

Office of the City Auditor

**Marine Bureau
Cash Handling Operations Audit**

October 2014



Audit Staff

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Executive Summary

Our Office received a request from the Parks, Recreation and Marine Department (PRM) to identify operations within the Marine Bureau (Bureau) where internal controls could be strengthened to reduce the risk of fraud or error. We focused on two areas. The first area, the evaluation of internal controls over cash handling and revenue collection, is covered in this report and covers the period beginning October 1, 2012 (FY 2013) through June 30, 2014 (year-to-date FY 2014). The second operational area we identified focuses on vendor contracts and is in a separate report.

During the five year period of FY 2010 through FY 2014, the Bureau received and processed an annual average of approximately \$1.3 million in temporary slip rental, launch ramp, guest mooring fees, and security deposits directly at three marina offices located at Alamitos Bay, Rainbow Harbor, and Shoreline. The remaining revenue attributed to Bureau operations was collected by other City departments on behalf of the Bureau.

Since 2013, PRM has made a concerted effort to improve cash collection by updating its policies and procedures and retraining all PRM personnel, including Bureau staff. While the updated policies appear to be sufficient, the implementation of the policies in the Bureau are problematic. We found significant internal control weakness at all three marina offices that results in little assurance that all collected monies are actually recorded and deposited. In addition, the Bureau uses two imprest funds, one of which is not authorized, to handle short and long-term security deposit transactions. Authorized imprest fund controls need strengthening, while the unauthorized fund has few controls and should be discontinued.

We recommend that the Bureau enlist the assistance of the PRM Business Operation staff to completely restructure its cash-handling operations in order to secure and safeguard the revenue collected at the marina offices.

We would like to thank PRM's Marine Bureau staff, particularly those in the Alamitos, Rainbow Harbor, and Shoreline marinas, for their cooperation and assistance throughout the course of the audit.

Background

The Marine Bureau (Bureau) in the City's Parks, Recreation and Marine Department (PRM) is responsible for the management and development of navigable waterways, launch ramps, beach facilities, and the City's three marinas. The Alamitos Bay Marina, Shoreline Marina, and Rainbow Harbor, are located adjacent to the City's downtown waterfront and prestigious Alamitos Bay, and enhance the economic value of these areas.

Marine Bureau Revenues

On average, the Bureau received over \$21 million in revenue each year for the 5-year period of fiscal years 2010 through 2014, as shown in Table 1. The majority of this amount, nearly 94% or an average of nearly \$20 million, was collected by other departments on behalf of the Bureau. The Commercial Services Bureau of the Financial Management Department annually bills and processes slip rental and permit fee payments, while the Business Operations Bureau of PRM receives vendor lease payments in accordance with contract terms and conditions. In addition, the Asset Management Division of the Public Works Department collects lease payments on real property for certain Bureau contracts. The remaining six percent, an average of \$1.3 million, was processed at three marina offices located at the Alamitos Bay Marina, Shoreline Marina, and Rainbow Harbor.

Table 1
Marine Bureau Revenue
Fiscal Years 2010 through 2014*

Marine Bureau Revenue in millions Collected By:	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014*
Marina Offices: Alamitos Bay, Rainbow Harbor and Shoreline	\$ 2.0	\$ 1.2	\$ 1.4	\$ 1.2	\$ 0.6
Others on Behalf of the Marine Bureau **	19.7	19.7	19.7	19.9	20.6
Total	\$ 21.7	\$ 20.9	\$ 21.1	\$ 21.1	\$ 21.2

* Projected based on fiscal year-to-date collections, October 1, 2013 to June 30, 2014

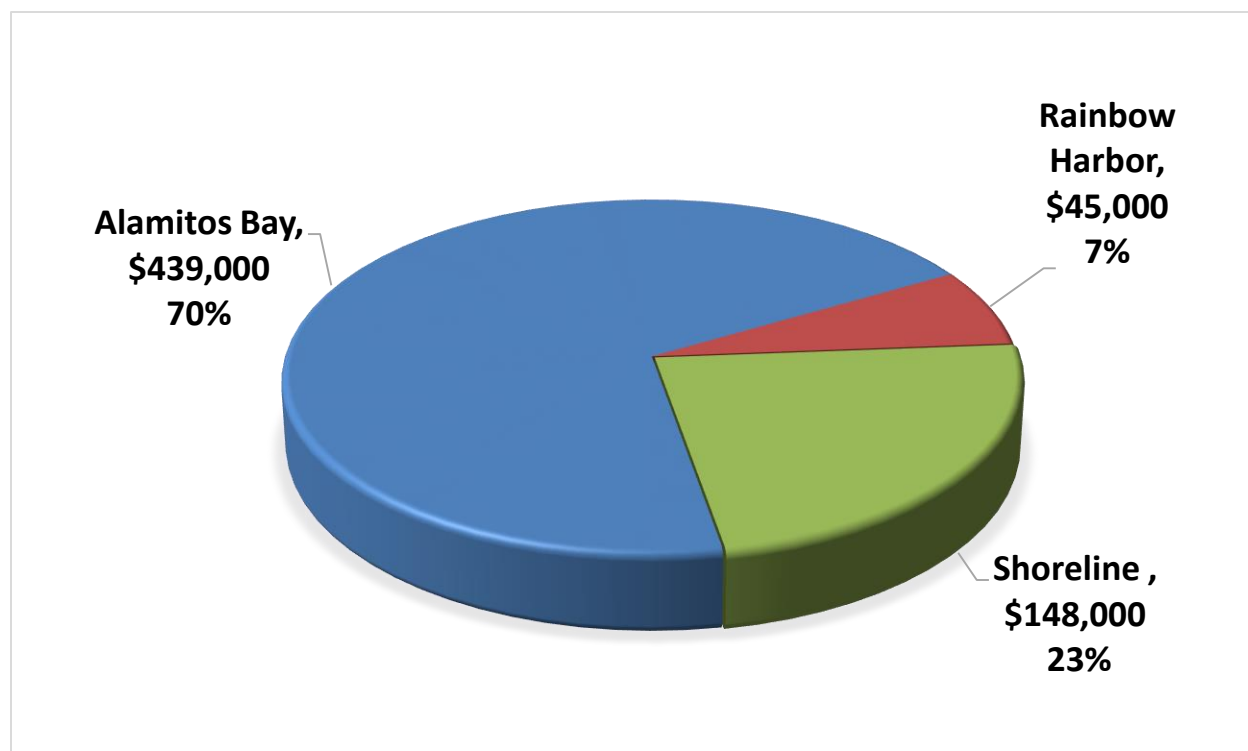
** Collected by the Financial Management, Public Works Departments and contractors.

