

October 2, 2006

Honorable Ron Littlefield  
Mayor, City of Chattanooga  
City Hall  
Chattanooga, TN 37402

RE: Post Audit Review of Cash Collection Policies and Procedures, Audit 06-02

Dear Mayor Littlefield:

On March 30, 2006, the Internal Audit Division released an audit on the Parks and Recreation Department. We performed certain procedures, as enumerated below, with respect to activities of the Parks and Recreation Department in order to render a conclusion on the status of the recommendations made as a result of that audit.

This Post Audit Review consisted principally of inquiries of City personnel and examinations of various supporting documentation. It was substantially less in scope than an audit in accordance with generally accepted government auditing standards.

The evidence obtained provided a reasonable basis for our conclusions; however, had an audit been performed, other matters might have come to our attention that would have been reported to you and our conclusions may have been modified.

The conclusions of Audit 06-02 were that:

1. Department staff were not following proper policies and procedures for cash collections according to Tennessee Municipality Guidelines; and
2. Cash collection operating procedures were not monitored, were not sufficient to safeguard assets and were not performed in a timely and efficient manner.

The audit contained fifteen recommendations that addressed the audit's findings. Based on the review performed, we concluded that recommendations 3, 5, 9, and 13 were implemented, 1, 2, 4, 6, 7, 8, 10, 12, 14, and 15 were partially implemented and 11 was not implemented.

### **Recommendations Implemented 3, 5, 9, and 13**

We recommended (**Recommendation 3**) that all facility managers perform a daily reconciliation of fees collected. At the end of the day, all collections should be counted and documented. Reconciliation should be performed of all money collected to some form of paper trail (e.g. sign-in sheets, register tapes, building usage forms, applications, receipts, etc.). Money for different activities should be stored separate at the time of collection. Routine examination and reconciliation of transaction records should be required to verify the accuracy of collections, the appropriateness of the transactions, and compliance with policy. Any questionable or irregular entries should be immediately investigated and resolved. The person performing the reconciliation should sign and date reports to signify that the reconciliation has been satisfactorily completed and any discrepancies resolved.

Money is counted at the end of the day, documented and reconciled to supporting documentation. Facility Managers are required to examine all transactions to ensure accuracy of collections. All money from different activities is stored in different envelopes. Envelops indicate what activity for which the money was received, who received the money and the date. All envelopes are sealed at the end of the day. Management has hired a new staff person located at the central office to prepare all collection reports for the recreation facilities. This individual examines and reconciles transaction records to verify accuracy and appropriateness of collections. She then prepares a collection report in which she signs and dates and submits to the Treasurer's office.

We recommended (**Recommendation 5**) that money should always be counted before it leaves a location. Money transferring from one person to another should at all times be counted by each person, jointly verified, and documented. In situations where coins are collected, management may want to invest in a coin-counting machine. At the Fitness Center and Swimming Pool locations, management should consider increasing the fee from .50 cents to \$1.00 to reduce the number of coins. Another recommendation would be to invest in a ticket dispenser machine.

All money is counted before it leaves the facility. The Fitness Center has invested in a coin counting machine and the coins are counted before they leave the facility. Per discussion with management over aquatics and at the fitness center, after money has been received and transferred to another person it is jointly verified and documented. Management has considered increasing the fee. However, it has not been implemented to date. Management has not invested in a ticket dispenser. However, after discussion with management at the swimming pool and fitness center, they are considering investing in a ticket machine.

We recommended (**Recommendation 9**) that the department should adequately maintain records. All recorded transactions should be adequately supported. Supporting documentation should be kept on file for at least three years.

It appears that the department is now maintaining all supporting documentation for cash collection transactions. It appears, based on discussion with management, the central office is going to be the main location where all documents will be kept on file from all facilities.

We recommended (**Recommendation 13**) that the Finance Officer should ensure Accounting staff are following established accounting policies and procedures as they relate to collection report documentation.

It appears, based on observation of collection reports, the Finance Officer is ensuring accounting staff members are following established accounting policies and procedures as they relate to collection report documentation. There was proper supporting documentation for all collection reports reviewed by Internal Audit.

### **Recommendations Partially Implemented 1, 2, 3, 4, 6, 7, 8, 10, 12, 14, and 15**

We recommended (**Recommendation 1**) Parks and Recreation Administration should document internal policies and procedures, business practices, and goals and objectives. Employees should have ready access to departmental policies and procedures (hard copy, computer-based or web-based). The Department should document receipt of such policies by all staff. The procedures should ensure proper internal controls, which include but are not limited to:

- Segregation of Duties
- Proper Authorization and Approval
- Proper Review and Reconciliation
- Proper Physical Security of Assets
- Proper Training and Supervision

Also, we recommended a sign be posted at every recreation facility stating the following or something similar: "If you do not receive an official City of Chattanooga receipt please call (423) 425-6202." This sign should have an enlarged copy of a City receipt posted and should be conspicuous.

