



OFFICE OF THE CITY AUDITOR
Long Beach, California

LAURA L. DOUD, CPA
City Auditor

May 1, 2012

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Receive and file the attached Parks, Recreation & Marine Revenue Collection Audit Report, and request City Manager review the recommendations, develop strategies for implementation, and update the City Auditor as to the status of the recommendations within six months from the date of receipt and filing of this report.

DISCUSSION:

The Office of the City Auditor (OCA) completed a review of internal controls over revenue collection at several Department of Parks, Recreation & Marine (Department) locations. The Department processes \$6.6 million in revenue throughout 34 sites.

While the Department provides a wide range of recreational services that generate revenues, the administrative structure that calculates, collects and safeguards these revenues was never thoroughly developed or managed. As a result, the City has lost funds due to misappropriation and inconsistency in the collection of fees. Over the past year, the Department's new management has recognized the need to address the internal control issues surrounding revenue collection and have begun efforts to make corrections and/or changes at individual sites. However, after assessing the control issues at several Department locations, the OCA believes this approach will not substantially lower the risk to adequately safeguard revenue.

Instead, the OCA recommends management develop a Department-wide plan to ensure the design of a strong and secure revenue collection system which will meet the growing demands for Department services. This plan should focus on centralizing the revenue collection process, increase the use of technology, and develop detailed cash handling training.

HONORABLE MAYOR AND CITY COUNCIL

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This comprehensive approach to address internal controls over revenue collection is a large undertaking and may require outside consulting assistance to complete within a reasonable time period. While we understand City resources are limited at this time, it is important the City provide the Department the necessary resources to complete the development and implementation of the plan. During these difficult times, it is imperative the City do all it can to safeguard the \$6.6 million in revenue it currently collects and provide opportunities to further increase collection efforts.

Detailed information regarding the results discussed above is included in the attached report. We want to thank management for their cooperation and appreciate their efforts and initiative to make improvements.

TIMING CONSIDERATIONS:

City Council approval is requested on May 1, 2012.

FISCAL IMPACT:

In FY11, the Department collected over \$6.6 million in revenue at 34 locations. However, the current administrative structure has resulted in lost revenue. Management's efforts to address the recommendations outlined in the report will assist in securing additional potential funds for the Department.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



LAURA L. DOUD, CPA
CITY AUDITOR

Attachment

Office of the City Auditor

**Parks, Recreation & Marine
Revenue Collection Report**

April 2012



Audit Staff

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Executive Summary

The mission of the Department of Parks, Recreation & Marine (Department) is to create community and enhance the quality of life in Long Beach through people, places, programs, and partnerships. Many of the Department's programs and operations are managed and executed internally, generating approximately \$6.6 million in revenue handled by a variety of recreation staff. We have gained an understanding of internal controls over revenue collection at many Department sites including El Dorado East Regional Park, Wardlow Park, Sports Office, Alamitos Bay Marina, Belmont Pool, and the Registrations/Reservations Office.

While the Department appears to be successful at providing recreational services to the community, the administrative structure for assessing and collecting revenue for these services was not developed concurrently. The ability to adequately protect and safeguard revenue has deteriorated by virtue of the significant budget cuts endured over the last several years and the elimination of administrative staff to assist in the revenue collection process.

Over the past year, several changes have occurred within Department management, including the appointment of a new Director and a new Business Operations Bureau Manager. Since joining the Department, the new management has been tasked with many challenges and spent the first year focusing on improving other areas within the Department. Now entering into their second year, there is a renewed focus on revenue control issues. Our discussions with management have been open and positive.

The Department's current approach is to make corrections and/or changes specific to each individual site. While this approach will likely result in some improvements, we do not believe it will adequately safeguard revenue. The existing administrative structure, lack of technology, insufficient revenue policies, and untrained and part-time recreational staff handling cash are systemic issues throughout the Department. These issues have resulted in known incidents of revenue misappropriations and inconsistencies in the collection of fees.

In order to ensure the Department has a strong and secure system in place to keep up with the growing demands for its services, we are proposing management focus on the development of a Department-wide plan that addresses all issues pertaining to the revenue collection process. Along with this plan, we are requesting the City Council to provide the Department with the necessary resources to obtain the expertise to assist management with evaluating, planning, and rebuilding the revenue infrastructure. We support assisting the Department with building the framework it needs to preserve the various programs it has worked so hard to develop and maintain.

We want to thank Department management and personnel for their remarkable level of cooperation, and we appreciate their efforts and desire to improve processes to secure and safeguard revenue.

