

March 25, 2015

REPORT #: 2015-10

Jess Duran, Director
Community Services & Parks

Dear Jess,

Enclosed is the final audit report for the Community Services & Parks Department Glendale Sports Complex Cash Handling Audit. Internal Audit would like to thank you and your staff for the support and assistance provided to us during the audit.

Should you have any questions, please feel free to contact me.

Thank you,



Eileen Donahue
Internal Audit Manager

Enclosure

CC: Yasmin Beers, Assistant City Manager
Onnig Bulanikian, Community Services Manager
Robert Elliot, Director of Finance
Michele Flynn, Assistant Director of Finance
Gabrielle Goglia, Community Services Supervisor
Scott Ochoa, City Manager
City Council
Audit Committee

Community Services & Parks Glendale Sports Complex Cash Handling Audit

March 25, 2015

Report Summary

Management of the Glendale Sports Complex requested Internal Audit to assess the cash handling practices of the Sports Office to identify areas in need of strengthening to reduce the risk of loss or theft. Applying best practice criteria Internal Audit identified 6 audit issues where added controls will improve cash handling operations.

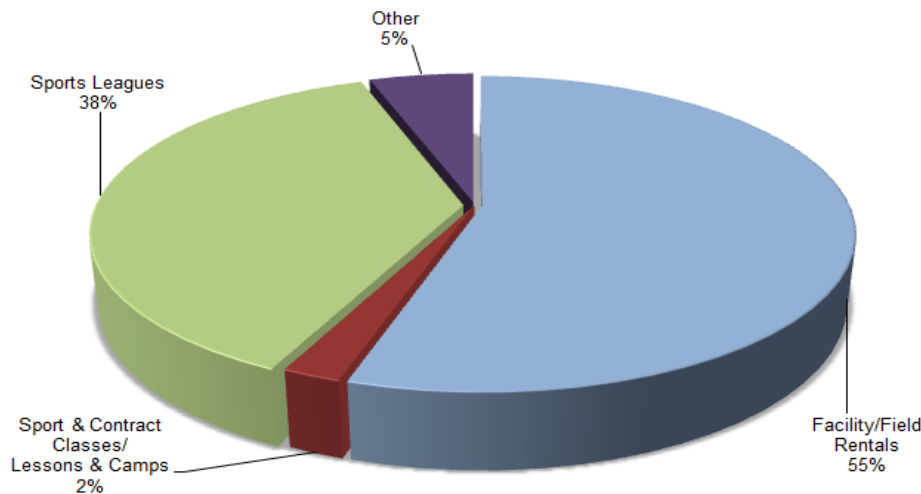
Background

During the summer of 2014, the community services supervisor at the Glendale Sports Complex identified weak cash handling controls that contributed to a theft of over \$4,000 in revenues by an hourly employee. As a result, internal audit was requested to review cash handling practices at the Sports Office of the Glendale Sports Complex for the Community Services & Parks Department (CSP) to identify where controls could be enhanced.

The Glendale Sports Complex is a 27-acre area with two artificial turf soccer fields, three fenced softball/ baseball fields and two hiking trails. CSP employees at the sports office located within the complex oversee the recreational operations and collect an array of revenues for programs and services. Currently, two full-time and 3 hourly employees are positioned at the office.

The chart below reflects the revenue generated at the Glendale Sports Complex by source in calendar year 2014.

Revenue Sources Calendar Year 2014



Revenue collections at the Glendale Sports Complex for the calendar year 2014 totaled almost \$800,000. The majority of revenues earned were derived from facility/field rentals and sports leagues (soccer, softball, basketball and volleyball), as illustrated in the previous chart at 55% and 38%, respectively.

The term cash handling is used to encompass the processes and controls related to accounting for and safeguarding negotiable instruments. Aspects of cash handling include both protection of City assets and providing good customer service.

An essential element of control over cash handling is segregating the duties among employees for:

- collection,
- receipts,
- recording,
- adjustments/modifications,
- balancing,
- deposits,
- reconciliation, and
- monitoring.

Cash handling covers all methods of payment: cash, checks, money orders, and credit/debit card transactions. Cash receipts are considered the most vulnerable to theft and represented 13% of the total revenues collected directly at the Sports Office in calendar year 2014.

