CITY OF
MESA
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City Auditor

April 13, 2007

To: Audit and Finance Committee

From: Gary Ray, City Auditor GR

Subject: Final Audit Report – Adult Softball League Revenues

Transmitted with this memo is the final Audit Report and Corrective Action Plans (CAPs) from our audit of Parks, Recreation and Commercial Facilities Department-Adult Softball Revenues for the five years ended June 30, 2006. All findings and recommendations have been discussed with the department's management, and their response is attached. We would like to thank Parks, Recreation and Commercial Facilities' staff members for their cooperation and assistance, which were invaluable throughout the audit. Please contact me at x3210, or Jennifer Ruttman at x3767, if you have any questions.

c: Debbi Dollar, Assistant City Manager
Brian Raines, Deputy City Manager
Rhett Evans, Parks, Recreation and Commercial Facilities Director
Kelly Rafferty, Parks, Recreation and Commercial Facilities Assistant Director
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Audit Report

Department: Parks & Recreation
Subject: Adult Softball League Revenues
Date Completed: January 17, 2007
Report Date: March 12, 2007

Title: **Audit of Adult Softball League Revenues**

Objectives:

The primary objectives of this audit were:

1. To determine the nature and extent of any financial losses the City may have realized as a result of employee theft.
2. To identify any internal control weaknesses or other factors that may have contributed to the City's failure to prevent and/or detect employee theft in a timely manner.

Scope:

We reviewed relevant documents dated between August 2001 and June 2006, analyzed historical data, interviewed key personnel, and performed other tests and inquiries as necessary to achieve our objectives.

Comments:

Throughout the audit, our findings and recommendations were communicated to Parks staff members, who worked quickly and diligently to implement the recommended changes. After six months and two complete softball seasons, preliminary reviews indicate that the new controls have been successfully implemented and are operating as intended.

Our conclusions and recommendations are summarized below. For more detailed explanations of all findings and recommendations, please see the attached Corrective Action Plans (CAPs). Management's responses to our recommendations are also attached.

Conclusions:

We determined the following:

1. Between August 2001 and June 2006, more than $400,000 in adult softball league revenue was lost to employee theft. On January 23, 2007, Jordan Stradling, former Recreation Coordinator, pled guilty to one count of fraud in connection with this theft. On February 23, 2007, he was sentenced by the court to 2.5 years in prison and ordered to pay $250,000 in restitution to the City of Mesa.
2. Significant internal control weaknesses in the Parks and Recreation Division created an environment in which employees had both the means and the opportunity to misappropriate revenue with little or no risk of detection. These control weaknesses included:
   - Lack of segregation of duties.
   - Lack of physical controls to secure & safeguard cash and checks.
   - Lack of controls to ensure the accuracy & completeness of data.
   - Lack of controls to ensure source documents are generated and properly maintained.
   - Inadequate oversight by managers and supervisors.

Recommendations:

1. **Registration process controls:**
   a. Segregate the duties involved in the registration process and do not allow program staff to accept payments.
   b. Hold softball registration at a location equipped to access the RecTrac system.
   c. Revise registration forms to include additional information and to clarify payment information.
   d. For each softball season, have a clearly defined registration period, ending on or before the first day of play. In addition, clearly define any "late registration" period, and limit payments to cash or credit cards during late registration.
   e. Do not allow any team to register with partial payment, or no payment, unless a receivable for the balance is approved by management and recorded in RecTrac.
   f. Ensure all checks are made payable to the City of Mesa. Clearly and conspicuously post this wherever payments are accepted, and include it on any printed materials referencing fees or payment options.
   g. Require church leagues to follow the same registration procedures as other leagues.
   h. Do not allow employees to adjust or waive fees without proper authorization.
2. **Documentation:**
   a. Completely & accurately document all transactions and immediately record them in RecTrac.
   b. Provide a receipt and a copy of the registration form to all patrons.
   c. Clearly and conspicuously post a notice, wherever payments are accepted, indicating that all patrons shall receive a receipt.
   d. Require patrons to fill out registration/roster forms completely.
   e. Fully document refunds as to the reason & authorization; and provide a reference to verify the original payment (i.e. the original transaction number or receipt number).
   f. Record all league registration transactions under a RecTrac household number, so the individual responsible can be identified.
3. **Data integrity:**
   a. Implement both preventative and detective controls to ensure that the data reported to management is accurate and complete.
   b. Apply additional scrutiny when financial results fail to meet projections.
4. **Risk management, management oversight, and Control Environment:**
   a. Identify key risks and determine, implement and monitor the controls needed to address those risks.
   b. Implement the RecTrac League Scheduling Module and use it to track all league activity.
   c. Ensure that supervisors are adequately overseeing the activities of their subordinates.
   d. Clearly communicate and uphold a strong ethical culture and an effective control environment, from the top down, to reduce fraud risk and improve loyalty and morale. To that end:

- Educate all employees about the purpose & importance of internal controls, ensuring that each employee understands how his/her specific duties relate to the overall system of controls.
- Ensure that employees understand that it is their duty to report any irregularities or other improper conduct suspected or observed; and provide them with a safe mechanism for doing so without fear of reprisal from supervisors or coworkers. Implement controls to ensure that all such reports are investigated and resolved.