Background

Department Structure

The Department oversees the operation and maintenance of all City of Long Beach (City) public recreational facilities, including 152 parks with 25 community centers, three marinas, five golf courses, three swimming pools, a sailing center, a nature center, and two historic ranchos. The Department's mission is to provide leisure programs and services through people, places and partnerships to residents and visitors, which enhance neighborhoods and improve quality of life in Long Beach.

In 2011, several management changes occurred within the Department, including the appointment of a new Department Director and Business Operations Bureau Manager. Current management is receptive to suggestions and willing to change processes to become more effective and efficient in protecting City assets.

The illustration below provides an example of the Department's organizational structure using the Belmont Pool operation, with red indicating those individuals capable of collecting revenue.



Department Revenues

The issues covered in this report focus on the Department revenue collected directly by recreation staff. As shown in Table 1, this amounts to approximately \$6.6 million. We performed audits and reviews on seven of the 34 sites. Revenues at these locations total \$4.1 million or 62% of the total.

Table 1
Department Revenue Collected
By Recreation Staff
FY 2011

Location	FY11 Revenue
Registration/Reservations	\$1,095,700
El Dorado East	975,300
Belmont Pool	545,200
Sports Office-Field Permits	482,900
Sports Office-Adult Sports	480,900
Alamitos Bay Marina *	480,000
Wardlow Park	52,800
Total of sites reviewed:	\$4,112,800
Marina Operations and Rainbow Harbor	1,225,500
King Park and Silverado Park Pools	210,000
Other City Parks and Miscellaneous Sites**	1,046,800
Total of sites not reviewed:	\$2,482,300
Grand Total:	\$6,595,100
* Only includes revenue collected at the Alamitos Bay Marina Office related to temporary occupancy permits (approximately \$40,000/month). Other revenues are collected by another City department.	
** Includes sites such as: Senior Center, Nature Center, and Leeway Sailing Center.	

The processes for revenue collection are decentralized. At each site, the Supervisor is responsible for administering Department programs as well as collecting, tracking, and depositing the corresponding revenue.

Internal Controls

Internal controls are policies, procedures and practices established to safeguard an organization's assets, check the accuracy and reliability of its accounting data, promote

operational efficiency, and encourage adherence to prescribed managerial policies. An effective system of internal controls should minimize the potential for errors or fraud to occur. If they do occur, good internal controls should detect such errors or fraud in a timely manner during the normal course of business. Management is responsible for establishing and maintaining a system of internal controls. Trained staff and sound management all serve to maintain environments that promote strong internal controls.

CLASS System

The Department currently uses automated software, the CLASS System, to track some revenue, but not all. The software has the capability to track fees, payments and balances due. Although CLASS is used to record payments received, it is not always linked to a cash register. As such, users of CLASS may also operate manual cash drawers unaffiliated with the electronic system and use a safe to store receipts throughout the day. CLASS is maintained in-house by the Registrations/Reservations Office Supervisor who also acts as the CLASS system administrator. As system administrator, the Supervisor has the capability to modify transactions, accounts, and other users' access levels.

Objective & Methodology

We have recently performed audits of internal controls over revenue collection at El Dorado East Regional Park, Wardlow Park, and the Sports Office. In addition to the audits performed, we gained an understanding of controls over revenue collection at Belmont Pool, Registrations/Reservations Office, and the Alamitos Bay Marina.

The overall objective was to determine whether adequate internal controls were in place over the revenue collection process at each location. We reviewed internal controls to ensure safeguards are in place to protect City revenue and to recommend potential improvements. Internal controls are essential because they serve as the first line of defense in safeguarding assets as well as preventing and detecting errors and fraud.

While conducting audits of the specified locations, we performed the following procedures:

- Interviewed key personnel on-site to gain an understanding of the process and controls surrounding revenue collection.
- Interviewed management to gain an understanding of their involvement with the revenue collection process.
- Conducted observations of key processes of revenue collection.
- Obtained an understanding of the computer system utilized to process payments, if applicable.
- Reviewed supporting documentation to ensure monies collected were deposited at the bank.

- Identified whether monies collected were deposited timely at the bank.
- Assessed physical access and security of the location.

For those locations where audits were conducted, the performance audits were conducted in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audits 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

The Department's organizational structure is designed to effectively provide recreation services and facilities for the community, which it appears to do very well. However, this structure is not conducive to providing adequate oversight, controls, and policy over the collection of \$6.6 million in recreational fees and charges. The Department employs a decentralized revenue collection system where fees are processed at individual sites. Policies and procedures surrounding revenue collection vary with little to no coordination between site locations.

Although new management is attempting to improve controls at each revenue collection point, continuing to focus on a decentralized solution will result in limited benefits. Our recommendation, discussed at the end of this section, advises management to redirect their efforts and focus on revamping the structure and policies for a more centralized and standardized approach to revenue collection.

