

**NORTH RIVER
CIVIC CENTER
COLLECTIONS
AUDIT 09-18
June 28, 2010**



City of Chattanooga

Stan Sewell
Director

INTERNAL AUDIT
City Hall
Chattanooga, Tennessee 37402

Ron Littlefield
Mayor

July 28, 2010

Mayor and City Council
City of Chattanooga
Chattanooga, TN 37402

RE: North River Civic Center Collections, Audit 09-18

Dear Mayor Littlefield and City Council Members:

Attached is the Internal Audit report on North River Civic Center Collections.

We thank the Education, Arts & Culture Department and the Friends of the North River Civic Center, Inc. for their cooperation and assistance during this audit.

Very truly yours,

Stanley L. Sewell, CPA, CGFM
Director of Internal Audit

cc: Dan Johnson, Chief of Staff
Daisy Madison, City Finance Officer
Vickie Haley, Assistant Finance Officer
Missy Crutchfield, EAC Administrator
Audit Committee

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Auditor



Director

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INTRODUCTION

The City of Chattanooga celebrated the grand opening of the North River Civic Center (NRCC) in Hixson on February 20, 2004. The center is owned by the City of Chattanooga and operated by the Department of Education, Arts, & Culture. The facility features educational, recreational, and fitness programs for youth, adults and seniors north of the river, and also serves as a meeting place for community organizations. The center is located in the office park behind Northgate Mall.

The center features a large meeting room and full kitchen with restrooms and front reception area. The main meeting room can be divided into two sections for simultaneous activities, while a third area just outside the kitchen is furnished for card games and socializing. The large kitchen also serves as an arts and crafts center.

Some of the community organizations that meet regularly at the NRCC include the Kiwanis, the Hixson Chamber of Commerce, the Rose Society, the Lions Club, Y-Me, the MS Society, the Hixson Utility District, and many more.

STATEMENT OF OBJECTIVES

The objectives of this audit are to determine if:

1. There are adequate written policies/procedures in place for collections.
2. Proper internal controls are in place surrounding the collections process.

STATEMENT OF SCOPE

The audit period was FY09 (July 01, 2008 through June 30, 2009). We reviewed information related to collections that were received by the North River Civic Center during this time period.

STATEMENT OF METHODOLOGY

We met with staff from the North River Civic Center to obtain an understanding about the collections process. We also reviewed Collection Reports (and related supporting documentation), the City Code, the State Code, and BANNER (electronic accounting information system) data to obtain information about the collections process. We also obtained information and documentation from the Friends of the North River Civic Center. We reviewed detail documentation for a sample of transactions.

The sample size and selection were statistically generated using a desired confidence level of 90 percent, expected error rate of 5 percent, and a desired precision of 5 percent. Statistical sampling was used in order to infer the conclusions of test work performed on a sample to the population from which it was drawn and to obtain estimates of sampling error involved. When appropriate, judgmental sampling was used to improve the overall efficiency of the audit.

STATEMENT OF AUDITING STANDARDS

We conducted this performance audit in accordance with generally accepted government auditing standards. Those 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.

AUDIT CONCLUSIONS

Based upon the testwork performed and the audit findings noted below, we conclude that:

1. There are written policies/procedures in place related to collections. However, these written policies and procedures are limited and could be modified to provide more thorough guidance related to the collections process.
2. Partial controls are in place surrounding the collection process.

WRITTEN POLICIES/PROCEDURES

The departmental written policies/procedures that are in place at the North River Civic Center primarily set rental fees and instructions related to the rental application process. The policy does not contain specific guidance related to the internal processing of collections that are received at the North River Civic Center. However, management did indicate they follow the Collection Report Preparation procedures issued by the Finance Department.

RECOMMENDATION 1

We recommend that the written policies/procedures at the North River Civic Center be modified to include comprehensive guidance related to their collections process. The written policies/procedures should ensure proper internal controls to safeguard the collections from the time of the initial receipt by North River Civic Center staff to the time that the funds are remitted to the Treasurer's Office. Referencing the Finance Department's Collection Report Preparation procedures will help ensure staff are aware of some broad based requirements (issuance of pre-numbered receipts and prompt deposits) and that the collection reports are properly completed. However, additional procedures that are specific to NRCC operations are also needed to ensure issues such as custody of cash (documentation of transfers between staff), fee waiver approval/documentation, assignment of various responsibilities (considering segregations of duties), and requiring an event be added to the facility calendar once a rental application and rental payment is initially received should also be addressed. This updated policy/procedure document should be given to staff and a record of the receipt of this manual by staff should be documented in writing.

AUDITEE RESPONSE

Since the 2004 opening of the North River Civic Center (NRCC), we have strived to ensure that the city's collection report preparation procedures issued by the Finance department are met by conducting the following:

1. We issue pre-numbered receipts obtained from the city's Treasurer's Department.
2. Collections are safeguarded within the facility; deposits are normally made within three business days. A security system is in place at the center and in operation at all times.
3. Collection reports are properly completed and signed off by the Treasurer's representative.
4. Fee waivers were pre approved by the department's administration and recommended by the advisory board.
5. A calendar of events is printed monthly and handed out to daily participants. All events were subject to change. Events calendars are reviewed by the administration on a monthly basis.
6. Segregation of duties is not administratively possible at this time.

