

**REVIEW OF YOUTH SPORTS LEAGUE
CONCESSION OPERATIONS**

JUNE 2007



**CITY AUDITOR'S OFFICE
CITY OF GAINESVILLE, FLORIDA**

City of
Gainesville

Inter-Office Communication

June 4, 2007

TO: Audit, Finance and Legislative Committee
Mayor Pegeen Hanrahan, Chair
Mayor-Commissioner Pro Tem Rick Bryant, Member

FROM: 
Brent Godshalk, City Auditor

SUBJECT: Review of Youth Sports League Concession Operations

Recommendation

The Audit, Finance and Legislative Committee recommend that the City Commission:

- 1) Accept the City Auditor's report and the response from the City Manager, and
- 2) Instruct the City Auditor to conduct a follow-up review on recommendations made and report the results to the Audit, Finance and Legislative Committee.

Explanation

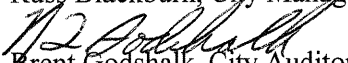
In accordance with our Annual Audit Plan, we have completed a Review of Youth Sports League Concession Operations in the Recreation Division. Our report, which includes a response from the City Manager, is attached for your review.

We request that the Committee recommend the City Commission accept our report and the City Manager's response. Also, in accordance with City Commission Resolution 970187, Section 10, Responsibilities for Follow-up on Audits, we request that the Committee recommend the City Commission instruct the City Auditor to conduct a follow-up review on recommendations made and report the results to the Audit, Finance and Legislative Committee.

City of
Gainesville

Inter-Office Communication

February 20, 2007

TO: Russ Blackburn, City Manager
FROM:  Brent Godshalk, City Auditor
SUBJECT: Review of Youth Sports League Concession Operations

In accordance with our Annual Audit Plan, we have completed a Review of Youth Sports League Concession Operations in the Recreation Division. This project was requested by you and your staff to assess controls over youth league concessions. Our review included conducting interviews with key personnel, reviewing financial information and testing management controls. We have completed our review and the attached draft report indicates areas where further efforts are needed to strengthen management controls.

In accordance with Commission Resolution 970187, Section 9, please submit your written response to the recommendations presented in the attached report within 30 days and indicate an actual or expected date of implementation. Our final report, which will include your written responses, will then be submitted to the City Commission's Audit, Finance and Legislative Committee for review and approval.

Our recommendations for improving procedures and controls have been reviewed with David Flaherty, Parks, Recreation and Cultural Affairs Director, Steve Phillips, Assistant Recreation and Parks Director and Shannon Keleher, Recreation Manager. We thank them for their courteous and cooperative treatment.

Please let me know if you would like to meet to discuss further the details of this report or if you have any comments or questions that will facilitate your response.

cc: David Flaherty, Parks, Recreation and Cultural Affairs Director
Steve Phillips, Assistant Recreation and Parks Director
Shannon Keleher, Recreation Manager

OBJECTIVES, SCOPE AND METHODOLOGY

In accordance with our Annual Audit Plan, the City Auditor's Office has completed a Review of Youth Sports League Concession Operations. The primary focus of this review was to provide the City Commission with reasonable assurance on the adequacy of the system of management control in effect over youth league concession operations. Management controls include the processes for planning, organizing, directing and controlling program operations, including systems for measuring, reporting and monitoring program performance. Management is responsible for establishing and maintaining effective controls that, in general, include the plan of organization, methods and procedures to ensure that goals are met. Specific audit objectives included evaluating the policies, procedures and internal control, determining compliance with applicable policies, procedures and laws and reviewing alternative methods for concession operations.

Our review was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and accordingly included such tests of records and other auditing procedures as we considered necessary under the circumstances. Our procedures included interviewing staff and parent organizers, reviewing records and other information and testing internal controls as needed. The scope of our review was generally for fiscal years 2005 and 2006.

Based on the results of our review, we prepared specific issues and recommendations for improvement that were discussed with management. These recommendations, as well as management's written response, can be found in the following sections of this report.

BACKGROUND INFORMATION

The Parks, Recreation and Cultural Affairs Department (the Department) recognizes the importance of youth sports participation and its positive effect on families and the community, and staff are committed to a well developed youth sports program. During fiscal year 2005, the Department served approximately 1,400 children in youth sport leagues of baseball, football/cheerleading and fast pitch softball. Baseball serves children from ages 7 – 15, football/cheerleading includes children from ages 7 – 14 and fast pitch softball includes children ages 6 – 14. Concession stands for the three sports leagues are operated by parent groups during seasonal games. Management of the Department, through the City Manager, requested City Auditor assistance to assess the adequacy of oversight controls in this area and determine if improvements could be made.

