



# CITY of RIVERSIDE

## Parks, Recreation and Community Services Cash and Cash Equivalent Handling<sup>1</sup>

AU12 – 03  
October 2011

### INTRODUCTION

In accordance with the City Internal Audit FY 2011/12 Work Plan, we have completed an audit of the cash handling for the Parks, Recreation and Community Services Department (PRCSD).

### STATEMENT of OBJECTIVES

The objectives of the audit review were to:

- Determine if current revenue collection policies and procedures are effective and efficient; and
- Determine if appropriate cash handling controls are in place to adequately safeguard cash and cash equivalents.

### SCOPE and METHODOLOGY

Over the past five (5) years Internal Audit has performed four (4) reviews of PRCSD cash handling:

- AU10-01, *Aquatics/Pool Revenue Collection & Deposit*
- AU08-01, *Cash and Cash Equivalents Handling*
- AF07-01, *Cash Receipts/Cash Handling Follow-up Audit Report*
- AU05-05, *Cash Receipts/Cash Handling*

Three reports (AU05-05, AF07-01, and AU08-01) had findings related to lack of and/or outdated policies and procedures and inefficient/inadequate controls over receipting and cash handling at the community centers. This report includes a follow-up to those findings and includes additional review of activities not considered previously.

This review was conducted during the period from May 2011 through July 2011, and addressed the receipting and safeguarding cash/cash equivalents and the accounting of petty cash and cash advances. To address audit objectives and as part of our assessment of risk, we:

- Reviewed PRCSD policies and procedures and other written documentation/forms available;
- Visited three (3) community centers to observe cash handling procedures;
- Assessed internal control practices related to cash handling and safeguarding of funds;
- Reviewed cash handling and deposit processes through the testing of cash receipts;
- Reviewed prior audit reports; and
- Performed an analytical review of revenue accounts used by PRCSD.

Key documents used during our review:

- AU12-01, *Non-Contractual Activity Fees*
- AU12-02, *Contacts, Contract Fees, and RecWare*
- *Citywide Administrative Manual # 06.007.00 – Cash Handling and Receipt Manual*
- *Citywide Administrative Manual # 07.005.00 – Petty Cash Purchases Policy and Procedures*

Our review was conducted in accordance with *Generally Accepted Government Auditing Standards* and according to the *Standards for the Professional Practice of Internal Auditing* of the Institute of Internal Auditors. Those standards require that the audit is planned and performed to afford a reasonable basis for judgments and conclusions regarding the department, division, program, activity or function under audit.

<sup>1</sup> Aquatics cash/cash equivalent handling was not included in this review; refer to AU10-01, July 2009.

An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe our audit provides a reasonable basis for our conclusions.

## BACKGROUND

Generally, payments for PRCSD classes, activities and special events may be made online and at each community center, senior center, youth center, and other key PRCSD facilities (administrative offices, pools and rental venues). Certain locations do not have the use of electronic registers or computers and only take payment for activities held at their locations (e.g. pedal boats).

The following is summary of locations that accept payments:

	Name of Location	Payment Accepted
1	Online Registration/RecWare <sup>2</sup>	credit card
2	Arlanza Community Center	cash, check, money order, credit card
3	Cesar Chavez Community Center*	cash, check, money order, credit card
4	Dales Senior Center	cash, check, money order, credit card
5	Eric M. Solander Community Center	cash, check, money order, credit card
6	Joyce Jackson Community Center	cash, check, money order, credit card
7	La Sierra Community Center	cash, check, money order, credit card
8	Orange Terrace Community Center*	cash, check, money order, credit card
9	Renck Community Center	cash, check, money order, credit card
10	Ruth Lewis Community Center	cash, check, money order, credit card
11	Stratton Community Center	cash, check, money order, credit card
12	Youth Opportunity Center*	cash, check, money order, credit card
13	Ysmael Villegas Community Center	cash, check, money order, credit card
14	Administration	cash, check, money order, credit card
15	Pools <sup>3</sup>	cash
16	Fairmount Park/Stewarts Boat House - Lakeside Room & Pedal Boats	cash

\*Location has a petty cash or cash advance fund. All other locations can only accept exact change for cash payments.

*Policies and Procedures:*

PRCSD provided Internal Audit with a number of internally developed policies and procedures relating to cash handling:

- *Parks, Recreation and Community Services Cash Handling Policy*
- *Pool Cash Handling Policy*
- *Refund Policy – Recreation Programs*
- *Boathouse Cash Handling Policy*
- *RecWare Deposit Guidelines*

Per review of PRCSD policies and procedures, we noted the documents are not based on a consistent format nor are they dated or approved by management (director, deputy director, superintendents, etc.).

*The Parks, Recreation and Community Services Cash Handling Policy* states:

“It is the responsibility of the Superintendent and the Supervisor assigned to the Activity/Facility to meet annually with the purpose of reviewing and updating the cash handling procedures with the Finance Department and the Deputy Director of the Parks, Recreation and Community Services Department. “

There does not appear to be any evidence of this review taking place on a consistent basis.

