



INTERNAL AUDIT REPORT

DATE: May 18, 2017

TO: Jim Gray, Mayor

CC: Sally Hamilton, Chief Administrative Officer
Glenn Brown, Deputy Chief Administrative Officer
Geoff Reed, Commissioner of General Services
William O'Mara, Commissioner of Finance & Administration
Monica Conrad, Director of Parks and Recreation
Phyllis Cooper, Director of Accounting
Susan Straub, Communications Director
Urban County Council
Internal Audit Board

FROM: Bruce Sahli, CIA, CFE, Director of Internal Audit
Jim Quinn, CIA, CISA Internal Auditor

RE: Parks and Recreation Cash Collection Audit

Background

The LFUCG Division of Parks and Recreation's mission, as stated in its 2016 Fall/Winter Guide publication, is to provide high quality park land, facilities, and open space to efficiently facilitate programs, events and services and to promote wellness and quality of life for all. Towards this end, besides recreation afforded by the city's golf courses and pools, Parks and Recreation provides many other recreation-based programs, activities, and community events for a fee, including various athletic sport leagues, cultural arts programs, therapeutic recreation activities for the disabled, youth summer camps, and



community events such as the Bluegrass 10,000 race, Opera Under the Stars, Ballet Under the Stars, and Little Goblins Galore.

The Office of Internal Audit last audited the Parks collection process for these programs in October 2010 (this did not including golf courses, pools, or the Extended School Program). This audit examined Parks & Recreation activity for Cultural Arts and Special Events, Therapeutic Recreation, the Downtown Arts Center, Athletics, and Camps. Fees collected in FY 2016 for these types of programs totaled \$541,524.

Scope and Objectives

The general control objectives for the audit were to provide reasonable assurance that:

- Collections are accurately recorded and reported in a timely manner
- Cash collections are appropriately safeguarded and deposited in a timely manner
- Customers are charged accurate program rates
- Scholarships (which reduce or waive customer fees) are appropriate and supported by sufficient documentation
- Voids and returns are reasonable and properly controlled

Audit results are based on observations, inquiries, transaction examinations, and the examination of other audit evidence and provide reasonable, but not absolute, assurance controls are in place and effective. In addition, effective controls in place during an audit may subsequently become ineffective as a result of technology changes or reduced standards of performance on the part of management.

The scope of our audit included transactions occurring during Fiscal Year 2016.

Statement of Auditing Standards

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing. 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 most of the general control objectives were being met. Opportunities to improve controls are included in the Summary of Audit Findings.

Priority Rating Process

To assist management in its evaluation, the findings have been assigned a qualitative assessment of the need for corrective action. Each item is assessed a high, moderate, or low priority as follows:

High - Represents a finding requiring immediate action by management to mitigate risks and/or costs associated with the process being audited.

Moderate – Represents a finding requiring timely action by management to mitigate risks and/or costs associated with the process being audited.

Low - Represents a finding for consideration by management for correction or implementation associated with the process being audited.

SUMMARY OF AUDIT FINDINGS

Finding #1: Insufficient Collection Documentation and Late Deposits

Priority Rating: High

Condition:

Most of the areas we examined did not retain supporting documentation such as calculator tapes, receipts, copies of checks, or other types of vouchers to support the RecTrac summary cash journal report printed out with each deposit. In particular, we found that the Athletics area and Downtown Arts Center did not retain this type of



supporting deposit documentation, which is helpful in reconciling and balancing deposits and ensuring deposit totals are correct.

Some areas, including Downtown Arts Center and Cultural Arts/Special Events, were also missing copies of stamped deposit receipts from the Division of Revenue. Most Parks locations make their deposits with the Division of Revenue. Stamped deposit receipts provided by the Division of Revenue indicate deposits have been made and verified with Revenue and should be retained as evidence of deposits.

Our testing also identified two Cultural Arts deposits that were deposited six and eleven days late, respectively. We also identified an Athletics deposit which was 10 days late. Non-neighboring LFUCG locations (most Parks locations) are required by CAO Policy #40 to make their deposits within 48 hours of the receipt of funds.

Effect:

Supporting deposit documentation is a means of reconciling and balancing deposit totals to ensure that they are correct and that all collections have been recorded properly. Deposit receipt documentation provided by the Division of Revenue provides evidence that a deposit has been made, and is an important source document should questions arise concerning possible discrepancies within individual deposits. Without this documentation, Parks management lacks sufficient evidence that the deposits were made.

Recommendation:

All supporting documentation should be retained with each collection area's deposit records. All deposits should be made in a timely manner as required by CAO Policy #40. The deposit receipt documentation received from the Division of Revenue should be attached to the supporting collection documents and reviewed by management within the various areas for evidence all funds were deposited.