The following issues highlight problems resulting from the Department's decentralized revenue collection approach. While we cannot explore all the individual issues here, we have attempted to categorize the major issues into two categories:

- Lack of Communication and Oversight by Management; and
- Processes and Internal Controls over Revenue Collection are Inadequate.

1. Lack of Communication and Oversight by Management

a. Insufficient Development of Internal Controls

Ultimately, it is management's responsibility to identify and establish internal controls, procedures, and policies for revenue collection. Under the decentralized system of revenue collection, management relinquishes this responsibility to the site Supervisor. This is problematic for several reasons:

- i. All of the Supervisors we interviewed specialized in recreation and had minimal financial background or training in the establishment and maintenance of proper revenue controls.
- ii. Management offered little guidance or communication to the Supervisor, resulting in revenue collection processes varying significantly from site to site, even when programs were similar.
- iii. The majority of the policies were insufficient to ensure fees were properly charged, collected and deposited.

As illustrated in the example below, the Department is losing revenue as a direct result of utilizing a decentralized cash collection system with minimal controls and insufficient policies.

Example:

➤ *In 2009, two new revenue streams dealing with field lights and participation fees were initiated. Billing and collection of the new fees, totaling approximately \$165,000, were assigned to the Sports Office. Management provided no guidance on establishing controls and procedures needed to effectively bill, process, and collect the revenue.*

○ Result:

1. *The recreational staff at the Sports Office did not have a financial background or training in revenue collection.*
2. *The procedures established for processing and collecting the two new revenue streams did not include separation of critical business duties.*
3. *Currently there is one person billing, collecting, and depositing revenue with no supervision or oversight.*
4. *We found numerous errors in the calculation of amounts owed, billed, and collected and insufficient documentation retained.*
5. *The process is manual with fees tracked in an EXCEL schedule making it difficult to perform a reconciliation and determine outstanding balances.*
6. *Deposits were refunded to leagues without first deducting outstanding amounts owed to the City.*

7. *Fees and penalties for late payments cannot be enforced because there is no policy addressing the matter.*

b. *Inadequate Training*

Following an incident of theft at the Sports Office, management developed an in-house cash handling training program. We reviewed the training materials and spoke with several staff members. The training appeared to lack instruction on the fundamentals of internal controls, such as appropriate separation of duties and security access levels, and topics which would assist staff in recognizing areas where fraud may occur. Instead, the training focused on procedural requirements, such as acceptable forms of payment and how to complete a receipt log. While understanding procedural requirements is important, it is only a small part of ensuring revenue is properly handled. We also noted the training was generic in nature and each site employed different processes to handle revenue. As a result, recreation staff had to determine how best to apply the training to their specific operation.

At the locations we reviewed, 45 of the 49 individuals with the ability to collect revenue specialize in recreation services and are part-time employees. Therefore, communication and training for these employees is even more critical because they do not possess a financial background and/or financial experience. However, not all individuals handling revenue are required to attend training, and for those who are required to attend, attendance does not appear to be monitored.

Examples:

- *23 part-time lifeguards accept revenue at the Belmont Pool (approximately \$121,000 in revenue) and do not attend the cash handling training.*
- *Two part-time employees are responsible for collection and recording all Aquatics Summer Day Camp revenue (approx. \$287,000) and do not attend cash handling training.*
 - *Result: Approximately \$408,000 of revenue is being collected by part-time recreation employees without Department cash-handling training, and they are unaware of how to properly safeguard funds.*

c. Management is Unaware of Outstanding Revenue Due to the City

Not only is the billing and collection of fees a decentralized process, in most cases this process is not automated. Manual recordkeeping hinders management's ability to monitor the amount of uncollected fees. As long as revenue meets budget estimates, there is nothing to alert management to outstanding receivable balances. As a result, we found management was unaware of almost \$400,000 in outstanding receivables.

We also noted Department policy is nonexistent regarding collection efforts on past due accounts. Groups that owe the City money are allowed to continue using City facilities and resources without paying past balances due, and they are not penalized for late payments.

Table 2
CLASS System Accounts Receivable
As of September 30, 2011

Type of Revenue	Total Balance Due	Current	> 30 Days	> 60 Days	> 90 Days	> 120 Days
Adult Sports Leagues	\$ 233,535	\$ 5,471	\$ 6,198	\$ 108,595	\$ -	\$ 113,271
Youth Sports Leagues	44,152	2,751	-	1,777	-	39,624
Total Sports Office A/R	277,687	8,222	6,198	110,372	-	152,895
Non Sports Office A/R	114,745	14,127	8,485	3,003	8,704	80,426
Total CLASS A/R	\$ 392,432	\$ 22,349	\$ 14,683	\$ 113,375	\$ 8,704	\$ 233,321

As illustrated in Table 2, we noted \$392,000 of uncollected revenue recorded in the CLASS system. Approximately \$277,700 relates to Sports Office activities of which adult sports leagues currently owe the City \$233,500. Almost 49% of that balance is older than 120 days. In particular, one adult league (currently inactive) continues to owe the City \$55,000, and no collection efforts have been made on this account since 2009. The ability to collect on amounts over 120 days old is extremely difficult.

