



City of Chattanooga

INTERNAL AUDIT

City Hall

Chattanooga, Tennessee 37402

Stan Sewell
Director

Ron Littlefield
Mayor

April 30, 2012

Mayor and City Council
City of Chattanooga
Chattanooga, TN 37402

RE: Fitness Center Cash Collections, Audit 12-03

Dear Mayor Littlefield and City Council Members:

Attached is the Internal Audit Division's report on Parks and Recreation Fitness Center Cash Collections, Audit 12-03.

The Parks and Recreation department has already taken positive actions in response to our findings and recommendations. We thank the management and staff of the Parks and Recreation department for their cooperation and assistance during this audit.

Sincerely,

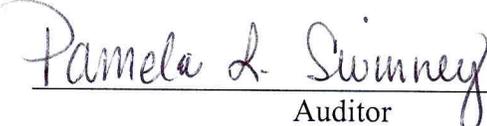
Stan Sewell, CPA, CGFM
Director of Internal Audit

Attachment

cc: Audit Committee Members
Dan Johnson, Chief of Staff
Larry Zehnder, Administrator Parks and Recreation
Rick O'Rear, Director Fitness Center

**PARKS AND RECREATION DEPARTMENT
FITNESS CENTER CASH COLLECTIONS
AUDIT 12-03
MARCH 28, 2012**

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Auditor



Audit Director

**PARKS AND RECREATION DEPARTMENT
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AUDIT 12-03**

INTRODUCTION

The Chattanooga Fitness Center at Warner Park provides an affordable health and fitness facility to the community. City Code Sec. 26-32 establishes the fees for the fitness center. A daily user fee of \$1.00 and a fitness assessment fee of \$15.00* were established by City Code Sec. 26-32. Each participant is required to sign a daily participant/waiver log prior to entrance to the fitness center. The daily logs are maintained by the Fitness Center.

Fitness classes offered by non-city employees are permitted. The City retains 25% of the fees collected by the instructor. Ordinance No. 12495 requires the fees be set in advance with written approval from the Director of Recreation. The fitness center had no third party contracts related to fitness classes during the audit period.

As part of the wellness program, the \$1.00 daily user fee is waived for City employees and retirees. Employees must provide an ID (City badge, WellAdvantage card, or other acceptable form) and are required to sign a daily employee/guest log prior to entrance to the facility.

*Fees established by Ordinance No. 12285, effective 9/15/09 and Ordinance No. 12495, effective 4/12/11.

STATISTICS

| | <u>Jan. 1 – Dec. 31, 2011</u> |
|--------------|--------------------------------------|
| Attendance | 51,810 |
| <hr/> | |
| Revenues | \$ 49,592 |
| Expenditures | \$ <u>213,633</u> |
| Net | \$ <u>(164,041)</u> |

Source: ChattResults

STATEMENT OF OBJECTIVES

This audit was conducted in accordance with the Internal Audit Division's 2012 Audit Agenda. The objectives of this audit were to determine if:

1. Proper internal controls are in place for the cash collection process; and,
2. Cash 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 the assessment of risk, the audit covered fitness center cash collections from January 1, 2011 to December 31, 2011. Source documentation was obtained from Finance and Parks and Recreation departments. Original records as well as copies were used as evidence and verified through physical examination. The scope was expanded as necessary to meet the objectives of the audit.

STATEMENT OF METHODOLOGY

To determine whether internal controls were in place for collections, we reviewed the Fitness Center's written policies/procedures and interviewed staff to gain an understanding of the cash collection process. In addition, we reviewed the *Internal Control and Compliance Manual for Tennessee Municipalities*, the Chattanooga City Code, Parks and Recreation *Cash Collection and Control Policy* and *Cash Handling Procedures*, and Finance's *Policies & Procedures – Collections (Revised Feb. 2011)*.

We reviewed a sample of cash collections and supporting documentation to determine whether collections were properly documented and timely submitted to Treasurer's office. 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. Several internal control weaknesses exist in the Fitness Center's cash collection process; and,
2. Cash collections were properly documented and submitted to the Treasurer's office within the required three day period.

While the findings discussed below may not, individually or in the aggregate, significantly impair the operations of the Parks and Recreation Fitness Center, they do present risks that can be more effectively controlled.

FINDINGS AND RECOMMENDATIONS

The Fitness Center should follow current Parks and Recreation policies and procedures and implement specific procedures that address accountability issues in the collection process.

During the audit period, the Fitness Center had three cashiers (day, lunch relief, and night shift). Both the day and lunch cashiers were required to count collections and reconcile to the cash register tape at the end of their respective shifts. The evening cashier was required to count her collections but did not reconcile or print the cash register tape. Typically, the day cashiers would leave a portion of their collection in the drawer for the next cashier to use for change.

The Fitness Center implemented several changes to its cash collection process during the audit period and after the audit start date. The chart on the following page outlines the most notable differences between the processes.

EXHIBIT A: NOTABLE CHANGES IN COLLECTION PROCESS

| Prior to May 2011 | AUDIT PERIOD Post May 2011 | Current (post Feb. 2012) |
|---|--|--|
| Daily Register Close Out (Z-tapes) performed the following morning with Friday/Saturday collections combined | Daily Register Close Out (Z-tapes) performed daily at closing | No change in process. |
| Morning cashier counts cash collections at end of shift | Morning cashier counts cash collection prior to lunch and at end of shift | Morning cashiers do not count their respective collections; Instead, monies are given to another staff member to count (transfer not documented) |
| Prepares Consolidated Coin Collection Report* (Monday thru Friday) for prior day collections; Friday/Saturday collections combined | Prepares Coin Collection Report Monday thru Friday for morning shift collection only; No coin collection report prepared by lunch, night or Saturday cashiers | No change in process. |
| Night cashier counts daily cash collections but does not reconcile to register tape; support documents (Tellertape, etc) not maintained | No change in process. | Night cashier does not count or reconcile daily collections to register tape |
| Cashier leaves a portion of collections in cash register for next cashier (to use as change) | No change in process. | Each cashier removes all shift collections and drops in safe prior to each shift change |
| *Coin collection report is prepared by the cashier to document cash collections by denomination. | | |

Despite recent changes, we identified two persistent control weaknesses in the Fitness Center’s cash collection process and one area for process improvement. Following is a summary of issues noted.

