



City of Chattanooga

INTERNAL AUDIT

City Hall

Chattanooga, Tennessee 37402

Stan Sewell
Director

Ron Littlefield
Mayor

April 4, 2011

Mayor and City Council
City of Chattanooga
Chattanooga, TN 37402

RE: Parks and Recreation Swimming Pool Collections, Audit 10-06

Dear Mayor Littlefield and City Council Members:

Attached is the Internal Audit Division's report on Swimming Pool Collections, Audit 10-06.

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

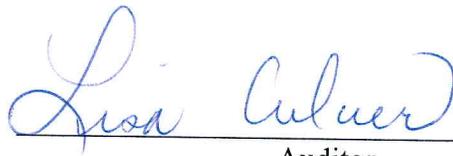
Sincerely,

Stan Sewell, CPA, CGFM
Director of Internal Audit

cc: Dan Johnson, Chief of Staff
Larry Zehnder, Administrator Parks and Recreation
Audit Committee Members

**PARKS AND RECREATION
SWIMMING POOL COLLECTIONS
AUDIT 10-06
FEBRUARY 15, 2011**

**PARKS AND RECREATION
SWIMMING POOL COLLECTIONS
AUDIT 10-06**

A handwritten signature in blue ink that reads "Lisa Culver". The signature is written in a cursive style with a large initial "L".

Auditor

A handwritten signature in blue ink, which is highly stylized and illegible. It appears to be a single continuous stroke.

Audit Director

**PARKS AND RECREATION
SWIMMING POOL COLLECTIONS
AUDIT 10-06**

INTRODUCTION

The Parks and Recreation Department currently has two outdoor aquatic facilities and three indoor facilities located throughout the City. Carver Recreation Center and Warner Park both house outdoor pools that are open to the public during the summer. The Brainerd and South Chattanooga Recreation Centers contain indoor pool facilities that offer year round water fitness classes, swim lessons and pool rentals. Both of these pools are ADA accessible. The City partnered with the North River YMCA to offer a third indoor facility. The YMCA provides the pool facility to City residents at a discounted rate. In the summer of 2010, the new Spray Park was opened at Warner Park. The Spray Park has been a great addition to the Aquatics facilities and helped increase total attendance and rentals during its first year of operation.

STATISTICS

Total Revenue Collected for Aquatics*

FY08	FY09	FY10
\$70,415	\$67,619	\$72,562

*Based upon data obtained in the Banner & Oracle Accounting systems.

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. Aquatic fees are being charged for all programs and activities correctly.
2. Swimming pool fees are handled, documented and collected properly.
3. The current Parks and Recreation policies and procedures regarding cash handling and collections are adequate.
4. The agreement with the YMCA is being handled properly.

STATEMENT OF SCOPE

Based on the work performed during the preliminary survey and the assessment of risk, the audit will cover Parks and Recreation swimming pool collections from November 1, 2009 to October 31, 2010. Source documentation was obtained from Parks and Recreation and the

Accounting department. Original records as well as copies were used as evidence and verified through physical examination.

STATEMENT OF METHODOLOGY

The audit included interviewing Parks and Recreation staff and visiting the Aquatic facilities. A review was made of applicable State laws, City Code, contracts and internal policies which may apply to the Aquatics collection process. A sample of the Aquatic fees collected during the audit period was tested to determine if there was proper documentation, if fees were charged correctly, and cash was handled adequately.

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. The appropriate Aquatic fees are not being charged for programs and activities.
2. The swimming pool fees are not always handled, documented or collected properly.
3. The Parks and Recreation policies and procedures regarding cash handling and collections need updating and revising.
4. The YMCA contract is not being administered adequately.

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

LACK OF INTERNAL CONTROLS

During the audit, cash controls were reviewed with regards to both Aquatics and Recreation staff since pool fees are handled at the recreation centers. We noted some internal control weaknesses during the review of their daily processes.

We found recreation staff are not using separate cash drawers for each cashier. Each day one cash drawer is used by all cashiers on duty. This causes a problem with accountability of funds if a shortage arises.

We found funds are not always secured at the recreation centers. Based upon interviews of staff, cash is left in the cash register overnight. Keys to the locked box where the money is stored are kept in an office where numerous employees have access. Also, we found when funds are being transported from the recreation centers to the Administrative offices, employees are not properly documenting or issuing receipts when exchanging the funds from one another.

