



To: Ken Whitehead, Assistant City Manager
Kathy Crile, Director, Recreation & Parks

From: Emory Roberts Jr., Internal City Auditor

Re: Recreation and Parks - Special Project 2016-04

Date: July 25, 2016

Internal Audit has completed its investigation and review of Recreation and Parks Department cash receipts processes at the Lillian Bryant and E.B. Croskey locations.

Objectives: To determine if cash receipts received from customers at Lillian Bryant and E.D. Croskey locations were being misappropriated and to review the procedures and controls over the cash receipts collections and processing for the locations.

Scope: Recreation & Parks (R&P) cash receipts received at Lillian Bryant and E.D. Croskey recreation centers for the period of October 1, 2013 through February 29, 2016.

Approach: Reviewed Standing Operating Procedures (SOPs), interviewed key personnel, reconciled and performed detailed testing on handwritten receipts and ActiveNet transactions, reviewed cash deposits and accounting, and assessed internal controls over operational processes for revenue and cash transactions. Additional detailed testing was performed on ActiveNet transactions as necessary to understand customer account balances and transactions.

Testing was designed for the period of review to:

- Identify Facility Rental and unidentified receipts irregularities that occurred;
- Prepare documentation for the Ocala Police Department; and
- Identify opportunities to enhance controls over cash receipts collections and processing.

Conclusion: Based upon the review, we found approximately \$73,765 of cash receipts for facility rentals and other unidentifiable items missing or unaccounted for. The receipts were not deposited or properly accounted for in the ActiveNet recreation management application. Documentation was provided to the Ocala Police Department for further investigation and possible prosecution.

We conclude that internal controls over cash handing at the Lillian Bryant and E.D. Croskey locations were ineffective due to outdated SOPs, the lack of segregation of duties, and the lack of oversight (monitoring). Management has strengthened internal controls since the irregularities were identified and is implementing additional operating procedures to enhance the internal controls.

This audit was conducted in conformance with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing. These 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.

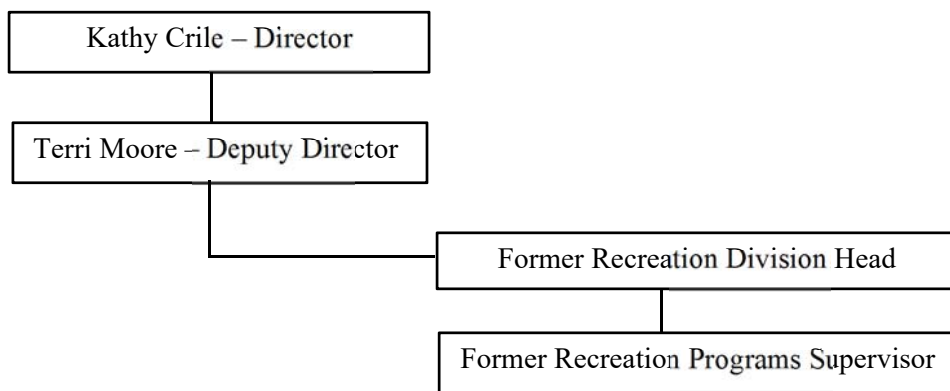
I. BACKGROUND

Internal Audit was requested by Ken Whitehead, Assistant City Manager, to investigate irregularities in the cash receipts processes at the Recreation & Parks Department (R&P). A citizen of Ocala had contacted the City Manager during February 2016 concerning an erroneous \$100 deposit refund related to a facility rental. Upon further investigation by R&P personnel, the ActiveNet (AN) recreation management application did reflect a \$100 deposit which upon further investigation was determined to be in conflict with a handwritten receipt issued to the same customer.

Immediately prior to this incident, R&P management noted an inconsistency in the processing of a rental permit at the Lillian Bryant Recreation Center and without prior notice to staff, collected all receipt books and documented the contents of all cash bags and supporting documentation from all of the department safes and offices.

After a review of handwritten receipts, AN transactions, cash reports and deposits for Lillian Bryant and E.D. Croskey, substantial evidence of non-compliant business practices was documented. R&P Senior Management alerted CMO and on February 29, 2016, met with the former Recreation Supervisor who was responsible for rental processing at both locations to discuss the irregularities discovered. R&P Management reported that at that meeting, the Supervisor admitted that he had in fact misappropriated funds and apologized. The Recreation Supervisor resigned on March 1, 2016.

The relevant organizational structure/chain of command for R&P is:



The Recreation Division Head has direct day-to-day supervision of the Recreation Programs Supervisor and per the position description is “*responsible for fiscal operations of the Recreation Division including budget planning, forecasting, and control*”. The Recreation Programs Supervisors’ position description indicates that he “*is responsible for collecting and accounting for all funds received and spent for the assigned facility and equipment per established policy and procedure*”.

