



City of Chattanooga

INTERNAL AUDIT

City Hall

Chattanooga, Tennessee 37402

Stan Sewell
Director

Ron Littlefield
Mayor

December 28, 2011

Mayor and City Council
City of Chattanooga
Chattanooga, TN 37402

RE: Champion's Club Collections, Audit 11-08

Dear Mayor Littlefield and City Council Members:

Attached is the Internal Audit Division's performance audit of Champion's Club Collections.

Findings contained in this audit mention potential violations of the City's Code of Ethics Policy. City Code Section 2-759 requires investigation of such violations by the City Attorney, excepting situations where he has a conflict of interest. By copy of this audit, I am informing the City Attorney of the matters contained herein.

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

Attachment

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

**PARKS AND RECREATION DEPARTMENT
CHAMPION'S CLUB COLLECTIONS
AUDIT 11-08
NOVEMBER 21, 2011**

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M Petty

Auditor

[Signature]

Audit Director

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INTRODUCTION

The Champion's Club Tennis Complex ("Champion's Club" or "the Club"), operated by the Department of Parks and Recreation, is an award-winning facility featuring 26 hard courts, a 6,000 sq. ft. clubhouse, restrooms, showers, and a pro shop. The facility is located in Rivermont Park at 3400 Lupton Drive. Champion's Club hosts many national and regional tournaments, local leagues, and summer camps in addition to its regular court hours.

Personnel

As of July 1, 2011, Champion's Club employed three full-time and eight part-time staff. Full time employees consist of the Manager/Tennis Professional, Assistant Manager, and Maintenance Crew Worker. Part time employees are "Tennis Assistants" whose duties primarily consist of operating the cash register and assisting Champion's Club patrons.

The Champion's Club Manager is a full-time, salaried, City employee with benefits. In addition to managing the Club's operations and programming, the Manager also is the sole provider of Tennis Professional services, such as instructing on-site clinics and private lessons. The Assistant Manager is a full-time, hourly employee. He organizes events at Champion's Club to include certain tournaments and all Champions Leagues.

Collected Fees

City Code Section 26-31 authorizes Champion's Club to charge fees for court use (typically on a per-person, per-hour basis) and special event tennis fees (for tournaments, school matches, community leagues, etc.). The Club is also authorized to host its own Champion's Tennis Leagues. Champion's League fees are collected from participants on per league, per person basis. A fee of \$40 is collected for each league in which the player participates.

While Champion's Club has off-season facility rental fees described in City Code Section 26-31, the Manager and Assistant Manager indicated they were unaware of any instance where the facility was rented.

STATISTICS

Collection Report Revenue, FY09-11

<u>Fee Type</u>	<u>FY11</u>	<u>FY10</u>	<u>FY09</u>
Court Fees	\$9,581	\$13,311	\$22,873
League Fees	26,760	27,640	25,240
Tournament Fees	16,525	12,745	0
Total Collections	\$52,866	\$53,696	\$48,113

Source: City Financial Records

STATEMENT OF OBJECTIVES

This audit was conducted in accordance with the Internal Audit Division's 2011 Audit Agenda. The objectives of this audit were to:

1. Determine whether proper internal controls are in place for the collection process; and,
2. Determine whether collections are properly documented and submitted to the Treasurer's office within the required three day period.

STATEMENT OF SCOPE

Based on the work performed during the preliminary survey and assessment of risk, this audit covers Champion's Club collections from July 1, 2010 to June 30, 2011. Source documentation was obtained from the Parks and Recreation Department, the Finance and Administration Department, the Personnel Department, and the United States Tennis Association (USTA). Original records, as well as copies, were used as evidence and verified through physical examination. The scope was expanded when necessary to meet objectives of the audit.

