



Mayor Teresa Ann Isaac

LEXINGTON-FAYETTE URBAN COUNTY GOVERNMENT

Division of Internal Audit

INTERNAL AUDIT REPORT

DATE October 25, 2005

TO: Teresa Ann Isaac, Mayor

CC: Milton Dohoney, Chief Administrative Officer
Kathy DeBoer, Commission of General Services
Chuck Ellis, Director of Parks & Recreation
DeWitt Hisle, Audit Board Chairman
Dr. David Stevens, Council Budget & Finance Committee Chairman

FROM: Bruce Sahli, Director of Internal Audit

RE: Swimming Pool Collections Audit

Background

The Lexington Fayette Urban County Government operates ten swimming pools and the Jacobson Marina, all of which are generally staffed by seasonal employees. Three of the pools (Castlewood, Southland, and Woodland) have LFUCG staffed concession areas that provide food and drinks to customers. Various entrance fees are charged at the pools and the marina with the exception of Douglass Pool, which has free admission. Customers can also purchase plastic pre-numbered season pool passes for \$45 each or \$150 for a family. Approximately 6,000-7,000 season pool passes are sold each year. For FY 2005, revenue from these operations after cost of concessions totaled \$473,790.

Scope and Objectives

The general control objectives of the audit were to determine that:

- Payments are properly safeguarded prior to deposit
- Payments are accurately deposited on a timely basis
- Payments are accurately recorded and reported
- LFUCG Swimming Pool Cash & Inventory Policies and Procedures are being adhered to

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- LFUCG operated concession area inventory is properly safeguarded and related activity accurately reported

Statement of Auditing Standards

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

Audit Opinion

In our opinion, the controls and procedures provided reasonable assurance that the general control objectives were being met. Opportunities to enhance controls are included in the Summary of Audit Findings.

SUMMARY OF AUDIT FINDINGS

Deposit Anomaly

We examined all collection activity occurring at the pools and the marina during the months of May, June, and July 2005. We noted that one deposit in the amount of \$1,385 reported as collected on July 3, 2005 by the Woodland Pool could not be located in the bank records and was not noted as having been deposited during Accounting's bank reconciliation process. There were no other missing deposits, and with a few isolated exceptions, funds were deposited at the bank on a timely basis. It is recommended a thorough review be conducted by Parks & Recreation personnel to determine the status of this deposit anomaly.

Division of Parks & Recreation Management Response: This has taken a good bit of work, but we think we have found the deposit, and understand what happened to it. Some sloppy work was exhibited by our pool staff, but we believe the money has been credited to the LFUCG. Our daily pool income report for July 3rd says the deposit should be \$1,385, but the bank's on-line data reconciliation system shows no deposit in this amount for any day in July. However, they do have the concession deposit for Woodland in the amount of \$634.25 for that day. Our managers are instructed to always make both deposits at the same time. It appears it did not happen on that day. They should never take one or the other.

There were 8 deposits made (1 pool admission and 1 concession for each of 4 days over the July 4th bank holiday) worked by the bank on July 5th. We reviewed the July 3rd daily income report for Woodland and noted one check (#1243) in the amount of \$150.00 was noted on the tally. This is the

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amount of a family pool pass, so we checked our pool pass application records, and found a sale at Woodland to a customer for \$150 on July 3rd. We called the customer who tells us their check was definitely written on July 3rd, at Woodland, but that their private banking account was not debited from their account until July 29th. We have a copy of the check which was sent to us electronically by the customer.

Because we could not find a record of the Central Bank credit in the amount of \$1,385 for that day, we looked elsewhere in July. We found a Woodland daily with a check in the amount of \$150 numbered #1243 on the deposit slip for July 24th, as part of a total deposit of \$492, which is shown on National City's statement. This might explain why the customer did not see a debit until the 29th. Since it appears the check was separated from the remaining cash (possibly left under the cash drawer in the register), and later deposited, we looked for a cash deposit matching the remaining amount.

We asked National City for a listing of all deposits in Pools/golf/concessions which provided us with information we were able to use. We found a deposit in the amount of \$1,233 for July 26th. This amount does not match any daily deposit amount for any day in July for pools, golf or concessions. We think that the \$1,385, less the \$150 check which was likely deposited on 7/24, or \$1,235 (which could have turned out to be actually \$1,232 when the cash was counted by the bank) which shows on the July 26th transaction log, is actually one and the same. The \$1,232 was credited on 07/26 under reference ##### under Miscellaneous Credits in account #####. A review of this reference, and a review of the back of the check, should confirm or refute our explanation. One of our problems was that the National City Bank system crashed in late July and we were not able to verify all the deposits for that month, and only allows reviews of the past 60 days, which hindered this investigation.