PRCSD has created forms to audit cash handling and other recreation related activities at various departmental locations. We obtained the following documents relating to cash handling from PRCSD for our review:

- *Audit – After School Program*
- *Audit – Community Center*

<sup>2</sup> RecWare is PRCSD's recreation management software

<sup>3</sup> Aquatics/Pool revenue was not tested during this review of cash and cash equivalents

- *Cash Daily Log – Pool*
- *Safe Log*
- *Petty Cash Reconciliation*

#### Cash Receipt Process

According to PRCSD, each center/location that accepts payment should have designated personnel to perform that task; at no time should the public, volunteers or any person not approved by a Recreation Supervisor, act as a cashier.<sup>4</sup>

Receipting of payments is usually through RecWare, the Department's recreation management software.<sup>5</sup> RecWare has the ability to receipt for cash, check, money order and credit card payments. Each payment in RecWare is given a unique receipt number, and can also be tracked by other characteristics, including name of participant, name of payer, class/activity, etc. Fairmount Park/Pedal Boats staff does not have access to RecWare; tally sheets and cash registers are used to track participants and payments through the issuance of manual receipts.

#### Safeguarding of Cash and Cash Equivalents

With the exception of individual pools, each location that accepts payment for activities or facility rentals has a safe. Upon receipt of cash, check or money order, the individual taking the payment will place the funds into their designated safe. Every time a person places funds into, or removes funds from the designated safe, they must fill out the *Safe Log*. The *Safe Log* states the description, payee, date, time and staff member receiving the funds. The *Safe Log* also states the date, time, person and reason for removing funds from the safe (e.g. when preparing a deposit for Treasury).

#### Depositing Process

At the end of each day, PRCSD Staff prints a *Cash Distribution by Account (Summary) Report*, *Cash Distribution by Account (Detail) Report*, and *Cash Receipt Report* (credit card transaction) from RecWare. All reports are dated from 8:00 p.m. the previous day to 8:00 p.m. the current day. Internal policies and procedures direct PRCSD staff to print the reports by the following morning. The reports are used to reconcile payments recorded in RecWare with funds located in the safe.

Once the reconciliation is complete, PRCSD staff verifies account coding of the revenue, makes copies of the information for Treasury, and places the deposit into a bank bag. The entire deposit is then taken by a designated person to White Park no later than 11 a.m. the following workday. Upon arrival at White Park, staff will sign-in the deposit and place the related reports and receipts in the appropriate file. Staff is to place the checks/money orders/cash into the safe. An Account Clerk at the administrative office is responsible for reviewing the deposits from each community center and other locations. Once the deposits have been reviewed, the entire packet is taken to the Treasury Division for processing by various staff.

#### Petty Cash, Operating Cash, and Cash Advances

PRCSD currently use petty/operating cash and cash advances for their community centers, swimming pools and special events. Petty/operating cash is used to make change for payment of recreational activities such as swimming, pay and play sports, and summer camps. Petty cash is also used in conjunction with Project BRIDGE, a program that provides services to at-risk youth.

Pursuant to documentation by the Finance Division of the City Manager's Office, as of June 30, 2011 the Youth Opportunity Center has \$200 for petty cash.

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<sup>4</sup> During our review we noted that each individual making a payment, depending on the class/activity, may be responsible for filling out an *Activity Registration/Facility Reservation Form*, signing applicable liability waivers, and proving residency. These attributes of the receipting process were not a focus of this audit, and were not tested.

<sup>5</sup> Formal review of the internal controls and accuracy of information within RecWare was done concurrently with this review in *AU12-02, Recreation Contracts, Contract Fees, and RecWare*.

We also confirmed that the Finance Division issued \$290 in cash advances to PRCSD as follows:

Adult Volleyball Pay and Play*	\$ 30
Concerts in the Park/and Ride Tickets	\$100
Pay and Play Basketball^	\$ 30
Boathouse	\$ 25
Pool Sites	\$105
Total	\$290

\* Cesar Chavez Community Center

^ Orange Terrace Community Center

Attempting to eliminate/reduce petty cash funds citywide, the Finance Division issued cash advances to PRCSD instead of establishing petty/operation cash funds. In our opinion, use of cash advances for volleyball and basketball pay and play, boathouse rentals, pool sites, and concerts in the park operating funds are not consistent with the intent of cash advances. Cash advances should be issued for purchases or to pay for a service, supported with a receipt and recorded as a department/division expenditure.

Analytical Review and Cash Receipt Testing:

Based on the FY 2010/2011 budget to actual information from IFAS, PRCSD met or exceeded budgeted expectations:

GL Key	GL Obj	Description	Est. Revenue	Current: 6/30/11	Favor. (Unfav.)
0000101	343110	Fairmount Park Golf Course	\$60,000	\$60,000	\$-
0000101	343200	Swimming Pool Fee	\$175,000	\$255,391	\$80,391
0000101	343510	Special Recreation Programs	\$815,000	\$917,120	\$102,120
0000101	343512	Non-Resident Park Use Fee	\$ -	\$6,546	\$6,546
0000101	343610	Park Rentals	\$525,000	\$709,204	\$184,204
0000101	343311	Misc. Park Rentals - Boathouse	\$30,000	\$37,839	\$7,839
0000101	343312	Park Rentals - Reservation Fee	\$-	\$14,412	\$14,412
0000101	343620	Misc. Park Receipts	\$5,000	\$6,699	\$ 1,699
			\$1,610,000	\$2,007,211	\$397,211

According to PRCSD, a combination of new and updated facilities and the downturn in the economy are the reasons for the increases in revenue. Specifically, the downturn in the economy has caused more people to stay at home and look for alternatives to vacations, family outings, and facility rentals (e.g. birthdays and weddings).