The following highlights several positive efforts conducted by the Department in monitoring league activities:

1. Policies and Procedures

The Department developed a comprehensive set of policies and procedures. The procedures, which are categorized by sport, establish league set-up guidelines, general policies, rules, forms, reports and a code of ethics. These procedures are a good reference guide for staff, coaches and parents.

2. Child Safety

To help ensure the safety of the children participating in youth sports and select the best volunteers to coach and serve, the Department has adopted the Florida Recreation and Park Association Youth Sport Standards, which includes mandatory criminal background checks on all volunteers participating in youth sports programs. Background checks are conducted by the Gainesville Police Department to prevent individuals from volunteering who have a history of inappropriate behavior or who are unfit to work with children.

3. Volunteer Conduct and Training

Coaches, parents and others serving in a volunteer capacity are required to model good behavior and sign a Code of Ethics and Conduct form. Coaches and volunteers are required to receive coaching certification and volunteer training classes. The Department follows the National Alliance for Youth Sports "PAYS" Program, a program that endorses parents promoting positive sports.

**Internal Controls over Concession Operations, Compliance with State and Federal Laws,
and Alternative League Structure for Youth Sports Programs**

Discussion

Currently, the Parks, Recreation and Cultural Affairs Department provides youth leagues for football/cheerleading, baseball and fast pitch softball. The Department generally administers all aspects of the youth sport programs, from receiving program fees to maintaining and scheduling necessary facilities. Participant fees generally cover team uniforms, fields, umpires and a team trophy.

Concessions for these leagues are handled by parent groups with general support from Department staff. Profits generated are to be used to directly support the respective youth sport programs. Improvements to the City's facilities have been funded over the past few years through profits generated by these organizations.

Internal Controls over Concession Operations

As part of our review, we sorted through various financial documents and records provided by parent volunteers for the youth baseball, softball and football/cheerleading leagues related to concession operations. We reviewed transactions, to the extent possible, in order to assess internal controls over concession operations and noted weaknesses in the following areas:

- General Procedural Controls

There are no policies or procedural controls over league concession finances. The three leagues operate concessions and sometimes conduct fundraising activities without any formal written guidance. Although each league designates a parent to oversee finances, efforts are needed to ensure proper segregation of duties over custody of assets, recordkeeping and verification.

- Supporting Documentation and Safeguarding of Assets

Concession operations are generally conducted on a cash basis. During fundraising activities, checks are also collected. We found that documents and records of operations are not adequately maintained or available for examination and adequate physical controls over cash handling are not in place. We also noted that parent organizations incur sales tax on purchases.

Although the baseball league maintains a bank account, check registers were not available for review. Ledgers, schedules and other supporting documentation provided were generally for years prior to 2005 and could not be reconciled to check registers or tax returns. Only a few receipts for expenditures during 2005 and 2006 were retained and available for review. The softball and football/cheerleading leagues do not have bank accounts and do not maintain any set of books and records.

Controls and procedures are needed to better safeguard cash and limit access to bank accounts. Ledgers, schedules and other supporting documentation should be available, current and well maintained.

- Reconciliation and Summaries of Financial Information

The leagues do not have controls in place to ensure adequate reconciliations and summaries of financial transactions are prepared. Since no formal sets of books and records are maintained, we were unable to determine total revenues generated, expenses incurred or specific profit/loss patterns by league. For the baseball league, we could not always agree bank activity to schedules, check registers, tax returns or other documentation.

Transactions and events should be promptly recorded and summarized accurately and in a timely manner. Revenue and expense schedules should easily be reconciled to check registers and tax returns.

- Independent Reviews and Monitoring

No independent or supervisory review of finances is conducted by the leagues. There is no oversight board to approve financial reports or tax returns. In addition, the City does not receive financial reports to sufficiently monitor league activities.

Leagues should prepare annual financial reports, have them approved by their board of directors and submit them to the City in a timely manner.

Compliance with State and Federal Laws

We reviewed the financial activities of league parent associations in order to assess compliance with various state and federal income and sales tax laws. We noted the following issues of non-compliance:

- Articles of Incorporation and Annual Corporate Reports

All corporations are required to file articles of incorporation specifying the corporate name, address, purpose for which the corporation is organized, list of directors and by-laws. The football/cheerleading and softball parent associations have not incorporated.

