Genoveva Chavez Community Center
Limited Scope Cash Handling Performance Audit

June 2017
The Internal Audit Department and the role of Internal Auditor were created by City Ordinance No. 2012-32 and amended by City Ordinance No. 2013-34, Section 2-22 Santa Fe City Code (SFCC) 1987. A primary purpose of the Internal Auditor is to share a duty with the members of the governing body to insure that the actions of public officials, employees and contractors of the city are carried out in the most responsible manner possible and that city policies, budgets, goals and objectives are fully implemented. The Internal Auditor is also the City of Santa Fe’s liaison to the Audit Committee.

The Audit Committee was created by City Ordinance No. 2013-35, Section 6-5 SFCC 1987. This committee is an advisory committee and consists of five members of the community. Of the five members, one member shall be a certified public accountant, one member shall be a lawyer or have a law enforcement background and one member shall be a management consultant.

The Internal Auditor and the Audit Committee are structured in a manner to provide independent oversight of the City operations, thereby enhancing citizen confidence and avoiding any appearance of a conflict of interest.

**AUDIT COMMITTEE**

Clark de Schweinitz, Esq., Chair
Cheryl Pick Sommer, Esq.
Carolyn Gonzales, CPA
Alvino Castillo, Retired CPA
Barbara Borrego, CPA

**INTERNAL AUDITOR**

Liza Kerr, CPA, CISA, CIA, MBA

**Mission Statement**

The mission of the City of Santa Fe Internal Audit Department is to provide independent, objective assurance and review services designed to promote transparency, accountability, efficiency, and effectiveness of City government for the citizens of the City of Santa Fe.
Date: June 30, 2017

To: Brian Snyder, City Manager
    Javier Gonzales, Mayor
    Renee Martinez, Deputy City Manager
    Robert Carter, Department Director, Parks and Recreation
    Liza Suzanne, Genoveva Chavez Community Center Complex Manager
    Members of the Audit Committee
    Members of the Governing Body

From: Liza Kerr, Internal Auditor (Digital Signature included on Auditor’s Report)

RE: Genoveva Chavez Community Center Limited Scope Cash Handling Performance Audit

Attached is the Internal Audit Department’s report summarizing the results of the audit.

This is a performance audit. City Ordinance 2013-35 §2-22.6 (B) and Government Auditing Standards define a performance audit as an engagement that provides assurance or conclusions based on an evaluation of sufficient and appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices.

Opportunities to improve the internal controls at the Genoveva Chavez Community Center have presented themselves, and are discussed in the body of this report.

Internal Audit extends its appreciation to the staff at the Genoveva Chavez Community Center, Parks and Recreation, Human Resources, Finance, and Legal departments that assisted with this audit.

If you have questions, please contact Liza Kerr, Internal Auditor, at (505) 955-5728.

cc: Kelley Brennan, City Attorney
    Adam Johnson, Director, Finance
    Joshua Elicio, CISO, Information Technology
    Lynette Trujillo, Director, Human Resources
AUDITORS REPORT

We have completed the limited scope performance audit of Cash Handling at the City of Santa Fe’s Genoveva Chavez Community Center.

The primary purpose of this audit was to gain an understanding of cash handling practices and to evaluate the design and effectiveness of the internal control environment as related to this objective. The secondary purpose was to gain insights into cashiering operations and ensure compliance with City policies and procedures as well as applicable Federal and State Laws.

This performance audit is authorized pursuant to City of Santa Fe Ordinance No. 2013-35, §2-22.6 (B). 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. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence provides a reasonable basis for our findings and conclusions based on our audit objectives.

Internal Audit concludes that identified deficiencies in internal control that are significant within the context of the audit objectives are the root cause of the problems cited. Internal Audit has made recommendations to help strengthen the internal control environment and increase efficiency and effectiveness.

Essentially, there are few if any internal controls around cash handling. The number, extent, and severity of the issues identified in this audit report are an indicator of the severity of the problem. Segregation of duties, which is the foundation of an internal control environment around cash handling, is not understood or being used at the GCCC. The lack of proper segregation of duties around cash handling is significant. IA identified a breakdown in segregation of duties for both manual and automated systems.

The remaining issues are too numerous to list in this one page summary. Please refer to the findings for further details.

