



City of Chattanooga

INTERNAL AUDIT

City Hall

Chattanooga, Tennessee 37402

Stan Sewell
Director

Ron Littlefield
Mayor

December 2, 2008

Mayor and City Council
City of Chattanooga
Chattanooga, TN 37402

RE: Skate Park Cash Collections, Audit 08-02

Dear Mayor Littlefield and City Council Members:

Attached is the Internal Audit Division's report on Skate Park cash collections in the Parks and Recreation Department. The Department has already begun the process to strengthen internal controls over cash collections.

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, Parks and Recreation Administrator
Greta Hayes, Assistant Director of Parks

**PARKS & RECREATION DEPARTMENT
SKATE PARK
CASH COLLECTIONS
AUDIT 08-02
NOVEMBER 10, 2008**

**PARKS & RECREATION DEPARTMENT
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Pamela A. Swinney

Auditor



Audit Director

**PARKS & RECREATION DEPARTMENT
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INTRODUCTION

The Chattanooga Parks and Recreation Department built and is responsible for the operation and maintenance of the Chattanooga Skate Park. The park is located at 1825 Carter Street, behind the First Tennessee Pavilion. The park provides visitors with multiple opportunities for skating and biking, along with a roller hockey area. Prior to March 2006, the park was operated by a Concessionaire under a contract in which the City of Chattanooga received 8% of the Skate Park's revenue.

Facility Managers and/or cashiers receive funds at the Skate Park and remit collections to the Treasurer on daily collection reports. The collections consist of money for facility rentals, hockey leagues and any fee-based activities (daily admission, helmet rental, tournament entrance, and special events). The Skate Park deposits funds directly into the bank then provides the Treasurer's Office with the collection report and deposit slip.

STATISTICS

	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>
Operating Revenues	\$ 21,531	\$ 73,212	\$ 79,018
Operating Expenditures	<u>13,178</u>	<u>94,308</u>	<u>120,529</u>
Net Operating Income	<u>\$ 8,353</u>	<u>\$ -21,096</u>	<u>\$ -41,510</u>

Note: Actual figures taken from BANNER for org. code F00210.

STATEMENT OF OBJECTIVES

This audit was conducted in accordance with the Internal Audit Division's 2008 Audit Agenda. The objectives of this audit were to determine if:

1. There are adequate written policies and procedures for cash collections.
2. Proper internal controls were in place for the cash collection process.

3. Cash collections are properly documented and submitted to the Treasurer's office within the required three day period.
4. All funds are being secured properly.
5. Membership cards had been properly issued.

STATEMENT OF SCOPE

Based upon the work performed during the preliminary survey and the assessment of risk, the audit period covered cash collections activity that occurred from January 1, 2008 to September 30, 2008. Source documentation was obtained from the Skate Park, Treasurer's office, and Parks and Recreation central office. 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 the Skate Park. In addition, we reviewed the Internal Control and Compliance Manual for Tennessee Municipalities, the Chattanooga City Code and Finance Department 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. In addition, we abide by the standards of professional practice established by the Institute of Internal Auditors. An internal audit charter has not been approved by the City Council.

AUDIT CONCLUSIONS

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

1. Adequate written policies and procedures for cash collections do not exist.
2. Proper internal controls are not in place for the cash collection process.
3. Cash collections are not properly documented. However, it does appear they are submitted to the Treasurer's Office within the required three day period.
4. Funds are not being secured properly.
5. Due to insufficient documentation, we were unable to determine if membership cards have been issued properly.

WRITTEN CASH COLLECTIONS POLICIES/PROCEDURES

Written policies and procedures regarding cash collections are partially in place at the Skate Park. Written policies/procedures exist for certain aspects of the cash collections process (for example – collection report preparation). However, written policies/procedures that cover all of the different aspects of the cash collection process are not in place.

RECOMMENDATION 1

We recommend Parks and Recreation management expand their current written policies/procedures to include all aspects of the cash collection process. The updated policies/procedures should be included in the Departmental procedures and posted on the City's intranet website. Once the expanded written cash collection policies are in place, auditor recommends that management provide each staff member with a copy of the policies/procedures and retain a signed acknowledgement of receipt.

AUDITEE RESPONSE

We agree with this recommendation. We are in the process writing procedures related to cash handling and security. An overall cash policy has been written and each department's operational procedures will be reviewed and procedures will be written to adhere to this policy. Review of Skate Park will start in January and the procedures of this operation should be completed no later than February 28, 2009. We will insure that the issues outlined in this policy are addressed as we write the procedures.

SEGREGATION OF DUTIES

Internal controls are weak due to the lack of segregation of duties. At the Skate Park, employees who are collecting money throughout the day are also performing the reconciliation functions.

RECOMMENDATION 2

Segregating responsibilities could reduce errors and prevent or detect inappropriate transactions. One person should not be allowed to manage all aspects of cash handling, reconciling and signing. The duties of receipting cash should be handled separately from the employee who is preparing the reconciliation report.

AUDITEE RESPONSE

We agree with this recommendation. It is currently a problem that there are only two part time assistant positions assigned to this facility and there are no job descriptions for Skate Park personnel. This is inadequate to run this facility. We will be reviewing facility operation in order to determine the appropriate positions needed and will make a recommendation to vacancy control for position assignments. Until this is accomplished, we will use the current temporary staff to achieve the necessary segregation of responsibility related to cash handling and security.

SEPARATE CASH DRAWERS

In accordance with Internal Control Compliance Manual for Tennessee Municipalities, Title 3, Chapter 1, Section 6, "Each cashier should be assigned a separate cash drawer that is accessible only to that cashier." Also, the Skate Park written policies require a separate cash drawer to be used by each cashier. However, based on staff interviews, we learned that sharing a cash drawer is common practice among the employees. Therefore, collection discrepancies can not be traced to one individual.

