

OFFICE OF THE CITY CONTROLLER



**HOUSTON PARKS AND RECREATION DEPARTMENT
CASH HANDLING PROCESSES
PERFORMANCE AUDIT**

Chris B. Brown, City Controller

Courtney E. Smith, City Auditor



**OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS**

CHRIS B. BROWN

June 6, 2017

The Honorable Sylvester Turner, Mayor
City of Houston, Texas

**SUBJECT: 2017-09 Parks and Recreation Department (PAR)
Cash Handling Processes Performance Audit**

Mayor Turner:

The Office of the City Controller's Audit Division has completed a performance audit of PAR's cash handling processes and internal controls over inventory at City of Houston (City) operated golf courses to ensure City assets are safeguarded and managed appropriately. PAR provides seven challenging 18-hole golf courses for public enjoyment, to include courses at Memorial, Hermann, Gus Wortham, Brock, Glenbrook, Sharpstown, and Melrose Parks. PAR management and staff pride themselves on providing well-maintained and lower-priced courses to ensure a place for every golfer to play.

In FY 2016, golf course revenue accounted for 72% (\$5.6 million) of PAR's \$7.9 million in total revenue. More than 56% of total golf revenue was attributed to golf fees.

Our primary audit objectives were the consideration of processes and internal controls related to:

1. Cash Handling;
2. Revenue Recognition; and
3. Inventory Control and Recording.

Our engagement scope included operations and transactions occurring during Fiscal Year 2016.

Based on the procedures performed during the audit, we noted that management records revenues in a controlled and expedient manner.

We also noted several opportunities to enhance internal controls including the following:

- Timeliness of bank deposits and review of deposit logs;
- Finalizing the enhancement of departmental policies and procedures;
- Management of voided and cancelled transactions,
- Recognition of golf ball machine revenue; and
- Management of inventory re-order points.



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We would like to express our appreciation to the management and staff of PARD for their time and effort, responsiveness, and cooperation during the course of the audit.

Respectfully submitted,

Chris B. Brown
City Controller

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City Council Members
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EXECUTIVE SUMMARY

INTRODUCTION

The Audit Division of the City Controller’s Office has completed a Performance Audit of the Houston Parks and Recreation Department’s (PARD) cash handling process and internal controls over inventory at City of Houston (City) operated golf courses to ensure City assets are safeguarded and managed appropriately.

The audit considered compliance with City policies and ordinances, and PARD internal policies and procedures. The audit was included in the Fiscal Year (FY) 2017 Audit Plan and was a direct result of our Enterprise Risk Assessment process.

BACKGROUND

PARD provides seven challenging 18-hole golf courses for the public’s enjoyment, to include Memorial, Hermann, Gus Wortham, Brock, Glenbrook, Sharpstown and Melrose Parks. Three of these golf courses (Hermann, Gus Wortham and Melrose) are managed by private companies for the City. Our audit focused on golf courses the City operates; Memorial, Brock, Glenbrook, and Sharpstown. Limited testing was conducted for the Brock Golf Course, which was closed for repairs during FY 2016 because of storm damage. Memorial Golf Course is considered one of the top ten public golf courses in the Houston area. PARD’s management and staff pride themselves on providing well-maintained and lower-priced courses to ensure a place for every golfer to play.

PARD’s FY 2016 Revenue from all activities totaled \$7,908,813. PARD’s FY2016 revenue from all golf courses totaled \$5,656,180, or 72% of total FY2016 revenue. More than 56% of total FY 2016 golf revenue is attributed to golf fees (see Table 1 below).

TABLE 1

| GOLF COURSE REVENUE | |
|----------------------------|--------------------|
| REVENUE CATEGORY | FY 2016 |
| Golf Fees | \$3,149,113 |
| Other Rental Fees | 880,427 |
| Recreational | 929,195 |
| Other | 697,445 |
| TOTAL REVENUE | \$5,656,180 |

We observed that each golf course’s pro shop is stocked with golf equipment, supplies, apparel, and footwear. Special order and custom items are also available through the pro shops. All golf courses except Glenbrook have driving ranges. The Memorial Golf Course has an electronic

machine (E Range machine) that dispenses golf balls for use at the driving range. It is the only City operated golf course with this capability. Additionally, all courses have practice putting and chipping greens, a Pro Shop, dining facilities, and lessons available from qualified instructors. The golf courses are located conveniently, in southwest, north, and northeast Houston as well as inside the loop. Online reservations are available for all City operated golf courses.