Management Response: Parks management concurs with all of the above recommendations. Most have been successfully implemented, and efforts are ongoing to implement the remaining few. Detailed responses to each recommendation are attached.

Corrective Action Plan #1
Audit Subject: Adult Softball Revenues **March 12, 2007**

Title: **Registration Process Controls**

Observations:

Internal controls have not been incorporated into the Adult Sports registration process to minimize the risk of errors or fraud. Specifically:

1. One Recreation Coordinator received payments, coordinated all aspects of the program, managed program expenses, and reported results to management.
2. Registration events were held at a location where there is no access to the RecTrac system to record transactions. There were no controls in place to ensure that cash and checks were safeguarded or to ensure that all payments were recorded and deposited. Registrations for church leagues and senior softball leagues were subject to even fewer controls than the regular leagues.
3. The registration/roster forms used for Adult Softball have no place to record the season & year and have no place to record the RecTrac household number and/or receipt number. In addition, the payment section is not clear, making it difficult to interpret the payment amount & method.
4. Registration payments were processed throughout each softball season; sometimes after the season had ended. Partial payments were accepted, with a notation made on the registration/roster form indicating how much the patron still owed.
5. Fees were waived and/or reduced without proper authorization.

Criteria:

1. Segregation of Duties: Internal control standards issued by the US Government Accountability Office (GAO), the American Institute of Certified Public Accountants (AICPA), the Institute of Internal Auditors (IIA), and others, maintain that key duties and responsibilities related to authorization, processing/recording, reviewing, and asset custody should be divided or segregated among different people to reduce the risk of error, waste or fraud. No single individual or group should be allowed to control all aspects of a transaction or event. Applying this standard to the Adult Sports program, employees who provide the service (running the leagues) should not receive or record the payments for that service.
2. Safeguarding cash and cash equivalents: Parks and Recreation Division Administrative Regulation 2.3, Financial Management Procedures, requires that cash and checks be secured at all times in a cash register, locked box or safe, and should be deposited daily.
3. Documentation: Forms used to document City activities and transactions should include a place for all relevant information to be provided, and should be designed so that the information is clearly understandable.
4. Recording of transactions: Standard cash handling controls require that all cash and checks be systematically recorded immediately upon receipt.
5. Fixed registration period: Adult Sports information published each season by the Parks and Recreation Division specifies, "*Payment*

must be made at time of registration," and *"Each team is required to have their money (in full) at the time of registration."*

6. Collection of all fees: Parks Administrative Regulation 2.3, Financial Management Procedures, states: *" . . . selected Division programs have limited or no fee assistance available. For example, the golf course and adult sports are not eligible for fee assistance . . .."* In addition, since full cost recovery for Adult Sports programs was mandated by the City Council in May 2003, it is imperative that all fees be collected to offset program costs.

Comments:

1. During registration, a Recreation Coordinator and his staff received cash, check and credit card payments along with registration/roster forms. The Recreation Coordinator was also responsible for placing each team on a league, scheduling games and tournaments, staffing the program activities, managing the other resources and commodities used by the program, tracking league standings, and reporting the results to management. This lack of segregation of key duties provided the Recreation Coordinator both the means and the opportunity to skim more than $400,000 in revenue over five years, and cover up the theft by submitting false reports to management.
2. Since there was no access to RecTrac at the registration location, payments were not recorded when received. Therefore, there was no way to ensure all of the payments were turned over for deposit. In addition, the Division policy on cash handling did not specifically address on-site registration for Adult Sports, so staff members did not apply the policy to this activity. Since transactions were not recorded immediately, and there were no controls in place to ensure they were recorded later, credit card payments were not always processed.
3. The absence of season and year information on the forms enabled the forms to be re-used for subsequent seasons, giving the false impression that the team had paid for that season.
4. Since registrations were not entered into RecTrac, and no process existed to reconcile program activity (teams) to revenue, there was no way to know if a team had not paid or had a balance due.
5. If a late-season or post-season check was returned for insufficient funds, the City had already provided the service (a full season of league play). The practice of accepting late and partial payments increased the risk that fees would not be collected and that uncollected fees would not be detected.
6. Adult Sports staff members used the term "sponsor exemption" on at least 13 registration/roster forms for the Spring 2006 season, to denote that they allowed the teams to play for free that season. The reported reason for this was that they needed additional teams to fill up the leagues. These staff members did not have the authority to exempt teams from payment. [Note: There is evidence indicating that some of these fees were paid directly to employees, and the forms were marked exempt, to conceal the theft.]

