

AUDIT REPORT

CITY AUDITOR

Report Date:	February 6, 2017
Departments:	Parks, Recreation and Community Facilities (PRCF)
Subject:	Red Mountain Multigenerational Center
Lead Auditor:	Dawn von Epp

OBJECTIVE

This audit was conducted to determine whether internal controls are in place and operating effectively to provide reasonable assurance that Red Mountain Multigenerational Center revenues are safeguarded from loss.

SCOPE & METHODOLOGY

To accomplish our objective, we:

- Reviewed written policies and procedures.
- Interviewed staff members and observed operations.
- Reviewed financial data for FY2016.
- Performed detailed tests and analysis of selected transactions.

BACKGROUND

Red Mountain Multigenerational Center (RMMC) provides the community with fitness opportunities, specialty interest classes, and facility space which can be rented for meetings, birthday parties, special events, etc. In FY2016, RMMC recorded over 216,000 customer visits and generated approximately \$540,000 in revenue. The largest source of revenue is membership sales; and other sources include one-time admissions, class registrations, facility rentals, and miscellaneous point of sale items. The Center also contracts with Healthways, a fitness network which pays admission fees for qualifying participants in the SilverSneakers and Prime fitness programs.

CONCLUSION

In our opinion, RMMC procedures include internal controls which provide reasonable assurance that revenues are safeguarded from loss. However, to ensure all controls operate effectively, improvements in management oversight and staff training are recommended.

Our observations and recommendations are summarized below. For additional details and responses from management, please see the attached Issue & Action Plans (IAPs).

OBSERVATIONS & RECOMMENDATIONS

1. **Observation:** Front desk staff do not always follow citywide and departmental cash handling policies and procedures.

Recommendation: Front desk staff should be trained to follow established written procedures; and management oversight should be improved to ensure compliance.

2. **Observation:** Memberships are issued to specific individuals and/or families, and are not to be shared by others; however, front desk staff do not verify the identity of members upon entry.

Recommendation: Member photos should be stored in the Active system and used to verify the identity of members entering the facility.

3. **Observation:** Some procedure documents are not consistent with current practices.

Recommendation: Management should update written procedures to provide accurate instructions for staff; and should implement a process to ensure the accuracy of these documents is maintained as operational changes occur.

4. **Observation:** Staff overtime rates charged to facility rental customers during FY 2016 and through October 2016 were not within the approved range listed on the City's "Schedule of Fees and Charges."

Recommendation: When this was brought to management's attention, they immediately adjusted the rate. Therefore, no further action is necessary at this time. However, management should review actual fees and charges at least annually to ensure they are within authorized limits.

Issue and Action Plan

Issue #1: Non-compliance with Cash Handling Procedures

- Observations:**
1. Independent dual cash counts are not always performed.
 2. Cash shortages and/or overages are not identified as such and are often entered into the system incorrectly.
 3. Receipts for refund transactions are not always produced and included with the daily deposit. When retained, they often do not include required customer and staff signatures.

- Criteria:**
- City Management Policy 210 "Cash Handling" states:
- Section VI.A.3. *"Individual accountability for cash must be maintained throughout all cash handling operations."*
 - Section VI.E.1.a. *"Administrators not directly involved with the cash receipt process should periodically review the nature and extent of overages and shortages."*

- RMMC procedures provide the following direction to cashiers:
- 5.16 "RMC Deposit Procedures Checklist" directs the cashier to, *"Have the Recreation Specialist or Full Time staff member verify your deposit at this time."*
 - 14.16 "RMC End of Day Cash Out" states: **Entering Overs/Shorts** *If your totals do not match, you will need to make an OVER/SHORT entry into ActiveNet."*
 - 5.15 "RMC Cash Handling Procedures", Refund Section, states: *"Any cash refunds given at the desk must have a receipt produced and included in the cash drawer and daily deposit. Refund receipts will be signed and dated by the patron and staff issuing the refund."*

- Comments:**
- 13 of 41 drawer balance documents tested included the comingled funds of more than one cashier; and the funds were not individually balanced and verified by an independent cash count, as required by policy.