At the time of the audit test work, CSP employees processed receipts for revenue collections through RecWare's Safari software. This software was used for receipting, scheduling, and facility permit reservations. In February 2015, the department transitioned away from RecWare's Safari to the software product, RecTrac – Parks and Recreation Management Software.

Objective, Scope and Methodology

The objective of the audit was to review the range of the cash handling activities performed by employees at the Sports Office and identify improvement areas for ensuring the security and accuracy of funds collected, recorded and deposited.

The scope of this audit focused on the collection of money and fiscal activities by employees assigned to the Sports Office for programs and services as evaluated from records processed during calendar year 2014 and as observed at times in October and November 2014.

In order to accomplish the audit objective, Internal Audit performed the following:

- Reviewed the citywide and internal sports office policies, procedures and practices.
- Reviewed best practices for cash handling operations.
- Observed daily cash handling activities.
- Performed a detailed examination of the Sport Complex transactions processed in Safari during calendar year 2014.
- Reconciled Safari transactions to the PeopleSoft financial records.

Summary of Results

Before audit work began management for the Glendale Sports Complex proactively made some improvements in cash handling practices at the Sports Office by providing a notice to customers on cash payment responsibilities and limiting the employees authorized to accept cash collections from customers.

These additional controls were beneficial, however, not all inclusive. Audit work performed primarily focused on evaluating

current processes against best practices and reviewing detailed records. As a result, six audit issues were identified that if improved by added controls could provide an opportunity to strengthen the Sports Office cash handling practices as summarized in the chart below by associated risk rating.

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| Priority 1 |
| Critical control weakness that exposes the City to a high degree of combined risks. |
| <ul style="list-style-type: none"> ○ Improper segregation of duties over cash handling activities. |
| Priority 2 |
| Less than critical control weakness that exposes the City to a moderate degree of combined risks. |
| <ul style="list-style-type: none"> ○ Shortcomings in cash handling practices. ○ Unnecessary ample payment plan options for facility/field reservations and sport league teams. ○ System insufficiency. |
| Priority 3 |
| Opportunity for good or better practice for improved efficiency or reduce exposure to combined risks. |
| <ul style="list-style-type: none"> ○ Limits to safe access. ○ Excess petty cash balance beyond office needs. |

The Observations, Recommendations, and Management Responses are summarized on the following pages.

| Item | Issue | Recommendation | Management Response |
|-------------------|--|---|--|
| Priority 1 | <p>1. We noted during our testing that there is an overall lack of segregation of duties in the cash handling activities performed by employees at the sports office.</p> <p>Specifically, we identified that employees share duties and any single employee can set up and modify a field reservation or sport activity, receive payment from a customer, generate the receipt from the system, initiate the system integration with the financial records, perform the daily cash receipt balancing, prepare the deposit record, and transport the funds to the City Treasurer's Office.</p> <p>Best practice guidance directs that a single individual should not have responsibility for more than one of the cash handling components which include collection of money, maintaining records, depositing of funds and reconciliation of accounts. The ideal separation of duties has three distinct employees performing the tasks of</p> | <p>It is recommended that the supervising staff further detect the incompatible cash handling duties of employees at the sports office and reassign tasks accordingly to minimize the risk for loss or concealment of funds.</p> <p>Some suggested areas of separation to name a few include:</p> <ul style="list-style-type: none"> • Opening daily mail and recording the receipt. • Sport league management and payment receipting. • Reservation set up, modification and payment collection. • Customer account adjustment/modification and payment collection. • Collection and reconciliation. • Collection and depositing. • Reconciliation and depositing. <p>For the situations where the duties cannot be segregated due to staffing limitations management should develop mitigating controls to</p> | <p>Management agrees with the recommendation and understands the need for adequate segregation of duties. To improve current operations a cashier position is being considered at the sports office which would allow for the ability to segregate other tasks. At a minimum management is evaluating incompatible duties and developing mitigating controls where complete segregation of duties is not feasible.</p> <p>The anticipated completion date is September 30, 2015.</p> |