This does not explain why this deposit was held for 3 weeks, or why the check and the cash were separated, but we hope it will demonstrate that the entire deposit was made and accounted for. Once we confirm the deposit has been credited, we will investigate what happened with the seasonal employee that made both the July 3rd and July 24th deposits, and take action accordingly.

Missing Z-Tapes

Z-Tapes are cash register generated records that summarize daily sales and collection activity. Detail testing of transactions at those locations utilizing cash registers noted that most were not consistently submitting Z-Tapes with the daily reports provided to the Parks & Recreation Administrative Office, while the Southland and Tates Creek Pools did not submit Z-Tapes with any daily reports provided to the Administrative Office (where a comparison of actual to reported sales would most likely occur). In a cash register environment, Z-Tapes provide significant information that can be used by management to verify the accuracy of reported sales activity, and should be considered a key document that should be attached to daily reports on a consistent basis. It is recommended the swimming pool and LFUCG concession areas utilizing cash registers be required to submit Z-Tapes with their daily reports on a consistent basis.

Division of Parks & Recreation Management Response: Southland Pool did send Z-tapes to Accounting every day, with our deposit slip and daily tally sheet. Tates Creek, however, did not, which was a mistake, which we should have caught but did not. They will be sent every day next year.

Procedure Manuals Needed at all Locations

It was noted that Procedure Manuals were absent at the Jacobson Marina, Tates Creek Pool, and Woodland Pool locations. Written procedures are an important control that provides process instruction, performance standards, and a basis for measuring compliance with management expectations. A complete set of written procedures should be on file for all locations.

Division of Parks & Recreation Management Response: Our written concession procedures are provided to each facility at the beginning of each year. Apparently, at those 3 locations our youthful employees found a creative use for the materials such that they could not be found the day the auditors were there.

Concession Inventory Issues

Parks & Recreation procedures currently require a beginning and ending daily inventory of LFUCG operated concession areas. We performed inventories at all three LFUCG concession locations in order to verify the accuracy of reported inventories. Significant variances were noted at Southland and Woodland Pools, while at Castlewood no recent inventory had been completed by management. Discussions with management indicate that the variances noted at Southland and Woodland were probably related to unrecorded transfers between concession locations and changes in the package size for soda cups that were not recognized during the concession management's inventory counts.

It is the opinion of the Division of Internal Audit that daily inventory counts at these locations is not necessary, and it is therefore recommended that Parks & Recreation management consider going to weekly counts as a sufficient inventory control practice. Concession personnel should be instructed to properly record all product transfers. Inventories should be conducted with an emphasis on accuracy, and any significant inventory variances should be reviewed and resolved by qualified management personnel on a timely basis.

Division of Parks & Recreation Management Response: Whoever was asked about inventory at Castlewood Pool gave an incorrect answer. We did regular inventory counts there, particularly since we only sold Pepsi, delivered pizza and Slush Puppie frozen drinks. Our primary inventory method for syrup-based beverages has always been by counting the drink cups. Unfortunately Pepsi went from a 50 count sleeve to a 60 count sleeve in mid summer without our knowledge (we are not charged for cups) which created a difficult reconciliation. We also do transfer records for product moved between pools, which are generally only to Woodland at the end of the year, as the primary post-season pool. We will make weekly inventory counts and reports a normal part of the weekly reporting of each of the 3 concession stands and require the concession manager to sign off on these as having been completed.

Cash Registers Recommended for all Locations

Avon and Picadome Pools and the Castlewood Pool concession area did not have cash registers, while at Jacobson Marina the cash register was not functional. Those locations use manual accounting systems and cash boxes to record sales and secure collections. It is recommended cash registers be provided to all locations to provide an improved method for recording transactions and accountability of funds.

Division of Parks & Recreation Management Response: There is no electricity at the pool at Avon, and the Jacobson Marina has a cash register but it was not working when the audit team visited. It has since been repaired. Castlewood Pool averages less than \$100/day in June, and only half that in July and August. A cash drawer works fine for such a small operation, given the difficulty finding teenagers at Castlewood that can operate a cash register.