The significant reduction in revenue collected directly by marina offices in fiscal year (FY) 2014, is due in part to a change in the collection of launch ramp revenues. Beginning October 1, 2013, responsibility for collecting monies from meters at five launch ramps (the fee of \$12 for launching small boats and parking) was transferred from the Bureau to a third party vendor whose contract is managed by PRM. The funds collected on behalf

of the Bureau are deposited directly to the bank and are not handled by Marine Bureau staff.

The \$0.6 million expected to be collected directly by marina offices in FY 2014 is comprised primarily of temporary slip rental, guest mooring, parking, and security deposit fees. Figure 1 indicates the expected FY 2014 revenue to be collected at each marina office.

Figure 1
Marine Bureau Revenue Collected by Marina Offices,
By Location, \$632,000 Projected in FY 2014*



* Projected based on fiscal year-to-date collections, October 1, 2013 to June 30, 2014

Policies, Procedures & Training

City Administrative Regulation (AR) 20-4, *Procedures for Cash Handling*, sets out uniform policies and procedures for cash handling that are intended to safeguard funds and prevent mishandling of cash, citing specific general cash controls and training requirements.

Using AR 20-4 as a basis, the PRM Business Operations Bureau developed department policies, titled PRM Department Policy #2.17, *Receiving and Recording Revenue*, and #2.16, *Refunds*, dated January 2013 and February 2003, respectively. The policies were used in part to train all PRM personnel, including Marine Bureau staff, who participate in

any part of the revenue collection and recording process. Additionally, employees are retrained every two years on these policies or after a significant violation of the policies.

In addition, PRM management stated they implemented additional cash handling procedures in March 2013, in response to an investigation involving a deposit discrepancy. These policies addressed, in part, a tracking system of deposit bags, reduced access to the drop safe, and retrained some staff.

Three types of funds are used to facilitate Marine Bureau operations. All marina offices use an operating fund, a single imprest checking fund is centralized at the Alamitos Bay office, and a guest key deposit fund is used at both the Alamitos Bay and Shoreline offices.¹ These funds are described below.