| | Item | Issue | Recommendation | Management Response |
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| Priority 1 | | <p>collections, deposits and reconciliation.</p> <p>Management communicated that a recent reduction in the number of employees at the sports office has negatively impacted the ability to assign specific cash handling tasks by employee and limits the effective monitoring of transactions by the supervisor. The supervisor is now required to perform much of the work they are meant to oversee</p> | <p>discover and prevent irregular transactions and increase monitoring oversight.</p> | |
| Priority 2 | <p>2.</p> | <p>Test work identified that some of the cash handling practices are not sufficient. When considered collective the noted items increase the level of risk to the organization.</p> <p>In particular the following was found:</p> <ol style="list-style-type: none"> 1. Although procedures require cash collected to be sealed in an envelope and secured in the safe. There is not enough tracking information on the envelope. | <p>It is recommended that management evaluate each of the items noted and implement added procedures if not already addressed to decrease the perceived risk.</p> <p>Some actions that could be instituted to mitigate the weaknesses listed include:</p> <ol style="list-style-type: none"> 1. Requiring the signature of the person collecting the cash funds across the envelope seal and documenting the system generated receipt number on the envelope. | <p>Management agrees with the recommendation to add extra cash handling procedures. Upon initial discussion with the internal auditor some of the suggested actions that required minimum additional procedures were implemented such as those items listed within the recommendation column as 1, 2, & 4.</p> <p>Further evaluation is being performed to determine added procedures on acceptance of payment receipts, adding cash handling guidelines to the standard</p> |

| | Item | Issue | Recommendation | Management Response |
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| <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Priority 2</p> | 2. | There is no defined process for the change of cash custody collected from field activities such as when cash is collected from the Master Soccer program. | 2. Requiring a documented change in cash custody between the employee collecting the Master Soccer monies and the employee receipting the transaction. | procedures, defining treasury receipt approving responsibilities and the need for additional security precautions. |
| | 3. | An employee collected monies and processed receipts on their non work day which was later identified by management and discontinued. | 3. Not allowing the acceptance of payment on receipts outside of standard business hours especially cash. | The anticipated completion date is September 30, 2015. |
| | 4. | Although a cash acceptance notification was established for customers some employees were allowed to collect cash outside of the normal documented business hours. | 4. Implementing a policy to monitor the deposit on- hand to ensure timely deposit before a specific cash dollar limit is met. | |
| | 5. | No policy in place on the value limit of cash receipts on-hand requiring immediate deposit to the City Treasurer's Office. | 5. Bolstering documented policies and procedures with cash handling guidelines that are recognized by the City Treasurer's office. | |
| | 6. | Some deposits are not made timely increasing the amount of cash held in the safe especially over the weekend. | 6. Defining the expectation of the review performed by an offsite treasury receipt approver. | |
| | 7. | Documented processing and | 7. Evaluating if resources are available to provide extra security measures. | |
| | 7. | Documented processing and | | |

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| Priority 2 | | <p>reservation procedures lack specific cash handling guidelines.</p> <p>8. Treasury receipts are required to be approved by a supervisor which may include a supervisor that is offsite. During calendar year 2014 an offsite supervisor approved 28% of the treasury receipts in the amount of \$223,289. This approval did not include a physical view of the monies collected rather it was limited to viewing system generated reports online to ensure comparable balances.</p> <p>9. Extra security precautions are not in place such as a camera or dual cash handling when transporting a large amount of cash.</p> | | |
| | Priority 2 | 3. | The payment plan option for facility/field permit reservations and sport league team registration fees has been overused leading to untimely collection of the City's | It is recommended that a payment plan policy be established and enforced that clearly defines those few customer types allowed a payment plan option for facility/field |

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| Priority 2 | | <p>revenues and continual monitoring by supervisory staff.</p> <p>Through test work we found that:</p> <ol style="list-style-type: none"> 1. Permit holders for facility and field rentals are not required to pay in full before the reservation period and some are allowed to pay after the rental period has ended. Even though the reservation policies note that one-half of the rental fee is due at time of scheduling with the balance due two weeks prior to each event date listed on the permit. 2. Sport league customers are not required to pay the full league registration fee at the start of the season. (<i>The fee varies by sport type; during the period of this specific analysis the registration fee examined was typically between \$350 - \$475</i>). 3. Teams are allowed to pay as they go with 23% of the collections occurring after the | <p>permits and eliminates the payment plan option for teams playing on sport leagues. Ultimately full payment of fees owed to the City should be collected at the time of the rental period for permits and at the start of each sport season before scheduling of league play action.</p> | <p>period for all permit holders and at the time of league registration. Further a policy is being developed for management approval which details the strict guidelines that provides an allowance for permit customers to be on a payment plan with the balance billed and payment received after the rental period.</p> <p>The anticipated completion date is September 30, 2015.</p> |