The Gainesville Babe Ruth Baseball Boosters, Inc (GBRBB) filed articles of incorporation with the State of Florida in August 2002 as a not for profit organization under F.S. §617 to “promote and support the Gainesville Recreation and Parks Department’s Babe Ruth chartered baseball leagues and related baseball programs...”. However, a final determination of non-profit status was not obtained from the Internal Revenue Service (IRS). All corporations are required to file annual reports with the Secretary of State. Although the GBRBB properly filed and remitted fees for 2003, 2004 and 2005, the annual report for 2006 was not filed. Upon failure to file, the State administratively dissolved the corporation.

- Corporate Structure

All corporations are required to have a Federal Employer Identification Number. In addition, all charitable organizations seeking a federal income tax exemption must apply to the IRS. The GBRBB properly applied for a Federal Employer Identification and considered applying for non-profit status, but did not want to incur the \$300 filing fee. Not obtaining §501(C)(3) status jeopardizes the GBRBB’s corporate standing and has tax implications, including the ability to save on sales tax. The football/cheerleading and softball organizations have not taken steps to incorporate, obtain a Federal Employer Identification Number or apply to the IRS for non-profit status.

- Income Tax Return Requirements

If properly recognized as a non-profit organization, the youth leagues would be required to annually file Form 990, Return of Organization Exempt from Income Tax, to account for their revenues and expenses. The football/cheerleading and softball groups have not filed annual tax returns with the IRS. Since the GBRBB did not obtain federal non-profit status, they have filed Federal Form 1120-A, US Corporate Short-Form Income Tax Return for fiscal years 2003, 2004 and 2005, returns filed by taxable entities. The tax return for FY 2006 is past due.

The State of Florida does not tax its non-profit corporations. However, the IRS must first approve a corporation's application for recognition as a non-taxable corporate entity under §501(C)(3) before the State recognizes the exemption.

- Collection of Sales Taxes

Florida Department of Revenue guidelines require all concession stand operators to collect sales taxes on sales of food, drinks and other items of tangible property with a sales price of 10 cents or more. Civic organizations and booster clubs are not exempt. None of the youth sport leagues charge sales taxes on concession sales. If they continue to operate concession stands, youth league organizations must register with the Department of Revenue and begin to collect and remit the 6 percent Florida sales tax and the .25 percent Alachua County local discretionary tax.

- State Division of Consumer Services

The State of Florida regulates the solicitation of contributions to protect the public from unlawful or misleading solicitations of contributions and requires charitable organizations to register with the Division of Consumer Services and file applicable financial reports. Although some fundraising activities have taken place in past years, none of the youth sport leagues are registered with the Division of Consumer Services. If fundraising and collection of donations are expected to occur, the youth leagues must register as charitable organizations with the Division of Consumer Services and file the applicable financial reports related to program and fundraising activities.

Alternative League Structure for Youth Sports Programs

We conducted a survey of other local government jurisdictions around the nation, receiving 26 responses. We found that more than 70% of the jurisdictions do not actively manage their youth sport programs, choosing instead to delegate program activities and concession operations to youth sports organizations. These local governments typically require youth leagues to be incorporated, established as non-profit organizations and actively manage program activities, revenues and expenses. The local governments operating in this structure generally provide field and facility maintenance and take an active role in monitoring programs by requiring youth leagues to operate under formal contracts and submit periodic financial and operating reports.

We also noted that the Florida Recreation and Park Association, in its Suggested Minimum Standards for Youth Sports in Florida, suggests that league organizations be governed by a written set of by-laws executed by an elected Board of Directors. The Association recommends that all organizations operate under a facility use agreement and supply the overseeing Recreation Department with annual financial statements.

The Department may be able to work towards establishing an environment where the youth sport leagues assume greater responsibility in running the programs. However, moving toward such an environment would necessitate that all youth sport leagues take steps to incorporate, obtain non-profit status and hold formal contracts with the City delineating responsibilities.

Conclusion

The baseball, softball and football/cheerleading youth leagues have generated financial benefits for the City and league teams through operating concessions at youth sports. However, they have not adequately followed federal and state requirements and guidelines related to corporate organization, annual reports, income tax, sales tax and solicitation of contributions and fundraising activities. As a result, actions are necessary to improve internal controls over concession operations to safeguard cash, reduce the potential for errors or misuse, ensure accuracy and reliability of transactions, promote efficiency, encourage adherence to sound accounting practices and ensure compliance with tax laws.