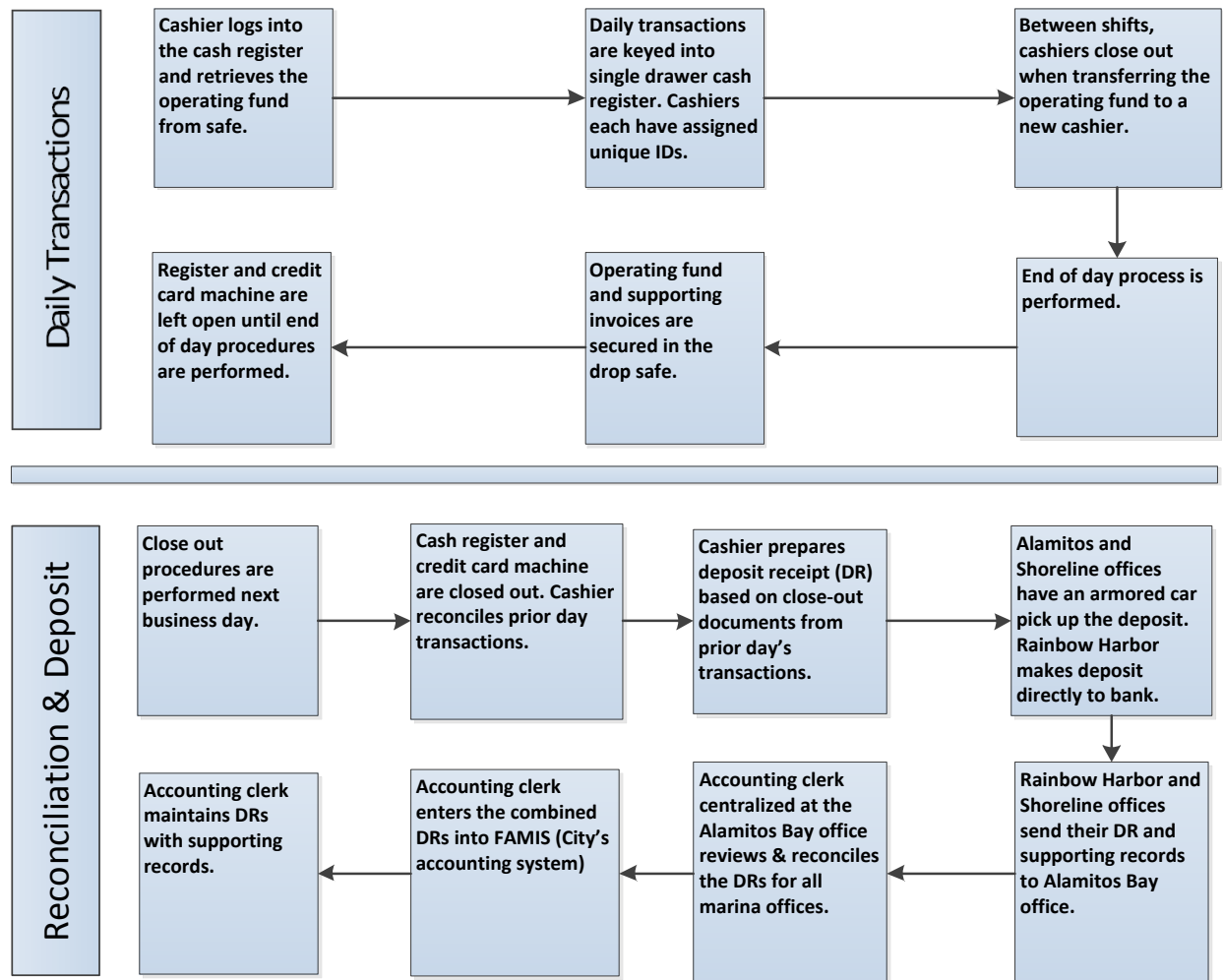
Cash Operations Fund

Each marina office manages an authorized operating cash fund that is used in the handling of daily transactions. The Bureau's cash operations process is shown in Figure 2. A single drawer cash register is used with individual cashiers issued a unique user identification code, along with an established receipting system and a manual process required for some transactions. Daily, each location performs a close-out and reconciles prior day transactions. While Rainbow Harbor deposits are made directly to the bank, Shoreline and Alamitos Bay utilize an armored car pick-up service. Each location has its own safe to secure monies overnight or while pending deposit.

All deposit records are consolidated at the Alamitos Bay location for reconciliation by the Marine Bureau's centralized Accounting Clerk. The clerk separately reconciles each marina office deposit, enters the total deposit into the City's accounting system (FAMIS), and maintains supporting records.

¹ An imprest fund is a cash or checking account fund normally authorized and issued by the Financial Management Department.

**Figure 2
Marine Bureau Cash Operations Process**



Imprest Checking Fund

The Bureau maintains an authorized \$15,000 imprest checking account. An accounting clerk is currently the imprest custodian. The clerk is responsible for recording and reimbursing imprest fund expenditures, and reconciling and replenishing the imprest fund account. The authorized imprest checking account is centralized and managed by the Marine Bureau Accounting Clerk, and is used primarily to refund slip rental and key deposits for regular permittees. Transactional information for FY 2013 indicates over \$142,000 in transactions are processed through this imprest account annually.

Regular or long-term marina guests pay a refundable security deposit equal to one month's slip rent, in addition to a refundable key deposit. Expenditures from the imprest account are made based on a refund request submitted by the permittee, along with the

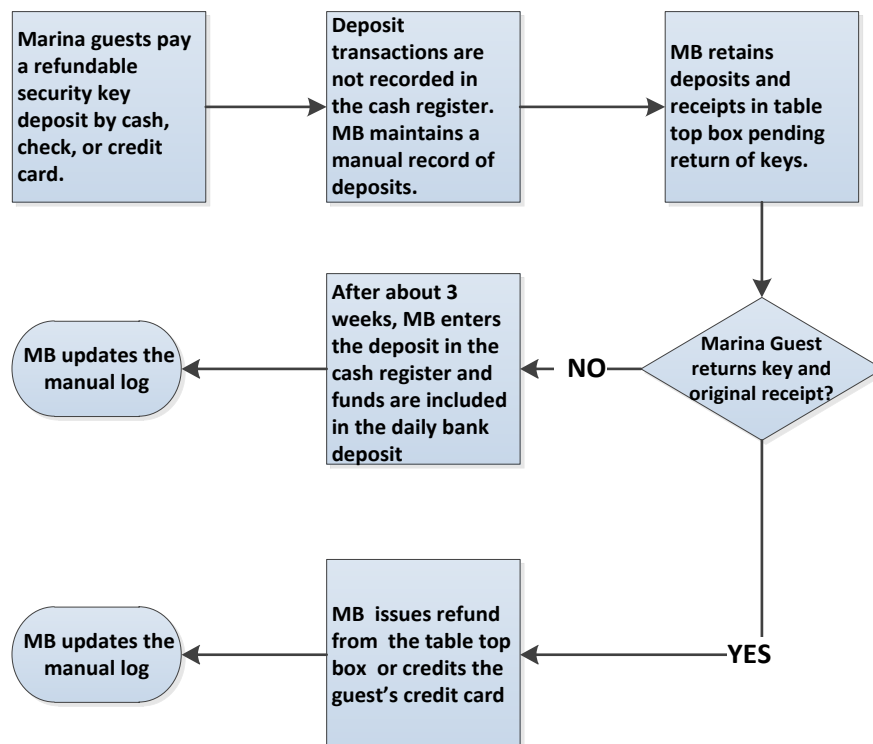
cashier's review and manager approval of the request. The imprest fund is generally reconciled monthly to replenish its funds.