Recommendations:

1. Program staff should not be allowed to receive payments or record payment transactions.

2. Program staff should not place any team on a league schedule until a paid registration/roster form is received from registration staff.
3. Registration should be held at a location with access to RecTrac.
4. Church and senior leagues should be required follow the same registration process as all other leagues.
5. Cash and checks should be secured immediately upon receipt.
6. Administrative Regulation 2.3, Financial Management Procedures, should be revised to specifically address on-site registration for Adult Sports. The policy should explicitly state that all transactions must be recorded immediately.
7. Registration forms should be revised to include additional information and to clarify payment information.
8. Each softball season should have a clearly defined registration period ending on or before the first day of play.
9. If "late registration" is accepted, the dates should also be clearly defined, and payment should be limited to cash or credit cards.
10. If receipt of a sponsor's check is expected with a reasonable degree of certainty (based on payment history or other reliable indicators), the team should be permitted to register with a corresponding receivable created in RecTrac to account for the expected revenue.
11. A formal procedure should be implemented to ensure receivables are monitored and collected in a timely manner.
12. Except as recommended above, no team should be permitted to play until full payment has been received & recorded in RecTrac.
13. Fees should not be adjusted or waived without authorization.
14. All checks should be made payable to the City of Mesa. This should be clearly and conspicuously posted wherever payments are accepted, and should be included on any printed materials referencing fees or payment options.

Management Response: Parks management concurs with all of the above recommendations. Detailed responses to each recommendation are attached.

Corrective Action Plan #2
Audit Subject: Adult Softball Revenues **March 12, 2007**

Title:	**Documentation**

Observations:

1. Transactions, including various types of payments and refunds, were processed with little or no documentation.
2. Registration forms were not always fully completed by every team. In some cases, no form at all was found, or only the team name was written on the form. The forms were not retained by the Division in an organized manner.
3. Registration forms were not sent to the Parks and Recreation administrative office and, with few exceptions, were not provided to registration staff.
4. A refund was issued to a credit card that had never been used to make a payment, with no documentation as to who received the refund or the reason for the refund.
5. Payments were processed as "point-of-sale" transactions, which do not require a household number or other identifying information about the patron.
6. Multiple payments (usually checks) were combined and processed on a single receipt, with no reference to identify the patrons.

Criteria:

1. Parks and Recreation Division Administrative Regulation 5.5, Standardized Registration Procedures, requires that:
   a) "*On-site registration form must be filled out completely . . .*"
   b) "*Coordinators/Programmers must process and sign a transaction form to recommend refunds or credits after the first week of the program.*"
   c) "*The* [on-site] *registration form must be sent to the Parks and Recreation administrative office.*"

Comments:

1. By not providing the registration/roster forms to registration or admin staff, a Recreation Coordinator was able to conceal the actual number of teams registered, as well as the specific details as to payment method and date. If registration staff had seen the forms, they would have known how much cash should have been received.
2. The lack of documentation of Adult Sports transactions and activities directly contributed to the Division's failure to detect employee theft in a timely manner.

Recommendations:

1. All transactions should be completely & accurately documented and immediately recorded in RecTrac.
2. All required information on a registration form should be filled in before the registration is processed.
3. Refunds should be fully documented in accordance with Division policies. The reason for the refund, the authorization, and evidence of the original payment (i.e. the original transaction number or receipt number) should all be documented.
4. All transactions should be associated with a household, so the team or coach making the payment can be identified.

5. Each payment should be processed separately, so that there is a record of payment for each registered team.

Management Response: Parks management concurs with all of the above recommendations. Detailed responses to each recommendation are attached.

Corrective Action Plan #3
Audit Subject: Adult Softball Revenues **March 12, 2007**

Title: **Data Integrity**

Observations:

1. Program staff members were responsible for compiling and reporting performance data to management.
2. A Recreation Coordinator significantly understated the number of registered softball teams (and the corresponding revenue), when reporting program results to management.
3. When results did not meet projected targets, management did not take steps to validate or verify that the reported data was accurate and complete.

Criteria:

1. Internal control standards issued by the US Government Accountability Office (GAO) include the following monitoring activities for managers:
   a) "*Operating reports are integrated or reconciled with financial and budgetary reporting system data and used to manage operations on an ongoing basis, and management is aware of inaccuracies or exceptions that could indicate internal control problems.*"
   b) "*Operating management compares production, sales or other operating information obtained in the course of its daily activities to system-generated information and follows up on any inaccuracies or other problems that might be found.*"

Comments:

1. Individual program staff members were responsible for reporting results and performance data related to their respective programs. These reports were relied upon by management when making decisions related to resource allocation, fee structures/increases, program development and cost recovery status.
2. When financial results consistently failed to meet projections, managers did not direct sufficient attention to the source or validity of the reported data. This lack of scrutiny enabled an employee to conceal theft by submitting false data to management.

Recommendations:

1. Management should implement preventative and detective controls to ensure that only accurate and complete data is reported. Examples of such controls include:
   a) Segregation of duties – Program data should be compiled and/or reported to management by administrative employees who are independent from program operations.
   b) Information systems controls – Access restrictions, data validations, reconciliations, etc.
2. Management should apply additional scrutiny when significant variances are noted between actual and projected results.
   a) Every significant variance or discrepancy should be investigated to determine the root cause and, if applicable, to identify any internal control weaknesses to be addressed.
   b) When necessary, corrective action should be taken to:
      - Ensure all data is accurate and complete.

- Strengthen internal controls.
- Reduce the risk of fraud and other financial losses.

Management Response: Parks management concurs with all of the above recommendations. Detailed responses to each recommendation are attached.

