

Audit Report



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“Parks and Recreation Aquatics Division -- Revenue Controls”

Report #0526

July 7, 2005

Executive Summary

Our audit of the revenue process at the Parks and Recreation Aquatics Revenue Division disclosed issues that indicate the need to strengthen internal controls and improve compliance with applicable policies and procedures. Overall, we found that the cashing and revenue operations within the Aquatics Division were not adequate. In addition, records tested and provided by department staff indicate collections of \$7,020 that could not be traced to evidence of deposit or other disposition. Parks and Recreation Department management have turned that matter over to the Tallahassee Police Department for further review and investigation as appropriate.

The primary issues identified in this audit included:

- Critical records (e.g., cash register tapes, registration forms, class rosters) were not always prepared and/or retained, thereby precluding the ability to ensure that all fees were properly collected and deposited in the City's bank account. In other instances, conflicting records for the same daily collection activity were prepared without adequate explanation of the differences.
- Management did not provide for independent reconciliations of source records (i.e., cash register tapes, registration forms, class rosters, other participation records) evidencing revenues that should have been collected to actual revenues collected and deposited in the City's bank account. As resources are not always available to segregate incompatible duties among different employees, such reconciliations serve as an effective and efficient compensating control.
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- A contract with a private entity to provide private swim lessons at City pools was not adequately managed. Records were not provided to show that all funds were collected and deposited in the City's bank account. Based on our inquiries, the contractor acknowledged that additional funds were due to the City. The contractor subsequently paid the City an additional \$2,286. In addition, due to a revenue coding error, the contractor was overpaid \$1,193.
- Aquatics management did not always review available reports to identify participants in the competitive swim programs that were delinquent in their payments. As of the date of our fieldwork in April 2005, delinquent amounts billed as of and prior to December 31, 2004 totaled in excess of \$6,000.
- Daily collections were not always timely deposited and cash reports were not always timely prepared.

In addition, we determined that controls and accountability over swim passes should be improved.

Similar control issues were identified in City Auditor report #0134, issued in August 2001. Although the Parks and Recreation Department implemented corrective actions to address the issues identified in that prior report, those corrective actions were not continued.

Recommendations have been made to address issues identified in this report.

Scope, Objectives, and Methodology

Scope. The scope of this audit included a review of revenue activity and controls within the Aquatics Division of the Tallahassee Parks and Recreation Department during the sixteen-month period January 2004 through April 2005.

Objectives. Our audit objectives were to determine whether adequate controls were in place to ensure that:

- fees were properly charged and collected;
- revenues (from fees) and related activity were properly accounted for in the division's records; and
- collected revenues were safeguarded and properly and timely deposited.

Methodology. To address the above objectives we:

- interviewed staff in the Parks and Recreation Aquatics and Administrative Divisions;
- observed processes;
- reviewed and analyzed the division's internal financial reports and records as well as the department's cash reports;
- reviewed deposit records and available cash register tapes; and
- reviewed other related records such as participant registration forms, accounts receivable reports, monthly bank draft reports, pool rental contracts, and contracts with external parties to provide swim lessons.

For the different revenue categories, we conducted data analyses, tests of controls, and relevant detailed tests of transactions. In addition, a surprise cash count of the imprest funds used in cashing operations was conducted.

These audit procedures were conducted in accordance with Generally Accepted Government Auditing Standards and Standards for the

Professional Practice of Internal Auditing, as appropriate.

Background

General. The Parks and Recreation Aquatics Division operates and maintains seven swimming facilities (pools). These facilities generate revenues from fees collected for aquatic activities, including:

- Recreational Swimming – participants pay either a daily admission fee or purchase 15-day, 30-day, or annual passes.
- Swim Lessons (classes administered by City staff) – participants pay registration fees.
- Water Aerobics (classes administered by City staff) – participants pay registration fees.
- Lifeguard Lessons (classes administered by City staff) – participants pay registration fees.
- Competitive Swim Programs (administered by City staff and a contracted vendor) – year-round programs for which participants pay fees on either a monthly or quarterly basis.
- Pool Rentals – private rentals for birthday or office parties, youth groups, baptisms, family reunions, etc; fees are charged and collected prior to the event.
- Locker Rentals - individuals pay either a daily, monthly, quarterly, or annual fee.

The specific activities offered at each of the seven pools vary. The seven pools and their respective activities and recorded revenues for the City's 2004 fiscal year are shown in Table 1.