AUDIT SCOPE AND OBJECTIVES

Our original objectives were broadly defined to encompass the review of cash handling processes and internal controls over inventory at City operated golf courses to ensure City assets are safeguarded and managed appropriately. After conducting our initial research on ordinances, policies, operating procedures, and interviews with key personnel to gain an understanding of the functions performed by PARD cashiers and other personnel who handle cash, we refined the audit objectives to consider the processes and internal controls related to:

- Cash Handling;
- Revenue Recognition; and
- Inventory Control and Recording.

The engagement scope included operations and transactions occurring during Fiscal Year 2016.

PROCEDURES PERFORMED

In order to obtain sufficient evidence to achieve engagement objectives and support our conclusions, we performed the following steps for a sample of transactions generated at City operated PARD Golf Courses:

- Reviewed applicable City Administrative Procedures (AP) for cash handling and petty cash;
 - Reviewed PARD's departmental Cash Operating Policies and Procedures;
 - Interviewed PARD personnel involved in cash handling activities to document their processes and controls;
 - Selected sample transactions of City operated Golf Courses (designated as major collection points) for testing cash received, inventory management and revenue recorded;
 - Verified cash by performing surprise cash counts and reconciling three change funds in the sample collection points for a total of \$5,000;
 - Obtained and examined the daily and monthly system generated documentation for the sample collection points;
 - Traced a sample of daily and monthly cash receipts and revenues to the journal entries used to record them in SAP; and
 - Verified the cash receipts and revenues were properly recorded in the general ledger (SAP).
-

AUDIT METHODOLOGY

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS “Yellow Book”) and in conformance with the International Standards for the Professional Practice of Internal Auditing (IIA “Red Book”). Those standards require that we plan and perform the audit to obtain sufficient and 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.

The scope of our work did not constitute an evaluation of the overall internal control structure of PARD. Management is responsible for establishing and maintaining a system of internal controls to ensure that City assets are safeguarded; financial activity is accurately reported and reliable; and management and employees are in compliance with laws, regulations, policies, and procedures. The objectives are to provide management with reasonable, but not absolute assurance that the controls are in place and effective.

CONCLUSIONS AND SIGNIFICANT ISSUES

We believe that we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below as required by professional auditing standards. Each conclusion is aligned with the related audit objective for consistency and reference. For detailed findings, recommendations, management responses, comments and assessment of responses, see the “Detailed Findings, Recommendations, Management Responses, and Assessment of Responses” section of this report.

The Audit Division recognizes that PARD’s management has already corrected and/or implemented controls that address some of the audit findings, as noted in their Management Responses.

CONCLUSION 1 – (AUDIT OBJECTIVE #1)

Consider the processes and internal controls related to handling cash.

- Based on the results of the procedures performed, we noted several opportunities to enhance internal controls over handling, depositing and recording cash receipts. PARD’s internal controls can be improved by ensuring cash receipts are deposited timely, enhancing and finalizing departmental policies and procedures and standard operating procedures. ***(See Findings #1, #2, #3, and #5)***

CONCLUSION 2 – (AUDIT OBJECTIVE #2)

Consider the processes and internal controls related to recognizing and recording revenues.

