



Office of the City Controller

**HOUSTON PARKS AND
RECREATION DEPARTMENT**

Follow-Up Audit



Chris Brown
City Controller

Report # 2020-08

Courtney Smith
City Auditor



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

CHRIS B. BROWN

June 22, 2020

The Honorable Sylvester Turner, Mayor

**SUBJECT: REPORT #2020-08
HOUSTON PARKS AND RECREATION DEPARTMENT (HPARD) – FOLLOW-UP AUDIT**

Mayor Turner:

The Office of the City Controller's Audit Division has completed follow-up procedures on remediation efforts performed by Houston Parks and Recreation Department management, as they related to Audit Report #2009-02, titled, "*Vehicle Allowance Program Audit*" and Audit Report #2017-09, titled, "*Cash Handling Processes – Performance Audit*". As part of providing independent and objective assurance services related to efficient and effective performance, compliance, and safeguarding of assets, we also perform follow-up procedures to ensure that corrective actions are taken related to issues reported from previous audits.¹

The Audit Division Follow-Up Audit Process uses a risk-based approach, which contains two primary components:

- Management Status Updates; and
- Audit Testing/Verification

Based on the procedures performed above, we believe that we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below as required by professional auditing standards.²

- A total of four (4) findings were issued under Audit Report 2009-02; one (1) was closed in Follow Up Audit Report 2012-08 and another one was closed in Follow Up Audit Report 2014-07, leaving only two (2) open. Compliance has been achieved with the remediation and closing of one (1) finding and one (1) finding will remain open. A total of five (5) findings were issued under Audit Report 2017-09. Compliance has been achieved with the remediation and closing of three (3) findings and two (2) findings will remain open, pending implementation of procedures by management to adequately remediate.

¹ IIA Standard 2500 Implementation Guidance – stresses the importance of having a process that "... captures the relevant observations, agreed corrective action, and current status."

GAGAS 1.21, 6.11, 7.13, 8.30, and 9.08

² See Exhibit 1 for the Detailed Remediation Assessment



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- In reviewing the department's remediation processes associated with the seven (7) findings, we concluded the overall assessment to be **Adequate**.

We would like to thank the Houston Parks and Recreation Department for their cooperation during the follow-up audit process.

Respectfully submitted,

Chris B. Brown
City Controller

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Background

The Office of the City Controller’s Audit Division (The Division) has completed its FY2020 follow-up procedures related to remediation efforts performed by the management of the Houston Parks and Recreation Department, as they related to Audit Report #2009-02, titled, “Vehicle Allowance Program Audit” and Audit Report #2017-09, titled, “Cash Handling Processes – Performance Audit”. As part of providing independent and objective assurance services related to efficient and effective performance, compliance, and safeguarding of assets, we also perform follow-up procedures to ensure that corrective actions are taken related to issues reported from previous audits.¹

Audit Scope and Objectives

The objectives of our Follow-Up Procedures were to determine:

1. The Status for each open item; and
2. The adequacy of the department’s remediation process in place to resolve its universe of open findings.

Procedures Performed

Audit procedures performed to meet the audit objectives and provide a basis for our conclusions were as follows:

- Obtained, reviewed and assessed management’s status updates to open findings;
- Determined the findings for which management’s status updates indicated remediation;
- Determined and requested the documentation necessary to support the findings status reported by management; and
- Reviewed supporting documentation and other evidence provided for sufficiency and appropriateness.

¹ IIA Standard 2500 Implementation Guidance – stresses the importance of having a process that “...captures the relevant observations, agreed corrective action, and current status.”

Conclusions

Based on the procedures performed, we believe that we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below as required by professional auditing standards:

CONCLUSION 1 - (AUDIT OBJECTIVE 1)

There were a total of four (4) findings issued under Audit Report 2009-02; one (1) was closed in Follow Up Audit Report 2012-08; one (1) was closed in Follow Up Audit Report 2014-07, leaving two (2) open findings. One (1) finding was remediated and closed based on actions taken by management and one (1) finding will remain open. There was a total of five (5) findings issued under Audit Report 2017-09. Three (3) findings were remediated and closed based on actions taken by management and two (2) findings will remain open. See Exhibit 1 for the detailed remediation assessment.

