

**Performance Audit 15-04:
Youth & Family Development
Community Center Collections**

December 2015

City Auditor

Stan Sewell, CPA, CGFM, CFE

Senior Auditor

Pam Swinney, CPA





OFFICE OF INTERNAL AUDIT

Stan Sewell, City Auditor

December 2, 2015

To: Mayor Andy Berke
City Council Members

Subject: YFD Community Center Collections (Report #15-04)

Dear Mayor Berke and City Council Members:

The attached report contains the results of our audit of collections at the community centers. Our audit found that fees were not always collected in accordance with City Code/policy and collections were not properly safeguarded. In general, revenues were properly documented but deficiencies were noted related to timely submitting collections to the Treasurer's Office. In addition, we found several internal control deficiencies contributed to missing revenues. The Department's written policies were comprehensive and substantially adequate. However, we noted management's failure to comply with the policies as the primary contributing factor to internal control weaknesses.

Similar findings have been reported in several previous audits and special project memos. In order to address the noted areas for improvement, we recommend actions by management to provide adequate oversight and supervision which ensures stated policies and procedures are followed by staff.

We thank the management and staff of the Youth and Family Development and Finance departments for their cooperation and assistance during this audit.

Sincerely,

Stan Sewell, CPA, CGFM, CFE
City Auditor

Attachment

cc: Audit Committee Members
Stacy Richardson, Chief of Staff
David Carmody, Chief Operating Officer
Lurone Jennings, Administrator Youth and Family Development
Daisy Madison, City Finance Officer

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AUDIT PURPOSE

This audit was conducted in accordance with the Office of Internal Audit's 2015 Audit Agenda. The objectives of this audit were to determine if:

- Fees were collected in accordance with City Code;
- Revenues were properly documented and submitted to the Treasurer's office within the required three day period; and,
- Collections were properly safeguarded.

BACKGROUND

Chattanooga's Youth and Family Development (formerly known as Parks and Recreation) offers a variety of programs, activities, classes and opportunities for youth, adults and seniors at its 18 community centers. Two locations have indoor swimming pools that are open throughout the year and offer open swim, swimming lessons, and aqua fitness classes.

Revenues collected by the Youth and Family Development Department (YFD) include carousel fees, tennis court fees, skate park use fees, facility rentals, field rentals, league fees, swim fees, therapeutic program fees, various instructional class fees and kids camp fees. The rental rates and fees were approved by ordinance 12814 and 12930, effective March 18, 2014 and March 24, 2015, respectively.

Revenues collected by the community centers include facility rentals and kid's camp. In addition, Brainerd, South Chattanooga, and Carver collect open swim fees and aquatic fitness class fees. Pool rentals are reserved and paid directly to the Aquatics Division.

Financial Information

Revenues have declined over the past two years as shown in Exhibit 1 below. Fiscal year 2013 reported the highest revenues during the past 5 years. Overall, total revenues for fiscal year 2015 are down 16% and 6% compared to fiscal years of 2013 and 2014, respectively. In comparison to 2013 revenues, we noted substantial reductions in revenue collections for rental fees at Carver, Glenwood, and Hixson as well as kid's camp fees. Hixson Community Center originally opened in June of 2012 and was closed from early 2014 to May 2015 for

additional renovations. The reduction in kid's summer camp fees can be attributed to the mayor's initiative in which the program was free to all participants from Title I schools.