Finally, receipts are not always issued when funds are received. The recreation centers generally enter their payments into the cash register. However, rentals and some swim programs are not rang into the cash register. These customers are not always issued receipts when paying for programs or rentals.

The above examples of control weaknesses are violations of either the Internal Control and Compliance Manual for TN Municipalities or the Parks and Recreation Cash Collection and Control Policy, and in most cases, both. Parks and Recreation staff should be aware of these procedures and follow them accordingly.

RECOMMENDATION 1

We recommend Parks and Recreation management enforce current written policies in regards to utilizing separate cash drawers where applicable.

RECOMMENDATION 2

We recommend funds be secured at all times. All funds should be stored in a locked safe or locked drawer. Access to valuable assets should be restricted to a limited number of people to minimize risk of theft.

RECOMMENDATION 3

We recommend receipts be issued each time a payment is received as required by the Internal Control and Compliance Manual for TN Municipalities. Further, we recommend conspicuous signs be posted stating the following or something similar: "If you do not receive a City of Chattanooga receipt for your purchase, please contact Internal Audit at 423-425-6202".

RECOMMENDATION 4

We recommend Parks and Recreation management update their written policy to establish a policy/process that complies with the Internal Control and Compliance Manual for TN Municipalities Title 5 Chapter 13 Section 2 in regards to transferring funds. To accomplish this while remaining consistent with current practices, management may choose to update their policy with the recommendation stated below:

“The Courier signs the log upon receipt of funds at an outside location and transports the funds in a locked bag to the Administrative offices. Upon delivery, the Courier must have someone receiving the locked bag sign a log signifying the transfer. This relieves the Courier from the custody of the money. The person receiving the bag checks it for tampering and then the money is counted in front of the Courier noting any differences in the amount listed. If the money is not counted in front of the courier then the funds should not be received by a staff member with a key. At a later time, two staff members should count the funds together, noting any differences with the amount listed.”

AUDITEE RESPONSE

We agree with the recommendations.

RECREATION FEES NOT CHARGED AS SET BY CODE

It is a regular process for the Parks and Recreation department to submit their proposed fee structure for facilities rentals and admissions to Council for approval. The City Council approved their fees with Ordinance #12285 in September 2009. A review was made of the fees charged and collected during 2010 for the Aquatics rentals and activities.

With regards to rentals, the review found higher fees being charged than those approved by Council for rentals of the new Spraypark. The approved rental fees ranged from \$90 to \$175. However, the actual fees charged ranged from \$90 to \$300 depending on the type of rental. Further, a fee of \$3 per person was charged on any rental over 25 guests. This fee was not approved by Council.

With regards to other activities, the review found City Ordinance #12285 set admissions on Mondays to be half of the regular \$2 and \$3 per person fees at the Warner Park pool and SprayPark. However, based upon the collections reviewed, no such discounts were being given. Further, a \$5 “family” fee on Mondays is being charged that was not in the City Code.

The department is allowing City employees to participate in Aquatics programs for free. According to staff, this practice has been allowed for years. However, the ordinance referenced above does not provide for this fee waiver.

RECOMMENDATION 5

We recommend Parks and Recreation management charge fees as set by City Code.

RECOMMENDATION 6

We recommend management obtain approval from City Council before waiving or altering fees. If management wants to allow City employees free classes, such recommendation should be presented to Council, and if approved, promoted to all City employees.

AUDITEE RESPONSE

We agree with the recommendations.

LACK OF SEGREGATION OF DUTIES

The Aquatic division only has one permanent full time employee, the Aquatics Director. The entire staff includes thirty seasonal employees who are lifeguards, pool supervisors and water fitness instructors. All these employees are tasked with the operation of the aquatic facilities.

We noted the Director handles all aspects of the Aquatics outdoor pool facility rentals (maintains calendar, staffs the event, collects rental fees, and prepares collection reports). Further, some collections were not adequately supported. There is no independent review and reconciliation by management to ensure all funds are collected and deposited. The Internal Control and Compliance Manual for TN Municipalities states that no one person should have control over a complete transaction from beginning to end.

