



**City of**  
**Norfolk**

TO: Honorable Council Members ..... FROM: John H. Sanderlin, Jr., City Auditor ) *AS*

DATE: May 8, 2015 ..... SUBJECT: National Maritime Center (Nauticus) .....

Please find attached our final audit report on the National Maritime Center (Nauticus). Should you have any questions please feel free to contact me at 664-4045.

cc: Marcus Jones, City Manager  
Wynter Benda, Deputy City Manager  
Stephen Kirkland, Director of the Maritime Center  
Alice Kelly, Director of Finance  
Bradford Smith, Deputy City Auditor

# Audit of the National Maritime Center (Nauticus)

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**Office of the City Auditor**  
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Audit Report No. 15-2R

May 8, 2015



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## Executive Summary

The City of Norfolk is committed to providing opportunities for public enjoyment. Nauticus, a popular City of Norfolk attraction, appeals not only to the citizens of Norfolk but tourist, volunteers, and various educational groups such as childcare centers and schools. As a revenue generating department of the city with revenues averaging over \$4.7 million<sup>1</sup>, strong financial controls are essential. Accordingly, at the request of city management and as part of the FY 15 Annual Audit Plan, we conducted an audit of controls over revenues. Our primary objective was to determine the effectiveness and adequacy of controls over general fund revenues and to ensure revenues are appropriately recorded and reported.

We acknowledge the oversight efforts and dedication of the management of Nauticus to disclose accurate financial information regarding revenues. We observed adequate controls over General Fund revenues and our review did not disclose any material deviations from City established processes and procedures in respect to revenue recognition and reporting. We found adequate monitoring, proper approvals, authorization, and supporting documentation for routine revenue related

transactions. Also, over the last few years Nauticus implemented new procedures to ensure the timely collection of facility rental fees and catering commissions, reducing outstanding balances (receivables).

We did find a few areas of opportunities for improvements that will enhance the existing management control system. The overall management control system would be enhanced by the following:

- Obtaining and reviewing documentation from third parties to support remitted revenue.
- Performing reconciliations of revenue from all third parties to verify the accuracy of funds received.
- Making deposits in accordance with City Code.
- Establishing the necessary contracts with third party vendors.
- Maintaining documentation in administrative files to support the approver and reason for rental discounts.

We discussed our results, conclusions, and recommendations with Nauticus management on March 9, 2015 and have included management’s responses in this report. In addition, management’s actions regarding our recommendations will be subjected to a follow-up review.

Deputy City Auditor Bradford Smith conducted the audit under the direction of City Auditor John Sanderlin. We appreciate the cooperation of the department and the

<sup>1</sup> This amount includes an average of \$1.8 million from the City’s General Fund to cover any deficits through Nauticus Annual Operations Budget.



courtesies and assistance extended to us during this audit. We look forward to the continued success of Nauticus in its highly visible and active role in the City and the Hampton Roads community.

## Background

Nauticus is home to the Battleship Wisconsin, the Nauticus Museum, the Hampton Roads Naval Museum, the Half Moone Cruise and Celebration Center, and the Nauticus Marina. The Half Moone Cruise and Celebration Center has welcomed more than 400,000 passengers and 50,000 crew members since opening in 2007. Nauticus also operates the Banana Pier Gift Shop. Using the natural setting of Norfolk's harbor to showcase global maritime commerce and world's largest Navy, Nauticus' goal is to inspire and educate people with engaging and interactive experiences that celebrate connections with today's maritime world.

Appealing to diverse audiences, the facility serves as a community resource for a variety of programs and workshops, memberships, and volunteer opportunities. In this role, it is an educational resource offering structured Virginia Standards of Learning (SOL) based programs to school age children locally and regionally and has a maritime-themed science center for kids with an aquarium, hands-on exhibits, interactive theaters, and a variety of educational programs.

Over the last few years Nauticus has successfully presented the exhibit from National Geographic entitled Real Pirates: The True Story of the Whydah, Slave Ship to Pirate Ship and created new experiences associated with the Battleship Wisconsin. In addition, it hosted the Norfolk Public Schools 4<sup>th</sup>-6<sup>th</sup> grade Science Fair; 3<sup>rd</sup> annual Mid-Atlantic ROV Competition; and

Home Schoolers Day for thousands of local and regional students.

## Objective

Our overall audit objective was to determine the effectiveness and adequacy of controls over general fund revenues and to ensure the appropriate recording of revenues.