- 1) Transfer of cash collections between Fitness Center staff are not performed in accordance with policies.** The morning shift cashier is tasked with reconciling and documenting the previous day’s collections. The night shift cashier places her collections in a locked safe, through a drop drawer. Only the Director and the morning shift cashier have access to the drop safe. Typically, the morning shift cashier removes all money bags from the safe prior to the arrival of the Director. Neither the night shift nor morning shift cashiers had a witness to verify the contents of the money bags. Therefore, accountability of missing funds is diminished.

The Internal Control and Compliance Manual for Tennessee Municipalities 5-14-2 states anytime custody of money changes from one employee to another, the money **should** be counted by **both employees** and a signed document should be prepared. Further, Parks and Recreations’ *Cash Collection and Control Policy 6.10* states funds must be tracked by a signature log each time funds are transferred.

When fund transfers are properly documented, management has the necessary tools to easily identify the source of any missing funds. However, each collection process is unique and management should identify and implement internal controls that fit its

unique process.

Recommendation 1:

We recommend the Fitness Center implement new procedures that ensure accountability for funds collected. The procedure could include a dual witness either at night (when cashier performs nightly close out) or the next morning (when collection report preparer opens safe and counts the prior day collections). Transfers between staff should be minimal and adequately documented.

***Auditee Response:** Our Department concurs with Recommendation 1, and has implemented the appropriate on-site procedural changes to address, remedy and improve the following procedures:*

- *Presence of available witness during shift-end, drop-safe and collection report reconciliation processes;*
- *Physical relocation of reconciliation site to allow for witness availability;*
- *Appropriate utilization of transfer log at transfer of funds; and*
- *Coordination of collection courier service to witness availability.*

2) **Daily collections are not properly reconciled and documented by each cashier.** As noted in **Exhibit A** on previous page, the night shift cashier does not reconcile collections to the register tape. During the audit period, the night shift cashier indicated collections were counted and documented (by Tellermate tape and sticky note); however, no support documentation was located during our sample review. The morning cashier stated the night shift documentation was not maintained.

We sampled 45 collection reports. We noted 100% of these collection reports were submitted to the Treasurer’s office reporting **no** cash over/shortages. However, we found 16 of the 45 (or 35%) had been revised by the Treasurer’s office for over/shortages. Further, the review of available day shift reconciliation reports indicated actual cash over/shortages that were not reported on the combined daily collection report. It appears the daily deposit was based on the total sales reported on the cash register tape. If the cash count resulted in an overage, the funds were kept in the safe to offset any future shortages.

The Internal Control and Compliance Manual for Tennessee Municipalities 5-14-6 requires each cashier to prepare each day a daily collection report that summarizes the cash collections, including any cash over or short. The individual reports should be consolidated for the daily report to be sent to accounting and amounts over or short, if any, should be accounted for in the accounting records and deposited, if applicable.

Parks and Recreations’ *Cash Collection and Control Policy* 6.11 states “funds must be **reconciled, documented, and safe guarded prior to transfer.**” Any overage must be deposited. Further, Parks and Recreations’ *Cash Handling Procedures* states “each time a different cashier uses the cash register; the previous cashier **must count and reconcile money for transactions they entered.**” [Emphasis added.]

Recommendation 2:

We recommend each cashier count monies, prepare a reconciliation report and document funds collected, and place the signed report along with monies in the drop safe. Further, we recommend cash overages be deposited with the City Treasurer and any shortages be reported as required by current policies.

Auditee Response: Our Department concurs with Recommendation 2, and has implemented the appropriate on-site procedural changes to address, remedy and improve the following procedures:

- *Morning and evening documented reconciliation;*
- *Documentation and deposit of cash overages and shortages; and*
- *Currency transfer and all other related procedural tasks.*

- 3) ***The Fitness Center should consider establishing change funds for each cashier.*** As indicated in **Exhibit A** on page 4, during the audit period cashiers kept a portion of the morning collections in the cash drawer to provide the night shift cashier a “change fund.” Technically, since the morning cashier’s collections were mingled with the night cashier’s collections, the cashiers were sharing the same cash drawer. Although the procedure has been corrected (each cashier drops their collections in the safe at shift change), the Fitness Center should consider establishing change funds for each cashier to provide better customer service.

The Internal Control and Compliance Manual for Tennessee Municipalities 5-12-5 and 5-14-6 states, in part, an established amount is maintained for change and each cashier should be assigned a separate cash drawer that is accessible only to that cashier.

Recommendation 3:

We recommend the Fitness Center establish change funds for each cashier. The change funds should be secured in a locked box or safe that is accessible only to the cashier with custodial responsibility.

Auditee Response: Our Department concurs with Recommendation 3, and has implemented the appropriate on-site procedural changes to conform to the existing procedural requirements. Further, our Department will continue to investigate available automated technological alternative methods of collection, in order to more efficiently provide compliant and efficient service at this fitness facility.

Options to be considered include:

- *Maintaining current system, whereby exact change is requested.*
- *Evaluating the options available with the soon-to-be implemented recreational management software program.*
- *Installing a change or ticket/token machine in the entry hallway.*
- *Assigning a small change fund to each cashier.*