Corrective Action Plan #4
Audit Subject: Adult Softball Revenues **March 12, 2007**

Title: **Risk Management, Management Oversight, and Control Environment**

Observations:

1. Management did not identify and address the significant risks associated with the Adult Sports program.
2. Managers and supervisors responsible for Adult Sports did not adequately monitor and direct the activities of their subordinates, and did not take appropriate action when informed of potential misconduct.
3. Employees do not have an adequate understanding of the purpose and importance of internal controls.
4. Employees expressed and demonstrated reluctance to report misconduct to management, due to fear of reprisal from supervisors and/or coworkers and a perception that nothing will be done.

Criteria:

1. Managers are responsible for ensuring that their employees comply with applicable laws and policies; accomplish the organization's mission; report relevant and reliable data to decision makers; use sources in an economical and efficient manner; and safeguard the organization's assets. In order to ensure the achievement of these objectives, managers should identify key risks and should determine, implement and monitor the controls needed to address those risks.
2. Adequacy of supervision/management oversight is based on:
   a) The responsibilities and essential functions listed in the City of Mesa Job Descriptions for the Recreation Supervisor, Assistant Parks & Recreation Director, and Parks and Recreation Director.
   b) The core values listed in the standard City of Mesa Employee Performance Appraisal.
3. The City of Mesa Code of Ethics requires employees to be accountable for their own decisions and actions and to see that fellow employees also are accountable for their decisions and actions.
4. The US Government Accountability Office (GAO) and the five professional organizations comprising the Treadway Commission's Committee of Sponsoring Organizations (COSO), have issued positions, standards and reports establishing management's role in an effective system of internal controls. For example:
   a) Standards for Internal Control issued by the GAO states:
      - *"Management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management."*
      - *"Internal control is a major part of managing an organization. It comprises the plans, methods, and procedures used to meet missions, goals, and objectives and, in doing so, supports performance-based management."*
      - *"Internal control serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. In short, internal control, which is synonymous with management control, helps government program managers achieve desired results through effective stewardship of public resources."*
   b) The COSO Internal Control Integrated Framework report states:

- *"Management must set a tone at the top of the organization for a corporate culture that acknowledges and maintains an effective control environment. In order for strong controls to be an integral part of day-to-day operations, management must take steps to ensure there's a clear organization-wide understanding and appreciation of the important elements of control."*

Comments:

1. The most significant risk related to the Adult Sports program was the potential for financial losses from employee errors or fraud. Failure to identify and address this risk led to losses of more than $400,000.
2. Inadequate supervisory and management oversight was evidenced by several key facts:
   a) Potential irregularities were reported to a supervisor by staff members, yet no action was taken to investigate or correct the problem. An additional 5 years transpired before fraud was discovered.
   b) Adult Sports staff members were allowed to operate outside of the parameters set for the rest of the Division. Specifically, they were not required to follow the cash handling and financial management procedures that applied to other programs.
   c) Adult Sports staff members were allowed to resist, and thereby postpone, transitioning to the automated league-scheduling module being implemented by the other programs.
   d) Managers & supervisors over Adult Sports & registration knew, or should have known, that staff were:
      - Depositing little or no cash each season.
      - Processing transactions with little or no documentation.
      - Placing cash received into a desk drawer, instead of depositing.
      - Issuing refunds from cash received.
      - Accepting payments throughout the season.
      - Granting certain teams "exemptions" to fill up leagues.
      - Handling financial transactions in a manner that was inappropriate and not consistent with Division Regulations.
      - Submitting false information in monthly status reports.
3. Adequate supervision and management oversight in the normal course of operations would have revealed these activities. If management had discovered any of the above, and responded with reasonable inquiry, fraud might have been detected in a timelier manner and losses might have been minimized.
4. Staff members, including supervisors, demonstrated little or no understanding of the purpose & importance of internal controls.
5. Employees did not consider it their responsibility to report suspected misconduct to management. Most were reluctant to get involved, due to fear of reprisal from supervisors and/or coworkers and a perception that nothing will be done.

Recommendations:

1. Identify key risks and determine, implement and monitor the controls needed to address those risks. Consider using Control Self-Assessment, a tool that encourages employee involvement in identifying risks.
2. Implement the RecTrac League Scheduling Module and use it to track all league activity.

3. Ensure that supervisors are adequately overseeing the activities of their subordinates. To that end, we recommend that the division undergo a skill gap analysis, to compare the current knowledge, skills, and practices of supervisors and managers to established expectations. If a gap is identified, appropriate training or staff changes may be necessary. The City's Human Resources Training and Development specialists can provide assistance with a skills gap analysis.
4. Clearly communicate and uphold a strong ethical culture and an effective control environment, from the top down, to reduce fraud risk and improve loyalty and morale. To that end:
   a) Educate employees at all levels about the purpose & importance of internal controls, ensuring that each employee understands how his/her specific duties relate to the overall system of controls.
   b) Ensure that employees understand that it is their duty to report any irregularities or other improper conduct suspected or observed; and provide them with a safe mechanism for doing so without fear of reprisal from supervisors or coworkers. Implement controls to ensure that all such reports are investigated and resolved.

Management Response: Parks management concurs with all of the above recommendations. Detailed responses to each recommendation are attached.