## Scope and Methodology

The scope of our audit was limited to the testing of controls over revenue related transactions in the General Fund for Fiscal Year 2014. We concentrated our efforts on revenue transactions occurring during the 1<sup>st</sup> and 2<sup>nd</sup> Quarters of FY 2014.

We conducted tests of records and other audit procedures as we deemed necessary. As such we reviewed policies and procedures, check copies, invoices, vouchers, and other applicable documents. Additionally, we performed the following to accomplish the stated audit objective:

- Interviewed the Nauticus Finance staff to gather an understanding of how transactions are processed.
- Performed a cash count of the change fund and petty cash at Nauticus.
- Reviewed revenue reported in the city's financial system to determine type and source.
- Obtained source documents and randomly selected transactions to review and verify funds received were being deposited and reported as city revenue.
- Analyzed QuickBooks report (Deposits for Transfer to Corporate Accounts)<sup>2</sup>.

<sup>2</sup> This report records daily transactions for the following: accounts receivable for Nauticus, cruise line transactions, sales tax payables for the Gift Shop sales, admission tax

payable for admission sales, gift shop revenue, admission revenue by type (cash, visa, etc.) and membership sales.



- Obtained Client Payments Due to City and Caterers reports to determine facility rental amounts that were paid.
- Reviewed Transaction Detail reports to determine commission sales received for catering services.
- Obtained and reviewed Daily Deposit Journals to verify gift shop sales.
- Traced monthly revenue received to applicable bank statements to validate funds were deposited.
- Reviewed financial reports prepared for the City and Nauticus Foundation Board for proper presentation of revenue earned.

We conducted this performance audit 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### Audit Results

We found Nauticus' management control system needed minor improvements to address the following:

- a. Revenue is received from third parties without adequate supporting documentation
- b. Deposits were not made in accordance with City Code
- c. Third party contracts were not monitored or did not exist
- d. Offered rental discounts were not consistently applied

These areas of needed improvement are described in detail below.

#### Revenues Received from Third Parties without Details to Support Sales

Third party vendors collected on Nauticus' behalf \$110,861 in revenue, however, in forwarding or submitting these revenues or receipts to Nauticus they did so without any details or breakdown of sales activities. As a result, an adequate reconciliation could not be performed by the financial staff to verify the accuracy or reasonableness of funds received. Details of these revenues for the period of July 2013 to December 2013 were as follows:

Third Party Vendors	Revenue Received
Victory Rover revenue	\$ 104,595
Victory Rover dockage	1,500
Catering commissions	1,601
Reimbursements	1,790
Vending machine commissions	<u>1,375</u>
Totals	<u>\$110,861</u>

At a minimum the following documents should have been provided and reviewed to validate the revenue received:

- a. Documentation from third parties showing admission revenue earned each applicable day.
- b. Invoices from caterers noting the amount of food and beverage charged to support Nauticus' percentage.
- c. Statements, invoices or other documentation explaining why a reimbursement was provided.
- d. Sales reports from third parties to confirm vending machine commissions are accurate.

It appeared details to support third party sales were not maintained in receipt-deposit files for the following reasons: documentation was not received from the vendor, documentation was received but not distributed to the proper staff, or



documentation could not be found. When any of these scenarios occur, the department does not know if the correct amount has been received, thereby, the city may not be obtaining all entitled revenue.

**Recommendations:**

We recommend the Director of Nauticus:

1. Ensure all relevant documentation is obtained and reviewed to support the reasonableness and accurate amount of revenue is received by third parties.

**Management Response:**

*Concur. Nauticus will closely monitor all contracts and written agreements to insure revenues owed by third parties are collected.*

2. Perform reconciliations to verify the accurate amount of revenue is received.

**Management Response:**

*Concur. Nauticus will insure proper reconciliation of third party revenues is being conducted. As it pertains to Victory Rover combo revenue, Nauticus has instituted a new procedure to reconcile combo tickets sold through the admission department's daily close-out process. Further, Nauticus will continue to work closely with catering providers to obtain thorough invoices.*

**Deposits were Not Made in Accordance with City Code**

Deposits were made on a monthly basis to the City Treasurer which is not in accordance with City Code. City Code sec. 16-93 requires daily deposits be made and reported to the City Treasurer. Exceptions to this must be specifically authorized by ordinance or the Director of Finance. Approval by the Director of Finance to deposit funds on a monthly basis instead of daily was not obtained. Nauticus staff made the decision to deposit monthly with the City Treasurer because of the need to allocate sales and admissions taxes to the applicable general ledger accounts prior to deposit. At

a minimum, with the approval of the Director of Finance, deposits should be made on a weekly basis and documents provided to support the deposit to avoid being in violation of City Code.

