



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

For the 7 Months Ended July 31, 2019

Submitted by:  
Office of Performance and Accountability  
Internal Audit Division  
November 2019

## **Overview of Management Agreement**

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

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

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

## **Concessions Operations Process**

Each event normally has at least one of the following Thunderbirds employees: an on-site manager and a supervisor (per each concession stand). Thunderbirds uses concession inventory sheets that are tailored for each location associated with the City—as the pricing varies by location. The inventory is counted immediately prior to an event beginning and then again immediately after the event. As an added control, if extra inventory is required during an event, a Thunderbirds supervisor must officially count out and record the product for the concession stand.

During larger concession events, nonprofit organizations and third parties may perform the concession stand duties in conjunction with Thunderbirds staff. Immediately prior to an event, the beginning bank amount is independently counted out by both the on-site manager as well as the supervisor/concession cash handler. Thunderbirds' tellers/supervisors occasionally perform scheduled money 'pickups' during an event depending on sales collected to avoid money handlers having too much money during an event. The inventory and sales are confirmed by both the concession cash handler and the on-site manager who document their count on a piece of paper and then discard it after the numbers are in agreement.

## **Scope of Audit Procedures Performed**

The audit concentrated on operations and transactions related to events occurring January 1, 2019 through July 31, 2019. Revenue testing focused on verifying the accuracy of Thunderbirds disbursements to the City for concession services and the adherence to agreement terms. The overall internal control structure was considered in designing the audit procedures performed; however, the effectiveness of individual internal control procedures was not tested.

Audit procedures focused on the following attributes:

- Was Thunderbirds in compliance with the operating processes and contract provisions relating to the concessions agreement?
- Was operating income reported for the concessions services and compensation to the City accurate under the concessions agreement?

- Were Thunderbirds' calculations used for compensation to the City reasonable and justified by the facts and circumstances?
- Was the overall internal control environment for concession sales reporting found to be effective?

### **Definition of Contract Provisions**

Concession Agreement provisions for maintenance, insurance, and business records/accounting systems follow:

- Thunderbirds shall retain 70% of the net profits, with the remaining 30% of net profits payable to the City at the end of every month.
- Thunderbirds shall retain 80% of Catering Events' net profits, with the remaining 20% of net profits payable to the City at the end of every month.
- Thunderbirds shall provide daily janitorial service and monthly pest control services to all food and beverage locations.
- Thunderbirds shall maintain records of all employees attending and completing the Responsible Alcohol Seller Program and provide to the City every six (6) months an up-to-date list of all employees who have completed the program.
- Thunderbirds shall obtain the insurance and bonds as stipulated in the concessions agreement.
- Thunderbirds shall provide a profit and loss statement at the end of each fiscal year. These statements shall be in a format approved by the City.
- Each point of sale shall have equipment to record each sale.
- Thunderbirds shall provide the City with a daily report of sales within 48 hours of each event detailing inventory sales, case sales by item, sales by location, and staffing payroll by location. Any cash shortages of inventory or register sales shall be paid by Thunderbirds.
- Thunderbirds shall establish a separate commercial account with a local bank approved by the City which shall be used exclusively for all receipts involved with the operation.

### **Findings and Recommendations**

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

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

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

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

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

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

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

Sales tax should be calculated as follows:

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

Based on this analysis, net profits payable to the City were underreported by approximately \$24,575 and the City is potentially entitled to approximately \$24,701 in unpaid revenue. It is recommended that the City reviews the contract to examine the intention of the agreement and whether an amendment may be needed.

**Thunderbirds Management Response:** As of 12-9-19 meeting with Fairgrounds Robert and Cary we have come to the agreement until the contract is updated that the following will take place. We will collect a % from a 3rd party vendor and in turn give the city 30% of what we receive from the vendor.

**City Management Response:** Fairgrounds (City) and Thunderbirds Management have agreed for the remainder of the contract that the Thunderbirds will pay 30% of net profits received from third party entities. Any new contract or addendum will be corrected so that the definition of payment is clearly defined.

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

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

**Thunderbirds Management Response:** Jimmy Milliken our GM is in the process of making this happen with our current system we have.

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

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

**Thunderbirds Management Response:** All stands are fully equipped with systems that are being used for all events in all locations needed to properly record all sales for all events.

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

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

**Thunderbirds Management Response:** We the Thunderbird's will write on the inventory sheet how many people and the number of hours per stand per event. We the Thunderbird's and the City are on the same page that Inventory sales, case by sales and sales by location are all on the inventory sheet that is created for each stand/each event. We also agree that we will turn in our reports on Mondays for the following week from Sunday thru Saturday. Example: 11-24-19 thru 11-30-19 will be turned in on 12-2-19.

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

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

**Thunderbirds Management Response:** We do have Workers Comp Coverage it is just not listed out on our policy. We have requested that it be listed going forward.

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

Per the contract, Thunderbirds shall retain 80% of Catering Events' net profits, with the remaining 20% of net profits payable to the City at the end of every month. The City was invoiced \$2,190 reflecting the total net profits for the Blyth Safety Catering event; however, the City only received \$162 (20% of \$812). Net profits payable to the City should have been \$438 (20% of \$2,190). There is no documentation supporting the net profits payable to the City as being based on the amount of \$812. It is recommended for the difference of \$276 to be made payable to the City.

**Thunderbirds Management Response:** This was a miscommunication. Going forward things will be done through email and not verbally.

### **Observations and Recommendations**

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

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

**Thunderbirds Management Response:** We have a sheet that is filled out by supervisor in stand before and at the end of each event. We also have our systems in each stand.

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

Per the contract, Thunderbirds shall maintain records of all employees attending and completing the Responsible Alcohol Seller Program and provide to the City every six months an up-to-date list of all employees that have completed the program. Certificates of completion by employees were discarded and not maintained for the current audit period. Internal Audit reviewed recent certificates of completion outside of the audit period and recommends going forward that Thunderbirds maintains the certificates and submit an updated list of employees to the City as required.

**Thunderbirds Management Response:** Was not aware needed to keep on file for 3/5 years. But will start that going forward.

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

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

**Thunderbirds Management Response:** Going forward there will be two sets of initials on all deposit slips.

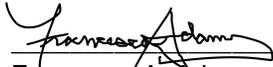
4. The City should not accept funds until proper supporting documentation has been provided and reviewed by City staff.

Per the contract, the City is to receive supporting documentation such as inventory sales, case sales by item, sales by location, and staffing payroll by location from Thunderbirds with the daily report of sales. The City should review supporting documentation for accuracy to reduce the potential of receiving improper funds. It is recommended that the City does not accept the funds until proper supporting documentation has been provided by Thunderbirds.

**City Management Response:** Fairgrounds Staff (City) will receive and review supporting documentation before accepting payment from Carolina Thunderbirds, LLC.

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Respectfully submitted,



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Francesca A. Adams  
Internal Auditor



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Heather D. Smith  
Internal Audit Administrator

Distribution

Robert Mulhearn  
Christy Tate  
Ben Rowe  
Scott Tesh