



City of Chattanooga

INTERNAL AUDIT

City Hall

Chattanooga, Tennessee 37402

Stan Sewell
Director

Ron Littlefield
Mayor

January 21, 2011

Mayor and City Council
City of Chattanooga
Chattanooga, TN 37402

RE: Outdoor Chattanooga Cash Collections, Audit 10-04

Dear Mayor Littlefield and City Council Members:

Attached is the Internal Audit Division's report on Outdoor Chattanooga Cash Collection Audit.

We thank the management and staff of the Parks and Recreation Department for their cooperation and assistance during this audit.

Sincerely,

Stan Sewell, CPA, CGFM
Director of Internal Audit

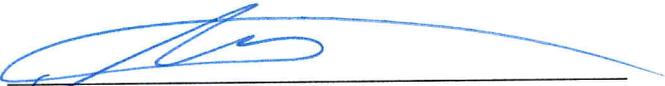
cc: Dan Johnson, Chief of Staff
Audit Committee Members
Daisy Madison, Finance Administrator
Larry Zehnder, Parks & Recreation Administrator

**PARKS AND RECREATION
DEPARTMENT
OUTDOOR CHATTANOOGA
CASH COLLECTIONS
AUDIT 10-04
DECEMBER 8, 2010**

**PARKS AND RECREATION DEPARTMENT
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Auditor



Audit Director

**PARKS AND RECREATION DEPARTMENT
OUTDOOR CHATTANOOGA
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INTRODUCTION

In May 2003, the Mayor of Chattanooga initiated a citizen-based process that established a Strategic Plan for Outdoor Recreation in the Chattanooga region. Outdoor Chattanooga, a division of the City's Parks and Recreation department, was formed as a direct response to this initiative. It was established as a regional mechanism with facilities dedicated to the recreational use, education, and stewardship of the region's natural areas.

For over 10 years OutVenture has been the outdoor recreation program for the City of Chattanooga's Parks and Recreation Department. OutVenture exists to serve the citizens of Chattanooga by offering affordable programs in a safe and fun learning environment. OutVenture is now the programming arm of Outdoor Chattanooga. OutVenture exists to promote the natural resources of the Chattanooga area and the skills needed to safely enjoy those resources through education and recreational programs.

Outdoor Chattanooga program fees and facility rental fees are approved by City Council (2009 resolution #12285). Outdoor Chattanooga revenues include facility rentals (Greenway Farms and Outdoor Chattanooga buildings), outventure camp, kayaking, canoeing, mountain biking and both private and classroom instruction fees.

STATEMENT OF OBJECTIVES

This audit was conducted in accordance with the Internal Audit Division's 2010 Audit Agenda. The objectives of this audit were to determine if:

1. Cash collections are properly handled, documented and submitted to the Treasurer's office within the required three day period.
2. Payments are being received for all scheduled outventure programs and facility rentals.
3. Fees collected are in accordance with City Codes related to Outdoor Chattanooga's outventure program fees and facility rentals.

STATEMENT OF SCOPE

Based on the work performed during the preliminary survey and the assessment of risk, the audit will cover Outdoor Chattanooga's cash collections from July 1, 2009 to June 30, 2010. Source documentation was obtained from Outdoor Chattanooga and the Finance department. Original records as well as copies were used as evidence and verified through physical examination.

STATEMENT OF METHODOLOGY

We reviewed the written policies/procedures and interviewed staff to gain an understanding of the cash collections process at Outdoor Chattanooga and Greenway Farms. In addition, we reviewed the Internal Control and Compliance Manual for Tennessee Municipalities, the Chattanooga City Code, Parks and Recreation's cash collection policy and procedures manual, and the Finance Department's accounting policies and procedures. In addition, we reviewed a sample of cash collections and various supporting documentation.

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 test work performed and the audit findings noted below, we conclude that:

1. Cash collections are not properly handled, documented and submitted to the Treasurer's office within the required three day period.
2. Adequate support documents to facilitate an audit of cash collections were not maintained by Outdoor Chattanooga staff. Further, we found indicators that theft has occurred by one or more City employees.
3. Fees collected were not always in accordance with City Code.

While the findings discussed below may not, individually or in the aggregate, significantly impair the operations of Outdoor Chattanooga, they do present risks that can be more effectively controlled.

