDM does not review DABS’ utility invoices prior to the City’s payment.

As a result: (1) payments by the City for utilities from Fiscal Year (FY) 2015 through FY 2017 were above the approximate \$395,000 amount approved by City Council Resolution 13-1072; (2) utility costs paid for by the City are currently not subject to any limitations; and, (3) the risk of improper or overpayment of utility invoices is increased.

Utility Costs Paid by the City

Section 7.2.2 of the First Amended Contract between the City and the Dallas Arboretum and Botanical Society, Inc. (DABS) provide that the City will fund the costs of gas, water, and sewer utilities and will conduct an energy audit to pay for 100 percent of the “optimum energy usage for the facility.”

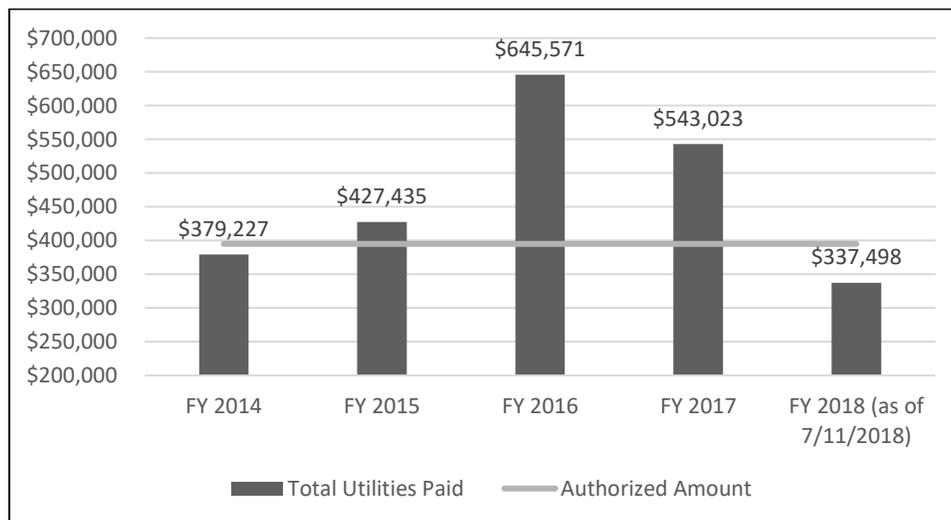
On June 26, 2013, the City and DABS entered into Amendment No. 3, in which Council Resolution 13-1072 authorized the disbursement of payments to utility providers for certain utilities consumed at the Dallas Arboretum of “approximately” \$395,000 annually.

Sources: (1) DABS First Amended Contract, (2) City Council Resolution 13-1072

The City disbursed the following payments to utility providers for utilities consumed at the Dallas Arboretum:

Exhibit I

City’s Payment of Utility Costs



Source: City of Dallas Advantage AMS

For FY 2018, PKR budgeted \$558,242 for Dallas Arboretum utilities which is \$163,242 higher than the \$395,000 approximate amount approved by the City Council Resolution 13-1072. As of July 2018, the Dallas Arboretum utility costs paid for by the City were approaching the approximate amount approved by the City Council. In addition, as of December 2017, the Dallas Arboretum utility invoices showed the City overpaid one water utility account by almost \$7,000.

During the budget process, the PKR Financial Services Division created a budget for the City's payment of Dallas Arboretum utilities based on historically disbursed amounts. The PKR personnel explained that because City Council Resolution 13-1072 authorized the disbursement of payments to utility providers for an approximate value, PKR budgets annual utility expenses based on historical information only. The PKR personnel budget utilities for the Dallas Arboretum within a five percent variance from the prior year's actual amounts.

The LVDM's Senior Contract Compliance Administrator tracked the City's payment of utilities for the Dallas Arboretum by populating a schedule based on invoices paid by both PKR's Accounts Payable and the Building Services Department. The LVDM's Senior Contract Compliance Administrator, however, did not review the invoices prior to the City's disbursement of payment by PKR Accounts Payable and the Building Services Department.

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

Recommendation IV

We recommend the Director of PKR:

- Ensures completion of an energy audit to establish the optimum energy usage
- Coordinates with DABS and appropriate authorities, such as the City Council and the Dallas Park and Recreation Board, to establish more clearly defined caps or limitations on the amounts the City is authorized to disburse for utilities consumed at the Dallas Arboretum
- Ensures LVDM's Senior Contract Compliance Administrator or other designated personnel reviews DABS' utility invoices before payment disbursement to ensure proper payment as authorized by the contract and applicable current or future City Council resolution(s). If a pre-review of utility invoices is not feasible, ensure that a post-payment review of utility invoices is completed.

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

Revenues Were Not Sufficiently Validated

The LVDM and PKR Special Services did not sufficiently validate the accuracy and completeness of gross sales and revenues reported by the contractors managing Elm Fork, the golf courses, and the tennis centers. As a result, the City cannot ensure the amounts received for the City's share of revenues generated by these City-owned facilities are accurate, complete, and comply with contract terms (see textbox).

Although PKR personnel performed certain procedures to check the reasonableness of the revenues reported by Elm Fork, the golf courses, and the tennis centers; neither LVDM or PKR Special Services reviewed additional documentation from these contractors, such as:

- Daily cash drawer counts
- Close out reports to credit card reports (z-tapes)
- Cash receipts
- Check deposits
- Bank reconciliations

The PKR Special Services has a policy and procedures document that describes the process used to verify the golf courses' and the tennis centers' revenues. These procedures are not sufficient; however, to ensure the accuracy and completeness of the revenues reported by these contractors on the monthly and weekly summaries submitted to PKR.

A contract with Elm Fork, effective January 11, 2017, requires annual audited financial statements furnished by a Certified Public Accountant for gross sales and revenues. In the future, this externally provided assurance should provide PKR with the necessary revenue validation for Elm Fork. The contractors managing the golf courses and the tennis centers, however, are not required to provide the same level of assurance. There are also no contractual requirements that mandate all

**Contract Terms
for Elm Fork Shooting Sports, Inc,
the Golf Courses, and the Tennis Centers**

Per the Contracts, the City receives a percentage of revenues generated from operations at Elm Fork Shooting Sports, Inc. (Elm Fork) and the golf courses and the tennis centers, all of which are City-owned facilities.

- **Elm Fork** – Payments to the City are based on annual gross sales in accordance with a tiered payment schedule.
- **Golf Courses** – Payments to the City are 100 percent of all green fees as well as a percentage of all other revenues generated at the golf courses.
- **Tennis Centers** – Payments to the City vary by tennis center contract.

See Appendix II for additional information.

Source: Contracts between the City and Elm Fork and the golf courses and the tennis centers

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contractors have appropriate internal controls in place for the handling and recording of cash receipts.

Exhibit II below shows the revenue recorded by the City from Elm Fork, the golf courses, and the tennis centers for FY 2015 through FY 2017.

Exhibit II

**Fiscal Year 2015 through Fiscal Year 2017
Revenues Generated by Elm Fork, the Golf Courses, and the Tennis Centers**

Fiscal Year	Elm Fork	Golf Courses	Tennis Centers
2015	\$ 149,740	\$ 2,210,411	\$ 71,963
2016	207,957	2,467,715	43,738
2017	155,115	2,772,719	70,546
Total	\$ 512,812	\$ 7,450,845	\$ 186,247

Source: City of Dallas AMS Advantage Accounting System, Unaudited

The *Procedure Manual for Leisure Venue Destination Management Division*, Section 4.0, Item K, states that *Revenue Audits* are completed to ensure that the contractor provides an accurate accounting of revenues; and also remits correct payments to the City.