CITY OF MESA
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PARKS, RECREATION & COMMERCIAL FACILITIES DEPARTMENT

April 9, 2007

TO: **Gary Ray, City Auditor**

FROM: **Rhett Evans, Director**

CC: **Bryan Raines, Deputy Manager**

SUBJECT: **Department Response to Auditors Report for Adult Sports DT 3/12/07**

This report is in response to the Transmittal of the Draft Audit Report-Adult Softball League Revenues, forwarded to the PRCF department by the City Auditors Office. It should be noted that Administrative Regulation #2.3 referred herein, was revised July 2006 as an immediate response to initial findings in cash handling inequities in the former Parks and Recreation Division. This policy will again be reviewed and updated to reflect the operations of the current department structure to include other divisional procedures as well.

Cap #1: Registration Process Controls

1. *Program staff should not be allowed to receive payments or record payment transactions.*
   Response: Per A.R. 2.3, policy states, "Program staff will not accept registration payments. All registration forms and/or payments will only be processed by registration staff through RecTrac."

2. *Program staff should not place any team on a league schedule until a paid registration/roster form is received from registration staff.*
   Response: Rosters (w/payment) are received and processed by Registration. A receipted copy is then given to program staff to create schedules.

3. *Registration should be held at a location with access to RecTrac.*
   Response: Adult Sports registrations are now conducted at Parks & Rec facilities (i.e. Red Mountain Multigen Center, Decatur Office, etc) where payments are received and processed by registration staff and recorded in RecTrac. A Receipt is handed back to the registrant after the transaction is processed.

4. *Church and senior leagues should be required to follow the same registration process as all other leagues.*
   Response: Adult Sports staff recently advised that Church leagues are anticipated to end after this current season. Senior leagues are processed the same as other Adult Sports League registrations.

5. *Cash and checks should be secured immediately upon receipt.*
   Response: All cash and checks (stamped "for deposit only") received are immediately placed in cash drawer. This is also noted in the Financial Management Procedures (section VII).

6. *Admin Reg 2.3, Financial Management Procedures, should be revised to specifically address on-site registration for Adult Sports. The policy should explicitly state that all transactions must be recorded immediately.*
   Response: A section addressing Adult Sports registration has been added to the Financial Management Procedures (section IV). This section will be revised per these findings, along with statement that "all transactions must be recorded immediately".

7. *Registration forms should be revised to include additional information and to clarify payment information.*
   Response: Roster forms are used as the registration form. This form was revised in July 2006 to include a "payment information box" for the registrar to record payment data. Payment information has also been included in the registration packet given out the week prior to registration.

8. *Each softball season should have a clearly defined registration period ending on or before the first day of play.*
   Response: Per the information sheet in the registration packet, the onsite registration date is identified along with the date of late registration.

9. *If "late registration" is accepted, the dates should also be clearly defined, and payment should be limited to cash or credit cards.*
   Response: There is a specific date for late registration listed on the information sheet in the registration packet.

10. *If receipt of a sponsor's check is expected with a reasonable degree of certainty (based on payment history or other reliable indicators), the team should be permitted to register with a corresponding receivable created in RecTrac to account for the expected revenue.*

11. *A formal procedure should be implemented to ensure receivables are monitored and collected in a timely manner.*

12. *Except as recommended above, no team should be permitted to play until full payment has been received & recorded in RecTrac.*

    Response to 1.10, 1.11, and 1.12: A team is allowed to register if payment is to come from a sponsor, such as Univ of Phoenix. However, a credit card is required as backup form of payment when registering. The registration is processed with the fee/payment recorded as a receivable and outstanding. An invoice is mailed to the sponsor to request payment. An A/R aging report is generated from RecTrac to ensure all payments have been received prior to league scheduling. If payment has *not* been received by the beginning of play, the credit card is billed and payment is applied. If a credit card has been billed but a sponsor check is then received, the check will be processed for payment through registration with a credit issued to the credit card. Per recommendation of City auditor, the A/R report will also be reviewed and monitored by the department's financial section.

13. *Fees should not be adjusted or waived without authorization.*
    Response: This is currently being reviewed by Robert Howerton to ensure that fees cannot be altered when processing a registration payment in the RecTrac system.

14. *All checks should be made payable to the City of Mesa. This should be clearly and conspicuously posted wherever payments are accepted; and should be included on any printed materials referencing fees or payment options.*

Response: A sign is now posted at the front desk of both the Hobson and Decatur offices; this statement is also included on the registration form listed in the TimeOut Brochure and in the registration packet.

CAP #2: Adult Softball Revenues – Documentation

1. *All transactions should be completely & accurately documented and immediately recorded in RecTrac.*

2. *All required information on a registration form should be filled in before the registration is processed.*
   Response to 2.1, 2.2: This has been reviewed with registration staff to ensure that this information is complete.

3. *Refunds should be fully documented in accordance with Division policies. The reason for the refund, the authorization, and evidence of the original payment (i.e. the original transaction number or receipt number) should all be documented.*
   Response: Since registrations and their payments are documented through household accounts, refund data is obtained by entering the refund against the household ID. A copy of this and the roster as backup documentation for the refund are then processed. All forms are retained as backup documentation. Please note, that the information sheet also addresses refunds.

4. *All transactions should be associated with a household, so the team or coach making the payment can be identified.*
   Response: This is now being done.