**Recommendation:**

We recommend the Director of Nauticus:

3. Require the Business Manager to make deposits in accordance with City Code or reach an agreement with the Director of Finance as the frequency of deposits.

**Management Response:**

*Concur. Nauticus will work with the City's Director of Finance to determine a suitable deposit schedule.*

**A Contract or Written Agreement Did Not Exist For Canteen Commissions and Monitoring of a Package Deal Contract was not Performed**

The department did not have a written arrangement with a third party vendor for canteen commissions. Also, although a contract was in place with a third party for combination (package deal) admission income and dockage fees, Nauticus did not monitor the terms of the contract. For fiscal years 2012 and 2013, we noted the following income received from the third parties involving vending machines, combination tickets, and docking fees:

Fiscal Year	Vending Machine Commissions	Combination Admissions	Dockage Fees	Total
2012	\$2,024	\$104,540	\$4,500	\$111,064
2013	2,008	157,192	5,500	164,700
Total	\$4,032	\$261,732	\$10,000	\$275,764

The above income consists of combination tickets purchased for Nauticus and the Victory Rover (combination admission), dockage fees to dock the Victory Rover, and canteen commissions (vending machine commissions) based on vending machine purchases. In regards to canteen commission, Nauticus personnel indicated they were not aware of signed agreements in place. Having a signed contract or some type



of written document specifying terms and conditions helps to facilitate business exchanges and monitoring the terms of executed contracts ensure agreed upon admission and fees are accurately received.

**Recommendations**

We recommend the Director of Nauticus:

- 4. Ensure a signed contract or written arrangement is put in place for vending machines.

***Management Response:***

*Concur. Nauticus will ensure a signed contract with any future vending machine providers. Currently, this recommendation is not applicable. Nauticus has no contracts with vending machine providers (vending provided through the City’s master agreement).*

- 5. Establish a system for monitoring contract terms and conditions to ensure admission and fees received are in accordance with existing agreements.

***Management Response:***

*Concur. Nauticus will establish a “tickler system” to help monitor contract terms and remind appropriate staff about upcoming contract renewals.*

**Documentation was not maintained to support the approval and reason for rental discounts**

We noted for fiscal years 2011 through 2013 the yearly average rental revenue was \$397,770. In some cases, documentation was not in event files to indicate the approver of discounts and/or the reason a discount was provided. Our review of 13 events noted the following:

- a. Three events or 23% were discounted contrary with the normal practices of Nauticus.
- b. Two events or 15% did not have who approved the discount rate noted on

invoices or other official paper work, a previously noted issue by our office.

For the exceptions we noted in which approvers of and the reason for the discounts were not documented, it appears it was an oversight. Further, for the specific incidents in which discounts were offered inconsistently with normal practices, we found they were given on a case by case basis because (1) the facility was available with no prospects of being rented, (2) the client could not afford the fee, or (3) the event was a community service project for the city.

We recognize increasing the utilization of the venues for weddings and corporate functions is an objective for Nauticus. To accomplish this objective while being fiscally responsible as a city department and as a public facility providing a service for the good of the community, Nauticus provides in some cases from 15% to 50% rental discounts to not-for-profit organizations and city entities. However, to promote consistency and accountability, the employee approving event discounts should be noted on the official paper work for individual events. When discount rates are not offered in accordance with department practices and authorizer of discounts is not noted, the processes in place are questioned and there can be an appearance of unfairness.

**Recommendation**

We recommend the Director of Nauticus:

- 6. Ensure clients’ folder or event contracts/event paper work document the approver of and reason for discounts.

***Management Response:***

*Concur. Nauticus instituted an event rental policy in August, 2014 that provides clarity to event rental procedures. Nauticus will ensure client folders include appropriate documentation (e-mail confirmation) if a discount is issued for a specific event.*



## **Other Observations**

During the completion of the audit Nauticus, financial staff was reorganized and an essential employee was transferred to another department. As the department moves forward with less staff in performing fiscal responsibilities, we encourage the establishment of processes and procedures for the following:

- a. The reconciliation of daily admissions and Gift shop revenue
- b. The allocation of catering commission received
- c. Oversight of accounts receivable

Also, we noted that monthly financial reports to the Department of Finance and the Nauticus Foundation Board did not disclose the basis or method for calculating the local government support percentages.