Example:

- *The Department continues to issue permits to several adult leagues even though the leagues owe the City thousands of dollars in past due permit fees. Adult leagues are allowed to make payments, but payment plans are not documented or formalized resulting in inconsistent and incomplete payments. The Department does not have any policy governing outstanding balances, collection efforts, and application of late fees and/or*

interest. As a result, receivable balances continue to grow and leagues with outstanding balances are allowed to continue to play.

- *Result: Subsidizing adult sport leagues has resulted in the loss of almost \$233,500 in revenue.*

2. Processes and Internal Controls over Revenue Collection are Inadequate

a. Separation of Duties and/or Mitigating Controls are Insufficient Surrounding the Handling of Revenue

Separation of duties is a key concept of a strong internal control system. Typical business-critical duties within the Department include having access to accept revenue, generating and/or editing the corresponding record (manual or electronic), and preparing the deposit receipt (DR) and bank deposit. As a preventive control, one person should not have access to perform all three functions. By separating the performance of these functions, it helps ensure that a single individual could not both perpetrate and conceal irregularities.

At all the revenue collection points we reviewed, there was a consistent lack of separation of duties across operations. The ability for one person to perform all of these functions increases the risk that errors or fraud will go undetected. The Department has experienced at least two recent incidents of theft of funds. In each case, a lack of separation of duties contributed to the difficulty of determining how the theft occurred and who was responsible.

Ideally, critical functions would be separated among individuals within an operation; however, due to limited staff/resources available, the nature of the programs provided, and the use of part-time staff, this may not always be realistic. Although mitigating controls at each location could be established to help reduce the risk, it will not eliminate the risk under these circumstances. This is the primary basis to reevaluate the Department's revenue handling policies and procedures to determine if a centralized approach to revenue collection is better.

Example:

- *The Sports Office Permit Coordinator, who handles approximately \$483,000 of revenue, performs all three of the business-critical duties. He accepts payments, creates both the manual and electronic record, has access to modify the record, and prepares the DR and bank deposit. To*

further exacerbate the problem, there is no Supervisory review performed of his work.

- *Seven clerks in the Registrations/Reservations office, handling approximately \$1.1 million in revenue, all have access to modify records in the CLASS system, accept payments, and prepare the bank deposit.*
 - *Result: By allowing one individual to perform all three critical duties with no supervision, it creates an environment for fraud or errors to occur and be completely undetected.*

b. Lack of Documentation Hinders Ability to Determine if all Revenue is Collected Appropriately

Revenue transactions require sufficient source documentation to provide a paper trail in the event of an error or irregularity and to assist management to determine whether all revenue was collected appropriately. Overall, we found a consistent lack of documentation, particularly for adjustments made to revenue.

For example, the Sports Office may adjust permit fees for three reasons: weather, cancellation by the vendor, or an error by the Permit Coordinator. We reviewed permit adjustments for 15 adult sports leagues and found \$355,000 of permit revenue was adjusted during the life of the leagues. This equates to 12% of total permit revenue for the 15 leagues. In FY 2011 alone, \$41,000 of permit revenue was waived, and one league received adjustments representing 69% of its permit fees. There was very little documentation available to justify these adjustments. Most explanations were based on staff's memory rather than information available in the files.

Example:

- *We noted several instances where permit fees were adjusted due to "rain". However, staff relies solely on the leagues to submit adjustments for rainouts and do not track or verify rain days independently.*
 - *Result: There was no evidence rain adjustment requests were valid. The City is waiving fee revenue without appropriate justification.*

We also noted 13 of the 15 adult leagues received adjustments that were unusual in nature. The unusual adjustments were made more than one year after the permit issuance date or for a large amount (greater than 40% of original permit amount). Also, numerous adjustments were made to various

accounts on the same day. Staff provided verbal explanations for these adjustments, but there was very little supporting documentation to determine if they were valid.

Permit fees are typically waived for City-sponsored events and events for non-profit organizations. Non-profit organizations are required to provide proof of their organizational status to qualify for the waiver of fees. However, when we reviewed vendor files, evidence of non-profit status was not present or not current.