| Item | Issue | Recommendation | Management Response |
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| <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Priority 2</p> | <p>league has ended with most paying by credit card.</p> | | |
| | <p>4. Some sport league teams have been allowed to enroll, establish a payment plan and play in a league even though they had an outstanding balance from the prior season.</p> | | |
| | <p>5. It was calculated that 10% of the sport league teams that establish a payment plan will ultimately go to collections.</p> | | |
| | <p>6. During calendar year 2014 over \$10,000 was written off as uncollectible from unpaid payment plans. Of this amount 88% represented facility/field rentals and 12% represented sport leagues. The average amount written off per facility/field rental was \$1,250 with the average per sport league team \$200.</p> | | |

| Item | Issue | Recommendation | Management Response |
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| 4. | <p>Below are examples of Safari system limitations or access insufficiency that impact cash controls:</p> <ol style="list-style-type: none"> 1. The system does not provide for reconciliation between the teams registered by sport activity and the teams scheduled to play. We identified that some sport teams were not enrolled through Safari until the very end of the season yet still included on the weekly team schedules and participating in the league activity without payment of fees. 2. Employees are provided with system access that allows them to reduce the hours of a permit rental at the end of the rental period and before processing payment with no added review or oversight by another. 3. Safari system access was not consistently restricted for terminated employees. | <p>As mentioned in the background section, CSP has transitioned from Safari to the software product, RecTrac and although the weaknesses identified occurred with the Safari system it is recommended that management ensure that adequate procedures are established under the RecTrac program to:</p> <ol style="list-style-type: none"> 1. Verify that all sport teams are registered in both receipting and schedule modules of the system in place. 2. Limit user capabilities to the minimum necessary to perform job duties and develop a monitoring or reporting function for employees granted expanded capabilities. 3. Include a user access authorization process that is documented and requires supervisor approvals. 4. Monitor user access through periodic review of the active user access list and terminate or disable the user log-on when an employee no longer has system responsibilities or has terminated with the City. | <p>Management agrees with the recommendation and provided the following additional information:</p> <ol style="list-style-type: none"> 1. RecTrac provides both a receipting and scheduling module so the weakness identified will not exist going forward. 2. User access capabilities are being evaluated to ensure the user profiles follow proper segregation of duties and limits access capabilities to the minimum possible to maintain efficient operations. 3. Procedures are being developed to authorize and approve user access through a documented process, regularly monitor user access and disable the username timely. <p>The anticipated completion date is September 30, 2015.</p> |

Priority 2

| | Item | Issue | Recommendation | Management Response |
|-------------------|------|---|---|--|
| Priority 3 | 5. | Combination of safe at sports office was not changed timely after employee with access recently separated. Further there was no documented log maintained on the employees provided with the safe combination. | It is recommended that the sports office supervisor have the safe combination changed by a reputable locksmith and develop a process to document in a log those individuals given the safe combination. This log should also include the date of changes to the safe combination. | Management agrees with the recommendation and initiated the change to the safe combination in November 2014 after identification by the internal auditor. As well, a log has been established to document individuals provided with the safe combination and the date of the combination change. This recommendation is completed as of the date of this report. |
| Priority 3 | 6. | The sports office petty cash fund balance of \$500 is greater than necessary for normal operations. During our October 2014 analysis of petty cash activity we found that the fund had not been replenished since January 2013 with current vouchers totaling \$297.12. | It is recommended that the sports office management reduce the balance of the petty cash fund to meet average monthly expenditures of no more than \$200 and seek reimbursement at regular intervals to ensure costs are properly recorded in the financial records by fiscal year. | Management agrees with the recommendation and has reduced the balance of the petty cash fund. Replenishment of funds will be made at regular intervals or at least when 75% of the funds are spent. This recommendation is completed as of the date of this report. |