STATEMENT OF METHODOLOGY

To determine whether internal controls were in place for collections, we reviewed Champion's Club written policies/procedures and interviewed staff to gain an understanding of the collections process at the Club. In addition, we reviewed the *Internal Control and Compliance Manual for Tennessee Municipalities*, the Chattanooga City Code, Parks and Recreation collection policies and procedures, and Finance and Administration Department accounting policies and procedures.

We reviewed a sample of cash collections and supporting documentation to determine whether collections were properly documented and timely submitted to Treasury. The sample size and selection of collection reports 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.

In addition, we compared the Champion's Club event calendar to collection reports during the audit period and noted not all collections for events held at the facility were received in Treasury. In these instances, we used supporting documents from USTA to verify collections for the events. We also used records maintained in software supported by USTA, but entered by Champion's Club staff, to verify league fee collections. We performed a test of data reliability and found it was not reliable for the purpose of our audit objectives; therefore, additional procedures were performed.

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. Proper internal controls are not in place for collections at Champion's Club; and,
2. Collections that were submitted to Treasury were timely and, in general, contained adequate supporting documents. However, we noted several instances where fees were not appropriately collected.

The findings discussed below may, in the aggregate, significantly impair the operations of the Champion's Club. They present risks that can be more effectively controlled.

FINDINGS AND RECOMMENDATIONS

The Champion's Club Manager earned additional income from instructional activities as a City employee without approval by Council.

In addition to overseeing the Club's daily operations and programming, the Champion's Club Manager is the sole provider of on-site Tennis Professional services such as instructional clinics, camps, and private lessons. The Manager determines his own rates, maintains separate sign-in sheets, and receives payments directly from individuals participating in these activities. Participants do not sign in at the registration desk, and therefore do not pay court fees to the City. During the audit period, the Manager held four summer camps, one junior clinic, and an undetermined number of private lessons. Camps and clinics were promoted using the City's website and the "Champions" name. We found no collections from these activities in Champion's Club revenues. According to the Manager, he has personally retained all fees from instructional services since he began employment with the Champion's

Club at its opening in 2000. The Manager stated additional income he gained from instructional services was authorized per a contract.

The Parks and Recreation Department and the Champion's Club Manager provided Internal Audit with copies of a contract. The contract was unsigned and would have expired as of January 1, 2002. Neither the Manager nor the Department was able to provide Internal Audit an executed copy of any related contract, and we found no evidence suggesting a contract was ever approved by City Council. According to the Parks and Recreation Administrator, provisions of this unsigned and unapproved contract were expected to be standard operating practice with regard to additional income retained by the Manager. The contract permitted the Manager to "earn tennis related income" while employed by the City of Chattanooga "as an independent contractor" including, 100% of the Manager's lesson fees after 40-hour work week, and 90% of the Manager's lesson fees within a 40-hour work week. However, no fees were deposited in Treasury for private lessons held at Champion's Club.

In April 2011, City Council passed Ordinance #12495 containing a new fee schedule for Champion's Club. Prior ordinances allowed private lesson fees by "Pro" to be directly paid to "Pro", and did not differentiate between private lessons held during the 40-hour work week and those outside of the work week. (It should be noted that there was no indication in the Code that the "Pro" referred to was a City employee.) City Ordinance #12495 removed the private lesson clause. According to the Parks and Recreation Administrator, the removal of the private lessons clause was in error, and the clause will be included in the Parks and Recreation Department's next list of revisions to the fee schedule submitted to City Council.

