



INTERNAL AUDIT REPORT

DATE: April 11, 2019

TO: Linda Gorton, Mayor

CC: Sally Hamilton, Chief Administrative Officer
Glenn Brown, Deputy Chief Administrative Officer
Aldona Valicenti, Chief Information Officer
William O'Mara, Commissioner of Finance & Administration
Geoff Reed, Commissioner of General Services
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
Matthew Reid, CPA, Internal Auditor

RE: Swimming Pool Collections Audit

Background

The LFUCG Division of Parks and Recreation operates seven swimming pools and Jacobson Marina, all of which are generally staffed by seasonal employees. Four of the pools (Castlewood, Shillito, Southland, and Woodland) have LFUCG staffed concession areas that provide food and drinks to customers. Various entrance fees are charged at the pools and Marina. The daily admission fee for pools ranges from \$3 to \$5 depending on the type of facility (pool or aquatic center) and the type of admission



(adult or child). Customers can also purchase plastic pre-numbered season pool passes for \$50 each or \$250 for a family of six. However, due to a new sales tax law passed by the Kentucky General Assembly in the Spring of 2018, all of the admission prices increased to include the collection of a 6% sales tax starting in July 2018. For the FY 2018 pool season (July 2017 to June 2018), revenues from concessions and pools as reported in PeopleSoft Financials totaled \$667,242.

Scope and Objectives

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

- Written collection procedures exist and are sufficient
- Sufficient collection controls are in place and cash is being safeguarded
- Daily pool and concession sales reports agree to cash register transaction reports
- Daily cash/check collections are included in Daily Sales Reports and are correctly deposited in a timely manner
- RecTrac revenues are accurately reported in PeopleSoft
- Physical Inventory of Concessions are being performed, variances are investigated, and any necessary adjustments are made
- Pools are collecting the new 6% sales tax as of July 2018

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 are 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 the audit included activity for the period July 1, 2016 through June 30, 2018.

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 some 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: Cash Reporting and Deposit Issues Noted

Priority Rating: High

Condition:

Chief Administrative Office (CAO) Policy # 40, Policy and Procedure for Cash & Check Handling, states that Divisions that deliver monies to respective banks must include a bank deposit slip with each deposit that details all items contained within each



deposit. Furthermore, Pool Policy and Procedures state the deposit slip should be attached to the Daily Income Report. However, we noted that five of 218 (2%) Pool transactions tested did not have a deposit slip attached to the Daily Report. We also noted that eleven of 138 (8%) of Concession transactions tested did not have a deposit slip attached to the Daily Report.

CAO Policy #40 also states that all deposits should be delivered to the bank in a timely fashion (i.e., same business day or next business day). However, 19 of 218 (9%) Pool deposits tested ranged from one to nine days late, and seven of 138 (5%) Concession deposits tested ranged from one to seven days late.

We also noted that 16 of 240 (7%) Pool Daily Reports tested had cash overage or shortage that exceeded 1% of daily sales, and 19 of 143 (13%) Concession Daily Reports had cash overage or shortage that exceeded 1% of daily sales. The largest Pool overage and shortage was \$100.00 and \$24.50, respectively, while the largest Concessions overage and shortage was \$12.50 and \$24.50, respectively.

Effect:

Failure to consistently comply with the cash reporting and deposit requirements of CAO Policy #40 can result in lost or misappropriated funds. Cash overages and shortages may be the result of the need for additional training, or could be an indicator of theft.

Recommendation:

Deposit slips should always be attached to Daily Income Reports to confirm the amount that was deposited for the daily collection. All deposits should be made on the day of or the following day of collection as required by CAO Policy #40. Management should promptly address significant cash over/short variances at the pool and concession locations.

Director of Parks and Recreation Response:

Parks concurs with the findings. Additional training on CAO Policy #40 and review of deposits to ensure timeliness of deposits is improved is warranted. New procedures have been adopted to ensure that overages or shortages crossing a threshold shall be communicated to upper management within one business day for management review. The adoption of the RecTrac software at the aquatic locations will streamline the reporting process and make storage of paperwork less likely to be damaged or come unattached.



Commissioner of General Services Response:

I concur with the Director's response.

Finding #2: Daily Income Reporting Exceptions Noted**Priority Rating: High****Condition:**

Daily pool and concession income reports detail all sales transactions for the day including total revenue received, shortage or overage, and the resulting collections deposit. Daily pool and concession income reports along with supporting documents are completed and submitted on a weekly basis to the Parks Administrative Office. Attached to the daily reporting forms should be register Z-Tapes and deposit slips. Z-Tapes are cash register generated records that summarize daily sales and collection activity and breakout total sales by cash, check, and credit card.