The Bureau is using a generic software program called Quicken to process transactions generated in the imprest account. Our review did not include a review of this software and how it was used by the Bureau.

Guest-Key Deposit Fund

Short-term guests of the marina also pay a similar security deposit for marina keys. The process for handling these deposits, which are maintained in an unauthorized imprest fund, is shown in Figure 3. The deposit is refunded upon return of the keys and the original issued receipt, and is based on the payment method originally used. Shoreline and Alamitos maintain a separate fund to facilitate these key deposits that are made by cash, check, or credit card. Also, a manual record is used to track monies held in this fund. If the permittee does not return the keys to the Bureau, the permittee's deposit is processed with the cash register and deposited in the City's accounting system.

Figure 3
Marine Bureau Guest Key Refunds Process



Audit Objective, Scope and Methodology

The objective was to evaluate internal controls over cash handling and revenue collection, as well as the imprest checking account. The scope of the audit was the period of fiscal year 2013 and fiscal year-to-date 2014 (October 1, 2012 through June 30, 2014).

To understand applicable criteria for this audit, gain understanding of Marine Bureau cash operations, and identify management controls over Marine Bureau cash handling, we:

- Reviewed Administrative Regulation (AR) 20-4, *Procedures for Cash Handling*, AR 21-1, *Procedure for Deposition Monies with the Financial Service Division, Central Cashiering Section*, and AR 23-4, *Procedures for Authorization, Advancement, Reimbursement, Expenditures and Control of Imprest Cash funds and Imprest Checking Accounts*;
- Reviewed policies and procedures related to cash handling of the Parks, Recreation and Marine (PRM) Department; specifically, PRM Policy #2.17, *Receiving and Recording Revenue*, and PRM Policy #2.16, *Refunds*, dated January 2013 and February 2003, respectively;
- Interviewed management and staff of the Marine and Business Operations Bureaus of PRM; and
- Observed key cash handling activities at three Long Beach marina offices: *Alamitos Bay Marina, Shoreline Marina, and Rainbow Harbor*.

To verify existence of authorized cash funds and to evaluate the effectiveness of some internal controls, we:

- Conducted a surprise cash count at each of the marina office operations and performed a limited review of transactions and supporting records; and
- Reconciled a sample of Marine Bureau deposits to corresponding bank statements for completeness and to verify they were recorded; and a sample of imprest account expenditures transactions and related supporting records for compliance with applicable policies and procedures.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

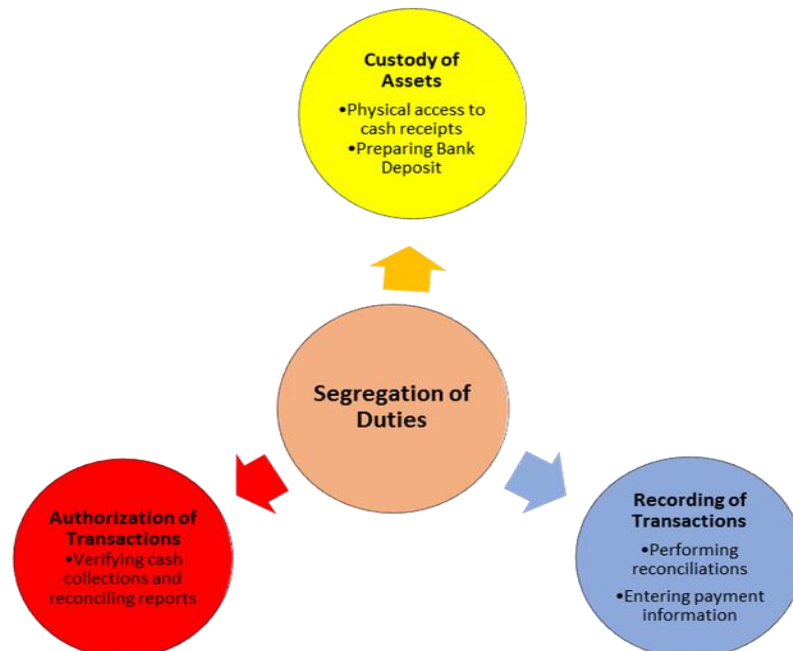
Results & Recommendations

Over the past couple of years, the Parks, Recreation, and Marine Department (PRM) has made significant efforts to enhance controls over revenue collection. Revised policies and procedures and cash-handling training were given to employees in all bureaus exposed to revenue collection, including Marine Bureau (Bureau). While overall the policies are sufficient, it appears the implementation of the policies at the Bureau was ineffective. The controls and processes currently in place at the Bureau do little to assure that all revenue is reported or secured.