Director of Parks and Recreation Response:

Parks & Recreation agrees all documentation should be retained with deposit records. Verified deposit documentation from Division of Finance is retained at Dunbar Center in the Deputy Director's office, the Athletics' office, at the Downtown Arts Center and at Artworks at Carver School. All transactions are posted in RecTrac, the Division's registration software. A General Ledger Distribution Report is produced via RecTrac and confirms all registration transactions. In order to improve the documentation on the General Ledger Distribution Report, we will begin entering the



last name of check writers along with the check # when registering people in RecTrac. In order to remain environmentally responsible, transaction receipts are maintained electronically on RecTrac, any receipt can be printed.

Depending on the method of deposit (weekend event transactions deposit directly to the bank, weekday transactions are submitted to Revenue) acquiring a deposit receipt is not always possible. Parks has worked with the Division of Revenue to request a deposit receipt from the bank for weekend transactions, we will continue to work with Revenue and Chase Bank to obtain documentation post deposit. We are requesting access to PeopleSoft and bank accounts which provide additional back-up for managers to insure that deposits were successfully made and recorded. While the Division of Accounting is responsible for reconciliation, Parks will begin reconciling RecTrac deposits to PeopleSoft and bank accounts to insure additional oversight.

Over the past year we have taken steps to insure that deposits are made in a timely manner and that we are following CAO Policy #40.

Commissioner of General Services Response:

I concur with the Director's response.

Finding #2: Collection Duties not Properly Segregated

Priority Rating: High

Condition:

In most collection areas examined, one employee is responsible for collecting, recording, and preparing the deposit, and sometimes transporting the deposit to the Division of Revenue. Although most areas try to mitigate this lack of segregation of duties control by having another employee review and sign off on the deposits, no one employee should be responsible for all of these collection processes.

Effect:

The absence of properly segregated duties reduces management's ability to prevent, detect, and correct collection errors and irregularities, and also creates the opportunity for misappropriation or theft of funds.

Recommendation:

Collection duties should be properly segregated to ensure that no one person has complete control over their collection, recording, and depositing functions. To



accomplish this, at least one of the three collection steps noted above should be performed by a different employee.

Director of Parks and Recreation Response:

Parks collection duties are broken into two steps: 1) collection & recording, which is the sales transaction in RecTrac and 2) depositing. Deposits are verified by two persons and compared to RecTrac General Ledger report before deposit is taken to Finance. We are taking steps to reduce the number of times that the same employee is completing both collection & recording and deposits. However, it may be necessary in certain situations depending upon available staff, for the same person to complete both steps in order to comply with making deposits within 48 hours and CAO #40.

Commissioner of General Services Response:

I concur with the Director's response.

Finding #3: Bank Statement Reconciliations Not Performed Timely
Priority Rating: High

Condition:

We noted that Accounting was not up to date in reconciling the Parks and Recreation deposits recorded in PeopleSoft to the Parks and Recreation bank statement. At the time of our field work, the reconciliations were three months behind. We were informed that the employee performing the reconciliations had just started employment with LFUCG, which could explain why the reconciliations were not up to date.

Effect:

When deposits are not reconciled to the bank statement in a timely manner, the detection of lost or stolen deposits may go undetected for a longer time period than necessary, and this delay may impede any necessary investigation into these anomalies.

Recommendation:

Accounting should perform the reconciliation of Parks and Receptions deposits to their bank statement as soon as possible after the statements become available.

Director of Accounting Response:

I concur with the audit recommendation. The employee was new and external auditors were onsite conducting our financial statement audit. The Parks and



Recreation bank statement is now reconciled soon after the statements become available.

Commissioner of Finance & Administration Response:

I concur with the audit recommendation and Director of Accounting response.

Finding #4: Late Processing and Deposit of Weekend Event Collections
Priority Rating: High

Condition:

We noted that some Parks and Recreation areas, particularly the Cultural Arts/Special Events area and the Downtown Arts Center which conducted weekend events, did not always balance or reconcile cash collected to ticket/receipt records immediately after the event finished. Those reconciliations sometimes occurred the following week or later. We also noted that the Little Goblins Galore, Woodland Arts Fair, and Ballet Under the Stars events in the latter part of calendar 2015 were 27, 16, and 17 days late in being posted to the RecTrac system and delivered to Revenue for deposit. Additional training on CAO Policy #40 regarding cash handling, and some adjustments in how deposits are made for these types of events, indicate this problem has since been resolved within Cultural Events/Special Programs because receipts for these types of events during the first part of 2016 were processed timely and were deposited in compliance with CAO Policy #40. However, the Downtown Arts Center still has opportunities for improvement, especially in reconciling receipts to ticket documentation on the same nights or days of a weekend event.

Effect:

The failure to timely reconcile cash collected to related ticket/receipt documentation and record these receipts in the RecTrac system increases the risks that lost or stolen collections may go undetected.