In a cash register environment, Z-Tapes provide significant information, including Void and No Sale activity, and can be used by management to verify the accuracy of reported sales activity. Z-Tapes are considered a key document that should be attached to daily reports on a consistent basis. A complete Z-Tape will include information such as the total amount of sales that were made during the day as well as allocate total sales according to payment method (cash vs credit card), indicate the total number of times the "No Sale" button was pressed during the day, and display the amount of daily Voids and Refunds (if any). The No Sale key on the cash register is used to open the register without recording funds in or out. When this occurs, the register Z-Tape will indicate the till has been opened; however, collection totals should be unaffected.

During our test work, we identified 16 of 240 (7%) Pool Daily Reports where the Z-Tapes were attached but were torn and incomplete, as well as 20 (8%) Pool Daily Reports with no Z-Tape attached. We also identified 28 of 143 (20%) Concession Daily Reports where Z-Tapes were attached but were torn and incomplete, as well as six (4%) Concession Daily Reports with no Z-Tape attached. Although the incomplete Z-Tapes included information such as Total sales, they did not include information regarding how much of the total sales were made in cash that should be deposited in the bank, nor did they report the amount of Voided Transactions or the number of times the "No Sale" button was pressed each day.



We also noted 10 of the 240 Pool transactions tested (4%) and two of the 143 Concession transactions tested (1%) had no activity and either the Daily Income Report or the Z-Tape (or both) were not prepared, making it impossible to confirm that no sales activity occurred on those days. We were advised by one Concession Manager that on days of little or no activity, the cash register would not be closed out (this is done by running a Z-Tape) and the Daily Income Report would not be prepared until a following day when the cash deposit was delivered to the bank. We were advised by the Aquatics Concession Coordinator that Concessions personnel were allowed to hold daily collections overnight in the safe if sales were less than \$50.

Effect:

Incomplete collection documentation increases the risk of unreported or incorrectly reported sales transactions being undetected. Without the related Z-Tapes, management cannot be certain that all sales and collections are accurately reported on the Daily Reports. Failure to close out Z-Tapes on a daily basis may increase reporting errors and prevent management from taking timely action to correct report anomalies. These conditions could also be used to conceal the loss or theft of cash.

Recommendation:

Swimming Pool and Concession management should consistently submit complete Z-Tapes along with the Daily Income Reports each and every day the pool and concession is open to the public. Even on days in which there is no activity, the Daily Income Reports and Z-tapes should be completed and submitted to confirm there was no activity.

Director of Parks and Recreation Response:

Parks concurs with the findings. Implementation of the point of sale system at the pools, concession and boat dock should alleviate the issue due to electronic backups of both daily sales and inactivity. Z tapes will no longer be used under the new Point of Sale software. Daily reports created by the software will be streamlined and easier to store as well as having electronic backups that can be run from any location.

Commissioner of General Services Response:

I concur with the Director's response.



Finding #3: Voids Not Approved by Management

Priority Rating: High

Condition:

From time to time, it may be necessary for a pool or concession cashier to void a sales transaction. CAO Policy #40 states, “Voids, over-rings, refunds etc. are to be reviewed and authorized by a supervisor and the register tape or receipt are to be initialed by the person completing the transaction as well as the supervisor reviewing the transaction.” Parks & Recreation Cash Register Procedures state that “If a mistake is made and a void or refund is necessary, contact supervisor and note and initial on a master void sheet.” The Master Void Sheet provides documentation of the date, nature, and reason for the voided transaction as well as the name of the cashier and the manager that approved the voided item.

During test work, we were unable to locate documentation of manager approval on the “Master Void Sheet” for 11 of 29 (38%) Pool voided transactions, nor could we locate documentation of manager approval for 22 of 26 (85%) Concession voided transactions. We were also informed by a couple of pool managers that the “Master Void Sheet” was not being prepared for voided items at their locations.

Effect:

The risk of cash and/or inventory theft is increased when voids are not documented, approved, and monitored by management.

Recommendation:

CAO Policy #40 void, over-ring, and refund control requirements should be complied with on a consistent basis. All voided transactions should be included on the Master Void Sheet indicating the nature of the transaction as well as the name of the cashier and the approving manager.

