

December 18, 2006

**Internal Audit Report 2006-18**  
**Spenard Recreation Center Cash Controls**  
**Parks and Recreation Department**

**Introduction.** The Parks and Recreation Department (Department) oversees the activities of the Spenard Community Recreation Center (Center). The Center provides a variety of services ranging from room rentals to recreational sports. The Center's facilities include a gymnasium, racquetball courts, a weight room, dry saunas, showers, a dance and martial arts room, an arts and crafts room, a teen center, a multi-purpose room, and a commercial-size kitchen. Fees are charged for the use of the Center. In 2005, the Center collected \$146,407 in revenue.

**Objective and Scope.** The objective of this audit was to determine if the Center had proper cash controls in place and if these controls were in compliance with applicable Municipal Policies and Procedures (P&P). Our audit included a surprise cash count and a review of cash controls. In addition, we judgmentally selected a sample of cash receipts and reviewed the backup documentation for compliance and accuracy. Moreover, we haphazardly selected a sample of room rental permits and traced them to payments. Also, we tested if the 2006 permits were accounted for in the Center's records. Finally, we conducted a review of all current instructor files to determine if the Center had properly accounted for class revenue.

The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of August through September 2006. The audit was requested by the Administration.

**Overall Evaluation.** Cash controls at the Center needed improvement. Our review revealed that cash control procedures were not always in compliance with P&P 24-1, *Collecting, Securing, Depositing, and Reporting Cash*, and P&P 24-21, *Customer Setup, Billing and Managing PeopleSoft Accounts Receivable*. In addition, the Center did not have adequate controls for the collection of the concession sales surcharge and for the class revenue. Moreover, payments to class instructors were not substantiated by appropriate supporting documentation. Finally, we found that the Treasury Division did not enforce the daily cash deposit requirement in accordance with P&P 24-1.

## **FINDINGS AND RECOMMENDATIONS**

### **1. Cash Control Procedures Not in Compliance With P&P 24-1.**

- a. Finding.** Cash control procedures at the Center did not always comply with P&P 24-1. Non-compliance with applicable policies and procedures may weaken the cash control environment and may result in possible irregularities. Specifically, we found the following:
- *Unscheduled Cash Counts* - During the past year, 2 of the required 12 unscheduled cash counts had not been performed. P&P 24-1.VII.2 states, “The supervisor of each collection location must perform an unscheduled cash/check count and reconciliation for each cashier at least once per month.”
  - *Cash Receipts Not Submitted Daily* - During our review of cash controls at the Center we observed that cash receipts were not submitted daily. P&P 24-1.6.c.5 states, “All Agency Heads shall ensure that . . . cash received by their agency is immediately secured, accounted for, and deposited on a DAILY basis . . . .”

- *Cash Not Documented* - During our surprise cash count we found \$23 in rolled coins in the safe without proper documentation. P&P 24-1.5.f defines documentation as “Any records which identify and support cash transactions . . . .” According to the Center’s staff, these coins were left over from a prior carnival; however, there was no documentation to evidence if the money was a change fund or undeposited cash receipts.
- *Unrestricted Access to Keys and Register* - When we arrived for our surprise cash count, we found the door to the Center’s office area open, allowing access to the cash register and the open key box. P&P 24-1.IV.1. states, “Access to all Municipal cash registers, safes, and other methods of storing cash shall be restricted to the cashier, the cashier’s supervisor, the Agency Head, and personnel that have been authorized by the Agency Head . . . The number of authorized personnel should be limited to maintain maximum security control.”

**b. Recommendation.** The Department’s Director should ensure that cash controls at the Center comply with P&P 24-1.

**c. Management Comments.** Management stated,

*Unscheduled Cash Counts* - “The department concurs with these findings and will ensure that the facility manager conduct the unscheduled cash counts at least once per month, and will require monthly, documented evidence of those to be filed with the Park District Manager.”