AUDITOR COMMENT

Based on our review, it appears that the Finance Department's collection report preparation procedures were being followed by the NRCC. However, these procedures are limited and primarily focus on the proper presentation/completion of the collection report. The purpose of our finding/recommendation was to emphasize to NRCC management that written policies/procedures should be updated to specifically address how collections are received, processed, and remitted to the Treasurer's Office.

SERVICE PROVIDER CONTRACT AGREEMENT NOT ADHERED TO

As a part of our review, we learned that the service provider agreements that were in place between various class instructors and the North River Civic Center specify that the City collect the class revenue and that the City remit 75% of the class revenue back to the instructor. Based on our audit procedures, it appears that the instructors are collecting the class instruction revenue themselves and then remitting 25% of that revenue to the City. This allows the class instructors (as opposed to a City employee) to control the fee collection process. A similar issue was reported as a finding in our audit of Heritage House Revenues (Audit 09-14).

RECOMMENDATION 2

We recommend the EAC staff adhere to the instructor contract agreements that are currently in place between the EAC Department and the various instructors at the North River Civic Center with the City collecting class fees, following set procedures that will ensure a reasonable level control over revenues.

RECOMMENDATION 3

We also recommend that the instructor contract agreement be updated.

AUDITEE RESPONSE

We will work with the city's legal department to revise the Service Provider contract to meet the specific requirements of the NRCC. This matter is presently being addressed by the city's attorneys.

We are requesting that the revised contract includes the following:

1. Instructor and staff will be responsible for completing the registration list and collecting fees.

2. Instructor will remit 25% of the total to staff accompanied with supporting documents.
3. Staff will reconcile registration list with number of participants against reported fees.
4. Instructor and staff will sign off on each report to ensure that the amount is correct.

CHECKS PAYABLE TO CITY

As a part of our review, we found that the NRCC written policies/procedures specified that customers make their event rental checks/money orders payable to “Education, Arts, & Culture.”

RECOMMENDATION 4

We recommend that the EAC management modify the NRCC written policy/procedure to read something similar to the following, “Checks/money orders should be made payable to the City of Chattanooga.”

AUDITEE RESPONSE

We will modify the NRCC written policy/procedure to read, “Check/money orders should be made payable to the City of Chattanooga.”

EVENT CALENDAR

We learned that the NRCC has a policy of only listing events on the official NRCC event calendar once the rental application and rental fee payment are both received. We found that the NRCC is in violation of their policy. Over the 46 day period that we selected for our audit test work, we found that 5 events were listed on the North River Civic Center calendar in which no payment was received. NRCC management informed us that these events were not actually held although they were listed on the event calendar. Instances such as this may have prevented other groups or individuals from utilizing the facility on these days and resulted in a loss of revenue for the NRCC.

In addition to providing staff with a tool to effectively manage reservations, the calendar provides a valuable internal control over cash collections. The calendar should be used to provide the Education, Arts & Culture Department management with information to reconcile events placed on the calendar to funds deposited per the collection reports. In addition, the practice of placing unpaid events on the calendar may decrease interest from prospective renters since it appears the facility is booked.

RECOMMENDATION 5

We recommend that the EAC Department/NRCC modify the NRCC's written policy/procedure manual to include guidance about the event calendar scheduling process that specifically addresses event rental payments and how they relate to when events are officially listed on the event calendar. We also recommend that the EAC Department enforce their policy of only adding events to the NRCC calendar once both the event rental application and event rental fee have been received. Management should ensure an individual separate from the reservation process conducts periodic reviews/reconciliations of scheduled events to funds collected.

AUDITEE RESPONSE

Events calendars are reviewed by the EAC Administrators monthly. All events were subject to change. Management will ensure events are listed on the final calendar only after the fees are collected and paid in full. Any cancellations will be immediately removed and reconciled.

AUDITOR COMMENT

Our recommendation is in regard to the perpetual calendar that is maintained for scheduling events, not the "final" calendar. Management, separate from those charged with receiving funds, should be able to verify funds have been received for any event listed on the calendar.

FEE APPROVAL BY CITY COUNCIL

Rental fees are typically set in the City Code. We found that the latest rental fees for various City facilities were set with City Ordinance 12285 on September 15, 2009. This ordinance covers rental fees for multiple City parks, multiple athletic fields, and also the Heritage House (which is an Education, Arts, & Culture Facility). We found that the rental fees for the North River Civic Center were not included as a part of City Ordinance 12285.

RECOMMENDATION 6

We recommend that the North River Civic Center have their rental fee schedule approved by the City Council in order to increase internal controls and be consistent with the other City facilities related to fee approvals.

AUDITEE RESPONSE

The EAC Administrators agree to present the rental fees to City Council for approval.

FEE WAIVERS

We found that multiple groups who are sponsors of the NRCC are allowed to utilize the NRCC facility free of charge. This policy was initially established by the City's Parks & Recreation Department and the "Friends of the North River Civic Center." However, it appears that there was no written authorization given by Education, Arts & Culture management stating that these groups were allowed to use the facility for free.

RECOMMENDATION 7

We recommend that the EAC Department implement a policy that requires a written authorization/approval by EAC management (separate from staff responsible for fee collections) to document each event rental fee that is waived at the North River Civic Center. We further recommend EAC management ensure there is a clear understanding that Friends of the North River Civic Center does not have the authority to waive fees at this City facility.

AUDITEE RESPONSE

EAC will implement a written policy regarding the waived fees at NRCC. EAC Administrators and the NRCC Manager meet with the Friends of the Civic Center on a monthly basis. We will ensure there is a clear understanding that Friends of the North River Civic Center does not waive fees at the City facility.