We identified issues related to separation of duties, limiting access to assets, and safeguarding records. These control weaknesses create an environment where theft or manipulation may occur and would go undetected in many situations.

Our biggest concern is the lack of segregation of duties, particularly concerning those that have access to both transactional information and cash. To illustrate the importance of segregation of duties, Figure 5 demonstrates specific business functions that are not compatible. Further, Appendix A is a detailed list of cash-handling Bureau staff that have incompatible duties. As a preventative control, no one individual should handle more than one type of function. By separating the performance of these business critical duties, the organization helps ensure that no single person is in a position to both perpetrate and conceal irregularities.

Figure 5
Separation of Duties Diagram



It appears that many of the current processes were designed for convenience and have likely been in place for many years. The number of employees collecting payments, easy access to secure codes and combinations, and lack of document review leaves the Bureau with no assurance it is collecting, recording and safeguarding all revenue. Therefore, we are recommending that the Alamitos Bay, Rainbow Harbor and Shoreline locations completely realign their processes to produce adequate internal controls over revenue collection. While operations at all three locations are not exactly the same, the problems we identified with weak internal controls are similar in nature.

1. The control environment over cash handling remains ineffective.

Too Many Employees Involved in Collection of Revenue

At all three locations, the number of employees having the ability to receive payments or process other financial transactions is excessive. Table 2 below shows the number of employees at each site and the number eligible to collect payments.

Table 2
Employees Receiving Payments by Location

Marina Office	No. of Employees	No. of Employees Receiving Payment	%
Alamitos Bay	12	8	67%
Rainbow Harbor	8	8	100%
Shoreline	5	5	100%

The Bureau is currently using single-drawer cash registers to record payments. In order to identify which employee is processing the payment, the cash register requires unique codes to be entered for each employee. However, these codes are openly displayed for anyone's view. In addition, the keys to the cash register are not secured.

Examples:

- *At Alamitos Bay and Shoreline, employee cash register codes are taped to the cash register. With access to all register codes, an employee could use any of the codes to process the transaction and management would have no idea the correct codes had not been used. In addition, under the current system, determining the source of overages or shortages is impossible with so many people using the same cash drawer and no control over register codes.*
- *All three locations do not secure the cash register key which activates the register*

and allows transactions to be processed and register tapes to be run. At Alamitos Bay, the key is kept in an unlocked desk drawer with open access. For Shoreline and Rainbow Harbor, the key is kept at the register giving access to all those processing transactions.

Each location has the ability to process credit card payments. Using the credit card machine requires a password. This password is given to most, if not all, of the employees allowing them to not only process credit card payments but also refunds. Supervisor approval is not required to issue a refund. Allowing so many employees access to the credit card machine and not having supervisors authorize refunds, creates an environment where fraudulent refunds could be processed and management would not be able to confirm which employee committed the act.

While it is convenient for all employees to be able to assist customers and receive payments, it significantly diminishes the Bureau's ability to protect the revenue it receives. Controls are further weakened by the use of a single-drawer cash register and open access to register and credit card machine codes, which eliminates the Bureau's ability to determine which employee has completed the transaction.

The Reconciliation Process is Flawed

Alamitos Bay, Shoreline and Rainbow Harbor all perform daily reconciliations of the cash register and credit card tapes and the revenue collected. However, the process by which the reconciliation is performed creates numerous opportunities for manipulation and provides no guarantee that all monies are reported and deposited.

a. Transactions are not closed out nightly.

Only Rainbow Harbor closes out the cash register and credit card machines nightly. The other two locations wait until the next morning to run the tapes. By not closing out at the end of each day, there is an opportunity for someone to access the register and credit card machine and void transactions or produce refunds. While cash is placed into safes each night, a large number of employees have access to both the main and drop safes.

Examples:

- *At Alamitos Bay all 12 employees have the combination to the main safe and three employees have the combination to the drop safe.*
- *At Shoreline, all eight employees have the combination to the main safe and five employees have the combination to the drop safe.*

When employees have almost unlimited access to the offices, register keys, register codes, credit card passwords, and safes, the opportunity for misappropriation is

significant, and it would be difficult, if not impossible, to determine when the money was taken or by whom.

b. Employees have access to transaction information and cash.

The same employees that are accepting payment and have access to revenue deposited in the safes are also the ones performing the daily reconciliation. When an employee has access to both transactional information and the related revenue, they have the opportunity to manipulate information and deposits allowing them to misappropriate funds. The employee performing the reconciliation should never have access to the revenue at any time.

Example:

- *At all three locations the staff performing the daily reconciliations are also receiving payments and have access to the drop safes.*

c. Over/Short reports are not prepared.

During the audit, we tested 24 days of reconciliations across all three locations. On every single reconciliation tested, there was never a variance between the transaction totals from the cash register and the money collected. Because this is unusual based on the volume of payments being made, we requested to view the over/short reports. However, none of the locations are preparing this report as staff indicates that a variance is rare. While not a direct indicator that fraud is occurring, the lack of variances can be a red flag. With the number of employees receiving payments, excessive access to control codes and safes, and the ability to manipulate reconciliations, the risk of misappropriation is high.

d. No supervisory review of the daily reconciliation.