FRIENDS OF OUTDOOR CHATTANOOGA

During the audit, we learned both Outdoor Chattanooga's Director and Bike Coordinator are voluntary board members of an organization called Friends of Outdoor Chattanooga (FOC). Per the Director of Outdoor Chattanooga, FOC was formed to assist with funding equipment and staff training for Outdoor Chattanooga. The organization incorporated as a Tennessee non-profit corporation on December 6, 2007 and has a voluntary board. To date, the corporation has not applied for nor received approval as an exempt organization from the Internal Revenue Service.

FOC does not own or lease any facilities and uses a City-owned building (Outdoor Chattanooga's building) as its principal location. Further, FOC has no paid employees. In July 2009, FOC opened a business checking account. Outdoor Chattanooga's Director (a City employee) makes deposits, signs checks, and utilizes the sole debit card issued on this account. Therefore, in addition to serving as a board member, Outdoor Chattanooga's Director appears to be staffing Friends of Outdoor Chattanooga. In substance, Friends of Outdoor Chattanooga appears to serve no purpose other than to act as a shell organization to which funds can be diverted.

We performed a limited review of the Friends of Outdoor Chattanooga's books and records and noted deposits and expense payments were not fully documented and/or properly supported. We found substantial amounts of money have been deposited into the FOC bank account over the past 18 months from fundraising as well as public events. These events were promoted by the City using the Outdoor Chattanooga name. We noted registration fees for two recent events were deposited into FOC's bank account. However, a review of the registration forms and liability waivers indicate checks were made payable to Outdoor Chattanooga and have the appearance of a City-sponsored event.

City Code Section 2-756 states, "An official or employee shall not use or authorize the use of municipal time, facilities, equipment, or supplies for private gain or advantage to any private person or entity, except as authorized by legitimate contract or lease that is determined by the governing body to be in the best interests of the municipality." It appears the Director of Outdoor Chattanooga has allowed FOC to use municipal time, facilities and/or equipment for private gain without authorization from City Council.

City Code Section 2-190(a) states "An official or employee who has the duty of approving or giving permission to members of the public to do or not to do something lawfully regulated by the city, or is otherwise an employee of the office, division or agency responsible for an official city approval process [facility rental, equipment usage, utilization of staff], or is a fireman or a policeman, shall not do any work or service outside his/her city employment without the written approval of his/her departmental supervisor." Executive Order of the Mayor 2007-0001 requires an outside employment form be submitted to the department head for approval. Further, the policy states a city employee shall not engage in any outside employment that results in a conflict of interest with regard to the City of Chattanooga. We reviewed the Director's personnel file and did not find an outside employment form for Friends of Outdoor Chattanooga.

The purpose, function, and interests of both Outdoor Chattanooga and Friends of Outdoor Chattanooga appear to overlap and therefore create a conflict of interest for the Director of Outdoor Chattanooga. The Director of Outdoor Chattanooga has the duty to properly oversee facility, equipment and staff utilization for the City of Chattanooga. The same individual serves as a board member and, in substance, an Executive Director of FOC, an entity interested in utilizing City resources. Further, the Parks and Recreation Administrator is not fully aware of all activities involving Outdoor Chattanooga and Friends of Outdoor Chattanooga. In fact, events held by Friends of Outdoor Chattanooga (using City facilities and staff) to generate revenues has not been approved by or discussed with Administration.

RECOMMENDATION 1

The Director of Outdoor Chattanooga should not allow private entities to use City property in violation of City Code. We recommend Administration take appropriate disciplinary action.

AUDITEE RESPONSE

All future uses of city property by private entities will be done through city approved facility use rental agreements. The waiving of a fee will only be done with the approval of city council.

RECOMMENDATION 2

We recommend Administration take immediate action to eliminate any conflict of interest or appearance thereof. The Director of Outdoor Chattanooga should not independently enter into agreements with an entity for which he serves an administrative function (i.e. the same individual should not act as an agent for both parties to various contracts/agreements).

AUDITEE RESPONSE

The director Outdoor Chattanooga has resigned his position from the board of Friends of Outdoor Chattanooga.

RECOMMENDATION 3

We recommend a comprehensive investigation of Friends of Outdoor Chattanooga's books and records be initiated. Upon request, Internal Audit will open a special project to facilitate this investigation. We recommend Administration instruct all Outdoor Chattanooga staff that no documentation is to be destroyed or disposed of prior to the completion of this special project.

AUDITEE RESPONSE

Any investigation deemed necessary is welcomed.

RECOMMENDATION 4

If the Director of Outdoor Chattanooga continues to serve in his current capacity (performing administrative functions) with Friends of Outdoor Chattanooga, an outside employment form should be submitted and approved by Administration.