Example:

- *We reviewed the files for 15 non-profit vendors who received fee waivers and noted only one file contained proof of the organization's non-profit status.*
 - *Result: Without proper documentation in the file, it is difficult to determine if the fee waiver was valid and justified.*

As noted throughout this report, the lack of policy, training and communication creates weaknesses in the system increasing the risk for loss of revenue. In most of the instances where documentation was insufficient, policy was either lacking or nonexistent.

c. Lack of IT Controls within the CLASS system

As with any automated system, there should be sufficient controls over access, data input and editing to ensure the reliability of the system data. With CLASS, we found that basic preventive and detective controls are missing, limiting management's ability to review and analyze data.

For example, the software is unable to provide management with a history of records that have been altered or deleted. In addition, an excessive number of employees have access to edit and delete records within the CLASS system. This prohibits management's ability to control the potential risk resulting from unauthorized or inappropriate entries. As a result, assurance cannot be provided that all monies received through the system are deposited into the City's treasury.

Example:

- *Seven clerks in the Registrations/Reservations office have access to create and modify CLASS system data with no supervision. In addition,*

staff represented that roughly 600 pages of CLASS system data require “clean-up“, meaning the data consisted of duplicate accounts and other accounting and transactional errors.

- Result: Due to the excessive access, it is nearly impossible to monitor the changes occurring in the system to determine if they are valid and justified. The volume of data errors requiring review indicates system data may not be reliable.
- We identified a permit fee adjustment made by Department staff not working at the Sports Office. The Permits Coordinator was not aware of the adjustment to the account he was responsible for managing.
 - Result: Because CLASS access is excessive and there are insufficient controls and review over data modifications, it is nearly impossible to determine if errors or fraud are occurring.

d. Lack of Technology at Individual Revenue Collection Sites

At many locations, revenues are collected via a manual process, increasing the risk of fraud and/or errors. Centralizing payment processing or introducing technology at a variety of levels, such as the use of cash registers or CLASS, would tremendously reduce risk and increase efficiencies.

Example:

- Summer Day Camp revenue of approximately \$53,000 is collected at Wardlow Park with a completely manual system. Revenue collected is retained in a cash box, manual receipts are written, a daily roster is generated by hand, participant files are manually updated daily, and extended hour fees are calculated by staff.
 - Result: In this entirely manual process, the risk of misappropriation and errors is heightened by revenue collected not being adequately secured, no separation of duties for critical functions, and miscalculation of extended hour fees.

e. Controls Surrounding Physical Access and Security Need Improvement

Total daily receipts averaging \$25,400 are collected by the Department at various locations. It is the Department’s responsibility to ensure these funds are adequately safeguarded until they are deposited with the bank. Excessive access to facilities/areas where revenue is collected increases the risk of

fraud or misappropriation and decreases the ability to determine who is responsible.

Numerous individuals have access to areas where revenue is collected, including but not limited to, Department employees, contract class instructors, and maintenance personnel. Access is usually by key, either specific to the location or through the use of a master key. We found a lack of accountability for master keys and no central list detailing keys issued to employees and contract class instructors. In order to determine who has keys to facilities, multiple sources have to be referenced. This makes it extremely difficult to determine who has access to a facility. If management focused on a more centralized approach to revenue collection, the facility access risk would be minimized significantly.

Example:

- *As a result of a theft at Wardlow Park in 2010, the entire facility was re-keyed. However, there is a complete lack of accountability for master keys, not only at Wardlow Park but all Department locations.*
 - *Result: The lack of controls over who has access to Department facilities makes it nearly impossible to determine the responsible party should another theft occur.*

At the locations we visited, it was common for receipt books, deposit book, past DR's, and daily receipts to be left unsecured. These items can be accessed by employees, program participants, and contract class instructors. Unsecured documents expose confidential City information, such as bank account numbers and the amount of revenue collected at the site, increasing the risk of misappropriation of receipts.

f. *Lack of Policy Over Revenue Collection and Enforcement of AR21-1*

Administrative Regulation 21-1 (AR21-1) is a Citywide policy that establishes procedures for the timely deposit of the City's monies. It states that all monies received greater than \$100 shall be deposited within 24 hours, with the exception of weekends and holidays. We noted several instances when monies greater than \$100 were not deposited timely and were sometimes held for several weeks after the money was received. Given the issues and risks with the Department revenue collection process discussed throughout this report, it is imperative that management ensure this policy is enforced.

Recommendation

The issues discussed above are caused by the decentralization of the revenue collection process and appear to be systemic throughout the Department. While improvements can be made at each individual location, we believe it would take considerable time and resources, and the reduction of risk would be limited. Instead, we are proposing the Department focus on a more centralized and cohesive approach to addressing revenue collection. This type of approach would allow management to analyze the problem from a Department-wide perspective allowing for a greater consistency in the development and application of policies and procedures. It also offers potential opportunities for greater efficiencies in the use of technology and staff resources.