Liza Kerr, CIA, CISA, CPA, MBA
Internal Auditor

1 Specific information related to indications of potential fraud, waste or abuse as related to this audit are included in a separate memorandum, which is a matter of opinion for a personnel file, provided to the City Manager, and the City Human Resources Director to determine proper action. This memorandum is confidential per the Inspection of Public Records Act 14-2-2 A. (3).
# Table of Contents

AUDITORS REPORT ...................................................................................................................... iv
EXECUTIVE SUMMARY .............................................................................................................. 1
INTRODUCTION AND BACKGROUND ......................................................................................... 3
SCOPE ........................................................................................................................................ 4
OBJECTIVES ................................................................................................................................. 4
METHODOLOGY .............................................................................................................................. 4
RESULTS ....................................................................................................................................... 5
  General and Administrative ........................................................................................................... 5
  Cash Handling - Internal Audit Surprise Cash Counts ................................................................. 8
  Gift Certificates, Barter Contract and Donations ......................................................................... 11
APPENDIX A – Legal and Regulatory Environment ....................................................................... 42
APPENDIX B – Glossary of Terms .................................................................................................. 42
APPENDIX C – Inventory of Gift Certificates and Return Passes as Noted During Two Surprise Cash Counts ........................................................................................................... 43
APPENDIX D – AUDIT ALERT – Treatment of Gift Certificates or Vouchers .................................. 47
APPENDIX E – Hutton Broadcasting PSA - Extract ....................................................................... 47
APPENDIX F – Santa Fe Area Home Builders Association - MOU Extract ....................................... 48
EXECUTIVE SUMMARY

The 2016/2017 audit plan included a performance audit of cash handling at the Genoveva Chavez Community Center (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. The handling of cash is an area that is particularly susceptible to fraud, waste, and abuse. Implementing a robust internal control environment minimizes risks and reduces the likelihood of fraud. Generally speaking, the benefit of being proactive and ensuring that a strong internal control environment exists, far outweighs the costs that could result with an undetected fraud.

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.

To become familiar with cash handling at the GCCC Internal Audit (IA) conducted a walkthrough which included observation of the cashiers handling various types of transactions as well as interviews with staff. It was noted during this process that 1) segregation of duties is not being used at the GCCC, and 2) gift certificates and passes were handled differently depending on who was presenting them and what kind of underlying agreement was in place. To further understand why the transactions were being processed differently (e.g. a gift certificate presented by an individual is processed differently than a gift certificate presented by a Hutton employee, which are both processed differently from a New Mexican pass) IA reviewed the agreements. See the RESULTS section of the report for further details on segregation of duties and the processing of gift certificates and passes by the cashiers.

The chart on the following page summarizes the agreements reviewed.

The Association of Certified Fraud Examiners “2006 ACFE Report to the Nation on Occupational Fraud & Abuse” states, “The typical organization loses 5% of its annual revenues to occupational fraud.” This figure is based on the opinions of 1,134 Certified Fraud Examiners. Annual revenues at the GCCC are $1.8 million, 5% is $90,000 per year.
## Summary of Agreements

<table>
<thead>
<tr>
<th>Relationship</th>
<th>Library Passes</th>
<th>Shelter Now</th>
<th>SF Builders Assoc.</th>
<th>SF Chamber</th>
<th>Hutton</th>
<th>The New Mexican</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exchange for goods or services</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>What was exchanged</td>
<td>N/A</td>
<td>N/A</td>
<td>Advertising trade for access to GCCC</td>
<td>N/A</td>
<td>Advertising trade for access to GCCC</td>
<td>City Manager City Clerk Finance Director City Attorney</td>
</tr>
<tr>
<td>Approval</td>
<td>Complex Manager</td>
<td>City Manager</td>
<td>City Manager City Clerk Finance Director</td>
<td>City Manager</td>
<td>City Manager City Clerk</td>
<td></td>
</tr>
<tr>
<td>Type of Agreement</td>
<td>E-Mailed Request</td>
<td>Memo</td>
<td>Memorandum of Agreement</td>
<td>E-Mailed Request</td>
<td>Professional Services Agreement</td>
<td>Barter Agreement</td>
</tr>
<tr>
<td>Desc. of Goods Given up by the City</td>
<td>1 day pass for each youth participating in program – not tracked so not able to determine value</td>
<td>Estimated 12 3 month memberships for indigent youth totaling $1,926</td>
<td>8 gift certificates valued at $175 each, $1,400</td>
<td>2 passes for youth membership grades 7 to 12, estimated value $2,832</td>
<td>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</td>
<td>1 day passes valued at $5 each, dollar for dollar trade for advertising</td>
</tr>
<tr>
<td>Value of Goods Given up By City</td>
<td>Unable to Determine</td>
<td>$1,926</td>
<td>$1,400</td>
<td>$2,268</td>
<td>$9,155</td>
<td>$31,008</td>
</tr>
</tbody>
</table>

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.

The agreements selected involved transactions observed during the surprise cash counts or that were noted during the walkthrough. Emphasis needs to be made that the above list is not intended to be all-inclusive as to the number or the type of agreements at the GCCC. Rather, the intention is to illustrate the fact that there is no consistency, and no guidance to staff. Details regarding these agreements are disclosed in the RESULTS and FINDINGS sections of this report.

The number and severity of the findings indicates:

1) a weak internal control environment around cash handling creating an environment that is conducive to fraud, waste, and abuse; and
2) Is also an indication that strong leadership and oversight are lacking at both the department and complex level.