Table 1 – Fiscal Year 2004 Activity and Revenue by Pool

POOL	ACTIVITY	RECORDED REVENUES (Note 1)
Trousdeil Aquatic Center (Year-round activities)	<ul style="list-style-type: none"> • Recreational Swimming <ul style="list-style-type: none"> ○ Daily Admissions ○ Passes • Swim Lessons (Note 2) • Water Aerobics (Note 3) • Lifeguard Lessons (Note 2) • Competitive Swim Programs • Pool Rentals • Locker Rentals 	\$206,528
Wade Wehunt (Myers) (Year-round activities)	<ul style="list-style-type: none"> • Recreational Swimming <ul style="list-style-type: none"> ○ Daily Admissions 	\$75,021

	<ul style="list-style-type: none"> ○ Passes • Swim Lessons (Note 2) • Water Aerobics (Note 3) • Lifeguard Lessons (Note 2) 	
Forest Meadows – (Seasonal only - Note 4)	<ul style="list-style-type: none"> • Recreational Swimming <ul style="list-style-type: none"> ○ Daily Admissions 	\$2,264
Hilaman (Seasonal only - Note 4)	<ul style="list-style-type: none"> • Recreational Swimming <ul style="list-style-type: none"> ○ Daily Admissions 	\$931
Levy (Seasonal only - Note 4)	<ul style="list-style-type: none"> • Recreational Swimming <ul style="list-style-type: none"> ○ Daily Admissions • Water Aerobics (Note 3) • Swim Lessons (Note 2) 	\$1,644
Robinson Trueblood (Seasonal only - Note 4)	<ul style="list-style-type: none"> • Recreational Swimming <ul style="list-style-type: none"> ○ Daily Admissions 	\$2,229
Walker Ford (Seasonal only - Note 4)	<ul style="list-style-type: none"> • Recreational Swimming <ul style="list-style-type: none"> ○ Daily Admissions 	\$946
• TOTAL		\$289,563
NOTES: (1) Amounts reported by the Parks and Recreation Aquatics Division. (2) Revenue collected for swim and lifeguard lessons taught at all pools (including Trousdell and Levy) is included in the Wade Wehunt amount because all swim lesson fees are collected and processed at that pool. (3) Majority of revenues for water aerobics is included in the Wade Wehunt amount because most registration fees (for classes at all pools) are paid and processed at that pool. (4) Seasonal pools were open only during the period May 31, 2004, through August 8, 2004 (total of 70 days).		

Collection Location. Fees for most of the activities noted in Table 1 are collected and processed through cash registers at the respective pools. Those collections are generally in the form of cash and personal checks. Registration fees for swim and lifeguard lessons and water aerobics are generally collected and processed separately by staff at the Wade Wehunt pool (i.e., including fees for classes taught at other pools). Most registration fees are paid by personal check. In contrast, fees for the competitive swim program are generally collected directly by the City Treasurer-Clerk's Revenue Office based on monthly bank drafts and accounts receivable billings initiated by the Aquatics Division. Of the total reported collections of \$289,563, approximately \$178,419 was collected and processed by the Aquatics Division and the remaining \$111,144 was collected directly by the Treasurer-Clerk's Revenue Office.

Other Revenues. In addition to the above, the Aquatics Division is entitled to 15% of designated

revenues generated from private swim lessons

taught at the Trousdell Aquatic Center and Wade Wehunt pool by Performance Enhancement Enterprises (known as the Tallahassee Swim School), a City-contracted vendor. For the fiscal year 2004, the Aquatics Division collected \$3,915 for this activity.

Internal controls. Appropriate controls are needed to safeguard revenue collections due to the high inherent risk associated with cash and check payments. Controls should exist to ensure revenues are accurately accounted for, reported, and timely deposited in the City's bank account.

Pursuant to City Commission Internal Control Policy No. 220, guidelines were developed by the City Manager for City departments to use in the establishment of their internal control systems. Those "Internal Control Guidelines" were established in Administrative Policy and Procedure (APM) No. 630. Consistent with that policy, the Parks and Recreation Department has established written procedures for the Aquatics Division to ensure the proper collection, processing, recording, and depositing of

revenues. Also, in APM No. 616 ("Policy on Revenue Collection"), the Treasurer-Clerk's Office established additional requirements and guidelines for City departments and offices to use in the processing of revenues and receipts. Among other things, APM No. 616 requires the timely deposit of collections and preparation of cash reports.

Prior Audits. In the Citywide Cash Controls Audit (report #0134) issued in August 2001, the City Auditor reported on risks identified at various City locations where revenues were collected. Some of the risks reported as pertaining to the Parks and Recreation Aquatics Division included:

- inadequate controls over pass tickets sold for recreational swimming;
- lack of documented supervisory reviews of cash reports;
- inadequate segregation of duties relative to collecting, processing, and accounting for collections;
- untimely deposit of collections;
- lack of rental agreements for certain pool rentals (i.e., baptisms);
- lack of independent verification of participation in activities (and of records evidencing such participation) to amounts collected and deposited (Note: This verification activity serves as a critical compensating control due to resource limitations that preclude the efficient segregation of certain incompatible duties among different employees.);
- lack of adequate cash register tapes necessary to accurately document certain collection activity;
- not retaining certain collection reports; and
- lack of adequate and comprehensive written internal procedures.