We realize the development and implementation of such a plan is a large undertaking. However, the Department is losing revenue and is exposed to further uncollected fees or misappropriation under the current structure. Investing in the development of a new revenue collection process will produce immediate results. For this reason, we believe the City Council should ensure the Department is provided the necessary resources to obtain outside assistance to accomplish this goal.

The implementation of this recommendation is presented in phases:

- Phase I: Obtain Expertise and Define Department Needs;
- Phase II: Clarify Responsibilities Surrounding Revenue Collection within the Department;
- Phase III: Establish Policy; and
- Phase IV: Implementation

Phase I: Obtain Expertise and Define Department Needs

The issues discussed throughout this report all deal with the decentralization of the Department's revenue collection process. The nature of the issues vary widely and cover all aspects of revenue collection, such as: having adequate policies, the controls and use of the CLASS system, centralizing revenue collection, security, communication, and training. Attempting to address all of these issues will require significant time, resources and expertise. For this reason, the Department should seek outside consultant assistance to help with identifying the most efficient and effective solutions to the issues discussed above.

When considering a consultant, we recommend the Department fully evaluate their needs and the extent of expertise required. Based on our review of Department operations, we recommend the consultant have a strong knowledge base and experience in the following areas, including but not limited to:

- Developing internal controls specific to revenue collection;
- Identifying weaknesses and needs with respect to IT and access controls;
- Familiarity with identifying and clarifying roles and responsibilities within the organizational structure;
- Streamlining revenue collection and developing policy;
- Developing and providing cash handling training; and
- Ability to recognize and address personnel matters resulting from changes in responsibilities, titles, and or duties.

Phase II: Clarify Responsibilities Surrounding Revenue Collection within the Department

During Phase II the consultant will focus on documenting and understanding the current revenue collection process. All revenue collection sites and operations need to be identified, not just those discussed in this report. At a minimum, the following topics should be considered:

- Number of revenue collection points versus participant needs;
- Type of programs provided and fees charged;
- Separation of duties and/or mitigating controls;
- Use of the automated CLASS system vs. a manual process;
- Security and access levels;
- Policy status (does it exist, is it applicable, is it being followed, etc.);
- Level of supervision;
- Revenue information available for review;
- Training and education of those handling revenue;
- Outstanding receivables;

- Role of management; and
- Role of the Commission.

Once a thorough understanding of the current situation is obtained, the next step is to develop a more effective solution that addresses as many of the weaknesses as possible. It is imperative the recommended solution be realistic and attainable. Consideration should also be given to what assistance or involvement, if any, may be required from other City departments. Consulting with other City departments early in the process should reduce problems during the implementation phase.

Phase III: Establish Policy

In order for any revenue collection process to be effective, it must be based on sound policy. During Phase III, the consultant will assist the Department with developing policies to govern the collection and management of revenue. We recommend the policies be as consistent and realistic as possible. Input should be obtained from various levels of staff and address roles and responsibilities. They should also promote transparency regarding charging and waiving of fees.

Phase IV: Implementation

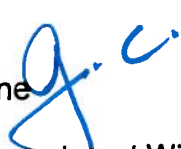
Phases I, II, and III will set the stage for a revised and more effective infrastructure to secure the Department's revenue. The implementation of the new plan will require extensive coordination of staffs' time and resources. Therefore, this may also require a phased approach. The consultant should remain available to provide assistance to the Department in executing the plan.

Appendix A

Management's Response

Parks, Recreation & Marine Department



Date: March 12, 2012
To: Laura L. Doud, City Auditor
From: George Chapjian, Director of Parks, Recreation and Marine 
Subject: Response to Audit Report on Parks, Recreation & Marine Department Wide Collections

The Parks, Recreation and Marine Department (Department) would like to take this opportunity to thank the Office of the City Auditor (Office) and staff for assistance in conducting the requested review of revenue collections. New management in the Department, including the Department Director, Manager of Business Operations Bureau, and Community Recreation Services Bureau Manager immediately recognized the long-standing revenue deficiencies and correction of these deficiencies is a top priority for new management. The audit was conducted in a professional, productive, and collaborative way that has already resulted in a number of significant improvements to Department policies, procedures, and internal controls.

The following provides a management response to the findings and recommendations of the Department Wide Collections Audit.

Issue One: Lack of Communication and Oversight by Management

Response: Given the number of programs and activities that the Department provides throughout the City, management agrees that communication and oversight of revenue collections must be standardized and improved. In the past, policy writing was decentralized and the responsibility of individual bureaus. A new centralized model for policy development, training, and oversight has been implemented by the Business Operations Bureau (Bureau) to provide a standardized and consistent approach to revenue collections Department wide.