RECOMMENDATION 7

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

RECOMMENDATION 8

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

RECOMMENDATION 9

We recommend Parks and Recreation management perform an independent review of supporting documentation for funds collected. This would include periodic comparisons of rentals posted to the calendar to amounts collected and deposited.

AUDITEE RESPONSE

We agree with the recommendations. We will implement a plan to work with the fitness center staff to segregate the duties.

REVISION AND ENFORCEMENT OF DEPARTMENTAL POLICIES

During the audit we found Parks and Recreation has developed two policies addressing cash collections. They are the Parks and Recreation Cash Collection and Control Policy and the Cash Handling Procedures Recreation Division. Based upon interviews and observations, Recreation staff is not following procedures as set forth in the policies. The policy manuals need revision to provide more written details to strengthen controls. Further, there are policies which are not being followed, or may have never been followed. Specifically, procedures not being followed are: cashiers using separate cash drawers, funds being secured properly, daily balance sheets having two signatures and checks made out to the "City of Chattanooga." Also, we found some recreation staff had not received copies of the Parks and Recreation written policies.

RECOMMENDATION 10

We recommend Parks and Recreation management update the current cash collection and handling policies and procedures with current practices and good controls over processes. We recommend management post the updated policies to the Intranet to ensure it is easily accessible by all staff. Finally, we recommend management document staff have received the written policy and fully understand it.

RECOMMENDATION 11

We recommend Parks and Recreation management take appropriate disciplinary action when employees knowingly violate City policies. Further, we recommend management enforce compliance with the newly adopted policies once staff have been trained.

AUDITEE RESPONSE

We agree with the recommendations.

YMCA CONTRACT ISSUES

Annually, the Parks and Recreation department enters into an agreement with the North River YMCA to co-sponsor a seasonal swim team program and tune up clinic. This agreement states the YMCA will be paid a minimum fee for the use of their facility for all events and both parties agree to split revenue and expenses from the tune up clinic. The Aquatics department is responsible for collections of the swim team registrations and related fees, while the YMCA handles the same for the tune up clinic.

We reviewed the contract year for 2009 to 2010 and the corresponding records retained by the Aquatics division to support collections and expenses relating to the contract. The registration forms for the swim team were retained as required. However, adequate documentation to support the registrations and payments for the tune up clinic were not available. The YMCA handles the registration and payments for the clinic. The documentation provided to the City for their collections was not adequate to determine if all fees were collected.

After reviewing the entire file for the contract we noted, written documentation to support expenses for the tune up clinic was not retained. Finally, receipts are not always issued by City employees when payments are made for swim lessons.

RECOMMENDATION 12

We recommend receipts be issued each time a payment is received as required by the Internal Control and Compliance Manual for TN Municipalities. Additionally, we recommend that adequate documentation be retained and organized to support all revenue collected and expenses related to the administration of the contract.

AUDITEE RESPONSE

We agree with the recommendation.

COMPREHENSIVE AQUATICS POLICIES NEEDED

The Aquatics Director is responsible for the operations of the pool facilities. The Aquatics programs follow different procedures than most other recreation center programs. Some of the Aquatics facilities are housed within recreation centers. Recreation center employees handle the aquatic fees and collections at those locations. These employees help facilitate some of the processes specifically designed for the Aquatics program.

For example, recreation center employees sell punch cards for aquatic classes. The Aquatics Director is responsible for issuing these cards and controlling them. Additionally, pool safety regulations must be understood and adhered to by staff. It is the responsibility of the Aquatics Director to set procedures and make sure they are followed. However, the Aquatic Director is not the supervisor over these recreation center employees who are helping administer the programs.

During the audit, we found numerous policies for the Aquatics programs. However, these policies were not always followed, nor distributed to all applicable employees. Further, they were not organized or maintained as official policies.

RECOMMENDATION 13

We recommend the Aquatics Director develop comprehensive policies for the Aquatics division to be issued by the Administrator of the Parks and Recreation department.

Applicable staff should be trained on the policies, and their distribution to staff should be documented.

RECOMMENDATION 14

We recommend Parks and Recreation management enforce compliance with these policies.

AUDITEE RESPONSE

We agree with the recommendations.