As a result of that audit, a corrective action plan was developed to address the identified risks. In our follow up on that audit, we noted that the Parks and Recreation Department, including the Aquatics Division, had successfully completed the planned action steps as of June 11, 2003. (See City Auditor follow-up report #0319.) Had the department continued with implementation of the identified actions steps, it is probable that the deficiencies noted in this report could have been precluded and/or detected in a more timely manner.

Significant Issues and Recommendations

Overall Summary. The results of our current audit procedures showed that the cashing and revenue operations within the Aquatics Division were not adequate. The division did not always adhere to the control principles established in APM No. 630 and its internal written procedures, requirements of APM No. 616, City record retention requirements, or the contractual agreement with a vendor for private swim lessons. As a result, we could not conclude that revenues were always properly and timely collected, processed, and deposited in the City's bank account. Furthermore, we identified collections totaling \$7,020 that could not be traced to evidence of deposit in the City's bank account.

Table 2 below describes identified internal control issues and provides our recommendations for management's consideration and implementation. These issues and recommendations are in the following general areas:

- Control Environment.
- Risk Assessment.
- Control Activities.
- Information and Communication.
- Monitoring.

Management has developed an action plan to address these issues and recommendations. That action plan, which identifies the estimated completion dates and the persons responsible for completing each action, is presented as Appendix A of this report.

Table 2 – Issues and Recommendations

Control Environment	
<p>Management is responsible for the control environment, for setting the tone for the organization, and for influencing the control consciousness of its people. A positive control environment is the foundation for all other components of internal control, providing discipline and structure.</p>	
Issue	Recommendation
<p>1. <u>Controls established to address issues identified in a prior audit were not effectively continued.</u> The various issues noted below under “Control Activities” are indicative of the need to improve the control environment in the Aquatics Division. In addition, management did not ensure that certain controls established to address issues identified in a prior audit (report #0134) were continued after initial implementation. As a result, prior issues “resurfaced.”</p>	<p>1. In addition to ensuring that corrective actions are <u>initiated</u> to address identified issues, management should take an active oversight role in ensuring those actions (e.g., controls and revised processes) are <u>continued</u> over time.</p>
Risk Assessment	
<p>Risk assessments are mechanisms to determine the relative potential for errors, fraud, or non-compliance in programs and functions from both external and internal sources. Among other things, risk assessments should determine the likelihood that collected revenues are not adequately safeguarded against loss and misappropriation and are not properly accounted for and recorded. Management is responsible for assessing risk and encouraging continuous assessment at all levels in the organization. Management is also responsible for taking timely actions to mitigate identified risks through establishment of appropriate control activities.</p>	
Issue	Recommendation
<p>1. <u>Management did not periodically assess risks of the Aquatics Division.</u> Had management continued to assess risks relating to Aquatic Division revenues (e.g., through interviews of staff, observations of current operations, and/or review of applicable records/documents), determinations of inadequate processes and accounting for revenues would have been detected, and could have been corrected, in a timelier manner.</p>	<p>1. Management (department director, assistant director, superintendent, and administrative services manager) should ensure that <u>periodic</u> risk assessments are conducted at the Aquatics Division (as well as other divisions) to identify internal control risks and ways to mitigate those risks.</p>
Control Activities	
<p>Control activities are the policies, procedures, techniques, and mechanisms that enforce management’s directives. They are an integral part of planning, implementing, reviewing, and accountability. They include a wide range of diverse activities such as access and physical controls over assets, direct and continuous supervision, segregation of incompatible duties, approvals, authorizations, verifications, reconciliations, performance reviews, and creation and maintenance of records that provide evidence of execution of activities as well as appropriate documentation.</p>	
Issue	Recommendation
<p>1. <u>Critical records documenting revenue activity were not retained.</u> Specifically:</p> <ul style="list-style-type: none"> • All cash register tapes documenting revenues collected prior to January 4, 2005 at six pools (all pools except Trousdell) were discarded. Those cash register tapes show amounts collected for each day by revenue category (e.g., daily fees for recreational swimming, pass sales, and any miscellaneous activities). Without the cash register tapes for those pools, adequate and complete source records were not available to evidence the fees collected at those pools. The absence of those tapes limits management’s ability to (1) identify all aquatic activities that generated revenue, (2) determine whether fees charged participants were correct, and (3) determine that all fees 	<p>1. All collection related records, including cash register tapes, registration forms, and class rosters should be retained in accordance with the City’s record retention requirements.</p>