A new Director and Manager of Business Operations with experience in revenue collections and internal controls development were appointed in 2011 to begin the process of writing, training, and implementing centralized Department policies and procedures. The Parks and Recreation Commission (Commission) approved the new Fee Waiver Policy 3.15 at the December 8, 2011 Commission Meeting, requiring that all waivers for reservations or permit fees be presented and approved by majority vote of the Commission.

Additionally, management has begun addressing the following specific issues identified in the Audit:

a. Insufficient Development of Internal Controls

Response: Management agrees that the Department has not established sufficient policies and procedures for revenue collection. New management in the Bureau has been tasked with developing and training Department wide internal control policies to provide clarity and standardization of practice for collecting, reconciling, approving, and depositing revenues consistent with the City Charter.

Consistent with this effort, management has also identified a staff member in the Bureau that is responsible for drafting, updating, and communicating Department wide policies and procedures recommended in the Audit. Currently, the Bureau is in process of developing the following specific Department wide policies and procedures for:

- Fee Waivers and Adjustments
- Cash Handling, Reconciliation and Deposits
- Reporting, Billing and Collections
- Late Payments, Penalties, and Payment Plans
- Facility and System Access
- Issuing Permits on Delinquent Accounts

Additionally, Department staff has begun evaluating how to standardize revenue collection in all operations, utilize a single revenue balancing system, and eliminate manual efforts to track the collection of fees as described in the Audit.

b. Inadequate Training

Response: Management agrees that centrally coordinated training in revenue collection has failed to keep up with the needs of a growing organization. Standardized training in Department policies and procedures must be an ongoing process, and include every employee that participates in the process of revenue collection. This includes staff at all levels responsible for the collection, reconciliation, review, approval, and deposit of revenue.

Currently, the Department Accounting Division provides basic cash handling training to new staff on an annual basis. However, training has been voluntary. As part of the development and implementation of new policies and procedures described above, the Bureau will identify an employee in the Accounting Division to centralize the effort, and to coordinate mandatory and ongoing "Revenue Collection Training" for new and existing staff responsible for revenue collection. Management is reviewing the Audit to make improvements to the existing annual Cash Handling Training provided to staff.

c. Management is Unaware of Outstanding Revenue Due to the City

Response: Management agrees that regular, timely review of revenue collection is not practiced consistently across Department operations. A centralized, standardized effort to produce revenue collection reports on a regular basis has been initiated to provide supervisors and line-staff with the clarity and direction about the status of customer accounts.

The amount of revenue owed the City for permits, class registrations, and facility rentals fluctuates daily as outstanding accounts are paid and new reservations are made. At the time of the Audit, the CLASS system indicated approximately \$392,000 of uncollected revenue (based on the date of the reservation). Approximately \$150,000 of this amount was considered current by the Department because reservations are allowed up to six months or 180 days prior to the date of the event (when final payment is due).

As of February 28, 2012, the CLASS system indicates \$329,000 total payment due. Of this amount, approximately \$111,000 is considered current; approximately \$139,000 is in the process of active collection or has an established payment plan in place; and, approximately \$79,000 is in the state of delinquency and the Department is seeking legal settlement or outside further assistance with the collections process. This includes \$55,000 from one now defunct adult soccer league highlighted by the audit that will be turned over to a professional collection agency.

To centralize the reporting process, the Bureau has implemented monthly reporting of outstanding revenues owed, and has scheduled report writing training with the provider of the CLASS system. The Department uses the Active Networks CLASS system to manage reservations, registration and permits. Currently, there are no staff members in the Department with the ability to write customized Crystal reports. Additionally, the Registration and Reservations Office is now placing an alert on delinquent accounts so that customer support representatives responsible for registration and reservations do not issue permits to organizations or individuals with delinquent accounts.

In addition to report writing training, a staff member in the Accounting Division will be identified to coordinate "Revenue Collection Reporting" to inform supervisors and staff of revenue collection efforts on a monthly basis. Revenues recorded by systems other than CLASS will be reported and reviewed centrally by an independent analyst in the Business Operations Bureau. A consolidated status report of all revenues will be provided to management on a monthly basis. Staff has already scheduled meetings internally and with the Commercial Services Bureau, Collections Division, to address current uncollected balances highlighted by the Audit.

Issue Two: Processes and Internal Controls Over Revenue Collection are Inadequate.