While current City Code does not provide an allowance for the "Pro" to receive direct payments for private lessons, and there is no effective contract for his professional services, the Manager continued to provide instructional activities at the facility and retain the revenues. The current arrangement for additional income for the Champion's Club Manager appears to violate State law, multiple City Code sections, and Parks and Recreation Department policies. We identified the following pertinent laws and policies:

- TCA 12-4-101 (a)(1): "It is unlawful for any... director, or other person whose duty it is to vote for, let out, overlook, or in any manner to superintend any work or any contract in which any...municipal corporation... shall or may be interested, to be directly interested in any such contract. 'Directly interested' means any contract with the official personally...";
- City Code Section 2-751 (b) defines personal interest as "Any financial, ownership, or employment interest in a matter to be regulated or supervised";
- City Code Section 2-753: "The official or employee shall not participate in any way on matters in which they have a personal interest";
- City Code Section 2-754 (2): "An employee shall not accept any gift from anyone by reason of service as an official or employee, without the express consent of the City Council";
- City Code 2-756 (1): "An official or employee shall not use or authorize the use of municipal time, facilities, equipment, or supplies for private gain or advantage to himself";

- City Code 2-757 (2): “An official or employee shall not use or attempt to use his or her position for personal financial gain...”;
- Parks and Recreation Policies require:
 - “All cash received must be recorded through a cash register, and the customer given a register-generated receipt”; and,
 - “Only Parks and Recreation funds may be handled or stored on Parks and Recreation premises unless specifically approved in writing by the Administrator of Parks and Recreation”.

Recommendation 1:

We recommend Parks and Recreation Administration ensure employees do not exercise discretion over any work or contract for which they have a financial interest. We further recommend Parks and Recreation Administration ensure employees do not use City facilities, staff or resources for personal gain.

Auditee Response:

We concur with Recommendation 1, procedurally. The execution of the said assumed contract was facilitated by the prior Parks and Recreation Administration. Said prior Administration did not maintain any identifiable physical documentation relating to its performed functions.

Our Department is actively facilitating the contractual process to reflect the previously understood arrangement with the Tennis Pro/Manager, incorporating the requirements of the City Legal Department and the current elemental demands of the tennis field.

The Champion’s Club Manager operates a pro shop on City property without the approval of City Council.

The Champion’s Club Manager operates a pro shop on the premises, stocked with inventory paid from his personal funds. During tournaments, the Manager also provides professional tennis racket restringing services at the pro shop. City employees sell items in the pro shop to patrons of the Champion’s Club as part of their regular duties while paid by the City. All proceeds from the pro shop are retained by the Manager.

The Manager believes his activities are authorized based on provisions in the previously mentioned contract. One provision of the cited contract was the Manager was permitted to earn tennis related income from “100% of all events/clinics/camps/tournament/pro shop.” As noted in the previous finding, the contract referred to by the Manager was unexecuted and would have expired in 2002.

Operation of a pro shop by the Manager appears to violate City Code Sections 2-756 and 2-757 regarding use of municipal facilities for financial gain, as well as TCA 12-4-101 preventing personal interest in work or contracts for which the employee oversees.

Recommendation 2:

We recommend Parks and Recreation Administration ensure employees do not exercise discretion over any work or contract for which they have a financial interest. We further recommend Parks and Recreation Administration ensure employees do not use City facilities, staff or resources for personal gain.

Auditee Response:

We concur with Recommendation 2; our Department is actively facilitating the contractual process to reflect the previously understood and executed arrangement with the Tennis Pro/Manager, incorporating the requirements of the City Legal Department and the current elemental demands of the tennis field.

Recommendation 3:

We recommend Parks and Recreation Administration consider operating the pro shop at Champion’s Club with City funds, as is the practice at City-owned golf courses.

Auditee Response:

Our Department will take Recommendation 3 under consideration, and make fully informed decision on the appropriateness of the operation of a pro shop, at a later date.

The Champion’s Club Manager personally hosted three tournaments at the facility and retained the revenues.