Director of Parks and Recreation Response:

Parks concurs with the findings. Voids and over rings will be recorded electronically through the new point of sale system. Voids will require a manager’s password in order to complete in the new system thereby eliminating the need for a void log. Each void or refund shall be tracked electronically and shall require a manager’s password and shall be stored electronically for future review.

Commissioner of General Services Response:

I concur with the Director’s response.



Finding #4: Improved Controls Needed for Pool Pass Inventory**Priority Rating: High****Condition:**

We were informed that the Pool Administrative Office assigns each of the pool locations pre-numbered seasonal pool passes so they can be sold to the public. We were also informed that pool employees complete a “Swim Pass Application” each time a seasonal pass is sold, which identifies the pass number that was sold and is submitted to the Aquatic Administrative Office. During the on-site visits to the various pool locations, we observed that some of the seasonal passes on hand contained gaps in pass numbers, indicating they are being sold out of numerical order, are not being received as full books of tickets, or are otherwise missing. We were also informed that a reconciliation between seasonal passes on hand to seasonal passes sold is not being performed.

Effect:

The absence of a pool pass tracking process and reconciliation of seasonal passes on hand to seasonal passes sold could result in unrecorded pool pass sales, cash theft, and/or seasonal pass theft that may not be discovered by management.

Recommendation:

A pool pass tracking system with a reconciliation between passes on hand to passes sold should be implemented at all pool locations to ensure all pool passes are accounted for. If a Point-of-Sale system is implemented at each pool location as recommended in the Risk Observation at the end of this report, management should consider issuing “individualized” passes which could be scanned at the point of entry. A Point-of-Sale system may also be able to track the sale, use, and current inventory of the seasonal passes.

Director of Parks and Recreation Response:

Parks concurs with the findings. New point of sale system includes a “pass module” which allows for the individual tracking of pool passes through a barcode system. This system will allow for electronic tracking of each pass to an individual or barcode system and will force the pass to be activated upon its sale. Passes shall then be stored and associated with a certain household or individual within the system. This shall allow for real time reporting on the number of passes sold at a certain location which can then be compared to the number of passes assigned to that location. This comparison shall be done weekly during the season.



Commissioner of General Services Response:

I concur with the Director's response.

Finding #5: Improvements Needed in Managing Pool Concessions Inventory
Priority Rating: High**Condition:**

We were informed that physical counts of two or three items of concession inventory were being conducted approximately twice per week, and any variances were documented in the Daily Concession Report in the "Product Added," "Product Wasted," or "Transferred" columns. However, according to Pool Concession Procedures, a physical inventory count of two or three items should be conducted every morning rather than approximately two times per week. We were unable to obtain documentation confirming when each inventory count was performed, and were advised documentation of the inventory count was only noted as adjustments to the Daily Concession Sheet. We conducted a physical count of all pool concessions and noted variances for a number of products at all concession locations, with the exception of Jacobson Marina (which had no variances between their book count and our physical count).

Effect:

Failure to conduct physical counts of two or three items of inventory on a daily basis as required by Pool Concession Procedures and to properly document the results increases the likelihood that issues with inventory control, including the possibility of theft, will not be detected.

Recommendation:

Physical counts of two or three items of concession inventory should be performed each day as Pool Concession Procedures require, and documentation of all physical inventory counts should be submitted for management review to increase accountability for concession inventory. An "Inventory Shortage/Overage" column should be added to the Daily Concession Report to document any variances identified during the physical count. This would provide better information to management than intermingling the variance within the "Product Added", "Product Wasted", or "Transferred" columns, and Pool management should investigate the variances. In the event the physical count yields no variance of an item, "0" should be entered in this new column to document that item was counted and is accurately reported. The



Concession Manager should also adjust ending inventory on the Daily Report by the variances identified in the physical count. Aquatics management should ensure documentation of inventory counts are being submitted and performed as Pool Concession Procedures require.

Director of Parks and Recreation Response:

Parks concurs with the findings. Inventory control shall now be tracked within the new Point of Sale software. Beginning inventories shall be input as well as deliveries and then the software shall track the inventory according to the sales made in the system similar to the system used by the golf courses. Aquatics management shall still require physical counts occur according to the Pool Concessions procedures.

Commissioner of General Services Response:

I concur with the Director's response.