Based on our preliminary review, we selected the *Special Recreation Programs* and *Park Rental* accounts for detailed testing. Using IFAS, staff ran detail transactions reports for the month of June 2011 and randomly selected 15 cash receipts for testing. Where applicable, we tested the following attributes:

- 1) Deposits are properly authorized;
- 2) Deposit amounts appear to be accurately stated;
- 3) Deposits are created in accordance with *PRCSD Cash Handling Policy (6/1/08)* and *Citywide Policies and Procedures Administrative Manual # 06.007.00*;
- 4) Deposits are submitted to Treasury in accordance with *PRCSD Cash Handling Policy (6/1/08)*;
- 5) Deposits are submitted to Treasury in accordance with the *Citywide Administrative Manual # 06.007.00, Cash Handling and Receipt Manual*; and
- 6) Checks and Cash are noted on the corresponding *Safe Log* (when applicable)

Of the 15 deposits, Internal Audit noted one (1) *Cash Distribution by Account (Summary)* was not authorized properly. The summary was part of a larger deposit of approximately 20 separate summary statements, all of which were properly authorized. All deposits appear to be accurately stated and created in accordance with established departmental and citywide policies and procedures.

We noted a conflicting provision within the *PRCSD Cash Handling Policy* and *Citywide Policies and Procedures Administrative Manual #06.007.00, Cash Handling and Receipt Manual*. The timelines in the departmental policies and procedures appears to be somewhat flexible. Although it is not explicitly stated, based on the language and steps in the departmental policies, it appears deposits may take up to four (4) days from the receipt of funds by a PRCSD location until they are deposited with Treasury. Based on our review the citywide policies and procedures, funds shall be deposited with the Treasury within 24 hours of processing the payment. Furthermore, the policy indicates that individual checks in excess of \$10,000 should be deposited the same day.

While reviewing the sample of 15 cash receipts Internal Audit noted three (3) exceptions. Per discussion with PRCSD, we noted the checks and cash placed in the safe at the PRCSD Administrative Office are not tracked with a *Safe Log*. PRCSD explained that since only two people have access to the safe, no log is used. However, as explained later in this report, a deposit for pedal boats totaling \$1,998.50 in cash was deposited in the Administrative safe due to issues at the Lakeside Room safe.

Per review of the detailed cash receipts documents, we noted the following:

### 1) *Processing Fees*

Fees for rental of a facility require a \$10 processing fee. According to PRCSD, this fee is charged under the authority of the *Master Fees and Charges Schedule*. Upon our request, a time study, using PRCSD fully burdened rates established in the *Fees and Charges Study* plus additional costs, could not be provided. This fee cannot be wrapped into the facility rental based on the market approach. It is a fee being charges for a service provided by PRCSD staff. Fees for services provided must be documented and in most cases approved by the City Council.

### 2) *Activity Fees*

While testing a cash receipt from June 9, 2011, Internal Audit noted transactions to a revolving account (0000720-225071). Specifically, we noted two (2) fees of \$8 were applied to this liability account. These activity fees are associated with two (2) \$30 *Mini Day Camp Bryant - Session 2* classes. PRCSD staff indicated that the day camp activity fees are recorded in the revolving account because they are used to subsidize the cost of weekly excursions included in the *Day and Mini Camps*, and are not included as part of the revenue projections for the Community Services Division. Admission (tickets) and transportation costs (busses) are then expensed from the revolving account funds.

Revolving accounts are characterized as liability accounts. These accounts should be used to track amounts that are payable to other people for a specific item/category (e.g. senior trip payments/deposits). PRCSD is using the account like a separate bank account to deposit and spend funds that are not tracked in the annual budget's expenditures and revenues.

Based on our review of various deposits, it appears all or the majority of activity fees revenue associated with numerous classes are placed into a revolving account, which allows PRCSD the ability to circumvent the authority to increase expenditures without going to the City Council for approval.

During FY 2010-11, approximately \$23,000 in activity fees was recorded in the revolving account; approximately \$22,500 was paid out of the account. Based on GL detail from IFAS, the majority of the payments (\$21,183) were made to Michael Camou (\$8,054), Tom Dominguez (\$8,816), and Travel Time Tours (\$4,313). Based on supporting documentation, it appears payments to Michael Camou and Tom Dominguez are for Project BRIDGE. During our review of expenditures from the revolving account we also noted a payment to Michael Camou for \$576. Supporting documentation indicates the payment was for a Digital Inclusion Training Program, sponsored by the Smart Riverside program managed under the direction of the City of Riverside's CIO. This program is made possible through donations of computers, monitors and other electronic equipment by large local firms, educational institutions and the public; the IT Department's annual fundraising golf tournament; collection and reimbursement for "e-waste"; eBay sales of items with residual value, and Inland Empire Technology week.

Additionally, as required in the Riverside Municipal Code, annually, the City Council adopts (or reviews) fees. With each adopted fee category is a cost recovery percentage. From the documentation provided to Internal Audit, the activity fees are not considered in the factoring of the class/event fee; they are additional fees charged above and beyond the cost recovery limit.

### 3) *Boathouse Rentals*

Internal Audit randomly selected a deposit in the amount of \$1,998.50 for testing. Upon review of the documentation, it appeared the deposit was for pedal boat rentals and was comprised entirely of cash. However, we noted the deposit was made to Treasury by the PRCSD Administrative Office. In addition, we noted totals did not appear to be consistent with the pricing structure in the *Summer 2011 Recreation Guide* of \$10/hour for residents and \$15/hour for non-residents.