Recommendation:

Parks and Recreation senior management should instruct areas involved with special events, plays or dances that occur on weekends to immediately balance and reconcile receipts to all ticket/receipt documentation and to record the collection activity on the day/night of the event.



Director of Parks and Recreation Response:

Parks has worked to identify and correct issues that contributed to late deposits in the past. We strive to reconcile and verify transactions immediately following an event. All employees will be instructed to also balance and reconcile the cash to all ticket/receipt documentation immediately following the event. Parks management will identify the obstacles preventing this in the past and provide the assistance and/or tools (printer for DAC) necessary to assist.

Parks management has worked with Revenue to make deposits directly at the bank immediately following an event, however due to the hour and nature of most of these events/programs it is not always feasible to record the collection activity on the day/night of the event. With dual verification, each employee can keep a copy of the deposit information in addition to emailing it to senior management from the event. In this case, the collection activity will be recorded in RecTrac the next business day after the event/program. Parks has worked with Division of Revenue to hold any large amounts of cash on weekend events for Monday deposits, when necessary.

Commissioner of General Services Response:

I concur with the Director's response.

Finding #5: Excessive Number of Employees with Cash Handling Duties
Priority Rating: Moderate**Condition:**

We noted that most collection areas had a significant number of employees with cash handling duties, including part-time and seasonal employees. We were told that these employees were given these duties because of lack of adequate staffing to receive and collect payments, especially during peak activity periods. We also noted that most of these employees were given multiple cash handling duties from collecting cash, to recording cash, to preparing deposits, particularly in the Therapeutic Recreation area, the Downtown Arts Center, and the Athletics area.

Effect:

Allowing more employees to have cash handling duties than is necessary increases the risk of errors and theft of funds. This risk is increased when these duties are assigned to part-time or seasonal employees who may not be sufficiently trained on proper cash handling procedures.



Recommendation:

The number of employees with cash handling duties should be evaluated and reduced when possible to mitigate the risks identified above. This should particularly focus on the use of part-time and seasonal employees and whether their duties are properly segregated and adequate cash handling training is provided.

Director of Parks and Recreation Response:

Parks accommodates our customers by providing convenient and accessible payment opportunities. In order to meet the demand, we have staff members (some seasonal) trained to handle transactions. While many registrations occur during weekday business hours, Parks & Recreation programs seven days a week, most frequently on nights and weekends. Our programs are made possible with the help of seasonal employees who serve under the supervision of program managers. While it is not feasible for us to eliminate cash handling duties for some of our seasonal employees, every effort will be made to limit the number of people that are needed to handle cash. All employees with cash handling duties are trained on CAO policy #40 and we will repeat this training annually and as needed with new employees.

In addition, we are exploring technology and purchasing hardware to enable staff to take credit cards at off-site events and programs which will help reduce the number of cash transactions.

Commissioner of General Services Response:

I concur with the Director's response.

Finding #6: Supervision and Monitoring Of Cash Deposits Can Be Improved
Priority Rating: Moderate**Condition:**

We noted that the deposits of most program areas including Athletics, Therapeutic Recreation, and Special Events were not consistently reviewed by the senior program manager before deposits were made and, once made, were not always monitored for timely and proper posting to RecTrac. We also noted deposits were not tracked by management for proper posting to PeopleSoft or to the Parks and Recreation bank statement. In fact, we were informed by almost all managers we interviewed that they did not have access to view the Parks and Recreation bank statement, and reviewed deposit information on PeopleSoft infrequently.



Effect:

Without proper management supervision and monitoring of cash deposits, the risk of lost or stolen deposits is increased.

Recommendation: All program managers should review and sign off on deposits before they are submitted to Revenue. Management should verify that all deposits are posted to the RecTrac system and to the PeopleSoft Financials on a timely basis. In order to accomplish this, the managers should be given access to view the Parks and Recreation bank account information so that deposits may additionally be tracked there for proper deposit. While the Division of Accounting is responsible for performing the bank reconciliation of all Parks and Recreation deposits on a monthly basis and identifying any missing deposits, enabling Parks and Recreation managers to perform their own monthly bank statement reviews will provide another layer of monitoring and further reduce the possibility of a missing or stolen deposit going undetected.

Director of Parks and Recreation Response:

We agree that managers should be given access to view the Parks and Recreation bank account information in addition to access to PeopleSoft Financials so that deposits may be tracked in a timelier manner.

In providing additional training and oversight for employees we have placed the emphasis on accurate verification, proper documentation and timely deposits in accordance with CAO Policy #40. We are working with our IT professionals to use the RecTrac Systems reports in order to track the revenue as they are received and deposited. Managers will sign off on stamped deposit receipts and retain copies for their sections.

Commissioner of General Services Response:

I concur with the Director's response.

