

Genoveva Chavez Community Center Performance Audit Cash Handling

COMMUNICATION WITH THE AUDIT COMMITTEE & GOVERNING BODY

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AUDITOR'S REPORT

This audit was conducted in accordance with generally accepted government auditing standards, except for a peer review, and is intended only to conclude on the stated objectives of this audit.

Introduction

- The GCCC is Santa Fe's premier recreation center. The 177,000 square foot facility features three swimming pools (Olympic lap pool, leisure pool and therapy pool), racquetball courts, ice-skating rink, weight room, gymnasium, indoor track and a full slate of classes and leagues. Youth programs and camps are offered year around. Party packages and room rentals are also available.
- Annual revenues for the GCCC average approximately \$1.8 million.

Background

- The 2016/2017 audit plan included a performance audit of cash handling at the GCCC.
- Cash handling is a specific concern not only at the GCCC, but also at all of the recreation centers and other sites where the City is accepting cash payments.

Background

- Complex schemes for diverting cash can develop even with robust internal controls in place. However, a robust internal control environment increases the likelihood a fraud will be detected timely resulting in smaller overall losses.
- The Association of Certified Fraud Examiners estimates that occupational fraud can be estimated at 5% of its annual revenues. Annual revenues at the GCCC are \$1.8 million, 5% is \$90,000 per year.

FINDINGS & IMPLEMENTATION

PLEASE NOTE

Findings are included below in the section in which they are mentioned in order to facilitate easier reading and better comprehension.

Implementation – a summarized version of management’s implementation plan is included after each finding. Full details are included in the audit report.

Executive Summary

- The number and severity of the findings:
 - Indicates a weak or non-existent internal control environment around cash handling, creating an environment that is conducive to fraud, waste, and abuse; and
 - Is also an indication that strong leadership and oversight are lacking at both the department and complex level. **(Resulting in Finding #1)**

FINDING 1 & IMPLEMENTATION

IA found:

1) Lack of Leadership and Oversight at both the department and complex level;

Implementation –

- The P&R Director, along with the Recreation Complex Managers, will provide guidance and support to staff and ensure that all staff are trained and understand all facets of cash handling and other issues addressed in this report.
- With the assistance of Finance Director and/or his designee, the Director of P&R and the Administrative Manager will develop Policies and Procedures for an Internal Control Framework for all Department facilities to protect City's assets. (SEE REPORT FOR FURTHER DETAILS)

EXECUTIVE SUMMARY, CONTINUED

- **Segregation of Duties** which is the foundation of an internal control environment around cash handling, is not understood nor being used at the GCCC. **(Resulting in Finding #2)**

The concept of segregation of duties is to separate the major responsibilities of custody of assets (cash handling), recording of transactions (record keeping), reconciliation, and authorization (including review), of transactions for each business process. From a segregation of duties perspective, the completion of more than one of these functions would be considered performing "incompatible duties". In other words, no one employee should have responsibility to complete two or more of these major responsibilities. Strong compensating controls are necessary if staff limitations make this impractical.

When segregation of duties is enforced, generally speaking, collusion must occur for a fraud to remain undetected. Without proper segregation of duties, a single person is able to commit and conceal a fraud for long periods. The losses from this type of fraud can be significant.

FINDING 2 & IMPLEMENTATION

IA found:

2) Segregation of Duties Over Cash Handling Is Not Enforced;

Implementation

Parks and Recreation Director will work with City Manager and Finance Director to hire an independent party to do a thorough analysis of the internal controls of the cash handling procedures at all Parks and Recreation community centers.

RESULTS

Two surprise cash counts were conducted:

- 1) **April 15, 2016; and**
- 2) **January 9, 2017**

| Summary of Results of Surprise Cash Counts | | | |
|--|----------------|-----------------|-------------|
| Cashier | April 15, 2016 | January 9, 2017 | Excess Cash |
| Cashier 1 | \$ - | | Yes** |
| Cashier 2 | \$ (1.00) | | No* |
| Cashier 3 | \$ - | | No* |
| Vault | \$ - | | N/A |
| Cashier 4 | | \$ 4.00 | Yes** |
| Cashier 5 | | \$ - | Yes** |
| Vault | | \$ (1.00) | N/A |

- 3) These surprise cash counts **resulted in 10 Findings #3 through #12.**

FINDINGS #3-#12 & IMPLEMENTATION

3) **Lack of a Citywide Cash Handling Policy;**

The Finance Department has actively undertaken efforts to draft a city-wide cash handling policy

4) **Inadequate Department and Division Level Cash Handling Policy and Procedures;**

The director will work with HR to ensure policies meet minimum standards and best practices, and will also draft procedures for staff to follow.