Per inquiry with PRCSD, when a patron wants to rent a pedal boat he/she fills out the waiver (which includes their name, number, address, ID #, DOB, and boat #), and receives a ticket with a tracking number. The cashier keeps the duplicate ticket along with the customers ID. The cashier logs each customer and boat on the *Fairmount Park Pedal Boats Log Sheet*. Upon completion of the rental, the patron returns the ticket to the cashier; the cashier returns the patrons ID, at which time the customer pays for the rental, which is based on the number of minutes rented.

Based on our review of the *Master Fees and Charges Schedule*, we noted fees for pedal boats are listed at \$14/hour for residents and \$21/hour for non-residents. According to PRCSD, the fees were misprinted in the activity guide and staff has signs posted at the Boathouse that have the accurate fees listed. In addition PRCSD indicated that due to the high use by the public, the fees for renting pedal boats are broken down by 15 minute increments, instead of hour long rentals. For residents, a 15 minute rental is \$3.50, a thirty (30) minute rental is \$7.00, and 60 minute rentals are \$14.00. For non-residents, the fees are 15 minutes for \$5.25, 30 minutes for \$10.50, and 60 minutes for \$21.

Based on information provided to Internal Audit by PRCSD, the Lakeside Room Deposit Log does not show an entry for \$1,998.50 or the 10 days from the month of June. PRCSD stated they were notified at the 11th hour that the existing vendor would no longer operate the Boathouse/pedal boats. The boathouse/pedal boats were scheduled to re-open for business Memorial Day weekend (Saturday, Sunday and Monday). Due to time constraints of the locksmith (change safe combo), the first weekend PRCSD pedal boats were open, staff did not have access to the safe in the Lakeside Room and did not have a log to document the transactions. Any funds collected were delivered to and secured at the PRCSD Administrative Office at the end of the 8:30 p.m. shift each night. However, as previously noted in this report, a Safe Log was not kept by the Administrative Office.

#### Petty Cash - Youth Opportunity Center

*The Youth Opportunity Center provides activities and training to at-risk youth through Project BRIDGE. Petty cash is used at the Center to provide food, clothing and training, etc. to young individuals who cannot afford it. On June 16, 2011, Internal Audit performed an audit of the petty cash fund at the Youth Opportunity Center. We met with the Program Coordinator to go over the Center's process for petty cash. We were informed the Youth Opportunity Center received its petty cash fund of \$200 in February 2011. Prior to that, the Youth Opportunity Center used cash advances for purchases associated with Project BRIDGE.*

Petty cash is locked in a safe, and the Program Coordinator and two individuals, (Recreation Supervisor and Recreation Superintendent) know the combination. The Program Coordinator and the three (3) Outreach Workers are the only individuals that handle petty cash. The Program Coordinator is the custodian and provides cash to the Outreach Workers and is responsible for the various petty cash reports and reconciliations. Under certain circumstances, the Program Coordinator will also purchase items using petty cash.

We observed the Program Coordinator reconcile the petty cash, noting receipts totaling \$186.63 and cash of \$20.75; for a total of \$207.12 (an overage of \$7.12). The Youth Opportunity staff did not know the reason for the overage. Internal Audit also observed that several of the receipts were for purchases made prior to February 2011. We were informed that in those instances, the Youth Opportunity staff used their own money for purchases and were reimbursed through petty cash, once it became available. The reconciliation performed on June 16<sup>th</sup> with Internal Audit was the first performed since petty cash was issued in February 2011.

*Petty Cash Reconciliation and Receipt for Expenditure forms are used to document the amount of cash advanced to an individual, the amount returned and a place to attach receipts. Per our review these forms did not contain the signatures of the individuals advanced the petty cash for purchases, and rarely included the signature of the Program Coordinator.*

Internal Audit noted Youth Opportunity staff did not appear to have an adequate knowledge of the petty cash reconciliation and/or reimbursement process stated in the *Citywide Administrative Policy # 07.005.00, Petty Cash Purchases Policy and Procedures*.

### Cash Advances – Orange Terrace

On July 6, 2011 Internal Audit performed a cash review of the Orange Terrace Community Center. According to cash advance documentation provided by the Finance Division of the City Manager's Office, the Orange Terrace Community Center was given a \$30 cash advance on June 24, 2011. The \$30 cash advance at Orange Terrace is for "pay and play" basketball. We noted cash advance is used as operating cash. According to the Assistant Recreation Coordinator, Internal Audit noted the cash advance must be returned every 30 days to the Treasury and a new cash advance must be taken out. Since the cash advance was not due until July 23, 2011, we could not test this control.

According to the Assistant Recreation Coordinator, all payments are receipted though RecWare. Every evening at 8 p.m., staff runs a close out report in RecWare and reconciles the receipts, checks, and credit card transactions, with any "pay and play" cash receipts. The deposit created by staff is returned to the safe and picked up each morning by PRCSA Admin staff. Upon completion of the receipt, the cash advance/operating cash fund should be \$30.

Internal Audit noted the deposits picked up are tracked via a *Safe Log*. Internal Audit reviewed the cash log, noting every time someone accesses the safe, the *Safe Log* is filled out, including the creation and pick-up of deposits. The process witnessed by Internal Audit was consistent with the policies and procedures set forth in the *PRCSA Cash Handling Policies and Procedures* and the *Citywide Cash Handling and Receipt Policy*.