<p>collected were properly deposited into the City's bank account.</p> <ul style="list-style-type: none"> Registration forms completed by participants in swim and lifeguard lessons were discarded. Class rosters for those lessons also were not retained. Without registration records and rosters, management does not have a means to ensure and show that appropriate fees were collected and deposited for all participants. <p>Recorded revenues for activities at the six applicable pools and for swim and lifeguard lessons during the fiscal year 2004 totaled \$72,224 (25% of total fees). Without the critical source documents noted above, we were unable to determine on post-audit whether that amount represented all revenues that should have been collected and deposited.</p>	
<p>2. <u>Conflicting internal collection reports were sometimes prepared/maintained for fees collected at Trousdell and Wade Wehunt pools.</u> Aquatics Division staff prepare standardized daily collection reports (using an Excel spreadsheet) documenting fees collected for each day the pools are open. These reports show for each pool the fees collected by activity (e.g., recreational swim fees, pass sales, water aerobics, pool rentals). Our analysis showed that conflicting versions of these reports for a single day's activity were sometimes prepared/maintained (for Trousdell and Wade Wehunt pools) with no explanation of the differences. For example, our analysis of 92 daily reports for Wade Wehunt pool for the period October through December 2004 showed 24 instances (26%) where two reports showing different amounts were prepared/retained. The differences ranged from less than a dollar to \$160.50. For 12 of the 24 days, the differences were greater than \$10. The net difference for all 24 days was \$671.18. No explanation for these differences was documented or provided. (NOTE: Had daily cash register tapes been retained for those days [see item 1 above], the reasons for the differences and/or the correct version of the reports may have been determinable.) Without a determination of the correct reports, management is not able to demonstrate that all fees were properly collected and deposited.</p>	<p>2. In response to this issue, Parks and Recreation management indicated that the "official" (correct) version would, henceforth, be submitted along with the applicable cash register tapes to the Administrative Division for processing and retention. We recommend that this planned action be completed. Furthermore, in the event that different versions of a daily report are prepared and retained, a clear audit trail should be maintained to document/explain the differences between the versions.</p>
<p>3. <u>Participants in water aerobic classes taught at Trousdell, Wade Wehunt, and Levy pools were not required to complete registration forms. In addition, rosters of class participants were not retained.</u> Similar to item 1 above, the lack of those critical source documents limits management's ability to ensure that appropriate fees were collected and deposited for all participants.</p> <p>Recorded revenues for water aerobics during the fiscal year 2004 totaled \$10,811. Without registration forms and class rosters, we were unable to determine on post-audit whether that amount represented all revenues that should have been collected and deposited.</p>	<p>3. Participants in water aerobic classes should be required to complete registration forms. Those registration forms, as well as rosters of class participants, should be retained in accordance with City record retention requirements. (NOTE: Management indicated that an alternative approach would be implemented. That approach involves the use of pre-numbered pass tickets, similar to the process currently used for recreation swimming.)</p>

<p>4. <u>Rental agreements were not required for certain pool rentals (baptisms).</u> For most pool rentals, the Aquatics Division required the renting party to complete and sign a rental contract prior to the event (e.g., birthday party, youth groups, family reunions). Those agreements represent a critical source document that enables management to ensure that appropriate fees are collected and deposited for each event. In addition, those signed agreements contain an indemnification clause and claim waiver that limits the City’s liability for circumstances that may occur during the event.</p> <p>We determined that no rental agreements were required for baptisms. Accordingly, we were not able to ensure on post-audit that fees were properly collected and deposited for those events (baptisms). Additionally, the division may not have effectively reduced the City’s liability exposure during those events.</p>	<p>4. Rental contracts should be executed and retained for each rental event, including baptisms.</p>
<p>5. <u>Controls and accountability over swim passes were not always adequate.</u> Specifically, out of 285 pass tickets selected for testing, we noted the following:</p> <ul style="list-style-type: none"> • The disposition of five swim passes was not documented. Specifically, the pass logs maintained at Trousdell and Wade Wehunt pools showed four Adult 15-day passes were issued on December 10, 2004, and one Child 15-day pass was issued on August 26, 2004, by the Aquatics Supervisor. There was no record of payment for these passes. The value of these five passes totaled \$151.25. While there may be circumstances where complimentary passes are issued, no such reason was documented for these issuances. • The issuance dates for an additional five passes was not documented on the respective pass logs, making it impracticable to trace to evidence of collection and deposit. • Passes were not sequentially numbered before distribution to the two applicable pool supervisors (Trousdell and Myers). Instead, when needed, the two pool supervisors obtained a working supply of unnumbered passes from the master supply maintained in a safe at Trousdell. The two supervisors sequentially numbered the working supply of passes and recorded those numbers on the master pass log. In one instance, one of the supervisors did not timely record the numbers on the log. As a result, the other supervisor used the same set of numbers for another working supply. This duplication of pass numbers makes it difficult to ensure accountability for all pass tickets. Obtaining pre-numbered pass tickets directly from higher-level management, or preferably from a vendor, would alleviate this issue. 	<p>5. The disposition of all passes, as well as the dates of issuance, should be clearly documented on the pass log. In addition, pass tickets should be pre-numbered before distribution to pool supervisors (i.e., by a vendor from whom they are acquired or by higher-level management).</p>
<p>6. <u>Management did not provide for independent reconciliations of source records evidencing revenue that should have been collected to actual revenues collected and deposited.</u> Specifically, independent reconciliations were not performed of:</p> <ul style="list-style-type: none"> • cash register tapes to amounts deposited; • participants in the competitive swim programs to rosters and collections recorded and deposited; 	<p>6. Supervisory and/or administrative staff independent of the collection/deposit function should periodically reconcile:</p> <ul style="list-style-type: none"> • cash register tapes to amounts deposited; • participants in activities (e.g., swim and lifeguard lessons,