Exhibit 1: Total Revenues per Fiscal Year¹

Revenues	FY11	FY12	FY13	FY14	FY15
Aquatics Programs	118,399	127,836	133,385	124,113	124,127
Kidz Kamp	56,545	57,040	56,980	41,631	26,900
Rec Ctr-Avondale	90	1,590	4,860	2,060	2,810
Rec Ctr-Brainerd	7,110	7,792	5,108	3,032	5,660
Rec Ctr-Carver	3,823	4,475	4,965	3,085	1,724
Rec Ctr-East Chattanooga	787	790	670	1,030	1,115
Rec Ctr-East Lake	533	185	1,250	-	1,095
Rec Ctr-Eastdale	2,830	3,085	3,250	3,111	4,208
Rec Ctr-Frances B. Wyatt	950	500	1,125	2,955	1,560
Rec Ctr-First Centenary	47,014	47,014	47,014	47,014	47,014
Rec Ctr-Glenwood	2,045	2,373	7,120	1,335	2,320
Rec Ctr-Hixson	-	-	2,038	1,830	390
Rec Ctr-John A. Patten	14,971	16,186	30,534	19,451	18,265
Rec Ctr-North Chattanooga	-	130	168	198	120
Rec Ctr-Shepherd	2,085	1,633	1,490	2,463	3,209
Rec Ctr-South Chattanooga	9,296	2,335	4,180	17,864	12,745
Rec Ctr-Tyner	4,492	8,351	3,610	3,297	4,019
Rec Ctr-Washington Hills	1,755	3,565	1,315	1,460	1,125
Rec Ctr-Westside Community Ctr	-	190	100	100	120
Audited Revenues	272,725	285,070	309,162	276,029	258,526

Source: Oracle Financials

The Aquatics Program and Kidz Kamp cost centers include fees collected from all community center locations; while facility rental revenue is charged to each location's cost center. For example, Rec Ctr – Avondale had \$2,810 in facility rental revenues during fiscal year 2015. However, our review found accounting inconsistencies wherein, sometimes, kid's camp and/or swim fees were charged to the facility cost center rather than Aquatics Programs and Kidz Kamp cost centers, respectively.

All community centers, except Brainerd and South Chattanooga, issue pre-numbered receipts from City-issued receipt books for fees collected. Although the department has invested resources to implement the RecTrac system at all community centers, only Brainerd and South Chattanooga centers use the software program. Other YFD facilities that currently have the application include the Fitness Center, Skatepark, Champions Club, and Warner Park.

The RecTrac management software application can include up to 11 integrated modules: Activity Registrations, Facility Reservations and Booking, Pass Membership Tracking, Pass Management Photo, League Scheduling, Court Reservations, Trip Reservations, Locker Rentals, Equipment/Site Rentals, Personal Trainer Scheduling, Point

¹ Revenues from facility and/or program types included in the scope of our audit

of Sale/Inventory Control, POS Theater/Venue Ticketing, POS Restaurant Open Table View, and Incident Report. The City purchased² 9 of the 11 modules but only uses the system to process payments, issue receipts, maintain the reservation calendar, and track pass membership.

FINDINGS AND RECOMMENDATIONS

Internal control deficiencies contributed to missing collections.

We reviewed all receipt books held by the community centers to verify the funds collected were recorded and deposited with the City Treasurer. As shown in Exhibit 2, receipts totaling \$5,425 were unaccounted for in the Oracle financial system during fiscal year ending June 30, 2015.

Exhibit 2: Missing Revenues, by type

	Facility Rental	Kid's Camp	Total by Center
Avondale	0	200	200
East Lake	180	0	180
Eastdale	200	0	200
JAP	0	360	360
N. Chattanooga	0	400	400
Tyner	200	80	280
Washington Hills	2,705	590	3,295
Carver	310	200	510
Total Revenues - FY15	3,595	1,830	5,425

Source: Compiled by Office of Internal Audit

Due to several internal control deficiencies, we could not ascertain, from our audit documentation, who was responsible for diverting the missing funds identified above. Further investigation into Washington Hills (addressed in a memo dated October 12, 2015) resulted in the termination of an employee who admitted to misappropriating city funds. Additional investigations outside the scope of this audit were initiated. As of the issuance date of this report, we have completed one additional project with the issuance of a memo dated November 17, 2015.

² In addition to the original purchase, the City expends an annual fee for each of the 9 modules.

We identified several contributing factors that allowed employees to misappropriate city funds without detection. The internal control deficiencies noted during the audit include inadequate use of the transfer log, improper safeguarding of assets, and most importantly, the general lack of management oversight, review and reconciliation.

Transfer logs were not properly used to document transfers of cash collections between City employees.

Typically, the community centers operate with a facility manager and a full time recreation specialist. Some community centers also have an additional full time or part time recreation specialist. With the exception of temporary employees, all staff at the center collect fees and write receipts. Collected fees are typically kept in a locked safe or locked drawer that is accessible to all permanent staff. Transfers between facility staff are not being documented.