The cash is kept in a safe for safekeeping and only the Recreation Coordinator and two (2) Assistant Recreation Coordinators have access to the safe. Internal Audit requested the Assistant Recreation Coordinator perform a cash count. There was \$31 in the cash box (bank bag), a \$1 overage. According to staff at the Community Center a \$1 bill was found on the ground, and was placed in the safe until someone claims the dollar.

The other item in the safe was a \$500 check for a facility rental (farmers market). Upon inspection of the check, Internal Audit noted the check was not endorsed with a City of Riverside stamp as required in the *Citywide Cash Handling and Receipt Policy # 06.007.00, Cash Receipts and Records*:

"An endorsement stamp, or its mechanical equivalent, identifying the individual receiving the payments (Community Center/Department) shall be provided each cashier. Immediately upon processing, checks shall be officially endorsed for deposit."

### **SUMMARY**

This review of cash/cash equivalent handling for PRCSA marks the fifth review of cash and cash equivalent handling for the department since 2005. During our first three (3) reviews (AU05-05, AF07-01, and AU08-01), we noted findings related to lack of and/or outdated policies and procedures and inefficient/inadequate controls over receipting and cash handling.

Based on our current review of cash handling, we noted PRCSA staff has created various internal policies and procedures over cash handling. However, many of these policies and procedures take various shapes and formats, do not have evidence of management approval, and are not incorporated into a comprehensive departmental policies and procedures manual. Throughout this review, we have also identified portions of the PRCSA policies and procedures contradict the *Citywide Administrative Manual # 06.007.00 – Cash Handling and Receipt Manual*.

We found that a lack of centralized, management adopted, policies and procedures have led to additional training needed by staff on cash handling, lack of consistent enforcement of departmental cash safeguarding procedures, and untimely deposits.

At the direction of the Finance Division, PRCSA is using cash advances instead of petty cash/operating cash for certain Community Center activities. The purpose of a cash advance is to provide an employee funds for a trip or specific project so they do not have to spend their own money; not to be used by a department as an operating fund. The use of cash advances as operating funds is improper, confuses employees and is inefficient. To ensure consistency in accounting practice, a single petty cash fund, administered by PRCSA Administration, should be established.

Throughout the course of this review we also identified other areas of concern relating to the development of certain activity fees. Specifically, we found proper documentation does not exist for activity fees charged for day camps and processing fees charged for facility rentals. Further, we found discrepancies between fees advertised and fees charged for pedal boats.

Of significant concern noted during this review, was the methodology behind the depositing and use of activity fee revenue. According to PRCSD staff, activity fees are additional fees charged to patrons for specific classes (e.g. day camp \$30/session plus \$8 activity fee). The activity fees are to be used to offset the costs of the programs associated with them (e.g. buses for day camps). However, based on our testing, we found these fees collected are not being used to offset the cost of certain activities, but rather another activity altogether (the Project BRIDGE, Digital Inclusion Training Program). PRCSD is using the revolving (liability) account like a separate bank account, to deposit and spend funds that are not tracked in the annual budget's expenditures and revenues, providing the opportunity to circumvent the authority to increase expenditures without going to the City Council for approval. This practice violates *Generally Accepted Accounting Principles* (GAAP) and *Generally Accepted Governmental Accounting Principles* (GAGAS).

Effective internal controls are essential to achieving the proper conduct of government business with full accountability for the resources made available. We believe the recommendations accompanying our findings will improve overall internal control deficiencies.

Internal Audit acknowledges that PRCSD, like most departments, have experienced key personnel reductions over the past few years due to budget constraints. The lack of a Deputy Director, historically responsible for the day to day administrative functions of PRCSD, may have contributed to a number of oversights and internal control weaknesses reported in this review.

We would like to thank the PRCSD employees for their help and insight during this audit. During the busiest time of their year, they responded to Internal Audit's requests in a timely fashion.

Internal Audit will plan to follow-up on implementation of recommendations within 12-18 months.

Respectfully,

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**Finding #1: Lack of management approved, comprehensive, policies and procedures manual.**

PRCSD staff has created numerous internal policies and procedures over cash handling. However, we noted many of these policies and procedures take various shapes and formats, do not have evidence of written management approval (e.g. name/position & signature), and are not incorporated into a comprehensive departmental policies and procedures manual.

Throughout this review, we have also identified portions of the policies and procedures contradict the *Citywide Administrative Manual # 06.007.00 – Cash Handling and Receipt Manual*.

Well written policies and procedures allow employees to understand their roles and responsibilities within predefined limits, and allow management to guide operations without constant management intervention. Policies identify the key activities and provide a general strategy to decision-makers on how to handle issues as they arise. A well written procedure will help eliminate common misunderstandings by identifying job responsibilities. Good procedures actually allow managers to control events in advance and prevent the organization (and employees) from making costly mistakes. Policies/procedures are required when there is a need for consistency in day-to-day operational activities. Policies and procedures also provide clarity when dealing with accountability issues or activities that are of importance to the organization, such as legal liabilities, regulatory requirements, etc.

**Recommendation**

**Internal Audit recommends PRCSD develop a comprehensive, management approved, policy and procedure document. With the decline in staff, management should revise policies and procedures to ensure they can be followed and still provide internal controls over the accuracy and completeness of information. In addition, management should identify areas that lack, but need, formal policies and procedures. Finally, we encourage PRCSD to review the Citywide Administrative Manual to determine which sections of existing PRCSD policies and procedures need to be modified to ensure compliance.**

**Assistance with writing policies and procedures can be located on the City’s external website, under the City Manager’s Office – Internal Audit webpage.**

**Management’s Response**

The Department concurs with this finding and recommendations. Over the course of the next 12 months, the PRCSD will work toward establishing an overall operations manual with annexes for each operation in coordination with departmental staff and Finance.