AUDITEE RESPONSE

Outside employment form is not necessary the director of Outdoor Chattanooga no longer serves on the board. The director of Outdoor Chattanooga has resigned his position with the board and has been removed from the business checking account. The current FOC board members recently finished the application with the IRS and have mailed in the 1023 to file for a federal Not for Profit status and will work with the Administrator of Parks and Recreation to formalize an agreement between the two agencies. The Director of Outdoor Chattanooga will only act as an advisor to FOC and its board members. Furthermore the director of Outdoor Chattanooga will explore whether or not the advisor role is considered an extra job and if so seek approval and fill out the appropriate paperwork. Any events or program conducted by FOC in the interim will be discussed with the Administrator of Parks and Recreation to seek approval or if necessary City Council's approval and all the assets that have been purchased by FOC for the use of the City of Chattanooga will remain available for Outdoor Chattanooga to use. The total value of these assets is \$34,000. All the equipment used for the downtown kayak program and the bike to lunch program is equipment that was purchased by FOC.

NUMEROUS VIOLATIONS OF CASH COLLECTION POLICIES

During our review, we found numerous violations of departmental policies and procedures as well as violations of State requirements set forth in the compliance manual.

We found receipts are not issued for all funds received. Further, we noted the majority of receipts "issued" were not given to the purchaser (white and pink copies were located in the receipt book). TN State requirement TCA 9-2-103 states, "Each state, county and municipal official who receives any sum or sums in such official's capacity shall issue to the payer thereof a receipt and shall retain a duplicate thereof in the office of such official..." Further, Parks and Recreation's Cash Collection and Control Policy Section 6.4 states "a receipt must be offered to all customers upon completion of a financial transaction."

We noted several instances in which Parks and Recreation staff violated the City's collection policy by not submitting collection reports within 3 business days of receipt for Greenway Farm facility rentals that were paid by credit card. In fact, Parks and Recreation staff submits the collection report only when prompted by the Treasurer's office. Both the Finance department and Parks & Recreation Administration have issued cash collection policy and procedures that require "pre-deposited funds" be recorded as collections by the City within 3 days.

We found several instances in which Outdoor Chattanooga staff and Parks and Recreation staff did not submit cash collections to the Treasurer's office within three (3) business days after the date of the cash collection which violates T.C.A. 6-56-111. In addition, we found indications that Outdoor Chattanooga staff took active steps to conceal violations of the 3 day rule. During review of collection reports and receipt books, we noted several receipts were dated prior to the "received date" stamped on the checks. Further, copies of these receipts were not attached to the collection report.

The Parks and Recreation Cash Collection and Control Policy 6.3 requires checks be made payable to "City of Chattanooga" and states "a listing of payments received by mail should be prepared daily, with a follow-up verification of the receipting of each payment being made." We found registration forms require payment be made to "Outdoor Chattanooga". Also, review of collection reports indicates the majority of checks were made payable to "Outdoor Chattanooga" or "Chattanooga Outventure". Further, we noted Outdoor Chattanooga staff has not prepared the required listing of daily collections received.

Per discussions with Outdoor Chattanooga staff, we learned a staff member occasionally takes collections home overnight and then delivers the collections to the City Treasurer's office the next day on their way to work. The Internal Control and Compliance Manual for Tennessee Municipalities Title 5 Chapter 10 Section 1 prohibits municipal employees from taking home collections.

In violation of Title 5 Chapter 13 Section 2 of the compliance manual, revenue collections have been exchanged between staff without recording the transfer of funds between the employees. Both Parks and Recreation and Outdoor Chattanooga's cash collection policies and procedures require a cash transfer form be signed and dated upon transfer of cash to another person.

RECOMMENDATION 5

We recommend pre-numbered, City of Chattanooga receipts be provided to any purchaser of goods and/or services. Further, we recommend conspicuous signs be posted that state the following or something similar to: "If you do not receive a City of Chattanooga receipt for your purchase, please contact Internal Audit at 423-425-6202". We further recommend all transfers of funds between staff be properly documented.

AUDITEE RESPONSE

Pre-numbered City of Chattanooga receipts will be issued for all future goods or services in which a person or organization is being charged. The suggested sign:

"If you do not receive a City of Chattanooga receipt for your purchase, please contact
Internal Audit at 423-425-6202"

will be posted. Furthermore a revenue log for all checks and cash received will be created and maintained.