Fees collected by the facilities not using RecTrac are transferred by the facility staff to the administrative office. We reviewed over 750 receipts and traced the receipts to the transfer log provided by the administrative office. We were unable to locate 59% of the receipts on the transfer log.

The *Internal Control and Compliance Manual for Tennessee Municipalities* (5.14.2) states “anytime custody of money changes from one employee to another, the money should be counted by both employees. A prenumbered receipt or other document³ recording the count should be prepared and signed by BOTH EMPLOYEES INDICATING CONCURRENCE WITH THE AMOUNT TRANSFERRED. This document should be retained by the individual turning the money over.”

Recommendation 1:

We recommend management require transfer logs be maintained by each community center, as required by current policies⁴.

Auditee Response: *We concur with the audit finding and recommendation.*

³ In previous audits, Internal Audit has suggested the use of a transfer log to document transfers between employees. The individual transferring the funds should maintain the log.

⁴ Parks and Receptions’ Cash Collection and Control Policy, Section 6.11 - Transporting Funds; and, Administrative Collection Procedures, Section 2 – Procedure for Transferring Funds

Receipt books and collections are not properly safeguarded.

In general, each facility has one safe or locked box to safeguard the receipt book and monies collected. All permanent employees (typically, 2 to 4 people) have access to the key and/or safe combination. Even if the employees document the transfer (e.g. between a recreation specialist and the facility manager), both still have access to the funds in the locked box. Therefore, if funds are missing, management cannot determine which employee lost or stole the funds. To adequately safeguard assets until the transfer can be properly documented, we suggest those collecting fees have individual access to a locked desk drawer or locked box.

Typically, receipt books were maintained in a secure location such as the locked box or a desk drawer. Although department policy⁵ requires completed receipt books be turned into the administrative office, we found several were maintained at the facility. In addition, we found at one location a receipt book was missing (lost per the facility manager). Our review of collection reports, related to this facility, identified numerous receipts from the missing book were unaccounted for in the Oracle financial system. With the receipt book missing, we couldn't establish, how much in city collections were misappropriated. A separate investigation has been initiated.

Currently, the Finance department has no written policy requiring used receipt books be surrendered prior to issuance of a new book. The Finance department only maintains a log of receipt books issued. The log is signed by the person receiving the book and includes the receipt numbers and date of issuance. Since receipt books are obtained from Finance, we suggest the Finance department retain the completed books as well. This requirement would enhance internal controls by providing an independent tracking mechanism and ensuring compliance with records retention laws⁶.

Recommendation 2:

We recommend access to any particular safe or lockbox be limited to a single individual.

Auditee Response: *We concur with the audit finding and recommendation.*

⁵ Administrative Collection Procedures (issued May 4, 2012) states "completed receipt books will be filed at the Watkins Street Administrative office in numerical sequence."

⁶ *Records Management for Municipal Government* suggests receipt books be maintained for 7 years after last entry.

Recommendation 3 (Finance):

We recommend the policies, *Finance Policies and Procedures Collections*, be revised to require completed receipt books be returned to Finance prior to the issuance of a new receipt book. Department Administrators should be immediately notified if receipt books are reported missing. We recommend receipt books are issued to the individual responsible for its use and safeguarding.

***Auditee Response:** The Finance Department will develop a system of accountability for the receipt books. Policies will be updated to ensure used receipt books are returned prior to new receipt book issuance.*

The department lacks adequate management oversight.

In addition to the missing revenues identified above, our review of receipt books identified violation of cash collection policies and procedures. We found receipts paid with cash were marked “VOID” but had no reasonable explanation or supervisor approval. We also found several receipts that indicated the money was returned to the payee after several days or weeks of collection.

Overall, the community centers lack adequate management oversight. Currently, the department has three Recreation Program Coordinators that supervise the 18 facility managers. During our interviews with facility managers, we learned coordinators may not regularly visit the centers, and the receipt books were rarely, if ever, reviewed by any administrative staff.