5. *Each payment should be processed separately, so that there is a record of payment for each registered team.*
   Response: Payments are applied to the household account. Each team is registered as one household.

CAP #3: Adult Softball Revenues – Data Integrity

1. *Management should implement preventative and detective controls to ensure that only accurate and complete data is reported. Examples of such controls include:*
    a. *Segregation of duties – Program data should be compiled and/or reported to management by administrative employees who are independent from program operations.*
    b. *Information systems controls – Access restrictions, data validations, reconciliations, etc.*

   Response: Program staff can enter data for a reservation in RecTrac; however payments must be mailed or delivered to registration to process the payment. Security levels are currently being reviewed and revised so that a separation of duty occurs, (i.e. Colleen Harris had full access to the system; this has now been revised so that she can only enter a reservation, but cannot take payment). The annual Activity Based Costing Reports are created in September, October. The process for creating the ABC reports is under review to ensure that administrative staff, not program staff, produces financial information.

2. *Management should apply additional scrutiny when significant variances are noted between actual and projection results.*
    a. *Every significant variance or discrepancy should be investigated to determine the root cause and, if applicable, to identify any internal control weaknesses to be addressed.*
    b. *When necessary, corrective action should be taken to:*
        - *Ensure all data is accurate and complete*
        - *Strengthen internal controls*
        - *Reduce the risk of fraud and other financial losses.*

   Response: It is management's intention to continually review processes and applications to determine significant variances; Proformas, cost recovery analysis, ABCs and the annual review of Fees & Charges will promote the review of existing processes and controls, note any anomalies, and provide strengthening of internal controls. Internal audits are being done both from a proactive position in surprise audits and from a reactive position when investigating discrepancies.

CAP #4: Adult Softball Revenues – Risk Management, Management Oversight, and Control Environment

1. *Identify key risks and determine, implement and monitor the controls needed to address those risks. Consider using Control Self Assessment, a tool that encourages employee involvement in identifying risks.*

2. *Implement the RecTrac League Scheduling Module and use it to track all league activity.* Response: League Scheduling component of RecTrac has been purchased; it was recommended by VSI to launch this after the V10.0 upgrade to ensure a better, more effective product be utilized. New programs or major revisions in the RecTrac system occur every year over Thanksgiving when there is minimal impact to operations. Therefore, this module is scheduled to launch in November 2007.

3. *Ensure that supervisors are adequately overseeing the activities of their subordinates. To that end, we recommend that the division undergo a skill gap analysis, to compare the current knowledge, skills, and practices of supervisors and managers to established expectations. If a gap is identified, appropriate training or staff changes may be necessary. The City's Human Resources training and Development specialists can provide assistance with a skills gap analysis.*

4. *Clearly communicate and uphold a strong ethical culture and an effective control environment, from the top down, to reduce fraud risk and improve loyalty and morale. To that end:*
    a. *Educate employees at all levels about the purpose & importance of internal controls, ensuring that each employee understands how his/her specific duties relate to the overall system of controls.*
    b. *Ensure that employees understand that it is their duty to report any irregularities or other improper conduct suspected or observed; and provide them with a safe mechanism for doing so without fear of reprisal from supervisors or coworkers. Implement controls to ensure that all such reports are investigated and resolved.*

Response: Every effort will be made to encourage the staff accountability from the top down. Management will provide ongoing training opportunities and encourage both scheduled and spot audits. Supervisors are made accountable via the PAF process for informing and educating staff on financial policies to safeguard City funds.

A new department document, Employee Acknowledgement – Financial management Procedures A.R. 2.3, has been created. All staff will be required to sign this form and acknowledge that they have received the appropriate training to understand their responsibilities as it relates to financial procedures and of their duty to report any irregularities. Similar to the City's Employee Acknowledgement-Use of Computer Resources Policy, this document will be retained in their employee file and updated annually. The supervisor will also be required to sign this form certifying that they have reviewed the Financial Management Procedures policy with that employee.

CITY OF MESA *Great People, Quality Service!*	**Parks and Recreation Division Administrative Regulation**	2.3 **Number**
	Subject: Financial Management Procedures	July 2006 **Revision Date**

Purpose

The Parks and Recreation Division has many varied financial management activities. These activities include petty cash funds; change funds; cash register operations and/or revenue receipts generated at swimming pools, sports complexes, administration, and recreation centers; and the issuance of special use reservations and program registrations through the RecTrac system at division offices.

It is the intent of the City of Mesa to safeguard its assets, especially cash; to advocate division integrity; and to maintain the public's trust and confidence through proper use of City funds. Therefore, these procedures are established to provide controls, accountability and documentation in the recording of cash handling activities. Many of these procedures are required by City policy and compliance is critical to retain the flexibility that these funds provide.

Staff shall be trained on cash handling procedures (specifically defined in detail in program training manuals), cash register procedures, and/or RecTrac registration procedures before beginning any cash handling/register operations. It is the responsibility of the Supervisor to ensure that training is completed before any cash is handled by the employee. Training will be provided by both registration and accounting sections of the division.

Program staff will not accept registration payments. All registration forms and/or payments will only be processed by registration staff through RecTrac. Recreation Centers will process daily receipts via RecTrac as outlined in Section IV; pools will process via cash register process outlined in Section II.