RECOMMENDATION 6

We recommend Parks and Recreation staff submit collection reports in accordance with the Finance department's policies and procedures.

AUDITEE RESPONSE

All future collection reports will be in accordance with the Finance Department's policies and procedures.

RECOMMENDATION 7

We recommend checks be made payable to "City of Chattanooga" and that all Outdoor Chattanooga and/or Outventure registration forms be updated.

AUDITEE RESPONSE

All future checks will be made payable to "City of Chattanooga" and all registration forms will be updated.

RECOMMENDATION 8

We recommend Outdoor Chattanooga staff prepare the daily listing of payments received by mail along with stamping the actual receipt date on the check.

AUDITEE RESPONSE

A daily check / revenue log will be implemented as referenced in the response to recommendation 5 and all check date stamps will correspond to the date on the city issued receipts.

RECOMMENDATION 9

We recommend Parks and Recreation Administration enforce their current written policy and procedures and take appropriate disciplinary action for violations.

AUDITEE RESPONSE

A training session was conducted on Friday January 14, 2011 the training was facilitated by the Finance Department along with the Parks and Recreation Departments fiscal analyst to ensure that the staff was clear on current written policies and procedures. The necessary changes are being implemented as well as the development of the forms to provide the correct documentation necessary for the collection reports.

LACK OF PROPER INTERNAL CONTROLS

Internal Control and Compliance Manual for Tennessee Municipalities Title 4 Chapter 2 Section 3 requires adequate supporting documentation to document all transactions. Also, the City's collection report procedures, Section 2, states "if the collection includes more than a few items or you have a mix of cash and check items, then a summary report should also be provided."

We noted checks received from TN Aquarium are not supported with rosters and/or written agreements for discounted fees. Further, the payments do not indicate the type of event or date of event and staff have not reviewed and verified all fees have been collected. We also found checks received from EdgeReg for online registrations have not been reconciled to the registration forms to verify all fees have been received.

The Internal Control and Compliance Manual for Tennessee Municipalities Title 5 Chapter 1 Section 1 states duties of employees should be separated "so that no one person has control over a complete transaction from beginning to end." Segregation of duties enhances internal controls and limits the opportunity for theft and/or unauthorized use of City assets.

During our review of collection reports, we noted most of the staff collect fees, maintain records and prepare collection reports with little to no supervisory review. We found collection reports have no supporting documents to facilitate an adequate review and reconciliation of collections to scheduled events. Collections are supported by copies of checks and receipts only. Further, management has not reconciled and verified collections to supporting documents.

We learned the Director for Outdoor Chattanooga handles all aspects of the Outdoor Chattanooga facility rentals (maintains calendar, collects rental fees, and prepares collection reports). The reservation calendar is not available to Parks and Recreation Administration or the general public. Further, the City's website does not promote the availability to rent the Outdoor Chattanooga building to the general public.

RECOMMENDATION 10

We recommend adequate support documentation, which could include but is not limited to: participant sign-in sheets, registration forms, rental agreements, and detailed daily summary sheets, be attached to the collection reports submitted to the Treasurer's office.

AUDITEE RESPONSE

Outdoor Chattanooga is working with the Parks and Recreation Department's fiscal analyst and the Finance Department on the creation of the proper documentation forms and updating the staff policy and procedure guidelines to ensure collection reports and facility rentals have all the correct documentation and the paperwork is included with every collection report.

RECOMMENDATION 11

We recommend the duties of cash handling be separated from the duties of recording and reconciling the collections.

AUDITEE RESPONSE

Outdoor Chattanooga is working with the Parks and Recreation Department's fiscal analyst to examine how we are facilitating the administrative side of our programs and events so that we can develop a system that separates the duties of cash handling, recording, and reconciling of the collections. Five fulltime staff divided among two program locations makes this a more difficult task however a system will be developed to address the issue.

RECOMMENDATION 12

We recommend managers reconcile daily collections by performing meaningful independent reviews in which source documents or other records (participant sign in sheets, registration forms) are scrutinized to provide reasonable assurance that all funds collected are submitted to the Treasurer's office in a timely manner and recorded correctly. Further, we recommend the Finance Officer ensure Accounting staff are following established accounting policies and procedures as they relate to collection report documentation reviews.