Supervisory review of the reconciliations is not required unless there is a problem. However, as noted in c. above, there never appears to be any overages or shortages which would require the supervisor's involvement. Since there are no management reports that can be generated from the register, the reconciliation is the only documentation that provides the supervisor with a snapshot of the transactions taking place. Each day's reconciliation should be given to the supervisor for review and require the supervisor's signature to indicate this process has been completed.

RECOMMENDATION: The Bureau should completely restructure its processes for handling revenue in order to ensure that all revenue collected is appropriately recorded and deposited. The Bureau should enlist the assistance of the PRM Business Operation staff to ensure that the Department's cash handling policies and procedures are implemented correctly to provide adequate internal controls.

This includes, but is not limited to, the following:

- 1. Limit the number of employees that can receive payments.***
- 2. All payments, including checks, should remain in the register until it is closed out.***
- 3. Consider the acquisition of point-of-sale technology or a new cash register that allows for multiple cash drawers.***
- 4. Change cash register codes, credit card machine passwords and safe combinations. Limit distribution and require employees to secure these codes. Secure the register keys.***
- 5. At the end of the day, a clerk should close out the cash drawer, record the cash on the appropriate form, prepare a deposit slip and drop the cash into the safe. The person performing the reconciliation should also receive a copy of the amount of cash dropped.***
- 6. Registers and credit card machines should be closed out nightly and tapes secured.***
- 7. Reconciliations should only be performed by staff that has no access to the cash at any time.***
- 8. Supervisors should be reviewing daily reconciliations and ensuring staff is preparing a daily over/short report.***

2. An unsecured table-top fund is used to manage short-term key deposits.

Alamitos Bay and Shoreline use an unauthorized imprest fund to manage refundable security deposits that are collected for keys issued to guests during their stay. A guest's stay may be brief – as short as one day. The table-top box retains cash, checks, and credit card charge receipts along with applicable guest records. It is accompanied by a manual log used to track transactions and manage the fund balance. Guest key deposit transactions are not recorded in the cash register unless the keys are not returned to the Bureau within approximately three weeks of the transaction. After three weeks, the cash is recorded in the register and deposited into the register's cash drawer.

If a guest returns the key and originally-issued receipt, they will issue a cash refund or a refund to their credit card. The amount of money in the fund varies depending on the number of keys issued. Fund balances can reach as high as \$300 in cash, \$50 in checks and \$2,000 in credit card transactions. The table-top box is kept in the main safe which

is not secure.

Example:

- *The main safes at Alamitos Bay and Shoreline are kept open the majority of the day for convenience. However, even if the safes were kept locked, every employee at both locations has the combination to the main safe.*

Key security deposits for regular slip rentals are handled through the Bureau's authorized imprest checking account. It is unclear why short-term key deposits for guests are handled through this separate fund other than the fact it is more convenient for the Bureau. The fund is not authorized by Financial Management and has very limited controls, creating a situation where the risk of misappropriation is high.

Example:

- *The original key deposit was paid in cash. The key is not returned, and the policy states the forfeited deposit should be entered into the cash register. However, there are no controls in place to ensure the money actually is recorded at the register. As a result, the refund could be misappropriated and management would likely not know.*

The manual log is the only documentation tracking deposit receipts and refunds. This log is not reconciled to the register or a key log to verify the transactions are correct. Keys are numbered, but a key inventory is not compared to the manual fund log that indicates when a key is issued or returned.

RECOMMENDATION: The Bureau should discontinue the use of the unauthorized tabletop box and attempt to adapt procedures to process the short-term key deposits through the cash register or imprest checking account. In addition, the Bureau should implement a key log that can be reconciled to key deposits.

3. Controls over the imprest checking account could be improved.

Slip security and key deposits for regular slip rentals for all three locations are processed through an imprest checking account located at the Alamitos Bay location. This fund is managed by an accounting clerk with the Bureau superintendent as the backup. Other minor items, such as reimbursements for parking machine malfunctions, are also processed through this account.

When keys are originally issued, the security deposit received is processed through the cash register. The imprest checking account is used to process the refunds so the Bureau does not have to be concerned with having enough excess cash on hand to cover the transactions. Based on our testwork, average refunds per week were approximately

\$2,700. Original deposits can be made by credit card, but the refund will be given through the imprest checking account. It was not clear why credit card transactions are refunded by check, as it would be more efficient to process the refund through the cash register and apply the amount back to the original credit card.

There are two points in the reconciliation process of the imprest account where job duties are not segregated appropriately. The Bureau superintendent is the backup custodian to the accounting clerk. Since the superintendent position has been vacant, the Bureau manager has been performing the responsibility of backup, and temporarily approves the account reimbursement request and monthly bank reconciliation. The approver of these documents should be someone that does not have the ability to process transactions through the fund. In addition, the accounting clerk is the preparer of the monthly bank reconciliation. Again, this function should be performed by someone who has no role in the daily processing of account transactions.