Hosting tournaments at Champion’s Club requires advanced planning, staffing, and maintenance of the tennis facilities. The Champion’s Club Manager utilized City resources, including its facilities and personnel, to host private tournaments for which he retained all revenues. We found that the Manager served as “Tournament Director” for three tournaments held at the facility during our audit period. Interviews with United States Tennis Association (USTA) personnel indicated tournament directors typically receive all revenues and incur all expenses related to the tournaments. The Manager retained revenues from the following tournaments during the audit period, collectively generating revenues in excess of \$19,000:

- **Tennessee Junior State Closed (July 24-28, 2010)** – According to USTA records, 213 players participated in the tournament, producing revenues of \$14,770.
- **Champions Junior Novice II (October 8-10, 2010)** –According to USTA records, 85 players participated in the tournament, producing revenues of \$2,765.
- **Champions Junior Novice I (May 13-15, 2011)** – According to USTA records, 50 players participated in the tournament, producing revenues of \$1,750.

While revenues stated above do not consider tournament-related expenses paid by the Manager, no contracts were made between the City and the Manager for use of the facilities. We reviewed all collections for tournament fees and found no fees were received in Treasury

for these events. In addition to free use of the facility, we found City employees were paid by the City to work during the tournaments, though the courts were closed to the public.

The Manager believes his activities are authorized based on provisions in the previously mentioned contract. One provision of the cited contract was that the Manager was permitted to earn tennis related income from “100% of all events/clinics/camps/tournament/pro shop.” As noted in the previous findings, the contract referred to by the Manager was unexecuted and would have expired in 2002. Prior to our audit, Parks and Recreation Administration was unaware that the Manager retained revenues from tournaments held at the facility.

By hosting events at Champion’s Club using City facilities and personnel, the Manager appears to have violated City Code Sections 2-756 and 2-757 regarding use of municipal facilities to advantage himself, as well as TCA 12-4-101 preventing personal interest in matters for which the employee oversees.

Recommendation 4:

We recommend Parks and Recreation Administration ensure employees do not exercise discretion over any work or contract for which they have a financial interest. We further recommend Parks and Recreation Administration ensure employees do not use City facilities, staff or resources for personal gain.

Auditee Response:

We concur, insofar as Recommendation 4 addresses the performance of tournaments at said facility. Our Department is actively facilitating the contractual process to reflect the previously understood arrangement with the Tennis Pro/Manager, incorporating the requirements of the City Legal Department and the current elemental demands of the tennis field.

The Champion’s Club Manager waived fees for tournaments and matches for Champion’s Club “partners” without a formal agreement or approval from City Council.

The Parks and Recreation 2010 Annual Report identifies Champion’s Club’s strategic partnerships with Baylor School, Girls Preparatory School, McCallie School, University of Tennessee at Chattanooga, Manker Patten, and the Racquet Club of Hixson. According to the Champion’s Club Manager, these partners agree to allow Champion’s Club to use their facilities free of charge for large tournaments. In exchange, Champion’s Club may be used free of charge by the partners to host events.

We found five events hosted by Champion’s Club partners at the Club during the audit period for which no tournament fees were collected by the City. In addition, the Manager waived fees for two events hosted by the United States Tennis Association. USTA personnel indicated to Internal Audit that USTA would typically be required to pay facility use fees to the host facility.

As of September 2011, the Champion's Club had no written, formal agreement with area tennis facilities or the USTA for waiving facility fees. Parks and Recreation Administration informed Internal Audit an agreement was reviewed by the City Attorney's office and the Manager was soliciting signatures from Champion's Club partners to allow for reciprocal benefits.

The *Internal Control and Compliance Manual for TN Municipalities* 4-2-4 indicates "Municipal officials must obtain a written contract for all agreements with other entities or individuals for services received or provided, regardless of whether payment was involved." Copies of contracts must be included in minutes of actions taken by the governing body. In addition, City Code Section 2-756 prohibits officials or employees from using or authorizing the use of municipal facilities for private gain except as authorized by legitimate contract or lease as determined by the governing body to be in the best interests of the municipality.

Recommendation 5:

We recommend Parks and Recreation Administration present contracts with tennis partners for use of City facilities to City Council in accordance with the *Internal Control and Compliance Manual for TN Municipalities*. Prior to approval from Council, Parks and Recreation Administration should enforce City Code Section 26-31 and require Administrator-approved rates for use of the Champion's Club.