- Based on the results of the procedures performed, PARD records revenues in a controlled and expedient manner. However internal controls can be improved on the review and accuracy of deposit logs, the management of voided and cancelled transactions, internal controls over golf ball revenue recognition and the enhancement and finalizing of departmental policies and procedures to facilitate accurate and complete recognition of revenue. **(See Findings #1, #2, #3, #4, and #5)**

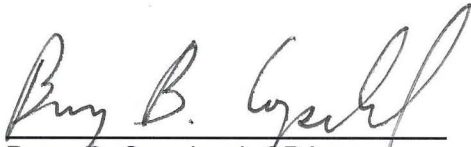
CONCLUSION 3 – (AUDIT OBJECTIVE #3)

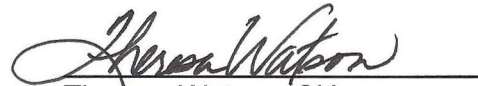
Consider the processes and internal controls related to Inventory Control and Recording.


- Based on the results of the procedures performed, PARD's internal controls can be improved on the management of inventory re-order points and documented reviews of the inventory with enhanced and finalized departmental policies and procedures to facilitate accurate and complete inventory management. **(See Finding #2 and #4)**

ACKNOWLEDGEMENT AND SIGNATURES

The Audit Team would like to thank the management and staff of PARD for their responsiveness, cooperation, time and efforts throughout the course of the engagement. We would also like to thank PARD Management for their proactive approach to risk management, and timely remediation of audit findings by correcting issues once identified.


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City Auditor

DETAILED FINDINGS, RECOMMENDATIONS, MANAGEMENT RESPONSES, AND ASSESSMENT OF RESPONSES

**FINDING #1 – CASH RECEIPTS ARE NOT DEPOSITED TIMELY
(RISK RATING = HIGH)**

BACKGROUND:

Administrative Procedure (AP) 4-8, Cash Handling (dated November 10, 2014) prescribes the responsibilities for those City employees entrusted with the receipt, deposit, reconciliation and recording of cash for City related activities. Section 7.5.4 of AP 4-8 further states, “All funds collected must be balanced ..., and deposited within three business days of completed reconciliation unless the point of collection is classified as a minor collection point.” A minor collection point is one where the cash volume does not exceed \$500.00 per month averaged over the course of a fiscal year. Cash is defined as “All mediums accepted by the City used to transfer legal tender, i.e., coin, currency, checks, money orders, debit card and credit card transactions.” It was noted that none of the Golf Course cash collection points are considered as minor collection points.

AP 4-8, section 7.5.5.4 requires that “deposits are made daily or as soon as practical, at a minimum, three times per week.” It was noted that PARD’s Cash Handling policy, only requires that cash receipts are picked-up for deposit twice a week. Although this is contrary to the requirements of AP 4-8, PARD’s management noted this variance from City policy was due to budgetary constraints.

In order to determine compliance with AP 4-8 regarding timely depositing of daily cash receipts by PARD, we calculated the number of days between the cash collection (receipt) date and the actual bank deposit date for a judgmental sample of deposits occurring in FY2016 at three City operated Golf Courses (Memorial, Sharpstown and Glenbrook).

Our sample selection included thirty (30) cash deposits totaling \$219,456. Using the Cash Receipts documentation (CR), Garda (i.e., armored service) logs, and the monthly bank statements, we determined the actual number of business days net of the armored car transit day that passed between the date of cash receipts (i.e., date money was collected from golf course customers) and the date the bank posted the deposit to the City’s bank account.

FINDING:

As a result of substantive testing and review of cash receipts totaling \$219,456, we determined that cash deposits exceeded the deposit requirement of three days as required by AP 4-8 for approximately 41 percent of the deposits reviewed at Memorial, 17 percent at Sharpstown, and 70 percent at Glenbrook Golf Courses for the period reviewed. It was noted that Glenbrook was operated by the City for only 4 of the 12 months of FY 2016.

TABLE 2

| PERCENTAGE OF CASH RECEIPTS NOT DEPOSITED WITHIN 3 DAYS | |
|--|----------------|
| GOLF COURSE LOCATIONS | PERCENTAGE (%) |
| Memorial | 41% |
| Sharpstown | 17% |
| Glenbrook | 70% |

* (This represents the percentage of the \$219,456 selected for review not the total amount collected for the Fiscal Year)

RECOMMENDATION:

PARD management should ensure that bank deposits are made in accordance to the requirements of AP 4-8, which requires that funds collected are deposited within three business days of completed reconciliation. Additionally, we recommend that PARD perform a review to determine if the twice a week deposits are sufficient to adequately safeguard the City's assets and facilitates timely recording of corresponding revenue. PARD management should review and revise their departmental policy to ensure that it is in compliance with AP 4-8 or obtain approval for the deviation. We also recommend that PARD provide re-training on AP 4-8 and the PARD Cash Operations Policy and Procedure to their staff, emphasizing the importance of timely bank deposits.