Each Superintendent will review and update policies and procedure pertaining to their respective areas of operations and submit to the Deputy Director for review and inclusion in the overall operations manual. The standardized format available on the Intranet will be used so that each established policy and procedure will bear a review date with signature block for Director’s approval.

The following policies which were either reviewed or noted in audit (AU12 -1, AU12-2, and AU12-3) will be given priority:

- 1) Access to RecWare (how access is granted; how/when access is terminated; levels of access granted)
- 2) Updating information in RecWare (such as fees – who has access to update info, what documentation is needed)
- 3) Fees and Charges creation, review, and documentation process
- 4) Cash Handling

- 5) Contracting process for Instructors/Contractors that provide classes/activities
- 6) Class instructor payment processing
- 7) Refund Policy
- 8) Pool Cash Handling

Staff in the Administration division will be responsible for maintaining policies and procedures and coordinating with other departmental staff to review and update all internal policies and procedures on an on-going basis. An electronic copy of the Department's overall policies and procedures will be maintained on the common drive and a hard copy binder will be maintained in the Administrative Office.

**Finding #2: Certain cash and cash equivalents safeguarding controls in place throughout PRCSO are not followed by the Administrative Office.**

Consistent use/enforcement of departmental safeguarding controls over cash handling mitigates the chance of fraud and abuse of funds. In addition, consistent enforcement of departmental controls helps eliminate the perception that management is not being held to the same standards as everyone else in the department.

During our review of controls over the safeguarding of cash and cash equivalents, we noted use of a *Safe Log* is not a practice employed by the PRCSO Administrative Office. *Safe Logs* are used to document anytime cash or cash equivalents are placed into or removed from the safe. Each occurrence is documented with a name, signature, date and time. According to management, only two (2) individuals have access to the safe, and the contents in the safe are consistently monitored and safeguarded. Internal Audit noted that Community Centers have two (2) to four (4) individuals with safe access at each location.

**Recommendation**

**Internal Audit recommends the use of a *Safe Log* sheet at the Administrative Office. In addition, we recommend a review of the current cash and cash equivalents safeguarding controls to ensure consistent enforcement throughout the department.**

**Management's Response**

The Department concurs with this finding and has already implemented use of a *Safe Log* sheet at the Administrative Office. As part of comprehensive review and update of Department Policies and Procedures a review of current cash and cash equivalents safeguarding controls to ensure consistent enforcement throughout the department will be conducted.

**Finding #3: Deposits are not made on a timely basis. Conflicting provisions in the timing and nature of deposits between citywide and departmental policies and procedures may cause confusion for employees.**

Based on PRCSD departmental policies and procedures, we noted four (4) deposits were not made timely. Under the Citywide administrative policy for cash handling, all 15 deposits tested were considered untimely deposits.

The timeliness of deposits can be attributed to conflicting provision within the *PRCSD Cash Handling Policy* and *Citywide Policies and Procedures Administrative Manual #06.007.00, Cash Handling and Receipt Manual*. The timelines in the departmental policies and procedures appears to be somewhat flexible. Although it is not explicitly stated, based on the language and steps in the departmental policies, it appears deposits may take up to four (4) days from the receipt of funds by a PRCSD location until they are received by the Treasury. Based on our review of the Citywide policies and procedures, funds shall be deposited with the Treasury within 24 hours of processing the payment. Furthermore, the policy indicates individual checks in excess of \$10,000 be deposited with Treasury the same business day.

**Recommendation**

**Internal Audit recommends PRCSD revise their process for deposits currently in use to meet the requirements of the Citywide policies and procedures. We recommend this process be completed with the review of policies and procedures, as recommended in Finding #1.**

**Management's Response**

The Department concurs with this finding and recommendations. However, daily deposits must be reconciled with bank confirmation for credit card payments. Staff will meet with Finance to review this process and see if it can be streamlined, somehow. Also, a review of PRCSD Cash Handling procedure will be conducted as part of comprehensive review of Department Policies and Procedures.

**Finding #4: A \$10 processing fee for processing of rental facilities does not have supporting documentation.**

Fees for rental of a facility require a \$10 processing fee. According to PRCSD, this fee is charged under the authority of the *Master Fees and Charges Schedule*. Upon our request, a time study, using PRCSD fully burdened rates established in the *Fees and Charges Study* plus additional costs, could not be provided. This fee cannot be wrapped into the facility rental based on the market approach. It is a fee being charges for a service provided by PRCSD staff. Fees for services provided must be documented and in most cases approved by the City Council.

**Recommendation**

**Internal Audit recommends PRCSD properly establish/develop a processing fee.**

**Management's Response**

The Department concurs with this finding. However, the \$10 processing fee was approved by City Council as part of the citywide Fees & Charges update with Finance Department acting as lead. The facility rental application processing fee was recently updated to \$25 and was approved by City Council on June 21, 2011 as part of the fee detail under service no. 5220. Documentation will be developed using fully burdened rates for FY 11/12 to support this fee.