*Cash Receipts Not Submitted Daily* - “Through a previously established system, authorized by Treasury, weekend deposits accumulate from Friday through Sunday, because Treasury is not open on the weekends. On Monday, staff verifies the

deposits, completes the paperwork and the weekend deposit is delivered to Treasury in City Hall. Alternatively, Auditors suggest that deposits can be made at Key Bank during the weekend. Rather than create an entirely new and different system so that there would be one set of protocol for weekdays and another for weekends, Parks & Recreation will continue with its existing system, with a reauthorization by Treasury. Staff will continue to review the operating system and identify the amounts of the weekend deposits so that consideration can be given to changing the protocol if the amount (large) necessitates a change.”

*Cash Not Documented* - “The department concurs with these findings and the \$23 has been rung into the register and recorded as miscellaneous revenue. The funds were deposited with a normal daily deposit.”

*Unrestricted Access to Keys and Register* - “The department concurs with these findings. The Center door has been secured to allow only access by center staff, agency security staff, and Parks & Recreation Department management level staff - this continues to be a part of the Center operating procedures. It is noted that this represents a tightening of procedures, as center program (contract) instructors and leaders had previously been allowed access to the office.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

## 2. **Surcharge Controls Need Improvement.**

- a. **Finding.** The controls over the surcharge revenue the Center collected for concession sales at fund-raising events needed improvement. According to the Department’s fee schedule, a surcharge of 15 percent of gross revenue is to be paid by the permit holder for holding a fund-raising event at the Center. However, there

was no requirement or policy and procedure to provide any documentation to support the sales revenue due to the Center. Without proper documentation of sales revenue, the Center does not know how much money to collect from the permit holder, which may result in a loss of funds for the Municipality. **The same condition was reported in Internal Audit Report 99-10, Finding 3.**

- b. Recommendation.** The Department's Director should establish policies and procedures to document gross revenue and enforce the surcharge or consider replacing it with a flat fee.
- c. Management Comments.** Management stated, "Both recommendations by Internal Audit, (to document gross revenue and enforce the surcharge or to consider replacing it with a flat fee) have merit and the Department is in agreement with the findings.
1. At this time, the Department has reinforced the requirement that the gross sales revenue form be completed by the vendor/customer and accompanies the revenues. Revenues are not to be accepted without the accompanying form. There are no further documents that ensure truth in reporting, however.
  2. In the longer range, the Department will work toward replacing the percentage surcharge with a flat fee and in some cases already allows for that. The transition to the flat fee will begin in 2007 and it is anticipated that the full change or further information be available with the adoption of the 2008 Fees policy adopted for Parks & Recreation."
- d. Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

**3. Class Revenue Not Adequately Controlled.**

- a. Finding.** The Center did not have adequate controls for the collection of class revenue. As a result, we were unable to determine if all class revenue had been accounted for properly. To track class revenue, the Center uses registration forms. However, our review of class files from June through August 2006 revealed that these forms were not always completed as required. P&P 24-21.2 states, “It is the policy of the Municipality of Anchorage to . . . ensure that miscellaneous accounts receivable transaction data are accurately recorded, properly classified, and preserved.”

In June 2006, according to Center staff, the Municipality took over the responsibility to collect class fees which had previously been collected by the class instructors. When signing up for a class, program participants should complete a class registration form and pay the associated fee. The payment is collected by Center staff, processed through a cash register, and the payment information is noted on the registration form. The registration form should then be placed in a class file to document class revenue. According to Center staff, no training or policies and procedures were provided to help implement the new procedures. As a result, new and old procedures were used interchangeably, resulting in a lack of documentation substantiating class revenue.

- b. Recommendation.** The Department’s Director should ensure that program revenue is properly accounted for in accordance with P&P 24-21. In addition, Center staff should receive training in implementing the new revenue collection procedures.
- c. Management Comments.** Management stated, “The department concurs with the essence of these findings. The transition from collection of revenues from the contract instructors to the Department occurred over the entire course of the year to

date, so there was not a clear break point from previous (“old”) procedures. This was to allow for flexibility to maintain positive working relationships with existing center instructors. Not all revenue by center program participants has been nor will be taken through the front desk, and may even be accepted by other Park Districts or by the Parks & Recreation Administrative Office. All program registration forms have been updated and are routed to the Recreation Programmer for containment and tracking/documentation of class revenue, and are further matched against the Programmer’s monthly program reports.