<ul style="list-style-type: none"> • participants in swim and lifeguard lessons to rosters and to collections recorded and deposited; • participants in water aerobic classes to rosters and collections recorded and deposited; • rental events to collections recorded and deposited; and • passes issued to collections recorded and deposited. <p>In circumstances where resource and cost-benefit limitations preclude the hiring of additional staff to effectively provide for the complete segregation of incompatible duties among different employees, management's independent verifications serve as an efficient and effective compensating control.</p> <p>To address a similar issue identified in prior audit report #0134, we noted that the Parks and Recreation Administrative Division had scheduled and initiated periodic on-site monitoring reviews of various revenue-generating activities (including Aquatics). In these monitoring visits, the Administrative Division staff conducted (or were scheduled to conduct) the type of reconciliations noted above. However, to date, these monitoring visits and reconciliations had not been performed at the Aquatics Division. Had they been conducted, the lack of retention of critical source documents (see items 1, 3, and 4 above), the unexplained conflicting versions of daily fee collection reports (see item 2 above), the unaccounted for revenues (see item 7 below), and one instance where a competitive swim program participant was not billed (see item 9 below) may have been detected (and, as a result, corrective action taken) in a timelier manner.</p>	<ul style="list-style-type: none"> • competitive swim programs) to fees collected and deposited; • rental events to fees collected and deposited; and • pass sales to fees collected and deposited.
<p>7. <u>Our audit tests disclosed the disposition of revenues for Trousdell and Wade Wehunt pools, totaling \$7,020.40, could not be determined.</u> Specifically:</p> <ul style="list-style-type: none"> • Thirty-one pass sales totaling \$1,495.25 (Trousdell and Wade Wehunt) as recorded on pool pass logs could not be traced to evidence of collection or deposit in the City's bank account. • A payment of \$164.50 for a pool rental (Trousdell) could not be traced to evidence of deposit in the City's bank account. • Collections for 18 days (Trousdell and Wade Wehunt), totaling \$4,682.90, as evidenced by internal daily collection reports and/or cash register tapes could not be traced to evidence of deposit in the City's bank account. <p>Upon notification of these unaccounted for revenues, Parks and Recreation management conducted a further review for activity during October 2004 through March 2005, which indicated additional collections of \$677.75 that could not be traced to evidence of deposit.</p>	<p>7. Parks and Recreation management referred this matter to the Tallahassee Police Department for further review and investigation as appropriate. Implementation of recommendations made throughout this report (e.g., see item #6) should help management detect unaccounted for revenues in a timelier manner.</p>
<p>8. <u>Aquatics management did not always review available accounts receivable reports to identify participants in the competitive swim programs that are delinquent in their payments.</u> Delinquent payment reports are prepared and submitted to the Aquatics Division by the City's Accounting Services Section. In addition, while Accounting Services procedures provide for the submission of delinquent accounts</p>	<p>8. The Parks and Recreation Department should timely review reports made available by the Accounting Services Section that reflect participants delinquent in their payments. In addition, the Parks and Recreation Department should adopt</p>

<p>to the City’s Utility Customer Services Division for collection efforts, we determined that such submissions had not occurred in January and February 2005 due to a temporary vacancy in Accounting Services.</p> <p>Our review of the status of billed accounts in the two competitive swim programs showed the following:</p> <ul style="list-style-type: none"> • As of April 14, 2005, 37 of the active participants in one program (representing 22% of all active participants) had not paid all amounts billed as of and prior to December 31, 2004. The unpaid amounts for those 37 participants totaled \$5,926. • As of April 14, 2005, five of the active participants for the other program (representing 10% of all active participants) had not paid all amounts billed as of and prior to December 31, 2004. The unpaid balance for those five participants totaled \$239. <p>Other than the submission of delinquent accounts by Accounting Services for collection efforts, the Parks and Recreation Department does not have a formal procedure or policy for actions to take for active participants delinquent in their payments. Such a procedure/policy (e.g., stopping participation until payment is made) may assist in timelier collection of overdue amounts.</p>	<p>a policy or procedure specifying internal actions that should be taken for those active participants with delinquent accounts (e.g., terminating program participation if payment is not made within a specified and reasonable time).</p>
<p>9. <u>A program participant was not billed for services.</u> Participants (usually parents of participants) in the two competitive swim programs may select to pay either by monthly bank draft or based on billing requests prepared and submitted by the City’s Accounting Services Section. Of the 207 active participants in both programs at the time of fieldwork, we identified one participant that had not paid and had not been billed. This instance was attributable to a miscommunication between different staff (coaches and division administrative staff) and with the participant’s parents. After our identification of this oversight, the Aquatics Division billed the parents.</p> <p>This oversight was not significant, however, it was preventable. If the independent verifications addressed in item 6 above had been performed, this oversight would have been timely detected by management.</p>	<p>9. As also recommended in item 6 above, management should provide for periodic independent reconciliations of participants to fees collected and deposited.</p>
<p>10. <u>A contract with an external entity for private swim lessons was not adequately managed.</u> The Aquatics Division contracted with an external party (Performance Enhancement Enterprises, Inc., also known as “Tallahassee Swim Pool”) to teach private swim lessons at City pools. The contract provides that the City is to collect participant fees. For the private swim lessons, the City is to pay the contractor 85% of total fee collections and retain the remaining 15%. Requiring participants to pay fees directly to the City (opposed to paying them to the contractor) helps the Aquatics Division ensure that all fees are properly assessed/collected, and that the applicable shares are properly allocated between the City and the contractor.</p> <p>We determined that this contract was not adequately managed. Specifically:</p> <ul style="list-style-type: none"> • Contrary to contractual provisions, the Aquatics Division authorized the contractor to (1) collect fees for private swim lessons directly from participants during the fiscal 	<p>10. In response to this issue, Parks and Recreation management indicated that the contractual arrangement would be modified to require the contractor to pay the City rental fees (i.e., for pool lanes) instead of the City collecting registration fees and allocating those fees between the City and contractor. If properly implemented, this planned action should alleviate the issues. We recommend that this planned action be implemented.</p>