**Finding #5: Use of funds for activity fees charged in conjunction with classes/activities is not consistent with Generally Accepted Governmental Accounting Standards (GAGAS).**

While testing cash receipts we noted activity fees in the amount of \$8 were recorded to revolving account #0000720-225071. These activity fees are associated with \$30 Mini Day Camp Bryant - Session 2 classes. PRCSD staff indicated the day camp activity fees are recorded to the revolving account because they are used to subsidize the cost of the weekly excursions included in the Day and Mini Camps and are not included as part of the revenue projections for the Community Services Division. Admission (tickets) and transportation costs (busses) purchased from those revolving account funds.

Revolving accounts are characterized as liability accounts. These accounts should be used to track amounts that are payable to other people for a specific item/category (e.g. senior trip payments/deposits). PRCSD is using the account like a separate bank account to deposit and spend funds that are not necessarily tracked in the annual budget's expenditures and revenues.

Based on our review of various deposits, it appears all or the majority of activity fees associated with numerous classes is placed into a revolving account. It appears these amounts are not considered revenue, nor are the funds considered expenses when used. This practice allows PRCSD to circumvent the authority to increase expenditures without going to the City Council for approval. This practice is not compliant with Generally Accepted Accounting Principles (GAAP) and Generally Accepted Governmental Accounting Standards (GAGAS).

As required in the Riverside Municipal Code, annually, the City Council adopts (or reviews) fees. With every adopted fee category is a cost recovery percentage. From the documentation provided, the activity fees are not considered in the factoring of the class/event fee; they are additional amounts charged above and beyond the cost recovery limit. Furthermore, documentation for the creation of the fee has not been provided to Internal Audit. The City's Municipal Code requires certain fees for services be properly documented.

During FY 2010-11 approximately \$23,000 was recorded in a revolving account; and approximately \$22,500 was paid out of the account. Based on GL detail from IFAS, the majority of the payments (\$21,183) were made to Michael Camou (\$8,054), Tom Dominguez (\$8,816), Travel Time Tours (\$4,313) Based on supporting documentation, payments to Michael Camou and to Tom Dominguez are for Project BRIDGE, which has no relationship to activity fees.

A payment to Michael Camou for \$576 for work done from May 13 to May 26, 2011 was documented as an expense related to the Digital Inclusion Training Program. Digital Inclusion staff is comprised of full-time information technology professionals and part time employees provided through the Riverside Project BRIDGE program.

**Recommendation**

**Internal Audit recommends the balance of non-appropriated funds in revolving account #0000720-2225071 be permanently transferred to the General Fund and recorded as a revenue source that best fits the nature of the funds. (Note: the account balance was cleared to a miscellaneous receipts account – 101-374200, at fiscal year-end, June 30<sup>th</sup> by Finance; \$24,909.95 was transferred back to the revolving account July 1, 2011). Future budgets should be revised to account for these funds as expenditures and revenues. Also, as stated in Finding #5 of AU12-01, in conjunction with the advice from the City Attorney's Office, Internal Audit recommends PRCSD establish a separate activity fee category. This will not only allow the department more flexibility, but may allow a greater recovery of costs if approved by the City Council.**

**Management's Response**

The use of activity fee was established partly in response to budget cuts that eliminated funding for programs offered by the PRCSD. As is, the fees approved by City Council only partially recover costs incurred by the Department. With budget cuts, implementation of this activity fee was necessary to avoid reduction in service levels. Activity fees are generally collected from participants and then used to pay third party vendors via a revolving account such as for trips/excursions and entrance fees to theme parks.

Changing the way this is handled by including this as a separate fee that is recovered at 100% rate and

recording this as program revenue will require adjustments to the Department's operating budget. While this may be appropriate, it requires City Manager's and City Council approval. If this fee is not approved by City Council and is not included in the budget, the level of programs offered by the PRCSD will be affected.

After a comprehensive review has been conducted within the next 12 months, PRCSD will request update to the Master Fees and Charges schedule to revise it to allow for a separate activity fee category to be included in the Master Fees and Charges Schedule for the PRCSD.

**Finding #6: Pedal boat fees are incorrectly posted in the *Summer 2011 Activity Guide* and charged on a 15 minute basis, as opposed to the per hour rates stated in the *Master Fees and Charges Schedule*.**

Internal Audit randomly selected a deposit in the amount of \$1,998.50 for testing. Upon review of the documentation, it appeared the deposit was for pedal boat rentals and was comprised entirely of cash. However, we noted the deposit was made to Treasury by the PRCSD Administrative Office. In addition, we noted totals did not appear to be consistent with the pricing structure in the *Summer 2011 Recreation Guide* of \$10/hour for residents and \$15/hour for non-residents.

Pedal boats are individually tracked. A patron fills out the waiver (which includes their name, number, address, ID #, DOB, and boat #), receives a ticket with a tracking number; the cashier keeps the duplicate ticket along with the customers ID. The cashier logs each customer and boat on the *Fairmount Park Pedal Boats Log Sheet*. Upon completion of the rental, the patron returns the ticket to the cashier and the ID is returned. At this time, the customer pays for the rental, which is based on the number of minutes rented.

Based on our review of the *Master Fees and Charges Schedule*, we noted fees for pedal boats are listed at \$14 for residents and \$21 for non-residents. According to PRCSD, the fees were misprinted in the Activity Guide and staff has signs posted at the Boathouse that have the accurate fees. . In addition PRCSD indicated that due to the demand from the public for the use of the pedal boats, the fees for renting the pedal boats are broken down by 15 minute increments, instead of hour long rentals. For residents, a 15 minute rental is \$3.50, a thirty (30) minute rental is \$7.00, and 60 minute rentals are \$14.00. For non-residents, the fees are: 15 minutes for \$5.25, 30 minutes for \$10.50, and 60 minutes for \$21.