“Further, the Facility Manager and the Recreation Programmer currently assigned to Spenard Recreation Center will oversee proper staff training to ensure compliance with revenue collection procedures. The Facility Manager will report to the NW Park District Manager and Recreation Division Manager when that training has been completed, and whether there is need for additional training.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

#### 4. **Instructor Payments Not Substantiated.**

- a. **Finding.** Payments made to class instructors were not substantiated by appropriate supporting documentation. Our review revealed that, for 5 of the 6 class files, supporting documentation for instructor payments was either incomplete, unclear or simply not available.

Currently, the Municipality is responsible for collecting all fees associated with the classes offered at the Center. On a monthly basis, the Center pays the instructors 70 percent of the collected fees and keeps 30 percent to cover its costs. For June 2006, the Center paid \$245 to an instructor. In the instructor’s file we found two

registration forms with three participants' names who had paid a total of \$240 to attend the class. Based on the available registration forms, the instructor should have been paid \$168, or 70 percent of the total. Instead, the instructor was paid based on the attendance roster maintained by the instructor. The roster showed 10 participant names, including the names found on the registration forms, and the respective payment amounts. However, it was unclear whether 7 of the participants paid the program fee since no sales receipts or registration forms were available. P&P 24-7.2, *Authorization of Accounting Transactions*, states, "It is the policy of the Municipality that municipal accounting transactions are valid, authorized, made in the proper amounts, and recorded in the proper accounts." In addition, P&P 24-7.6.a.(3) states, "... every request for payment, ... input or submitted to be processed against his/her accounts is supported by documentation adequate to indicate to a reasonable person that the transaction is valid and proper." As a result, we were unable to determine if the amount paid to the instructor was appropriate.

- b. **Recommendation.** The Department's Director should ensure that instructor payments are adequately supported in accordance with P&P 24-7.
  
- c. **Management Comments.** Management stated, "The Department concurs that the documentation has been inadequate to determine and support appropriate payment. All processes relative to instructor contracting, standards of conduct, attendance recording and reporting, revenue receipts, purchasing contracts and payment methods, among others, have been redefined. Each Recreation Programmer having responsibility for the course or activity also has full responsibility for checking class lists against attendance records, ensuring conformance with performance indicators, and effecting the purchasing contract to support validity of payments. Additionally, in 2007 most instructors are being removed from the existing 70/30 percentage split and will be paid an hourly stipend. Hours worked will be documented by the

attendance forms and substantiated and reconciled by the appropriate Recreation Programmer.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

5. **Daily Deposit Requirement Not Enforced.**

- a. **Finding.** The Treasury Division did not track or monitor deposits to ensure that cash was deposited daily. According to Treasury Division staff, most deposits are not date stamped when received. P&P 24-1, Attachment A.VIII.5, requires Treasury to, “Verify that all receipts of cash, as reported by each agency’s daily receipts documentation, are deposited daily in the Municipal general account maintained at the bank.”
- b. **Recommendation.** The Municipal Treasurer should ensure that daily cash deposits are tracked and monitored in accordance with P&P 24-1.
- c. **Management Comments.** Management stated, “We concur with the audit finding and recommendation. Deposits will be monitored and date stamped when received to ensure that cash is deposited daily. We anticipate ordering a stamp at the beginning of next year. Policies and procedures are currently being updated to include a Cashier Guide and Cashier Supervisor Guide. In addition, training is being offered more frequently than in the past to help ensure a more complete understanding of procedures.”
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

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**Discussion With Responsible Officials.** The results of this audit were discussed with appropriate Municipal officials on October 17, 2006.

Audit Staff:  
Birgit Arroyo