AD 4-09, Section 6.4.3.1 Principle 15, *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 V

We recommend the Director of PKR:

- Ensures LVDM and PKR Special Services validate the accuracy and completeness of gross sales and revenue reported by the contractors managing Elm Fork, the golf courses, and the tennis centers
- Implements consistent policies and procedures to review additional contractor documentation, such as daily cash drawer counts, close out reports to credit card reports (z-tapes), cash receipts, check deposits, and bank reconciliations

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- Requires the golf courses and the tennis centers to obtain and provide externally validated or audited gross sales reports
- Requires contractors to apply appropriate internal controls for the handling and recording of cash receipts by formally notifying contractors either in supplemental contract agreements or when contracts are renewed

Please see Appendix V for management's response to the recommendations.

Complimentary Ticket Program Did Not Meet Equity Objective

The City's complimentary Dallas Arboretum ticket program (Program) did not meet the City's objective to provide all City residents equitable access to the Dallas Arboretum. While PKR has a policy and procedures document for the Program, PKR does not have a consistent procedure to:

- Communicate the overall purpose of the Program to recreation center staff responsible for distributing the complimentary Dallas Arboretum tickets
- Advertise or communicate the availability of the complimentary Dallas Arboretum tickets to the public
- Manage practical aspects of the Program, such as the number of complimentary Dallas Arboretum tickets allowed annually per resident and how to distribute the tickets equitably across the City (see textbox)

Complimentary Ticket Distribution Process

The 43 Department of Park and Recreation (PKR) recreation centers follow a standard policy and procedures document for complimentary Dallas Arboretum ticket distribution "to safeguard the interests of PKR by ensuring proper distribution and tracking of the ... issuance of Dallas Arboretum tickets". The procedures describe PKR personnel responsibilities as follows:

- Tracking and reviewing the distribution process
- Registering patron information
- Allotting up to eight tickets per request
- Communicating to patrons the process to obtain complimentary tickets

Source: PKR Recreation Services Division Procedures for Distributing Dallas Arboretum Tickets dated January 2, 2015

As a result, of the 25,000 tickets distributed by the PKR recreation centers for Calendar Year (CY) 2015 through CY 2017, only an average of 6,300, or 25 percent, were redeemed. As of October 2018, the current total estimated annual value for 25,000 complimentary Dallas Arboretum tickets is \$750,000,⁶ indicating that if the trend continues, complimentary Dallas Arboretum tickets with values totaling an estimated \$562,500 will not be used each year.

The PKR personnel at four of the five recreation centers judgmentally selected for interview said they do not formally communicate or advertise the Dallas Arboretum complimentary tickets. They expressed concern that there would not be enough complimentary tickets to meet demand if PKR formally advertised the complimentary tickets. Recreation center personnel interviewed also expressed concerns regarding the distribution of the free tickets, including: (1) patrons that obtain more free tickets than they need, as patrons are allowed up to eight tickets per person per visit; and, (2) patrons that obtain many tickets from multiple recreation centers and never redeem them at the Dallas Arboretum.

⁶ The value of one Dallas Arboretum complimentary ticket was estimated based on the price of adult admission and on-site or garage parking for one vehicle as of October 2018.

According to PKR Recreation Services staff, each of the City's 43 recreation centers obtained 250 tickets at the beginning of the year for distribution to the public. The recreation centers could receive an additional 250 tickets each time they submitted a log of distributed tickets to Recreation Services. Only recreation centers that requested additional tickets from Recreation Services obtained more than 250 tickets to distribute. As of May 2018, 26 of the City's 43 recreation centers had not requested additional tickets.

AD 4-09 states:

It is the policy of the [City] to establish and maintain an internal control system designed to ensure:

- A. Each department achieves their goals and objectives relating to operations, reporting, and compliance*

- B. Policies and procedures are efficient and effective*

Section 6.5.1.3 of AD 4-09 also states, *“Management should evaluate and document internal control issues and take appropriate corrective actions for internal control deficiencies on a timely basis.”*

Recommendation VI

We recommend the Director of PKR:

- Assesses the current policy and procedure for distributing Dallas Arboretum complimentary tickets to identify ways to accomplish the objective to provide all City residents equitable access to the Dallas Arboretum

- Implements a consistent procedure for:
 - Communicating the overall purpose of the Program to recreation center staff responsible for distributing the complimentary Dallas Arboretum tickets

Analysis of Ticket Distribution Data

Analysis of complimentary Dallas Arboretum ticket distribution data from the City's 43 recreation centers between January 01, 2018 and May 02, 2018 showed that the number of tickets distributed in each City Council district (district) varied regardless of the number of recreation centers within each district.

The analysis could not determine a relationship between the Dallas Arboretum ticket distribution and the number or location of the recreation centers in each district. For example, District 11, distributed the most complimentary Dallas Arboretum tickets; however, District 11 only has two recreation centers and is located in North Dallas, which is not adjacent to the location of the Dallas Arboretum.

Note: The number of recreation centers in each district ranges from one to six recreation centers. Districts adjacent to the Dallas Arboretum include: District 7, District 10, District 13, and District 14.

Source: Office of the City Auditor

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- Advertising or communicating the availability of the complimentary Dallas Arboretum tickets to the public
- Managing practical aspects of the Program, such as the number of complimentary Dallas Arboretum tickets allowed annually per resident and how to distribute the tickets equitably across the City, by continuing to monitor the Program and make adjustments as necessary

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

Section II - Contract Modification Considerations for Selected Park and Recreation Business Partners

Absence of Clear Contract Terms Regarding Ownership of Land Acquired Before Dallas Zoo Privatization

A piece of land purchased prior to the Dallas Zoo privatization in 2009 was not conveyed to the City. The land, valued at \$418,468 in the DZS/DZM audited financial statements, is currently used as a parking lot at the Dallas Zoo. As a result, there is a risk that DZS/DZM may not be compliant with Section 2.01 of the contract which states “*the City will retain ownership of any and all land, real property interests, buildings, and improvements comprising and utilized for the Zoo*” (please refer to the textbox on page nine for the contract terms).

According to DZS/DZM personnel, discussions between DZS/DZM’s legal counsel and the City during the contract negotiation resulted in contract terms that are vague regarding the conveyance of ownership of this land at 700 South Ewing Avenue. The DZS/DZM personnel could not provide documentation of the negotiation process concerning the land in question.

Recommendation VII

We recommend the Director of PKR, in consultation with the City Attorney’s Office, work with DZS/DZM and the Department of Sustainable Development and Construction to:

- Clarify the language in the contract regarding ownership of land purchased by DZS/DZM before the Dallas Zoo privatization
- Convey the land to the City if the clarified contract language results in a determination that the land should have been transferred

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

Absence of Performance Indicators or Measures in Contracts

The DZS/DZM and DABS Contracts do not contain performance indicators or measures. As a result, it is difficult for PKR personnel to follow LVDM's policies and procedures for contract monitoring which require LVDM to assess how DZS/DZM and DABS are performing against established contractual performance indicators on a periodic basis.

The LVDM obtains and tracks certain information provided by DZS/DZM and DABS, such as:

- The DZS/DZM - Monthly attendance and revenue information, including total admission, parking, rides, and education programming revenue
- The DABS - A *Monthly Attendance Report* that includes paid, member, and complimentary tickets redeemed, as well as, the number of school groups and facility rental patrons that attended the Dallas Arboretum

LVDM Contract Monitoring Policies and Procedures

Section 4.0, Item I of LVDM's policies and procedures for contract monitoring specifies that LVDM's Senior Contract Compliance Administrator will track and measure how contractors are performing certain aspects of the Contracts. The Senior Contract Compliance Administrator must identify each contractor's key performance indicators and measure the indicators monthly to determine the contractor's progress.