Based on information provided to Internal Audit by PRCSD, the Lakeside Room Deposit Log does not show an entry for \$1,998.50 or the 10 days from the month of June. PRCSD noted they were notified at the 11th hour that the existing vendor would no longer operate the Boathouse/pedal boats. The boathouse/pedal boats were scheduled to re-open for business Memorial Day weekend (Saturday, Sunday and Monday). Due to time constraints of the locksmith (change safe combo), the first weekend PRCSD was open, staff did not have access to the safe in the Lakeside Room and did not have a log to document the transaction. The money was transported to and secured at the Park and Recreation Administrative Office at the end of the 8:30 p.m. shift each night. However, as previously noted in this report, a safe log is not kept for the Administrative Office.

**Recommendation**

**Internal Audit recommends that pedal boat fees be set at market rate based on 15 minute intervals. Furthermore, we recommend the *Boathouse Boat Rentals (5235)* fee category of the *Fees and Charges Study* and *Master Fees and Charges Schedule* be amended to indicate the change in pricing from fee based to market rate.**

**Management's Response**

Authority to charge the Pedal Boat fees based on market rates on an incremental basis down to 15 minutes will be requested either in the next Fees and Charges Study update.

**Finding #7: Deficiencies exist over the cash handing at the Youth Opportunity Center.**

Based on our review of the \$200 petty cash fund at the Youth Opportunity Center, we noted the following:

- Petty cash had an overage of \$7.12;
- *Petty Cash Reconciliation* and *Receipt for Expenditure* forms did not contain the proper signatures;
- Youth Opportunity staff used personal funds when no petty cash was available. If no cash was available staff should have filled out a *Petty Cash Advance Request*;
- Youth Opportunity staff did not know how to fill out the *Petty Cash Reconciliation*, *Receipt for Expenditure*, and *Request for Petty Cash* forms; and
- Youth Opportunity staff needs guidance to ensure reimbursement of petty cash will occur before staff runs out of existing funds.

**Recommendation**

**Internal Audit recommends that PRCSD Administration provide training for staff at the Youth Opportunity Center that covers the information contained in the *Citywide Administrative Manual # 07.005.00, Petty Cash Purchases Policy and Procedures.***

**Management's Response**

The Department concurs with this finding. Additional training will be provided once a review and update of the Cash Handling policy has been completed.

## MANAGEMENT LETTER COMMENTS & RECOMMENDATIONS

During the course of the audit, we observed the following that do not require a response by the PRCSD, but are important to our overall review of PRCSD cash/cash equivalent handling.

### **Management Comment # 1: Improvements needed for PRCSD self- audit documentation and follow-up of findings/recommendations.**

We obtained the following documents relating to cash handling from PRCSD:

- *Audit – After School Program*
- *Audit – Community Center*
- *Cash Daily Log – Pool*
- *Safe Log*
- *Petty Cash Reconciliation*

PRCSD has created forms to “self-audit” cash handling and other recreation related activity at various departmental locations. In reviewing documentation, we noted inconsistencies to the depth and consistency of information for each audit. We also noted that findings and recommendations were usually informally discussed via email.

#### **Recommendation**

**We applaud PRCSD for implementing these “self-audits”. To ensure completeness, we recommend documentation of each audit to be expanded to include a brief introduction, the purpose and scope of each audit. Documentation for each audit/review should also be finalized in an electronic format after notes are taken during fieldwork. We encourage PRCSD to develop and use a template for findings and follow-up that can also be finalized/retained in an electronic format. Having self-audits in an electronic format, in a centralized location, will allow current employees and the next succession of management at PRCSD to easily review past performance and monitor improvements in an efficient and effective manner.**

**Management Comment # 2: PRCSD Management should provide departmental wide cash handling training.**

During our review/testing of the Orange Terrace Community Center's \$30 cash advance, we noted a \$500 check was not endorsed in accordance with citywide *Cash Handling and Receipt Policy # 06.007.00, Cash Receipts and Records*:

“An endorsement stamp, or its mechanical equivalent, identifying the individual receiving the payments (Community Center/Department) shall be provided each cashier. Immediately upon processing, checks shall be officially endorsed for deposit.”

**Recommendation**

**As we noted in Finding #1, the department needs to update its policies and procedures, to ensure compliance with Citywide policies and progress. In Finding #8, we addressed the needed for cash handling training at the Youth Opportunity Center. Internal Audit recommends PRCSD Management provide departmental cash handling training for the entire department once the policies and procedures have been updated.**

**Management Comment # 3: Cash advances are being used as petty cash/ operating funds.**

Note: This Management Letter Comment pertains to the Finance Division of the City Manager's Office.

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The purpose of a cash advance is to provide funds to an employee for trip or specific project expenditures so they do not spend their own money. The funds spent from the advance should be recorded on an expense report with applicable receipts; submitted to the Finance Division for processing and recording the expenditure(s). Currently, PRCSD is using various cash advances as operating funds as directed by the Finance Division.

**Recommendation**

**Internal Audit recommends that cash advances be turned into the Finance Division and a single petty cash/operating fund, administered by PRCSD Administration, be established. This will be more efficient by eliminating the need of turning in the cash advances and associated paperwork every month to Finance. PRCSD Administration should ensure the cash is safeguarded appropriately and distributed as needed to the appropriate Community Centers.**