**PARD'S MANAGEMENT
RESPONSE:**

As noted, PARD's current contract requires for armored car transfer of cash receipts twice per week. The contract/schedule, absence of holiday service, and occasional courier "no show", contributes to the percentages noted above. After PARD Management review, we feel that the current contract/transfer schedule is most appropriate from an operational and budget perspective, and allows adequate safeguarding of assets. Memorial Park is closed on Tuesday's, and Sharpstown and

Glenbrook's volume does not justify addition to the current pickup schedule, which would increase the expense of courier service by 33%. Therefore, in accordance with AP 4-8 7.7.1, PARD Management will submit a request for an exception to AP 4-8 7.5.5.4, to ensure compliance with policy. As always, we will continue to refresh the employees on the policies on an as needed basis.

RESPONSIBLE PARTY: Kenneth Allen, Assistant Director of Recreation and Wellness

ESTIMATED DATE OF COMPLETION: Request will be submitted by 08/31/2017

ASSESSMENT OF RESPONSE:

Management response as presented, sufficiently address issues identified and corrective actions are appropriate.

**FINDING #2 – MANAGEMENT OF VOIDED AND CANCELLED TRANSACTIONS
(RISK RATING = HIGH)**

BACKGROUND:

The City's golf courses manage cash collections and sales transactions as part of its daily course of business operations. Sales transactions can result in refunds, voids and credits to original transactions. Administrative Procedure (AP) 4-8, Cash Handling (dated November 10, 2014), Section 7.4.2.5 requires that "Refunds shall be made through an appropriate approval process, and shall not be paid in currency." Additionally, AP 4-8, Section 7.4.2.7.3 requires that "Voided transactions are to be approved by an authorized supervisor."

In our Audit Report No. 2011-05 dated 6/15/2011, PARD stated that:

"Since these concerns were called to our attention we are now keeping all back documentation for all transactions which will be outlined in the revised policies and procedures. On-site management is now reviewing transaction reports and charges. Cashiers have been instructed to enter notes on transactions (such as credits, refunds, reversals, etc.); management will review transactions on a regular basis to ensure policies and procedures are being followed."

FINDING:

There are no consistent departmental policies, procedures or practices for the processing and management of refunds, voided, or cancelled transactions. For each PARD golf course, refund and void transactions are processed differently, although all are approved by the park golf course manager. Our testing showed that:

- There were no standard written procedures for processing voids and cancelled transactions;
- Monies for golf tournament prizes are treated as voids or credits to the original golf entry fee transaction;
- There were no consistent methods for the storage of voided transaction receipts;
- The Point Of Sale (POS) system does not identify voided or credit transactions to the original transaction;
- The reports provided from the POS system do not identify who is performing the transactions;
- Corrections are made to original POS entries by the entry clerk/cashier using undocumented and unapproved transactions to record the corrections; and

- In cases where transactions cannot be readily reconciled to the original transaction, a journal entry is used to perform the credit or refund transaction.

RECOMMENDATION:

We recommend:

1. PARD management should establish procedures to ensure the consistent management of voided, refund and credit transactions to facilitate compliance with AP 4-8, section 7.4.2.5 to include:
 - a. The use of the original transaction number on the credit or refund transaction receipt to readily identify these transactions, as well as maintaining this information in the POS system or in hardcopy;
 - b. The identification of the manager who approved the transaction, as well as the cashier making the credit transaction on the refund receipt, and maintaining this information in the POS system or in hardcopy; and
 - c. A viable system to maintain the hardcopy credit receipt transactions that are consistent for all City Golf Courses.