Auditee Response:

We concur with Recommendation 5; our Department has sought and obtained an approved agreement from the City of Chattanooga Legal Department, with which to codify the referenced mutually-beneficial usages.

The Champion's Club Manager approved the use of Champion's Club facilities and personnel for a tournament that benefitted a private individual and appears to pose a conflict of interest for the Assistant Manager.

In July 2010, Champion's Club hosted the United States Tennis Association's National Opens (12s). The tournament was a nationwide event for which entry was restricted by USTA. Over 90 players from all regions of the country participated and paid entry fees of \$91.88 each. The Assistant Manager for Champion's Club served as "Tournament Organizer", with another tennis professional associated with a Champion's Club partner serving as "Tournament Director". Part-time Champion's Club personnel were paid by the City for time worked during the tournament.

According to USTA personnel, tournament directors receive all revenues from events and absorb all expenses. No contracts with the City were available for review and no collections were found in City revenues for this event. We estimate revenues were approximately \$8,000 for the event (prior to paying expenses).

The Assistant Manager organizes events at Champion's Club to include certain tournaments and all Champions Leagues. His involvement in the National Open (12s)

would be considered outside employment, and has the appearance of violating TCA 12-4-101 preventing personal interest in any work or contract over which the employee exercises discretion. As of October 2011, the Assistant Manger did not have an outside employment form on file with Personnel or the Department of Parks and Recreation for his involvement with the tournament. However, the Manager was aware of the Assistant Manager's direct involvement with the tournament, and he presumed the Assistant Manager benefitted financially from the tournament.

The Champion's Club Manager approved the event to be held at the Club. In approving the use of Champion's Club by private individuals for financial gain, the Manager appears to have violated City Code Sections 2-756 and 2-757.

Recommendation 6:

We recommend Parks and Recreation Administration ensure that employees do not exercise discretion over any work or contract for which they have a financial interest. We further recommend Parks and Recreation Administration ensure employees do not use City facilities, staff or resources for personal gain.

Auditee Response:

We concur with Recommendation 6, in part, to the extent that said function is reasonably managerially possible.

An outside employment form for the Assistant Manager for the referenced activity is currently on file with the Parks and Recreation Department, and will be copied to the City of Chattanooga Personnel Department.

Auditor Comment:

The Assistant Manager's outside employment form for the tournament in question was dated June 10, 2011, lacked Administrator approval, and was not filed with the Parks and Recreation Department until December 9, 2011 (after our finding was reported to management). The Assistant Manager indicates on the form that his involvement with the tournament will consist of directing the tournament and will interfere or overlap with his City employment. Per the City's *Outside Employment Policy (Executive Order 2007-0001)*, "No city employee shall engage in outside employment without the express written approval of the employee's department head..." Further, the policy directs department heads to ensure outside employment will not result in the use of City assets.

Champion's Club personnel lost or waived fees for players participating in Champions Leagues.

The Assistant Manager creates league rosters and maintains payment records for individuals participating in Champion's Club Leagues. We examined payment records maintained by the Assistant Manager for Fall 2010 and Spring 2011 Champions Leagues. Payment records showed a total of \$10,600 and \$9,600 in collections from Fall 2010 and Spring 2011

respectively. When we compared these totals to City collections from league fees, we found a significant amount of payments not deposited in Treasury from the Fall 2010 Champions League.