During testing, we noted an unusually large number of refunds, and very few over/short transactions, being processed at the end of a shift. We tested 46 of these end-of-shift refund transactions and found that 41 did not actually represent refunds to a customer, but instead represented cash shortages or overages. In some cases, a

combination of refund transactions and sales transactions were entered by the cashier to clear the over/short amount. Staff should never be allowed to create fictitious transactions for any reason. For 34 of 60 refund transactions tested, receipts were not retained. 21 of the 26 refund receipts that were retained did not have customer signatures and 22 did not have staff signatures.

When cash handling procedures are not followed, and management does not effectively monitor compliance, there is an increased risk that errors or fraud could occur without being detected.

- Recommendations:**
- 1-1. Management should ensure employee training is consistent with established policies and procedures.
 - 1-2. Management should monitor compliance with cash handling procedures on a regular basis.

Management Response:

Action Plan #1-1:

A staff training packet is being created which will include policies and procedures as well as a checklist for training topics that must be covered. Key staff will be trained by management, and employee and trainer will be required to sign off on all training that has been completed. Training packet to be completed by 2/6/17, with initial training beginning immediately and continuing as new staff are hired.

Individual or Position Responsible: Kym Otterstedt

Estimated Completion Date: 2/6/2017

Action Plan #1-2:

All staff are now required to cash out and balance their individual drawers regardless of the amount of cash, check, or credit card processed during their shift. Management staff are now reviewing refund and overage/shortage reports on a weekly basis and address discrepancies in procedure immediately. Staff are now required to include a detailed explanation for all refunds. Staff have been verbally retrained on cash handling procedures including cash drawers being individually balanced and verified. Additional formal training will be conducted and included in the training packet as indicated above beginning 2/6/17.

Individual or Position Responsible: Kym Otterstedt

Estimated Completion Date: 1/18/2017

Issue and Action Plan

Issue #2: Membership Usage Verification

Observation: Staff does not verify the identity of members entering the facility.

Criteria: RMMC memberships are issued to specific individuals and/or families, and are not to be shared by others.

Comments: Currently, during the check-in process, there is no verification done to ensure that people using memberships are the rightful owners of those memberships.

The ActiveNet system used at the RMMC includes the ability to associate a photo with each member's record. According to staff, if they used this feature, the photo would appear on the computer screen when a member scans his or her membership card upon entering the facility. Staff could use this photo to help ensure the person using the facility is actually the member associated with that membership card.

Recommendation: Management should implement a process to verify the identity of members upon admittance. Consideration should be given to utilizing the photograph functionality available within ActiveNet and revising the check-in process to include matching customers to photographs.

Management Response:

Action Plan #2:

The department is currently evaluating the feasibility of implementing the photograph feature in Active Net, as well as the hard and soft costs associated with this implementation. A proposed plan of action will be developed and forwarded to PRCF leadership by February 28, 2017.

Individual or Position Responsible: [Kym Otterstedt](#), [Leslie Clark](#), [Robert Howerton](#)

Estimated Completion Date: [2/28/2017](#)

Issue and Action Plan

Issue #3: Procedure Documents Outdated/Inaccurate

Observation: Some procedure documents are inconsistent with current practices and/or include outdated references.

Criteria: Written procedures should be accurate and complete, to ensure that employees perform critical and/or complex tasks correctly.

Comments: Extensive procedure documents exist at RMMC, but we found a few that require updates. In some cases, good internal controls have been incorporated into daily processes, but have not yet been documented in the existing written procedures. There are also references to previous systems, and some content that is not completely accurate.

Most of the documents we identified as outdated were corrected during the course of the audit; however, there is no process in place to ensure they are actively maintained as future operational changes occur.

Recommendations:

- 3-1. Management should update all written procedures to include accurate instructions for staff.
- 3-2. Management should implement a process to ensure that procedure documents are actively maintained as operational changes occur.

Management Response: **Action Plan #3-1:** Procedures that needed correction had been immediately updated and sent to the auditor. Three procedures, 5.16, 14.16 and 5.15 were reviewed at the time of audit, but are currently under re-review for modifications, and will be completed by 2/6/17 for inclusion in the staff training packet.

Individual or Position Responsible: Kym Otterstedt

Estimated Completion Date: 2/6/2017

Action Plan #3-2: All procedures will be reviewed on annual basis in December, with financial and Active Net procedures receiving an additional mid-year

review in June. Procedures will be revised off schedule as necessary. Current documents were reviewed at the time of the audit, but are being re-reviewed at the present time.

Individual or Position Responsible: [Kym Otterstedt](#)

Estimated Completion Date: [2/6/2017](#)