2. PARD should develop a process for creating golf tournament transactions including the appropriate creation of tournament prize monies that is separate from the practice of creating a refund, void or credit transaction.

PARAD'S MANAGEMENT

RESPONSE:

PARAD Management will enhance procedures related to the management of voids and corrections. Software enhancements now allow voids and credit transactions to be readily identified in the Point of Sale, and directly related to the original transaction. The cashier is identified on all transaction receipts, and concurrent with previous written policy, "Any void and/or correction to POS transactions, should be brought to a supervisor's attention immediately, and must be validated". To create consistency at all courses, the following detail will be added; *"In addition, any void and/or correction to POS transactions must be directly applied/identified toward the original transaction, and a hard copy kept on file at the respective facility"*.

Tournament entry fees received in the form of on-line payment are inclusive of course fees, and tournament prizes which are distributed in the form of gift cards creating additional revenues. The noted voids and credits are a result of tournament fees being redistributed to PARAD Revenue Chart of Accounts through the POS system. PARAD Management will ensure that the original transaction is noted on the separate

transaction for tournament prize gift cards, when re-distributing revenue into the appropriate revenue chart of accounts.

RESPONSIBLE PARTY: Kenneth Allen, Assistant Director of Recreation and Wellness

ESTIMATED DATE OF COMPLETION: 08/31/2017

ASSESSMENT OF RESPONSE:

Management response as presented, sufficiently address issues identified and corrective actions are appropriate.

**FINDING #3 – INADEQUATE INTERNAL CONTROLS OF GOLF BALL MACHINE CASH RECEIPTS
(RISK RATING = HIGH)**

BACKGROUND:

Administrative Procedure (AP) 4-8, Cash Handling (dated November 10, 2014) prescribes the responsibilities for City employees entrusted with the receipt, deposit, reconciliation and recording of cash for City related activities. AP 4-8 defines Internal Controls as:

“Process for ensuring achievement of the City’s objectives in operational effectiveness and efficiency, reliable financial reporting, compliance with laws, regulations and policies, and involves everything that controls risks to an organization.”

AP 4-8 defines Segregation of Duties as:

“A formal business practice that delineates the particular roles within a process and insulates those roles from each other by having them carried out by different people. For the purposes of this policy, these roles include collecting, depositing, reconciling and recording.”

PARD, as required by the AP, has developed departmental procedures related to internal controls and segregation of duties. The Memorial Park Golf Course is the only City of Houston golf course that maintains a machine that dispenses golf balls for the driving range. Fees are collected in the form of cash, credit cards or E-Button (which is a key chain device, the size of a quarter that is sold with a prepaid dollar amount used to get practice balls at the driving range machine and can be replenished with cash at the Pro Shop). The golf ball machine has two sides that collect payments for dispensing golf balls. In the PARD reporting system, the right side is called “Range – Right Machine” and the left side is called “Range – Erange Machine”.

As previously reported in our Audit Report No. 2011-05, dated June 15, 2011, the golf ball machine and the Point of Sale (POS) System still do not interface. The current process includes a member of PARD’s Management or staff (collector) collecting the cash from the locked golf ball machine, the collector prepares a “Driving Range Log Sheet” which summarizes sales, or cash collected from the machine for both sides. The cashier processes the cash collections manually in the POS as sales transactions for two sides of the machine. The sales receipts are attached to the Driving Range Log Sheet. However, there is no documentation from the ball machine

to verify the amount taken from it agrees to the transaction entered in the POS system

FINDING:

There are inadequate internal controls over cash collections from the golf ball machine resulting in inadequate segregation of duties over the collection, depositing, reconciling, and recording of cash collected from the machine. There is no documentation that defines who is authorized to collect the cash from the ball machine. Additionally, as we previously reported there is no POS interface between the driving range ball machine and the Prophet/ETS POS system. We noted that PARD had a system upgrade to the ball machine in December 2015 that will produce cash collections reports. However, PARD Management was unable to provide reports to document actual cash receipts from the Golf Ball machine prior to December 8, 2015, which included the period under review. We were informed that all historical data from the golf ball machine prior to December 5, 2015 was not available. Therefore, Audit was not able to verify that the values for revenue entered into the POS system for driving range ball sales were accurate and complete.