<p>year 2004 swim season, and (2) retain 85% of those collections and remit the remaining 15% to the City. There was no independent reconciliation by Aquatics Division staff of the number of participants receiving private swim lessons to the fees collected and remitted to the City by the contractor. Accordingly, the Aquatics Division did not ensure that the contractor remitted all revenues due the City for private swim lessons taught at City pools for that fiscal year.</p> <ul style="list-style-type: none"> • Similarly, during the fiscal year 2003 swim season, the contractor collected fees directly from some participants and remitted those fees to the City. The Aquatics Division then allocated those fees between the City and the contractor based on the contractual provisions. As also noted above, there was no independent reconciliation by Aquatics Division staff of the number of participants receiving private swim lessons to the fees collected and remitted to the City by the contractor. Accordingly, the Aquatics Division did not ensure that the contractor remitted all revenues due the City for private swim lessons taught at City pools for that fiscal year. • Contrary to contractual provisions, the contractor did not retain complete records justifying all charges, expenses, and costs incurred pursuant to the contractual arrangement for at least three years. When the Aquatics Division requested applicable records evidencing program participation from the contractor in response to our inquiries, the contractor responded that complete records were not retained and/or available. <p>In response to the division's request (made as the result of our audit inquiry), the contractor responded (1) that the fees (\$2,856) remitted for the fiscal year 2004 swim season (i.e., representing the City's 15% of total collections) were based on the contractor's best "estimate" at that time, and (2) the collections submitted for the fiscal year 2003 swim season were incomplete. The contractor acknowledged that complete records had not been retained to enable a totally accurate determination of fees due the City. In addition, the contractor responded that, after going back through available records in response to our request, a determination was made that the City was due an additional \$1,227.15 for the fiscal year 2003 swim season and an additional \$1,059 for the fiscal year 2004 swim season. The contractor subsequently remitted checks for those amounts to the Aquatics Division.</p> <p>These circumstances substantiate the importance of properly managing this contract. Without such management, the Aquatics Division has no means for ensuring that revenues are properly received and processed.</p>	
<p>11. <u>A coding error resulted in a \$1,193 overpayment to a contractor.</u> As noted above, the Aquatics Division contracted with an external entity to provide private swim lessons at City pools. Of total fees collected from participants, 85% was due the contractor and the remaining 15% belonged to the City. As also noted above, during the fiscal year 2004 swim season, the contractor collected registration fees, retained the 85% share, and remitted the City's 15% to the Aquatics Division.</p> <p>In addition to private swim lessons, the applicable contract</p>	<p>11. The overpayment should be recovered from the contractor. Staff should be reminded of the importance of correctly coding revenues and receipts.</p>