Per R&P management, all rental facility permits and related receipts were to be processed into the AN recreation management application. Management provided training and direction to employees upon implementation of AN in February 2011. The handwritten (HW) pre-numbered 3-part official City of Ocala receipts were only to be used for periods of unavailability of the

II. BACKGROUND (cont)

Supervisor; the unavailability of the AN application (a web-based application); or receipt of funds for transactions that were not handled through AN (i.e. sponsorships). The receipts were to be processed into AN as soon as possible thereafter. For facility rentals, AN creates receipts and the actual permit for the event with all required information. The receipt cross references the permit and the permit cross references the receipt.

AN generates a cash report which details all revenue received for the day and the data is utilized to input revenues into the Eden Core Cashier module and the subsequent import of the data into the proper Eden financial accounting system revenue accounts. This cash report is also used to verify that the associated deposit is correct. Expectations of revenue were based upon the AN application data, therefore, if a transaction was not entered into AN, there was no expectation of cash receipts and no discrepancy in the deposit.

III. RESULTS

Internal Audit reviewed 640 handwritten receipts and over 2,500 AN receipts for the period of 10/1/2013 - 2/29/2016. We separated and reconciled (combined into one transaction) the receipts whenever possible into 3 categories:

- Facility Rentals (663 - includes unidentified cash/receipts discovered in Lillian Bryant safe);
- Sponsorships for various recreation programs (20); and
- All other recreation areas (882 -summer camp, pavilions, sports leagues/programs etc.).

Our review focused on the 663 total combined transaction receipts for **Facility Rentals** at Lillian Bryant (LB) and E.D. Croskey (EDC) recreational facilities and the deposit and revenue recognition of those receipts. We determined that:

- **46.5%** (\$73,764.84 / \$158,608.03) of the total facility rental and other unidentifiable receipts were not properly accounted for in the AN recreation management application and/or missing;
- **56%** (371/663) of the total transactions received a HW receipt only and could not be identified in the AN application;
- **19%** (124/663) of the total transactions were HW and subsequently processed into AN (only 124 of the 495 or 25% of total handwritten receipts); and
- **25%** (168/663) of the total transactions were processed directly into AN (no HW receipts).

For total receipts in all categories processed through LB and EDC, we determined that approximately \$89,193.91 of \$206,437.02 (43%) of total revenues were unaccounted for/missing from the total deposits made to the Recreation & Parks Administration office.

III. RESULTS (cont)

We found that the audit trail of all transactions is not clearly identifiable due to:

- *Transaction payment receipts either erroneously or intentionally incomplete;*
- *AN and HW receipts were processed with different names, or not processed at all with no evidence that an event actually occurred except for a handwritten receipt;*
- *Deposit slips not identifying deposit funds by customer; deposits relied upon AN information, so if not processed into AN, facility rental funds were not expected.*
- *Rental agreements often not processed at all; and*
- *Non-profit organizations charged full-rate (as indicated on the HW receipt); but entered into AN at the non-profit rate (which is 50% of the full-rate).*

Contributing factors to the results above were outdated Standard Operating Procedures, a lack of segregation of duties related to cash handling at the facilities, and lack of oversight.

The results of our work were discussed with R&P management and forwarded to the Ocala Police Department for further investigation and possible prosecution.

IV. OBSERVATIONS AND RECOMMENDATIONS

A. Outdated Standard Operating Procedures and/or Failure to Follow Standard Operating Procedures

R&P Standard Operating Procedures (SOPs) did not completely reflect current management expectations and practices for SOP A-010 Cash Handling (12/1/2011). Policies and procedures under SOP A-0001 Rental/Lease Agreement Processing (12/1/2008) were not adhered to. SOP A-0001 is clear that “*A Rental/Lease Agreement shall be completed for the use of any recreation and parks department facility...*” and that staff was required to “*Submit completed Rental/Lease Agreement to the division head, who will approve and sign on behalf of the department director.*” In fact it was noted that on many occasions a rental agreement was never processed and instead, the division head was signing the renter’s rules and regulations sheet but NOT a lease agreement. There was no reconciliation of the payments made for that rental, nor were copies of receipts reviewed to verify proper payments were made in accordance with the SOP before the agreements were signed.

In addition, there are no SOPs for use of the AN recreation management application to direct department/division processes for processing reservations, sports registrations, or any other purpose. The lack of current SOPs that document current processes coupled with failure to adhere to SOPs that were applicable increases the risk of employees not performing processes consistently in accordance with management expectations and weakens the established internal controls.