The following observations were also noted during the review of the golf ball machine and manual data entered in the POS system:

- There were 33% (36 of 108) of transactions in the POS system that occurred approximately one (1) hour or more after the range closed.
- Transactions were recorded the next business day after the transactions were initiated. This is in violation of the AP 4-8, section 7.4.2, which states that transactions shall be captured through manual or electronic means at the time of collection into a cash handling system.
- There were no assurances that City of Houston IT Staff reviewed and maintained a system of IT controls (Input, processing and output) for the systems prior to the changes being made. Records are required to be retained for these systems in accordance with AP 4-8, section 7.8.1 (All cash receipts and related documents must be maintained in accordance with record retention schedules: cash handling system reports, deposit slips, journal vouchers, credit card receipts, mail in check logs, etc.,. Current retention schedules can be obtained through the Administration & Regulatory Affairs Records Management Division).

RECOMMENDATIONS:

We recommend that PARD management:

1. Improve the internal controls over golf ball machine cash collections and ensure there is adequate segregation of duties over collecting, depositing, reconciling, and recording cash collections from the golf ball machine. PARD should document in its policies and procedures the titles of personnel authorized to collect/retrieve cash from the golf ball machine.
2. PARD should also generate, print, and retain reports from the ball machine each time cash is collected. Cash collections should be reconciled to the reports and any variances investigated. The reports from the golf ball machine should be retained in accordance with City record retention requirements.

**PARD's MANAGEMENT
RESPONSE:**

Due to identified risks, periodic E-Range electrical equipment failure due to exposure to the elements (humidity, sunlight, lightning, dust, and water), safety concerns for staff, and because technology still does not allow the E-Range to directly interface with the POS, PARD Management will no longer accept cash through the E-Range machine. All customers choosing to pay cash for range use will be directed to the pro shop, and those transactions processed through the POS system in the pro shop.

RESPONSIBLE PARTY: Kenneth Allen, Assistant Director of Recreation and Wellness

ESTIMATED DATE OF COMPLETION: 05/01/2017

ASSESSMENT OF RESPONSE:

Management response as presented, sufficiently address issues identified and corrective actions are appropriate.

FINDING #4 – MANAGEMENT OF INVENTORY RESULTS AND REVIEW OF OBSOLETE AND EXCESS ITEMS
(RISK RATING = MEDIUM)

BACKGROUND:

PARD Management has a responsibility to safeguard City-owned assets. The PARD departmental policies on Inventory Management requires that the *“General Manager will meet with Sales Reps, and determine the best product, quality, price point, and profit margin for the facility, based on season, customer data, and industry trends.”*

We obtained the documentation of the last physical inventory conducted at Glenbrook, Memorial, and Sharpstown golf courses. Complete physical inventories were conducted on July 27, 2016 at Sharpstown Golf Course, August 17, 2016 at Glenbrook Golf Course, and on August 18, 2016 at Memorial Golf Course.

FINDING:

PARD needs to enhance its procedures related to ordering of inventory, review, and identification of excess or obsolete items. Currently, there are no documented requirements for PARD Golf managers to review inventory sales records and data to determine which items generate the most profit for the City. There is no documentation of an annual assessment done on old items that do not move fast. Inventory selection and ordering is all done based on the Pro Shop Manager’s expertise. Audit recognizes that the expertise of the Pro Shop Manager is an essential control, however in order to maximize the inventory budget, the use of a reorder point methodology would allow PARD to readily determine the quantities of inventory needed and the amounts that are in excess to current requirements, based on data contained in historical and SAP accounting records.

The documentation shows that although the net result of the discrepancies of the physical inventory reported at all of the golf courses were minor, there were multiple variances noted at each of the three Pro Shops reviewed.

The reports were signed by the golf course funds custodians. However, there were no indications that these discrepancies were ever reported up to Senior PARD Management for review and approval. This review and approval is especially important for significant inventory variances to detect trends that are related to a possible breakdown of controls resulting in misappropriation of assets.