<p>provided for the contractor to administer one of the division's competitive swim programs. For that service, the contractor was to be paid 85% of net revenues (i.e., total fees collected from program participants less certain defined expenses).</p> <p>We determined that a payment of \$1,404 remitted by the contractor to the City for the private swim lessons (i.e., representing the City's 15% share) were incorrectly coded as revenues for the competitive swim program. As a result, 85% of the \$1,404 payment (\$1,193.40) was incorrectly remitted back to the contractor as part of net revenues for administration of the competitive swim program. In response to our finding, the Parks and Recreation Department indicated that a repayment plan would be implemented with the contractor.</p>	
<p>12. <u>A minor cash shortage of \$21.25 was identified in our surprise cash count of the Aquatics Division imprest fund used in cashiering operations for seasonal pools.</u> The Aquatics Division has an imprest fund totaling \$80 used in the cashiering operations at the seasonal pools (i.e., all pools other than Trousdell and Wade Wehunt). On February 17, 2005, we conducted a surprise cash count of those funds and identified an unexplained shortage of \$21.25.</p>	<p>12. All shortages in imprest funds should be researched, explained, and documented.</p>
<p>13. <u>Collections were not always timely deposited.</u> The City Treasurer-Clerk's Revenue Office Policy (APM No. 616) requires all collected revenues to be deposited within 48 hours (two business days) after receipt. In regard to the Aquatics Division, this policy has been interpreted to mean that revenues shall be processed, prepared for deposit, and available for pick up by the City's contracted courier within 2 business days of receipt. Our tests of 125 deposits showed 39 instances (31%) where collections were not deposited timely. In these 39 instances, we determined the deposits were made 2 to 20 days late. Late deposit of revenues (1) increases the exposure of funds to theft or loss and (2) reduces the interest that can be earned on deposited funds.</p>	<p>13. All collections should be timely deposited.</p>
<p>14. <u>Cash reports were not always timely prepared.</u> City departments collecting revenues must prepare and submit cash reports to the Treasurer-Clerk's Revenue Office. Those reports reflect collections by type/source and indicate the account codes to which the collections should be recorded. To ensure timely accounting for collections, APM No. 616 requires that the cash reports be prepared and submitted to the Revenue Office no later than 5 days after the deposit. Our review of 63 cash reports showed that 8 (13%) were prepared more than one week after the applicable deposits (i.e., periods ranged from 8 to 13 business days after the date of deposit).</p>	<p>14. To facilitate accountability, cash reports should be prepared and submitted to the Revenue Office in a timelier manner.</p>
<p>Information and Communications</p> <p>Information should be communicated to management and others who need it and in a form and within a time frame that enables them to carry out their responsibilities. Information needs to be relevant, reliable, and timely communicated.</p>	
<p>Issue</p>	<p>Recommendation</p>
<p>1. <u>Communications and information sharing should be improved.</u> The various issues identified in this report under "Control Activities" are indicative of the lack of adequate communication and information sharing between management and staff.</p>	<p>1. In addition to the other recommendations in this report, department management should play an active role in communicating to staff the significance of City and department policy and procedures,</p>

	particularly in regards to internal controls, revenue processing, and ethical behavior.
Monitoring	
Monitoring should occur in the course of normal operations. A variety of controls should be in place to check accuracy, completeness, and authorization of transactions.	
Issue	Recommendation
1. Monitoring activities should be enhanced. As noted in item 6 above under "Control Activities," scheduled periodic monitoring for the Aquatics Division revenue-generating operations has not been not timely performed.	1. Management should perform periodic monitoring of financial activity at the Aquatics Division. Monitoring should include activities recommended above under "Control Activities."

Conclusion

In conclusion, adequate controls were not in place within the Parks and Recreation Aquatics Division to ensure fees were properly received, safeguarded, deposited, and accounted for in City records. City policies and internal procedures applicable to revenues and collections were often not followed. The disposition of collections totaling \$7,020 could not be determined.

Our review showed that immediate actions should be taken to:

- Prepare and retain critical source records (cash register tapes, registration forms, rosters, rental agreements) documenting revenue activity;
- Clearly document the "official" (correct) version of internal fee collection reports, and document and explain differences when multiple versions are prepared and retained;
- Improve controls and accountability over swim passes;
- Conduct periodic independent reconciliations of source records evidencing revenues that should be collected to actual revenues collected and deposited;
- Account for the disposition of all revenues;
- Review accounts receivable reports to identify participants with delinquent accounts, and establish actions that should be taken in regard to those participants;
- Properly manage and administer the contract for private swim lessons;

- Accurately code transactions;
- Document and explain shortages in imprest funds;
- Deposit collections in a timely manner; and
- Prepare and submit timely cash reports.

Specific recommendations have been made within this report to assist the Parks and Recreation Department in implementing appropriate corrective actions. Management's planned actions based on these recommendations are provided in Appendix A of this report.

We would also like to acknowledge the cooperation and support of applicable Parks and Recreation staff during this audit.

Appointed Official's Response

City Manager's Response:

We appreciate the thorough job the City Auditor's staff did in examining the Aquatics Division's revenue process and operations. We recognize and appreciate the importance of good internal controls and the audit action plan steps will be implemented in their entirety. In fact, most of the action plan steps were implemented as deficiencies were discovered during the audit process and the remainder should be in place before the target dates. We are confident that the compliance with internal controls and active monitoring will improve operations in the Aquatics Division.

Copies of this report #0526 (project #0503) may be obtained from the City Auditor's website (<http://talgov.com/auditing/index.cfm>), or via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (auditors@talgov.com).