RECOMMENDATION 3

We recommend management enforce the current written policy that requires one person per shift collect funds. If the recommendation is not feasible due to ordinary business needs, then management must invest in separate cash drawers or purchase an additional cash register.

AUDITEE RESPONSE

We agree with this recommendation. The previously mentioned operational review will assist in determining which of the three recommended solutions will implemented.

RECEIPTS ARE NOT BEING ISSUED

During the process of the audit, we determined that receipts were not provided to customers. The 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..."

RECOMMENDATION 4

A detailed cash register receipt should be provided to any purchaser of goods or services. There should be conspicuous signs posted that state the following or something similar to: "If you do not receive a receipt for your purchase, please contact Internal Audit at 423-425-6202."

AUDITEE RESPONSE

We agree with this recommendation. Staff will begin giving cash register receipts immediately. The sign will be posted at the facility no later than December 15th.

FACILITY RENTALS AND DEPOSIT COLLECTIONS

Facility rentals are not handled properly at the Skate Park. During the process of the audit, auditor learned the facility employees accept reservations without requiring a deposit and a completed Facility Use Agreement. We also noted that reservation calendars are not maintained.

RECOMMENDATION 5

There should be a system to record information that identifies the facility, date of reservation and person making reservation and receiving funds. Recreation rental forms should be submitted with full payment in advance. In addition, maintenance of an electronic calendar (outlook) should be required. All facility rentals should be entered on the calendar at the time they are booked and reservation deletion rights should be limited to an individual that does not make reservations or collect deposits.

Recreation Rental forms should be duplicates with preprinted numbers. One copy of the form should go to the customer and the other to the facility. Parks and Recreation Administration should conduct periodic reviews to ensure there are no missing (pre-numbered) forms, as well as make unscheduled visits to ensure the facility has not been rented without a calendar reservation.

AUDITEE RESPONSE

We agree with this recommendation. These issues will be addressed as mentioned in recommendation 1. We currently have a facility rental policies and procedures that may be easily adapted.

FUNDS ARE NOT PROPERLY SECURED

Based on staff interviews and review of written policies/procedures, we discovered the daily cash receipts are not being deposited nightly. Also, the majority of the employees have access to the cash funds. The facility has an alarm system but no video cameras.

In accordance with the Internal Control and Compliance Manual for TN Municipalities Title 3 Collections/Revenues, Chapter 1 section 5, "collections should be deposited promptly and intact and only in designated depositories." Also, the Skate Park written daily policies/procedures require deposits be made "by facility manager each evening."

RECOMMENDATION 6

We recommend deposits be made every night as required by the Skate Park's written policies/procedures. We recommend that a security camera system be installed at the Skate Park to allow Parks and Recreation management to monitor daily operations.

AUDITEE RESPONSE

We agree with this recommendation. These issues will be addressed as mentioned in recommendation 1. Procedures will be written no later than February 28, 2009. Current funding will be reviewed to determine if security cameras can be purchased and installed. If funding is not available currently, this will be part of our 2010 capital budget request.

INADQUATE MANAGEMENT REVIEW

Due to a lack of management oversight, the likelihood of funds being misappropriated is high. During the audit of the collection process it was found that several days did not have actual cash collections reported. Further review of employee timesheets verified employees

were on-duty during these days. In some instances, multiple staff were on duty for full shifts. We would not expect this if the facility were not operating (collecting cash). This could be an indication of unreported revenues.

The Skate Park requires skaters to wear a pre-numbered, colored wristband during the daily sessions. A different colored band is used for each day of the week with a log of the wristband usage maintained on the daily balance sheet. During the review of the collection reports and supporting documentation, we found the wristband logs were not always in sequential order. Our review of the prior week wristband log indicated missing wristbands. This could be an indication of unreported admission fees.

RECOMMENDATION 7

During the reconciliation process, managers should perform meaningful independent reviews in which source documents or other records are scrutinized to provide reasonable assurance that everything collected is deposited to the appropriate bank and/or Treasurer's office in a timely manner and recorded correctly. Also, we recommend a daily balance sheet be maintained for "Rain Days" to support the lack of cash collections as well as management review of employee timesheets for appropriateness based on the Skate Park's operating hours.

AUDITEE RESPONSE

We agree with this recommendation. These issues will be addressed as mentioned in recommendation 1. Procedures will be written no later than February 28, 2009.

FREQUENT SKATER AND MEMBERSHIP CARDS

During the audit of the collection process it was found that the issuance of membership cards is not always properly documented. We were unable to determine if a member had paid the fees unless the payment was made with a check. We noted the frequent skater cards were not always maintained to support issuance of a membership card and the daily balance sheet does not adequately document membership card sales. Also, management does not perform a monthly reconciliation of the membership card inventory.

RECOMMENDATION 8

We recommend the frequent skater card be updated to provide space to write the name of the skater, the date of issue, and at each visit, the wristband number and date of visit. When the membership card is issued, the card number, date and employee's initials should be included on the frequent skater card. A copy of the frequent skater card should be included as

supporting documentation with the daily balance sheet when a free membership card is issued.

We further recommend the daily balance sheet be updated to include a log of membership cards issued each day. The log should provide the member's name, card number, and method of payment. We also recommend management perform a monthly reconciliation of the membership card inventory.

AUDITEE RESPONSE

We agree with this recommendation. These issues will be addressed as mentioned in recommendation 1. Procedures will be written no later than February 28, 2009.