Finding #6: Pool and Concession Credit Card Reconciliation Process Improvement Needed
Priority Rating: High

Condition:

Credit card activity at the pools is processed through Kentucky Interactive (not RecTrac). Parks & Recreation personnel manually enter credit card collection activity into RecTrac for reporting purposes, but actual credit card collections are posted in PeopleSoft via an interface with Kentucky Interactive. We identified a duplicate credit card posting to the PeopleSoft General Ledger in the amount of \$16,709.75 that occurred on June 19, 2018. It appears this was not detected because Accounting's monthly reconciliation process does not include verifying that the amount posted to the PeopleSoft General Ledger agrees with Kentucky Interactive. We also noted that during the monthly reconciliation, Accounting adjusts the credit card collections as reported by RecTrac to the amount that is deposited into the bank. However, since credit card collections are uploaded into PeopleSoft from the Kentucky Interactive Portal, the correct process would be to compare credit card collections as reported by Kentucky Interactive to the amount that is deposited into the bank.

Effect:

Failure to perform a three-way reconciliation of the amount of credit card revenue from Kentucky Interactive to the PeopleSoft General Ledger and the related bank statement could result in inaccurate credit card revenue being undetected.



Recommendation:

Accounting should verify the amount of revenue posted to the PeopleSoft General Ledger and the related bank statement after the Kentucky Interactive interface occurs to ensure there are no duplicate postings and to confirm the total amount posted agrees with the Kentucky Interactive monthly detail.

Director of Accounting Response:

I concur with the auditor recommendation of a three way match between Kentucky Interactive, the bank statement, and PeopleSoft/RecTrac. The Accounting Division has reviewed all Kentucky Interactive reports from inception to present in order to understand items that are missing or duplicated. In addition, we have created procedures to respond quickly to any variances. The senior accountant will download a report of monthly activity from the Kentucky Interactive portal. This will be compared to the transactions recorded in PeopleSoft/RecTrac and the bank statement for the same time period. Any variances caused by Kentucky Interactive interface files will be communicated to them in order to record transactions accurately. The cash balance is not impacted, journals are completed to adjust the ledger to the bank statement. However this additional step will reduce occurrences requiring adjustments.

Chief Administrative Officer Response:

I concur with the Director of Accounting's response.

Finding #7: Improvements Needed to Safeguard Change Funds

Priority Rating: High

Condition:

At the Southland Pool Concession, we noted a \$300 change fund was stored in an old change drawer that was placed on top of the microwave. This drawer was left open, unlocked and in plain view. We also noted an additional \$200 change fund located in the Southland Pool Manager's office which was stored inside an unlocked old cash register. This cash register drawer could be easily opened without a key. We further noted that the Woodland Pool Concession was storing an extra "change fund" in the amount of \$113.40 in a drawer located below the cash register where it could be easily accessible by anyone inside the Concession area.

Effect:

Failure to properly safeguard cash could result in its loss or theft.



Recommendation:

The change funds should be stored inside the safe located at each corresponding pool location to reduce the number of people that could have access to the cash.

Director of Parks and Recreation Response:

Parks concurs with the findings. The Division shall look to purchase lock boxes for the concessions stands to better safeguard the change funds. In the future, these shall be replaced by safes as the budget allows. Failure to secure LFUCG funds shall result in disciplinary action. This shall be a point of emphasis during management and cashier training.

Commissioner of General Services Response:

I concur with the Director's response.

Finding #8: Inaccuracy Noted in Parks & Recreation Monthly Revenue Report

Priority Rating: Moderate

Condition:

In order to assist Parks and Recreation in reviewing various programs, the "Division of Parks and Recreation Monthly Revenue Report" is prepared. During the audit, it was discovered that the amount of aquatics revenue included in this report does not include the total amount of revenue reported in RecTrac. We noted the "Division of Parks and Recreation Monthly Revenue Report" dated June 2018 contained \$13,570 less of aquatic revenue than the amount reported in the RecTrac system. We determined that this difference was due to the fact aquatic revenue entered into RecTrac by certain RecTrac users was not being captured on an automated report used to prepare the Monthly Revenue Report.

Effect:

Failure to capture all aquatic revenue in the "Division of Parks and Recreation Monthly Revenue Report" results in an inaccurate reporting of revenue to Parks management.

Recommendation:

Aquatics Management should reconcile the "Division of Parks and Recreation Monthly Revenue Report" to total aquatic revenue recorded in RecTrac before the report is finalized to ensure its accuracy.



Director of Parks and Recreation Response:

Parks concurs and has made the procedural change to include revenue generated in the aquatics office as well as at the pool locations in the monthly revenue report.

Commissioner of General Services Response:

I concur with the Director's response.