Additionally, we recommended Parks and Recreation work with the finance department to incorporate such procedures into citywide policies.

Parks and Recreation Administration did issue some policies and procedures to staff members, in which they all had to sign establishing they received. The procedures addressed some business practices, as well as proper approval and review and procedures for recreation facility usage. The procedures comment about the physical security of assets when money is transferred from one location to another but it did not specify security of assets when they are sitting at one location. Two hours of training has been given to staff. However, procedures did not identify proper internal controls such as segregation of duties, proper reconciliations or proper physical security of assets. In addition, there was no sign posted at the recreation facilities indicating what to do if an individual does not receive a City of Chattanooga receipt. Parks and Recreation Administration is working with the finance department to incorporate procedures into citywide policies. However, there have been no procedures incorporated to date.

We recommended (**Recommendation 2**) that one person should not be allowed to manage all aspects of cash handling, ticketing, reconciling and signing. The duties of receipting cash should be handled separately from the employee who is preparing the reconciliation report. During the reconciliation process, managers should perform meaningful independent reviews in which source documents or other records are scrutinized to provide reasonable assurance that everything collected is deposited to the appropriate bank and/or Treasurer's office in a timely manner and recorded correctly. Specifically the reconciliation process should include matching money collected to number of tickets sold and/or total pre-numbered receipts issued. In addition, these reviews should include examination of the adequacy of the transaction documentation.

It appears after visiting several recreation centers, the fitness center, the aquatics division and the Chattanooga Zoo, there is more than one person handling cash, ticketing, reconciling and signing. It appears these duties are now separated. The person who is collecting money is not performing the reconciliation. However, management at the Zoo is not scrutinizing all records on a daily basis to provide reasonable assurance that all funds collected are recorded correctly.

We recommended (**Recommendation 4**) that property should always have adequate physical security, especially valuable items or items that have high market desirability - e.g., cash should be stored in a locked safe. Access to valuable assets should be restricted to a limited number of people to minimize the risk of shortages. Money transferred to the Treasurer's office via interdepartmental mail should be properly safeguarded in a sealed or locked bag and only the party receiving the money should have access. The sending party should be held responsible for ensuring funds were received at the Treasurer's office. Transfers of cash between two people should be jointly verified and documented.

It appears money is being securely stored within the department with the exception of the Golf Courses. The door to which the safe is kept at the Golf Courses is still not always locked. In addition the safe is not always locked. Money being transferred to the Treasurer's office is safeguarded in a sealed or locked bag and only the party receiving money has access. Money between two people is jointly verified and documented. When money is transferred from a facility to the central office via interdepartmental mail, it is not counted by the carrier. However, the money is locked in a money bag when it is transmitted.

We recommended (**Recommendation 6**) that only persons with delegated authority should approve collection reports. Current Signature Authorization forms for delegated individuals should be on file in the administration office. Approvals should be documented with proper signatures. Any questionable or irregular entries should be immediately investigated and resolved. The person performing the review should sign and date reports to signify that the review has been satisfactorily completed and any discrepancies resolved. The supervisor at the Chattanooga Zoo should perform a review and approve the daily collection reports.

Facility Managers are no longer preparing collection reports. Money is counted at the recreation facility, reconciled to supported documentation and submitted to the central office for preparation of the collection report. Management has hired a new staff person located at the central office to prepare all collection reports for the recreation facilities. There are no current signature authorization forms for delegated individuals on file. The supervisor at the Chattanooga Zoo is not reviewing and approving daily collection reports. Per discussion with management at the Zoo, due to time constraints she is not able to perform reviews and approvals on a daily basis. However, she will place great effort in trying to accomplish this task.

We recommended (**Recommendation 7**) money should be deposited and posted no more than three working days after collection. All money collected should be submitted for management approval and deposited to the Treasurer's office within three working days.

It appears, based on review of collection reports and discussion with management, collection reports are being submitted timely. However, there were a couple instances in which they were past the three day timeframe. Management has hired a new staff member located at the central office to now complete all collection reports for the department based on money and supporting documentation submitted from the facilities. This individual then submit's the collection reports to the Treasurer's office.

We recommended (**Recommendation 8**) that there should be a system to record information that identifies the facility, date of reservation and person making reservation and receiving funds. Recreation rental forms should be submitted with full payment in advance. In addition, maintenance of an electronic calendar (outlook) for each facility should be required. All recreation rentals should be entered on the calendar at the time they are booked. Recreation Rental forms should be duplicates with preprinted numbers. One copy of the form should go to the customer and the other to the facility. Parks and Recreation Administration should conduct periodic reviews to ensure there are no missing (pre-numbered) forms. Further, management should conduct unannounced visits when no rentals are scheduled on the calendar.