We identified the following contributing factors to the reduced deposits:

1. **Poor Internal Controls** - In November 2010, a collection report was determined to be missing from September. The missing collections were \$3,080 in league fees, of which \$800 was reported as cash. A police report was filed, and the Chattanooga Police Department investigated the missing funds. The detective was unable to determine if funds were mishandled or stolen due to poor internal controls over safeguarding funds. (See the related finding on internal controls on page 12.)
2. **Systemic Use of Waivers** - The Assistant Manager indicated he waived fees for a number of different reasons including the player being an employee, tennis partner of an employee, family member of an employee, or an individual who played in four or more leagues. The Manager confirmed this practice; however, no records were maintained to support the purpose of each waiver. In addition, City Code Section 26-31 establishes fees for Champion's Club and does not authorize the use of such waivers.
3. **Players are not Required to Pay in Advance** – The Parks and Recreation Cash Collection and Control Policy requires payment in full prior to providing services, except in the case of emergency. While league fees are due at the first match, many players do not pay until a later date. We noted instances where league fees were collected up to two months after the first date of play. We also found two instances where a player never paid, despite participating in a league.
4. **Lack of Managerial Review of League Fee Collections** – Payment records were never reviewed by the Manager, and neither the Assistant Manager or Manager reconcile payment records to deposits made to Treasury.

The lack of appropriate controls and managerial reviews creates an environment where collections are susceptible to theft. Use of unauthorized waivers and poor recordkeeping complicates determination of whether losses occurred and the cause of the losses.

Recommendation 7:

We recommend Champion's Club comply with City Code 26-31 setting fees for Champions Leagues. If waivers are determined to be necessary for routine operations, Parks and Recreation Administration should seek appropriate authorization from City Council and implement a process to clearly document the purpose of each waiver.

Auditee Response:

We concur.

Recommendation 8:

In accordance with Parks and Recreation policy, we recommend Champion’s Club institute ‘pay before you play’ procedures where players are required to pay the full amount of their anticipated fees for involvement in a league prior to participating in their first match. Refunds should be issued by the Finance and Administration Department, if required.

Auditee Response:

We concur.

Recommendation 9:

We recommend the Champion’s Club Manager reconcile league payments to City collections at the completion of each league. Per Parks and Recreation policies, missing collections should be immediately reported to the Recreation Director, Parks and Recreation Administrator, and the Chattanooga Police Department.

Auditee Response:

The Parks and Recreation Department’s notification to the City Police Department of the referenced November, 2010, missing collection report, is affirmed.

The Champion’s Club has not implemented the new fee schedule approved by City Council and effective as of April 12, 2011.

On April 12, 2011, City Council approved Ordinance #12495 adjusting fees for use of Parks and Recreation facilities. Champion’s Club rates were raised by \$1 per hour per person (or, in the case of Seniors, \$1 per day per person). Additional controls were put in place for fees determined by Champion’s Club management. Details of the revisions are provided in the comparison below.

Comparison of Provisions in City Code Sec. 26-31

Fee Schedule	Ordinance # 12285 Rates Effective 9/15/09 to 4/12/11	Ordinance # 12495 Rates Effective 4/12 to Present
Court Fees - Before 4:00 PM (per person, per hour)	\$2.00	\$3.00
Court Fees - After 4:00 PM (per person, per hour)	\$3.00	\$4.00
Court Fees - Seniors (per person per day)	\$2.00	\$3.00
Champions League Fees	\$40.00	\$40.00
Special Event Fees (Community Leagues, Tournaments, School Matches) (per person)	\$5.00-\$15.00	\$1.00-\$50.00**
Private Lessons by Pro	Paid Directly to Pro	No mention of Private Lessons

** With the advance written approval of the Administrator of Parks and Recreation
 Per Ordinance # 12495, schools in Hamilton County may receive a 25% discount when reserving these facilities.
 Per Ordinance # 12495, tournaments are subject to contract stipulations.
 Source: City Ordinance #12285 and 12495

While the Manager was aware of the new fee schedule, our review of collection reports from July 1, 2010 to June 30, 2011 indicates that Champion’s Club has not implemented the new ordinance. We found that 1) fees were not changed to reflect new court fee rates; 2) contracts

signed by the Manager setting rates for special events were not approved by the Parks and Recreation Administrator; 3) the Manager continues to charge and retain private lesson fees for instructional activities held at Champion’s Club; and, 4) standard rates were charged to Hamilton County Schools participating in events held at the facility.