CONCLUSION 2 - (AUDIT OBJECTIVE 2)

In reviewing the department's remediation efforts associated with the seven findings, we concluded the overall assessment to be **Adequate**.

Follow-up Approach

The Division's Audit Follow-Up Process utilizes a risk-based approach, which contains two primary components:

- Management Status Updates
- Audit Test/Verification

MANAGEMENT STATUS UPDATES:

Prior to the issuance of audit reports, findings are ranked according to three levels of risk to the City as a whole (High, Medium, and Low). Our continuous follow-up process includes sending requests for status updates related to management's progress toward the remediation of open findings. Management provides status updates through an online portal that alerts the Division when received. This information is then assessed by the follow-up auditor, who considers (1) responsiveness to the original issue and (2) remediation of the issue.

FIELDWORK/TESTING VERIFICATION:

A status update which indicates that a finding has been remediated is tested/verified by the follow-up auditor prior to being closed.

The information received through management status updates is used as a basis for follow-up testing. Additional supporting information is gathered by the follow-up auditor, if it is needed to provide sufficient and appropriate evidence to achieve our objectives. Once the testing/verification of a department's findings has been completed, the department's remediation process is then assessed (Adequate or Inadequate). A rating of Adequate indicates the department has processes in place to sufficiently monitor and address issues identified.

The department demonstrates this by having either remediated (if the finding is Closed) or is exhibiting progress in the remediation efforts (if the status is Ongoing). An Inadequate rating is assessed when the status of the findings is not as reported by management and/or the issues have not been addressed as stated in a status update.

Audit Standards

We conducted Follow-Up Procedures in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Government Accountability Office (GAO) and The International Standards for the Professional Practice of Internal Auditing, as promulgated by The Institute of Internal Auditors. 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.

Acknowledgement

We would like to thank the Houston Parks and Recreation Department for their proactive approach to risk management and their cooperation during our follow-up process.

City of Houston
Office of the City Controller - Audit Division
Project: 2019-10: FY2019 Follow-Up HPARD
Houston Parks and Recreation Department - FY2020 Follow-Up Procedures

Exhibit 1 - Detailed Remediation Assessment, FY2020 Audit Follow-Up Procedures

Audit Report Number	Finding Title	Finding	Management's Status Update	Conclusion	
				Ongoing/ Closed	Remediation Process
2009-02	Periodic Audits of Compliance with AP 2-2	Department files did not contain evidence of periodic auditing for compliance with AP 2-2 related to vehicle allowances.	<p>Original Management Response: Although, there were no evidence of periodic auditing for compliance with AP 2-2 related to vehicle allowances, the department does keep a log of all employees who receive this allowance. We also send out periodic reminders in reference to items needed such as DDC, and updates on when Driver Licenses are about to expire. Per AP 2-2, the Department will make sure periodic updates are done on each of the employees who are affected by this policy.</p> <p>Updated Response 08/26/2019: Since 2014, employees do not receive vehicle allowance; therefore this finding is not relevant to the department.</p>	Closed- This finding has been closed. The Audit Division obtained and reviewed the updated response from Management and obtained records from the Administration and Regulatory Affairs (ARA) Department confirming that no vehicle allowances are given for any HPARD personnel. Therefore, this finding is no longer applicable.	Adequate
2009-02	Compliance with Defensive Driving Course Requirements	Audit testing revealed that one of the four Department employees receiving vehicle allowances had not completed a DDC as required by AP 2-2.	<p>Original Management Response: On May 19, 2008, the one employee who was not in compliance completed the Defensive Driving Course. Per AP 2-2, all employees receiving Vehicle Allowances are now in compliance. A reminder is usually sent out to all employees at least 60 days before their DDC is up for renewal.</p> <p>Updated Management Response 08/26/2019: 1. HPARD has a National Safety Council DDC4 Trainer to ensure all new hires have completed DDC4 before operating City vehicles and provides routinely DDC4 classes for HPARD employees. 2. An active database that tracks all HPARD employees of their DDC4 expiration dates and alerts all HPARD employees before their expirations. 3. Example of a HPARD DDC4 notification was supplied.</p>	Ongoing- This finding will remain open. Based on a review of a sample of 25 HPARD employees, it was determined that 28% (7 of 25) of the selected sample did not have a DDC on file, as required by AP 2-2. Therefore, the Audit Division was not able to confirm that Management has sufficiently remediated this audit finding.	Inadequate