A. Outdated Standard Operating Procedures and/or Failure to Follow Standard Operating Procedures (cont.)

Recommendation

R&P management should update its cash handling and related facility rental Standard Operating Procedures (SOPs) to reflect the current processes and the use of the ActiveNet recreation management application currently in use, and clearly define procedures and responsibilities for employees to follow regarding all phases of cash handling, ActiveNet transactions, and adjusting transactions (voids, refunds). Also, the names of non-taxable organizations (instead of payer's name) should be used when applicable.

Management Response

All related SOP's are currently under review and being updated. A new process will clearly outline the process and expectations through a decision matrix/process map that clearly delineates areas of responsibility for each step of the process. The Director and Business Analyst will complete the related tasks no later than August 30,

B. Segregation of Duties and Cash Handling Controls

The internal controls over cash handing at the Lillian Bryant and E.D. Croskey locations were ineffective and need strengthening. The ineffective controls resulted in an environment that made it possible for funds to be misappropriated.

There was a lack of segregation of duties with the same employee:

- Receiving funds (from customers directly or through subordinates);
- Accounting for funds (in AN);
- Retaining custody of funds (safe);
- Depositing funds (receipts with deposit slip w/Admin for the consolidated deposit);
- Processing the related paperwork to support the funds received; and
- Monitoring permitted activities.

Note: Cash processing controls after the employee brings the funds to the R&P Admin office are strong with verification and logging of funds, a separate person preparing the combined R&P deposit for pick-up by Loomis, and a separate person entering the daily receipts into Eden Core Cashiering based on AN entries.

B. Segregation of Duties and Cash Handling Controls (cont.)

Recommendation

R&P management should minimize the cash received or stored in any remote location. Management should consider having all facility rentals reservations and payments completed at the Recreation Division Office or at the R&P Administration Office. Customers could make temporary reservations for facility rentals and be required to complete the reservation process and payment at the applicable office. In addition, when staffing levels do not permit duties to be separated, compensating controls should be performed such as management adequately reviewing the duties performed on a frequent basis and reconciling cash deposits to what was actually received. Also, deposit slips should include the names of customers on the slip or be accompanied by documentation for reconciliation for remote locations. Specifically, all receipts, either handwritten or in AN, need to be reconciled consistently with deposits and the accurate recording of the receipts and events in AN.

Management Response

It is not practical from a customer service standpoint to not accept cash payments for services provided at Recreation Centers; however, it is acknowledged that stronger controls are necessary and where possible we will limit cash receipts.

The Director and Business Analyst are developing a process for receiving and routing rental permit applications which will be fully implemented no later than August 30, 2016. This process will facilitate an adequate level of segregation in responsibilities related to the processing of the rental permit itself.

We have implemented a process that requires the customer to initial the amounts paid directly on the permit to verify that what the customer paid is actually what was processed through AN.

Park rangers will now monitor rental activities at all facilities and compare same to a calendar of events and programs and will bring any discrepancies to management's attention.

C. Lack of Oversight

There was a lack of oversight by the Recreation Division Head and the Administrative Office that resulted in:

- Incomplete reconciliations of HW receipts, reservations/programs, or deposits;
- Lack of control over HW receipts and excessive use of handwritten receipts despite management direction to use AN;
- Incomplete handwritten receipts, lack of name, event, date of event, etc;
- Failure to note and question inconsistencies in purported dates payments were made and deposited as relates back to rental dates;
- Failure to note and question reservations/events not entered in AN until close to or on day of event;
- Mixed transactions between handwritten receipts and direct AN entries; and
- No surprise cash counts / safe checks.

Note: Deposits were reconciled to AN cash reports daily at the administration office. However, the critical management oversight of the front-line process was lacking. This key component of the system of internal controls is necessary to ensure employees are complying with established practices and processes and not maneuvering the system to make it look legitimate at the end-process. This lack of front-line management oversight along with inadequate control of HW receipts increases the risk of irregularities or wrongdoing.

Recommendation

R&P management should update SOPs to include proper oversight of all locations that receive receipts with evidence of reconciliation of receipts to deposits, and to reservations and programs. Minimize the use of handwritten receipts and if used, reconcile handwritten receipts to legitimate transactions on a timely basis to ensure accountability. Management should issue and track the handwritten receipt books to ensure only authorized receipt books are in use. Monitoring of AN receipts/permits for timeliness in accordance with SOPs.

Management Response

The segregation of responsibilities outlined in the prior section will assist in ensuring oversight of all levels of the process.

Once a month, all supervisors must submit their HW receipt books for review/inspection by the administration staff who will review and reconcile to legitimate transactions. Any missing or voided receipts will be scrutinized and documented.

Policies regarding how far out in advance rental reservations must be made will provide for adequate time for compliance monitoring from multiple management levels.