AUDITEE RESPONSE

Outdoor Chattanooga has developed a comprehensive program report from that includes: Program date / program name / program time / starting location / number of participants / cost per participant / participant names / participant phone numbers / participant email addresses / payment information including type (charge, cash or check), date received, and check number / the staff who lead the trip or program / program notes / equipment used / collection report reference number

A program report will be filled out for every program fee based or not and attached to the release forms and filed. Program reports will be kept in a central location at both facilities that all staff can access for ease of reporting and a regular review of the forms will be performed by the director. A file system broken into months of the year is in the process of being developed and all program reports will be filed in the month in which the program occurred.

All future collection will be processed correctly and in a timely manner.

AUDITEE RESPONSE (Finance)

Document review is performed and requests are made of the departments when supporting documentation is insufficient or unclear. Greater emphasis will be placed on proper course of action when there is noncompliance noted by Finance Staff. The Finance Department will

conduct a training session on proper procedures for collection, deposit, and documentation of receipts for the staff of Outdoor Chattanooga.

RECOMMENDATION 13

We recommend an electronic calendar be maintained on the City’s website and that all facility reservations be booked through 311.

AUDITEE RESPONSE

Outdoor Chattanooga will work with the Parks and Recreation Department staff who is responsible for all park and facility rentals for the department as well as IS to set up a system that is an approved system. Outdoor Chattanooga’s use of the facility as it relates to regular scheduled programs and events limits the availability however that can be incorporated into the electronic calendar.

BUILDING RENTAL AND OUTVENTURE PROGRAM FEES

City Ordinance 12285 sets Outventure program fees and building rental rates for both the Outdoor Chattanooga and Greenway Farms buildings. The ordinance requires a full day rental on Saturday and Sunday at \$700 per day for the Outdoor Chattanooga building. The daily charge for weekdays is \$500.

We reviewed the rental rate sheet used by Outdoor Chattanooga staff which is provided to prospective facility users. We found the rental rate sheet states (in error) that the weekend rental is \$700 for both days (\$350 per day). We reviewed two rental agreements and noted the rental rates were not applied as per City Ordinance 12285. The first rental agreement included Saturday and Sunday rental for \$700. The second rental agreement included Friday, Saturday and Sunday (all day) rental. The rental agreement notates a total of \$750 would be paid for the three days.

Further, during our review of Outventure collections, we noted that discounted rates were offered to the Tennessee Aquarium for various trips (kayak, canoe, camps) that do not fall within the fee schedule set by City Code. Also, we found rapid learning membership fees were discounted as well. These discounts were not approved by City Council.

RECOMMENDATION 14

We recommend management ensure that staff charges and collects the appropriate rental fees and Outventure fees mandated by City Code. We recommend management correct the rental rate sheet to indicate the daily rental rate for the Outdoor Chattanooga facility is \$700 per day on Saturday and Sunday (\$1400 per weekend).

AUDITEE RESPONSE

Outdoor Chattanooga is working on an agreement for all partnering non-profit groups who are outdoor recreation, conservation, and environmental education focused groups to be able to use the building at no charge for monthly meetings in exchange for free programs they will offer to the public. In addition to the building use Outdoor Chattanooga is working on a fee schedule for partnering non-profit groups who are outdoor recreation, conservation, and environmental education focused groups at a reduced rate.

The approved fee schedule for the building rental was supposed to be \$700 for the entire building for the weekend not for each day on the weekend that is why the rental form and the fee schedule are not the same. Outdoor Chattanooga will adjust its current rental rate sheet to match the fee schedule. Until the above changes we are seeking are approved the appropriate rental fees as they are currently stated in the approved fee schedule will be enforced.

FACILITY RENTAL FEE WAIVED WITHOUT PROPER APPROVAL

City Ordinance 12285 provides the rental fee schedule for events held at the Outdoor Chattanooga Building. The City Code does not provide for any waivers of rental fees. We interviewed staff and reviewed a sample of events that occurred at the Outdoor Chattanooga facilities during FY10. We found staff has waived facility rental fees at Outdoor Chattanooga for organizations that promote outdoor activities. These organizations have held their club meetings at the Outdoor Chattanooga facility without paying any rental fees. We reviewed City Council minutes and did not note any approval for the fee waivers.

RECOMMENDATION 15

We recommend Outdoor Chattanooga collect facility rental fees for the use of City facilities as required by City Code. In instances where management believes a fee waiver is warranted, all appropriate actions, including council approval, should be taken prior to such waiver.

