

December 20, 2006

Internal Audit Report 2006-19
Fairview Recreation Center Cash Controls
Parks and Recreation Department

Introduction. The Parks and Recreation Department (Department) oversees the activities of the Fairview Community Recreation Center (Center). The Center provides a variety of services ranging from room rentals to recreational sports. The Center features a full-sized gymnasium, smaller youth gymnasium, weight room, dance/martial arts studio, arts and crafts studio, saunas, multipurpose room, industrial kitchen, teen center and computer lab. Fees are charged for the use of the Center. In 2005, the Center collected \$75,733 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. Finally, we haphazardly selected a sample of room rental permits and traced them to payments.

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 September 2006. The audit was requested by the Administration.

Overall Evaluation. Cash controls at the Center were generally satisfactory and in compliance with Municipal P&P's. However, controls over room rentals at the Center needed improvement. Our

review revealed that fee waivers for room rentals were not properly authorized. In addition, room rental permits were not always properly completed and the Center lacked adequate controls for the collection of the concession sales surcharge.

FINDINGS AND RECOMMENDATIONS

1. Fee Waivers Not Properly Authorized.

- a. **Finding.** Center staff could not provide any documentation authorizing fee waivers of room rental fees. Anchorage Municipal Code of Regulations 25.10.011, *Use permit fees*, states, “Use permit fees may be waived by the director when he finds it is in the public interest to do so.” For example, we found two room rental contracts where fees had been waived without documented approvals. In one instance, rental fees had been completely waived, and in another instance a partial waiver on the hourly rental fee had been given. These annual room rental fee waivers totaled about \$40,000 to \$50,000 annually.
- b. **Recommendation.** The Department Director should ensure that fee waivers are properly authorized in accordance with Anchorage Municipal Code 25.10.011.
- c. **Management Comments.** Management stated, “It is likely that the Recreation Division Manager actually authorized those waivers but that the paperwork had not been routed for her signature. This could not be confirmed without knowing which three rental contracts are in question. Internal policy and procedure allows for the ‘section supervisor’ to authorize the fee waivers on behalf of the director, and the fee waiver request to be completed by facility staff and customer, which has been occurring 100% of the time.”

- d. **Evaluation of Management Comments.** Management comments were partially responsive to the audit finding and recommendation. During our audit, we found no completed fee waiver requests.

2. **Room Rental Permits Not Always Properly Completed.**

- a. **Finding.** The Center did not always properly complete room rental permits.
- ▶ **Room Rental Permits Not Always Issued.** The Center did not always issue required permits for room rentals. We found 11 room rentals where permits were not available and Center staff could not tell us if a permit had been issued or not. Anchorage Municipal Code of Regulations 25.10.005.A, *Use permit required*, states, “A use permit is required to operate a concession in a park . . . or for the exclusive use by a group or an individual of any facility managed by the department.”
 - ▶ **Room Rental Permits Not Signed.** The majority of room rental permits issued had not been signed. We found that of the 88 permits issued between January and August 2006, 73 (83%) had not been signed by Center staff and 87 (99%) permits had not been signed by the user. The Department issues permits to citizens interested in using recreation facilities for sports, family and fund-raising events. Interested users are required to fill out a room rental request form and sign a rental agreement. Subsequently, they are issued a permit allowing them to use the facility. The room rental agreement states that, “The rental time or room is not approved until the Permit is issued and signed by the Director or his/her designee.” Without a signed permit, no permission exists that authorizes the renter to use the facility. In addition, user permits contain a liability disclaimer that may be rendered invalid if permits are not signed.

- b. **Recommendation.** The Department Director should ensure permits are issued for room rentals, permits are periodically reconciled to payments received, and room rental permits are properly signed by authorized Department personnel and by the user.

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

Room Rental Permits Not Always Issued - “Six (6) of the 11 permits are for Kid’s Kitchen, which has a written use agreement in effect with the Department/MOA. One permit can be issued for the term of 2006 until the organization’s insurance renewal is made (October). The Department will duplicate that past permit within the week (by 12/15/06). The other five (5) permits are for miscellaneous uses – either one time or for up to a weekend use (3-day). It is highly likely that these permits were issued through the ‘old’ permitting system (*see below) and simply need to be printed and hard-filed. (Central administrative staff does have access to those files.) If the permit actually ‘slipped through the cracks’ and was not issued (unlikely) a new permit can be generated and placed on file. Staff will resolve the issue of the 11 missing permits within 10 days, by December 22, 2006 and, if Internal Audit staff prefers, those hard copies can be forwarded to them for review.”

“(Further explanation on ‘new/old’ permitting system: during 2006, the Department effected a change from the Access database and manual permitting system to a new, fully computerized permitting system. It is possible that during the transfer to the new system, the new permit was not issued in hard copy and the old permit hard copy had been misplaced or removed.)”

Room Rental Permits Not Signed - “The department concurs with these findings that proper authority to use the facility has not officially been given until the permits are signed by facility staff, and that the customer must sign the rental agreement. The facility manager will ensure, through his monthly reconciliation of permits and

payments, that all permits are signed by both center staff and customers. Additionally, all other terms of use (e.g. cooperative programming agreement) will be noted and attached for documentation of those additional terms.”

- d. **Evaluation of Management Comments.** Management comments were partially responsive to the audit finding and recommendation. Although we found some permits for the Kid’s Kitchen, we were unable to find 6 of the required permits as stated in our finding. In addition, we asked management for the written use agreement with Kid’s Kitchen; however, they were unable to locate it at the time of our audit.

3. **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.
- b. **Recommendation.** The Department 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 either the full change or further information will be available with the adoption of the 2008 Fees policy adopted for the Parks & Recreation Department.”

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

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

Audit Staff:
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