Lastly, the imprest checking account is managed through an off-the-shelf software called Quicken. Although we did not test the access of this software, it appears to be limited to the accounting clerk and the superintendent (currently, the Bureau Manager). The Bureau has used this software for many years, but it is not supported by the City's Technology Services Department and is not listed as being used elsewhere within the City. The City is in the process of procuring a new financial system. We would encourage the Bureau to inquire how this system may be able to accommodate transactions processed through the imprest account.

RECOMMENDATION: The Bureau needs to provide adequate segregation of duties over the imprest checking account by implementing a mitigating control when a vacancy exists, and eliminating the Bureau manager as the backup custodian. These duties should be given to someone that is not in a position to approve account reconciliations. In addition, the accounting clerk serving as the current imprest account custodian should not be preparing the monthly bank reconciliation. This should be given to another employee that has no access to processing transactions in the account.

We would recommend the Bureau consider processing deposits originally taken by credit card back to the card and post them through the register instead of writing refund checks. Also, Bureau management should inquire with Financial Management about the possibility of using the future financial system to process imprest checking transactions.

Appendix A

Detail of deficiencies related to segregation of duties. Individuals highlighted in yellow have incompatible duties.

Marine Bureau Office	Staff Title	Custody of Assets				Recording	Authorization
		Receipt of Payment	Knows Combination to Safe	Knows Combination to Drop Safe	Prepares Bank Deposit Ticket	Reconciles Prior Day Transactions	Verifies Prior Day Transaction Reconciliation
1	Alamitos Bay	MA II	Yes	Yes	Yes	Yes	Self review
2		MA III	Yes	Yes	Yes	Yes	Self review
3		Events Coordinator	Yes	Yes	Yes	Yes	Self review
4		Acting Marina Supv	Yes	Yes	No	No	Only if issue occurs
		Part Time Clerk	Yes	Yes	No	No	No
		Clerk	Yes	Yes	No	No	No
		Clerk	Yes	Yes	No	No	No
		Clerk	Yes	Yes	No	No	No
		Clerk Typist	No	Yes	No	No	No
		Secretary	No	Yes	No	No	No
		Accounting Clerk	No	Yes	No	No	No
		Acting MB Manager	No	Yes	No	No	No
5	Shoreline Harbor	MA II	Yes	Yes	Yes	Yes	No
6		MA II	Yes	Yes	Yes	Yes	No
7		MA III	Yes	Yes	Yes	Back Up	Yes
8		MA III	Yes	Yes	Yes	Back Up	Yes
9		Marina Supervisor	Yes	Yes	Yes	Back Up	Yes
		Marina Aide	Yes	Yes	No	No	No
		Marina Aide	Yes	Yes	No	No	No
		MA I	Yes	Yes	No	No	No
10	Rainbow Harbor	MA II	Yes	N/A	Yes	Yes	Self review
11		MA III	Yes	N/A	No	Backup	Self review
12		Marina Supervisor	Back Up	N/A	Yes	No	Only if issue occurs
		MA I	Back Up	N/A	No	No	No
		MA II	Back Up	N/A	No	No	No

Appendix B – Management Response

The Marine Bureau (Bureau) Audit included the review of two operational areas of the Bureau, and separate reports were issued. This report focuses on the Bureau's cash handling and revenue collection process. The other covers internal controls over the administration of contracts, leases, and permits. Both reports are available on the City Auditor's website at www.CityAuditorLauraDoud.com under the follow report titles:

- Marine Bureau Contracts, Leases, and Permits Audit
- Marine Bureau Cash Handling Operations Audit

The following Management Response Memo responds to both reports.



Date: November 14, 2014
To: Patrick H. West, City Manager *PLW*
From: George Chapjian, Director of Parks, Recreation and Marine *G.C.*
For: Laura L. Doud, City Auditor
Subject: Response to the Marine Bureau Audit Report

The Parks, Recreation and Marine Department (Department) would like to take this opportunity to thank the Office of the City Auditor (City Auditor) and staff for assistance in conducting the requested review of the Department's Marine Bureau (Bureau). The audit was conducted in a professional, productive, and collaborative way, and will serve to guide the Bureau as it continues its efforts in meeting the needs of Long Beach residents, visitors, and businesses.

The following provides a management response to the findings and recommendations of the subject audit. The Department apologizes that this response has been delayed, but can assure the City Auditor that the audit findings are well-received and, in fact, several have already been addressed.

CASH HANDLING OPERATIONS AUDIT

Issue One: The control environment over cash handling remains ineffective.

Recommendation: The Bureau should completely restructure its processes for handling revenue in order to ensure that all revenue collected is appropriately recorded and deposited. The Bureau should enlist the assistance of the PRM Business Operation staff to ensure that the Department's cash handling policies and procedures are implemented correctly to provide adequate internal controls.

Response: Management agrees with this recommendation. All items that could immediately be implemented, including changing codes and access for the safes and cash registers, have already been addressed. Marine Bureau management will consult with the Financial Services Division of the Business Operations Bureau to begin the process to evaluate and implement new processes to ensure all components of the Department's policy are fully implemented to ensure policy compliance. Business Operations staff will also assist with the research and implementation of new hardware and/or software to help safeguard City resources and assist with ensuring adequate internal controls are implemented.

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Issue Two: An unsecured tabletop fund is used to manage short-term key deposits.