AUDITEE RESPONSE

Outdoor Chattanooga is working on an agreement for all partnering non-profit groups who are outdoor recreation, conservation, and environmental education focused groups to be able to use the building at no charge for monthly meetings in exchange for free programs they will offer to the public. Until this agreement is approved all groups will go through the building rental process and pay for the space or will have the approval of the city council to waive the fees.

FACILITY USE AGREEMENTS AND DEPOSITS

We noted the facility use agreement for Greenway Farms entitles the user to receive a “full refund of all fees and/deposit paid” if the user cancels a reservation 30 days or more prior to the scheduled event. We reviewed the Outdoor Chattanooga rental fee schedule and noted a

refundable deposit of \$50 to \$150 is required. Further, we reviewed the City Code and noted deposits, if required, should be refundable.

We found the rental agreement used by Outdoor Chattanooga staff does not include the cancellation and refund policy. This is standard language in the Parks and Recreation facility rental agreement. However, the Parks & Recreation facility rental agreement was changed by the Outdoor Chattanooga Director. Also, the Director stated deposits and payment in full were not required (or collected) when reservations are made by renters. Further, we found a rental agreement at Outdoor Chattanooga was cancelled in excess of 30 days prior to the planned event and no refund was issued for the \$150.00 “deposit” even after a request was made by the rental party.

RECOMMENDATION 16

We recommend the Outdoor Chattanooga facility rental agreement be updated and include the cancellation and refund policy.

AUDITEE RESPONSE

Outdoor Chattanooga will work with the Parks and Recreation Department staff that is responsible for all park and facility rentals for the department to insure our rental agreement is updated and is an approved form. The cancellation and refund policy will be included.

RECOMMENDATION 17

We recommend staff collect the rental fees and deposits at the time the reservation is booked. Further, we recommend refunds be issued in accordance with stated policies.

AUDITEE RESPONSE

The collection of the deposit and rental fee at the time of reservation will be included in the rental agreement for and refunds will be issued in accordance with the stated policies.

CREDIT CARD PROCESSING FEES

T.C.A. 9-1-108(C)(3) requires a municipality to “set and collect a processing fee in an amount that is equal to the amount paid the third party processor for processing” credit and debit card payments. The processing fee cannot exceed five percent (5%) of the amount of the payment collected. Further, the Internal Control and Compliance Manual for Tennessee Municipalities Title 5 Chapter 13 Section 13 states “fees are assessed sufficient to cover the fees charged to the municipality when credit or debit cards are accepted for payment” of fees.

The City has a blanket contract with Link2Gov for credit card processing. We found Outdoor Chattanooga has entered into a verbal agreement with a third party to collect online registration fees for the weekly downtown kayak trips. EdgeReg collects the Outventure fees (\$25/child and \$35/adult) notifies (via email) Outdoor Chattanooga, and periodically remits a

check (with no detail) to Outdoor Chattanooga. Per staff, EdgeReg charges the City \$3.50 processing fee per registration.

Currently, the credit card processing fee is not collected from the registrants as required by State law. Also, the current processing fee would violate State Code since the amount is in excess of five percent (5%) of the amount of the payment collected. Further, we reviewed Council minutes and did not note approval to waive the credit card processing fee.

RECOMMENDATION 18

We recommend management (with the assistance of the City's IS department) implement an alternative online payment method utilizing Link2Gov. If the Link2Gov service is not utilized, we recommend management ensure all applicable codes and policies are followed.

AUDITEE RESPONSE

Outdoor Chattanooga is looking into the possibility of using Link2Gov for online reservations and if the services are not available with Link2Gov than a vendor will be sought using the city approved procurement processes. Outdoor Chattanooga is no longer offering online reservation and payment and will continue to not offer this until an approved vendor and contract is in place.

WRITTEN AGREEMENTS NEEDED

Internal Control and Compliance Manual for Tennessee Municipalities Title 4 Chapter 2 Section 4 requires municipal officials to obtain a written contract for all agreements with other entities for services received or provided. Further, Section 4 states the minutes of the governing body (council) should include copies of contracts entered into by officials.

During our review, we noted Outdoor Chattanooga has an agreement to lead various trips during the year for Tennessee Aquarium for a discounted price. Also, the Director has entered into barter agreements (services provided in exchange for use of City facilities) with various non-profit organizations. However, the Director of Outdoor Chattanooga has no written agreements in place with these organizations. Further, Outdoor Chattanooga does not have a written agreement that outlines the services performed and the fees charged for processing online registrations through EdgeReg.