RECOMMENDATION:

PARD management should:

1. Develop enhanced policies and procedures related to the reporting of inventory discrepancies to PARD Management. These procedures should require that any inventory discrepancy over a certain dollar threshold on any line item be reviewed and approved by PARD management.
2. Develop enhanced policies and procedures related to the review and ordering of inventory items to identify items that are sold in quantities based on the POS data to include reorder point methodology. Additionally, PARD should periodically review POS data to identify and dispose of excess and/or obsolete inventory.

PARD'S MANAGEMENT

RESPONSE:

As recommended, PARD Management will enhance policies and procedures to require the signature validation of inventory reports/discrepancies by upper management, including a threshold to be approved by PARD Management. Enhanced software allows for the establishment of a reorder point methodology including the review/identification of profitability, and excess/obsolete inventory. Therefore, review of these reports will be validated by upper management, and added to policies and procedures, as well. PARD Management will continue to approve requisitions through the SAP approval process, reviewing each line item before approval, and ensuring fiscal responsibility of re-sale merchandise.

RESPONSIBLE PARTY: Kenneth Allen, Assistant Director of Recreation and Wellness

ESTIMATED DATE OF COMPLETION: 08/31/2017

ASSESSMENT OF RESPONSE:

Management response as presented, sufficiently address issues identified and corrective actions are appropriate.

**FINDING #5 – IMPROVEMENT NEEDED IN CONTROLS OVER CASH DEPOSITS
(RISK RATING = HIGH)**

BACKGROUND:

Administrative Procedure (AP) 4-8, Cash Handling (dated November 10, 2014) prescribes the responsibilities for those City’s employees entrusted with the receipt, deposit, reconciliation and recording of cash for City related activities. The policy requires PARD to develop procedures related to cash handling such as Armor Car Deposit security and log book accuracy, which PARD has developed. These policies require that PARD’s staff do not release deposits to GARDA, the contracted armored car staff if the armor car staff does not sign the log book or verify certain information before the deposit is released.

AP 4-8, Paragraph 7.5.5.1 also requires that “An itemized list (i.e., calculator tape, written log, etc.) of checks and currency should be included with each check bundle. The completed deposit should be bagged, sealed and turned in for securing until an armor car courier pickup. Alternative processes may be used if approved by Finance.”

FINDING:

- We noted that there were seven (7) instances noted at Memorial Golf Course where PARD’s procedures were not followed related to obtaining the signature of the GARDA staff on the armored car log. Although, it was noted that no discrepancies were found in the actual bank deposits reviewed, the following discrepancies were noted in the Bank Deposit Log Books, which could have potentially resulted in inaccurate bank deposits.

TABLE 3

| MEMORIAL GOLF COURSE PARD PROCEDURE EXCEPTIONS | | | | |
|---|-------------|--------------|----------------|-----------------------------|
| ITEM | SELECTION | DEPOSIT DATE | DEPOSIT AMOUNT | AUDIT CONCLUSION |
| 1 | Memorial 20 | 9/11 | \$4,740.13 | No record in GARDA log |
| 2 | Memorial 21 | 9/11 | \$6,190.86 | No record in GARDA log |
| 3 | Memorial 53 | 1/8 | \$5,101.46 | No record in GARDA log |
| 4 | Memorial 68 | 3/11 | \$4,821.61 | No record in GARDA log |
| 5 | Memorial 78 | 4/11 | \$10,094.50 | No record in GARDA log |
| 6 | Memorial 55 | 1/15 | \$8,516 | Deposit Amount Zero Dollars |
| 7 | Memorial 62 | 2/12 | \$5, 109.52 | Deposit error of \$13,306 |