Additionally, management should consider requiring all recreation center rentals be booked through 311. To further enhance segregation of duties and prevent collaboration among staff, periodic observations should then be made by administration.

New policies and procedures have been issued for recreation rentals. There is a new application that must be completed that identifies the facility, date of reservation and person making reservation and receiving funds. Based on discussion with Facility Managers, recreation rental forms are being submitted with full payment in advance. However, there is no system to record information for recreation rentals and maintenance of an electronic calendar for each facility is not required. In addition, recreation rental forms are not duplicates with preprinted numbers. Management has considered requiring all recreation rentals be booked through 311. However, it has not been implemented to date.

We recommended (**Recommendation 10**) that each cashier should be assigned a separate cash drawer that is accessible only to that cashier at appropriate locations. In addition an alternate recommendation was to invest in a ticket machine to eliminate the need for employees to handle money.

Each individual is assigned a separate drawer at the Coolidge Park Carousel. However, cashiers at the Golf Courses and the Chattanooga Zoo have not been assigned a separate cash drawer. After recent discussion with management at the Zoo, corrective actions are going to be taken. Management at the Golf Courses stated there was a need for an additional cash register. However, they were unsure if it would be feasible to invest in an additional cash register.

Regarding the diversion of City funds, we recommended (**Recommendation 12**) that the implementation of the other recommendations made within the report should strengthen overall internal controls and reduce the possibility of future losses.

It appears based on observation and discussion that all recommendations were not fully implemented. Therefore, internal controls remain below the optimum level to reduce the possibility of future losses.

Regarding video game machines, we recommended (**Recommendation 14**) that the Parks and Recreation Department should ensure that a copy of all vendor contracts are on file within the department and the original is forwarded to the Finance Department. Also, Department Managers/Supervisors should monitor revenue submitted to the City on a periodic basis to ensure all funds are being remitted. We would further recommend that all such contracts require payment by the vendor in the form of a check made payable to the City of Chattanooga. In addition, Parks and Recreation Administration (Supervision) should make periodic visits to all facilities and review financial information for anomalies.

Based on discussion with management, the only vendors they have to date are class instructors with the exception of Coca Cola which is a citywide contract. It appears, based on discussion with management, all contracts are kept on file. In addition, based on discussion with management, contracts are forwarded to the Finance Department. Management has implemented a new Instructor Contract Agreement. The agreement stipulates payments are to be made in the form of money order to the City of Chattanooga. However, management has not periodically made visits to facilities to review financial information. Per discussion with management, they do not have enough staff members to perform this duty at the present time.

Regarding vending machines, we recommended (**Recommendation 15**) that the Parks and Recreation Department should ensure that a copy of all vendor contracts are on file within the Department and the originals forwarded to the Finance Department. In addition, Department Managers/Supervisors should monitor revenue submitted to the City on a periodic basis to ensure all funds are being remitted. Parks and Recreation Department Administrator, as well as Finance Department staff should review all contracts prior to finalizing (signing) to ensure there is no conflict of interest with regard to any vendor contracts. In addition, Parks and Recreation Administration (Supervision) should make periodic visits to all facilities and review financial information for anomalies.

The vending machines owned by a Facility Manager should be immediately removed from City property and appropriate disciplinary action should be taken.

It appears all contracts are kept on file. In addition, based on discussion with management, contracts are forwarded to the Finance Department. Vending machines discussed were removed from City property. Per discussion with management, there was no disciplinary action taken. However, there was discussion made with the Facility Manager in regards to the need for the machines to be removed. Management has not periodically made visits to facilities to review financial information. Per discussion with management, they do not have enough staff members to perform this duty at the present time.

### **Recommendations Not Implemented 11**

We recommended (**Recommendation 11**) that management should implement a system that can provide a customer receipt (ticket machine) for every payment transaction. An automated or manual reconciliation to the turnstile should be made. Parks and Recreation Administration should periodically test the system to ensure it is accurate and efficient.

Management has not implemented a ticket machine. Per discussion with management, the original machine thought to be purchased did not provide all the necessary functions needed. Management is still in the process of researching a ticket machine to be purchased. The turnstile is still not working properly at the carousel. Therefore, no reconciliation to the turnstile is being performed.

We thank the personnel in Parks and Recreation and the Finance Department for their assistance in conducting this review. We will consider this report to be final unless directed to continue our review.

Sincerely,

Stan Sewell, CPA, CGFM  
Director of Internal Audit

cc: Dan Johnson, Chief of Staff  
Larry Zehnder, Parks & Recreation Administrator  
Daisy Madison, Finance Officer