RECOMMENDATION 19

We recommend management obtain written contracts that outline the services performed and/or received and the associated fees. Further, we recommend copies be provided to City Council and the City Finance Officer as required by law.

AUDITEE RESPONSE

The written agreements referenced in recommendations 14, 15, & 18 address this. Until these agreements have been approved the existing fee schedule for all programs and facility rentals will be used. All future approved contracts and agreements will have a copy sent to City Council and the City Finance Officer as required by law.

LACK OF SERVICE PROVIDER CONTRACTS

We learned that several classes are offered through an agreement with a third party provider (instructor). Participants register for the class and make payment directly to the instructor (non-city employee). Outdoor Chattanooga has not required the instructor to pay a facility use fee. Further, staff has not required the instructor to sign a Service Provider Contract and/or remit a portion of the fees collected to the City.

As previously mentioned, the Director of Outdoor Chattanooga has allowed use of City facilities for private gain by an individual without contract or approval. In addition to the loss of revenues, the Service Provider Contract provides protection to the City against any claims for injuries or damages sustained by the Service Provider related to the service provided.

RECOMMENDATION 20

We recommend the use of Service Provider Contracts for future classes offered by the department through a third party instructor.

AUDITEE RESPONSE

The road one bicycle safety course that is referenced above has not been taught by a third party instructor since we moved to our facility in Coolidge Park. The course is now offered for free and taught by one of the three certified instructors on staff. All future third party provider classes or instructors will fill out the approved Service Provider Contract.

RECORDS RETENTION

Municipal Technical Advisory Service issued a records retention guide for local governments that states all liability release forms and rosters of activity participants should be retained for a minimum of 2 years. We reviewed a sample of outventure programs during FY10. We found the participant sign-in sheets and liability waiver forms were not always maintained by staff. Also, we found staff did not obtain waiver forms for all activities (i.e. yoga classes). Further, we noted the waiver forms were not maintained in an organized manner.

RECOMMENDATION 21

We recommend the department develop an organized system to maintain records (participant sign in sheets and liability waivers) for a minimum of two years. Further, we recommend

participant waiver forms and sign-in sheets be included as support documentation for collection reports.

AUDITEE RESPONSE

A program report will be filled out for every program fee based or not and attached to the release forms and filed. Program reports will be kept in a central location at both facilities that all staff can access for ease of reporting and a regular review of the forms will be performed by the director. A file system broken into months of the year is in the process of being developed and all program reports will be filed in the month in which the program occurred. Program reports and release forms will be maintained for a minimum of two years. The program report form we are working on and seeking approval will be a part of all collection reports.

RAPID LEARNING MEMBERSHIPS

We noted Outventure has a rapid learning membership program. The program consists of weekly classes (free to members, \$5 to nonmembers) that teach whitewater kayaking skills and allow participation in whitewater kayaking trips (for an additional fee, as set by City Code). We found that membership cards are not issued nor membership rosters properly maintained. Further, membership registration forms and waiver forms have not been maintained. Collection reports do not properly indicate fees paid for memberships.

The lack of proper controls surrounding the memberships increases the likelihood of funds being misappropriated. Further, rapid learning roll class fees cannot be properly supported and reconciled without access to an up to date membership roster.

RECOMMENDATION 22

We recommend the department issue a pre-numbered (possibly color coded by month of issuance) membership card to each rapid learning member. The membership card should include the member name, type of membership, and the expiration date. We recommend a membership roster be maintained in an electronic format (such as Excel) that can be accessed by management. The membership roster should include the member name, membership card number, type of membership, date paid, amount paid, and receipt number. We recommend a copy of the membership registration form (indicating the membership card number issued) be attached to the collection report. Further, we recommend management perform a periodic reconciliation of the membership card inventory.

AUDITEE RESPONSE

Outdoor Chattanooga is compiling the membership forms and creating a database. Each membership form will have an assigned number. A hard copy of the data base with current membership name and membership number along with date membership was activated or renewed will be kept on hand at all roll practices to ensure membership is maintained and to help members be aware of their status. The roll practice sign in sheet will have a space

beside the name for membership numbers. Photo identifications may be required as a backup. A yearly membership file will be created similar to the one being created for the release forms and program reports. A copy of the check or receipt will be maintained with each membership form.