Recommendation 10:

We recommend the Champion’s Club update its fee schedule per Ordinance # 12495, adjusting its cash register PLU codes and posted rates accordingly. Future contracts with special event tennis organizers should be approved by the Parks and Recreation Administrator.

Auditee Response:

We concur, in part. As the effective City Code language stated that ‘School in Hamilton County may receive a 25% discount when reserving these facilities’, said reduction in fee was not mandatory.

Our Department is presenting an amended fee structure, for Council approval, to address the following activity.

Champion's Club	Per Hour
Court Fees - Before 4:00 PM (per person)	\$2.00
Court Fees - After 4:00 PM (per person)	\$3.00
Court Fees - Seniors (per person per day)	\$2.00
Special Event Tennis	Per Person
Leagues, Tournaments, School Matches*	\$1.00 - \$50.00
Champions League Fees**	\$40.00
Private Lessons by Pro	Paid Directly to Pro
* With the advance written approval of the Administrator of Parks and Recreation	
** Full & part time employees of Champion's Club are allowed to participate in tennis leagues for free.	

Champion’s Club lacks adequate internal controls over cash handling.

Overall, we found the Champion’s Club lacked adequate internal controls over its collections handling, largely as a result of not following Parks and Recreation Department and Recreation Division policies and procedures. Policies and procedures are part of the established control environment of the City and are put in place to prevent financial losses, ensure compliance with laws and regulations, and avoid damage to the City’s reputation.

We reviewed Champion’s Club daily collections processes and noted the following weaknesses:

- **Cashiers share cash drawers** – *The Internal Control and Compliance Manual for TN Municipalities 5-13-6* requires “Each cashier should be assigned a separate cash drawer

that is accessible only to that cashier.” All cashiers at Champion’s Club use a single register drawer. When shifts change at Champion’s Club, registers remain intact, with the next cashier may informally reconcile cash in the drawer to marked customers and collections on a Daily Journal. However, multiple employees/cashiers may continue to use the register after such reconciliation.

Cashier’s codes are displayed beside the register, and the register does not support password-protection in order to access the single drawer. As a result, cashiers can enter transactions into the register under another cashier’s code. We found that not all cashiers enter their cashier number into the register prior to entering transactions as required by policy. According to one staff member, it is his standard practice to utilize another cashier’s code when entering transactions because he uses the drawer infrequently.

- **Not preparing a daily balance sheet** – Daily Journals are summarized by management to support Champion’s Club collections prior to submitting collection reports to Treasury and may cover collections for multiple days. *The Internal Control and Compliance Manual for TN Municipalities* 5-13-6 requires daily collection reports to be prepared by each cashier and consolidated for the daily report. Parks and Recreation policy require funds to be received and reconciled daily and the balance sheet to have two staff signatures.
- **Not all collections are received through the cash register and receipts are not issued**– In accordance with TCA 9-2-103 obliging every municipal official who receives any sum in their official capacity to issue the payer a receipt. Department policies require cash to be received through a cash register, and the customer provided the register-generated receipt. If a cash register is not available, the customer must be provided a receipt from a City of Chattanooga pre-numbered receipt book.

The Champion’s Club Manager maintains a separate payment system outside of the City’s cash register for his instructional services and pro shop sales. Participants are therefore not provided with a City of Chattanooga receipt for these services.

- **Checks are written to Champion’s Club** – Per Parks and Recreation and Finance Department policies, all checks should be made payable to “City of Chattanooga”. Eight checks in our sample of 38 collection reports were written to “Champions” or “Champion’s Club”.
- **Access control to collections not adequately restricted** – Per Department policy, funds are to be locked in a safe or in a locked office in a locked drawer/cabinet. Access to these storage areas should be limited. However, Champion’s Club collections are placed into a money bag and locked in a cabinet drawer at the registration desk for overnight storage. While there is one key for the cabinet, several employees know where the key is hidden.