Performance indicators are tailored to the type of contract and will include several measurable variables. Unless otherwise arranged, the tenth of each month is designated as the date that the contractor will submit measurable data to LVDM for analysis (it was otherwise arranged that DZM will submit performance data by the fifteenth of each month).

Source: PKR Procedure Manual, Leisure Venue Destination Management Division dated July 14, 2016

Although LVDM's policies and procedures specify dates for receipt of the DZS/DZM and DABS information described above, neither business partner consistently provided timely information. In addition, because the Contracts are silent regarding performance indicators or measures, LVDM cannot perform in-depth analysis. According to LVDM, the information provided is generally reviewed for large fluctuations from previously reported amounts. If large fluctuations are identified, LVDM may contact DZS/DZM or DABS for an explanation. However, LVDM cannot hold the business partners accountable if the explanations for the fluctuations are not reasonable.

The AD 4-09 identifies management of human capital, top-level reviews of actual performance, and establishment and review of performance indicators or measures as typical control activities.

Best Practices in Contracting for Service from NSAA states:

The department should develop performance requirements that will hold vendors [contractors] accountable for the delivery of quality services, including clearly defining performance standards and measurable outcomes and identifying how performance will be evaluated.

Recommendation VIII

We recommend the Director of PKR:

- Develops a process to annually define the specific performance indicators or measures and other relevant information agreed upon by DZS/DZM and DABS
- Identifies how PKR personnel will evaluate performance, including the specific performance information required for evaluation and when the information should be received by PKR personnel
- Ensures that PKR personnel are conducting periodic performance analysis as required by LVDM policies and procedures

Recommendation IX

We recommend the Director of PKR, in consultation with the City Attorney's Office, work with DZS/DZM and DABS to include in a supplemental contract agreement a process to annually define the specific performance indicators or measures and other relevant information as described in Recommendation VIII.

Please see Appendix V for management's response to the recommendations.

Section III – Risk Evaluation of Selected Park and Recreation Business Partners

Identified Areas of Financial Risk

The Office of the City Auditor’s risk evaluation⁷ identified some areas of financial risk for DZS/DZM and DABS. As a result, the financial condition of these business partners warrants additional monitoring by PKR.

Dallas Zoological Society and Dallas Zoo Management, Inc.

The DZS/DZM had more debt in relation to net assets without donor restrictions⁸ than its peer zoos’ average, which may negatively affect long-term solvency, as liquid assets will be needed to fulfill debt maturity obligations (see Exhibit III on page 23).

Specifically, DZS/DZM’s total debt in relation to net assets without donor restrictions increased significantly from nine percent to 74 percent, while total net assets without donor restrictions decreased over the same period. Yearly maturities of notes payable and lines of credit are anticipated to reach approximately \$2 million in FY 2019, or nearly 40 percent of current net assets. According to the DZS/DZM management, “95 percent [of the debt balances] are supported by collateral or an ongoing revenue stream.”

Financial Viability of Non-Profit Organizations

Ability of the non-profit organization to:

- Pay its bills
- Secure reliable and diverse sources of revenues
- Balance revenues and expenses

Non-profit organizations that strive to be financially viable need to have good practices and management processes in place that directly influence their financial health, such as: (1) financial planning; (2) budgeting; (3) managing costs; (4) managing cash; (5) managing grants; (6) diversifying sources of funding; (7) selling products and services; (8) building up reserve funds; and, (9) managing performance.

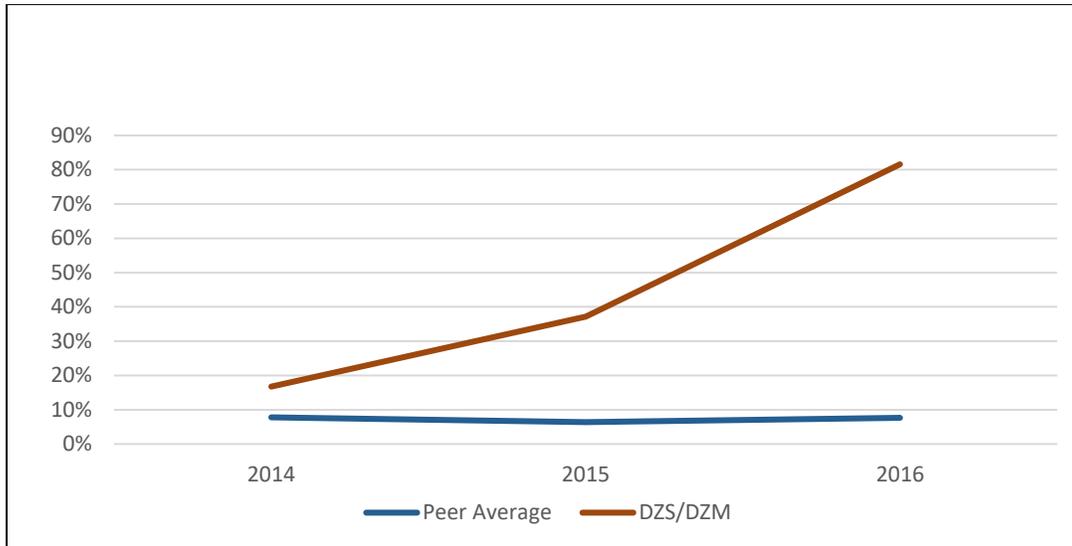
Sources: (1) *Building Capacity through Financial Management*, John Cammack; (2) *Indicators of Financial Sustainability and Establishing Good Financial Management*, Klaus Boas

⁷ The risk evaluation was based on analysis of financial and operational information for (Fiscal Year) FY 2014 through FY 2017 (if available) including: (1) audited financial statements, general ledger trial balances, and Federal tax returns (Internal Revenue Service Form 990); (2) analysis of key non-profit financial ratios; (3) analysis of financial data from peer zoo and peer botanical gardens organizations (see Appendix I); and, (4) survey information (see Appendix III).

⁸ In a non-profit organization the amount of total assets minus total liabilities is reported as net assets in the statement of financial position. Net assets are divided into two major classifications: (1) net assets without donor restrictions; and, (2) net assets with donor restrictions.

Exhibit III

Total Debt Divided by Net Assets Without Donor Restrictions



Source: Office of City Auditor Peer Analysis for DZS/DZM

The following financial risks for DZS/DZM were also noted:

- The DZS/DZM incurred operating losses of approximately \$1.5 million in FY 2016 and \$3.6 million in FY 2017. A continued trend of operating losses will affect DZS/DZM's ability to increase net assets in the long-term.
- Over 40 percent of DZS/DZM's total revenues were derived from the management fee⁹ paid by the City, indicating a high concentration of one revenue source
- The DZS/DZM holds few investments (other than a small balance in an endowment fund for the Savannah Exhibit and Hippo Outpost). In contrast, peer zoos held some form of investments, averaging approximately 23 percent of total assets. In general, DZS/DZM does not have a similar level of investments as its peers, which may be needed to sustain future growth and operations of the Dallas Zoo.

The DZS/DZM invested significantly in Zoo support projects and the expansion of animal exhibits. Due to contract terms that require DZS/DZM to expense much of the Dallas Zoo's capital improvements, DZS/DZM did not add to its total net asset base in FY 2016 and FY 2017.

⁹ Section 3.01 of the DZS/DZM contract with the City states that the City will pay DZS/DZM an annual management fee, currently at \$13.8 million adjusted each year by the Consumer Price Index.