Response: Management agrees that internal controls over revenue collection must be improved on an ongoing basis to address the needs of a changing organization. As service delivery, information management systems, and methods of payment change, the Department must continue to identify new controls to ensure security of public resources.

a. Separation of Duties and/or Mitigating Controls are Insufficient Surrounding Handling of Revenue

Response: Management agrees that staff members and supervisors in many areas of the organization have too much responsibility for service delivery, customer service, revenue collection, reconciliation, and approval of deposits. As highlighted in the Audit, staffing reductions to administration and supervision throughout the Department have increased the need for standardization and efficiency to ensure oversight and accuracy of revenue collection. Management also agrees that the increasing dependence on part-time and seasonal staff requires better documentation, better training, and better security for technology, facilities, and safes where revenues are collected.

b. Lack of Documentation Hinders Ability to Determine if all Revenue is Collected Appropriately

Response: Management agrees that all fee waivers and adjustments must be documented and approved appropriately and has already implemented a change to the Department's policy. Working with the City Attorney, the Commission recently approved a Fee Waiver Policy 3.15 that requires all fee waivers to be approved by the Commission, rather than a decision by Parks, Recreation and Marine staff. An organization requesting a fee waiver must now apply with the Registration and Reservations Office, and requests must be approved by majority vote of the Commission. Adjustments for cancellation of reservation, change in location, inclement weather, or staff error must be approved by the Community Recreation Services Bureau Manager, approved by the Business Operations Bureau Manager, and documented properly in the CLASS system.

Additionally, as described by the Audit, all approved waivers or adjustments must be documented in the CLASS system. Specific examples identified in the Audit are being addressed as part of the collections efforts described above.

c. Lack of IT Controls within the CLASS System

Response: Management agrees that CLASS system security must be evaluated and addressed regularly. Training with Active Networks, the provider of CLASS, has been scheduled to review a number of issues highlighted in the Audit. Management will work with Active Networks to make changes to the system, users, and access where the system allows. The Department Accounting Division will be tasked with conducting an annual audit of system security as part of the overall internal revenue collections audit activities.

d. Lack of Technology at Individual Revenue Collection Sites

Response: Management agrees that a significant investment in technology and training is needed to standardize revenue collection and limit error. Using the same technology and process at each collection point will help to reduce variation of practice, integrate information into a single system, improve reporting, and strengthen oversight of off-site activity centers. A Department technology strategic plan and a plan for financing improvements are needed.

Management has already received quotes from Active Networks to evaluate the costs of increasing the number of current user licenses for the CLASS system. Additionally, management has met with staff in the Technology Services Department to assess costs for implementing hardware to support the application. Management is conducting a cost benefit analysis to determine an efficient way to finance recommended technology. Significant investment will be required, funded by increased revenue collection or a technology user charge.

e. Controls Surrounding Physical Access and Security Need Improvement

Response: Management agrees that security of facilities can be improved, and a comprehensive facility security plan needs to be developed and implemented to ensure security of personnel, capital assets, and revenue collection. The Department now operates 152 parks and 25 community centers, and collects revenues at 34 sites included in the Audit, but the traditional key and safe system that provides security has not evolved.

Significant investment is required to update security systems and technology at Department facilities where revenue collection occurs. While existing key and safe controls can and will be improved immediately, the Department will explore technology that centralizes control of facility access and provides individual, site-specific access at revenue collection sites. Management has already organized a "Facility Security Task Force" to develop a plan and identify funding for improving Department wide facility and safe security.

f. Lack of Policy Over Revenue Collection and Enforcement of AR21-1

Response: Management agrees that AR21-1 must be enforced and that non-compliance must be documented. As part of the Department policy and procedure for revenue collections, management will include requirements for compliance with AR21-1 and make necessary changes to staffing where necessary. Already, changes have been made to bring the Sports Office into the Department Administration Building so that payments are collected centrally and deposit requirements are met.

Recommendation:

Response: Management agrees that improving revenue collections at the Department is a large undertaking and will require significant sustained investment in both staffing and capital. Additionally, management agrees that a centralized, comprehensive strategy is the most practical and efficient approach. As such, the Department has developed a tracker for each of the recommendations included in the Audit and will task the Business Operations Bureau with leading the internal efforts to organize, plan, and implement the changes described in this report.

As described by the Audit, the Department will seek outside consultation to review those tasks that exceed the expertise or capacity of in-house staff. Management anticipates that this will be a multi-phased effort that will require regular ongoing updates as the Department programs, services, and staffing change.

Conclusion

This Audit brought to light long-standing issues that new management in the Department is already working to resolve. The Parks, Recreation and Marine Department would like to thank the Office of the City Auditor for this collaborative effort to review and improve revenue collections. Management agrees with the recommendations of the Audit and is confident that investments in better systems, training, and internal controls will lead to improved revenue collection on behalf of the City and its residents. Ensuring the safety and security of public assets is an ongoing activity that will require ongoing investment.

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