Most of the centers are required by Department Administration to deliver funds, along with supporting documentation, to the Administrative Office. Although copies of receipts are maintained by the administrative staff, they have failed to perform a periodic reconciliation. Such reconciliation, as required by current policy, would have identified missing receipts.

With a minimal staff, adequate segregation of duties at the community centers is difficult to achieve. Therefore, management oversight should be increased to provide reasonable assurance that errors, irregularities or fraud are prevented or detected and corrected in a timely manner. To assist management with the review and reconciliation of receipts to collection reports, the receipt numbers should be included in the description field of the collection report.

This simple change to the procedures would allow management to easily extract the data and efficiently review it for missing receipt numbers. Once missing receipt numbers are identified, the coordinators could review the receipt books and follow up with the facility. Any violations of policy should be immediately addressed.

Recommendation 4:

We recommend policies and procedures be revised to require staff to include the receipt numbers in the description field of the collection report.

Auditee Response: We concur with the audit finding and recommendation.

Recommendation 5:

We recommend management reconcile the receipts issued to the collection reports periodically.

Auditee Response: We concur with the audit finding and recommendation.

Recommendation 6:

We recommend management perform periodic reviews of the receipt books and transfer logs to verify compliance with stated policies and procedures.

Auditee Response: We concur with the audit finding and recommendation.

Collections were not submitted within the required three day period.

We reviewed a sample of collection reports completed by Brainerd and South Chattanooga Community Centers. These centers have an employee on-site that completes the collection report. A courier visits the centers every Monday, Wednesday and Friday to transport collection reports and monies to the City Treasurer's office. In general, we found the collection reports from these two centers to be timely filed with adequate support documentation.

In contrast, the collection reports for the centers that issue pre-numbered receipts are prepared by a Recreation Program Coordinator in the administrative office. Employees from each center are required to transport the funds to the administrative office within one business day of collection.⁷ Once the collection report is completed, a courier transports the collection report and monies to the City Treasurer's office.

⁷ Per Parks and Recreations' Administrative Collection Procedures (issued May 4, 2012), "funds must be delivered and transferred to the Administrative Office no later than 4:00 pm on the business day following the day of acceptance from a customer."

State law⁸ requires public funds be deposited as soon as practical, but no later than three working days after the receipt by a municipal official. Our review of the pre-numbered receipts found that 22% did not comply with the 3 day requirement. The most likely contributing factors for late filing include the inefficient process of transferring funds multiple times and the reliance on one individual (with various job responsibilities) to prepare collection reports for 16 community centers.

Recommendation 7:

We recommend facility managers complete collection reports and make deposits as required by State law and City policies.

***Auditee Response:** We concur with the audit finding and recommendation.*

Recommendation 8:

We recommend management update the collection policies and procedures. Policies and procedures should be periodically reviewed and updated to ensure risks are timely identified and appropriately addressed. Further, we recommend the department provide training on new policies or procedures. Documentation of training and receipt of updated policies and procedures should be maintained in the personnel files.

***Auditee Response:** We concur with the audit finding and recommendation.*

Facility rental process lacks adequate segregation of duties.

As identified in previous audits, the process to rent the community center's multi-purpose rooms and gyms lack adequate segregation of duties. Support staff at the community center, at a minimum, typically includes two employees: facility manager and recreation specialist. These individuals handle all aspects of the rental (except preparing the collection report). In addition, we found management performs no independent review or reconciliation to ensure all rental fees were collected and deposited. As reported above, we identified missing rental revenues and missing receipts of unknown amounts.

⁸ T.C.A. 6-56-111. Deposit of funds – Petty cash – Disbursements – Penalty for violations.

Internal Control and Compliance Manual for Tennessee Municipalities Title 5, Chapter 1, Section 1 states “Municipal officials should separate duties of employees so that no one person has control over a complete transaction from beginning to end. Work flow should be established so that one employee’s work is automatically verified by another employee working independently.” Inadequate segregation of duties increases opportunity for theft and/or unauthorized use of City assets.