Efforts Made by DZS/DZM to Address Areas of Financial Risk

During a FY 2014 capital campaign, DZS/DZM received a multi-year gift from a donor in the amount of \$5 million. This multi-year gift is shown on the balance sheet in DZS/DZM's financial statements as an accounts receivable amount to reflect the donor's financial commitment to pay the multi-year gift. This example indicates DZS/DZM's ability to secure capital from donors for some projects at the Dallas Zoo.

On May 18, 2017, during DZS/DZM's annual update presentation to the Dallas Park and Recreation Board, DZM's President responded to a question regarding bond funding needs by stating that Dallas Zoo infrastructure is an area of need. Specifically, buildings, restrooms, and drinking fountains are in need of capital improvements as visitors at the Dallas Zoo have doubled in number since privatization in 2009. The DZM President also explained that raising funds for Dallas Zoo infrastructure is more difficult than raising funds for the animal exhibits which attract more corporate and private sponsors. The City allocated \$3.5 million of bond funding for critical parking enhancements and improvements at the Dallas Zoo from Proposition B of the 2017 Bond Election.

Dallas Arboretum and Botanical Society

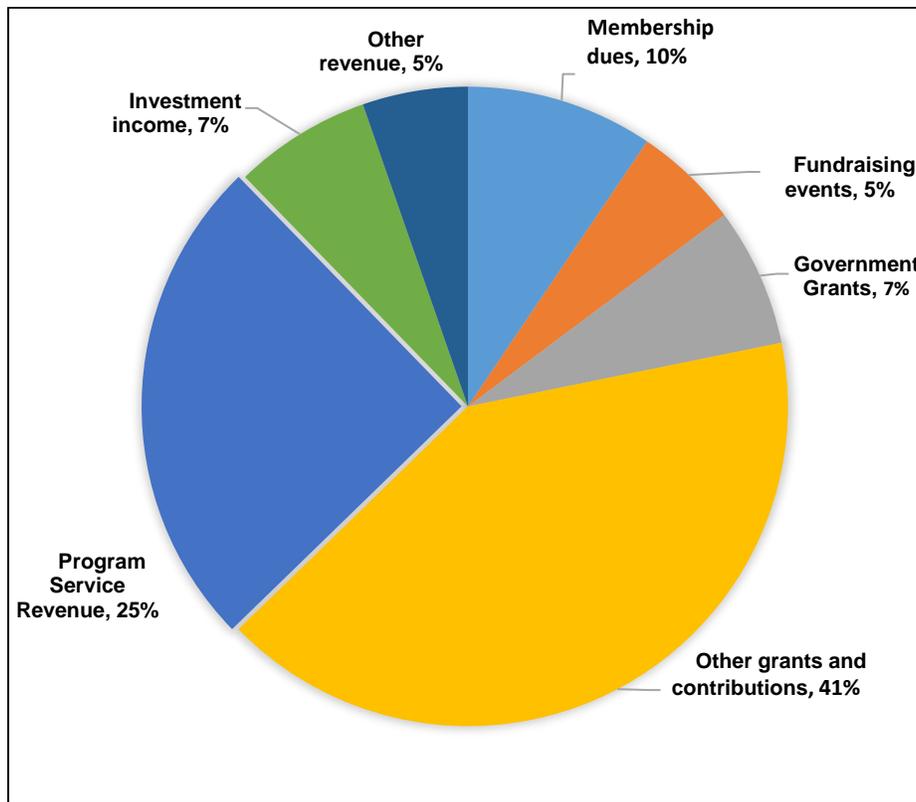
As of 2016, the following financial risks for the DABS were noted:

- The DABS had large, upcoming maturities of notes payables, with increasing amounts due each year that will require liquid assets to fund, specifically:
 - The DABS completed large capital improvement projects, including the construction of a new parking garage and a Children's Garden. The annual maturities of the notes payable associated with these capital improvement projects ranged from approximately \$1.2 million to \$1.4 million over the life of the notes payables, which extend to December 31, 2030.
 - The DABS had substantial assets; however, 93 percent of those assets are either restricted for use or in the form of personal property and buildings
- The DABS was more highly leveraged than its peers, as its total debt to total assets was 28 percent in 2016 and its peer average was eight percent
- The DABS' investments to total assets was four percent versus the peer average of 44 percent. Investments or other revenue generating assets may be needed to provide financial stability and support the future needs of the Dallas Arboretum, including paying down debt that reached \$32 million in 2015.

- The DABS relied more heavily on admissions, contributions, and membership dues than its peers. With less variation in its revenue sources, DABS may not withstand a few years of poor earned revenues or a reduction in contributions generated by donors. In contrast, DABS' peers generally relied on a more varied mix of program service revenue, grants and contributions, government grants, fundraising events, and investment income to fund operations (see Exhibits IV and V on pages 25 and 26, respectively).

Exhibit IV

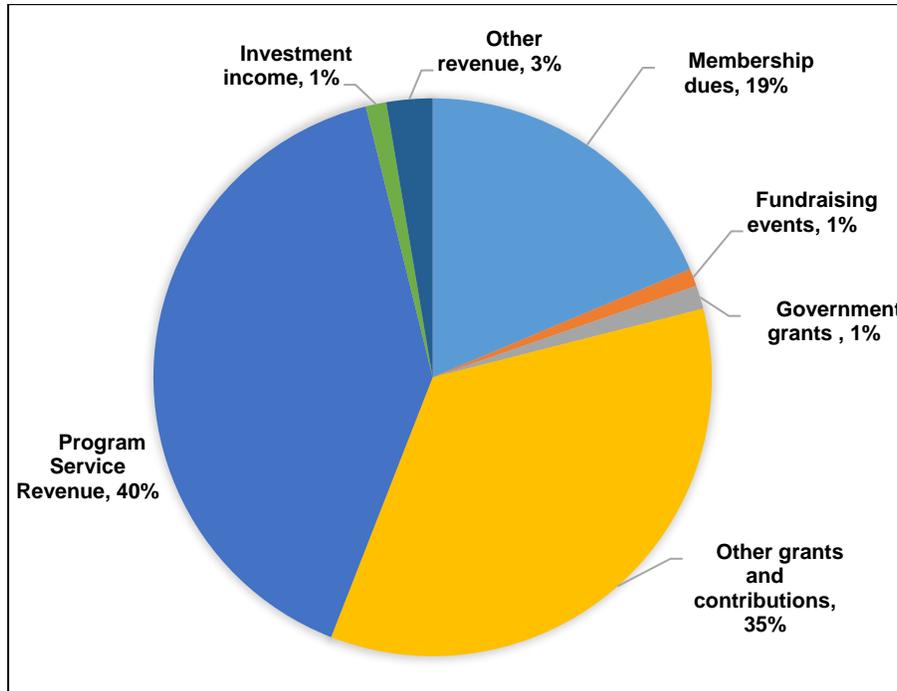
Peer Average Revenue Allocation



Source: Office of City Auditor Peer Analysis for DABS

Exhibit V

DABS Average Revenue Allocation



Source: Office of City Auditor Peer Analysis for DABS

Areas of Contract Non-Compliance Noted During Risk Evaluation

The DABS did not comply with Section 3.2 of the contract as: (1) the DABS used personal property to meet bond matching requirements before the title was transferred to the City; and, (2) Attachment B of the contract was never updated to reflect new personal property. Section 3.2 requires that title of the property must first pass to the City in order for the value to be counted towards the matching requirements and must also be listed on Attachment B of the contract.

Efforts Made by DABS to Address Areas of Financial Risk

The DABS Board of Directors established a separate Foundation to support operational and future needs of the Dallas Arboretum and provide financial stability. This Foundation is soliciting donor funds of at least \$100,000 that can be designated for specific initiatives or accepted as an outright gift to support the Dallas Arboretum's greatest need.