Recommendation: The Bureau should discontinue the use of the unauthorized tabletop box and attempt to adapt procedures to process the short-term key deposits through the cash register or imprest checking account. In addition, the Bureau should implement a key log that can be reconciled to key deposits.

Response: Management agrees with this recommendation. Marine Bureau management will work with the Financial Services Division of the Business Operations Bureau to develop new processes for deposits that adhere to Department policy. It is also management's goal to implement a process that is consistent with other processes already implemented in the Department. This process will include a method for reconciliation of receipts to the inventory of keys, as well as a process that will adequately secure the deposit. As stated earlier, Marine Bureau management has already altered the safe access to ensure compliance with department policy.

Issue Three: Controls over the imprest checking account could be improved.

Recommendation: The Bureau needs to provide adequate segregation of duties over the imprest checking account by eliminating the Bureau manager as the backup custodian. These duties should be given to someone that is not in a position to approve account reconciliations. In addition, the accounting clerk serving as the current imprest account custodian should not be preparing the monthly bank reconciliation. This should be given to another employee that has no access to processing transactions in the account.

We would recommend the Bureau consider processing deposits originally taken by credit card back to the card and post them through the register instead of writing refund checks. Also, Bureau management should inquire with Financial Management about the possibility of using the future financial system to process imprest checking transactions.

Response: Management agrees with this recommendation with respect to the implementation of better internal controls and a more efficient and effective method to secure the imprest account's resources. It is important to Department management to create consistent, effective, and efficient processes throughout the Department. As an example, effective immediately, all bank reconciliations will be performed monthly and approved centrally by the Accounting Office Supervisor and then the Department's Financial Services Officer. This is

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consistent with all other Department imprest accounts. The Financial Services Division is in beginning stages of updating the Department's Refund Policy, and will work with Marine Bureau staff to ensure all necessary changes are included to update the process used for imprest in the Marine Bureau.

With regards to the use of Quicken, this program and its business version, Quickbooks, has been in use for the Department's other approved imprest accounts for over a decade. The programs were installed by the Technology and Innovation Department's (TID) assigned technician. TID has obtained the necessary licenses for the programs. It is a very simple program to teach staff and is in use in multiple areas in case there is a need for immediate training for staff due to a transfer or loss of staff. Financial Services Division staff has communicated the need for better imprest software to the Department of Financial Management staff responsible for preparing the requirements for the City's new financial system.

CONTRACTS, LEASES AND PERMITS AUDIT

Issue One: The Marine Bureau Lacks a Comprehensive Strategic Plan for Vendor Services

Recommendation: The Department could benefit from the development of a strategic plan that would address the types of services it wishes to provide the public. This would include defining long-term service goals, performance measures, and pursuing quality business opportunities for enhanced revenues. At a minimum, the Department should establish a process for developing and renewing vendor contracts, which includes competitive bidding and standardization of contract terms and conditions.

Response: The Department agrees that a strategic planning effort would benefit the Marine Bureau's operations. As it stands today, there is not an overarching plan that provides a direction for how the City programs/utilizes the waterfront. A strategic plan that includes a clear, long-term vision for the future, while adaptable to an ever-changing waterfront, beach and marina environment, will better position the Bureau for future. Said planning effort should help to define and align the often-competing interests of revenue generation with the need to provide recreational opportunities for the community.

As it relates to the completion of said plan, the Bureau is currently in the process of hiring a Marina Operations Superintendent. This position will be responsible for the day-to-day operations of the City's three municipal marinas and, as such, will be responsible for contributing to any future strategic planning efforts. It is anticipated that this position will be filled within the next 3-4 months. Once the position has been filled, the incumbent will work closely with the Bureau Manager and other Department management to begin the strategic planning effort.

Issue Two: Contract Oversight is Not Sufficient to Ensure Compliance

Recommendation: The current structure where three parties monitor Marine contracts is not ideal and many times creates a disjointed process that results in poor contract oversight. Our primary recommendation would be to return contract administration to the Marine Bureau and add sufficient staff to make monitoring of the contracts a priority. As noted above with the yacht broker contracts, there are opportunities for additional revenue that could pay for the additional staff.

However, even if this recommendation is not implemented, immediate improvements within the current structure need to take place. The Department should develop policies and procedures over contract administration.

Response: Management agrees that improvements to the Marine Bureau's current contract management structure need to be made to ensure effective and efficient contract oversight. With new leadership at the helm of the Marine Bureau, and participation from the Department's centralized Contract Management Division, there are already positive actions being taken, including:

- Better definition of contract management roles and responsibilities between the Marine Bureau and the Department's centralized Contract Management Division, while still enabling appropriate separation of duties;
- Development of a departmental contract management policy, which will include mechanisms for the solicitation, review, and processing of third party proposals and current service providers against set criteria designed to meet identified needs; and,
- Research and evaluation of a third-party contract management software product.

Conclusion

In conclusion, the Parks, Recreation and Marine Department would like to thank the Office of the City Auditor for this collaborative effort to review and improve the Marine Bureau's cash handling and contract management operations. Management agrees with the recommendations of the Audit and is confident that investments in better planning, systems, training, and internal controls will lead to improved operations on behalf of the City and its residents.

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