Finding #9: Jacobson Marina Cash Over/Short Report Issue**Priority Rating: Moderate****Condition:**

The Jacobson Marina operates a paddle boat/kayak rental facility and a small concession stand. During the audit, we were advised that in prior years the Jacobson Marina only had one cash register to operate the boat rental and concession operations. Therefore, cash transactions from both operations (rentals and concession) were processed through the same cash register. Although a separate Daily Income Report was prepared for the boat rental operations and concessions, all over/short issues were combined and reported on the Concession Daily Report.

Beginning in the 2018 season, a second cash register was provided so that the Boat Rental Operations and Concession Operations could maintain cash collected from each operation separately. However, even though a Daily Income Report is currently prepared for each operation and each operation now has its own cash register to process transactions, the total overage/shortage for both rentals and concessions is still combined and reported only on the Concession Daily Report. The Marina Manager advised she reported both over/short issues on the Concession Daily Report because that has been the way it was always done in the past.

Effect:

Combining boat rental and concessions cash over/short amounts on the Concession Daily Report prevents management from knowing how much cash over/short resulted from each independent operation.

Recommendation:

Rentals and concession cash over/short amounts should be reported separately on the rentals and concession Daily Income Reports.



Director of Parks and Recreation Response:

Parks concurs and the new point of sale system will alleviate the need for separate cash drawers. All reporting and daily transaction logs shall now be combined on one report while still allowing a clear delineation of concession revenue as opposed to boat rental revenue.

Commissioner of General Services Response:

I concur with the Director's response.

Finding #10: Improvement Needed in the Documentation of Cash Stored in Overnight Safes

Priority Rating: Moderate

Condition:

We were informed during the audit that some concession locations close their registers (and run a Z-Tape) in the afternoon around 4:00 pm rather than at the close of the day's business. At the end of the business day (around 7:00 pm), cash collected from the time the register was closed to the end of the business day (approximately 4:00 pm – 7:00 pm) is collected from the register and stored in the safe overnight. Management explained that this is allowed to prevent staff from traveling to the bank late at night with large sums of cash. The cash is then returned to the register the following day where it is included in the next day's register closing. We were also advised that an X-Tape was not prepared at the Southland Concession when the cash was removed from the cash register and stored in the safe at the end of each business day, thereby making it impossible to determine the exact amount of cash that should have been stored in the safe overnight.

Effect:

Failure to run an X-Tape when cash is removed from the register reduces the ability to confirm the amount of cash that should be on hand, and decreases the ability to identify cash over/short or cash theft.

Recommendation:

An X-Tape should be produced any time cash is removed from the register and stored overnight in the safe. The X-Tape should be kept with the cash that is locked inside the safe, along with any cash over/short documentation. This will ensure cash stored overnight in the safe is fully accounted for.



Director of Parks and Recreation Response:

Parks concurs and shall use the new point of sale software to generate a report to include with any funds to be stored in the safe overnight.

Commissioner of General Services Response:

I concur with the Director's response.

RISK OBSERVATION

Standards for the professional practice of internal audit stipulate that it is the Office of Internal Audit's responsibility to inform management of areas where risk to the organization or those it serves exist. The following observation identifies a risk associated with the Pools and Concessions reporting process but does not represent a violation of statutes, policies, or procedures. It is considered to be of sufficient importance to deserve mention in this report to ensure senior management's awareness.

Point-of-Sale System Should be Considered for the Pool Locations

The process of collecting cash/check/credit card payments at each pool and concession stand includes running a Z-Tape from each cash register, manually preparing a handwritten Daily Pool/Concession Income Report, submitting these Daily Income Reports to Aquatics Management for review, and the manual entry of the Daily Income Reports into the RecTrac system on a weekly basis. The current process described above contains many opportunities for keying errors to be posted in RecTrac, as well as increasing the likelihood of missing transaction documentation (such as Cash Register Z-Tapes). In our opinion, this process could be substantially improved by installing an automatic Point-of-Sale system at each pool and concession location such as the Point-of-Sale systems used at the city golf courses. This would automate the recording and reporting of pool and concession sales and collection activity and remove the manual entry processes, along with the risks for keying errors and the permanent loss of transaction documentation (such as Z-Tapes) that exist under the current cash register system.

We recommend management consider the cost of implementing a Point-Of-Sale system similar to that which is used by golf courses to improve cash and inventory controls and transaction reporting capabilities.



Director of Parks and Recreation Response:

Parks concurs and has plans to implement at the start of the 2019 aquatics season.

Commissioner of General Services Response:

I concur with the Director's response.