The State of Texas Contract Management Guide, which provides contract managers with recommendations on improving existing contract management processes and practices, identified financial capability as a contract monitoring activity. Organizations the City contracts with to provide services should be financially capable/viable of handling a project of a specific size and scope; and operate in a manner that reduces the risk that the organization will not be able to meet the contract requirements.

Please see Appendix I for the methodology and results of all peer analyses performed.

Recommendation X

We recommend the Director of PKR implements procedures to more closely monitor the financial position of these two business partners, including the financial risks noted.

Recommendation XI

We recommend the Director of PKR works with the DZS/DZM and DABS to seek ways to diversify their revenue sources and obtain sustainable investment options. This may require memorandums of understanding or supplemental agreements to the existing Contracts that include performance expectations that measure fundraising progress or other initiatives that seek to diversify DZS/DZM and DABS' funding sources.

Recommendation XII

We recommend the Director of PKR implements policies and procedures to ensure DABS' fulfillment of matching requirements aligns with Section 3.2 of the contract. If additional or revised language is needed, we recommend the Director of PKR, in consultation with the City Attorney's Office, works with DABS to develop a supplemental contract agreement.

Please see Appendix V for management's response to the recommendations.

Peer Analyses

As part of the Audit, peer analyses were performed to compare the financial position of the business partners, Dallas Zoological Society/Dallas Zoo Management, Inc. (DZS/DZM) and the Dallas Arboretum Botanical Society, Inc. (DABS), to twelve comparable peers – six zoos and six botanical gardens – over a three-year period (Fiscal or Calendar Years 2014 through 2016).

Selection of the peer zoos and botanical gardens was based on the following criteria:

- Zoos and botanical gardens around the United States that rank similarly as the Dallas Zoo and Dallas Arboretum on internet trip guides or located in Texas
- Zoos and botanical gardens that have City-owned facilities operated by a non-profit organization
- Zoos and botanical gardens with similar operations in nature and comparable revenues from operations and program service expenses

Financial data from Internal Revenue Service Form 990 was utilized to compute the peer ratios on pages 29 and 30. All percentages are rounded to the nearest whole value.

**An Audit Report on –
Audit of Business Partners Oversight – Department of Park and Recreation**

Peer Analysis for DZS/DZM

Financial Indicators	Peer Average			DZS/DZM		
	2014	2015	2016	2014	2015	2016
Days of Cash on Hand	234.2	228.0	230.1	102.8	108.9	66.0
Assets divided by Liabilities	10.4	12.9	11.0	5.2	3.4	2.2
	Percent			Percent		
Investments divided by Total Assets	23	22	23	0	0	0
Total Debt divided by Total Assets	5	5	5	4	10	19
Total Debt divided by Net Assets Without Donor Restrictions	8	6	8	9	31	74
Revenue Sources / Total Revenues:						
Federated Campaigns	0	0	0	0	0	0
Membership Dues	10	9	9	8	8	9
Fundraising Events	2	2	2	3	3	2
Related Organizations	0	0	0	0	1	6
Government Grants <i>(includes City Management Fee)</i>	14	20	16	43	45	38
Other Grants and Contributions	21	16	13	18	11	17
Program Service Revenue	44	45	50	25	23	21
Investment Income	2	2	1	0	0	0
Other Revenue	6	7	9	3	8	7
Earned Income divided by Total Expenses	53	48	49	34	32	25
Program Service Expense divided by Total Expenses	84	86	85	79	81	84
Fundraising Expenses divided by Fundraising Revenue	10	11	15	8	11	9
Chief Executive Officer Compensation divided by Total Expenses	1	1	1	1	1	1
Salary and Wage Costs divided by Total Expenses	44	40	41	47	44	36
Benefit Costs divided by Total Expenses	11	11	10	11	10	7
Personnel Costs divided by Total Expenses	55	51	51	58	54	44
Change in Net Assets Without Donor Restrictions divided by Total Expenses	18	15	8	6	-2	-5
Change in Net Assets divided by Total Expenses	42	11	10	19	1	-11

Source: Office of the City Auditor Peer Analysis

**An Audit Report on –
Audit of Business Partners Oversight – Department of Park and Recreation**

Peer Analysis for DABS

Financial Indicators	Peer Average			DABS		
	2014	2015	2016	2014	2015	2016
Days of Cash on Hand	123.8	109.7	86.8	46.6	117.3	187.5
Total Assets divided by Liabilities	13.2	12.8	16.2	3.3	3.3	3.3
	Percent			Percent		
Investments divided by Total Assets	43	44	44	5	6	4
Total Debt divided by Total Assets	8	9	8	28	29	28
Total Debt divided by Net Assets Without Donor Restrictions	19	25	18	44	48	47
Revenue Sources / Total Revenues:						
Federated Campaigns	0	0	0	0	0	0
Membership Dues	8	10	11	19	18	19
Fundraising Events	5	5	6	1	1	1
Related Organizations	0	0	0	0	0	0
Government Grants	9	6	6	1	1	2
Other Grants and Contributions	47	44	32	35	40	30
Program Service Revenue	20	25	30	40	37	44
Investment Income	6	6	9	0	2	1
Other Revenue	5	4	7	3	2	3
Earned Income divided by Total Expenses	22	24	30	45	39	42
Program Service Expense divided by Total Expenses	83	83	80	79	87	78
Fundraising Expenses divided by Fundraising Revenue	10	12	16	15	10	13
Chief Executive Officer Compensation divided by Total Expenses	1	1	2	2	1	2
Salary and Wage Costs divided by Total Expenses	35	35	40	35	30	29
Benefit Costs divided by Total Expenses	8	8	9	6	6	6
Personnel costs divided by Total Expenses	42	43	49	41	36	35
Change in Net Assets Without Donor Restrictions divided by Total Expenses	22	-12	18	8	-16	-5
Change in Total Net Assets divided by Total Expenses	21	4	13	11	3	-3

Source: Office of the City Auditor Peer Analysis

Background, Objective, Scope, and Methodology

Background

The Department of Park and Recreation (PKR) Special Services, specifically the Leisure Venue Destination Management (LVDM) Division, has contract oversight and monitoring responsibilities for the long-term facility contracts (Contracts)¹⁰ with business partners operating and/or using facilities owned by the City of Dallas (City).

The LVDM is a division within Administration and Business Services of PKR. Contracts overseen by LVDM include the following: (1) Dallas Zoological Society and Dallas Zoo Management, Inc. (DZS/DZM); (2) Dallas Arboretum and Botanical Society, Inc. (DABS); (3) Elm Fork Shooting Sports, Inc. (Elm Fork); (4) Texas Discovery Garden; (5) Cedar Ridge Preserve; (6) Trinity River Audubon Center; and, (7) FC Dallas – Money Gram Soccer Park.

The PKR Special Services also oversees management contracts for the golf courses and the tennis centers. In addition, PKR Special Services oversees other short-term (temporary) concession contracts and administers Outdoor Fee-Based Program Permits to contractors who conduct organized programs at City parks.

Contracts to operate City-owned facilities state the City retains title to the property and any improvements to the property made by the business partner. The City is obligated, contingent upon City Council resolutions, to pay certain management fees, utilities, and cost reimbursements. The City also receives a percentage of revenue generated from certain Contracts.

The audit focused on the following two major business partners:

- **Dallas Zoological Society/Dallas Zoo Management, Inc.**

In 2009, DZS/DZM entered into a 25-year contract with the City to operate the Dallas Zoo. The Dallas Zoo, originally established in 1888, is a 106-acre zoo located three miles south of downtown Dallas, Texas. A record breaking 1,074,182 guests visited the Dallas Zoo in 2016.