Audit conducted by:

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T. Bert Fletcher, CPA, Audit Manager

Sam M. McCall, CPA, CGFM, CIA, CGAP, City Auditor

APPENDIX A – ACTION PLAN

Action Steps	Responsible Employee	Target Date
A. Objective: Ensure appropriate records are prepared and retained to support revenue operations.		
1. Source documentation such as cash register tapes (Z tapes) and registration forms for swim lessons and lifeguard lessons will be retained in accordance with City record retention requirements.	Ashley Edwards	6/1/05
2. Rosters will be prepared and retained for participants in registration events such as swim lessons, lifeguard lessons, etc. Those rosters will be updated as necessary to reflect new participants and/or dropouts. The history of such changes will be documented on the rosters.	Ashley Edwards	6/1/05
3. Registering participants will be required to complete registration forms prior to participation in applicable aquatic activities (e.g., swim lessons and lifeguard lessons).	Ashley Edwards	6/1/05
4. Pool rental contracts will be completed for each rental event, including baptisms.	Ashley Edwards	6/1/05
5. The “official” (i.e., correct final version) internal collection reports prepared for applicable pools will be attached to the related daily cash register tapes and submitted to the Parks and Recreation Administrative Division for processing and retention. In the event more than one version is prepared and retained, the reports will be clearly documented as to which represent the initial and final versions, and an audit trail will be maintained to explain the differences.	Ashley Edwards	6/1/05
6. Staff will be reminded of the importance of documenting: (1) the disposition of all swim passes and (2) the dates of issuance of those passes.	Ashley Edwards	7/1/05
7. Pre-numbered pass tickets will be obtained from a vendor. Those passes will be maintained and issued to applicable pool supervisors by the Parks and Recreation Administrative Division.	Ashley Edwards	7/1/05
8. The contractor providing private swim lessons will be reminded of the contractual requirement to maintain and retain adequate records of program participation, as well as, complete records justifying all charges, expenses, and costs incurred pursuant to the City contract. Future instances of noncompliance will result in termination of the contract.	Ashley Edwards	7/1/05
9. Participants in water aerobics will no longer pre-register for classes. Instead, passes (similar to those used recreational swimming) will be obtained and sold to participants. Each participant will be required to present a pass prior to participation. The passes will be accounted for in a manner similar to the process used for recreational swim passes.	Ashley Edwards	7/1/05
B. Objective: Ensure fees are properly collected and timely deposited.		
1. Independent supervisory staff will periodically reconcile:	Ashley Edwards	7/1/05

	Action Steps	Responsible Employee	Target Date
	<ul style="list-style-type: none"> • cash register tapes from the various pools to amounts deposited for those pools; • participants in various activities (i.e., swim lessons, lifeguard lessons, competitive swim programs) to rosters prepared for those programs; • rosters of participants (i.e., swim lessons, lifeguard lessons, competitive swim programs) to fees collected and deposited; • rental events to rental fees collected and deposited; and • pass sales to fees collected and deposited. <p>These periodic reconciliations will be scheduled by management but not announced to staff. Appropriate actions will be taken in the event that those reconciliations show a lack of proper collection and/or deposit of fees.</p>		
2.	To ensure timely deposit of funds, revenue collections will be recorded, prepared for deposit, and available for pick up by the City's contracted courier within two business days of receipt.	Ashley Edwards	6/1/05
3.	Cash reports will be prepared and submitted to the Revenue Office no later than five business days after the related deposits are made.	Ashley Edwards	6/1/05
4.	Staff will be reminded of the importance of reviewing reports submitted by Accounting Services showing participants in the competitive swim program that are delinquent in their payments.	Ashley Edwards	7/1/05
5.	An internal policy will be adopted that specifies the actions to take for competitive swim program participants with delinquent accounts. Those actions will include terminating program participation if payments are not made within a specified and reasonable time.	Ashley Edwards	6/1/05
6.	The department will no longer collect and retain a portion of registration fees from private swim lesson participants. Instead, the applicable contract will be amended to require the contractor providing those lessons to pay the City lane rental fees.	Ashley Edwards	5/19/05
C. Objective: Ensure the accountability and safeguarding of imprest funds.			
1.	Custodians will be reminded of the importance of safeguarding and maintaining accountability over imprest funds used for cashiering operations at the various City pools. Any identified shortages will be timely researched, explained, and documented.	Ashley Edwards	7/1/05
D. Objective: Ensure a proper control environment is maintained.			
1.	Department management will emphasize to staff the importance of implementing and complying with established City policy and procedures in regard to internal controls, revenue processing, and ethical behavior.	Ashley Edwards	7/1/05
2.	Management (director, assistant director, and superintendent) will periodically visit the City pools and review operations and	Ashley Edwards, Gerry Norris	7/1/05

Action Steps		Responsible Employee	Target Date
	programs, interview staff, and analyze activity for the purpose of identifying risks and means to mitigate those risks.		
3.	Existing written internal procedures will be revised to address essential aspects of the preceding action steps.	Ashley Edwards	7/1/05