Staff shall retain this document to review as necessary. Recreation Supervisors are responsible to review this policy with all staff.

Cash Handling Procedures:

For the purpose of clarity in these cash handling procedures, **CASH** includes coin, currency and checks. All cash collected through division programs shall be deposited daily. All checks must be stamped at time of receipt with the "Deposit Only" stamp in the upper middle on back of check.

During daily activities, cash, cash funds and cash related forms (e.g., open gym cards, swim pool passes) should be secured at all times in a cash register, locked box or safe (may have up to five cards/passes in cash register). All cash, petty cash funds and receipts, and change funds should also be secured throughout the day and retained overnight in a locked safe.

Access to cash register keys and safe combinations should be limited to as few employees as reasonable.

I. Audits:

Supervisors and/or division accounting staff shall periodically make unannounced audits of cash funds to ensure the authorized amounts are in place. Any variances shall be explained and reported via memo to the Assistant Director and Director, who shall take action deemed appropriate. City Auditors and department staff may also make unannounced audits of cash funds.

II. Cash Register Procedures:

Mesa Pools are currently the only facilities using a cash register system. All other programs are on-line using the RecTrac System. Therefore, the cash register procedures will only apply to the pool operations.

Staff shall maintain cash register procedures within the area of the register and review them as necessary. The register key shall be removed from the cash register when not in use and placed in a closed drawer. If circumstances require the register to be left unattended at any time, the cash register shall be locked. Never leave the register drawer open during business hours; however, the empty register drawer should be left open at night to deter theft and vandalism.

All pool deposits shall be recorded on a cash handling slip and processed per procedures below. Daily deposits and balance sheets shall be delivered by pool staff to either the Decatur or Hobson offices. All deposits and change funds shall be kept in a locked safe overnight. Verifying and processing will also be completed as outlined below.

A. Daily Revenue Report Preparation:

If facility revenue information is recorded through a cash register, transfer information onto a daily revenue report with appropriate breakdown. Specific breakdown of program revenue information shall be determined by program area.

Revenue shall be listed and totaled on Balance Sheet report. Report is to be reconciled to total of deposit. Cash handling slip and deposit are placed in a deposit bag and forwarded to accounting staff for verifying and recording of revenue. Balance sheet report is then forwarded separately to accounting staff for recording of revenue.

Cash handling slip copy, Z tape, X tapes, voids, charge card receipts and other relevant information shall be stapled to the daily report/cash journal and maintained at the facility site and/or Division Administration.

Daily reports shall be prepared and signed by designated employee with at least one other employee verifying deposit and contents of report and also signing the report.

B. Cash Register Change Fund:

If a change fund is in place, the change fund amount shall be retained and counted each day when the cash register is "Z'd" (closed) out and when reopened for business. Count cash away from and out of the public's view.

C. Shift Change:

When shift change occurs, count cash and change funds and "X" out register to verify funds to the cash register tape. The X tape should be verified and initialed by both the previous cashier and current cashier. X tapes shall be retained in the register to be included with daily reports.

D. Voids:
All voided receipts shall be retained in the cash register to be included with daily reports. An explanation of void shall be written on the back of the tape, initialed by the employee and verified by a second employee. Void receipts should be attached to the daily report/cash journal.

E. Closing:
At close, the cash register shall be "Z'd" (closed) out. All cash and change funds, if applicable, shall be removed from the register and placed overnight in a locked safe. It is preferred that staff balance receipts and revenue upon closing rather than completing the next morning.

F. Discrepancies:
Any discrepancies between cash and daily journal shall be reported to a direct supervisor immediately. Action shall be taken to resolve or report discrepancy as deemed appropriate by office supervisor and Assistant Director. Explain and note any discrepancies on the daily revenue report. Any variances shall be recorded as over/short on the revenue report.

III. Deposit Preparation Procedures for RecTrac Users:

Deposits will be completed and processed daily. All RecTrac facilities will use the Cash Journal and G/L Report in lieu of Z tape. Count cash away from and out of the public's view.

After cash has been reconciled to the cash journal and G/L report, a deposit shall be prepared. All currency/coin/checks must be listed on a cash handling slip.

Run a tape total on checks, sort all currency by denomination and place all coin in coin wrappers or coin envelopes. Enter total of cash, coin and checks on the RecTrac cash journal, and sign by designated staff with employee number.

Daily deposits shall be prepared and signed by designated employee with at least one other employee verifying deposit and contents of report and also signing.

Facility deposits will be prepared daily at each facility and delivered to the nearest office (Hobson or Decatur). Accounting staff records revenue and processes via Cashier for Windows system. Upon completion, all deposits are locked in the office safe until armored car service can pick up from Hobson and Decatur offices.

Discrepancies for reconciling RecTrac report with daily deposit will follow same guidelines as outlined in Section II F above.

IV. On-Site Registration:

On-site registration can only be processed with registration staff involvement. Registration staff shall be responsible for accepting payments, registrations, and handling cash. All monies should be placed in a locked box for safety and then taken to a division office for processing deposits.

Adult Sports
On-site registration can be accepted. Program staff shall be available to assist patrons with rosters; registration staff shall be available to process payment and registration.