¹⁰ For this audit, long-term facility contracts included agreements between the City of Dallas and Dallas Zoological Society/Dallas Zoo Management, Inc., Dallas Arboretum and Botanical Society, Inc., Elm Fork Shooting Sports, Inc., and the contractors managing the golf courses and the tennis centers.

- **Dallas Arboretum and Botanical Society**

The DABS and the City entered into a contract in 1984 for the operation, management, and maintenance of the Dallas Arboretum, a 66-acre botanical garden located on the southeastern shore of White Rock Lake. The contract was amended in 1988 to include a term of 25 years with one ten-year extension. More than 1,096,000 visitors from all 50 states and 90 countries visited the Dallas Arboretum in 2016.

The audit also reviewed business partner Contracts in which the City receives a percentage of revenues generated from operations, specifically:

- **Elm Fork** – Payments to the City are based on annual gross sales in accordance with a tiered payment schedule. The percentage of gross sales the City receives increases with the amount of annual gross sales and ranges from 2.5 percent to 8 percent.
- **Golf Courses** – Payments to the City are 100 percent of all green fees, as well as a percentage of all other revenues generated at the golf courses. The percentage of all other revenues varies by golf course and ranges from 1.5 percent to 9 percent.
- **Tennis Centers** – Payments to the City vary by tennis center contract as follows:
 - For two tennis center Contracts, the City receives 50 percent of gross receipts from court fees and a percentage of all other revenues, ranging from 1.5 percent to two percent
 - For two tennis center Contracts, the City receives 60 percent of gross receipts from court fees and a defined minimum guaranteed amount
 - For one tennis center contract, the City receives a defined minimum guaranteed amount

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 skillset, 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 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 the major business partners operating facilities under the oversight of PKR and the City's oversight and monitoring controls. The audit focused on two major business partners and the associated oversight and monitoring responsibilities provided by LVDM.

The scope of this audit included management operations from Fiscal Year (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 the selected business partners
- 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
- Obtained and reviewed:
 - Contracts to identify financial and performance requirements
 - Audited financial statements for the last three fiscal year ends
 - General ledger trial balances for the last three fiscal year ends
 - Federal tax returns (Internal Revenue Service Form 990) for the last three years, when available
- Obtained available financial data (see Appendix III) and performed ratio analyses for the last three fiscal year-ends
- Surveyed the business partners 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 III)
- Obtained financial data from peer organization Federal tax returns and performed appropriate peer ratio analyses (see Appendix I)

Business Partners' Analyses and Survey Request

The two business partners were asked to complete and return Attachments A and B. The responses, along with other audit procedures, were used to evaluate their financial viability.



City of Dallas

Attachment A

**Office of the City Auditor
Audit of Business Partner Oversight
Ratio and Trend Analysis**

Please provide the following financial ratios for the Organization or the last three fiscal or calendar year ends by entering the ratios into the Excel spreadsheet template attached to the e-mail with the audit notification letter:

1. Operating Cash divided by Cash Expenses per Day with Cash Expenses per Day calculated as Operating Expenses less depreciation and amortization, in-kind expenses and unusual one-time expenses. Divide the result by 365.
2. Investments divided by Total Assets
3. Current Assets divided by Current Liabilities
4. Accounts Payable over 90 Days divided by Total Accounts Payable
5. Total Debt divided by Total Assets
6. Total Debt divided by Unrestricted Net Assets
7. Percentage of each income source to Total Income
8. Earned Income divided by Total Expenses
9. Program Service Expenses divided by Total Expenses

10. Change in Unrestricted Net Assets divided by Total Expenses
11. Fundraising Expenses divided by Contributions
12. Grants (government, foundations and other) divided by Total Expenses
13. Analysis of Personnel Costs
 - a. Chief Executive Officer Compensation divided by Total Expenses
 - b. Salary and Wage Costs divided by Total Expenses
 - c. Benefit Costs (payroll taxes, insurance and other benefits) divided by Total Expenses

In addition, please provide the source document(s) used to calculate each ratio. Unless it is self-evident, also provide documentation of the account(s) included in each of the ratios calculated. Reconcile the source document to the audited financial statements. (Note: The purpose of the reconciliation is to ensure that the source document accounts were included in the amounts shown in the audited financial statements. Therefore, the reconciliation can be on a high level, such as total assets, liabilities, revenues and expenses).

Please provide a copy of the trial balance for each of the last three fiscal years and reconcile it to the audited financial statements. Provide any documentation readily available that explains the types of transactions posted to each account.

**Attachment B
(Response Template)**

**City of Dallas Office of the City Auditor
Audit of Business Partner Oversight
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 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 and amounts received from the City by the Organization over the last three City fiscal years (October 1, 2013 through September 30, 2016).**

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 IV

Major Contributors to the Report

Shino Knowles, CPA – Auditor

Holly Hart, CPA – Project Manager

Robert Rubel, CPA, CIA, CISA – Audit Manager

Theresa Hampden, CPA – Interim First Assistant City Auditor

Management's Response

Memorandum

RECEIVED

DEC 5 2018

City Auditor's
Office



CITY OF DALLAS

DATE: December 5, 2018
TO: Carol A. Smith, Interim City Auditor
SUBJECT: Response to Audit Report:
Audit of Business Partners Oversight – Department of Park and Recreation

Our responses to the audit report recommendations are as follows:

Recommendation 1

We recommend the Director of PKR:

- Ensures LVDM performs and fully completes contract oversight and monitoring procedures as specified by LVDM policies and procedures
- Maintains adequate and qualified personnel by working with the City's Department of Human Resources to evaluate and streamline the recruiting and hiring process for LVDM contract administrators

Management Response / Corrective Action Plan

Agree Disagree

We agree with your recommendation. Park and Recreation (PKR) reallocated three (3) positions to Leisure Venue Destination Management (LDVM) to include two Sr. Contract Compliance Administrators (H) and one (1) Contract Compliance Coordinator (J). LVDM staff are also working with HR to fill one existing Sr. Contract Compliance Administrator position. Staff is currently working through a list of applicants for this position. LVDM will work with HR to ensure the job description and hiring actions are descriptive enough to ensure properly skilled applicants are available to hire.

Once these positions are filled then training will begin utilizing LVDMs eight-week training plan for each employee. At that time, contract oversight and monitoring activities will begin to pick-up and meet the schedules identified by LVDM policies and procedures.

Implementation Date
September 30, 2020

Responsible Manager
Special Services Division, Sr. Park Manager

"Our Product is Service"
Empathy | Ethics | Excellence | Equity

Recommendation II

We recommend the Director of PKR ensures all necessary contract monitoring activities are properly executed by:

- Minimizing the fragmentation and increasing coordination among PKR's divisions and other City departments which may include:
 - Defining and agreeing upon roles and responsibilities
 - Establishing compatible policies and procedures across PKR divisions with contract oversight and monitoring responsibilities
 - Reinforcing LVDM's role as the centralized oversight function within PKR to monitor and evaluate the adequacy of contract monitoring activities performed by PKR divisions and other City departments
- Confirming personnel have the specialized skills and experience to oversee specific contract oversight and monitoring activities, such as conveyance of capital assets and analysis of financial data to ensure contract compliance

Management Response / Corrective Action Plan

Agree Disagree

We agree with your recommendation. PKR will centralize oversight and recordkeeping responsibilities to the LVDM division for all assigned contracts. Department management and LVDM staff will meet with department management teams to transition LVDM into the central oversight role for the selected contracts. LVDM is working on revising its policies and procedures while also working with PKR department staff and/or divisions which play a role in monitoring various aspects (e.g., invoicing, fixed asset, etc.). LVDM will maintain and keep a listing of various responsibilities for these staff/PKR divisions as they pertain to individual contracts; specifically, Dallas Zoological Society (DZM), Dallas Arboretum and Botanical Society Inc. (DABS), Fair Park, McneyGram Soccer Park, Elm Fork Gun Range, as well as documenting which other City Departments are required to be notified about PKR contracts (e.g., Risk Management and EBS) and associated requirements.