5) **Violation of Park Cash Handling Policy - Vault does not Require Dual Access;**

The Director will assess the necessity of the internal control and will ensure that the policy is in alignment with available resources.

6) **Security Cameras Were Not Working;**

ITT has been working with the GCCC on resolving this issue since July 2016. **(SEE REPORT for further details)**

FINDINGS #3-#12 & IMPLEMENTATION, Con't

- 7) Lack of Training for Employees Handling;**
 - 1) Administrative Manager/Supervisors and Recreation Complex Managers will develop an Ethics training for all cash handlers in the department, to be conducted annually.
 - 2) See Finding 1 for similar training information.
- 8) Excessive Cash in Cashiers Drawers Found During Surprise Cash Counts;**

This will be part of training per Finding 1(SEE REPORT)
- 9) Cash Overages and Shortages Found During Surprise Cash Counts and Absence of These Overages and Shortages on the Corresponding Daily Cash Reports**

Management to conduct surprise cash counts. (SEE REPORT)

FINDINGS #3-#12 & IMPLEMENTATION, Con't

10) Ineffective Safeguarding of Assets - Set Up Not in Vault;

Management to do surprise cash counts, and training. (SEE REPORT)

11) Deposits Are Not Being Made Timely;

Management will ensure that this is being done. (SEE REPORT)

12) Daily Reconciliations are Being Prepared by One Person;

Management to provide training - (SEE REPORT)

RESULTS, CONTINUED

GIFT CERTIFICATES

- The GCCC handles the sale and redemption of gift certificates differently, depending on the nature of the transaction. This is explained in detail in the full audit report
- Active Net, the Point of Sale (POS) system used at the GCCC has functionality built in to the system to track gift certificate sales. However, the GCCC bypasses these system controls and manually records sales. This effectively bypasses all the internal controls that have been built into the POS system including revenue recognition, and tracking. The GCCC is forcing the early recognition of revenue by manually reporting revenue at the time of the sale, rather than at the time of redemption, as required by Generally Accepted Accounting Principles (GAAP).
- Further, it was noted during the surprise cash counts that issuance of **bundles** of gift certificates to various employees (such as marketing for various promotions) are not being logged or tracked. IA noted during the surprise cash counts that big bundles (batches of 25 or 50) of gift certificates would be missing and no one really had any idea where they were. In this instance a handwritten log may actually serve as an internal control.
- The marketing director at Parks and Recreation was interviewed on April 17, 2017. At that time he had just under 1,000 complimentary passes and a partial book of 25 gift certificates stored in an unlocked cabinet above his desk. Also stored in the cabinet were close to 100 New Mexican Fitness Passes and 1 New Mexican Class Pass. A safe has since been purchased and installed at the Department office.

Resulting in Findings #13 through #15

FINDINGS #13-#15 & IMPLEMENTATION

13) The GCCC's Active Net POS System Not Utilized for Gift Certificate Sales;

P&R Director and Administrative Manager, will work with Finance to assess the department's new POS capabilities to process gift certificates to ensure that it meets accounting standards and can be used for internal controls. **(SEE REPORT)**

14) Inadequate Management and Accounting for Batches of Gift Certificates;

Management to develop a log to track the issuance of batches of gift certificates. **(SEE REPORT)**

15) Gift Certificates / Complimentary Passes Are Not Secured at Parks and Recreation Department Office;

Safe was purchased and installed at the Parks Department.

RESULTS, CONTINUED

Agreements with Vendors

Internal Audit (IA) found that the GCCC enters into a variety of agreements with various vendors and non-profit organizations with:

- 1) No standardization as to form of agreement;
- 2) Not always reviewed for legality of contract (i.e. exchange of goods versus donation);
- 3) Inappropriate approvals;
- 4) Informal guidance or directions to cashiers as to how to process these agreements; and
- 5) No directions to staff for the accounting and tax considerations for these agreements, resulting in:
 - a. Underreported revenue; and
 - b. Underreported advertising expense.