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Audit Report Number	Finding Title	Finding	Management's Status Update	Conclusion	
				Ongoing/ Closed	Remediation Process
2017-09	Cash Receipts are Not Deposited Timely	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.	<p>Original 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.</p> <p>Updated Management Response 08/26/2019: As stated in HPARD's initial response, current contract requires for armored car transfer of cash receipts twice per week. Although the contract/schedule, absence of holiday service and occasional courier "no show", still have a direct affect on timeliness of cash deposits, Golf Facility Managers ensure that cash deposits are prepared for armored car transfers according to the contractual agreement without exceptions. After the department reviewed 7.5.5.4, it was decided that the timeliness of the cash deposits were practical from an operational and budget perspective. The Golf Facility Managers ensure adequate safeguarding of assets, until such time as the pick ups are made.</p>	Ongoing - This finding will remain open. The Audit Division obtained and reviewed deposits, daily cash reports, daily reconciliation reports and determined that cash receipts are not being deposited within the three day requirement, as stated in AP 4-8, nor has HPARD's Management gotten the required approval for an exception to the established policy. Management has not sufficiently remediated this audit finding.	Inadequate

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2017-09	Management of Voided and Cancelled Transactions	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.	<p>Original Management Response: PARD 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".</p> <p>Updated Response 08/26/2019: In September 2017, HPARD Management enhanced 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 has been 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".</p>	Ongoing- This finding will remain open. The Audit Division obtained and reviewed the updated response from HPARD Management, policies, procedures, the "Report of Voided and Return Transactions", and hard copies of original transactions. We found that both Memorial and Sharpstown had transactions that were not supported by the original transaction receipt, as required by HPARD policy. Management's processes are not sufficient to remediate this audit finding.	Inadequate
2017-09	Inadequate Internal Control of Golf Ball Machine Cash Receipts	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.	<p>Original 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.</p> <p>Updated Response 8/26/2019: As of May 2017, HPARD stop accepting cash through the E-Range machine at the golf course. All customers choosing to pay cash for range use, is now going directly to the pro shop and those transactions processed through the POS system.</p>	Closed- This finding has been closed. The Audit Division obtained and reviewed the updated response from Management that the golf ball machine no longer accepts cash and that all cash transactions are handled in the Pro Shop. Therefore, the Audit Division was able to confirm Management's processes are sufficient to remediate this audit finding.	Adequate

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				Ongoing/ Closed	Remediation Process
2017-09	Management of Inventory Results and Review of Obsolete and Excess Items	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 maximum 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.	Original Management Response 8/26/2019: 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. Updated Management Response: In September 2017, HPARD Management enhanced policies and procedures which require the signature validation of inventory reports/discrepancies by upper management including all discrepancies.	Closed- This finding has been closed. The Audit Division obtained and reviewed the updated response from HPARD's Management, corresponding policies, and Inventory Reports; which confirmed that HPARD has enhanced its policies and procedures regarding monitoring of inventory and requiring review and approval by management on Inventory reports. Therefore the Audit Division was able to confirm Management's processes are sufficient to remediate this audit finding.	Adequate
2017-09	Improvement Needed in Controls Over Cash Deposits	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.	Original Management Response: PAR 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. Updated Response 8/26/2019: Immediately after the initial audit, HPARD made operational changes to ensure the log book is filled out correctly before the courier arrives and the person releasing the deposit ensures the courier signs the log book without exception. In addition, HPARD continues to use the seven checkpoints for safeguarding cash revenues entered into the City's financial system for all of our golf courses, as outlined in the initial audit	Closed- This finding has been closed. The Audit Division obtained and reviewed the updated response from Management, Armor car services logbooks, and verified that HPARD personnel and Armor car services staff are completing the log, as required by the department's policy. Additionally, the Audit Division verified based on a review of a sample of cash receipts, that HPARD is accurately recording cash receipts in the Armor Car Service logbook and that they were deposited in the appropriate City bank account. Therefore, the Audit Division was able to confirm Management's processes are sufficient to remediate this audit finding.	Adequate

Audit Team

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