PKR will reinforce LVDM's role as the centralized oversight function within PKR to monitor and evaluate the adequacy of contract monitoring activities by periodically including LVDM in weekly Executive Team Meetings to update PKR executive management on contract monitoring activities.

Once the City's Enterprise Contract Management System goes live, PKR will evaluate using the system to monitor the contracts and may use additional software to address any areas the City's system does not sufficiently address.

Implementation Date
September 30, 2020

Responsible Manager
Special Services Sr. Park Manager

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Recommendation III

We recommend the Director of PKR in coordination with the City Manager:

- Develops a consistent process for receiving DZS/DZM requests to convey new assets; identifies the City department or division to receive such requests; and communicates the process to DZS/DZM
- Develops and implements policies and procedures to ensure new assets acquired by DZS/DZM are consistently conveyed to the City. This may include:
 - Defining and agreeing upon roles and responsibilities
 - Establishing compatible policies and procedures to operate across departments and PKR divisions
 - Centralizing oversight by LVDM to ensure receipt of information needed to fulfill contract monitoring responsibilities related to conveyance of assets

Management Response / Corrective Action Plan

Agree Disagree

We agree with your recommendation. PKR will develop a consistent process for receiving DZS/Dallas Zoo Management (DZM) requests to convey new assets; identify the City department or division to receive such requests; and communicate the new process to DZS/DZM. PKR will also develop and implement policies and procedures to ensure new assets acquired by DZS/DZM are consistently conveyed to the City

Implementation Date

Although a consistent process has already been drafted, full implementation, including demonstrating risk mitigation and sustainability will not be achieved until June 30, 2021.

Responsible Manager

Deputy Director

Recommendation IV

We recommend the Director of PKR:

- Ensures completion of an energy audit to establish the optimum energy usage
- Coordinates with DABS and appropriate authorities, such as the City Council and the Dallas Park and Recreation Board, to establish more clearly defined caps or limitations on the amounts the City is authorized to disburse for utilities consumed at the Dallas Arboretum
- Ensures LVDM's Senior Contract Compliance Administrator or other designated personnel reviews DABS' utility invoices before payment disbursement to ensure proper payment as authorized by the contract and applicable current or future City Council resolution(s). If a pre-review of utility invoices is not feasible, ensure that a post-payment review of utility invoices is completed.

Management Response / Corrective Action Plan

Agree Disagree

Although we disagree with the specifics of your recommendation, PKR will seek guidance from the Park Board in deciding to either conduct an energy audit to establish the optimum energy usage or negotiate and implement a direct cap on utility costs which may include incentives for energy savings. PKR will implement the solution determined by the Park Board. PKR will also develop and implement procedures to ensure disbursements are in accordance with the solution determined by the Park Board.

Implementation Date

Not applicable

Responsible Manager

Not applicable

**An Audit Report on –
Audit of Business Partners Oversight – Department of Park and Recreation**

Recommendation V

We recommend the Director of PKR:

- Ensures LVDM and PKR Special Services validate the accuracy and completeness of gross sales and revenue reported by the contractors managing Elm Fork, the golf courses, and the tennis centers
- Implements consistent policies and procedures to periodically review additional contractor documentation, such as daily cash drawer counts, close out reports to credit card reports (z-tapes), cash receipts, check deposits, and bank reconciliations
- Requires the golf courses and the tennis centers to obtain and provide externally validated or audited gross sales reports
- Requires contractors to apply appropriate internal controls for the handling and recording of cash receipts by formally notifying contractors either in supplemental contract agreements or when contracts are renewed

Management Response / Corrective Action Plan

Agree Disagree

Although we disagree with your recommendation concerning requirements outside the scope of the current vendor contracts, specifically applying internal controls for a contractor for the handling and recording of cash receipts, we agree that the overall monitoring can be enhanced.

As an example, PKR validated the accuracy and completeness of gross sales and revenue associated with greens fees collected by golf pros and tennis court fees collected by tennis pros through a golf Point of Sale system and tennis attendance information provided by the vendors, respectively.

PKR has hired an individual to fill the position responsible for conducting revenue validation checks and upon completion of training, this individual will be completing revenue validation checks as deemed necessary within the divisions procedures.

PKR recently received Park Board approval for a Supplemental Agreement with golf pro operations to require externally validated or audited gross sales reports. The Supplemental Agreement is effect January 1, 2019 and will be included in all future golf pro contracts.

PKR will consider supplemental agreements for tennis pro contracts according to revenue generating, commissions paid and the business size. PKR will also consider the financial impact of such a request on these small businesses.

Implementation Date

September 30, 2020

Responsible Manager

Special Services Sr. Park Manager

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Recommendation VI

We recommend the Director of PKR:

- Assesses the current policy and procedure for distributing Dallas Arboretum complimentary tickets to identify ways to accomplish the objective to provide all City residents equitable access to the Dallas Arboretum
- Implements a consistent procedure for:
 - Communicating the overall purpose of the Program to recreation center staff responsible for distributing the complimentary Dallas Arboretum tickets
 - Advertising or communicating the availability of the complimentary Dallas Arboretum tickets to the public
 - Managing practical aspects of the Program, such as the number of complimentary Dallas Arboretum tickets allowed annually per resident and how to distribute the tickets equitably across the City by continuing to monitor the Program and make adjustments as necessary

Management Response / Corrective Action Plan

Agree Disagree

PKR agrees with this recommendation.

PKR will improve the current policy and procedure for distributing and monitoring the distribution of Dallas Arboretum complimentary tickets to identify ways to accomplish the objective to provide all City residents equitable access to the Dallas Arboretum.

PKR will also implement a consistent procedure for:

- Communicating the overall purpose of the Program to recreation center staff responsible for distributing the complimentary Dallas Arboretum tickets
- Advertising or communicating the availability of the complimentary Dallas Arboretum tickets to the public

In addition, Recreation Services Division (RSD) will request artwork from the Arboretum to upload to our website, social media, and electronic indoor kiosks to notify the public of the complimentary ticket program.

Implementation Date

September 30, 2020

Responsible Manager

Recreation Services Division

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**An Audit Report on –
Audit of Business Partners Oversight – Department of Park and Recreation**

Recommendation VII

We recommend the Director of PKR, in consultation with the City Attorney's Office, work with DZS/DZM and the Department of Sustainable Development and Construction to:

- Clarify the language in the contract regarding ownership of land purchased by DZS/DZM before the Dallas Zoo privatization
- Convey the land to the City if the clarified contract language results in a determination that the land should have been transferred

Management Response / Corrective Action Plan

Agree Disagree

We agree with your recommendation. Section 2.01 Ownership of Land and Improvements states "City has and will retain ownership of any and all land, real property interests, buildings, and improvements comprising and utilized for the Zoo. Any new, expanded or additional land, real property interests, buildings and improvements acquired for or become a part of the Zoo during the term of this Agreement shall belong to and be owned by City upon City's acceptance of same. The property in question, a parking lot, was acquired by DZS years prior to the October 1, 2009 Management Agreement and Department staff will work with DZM/DZS to determine if the property was, or is, used in a manner that benefits the Zoo. If it is determined the property as owned by DZS/DZM is utilized for the Zoo, the Department will work with DZS/DZM to convey the property to the City if the City accepts the property. Department staff will also work with CAO to clarify Section 2.01

Implementation Date
September 30, 2019

Responsible Manager
Deputy Director

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Recommendation VIII

We recommend the Director of PKR:

- Develops a process to annually define the specific performance indicators or measures and other relevant information agreed upon by DZS/DZM and DABS
- Identifies how PKR personnel will evaluate performance, including the specific performance information required for evaluation and when the information should be received by PKR personnel
- Ensures that PKR personnel are conducting periodic performance analysis as required by LVDM policies and procedures

Management Response / Corrective Action Plan

Agree Disagree

While PKR agrees with the need for performance indicators within its partnership agreements, PKR does not currently have the contractual means to gather the information. We will discuss development of performance indicators or measures beyond those already provided for in the contract with DZM and DABS.