The Department should consider a formalized league structure as an option for service delivery and determine if cost savings and other efficiencies in program delivery can be gained. Earlier service cost evaluation studies conducted by the City indicate the three youth sport leagues are significantly subsidized. Therefore, delegating any amount of program responsibility may result in savings. Department staff would delegate program administration, while enhancing their monitoring of programs, facilities and events and ensuring the league organizations fulfill their responsibilities to operate programs effectively.

Recommendation

We recommend management take actions necessary to ensure that internal controls over concession operations are improved in order to provide reasonable assurance that assets are adequately safeguarded; operations comply with relevant laws, policies and procedures; and financial reporting is accurate and reliable.

We also recommend management consider the alternative league structure for youth sports programs practiced by many peer organizations, as discussed above, to determine if the City can leverage limited financial and operating resources to more efficiently and effectively provide program services to the public, while maintaining adequate control over program finances.

Management's Response

The Parks, Recreation and Cultural Affairs Department agrees with the Auditor's recommendation that action is needed to improve internal controls over the youth league concession operations. The Department had requested this audit be conducted on the Recreational Division in order to assess controls over youth league concessions. During the audit, the Department worked closely with the auditor's office to determine how a designated parent group operated the current football season concession. In doing so, the Department initiated the correct collection procedures which resulted in the subsequent remittance of sales tax to the state.

In the future, the Department will pursue a number of options to address the auditor's concerns. The Department will work with parent groups to determine the feasibility of forming a non-profit group to run the concession, contracting out services to a vendor, or utilizing existing staff to operate the concessions. In regard to the feasibility of staff operating the concessions, the additional administrative time and staff needed for city operated concessions, including ordering food, keeping inventory, etc. would likely result in no monies being contributed to the youth leagues. It may also require additional staff or overtime which would significantly impact the budget that is currently facing reductions. Any decision made by the Department to provide program services to the public while maintaining control over the program finances must take into account its limited financial and operating resources. The Department's goal is to address each sports concession area prior to the beginning of the season.

Concession Expansion Alternatives

Discussion

Currently, limited concession operations function as a complementary service during youth league activities. Profits are dependent upon the number of participants and spectators in attendance but have been successfully used to directly supplement the respective programs. Our survey of local government recreation programs indicated that in many local governments, youth concessions are run by formalized league organizations. Alternatively, some organizations provide concessions at both youth and adult league activities through contractual arrangements with private vendors, with the City receiving a percentage of sales or profits. A third alternative noted in our survey is for limited City staff to run concession operations.

Non-League Activities

City parks are constantly used for a variety of activities including the traditional park-like activities of swings and slides for smaller children. However, concession services are not generally available in parks or close by on a regular and consistent basis. For example, Westside Park is a heavily used facility serving citizens with tennis courts, skateboard ramps, basketball courts, a swimming pool and baseball fields. Although concessions are available at Westside Pool during summer season, no concession services are otherwise available to park patrons. A permanent type of concession stand at the baseball field could be utilized during the day, weekends and holidays.

Conclusion

Opportunities may exist to expand concession operations from youth sports leagues to adult sports and other non-league activities. Expanded operations could better serve the public using park facilities and possibly increase revenues. Management should consider conducting customer service surveys to determine concession preferences, locations, hours of service and products offered.

Recommendation

We recommend management explore concession revenue alternatives to determine a more effective method of providing an appropriate level of concession services to the public. Consideration should be given to expanding concessions operations to adult sports and non-league activities at City parks. Consideration should also be given to hiring limited staff to run concession operations or contracting out concession operations to private vendors.

The primary goals of any concession program selected should be to provide the public with highly satisfactory service with adequate fiscal accountability and a reasonable return on investment. Any contractual arrangements with private vendors should ensure that the City receives adequate and appropriate compensation for allowing the business to operate on park property.

Management's Response

The Parks, Recreation and Cultural Affairs Department agrees with the Auditor's conclusion that there are opportunities to provide concession services to the public, including adult sports and non-league activities. The Departmental will pursue options on the feasibility of providing service while ensuring fiscal accountability and reasonable return on the investment. In addition, the Parks, Recreation and Cultural Affairs Department will consider including questions on concession preferences, locations, hours of service and products offered as part of our annual departmental survey and customer service surveys.