Resulting in Findings #16 through #22

RESULTS, CONTINUED

| Summary of Agreements | | | | | | |
|--|---|--|---|---|---|--|
| | Library Passes | Shelter Now * | SF Builders Assoc. | SF Chamber | Hutton | The New Mexican |
| Relationship | City Department | Non-Profit | Non-Profit | Non-Profit | Vendor | Vendor |
| Exchange for goods or services | No | No | Yes | No | Yes | Yes |
| What was exchanged | N/A | N/A | Advertising trade for access to GCCC | N/A | Advertising trade for access to GCCC | Advertising trade for access to GCCC |
| Approval | Complex Manager | City Manager | City Manager City Clerk Finance Director | City Manager | City Manager City Clerk | City Manager City Clerk Finance Director City Attorney |
| Type of Agreement | E-Mailed Request | Memo | Memorandum of Agreement | E-Mailed Request | Professional Services Agreement | Barter Agreement |
| Desc. of Goods Given up by the City | 1 day pass for each youth participating in program – not tracked so not able to determine value | Estimated 12 3 month memberships for indigent youth totaling \$1,926 | 8 gift certificates valued at \$175 each, \$1,400 | 2 passes for youth membership grades 7 to 12, estimated value \$2,832 | 175 One Day Passes – value is \$1,225 60 1 month memberships – value is \$4.170 80 Golf Passes \$3,760, and 11,035.13 in cash. Total compensation \$20,190.13 | 1 day passes valued at \$5 each, dollar for dollar trade for advertising |
| Value of Goods Given up By City | Unable to Determine | \$1,926 | \$ 1,400 | \$2,268 | \$9,155 | \$31,008 |

FINDINGS #16-#22 & IMPLEMENTATION

16) Unreported Revenue and Advertising Expense – Barter Contracts;

Director of P&R, Administrative Manager, and Marketing & Special Events Administrators will work with the Finance Department on developing a Barter System Policy to ensure the proper revenue and expenses are being recorded and that a tracking system is put in place to ensure proper usage of the barter system items.

17) Memo'ed Out balances are not approved or reviewed;

The Complex Manager will print out all adjustments on a monthly basis and sign off on the adjustment worksheet that they have reviewed. **(SEE REPORT)**

18) No Reconciliation Done Of Day Passes Used to Fulfill Contractual Agreements & No Internal Controls Around Issuance of Day Passes for Other Use;

Management will include this in policy. **(SEE REPORT)**

FINDINGS #16-22 & IMPLEMENTATION, Con't

19) Inadequate Accounting of Donated Goods;

Administrative Manager and Director of Parks and Recreation will develop a policy with Finance on Accounting of Donated Goods.

20) Youth Membership Passes Given to the Santa Fe Chamber of Commerce;

Director of Parks and Recreation and Administrative Manager will work with Finance and Legal to establish policy and procedures for all Donations of Goods and Service to ensure compliance with the New Mexico Constitution, Article IX, Section 14 and the City Ordinance 2013-103.

21) Library Passes – Tracking and Reconciling Passes Used;

Management will ensure proper tracking and reconciling (SEE REPORT)

22) Lack of Internal Controls Regarding Return Passes;

Management to develop a plan for addressing reconciling. (SEE REPORT)

EXIT CONFERENCE

During the exit conference held on June 21, 2017 management raised the questions of whether the:

- 1) Existing corporate structure in regards to satellite cashiers was optimal; and
- 2) Cashiers were required to have background checks.

These concerns raised by management resulted in Findings #23 and #24.

FINDINGS & IMPLEMENTATION, Con't

23) Cashiers Reporting Structure; and

Finance concurs that broad cash handling policies and procedures should originate from Finance. Finance currently has a draft policy and procedure circulating among the Executive Finance Officers which includes segregation of duties, and will soon solicit feedback from various stakeholders. However, specialized processes for each site will not be within the scope of the policy. Management of those respective areas should be capable developing commonly used cash handling processes the same as any private sector business. The organization needs business administration training, whether that be centralized or decentralized. In addition to these steps staff will review best practices conducted by similar organizations to achieve optimal results.

24) No Background Check is Required for Cashiers.

Within that timeframe [SEE REPORT], HR will meet with the union to discuss and attempt to gain approvals to include criminal background screenings for those positions that are involved in any money or account handling.

WERE THE FINDINGS IN THIS REPORT CAUSED BY A STAFFING ISSUE

- No, the findings in this report are caused by:
 - Inappropriate use of staff (Specifically, segregation of duties you have 5 staff all doing every job. If 4 staff worked as cashiers and 1 as an AR specialists, plus the complex manager monitoring and reviewing you would have proper segregation of duties,);
 - Improper training; and
 - Lack of oversight by senior management, including monitoring and review.

Changes Made to Report After Submitting to Audit Committee

- Date of Surprise Cash Count **Changed** from April 16, 2016 to April 15, 2016 throughout report;
- **Abbreviated** Internal Audit to IA throughout report;
- **Abbreviated** Finance Department to Finance throughout the report;
- **Abbreviated** Parks and Recreations Department to P&R throughout the report;
- Management's responses to findings #1, 7, 8, 10, 13, and 17 were updated and IA's **responses** were **removed**;
- Finding 5 **updated** to include cause and effect.

QUESTIONS / COMMENTS

SPECIAL THANKS TO THE FOLLOWING:

- Robert Carter, Director, Parks and Recreation Department; and
- The staff at Genoveva Chavez Community Center for answering endless questions.

Questions?