If performance indicators or measures, beyond those included in the current contracts, are developed with DZM and DABS, we will develop a process for PKR to evaluate and conduct performance analysis, including the specific performance information required for evaluation and when the information should be received from DZM and DABS.

Implementation Date

September 30, 2020

Responsible Manager

Special Services Sr. Park Manager

Recommendation IX

We recommend the Director of PKR, in consultation with the City Attorney's Office, work with DZS/DZM and DABS to include in a supplemental contract agreement a process to annually define the specific performance indicators or measures and other relevant information as described in Recommendation VIII.

Management Response / Corrective Action Plan

Agree Disagree

PKR agrees to this recommendation and once the process of developing performance indicators or measures is developed and agreed to with DZM and DABS, PKR will work with the City Attorney's Office and the Park Board to obtain approvals for possible Supplemental Agreements to be executed by City Council and implemented by PKR, DABS and DZM once the performance measures, plans and benchmarks are completed and agreed to by DZM and DABS.

Implementation Date
September 30, 2020

Responsible Manager
Deputy Director

Recommendation X

We recommend the Director of PKR implements procedures to more closely monitor the financial position of these two business partners, including the financial risks noted

Management Response / Corrective Action Plan

Agree Disagree

PKR will implement new procedures to monitor the financial positions of DZM and DABS, including the financial risks noted by performing analysis of key non-profit financial ratios. This financial analysis will annually evaluate these two business partners liquidity, revenues, assets, debts, restricted and unrestricted operating income and losses.

DZM Response - It is inaccurate to include any of the Hippo line of credit (The entire amount of debt on DZS's general ledger) in the financial analysis, since it is completely funded through payments of pledges receivable, which flow through restricted funds. That debt has no impact on liquidity since the Dallas Zoo only acts as a pass-through agent (Payments were remitted to the bank to pay down the loan balance when pledge is paid).

With regard to recent operating losses in FY16 and FY17, they are due to large dollar amounts paid in "Zoo Support" toward the Hippo Outpost Funded through release of restricted funds collected during the capital campaign). The "Unrestricted" income from operations is \$1,069,803 positive in FY16 and \$334,681 positive in FY17 without including the high expenditures from building the new exhibit.

DABS Response (Debt Ratio) - The Arboretum understands the amount of long-term debt; due to financing the construction of the organization's parking garage in 2015 generates a higher ratio when compared to other organizations. The Arboretum has never defaulted on any long-term debt payment. On July 22, 2015, the Arboretum entered into a loan agreement totaling \$34,000,000. As of December 31, 2017, the balance of the organization's loan is \$29,586,237; a reduction of \$4,413,763 in less than three years that includes extra principle payments of \$1,500,000. The Arboretum is working closely with its Finance and Administration committee to develop a policy and/or process that addresses the amount of Notes Payable debt. The committee is looking at a policy and/or process that could address multiple long-term priorities that includes extra payments on loan's principle balance. One example of such an approach could be a policy where any surplus cash over and above a benchmarked ratio of days operating cash on hand would be divided and a proportion paid against the principle loan balance after the annual audit. Other methods are under review and the organization is working to ensure any risks to the daily operating needs of the organization are thoughtfully addressed. The Arboretum expects to have a policy and/or process in place when the 2018 audited financial statements are issued; usually at the end of June each year.

Implementation Date
September 30, 2021

Responsible Manager
Deputy Director

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Recommendation XI

We recommend the Director of PKR works with the DZS/DZM and DABS to seek ways to diversify their revenue sources and obtain sustainable investment options. This may require memorandums of understanding or supplemental agreements to the existing Contracts that include performance expectations that measure fundraising progress or other initiatives that seek to diversify DZS/DZM and DABS' funding sources.

Management Response / Corrective Action Plan

Agree Disagree

Although PKR will discuss with DZS/DZM ways to diversify their revenue sources and obtain sustainable investment options, two provisions in the contract with DZS/DZM may interfere with PKR's ability to implement this recommendation.

In the DZS/DZM contract, Section 7.01 Zoo Revenues states "If revenues derived from or by reason of the Zoo are insufficient to maintain and operate the Zoo pursuant to this Agreement, DZM and DZS shall supplement those funds from other sources in order to provide proper maintenance and operation of the Zoo as provided in this Agreement." Section 4.15c Fund Raising states "DZM and DZS will have the exclusive right to plan, design, implement and manage all fundraising efforts for the Zoo, including the right to negotiate all marketing sponsorships for the Zoo, and to solicit funds from individuals, foundations, corporations, governmental agencies or entities and all other types or forms of donors.

DABS Response (Revenue Diversification and Investments) - The Arboretum believes it has diversified revenue streams over time and continues to explore and expand its offerings to the public in those key areas that make the organization unique. The organization intentionally explores areas of earned revenue strategies to 1) mitigate economic downturns or changes in tax laws that would negatively impact donor / member giving behaviors and 2) offset the fact that the Arboretum has a very young endowment that cannot provide as much operational support as other gardens that have legacy or founding endowments. In terms of investment revenue, the organization's investment portfolio, and its own endowment, in 2015, the Arboretum held an investment portfolio of \$4,493,848 of which a majority was permanently restricted to endowed areas within the garden. As noted in the audit report, in 2016/2017 the organization began the formation of the Dallas Arboretum Foundation, which was recognized as a 501c(3) in 2018. At the end of 2017, and as a result of the creation of the foundation, the investment portfolio balance was \$5,985,554; an increase \$1,491,706 or 33%. As of September 2018, the balance has increased to \$6,574,397 and in August 2018 the Arboretum took its first distribution from the endowment portfolio in almost 20 years.

Implementation Date

Not applicable

Responsible Manager

Not applicable

Recommendation XII

We recommend the Director of PKR implements policies and procedures to ensure DABS' fulfillment of matching requirements aligns with Section 3.2 of the contract. If additional or revised language is needed, we recommend the Director of PKR, in consultation with the City Attorney's Office, works with DABS to develop a supplemental contract agreement.

Management Response / Corrective Action Plan

Agree Disagree

PKR agrees with your recommendation and will implement a new procedure to comply with Section 3.2 of the DABS contract to ensure the fulfillment of the matching requirements.

Implementation Date

September 30, 2020

Responsible Manager

Deputy Director



Willis Winters, Director of Park and Recreation

C: T.C. Broadnax, City Manager

Christopher J. Caso, Interim City Attorney

Kimberly Bizer Tolbert, Chief of Staff

Elizabeth Reich, Chief Financial Officer

Joey Zapata, Assistant City Manager

John Jenkins, Deputy Director – Department of Park and Recreation

Robert Abtahi, President – Park and Recreation Board