Pools
On-site registration for lessons and competitive swim will be accepted at all Mesa pools during the summer. These shall be rang into the cash register and processed as a separate deposit as outlined above in Section II. These registrations will then follow these guidelines:

- Pool managers will deliver pool deposits and corresponding paperwork to the closest office (Decatur or Hobson) to accounting staff to verify and process with daily deposits.

- Registration staff will receive and enter registrations by pool activity revenue into RecTrac by the deposit date using pay code 9 (on-site).

- Accounting staff will reconcile deposit totals with RecTrac totals. These deposits will be combined with other deposits to await armored car pick up. Variances noted by accounting staff must be corrected before deposit is made. Program staff and/or pool supervisor should review registrations and balance sheets. If these cannot be identified, Rec Coordinator will be notified to get discrepancy resolved.

V. Credit Cards:

The City of Mesa accepts Visa, MasterCard, American Express and Discover credit cards. Charges are accepted at the Decatur office and Hobson office, Red Mountain Multigenerational Center, Jefferson Recreation Center, and Webster Recreation Center. Charges shall adhere to the terms and agreements as set forth by Chase Bank - notably, that refunds shall be credited back to the original charge card and that all credit card numbers shall be kept confidential.

All charges shall be entered into RecTrac or cash register. When possible, have patron sign the charge slip. Patron shall be given a copy and the original is to be retained in cash register drawer. Charges can be accepted over the phone. If charge is phoned in, note this on the receipt.

VI. Patron Purchase Orders:

Purchase orders may be accepted for group participation, (i.e. Mesa Public Schools, etc.). A permit shall be processed by registration staff for facility rentals or reservations with original purchase order stapled to the permit. In emergencies, a facility can be reserved with a verbal P.O. number given over the phone. Original P.O. and copy of customer receipt shall be forwarded to Finance prior to reservation date to be processed for payment.

VII. Checks:

All checks shall be made payable to CITY OF MESA. Upon receipt of the check, it shall be stamped on the MIDDLE of the back "For Deposit Only, City of Mesa Location, Chase Bank Account No 9000-2519". The deposit stamp length should be no larger than ¾".

Ensure that the Name, Address, and phone number are listed correctly on the check and that the check is signed. Obtain picture ID to verify patron and check signer are the same. The check shall be for the exact amount only, no cash will be given back to the patron. If the check is over the amount of the registration, the full amount will be credited to the household account thus creating a credit balance on their account. No two-party or payroll checks will be accepted.

VIII. Returned Checks:

When a check made payable to the City of Mesa has been returned by the bank, it is received by Customer Service and forwarded to the division. Division staff will notify patron by letter of this returned check and is given seven days to make payment arrangements.

There is a City processing fee of $25.00 for all returned checks. Cash, cashier's check or money order are the only forms accepted as payment for a returned check. Payment can be made at a division office or at Customer Service. If check is determined uncollectible, the household account will be flagged in RecTrac. The returned check will be forwarded to Finance to charge off and turn over to collection agency.

IX. Petty Cash Funds, Change Funds:

These funds are established and monitored by the Finance Division. They shall be used and maintained in accordance with City Policy. Refer to the *City of Mesa Management Policy #203* for specific guidelines. For procedures on requesting reimbursement from Petty Cash Fund, refer to *A.R. 2.6 - Procurement Procedures.*

Petty Cash shall not be used for cash advances or reimbursement of: travel, subscriptions, memberships, registrations or tuition; cashing of personal/payroll checks; payment to employees for personal services; or items otherwise available from Materials and Supply division.

Change Funds and Petty Cash Funds are subject to surprise audits. These funds should be continually monitored and verified for accuracy by the custodian. Any discrepancies in these funds shall be reported to an office supervisor immediately.

X. Document Retention:

All division revenue and/or related accounting documents are to be retained for a period of one to three years.

Documents that originate in the division and are forwarded to Finance for processing (Daily RecTrac G/L report and Facility Cash Journal, Invoices for Payment, Limited Purchase Orders, etc.) shall be retained for a period of two years.

Documents that are generated in the division and not sent to Finance shall be retained by the division for a period of three years (Daily Balance Sheets and cash handling slips).

PARKS, RECREATION & COMMERCIAL FACILITIES
DRAFT

EMPLOYEE ACKNOWLEDGEMENT
FINANCIAL MANAGEMENT PROCEDURES
A.R. 2.3

I hereby acknowledge receipt of the Parks and Recreation's Financial Management Procedures Administrative Regulation 2.3. I understand that in my current job duties, as outlined by my supervisor, I have read and understand its contents as it relates to cash handling and my obligation to my employer to report any disparity. Since the information contained in this policy is subject to change, I recognize it is my responsibility to report any irregularities and/or comply with any revisions to this policy.

Employee's Name (printed) Employee's Signature

_____ _____

Date: _____ Employee Number: _____

I have provided the employee named above a copy of A.R. 2.3 Financial Management Procedures and have reviewed specific sections as it relates to his/her job duties within this department.

Supervisor Signature:

_____

Date: _____ Employee Number: _____

Note: This signed document is to be retained in the employee file; reviewed and updated annually with their PAF.