- Cash deposits secured for pickup by the GARDA Armor car Services are handled inconsistently by the different golf courses. In one case, the cash deposit is secured in a locked money bag and secured within a safe. In another case, the cash deposit is placed in a plastic bank bag and secured for multiple days with PARD staff sealing the bag once multiple days of cash deposits are collected. In both cases, these deposits are available and are at risk for potential misappropriation because they are not secured in tamper-proof bags after they are reconciled. Although, the cash receipts are stored in a locked money bag, each time the bag is opened; cash receipts are accessible and could result in theft of City assets due to the lack of sufficient internal control. Once a deposit is secured and reconciled, AP 4-8 requires that the cash deposit be sealed and secured and no opportunity exist for someone to have access to the cash deposit enabling an opportunity to change the deposit. Additionally, PARD's policy, Section IV, Bank Deposits, which was approved by Finance states that the completed deposit is bagged and sealed prior to giving to the Armor Car staff.

RECOMMENDATION:

PARD Management should ensure that bank deposits are properly recorded in the GARDA log books and that log books are completed by PARD staff, signed by the armored car staff receiving the deposits to be transported to the bank, and reviewed by management to ensure compliance with City and PARD internal procedures.

PARD Management should also ensure that bank deposits are properly safeguarded and secured in sealed bags to limit access until the Armor Car Service collects the deposits.

**PARD'S MANAGEMENT
RESPONSE:**

PARD Management appreciates the Audit Team bringing this to our attention. We did have human error in filling out the log book in accordance with our procedures during the courier's newly implemented electronic processing for pickups, temporarily disrupting the consistency of this process. Although GARDA no longer uses the handwritten log book, PARD will continue to use it as one of the seven checkpoints for safeguarding cash revenues entered into the City's financial system for all of our

golf courses. The 7 checkpoints used to ensure the accuracy of our revenue funds are:

- 1) Reports from point of sale system are used to complete CR Worksheets in accordance with Revenue Chart of Accounts.
- 2) Bank Deposit book is used to record daily receipts.
- 3) CR Tracking sheet used to track the deposit amounts and bank bag number.
- 4) GARDA's electronic scanning process and log book validate deposit pickup.
- 5) The CR Worksheets are entered into SAP by PARD Revenue Management Division.
- 6) SAP entries are checked by our golf operations administration management analyst.
- 7) Bank statements are used to reconcile revenues against SAP entries and deposits by PARD Revenue Management.

Golf Operations will continue to utilize the 7 checkpoints including the GARDA log book. We have made operational changes to ensure the log book is filled out correctly before the courier arrives and the person releasing the deposit will ensure the courier signs the log book.

PARD Management appreciates the Auditors recommendation, but we believe the process in place for safeguarding cash until the deposit is picked up works well for golf course operations. We will continue to monitor this process and make changes if warranted.

RESPONSIBLE PARTY: Kenneth Allen, Assistant Director of Recreation and Wellness

ESTIMATED DATE OF COMPLETION: 05/01/2017

ASSESSMENT OF RESPONSE:

Management response as presented, sufficiently address issues identified and corrective actions are appropriate.

EXHIBIT 1

ACKNOWLEDGEMENT STATEMENT

PARKS AND RECREATION DEPARTMENT

Acknowledgement Statement

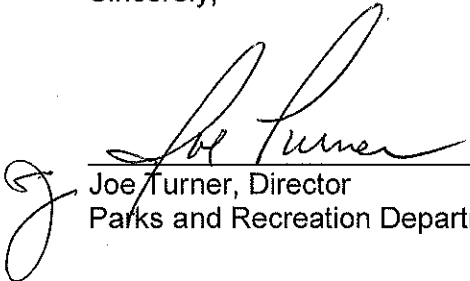
Date: April 28, 2017

Chris B. Brown
City Controller
Office of the City Controller

SUBJECT: PERFORMANCE AUDIT OF PARD CASH HANDLING PROCESSES AND REVENUE RECOGNITION PROCESSES – ACKNOWLEDGEMENT OF MANAGEMENT RESPONSES

I acknowledge that the management responses contained in the above referenced report are those of the Parks and Recreation Department (PARD). I also understand that this document will become a part of the final audit report that will be posted on the Controller's website.

Sincerely,



Joe Turner, Director
Parks and Recreation Department



Office of the City Controller
Audit Division

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