Recommendation 11:

We recommend Champion’s Club staff comply with City collection policies.

Auditee Response:

We concur.

Recommendation 12:

We recommend Parks and Recreation Administration enforce its policies and procedures for cash handling at Champion's Club.

Auditee Response:

We concur, with the exception of the period of time in which the Manager's receipt of instructional fees was authorized by the Chattanooga City Council, codified in the City of Chattanooga Fee Code, through April, 2011.

Auditor Comment:

Prior to April 2011, City Code Section 26-31 allowed "Private lessons by Pro" to be "paid directly to Pro". There was no indication in Ordinance #12285 (approved September 15, 2009) that the "Pro" was a City employee and was also the Club's Manager. Further, we found no mention in the associated Council or committee minutes indicating approval of additional income for, or private use of City assets by, the Champion's Club Manager.

Champion's Club lacks adequate segregation of duties.

The *Internal Control and Compliance Manual for Tennessee Municipalities 2-1-4* indicates duties of employees should be separated "so that no one person has control over a complete transaction from beginning to end. Work flow should be established so that one employee's work is automatically verified by another employee working independently." Segregation of duties enhances internal controls and limits the opportunity for theft and/or unauthorized use of City assets.

Champion's Club has only three full time employees: the Manager, Assistant Manager, and Maintenance Crew Worker. The Manager and Assistant Manager are stand-in cashiers when no part-time cashiers are on-duty (of which there are eight). All employees, with the exception of the Maintenance Crew Worker, are tasked with receiving funds from customers.

We noted the Manager handles all aspects of collections for tournament fees (maintains calendar, staffs the event, collects fees, and prepares collection reports). As noted in the finding on page 6, the Manager personally hosted large tournaments at the facility and retained the revenues. We also noted the Assistant Manager handles all aspects of collections for league fees (maintains calendar, collects fees, and prepares collection reports). Waivers were provided to players participating in the leagues without written approval of the Manager and in violation of City Code. There is no independent review and reconciliation by Parks and Recreation Administration to ensure all funds are collected and deposited.

Recommendation 13:

We recommend, where possible, different people be responsible for the authorization, recordkeeping, custodial, and review procedures, to prevent manipulation of records and minimize the possibility of collusion. Responsibility for each step of cash handling and recording should be clearly established. If possible, the employees who receive cash collections should be different from those who maintain the books and records.

Due to the currently limited staffing at Champion's Club, full segregation of duties may not be possible. We recommend that Parks and Recreation Administration periodically perform an independent review of Champion's Club daily collections and for a selection of events held there (including Champions Leagues). Such a review would likely have detected several of the underlying issues noted in previous findings and would further enhance internal controls at Champion's Club.

Auditee Response:

We concur, as to the detrimental control effect caused by our Department's limited budgeted ability to provide staff at the Champions' Club.

We disagree, to the extent that it is represented that 'there is no independent review and reconciliation by the Parks and Recreation Administration to ensure all funds are collected and deposited.' Internal Audit was directly informed that the Administrative staff did perform random reconciliation of the collections performed by Champions' Club, during the requisite audit period.

Auditor Comment:

Parks and Recreation Administrative staff performs reconciliation of daily collections at random; however, staff does not perform independent reviews of collections for events held at the facility along with all associated supporting documents. Such a review might include reconciliation of league rosters, league fees paid by patrons, and league fees collected in Treasury. According to interviews with Parks and Recreation management, league rosters were not used by management to verify initial collections from Champion's Leagues. Similarly, management was not aware of tournament fee contracts entered into by the Manager. Reconciliation of tournament fees to contracted fees per player and player counts could also provide assurance that initial collections are made correctly. These types of review allow Administration to ensure all fees due to Champion's Club are initially collected and amounts collected are deposited to Treasury.