WRITTEN POLICIES AND PROCEDURES

Comprehensive policies and procedures ensure that each staff member is properly informed of their responsibilities in regard to the cash collections process. We reviewed Outdoor Chattanooga's written policies and procedures for cash collections and examined the overall collection processes and procedures used by Outdoor Chattanooga staff. Outdoor Chattanooga has developed cash collection policies and procedures that are not comprehensive. Further, both the Finance department and Parks and Recreation department have issued more comprehensive policies and procedures that have not been incorporated into Outdoor Chattanooga's policies.

RECOMMENDATION 23

We recommend management develop a comprehensive policy and procedures guide related to their cash collections process that incorporates the City-wide policies as well as the Parks and Recreation's departmental policies and procedures. The written policies and procedures should be specific to Outdoor Chattanooga's operations and should ensure proper internal controls, which include, but are not limited to; safeguarding cash collections, segregation of duties, document retention, proper authorization and approval, proper review and reconciliation to support documentation, and proper training and supervision. Further, we recommend the department keep written record of receipt of such policies by all staff.

AUDITEE RESPONSE

All future collection reports will be in accordance with the Finance Department's policies and procedures. A training session was conducted on Friday January 14, 2011 the training was facilitated by the Finance Department along with the Parks and Recreation Departments fiscal analyst to ensure that the staff was clear on current written policies and procedures. The necessary changes are being implemented as well as the development of the forms to provide the correct documentation necessary for the collection reports. Outdoor Chattanooga is in the process of ensuring the city approved policies and procedures are being implemented.

LEASE AGREEMENT NOT PROPERLY APPROVED

We noted Parks & Recreation leases an office space at the Greenway Farms building to North Chickamauga Creek Conservancy (NCCC). City Council approved the lease agreement (Resolution #24844) that was executed November 17, 2006 for a one year term. The Lessee continues to occupy the property under a holdover provision that gives the Lessee a month-to-month agreement after the initial term.

T.C.A. 13-4-104 requires the lease of a public property or structure be submitted and approved by the Regional Planning Commission. All 2006 RPA case files were reviewed and no documentation related to the NCCC lease agreement could be located. Therefore, it appears the original lease was not submitted to RPA for approval.

RECOMMENDATION 24

We recommend the Parks and Recreation Administration develop an updated lease agreement with North Chickamauga Creek Conservancy and submit the lease agreement to the Regional Planning Commission for approval. Further, we recommend Administration obtain City Council approval for the new lease agreement.

AUDITEE RESPONSE

The Administrator of Parks and Recreation is working on updating the lease and seeking the necessary approval.

CITY FUNDS MISSING

As indicated in findings titled Friends of Outdoor Chattanooga, Numerous Violations of Cash Collection Policies, and Lack of Proper Internal Controls, the department has created an environment highly susceptible to theft. During our review that was severely limited due to lack of documentation, we found instances in which Outdoor Chattanooga cash collections were never deposited with the City Treasurer's Office. Further, checks made payable to Outdoor Chattanooga have been diverted to Friends of Outdoor Chattanooga's bank account.

RECOMMENDATION 25

We recommend a comprehensive investigation into the missing collections. Upon request, Internal Audit will open a special project to facilitate this investigation. We further recommend Administration instruct all Outdoor Chattanooga staff that no documentation is to be destroyed or disposed of prior to completion of this special project.

AUDITEE RESPONSE

Outdoor Chattanooga is working with the Parks and Recreation Department's fiscal analyst and the Finance Department on the creation of the proper documentation forms and updating the staff policy and procedure guidelines to ensure collection reports and facility rentals have all the correct documentation and the paperwork is included with every collection report. In addition Outdoor Chattanooga is working with the Parks and Recreation Department's fiscal analyst to examine how we are facilitating the administrative side of our programs and events so that we can develop a system that separates the duties of cash handling, recording, and reconciling of the collections.

All money's that were collected on behalf of Friends of Outdoor Chattanooga (FOC) were done so under the premise of a FOC event. Accounting records have been kept on these funds and any further investigation into these funds is welcomed.

As to the cash collections that were never deposited into the City Treasurer's office it is unclear as to what has happened. Outdoor Chattanooga will fully cooperate with any investigation deemed necessary.

Auditor Comment

We disagree with the Auditee's comment regarding "the premise of a FOC event." A review of the promotional material, registration forms, and liability waivers for some events clearly states Outdoor Chattanooga (a Division of the City of Chattanooga) sponsored the event. Further, as discussed in the finding titled Friends of Outdoor Chattanooga, registration fees were requested to be made payable to Outdoor Chattanooga and were deposited into the Friends of Outdoor Chattanooga bank account.

We reaffirm our finding and recommendation.