We identified possible scenarios to improve the internal controls for facility rentals. Management should evaluate various options to determine which process best fits the department’s resources. Possible solutions include:

- **Rental reservations are paid directly to the administrative office.** Facility managers can provide facility use agreements to prospective renters. The facility use agreement and payment would be mailed or delivered, by the renter, directly to designated staff in the administrative office. Once the collection report is completed, a copy would be forwarded to the respective center to place the reservation on its calendar. In addition, there should be conspicuous signs posted that state the following or something similar to: “Fees are not collected at this location.”
- **Rental reservations are maintained on a shared calendar (such as RecTrac or Google calendar) accessible to management.** Facility employees continue to collect the rental fees. Only facility managers have access to add reservations in the shared calendar. Cancellation and removal from the calendar should be limited to administrative office personnel. Independent reconciliation of calendar events to collection reports is performed by a designated administrative employee on a periodic basis.

Regardless of which process management uses, the implementation of RecTrac at all facilities has many benefits beyond the reservation calendar. For example, RecTrac can provide facility usage tracking and reporting allowing management to more effectively allocate its limited resources.

Recommendation 9:

We recommend the use of RecTrac to manage the reservation calendar for all community centers.

***Auditee Response:** We concur with the audit finding and recommendation.*

Recommendation 10:

We recommend management identify and implement adequate internal controls to mitigate risks related to the rental process.

***Auditee Response:** We concur with the audit finding and recommendation.*

The RecTrac cash journal report can easily be manipulated.

Our review of the RecTrac system identified several reporting weaknesses. The highest risk found related to the ability to manipulate the daily cash journal report. We learned the printing parameter allows staff to set the time frame (e.g. 9:00 am to 8:00 pm) for the report. Therefore, any collections prior to or after the time indicated could be missing from the cash journal.

To verify completeness of collections for Brainerd and South Chattanooga, we selected a statistical sample of operating days to verify collection reports were timely submitted and included all revenues collected. Our sample included 44 operating days. For the days selected, we independently obtained cash journal reports from the RecTrac system.⁹

We found three collection reports (6% of our sample) had missing revenues totaling \$68. The RecTrac reports submitted with the collection reports did not include these collections because they occurred prior to the hours selected on the cash journal report. For the dates with noted variances, we found no overages were reported (funds deposited matched the erroneous report amounts). This indicates staff failed to follow policies and possibly misappropriated funds.

Recommendation 11:

We recommend the hour option be removed from the reporting parameters, if possible. If facility managers complete the collection report, we recommend a designated administrative staff review and verify the cash journal report for completeness.

***Auditee Response:** We concur with the audit finding and recommendation.*

⁹ Cash journal reports including the 24 hour period (12am to 12pm) for the dates in the sample were directly obtained from the RecTrac system by the Office of Internal Audit.

Recommendation 12:

We recommend staff submit all funds as collected, in accordance with State Law¹⁰.

***Auditee Response:** We concur with the audit finding and recommendation.*

¹⁰ T.C.A. 6-56-111; *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 14, Section 9 requires collections be deposited intact in the form and amount in which they are collected. No collections should be withheld from the deposit for any reason.

APPENDIX A: SCOPE, METHODOLOGY AND STANDARDS

Based on the work performed during the preliminary survey and the assessment of risk, the audit covers Community Center Operations from July 1, 2014 to June 30, 2015. When appropriate, the scope was expanded to meet the audit objectives. Source documentation was obtained from Youth & Family Development and Finance departments. Original records as well as copies were used as evidence and verified through physical examination.

To determine whether internal controls were in place for collections, we interviewed staff to gain an understanding of the collection process. In addition, we reviewed the *Internal Control and Compliance Manual for Tennessee Municipalities*, the Chattanooga City Code, Youth and Family Development's collection policies and procedures, and Finance Department's accounting policies and procedures.

To determine whether collections were properly documented and timely submitted to Treasurer's office, we reviewed receipt books and transfer logs in addition to a sample of collection reports and supporting documentation. The sample size and selection were statistically generated using a desired confidence level of 90 percent, expected error rate of 5 percent, and a desired precision of 5 percent. Statistical sampling was used in order to infer the conclusions of test work performed on a sample to the population from which it was drawn and to obtain estimates of sampling error involved. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

We conducted this performance audit from July 2015 to October 16, 2015 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.

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