(FINDING 1)

INTRODUCTION AND BACKGROUND

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.

Hours are generally 5:30 am to 9:45 pm during the week, with slightly reduced hours Friday through Sunday.

Admission is $7 per adult, which does not include the costs of classes with discounts given to seniors, youth, and children.

Annual Memberships for Adults are $473, which does not include the cost of classes with discounts given to seniors, youth, children, and couples.

Annual revenues for the GCCC average approximately $1.8 million.
SCOPE

The scope of the audit included:

1) GCCC cashiering and cash handling operations including processing of transactions and underlying agreements;
2) Relevant federal, state, and local laws;
3) Relevant City policies and procedures;
4) Applicable government auditing standards;

The timeframe for this audit was April 15, 2016 to January 9, 2017.

OBJECTIVES

The objectives of the audit were to:

5) Gain an understanding of the GCCC cashiering and cash handling operations;
6) Determine whether cashiering and cash handling activities are in line with stated policies and procedures, as well as industry standards;
7) Gain an understanding of and test compliance with the legal and regulatory environment at the GCCC as related to cash handling; and
8) Gain an understanding of and test the internal control environment as it applies to the stated audit objectives.

Our audit objectives were designed to ensure:

1) An independent assessment of the cashiering and cash handling operations at the GCCC;
2) Compliance with Federal, State and Local Laws;
3) Compliance with City policies and procedures; and
4) Compliance with governance requirements and best practices as applicable.

Accordingly, we used procedures including examination of records, voluntary interviews with appropriate personnel, and other procedures as deemed necessary to accomplish our objectives.

METHODOLOGY

We used the following methodology to conduct our audit:

1) Phase 1 – Walkthrough & Information Gathering 05/12/16 to 07/31/16

During this phase, physical walkthroughs and interviews were done to obtain information as related to the audit objectives. Documentation including applicable Federal, State and Local laws and City policies and procedures were obtained and reviewed to support planning of the audit. We also conducted a preliminary surprise cash count in order to establish a baseline.

2) Phase 2 - Field Work 05/12/16 to 03/31/2017

During this phase of the audit, we performed a second surprise cash count to ensure that changes made by senior management after the initial surprise cash count were fully implemented. We also performed additional test work as necessary or that became apparent during Phase 1.
3) Phase 3 – Wrap up and Report 09/01 to 06/30/17

Analyzing data and presenting a report to management, the audit committee and the governing body is done during the final phase of the audit.

RESULTS

General and Administrative

Payment Card Industry (PCI) Compliance

Active Net provided Internal Audit its annual report for PCI compliance titled “Attestation of Compliance for Onsite Assessments – Service Providers”. Internal Audit reviewed the report and no exceptions were noted. The report provides assurance that Audit Net and the point of sales devices that are used at the GCCC in processing credit card transactions meet PCI standards and that our customer’s credit card data is secure.

Chip Reader

The GCCC does not use a chip reader to process credit card transaction. Chip readers are an effective tool in fraud prevention. Implementing a chip reader at the GCCC and other City sites that process credit card transactions would help to reduce the risk of fraud. This recommendation has been made to management, but does not rise to the level of a finding.

Data Security – SOC Type 2 Report

Active Net provided Internal Audit its annual audit report for Data Security titled “A Type 2 Independent Service Auditor’s Report on a Description of a Service Organization’s System and the Suitability of the Design and Operating Effectiveness of Controls for the Period of October 1, 2015, to September 30, 2016.” The report was prepared in accordance with the AICPA SSAE No. 16 and IIASB ISAE 3402 Standards.

This report provides assurance that the internal controls in place protecting our financial data are suitably designed and are operating effectively. By obtaining this report, the City is able to rely on the work of Active Net’s auditor in conducting this audit. No data security exceptions were noted in the report.

Segregation of Duties

Segregation of duties serves as the primary defense against internal fraud. Businesses suffer disproportionately from fraud, losing an average of 5 percent of revenue, to internal theft, the more liquid the asset the greater the risk. Segregation of duties minimizes opportunities for employees to divert cash.

GCCC management does not enforce segregation of duties around cash handling. (FINDING 2)

IA requested that the cashier supervisor fill the chart on the following page to illustrate the types of duties each cashier is responsible for at the GCCC.
The following table illustrates cash handling duties at the GCCC and the lack of segregation of duties:

<table>
<thead>
<tr>
<th>SOD Task</th>
<th>Complex Manager</th>
<th>Cashier Supervisor</th>
<th>Cashier 1</th>
<th>Cashier 2</th>
<th>Cashier 3</th>
<th>Cashier 4</th>
<th>Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cashier</td>
<td>Custody / Cash Handling</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Prepares deposits</td>
<td>Custody / Cash Handling</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maintain access to cash</td>
<td>Custody / Cash Handling</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reconcile bank account</td>
<td>Reconciliation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Yes</td>
</tr>
<tr>
<td>Reconcile AR</td>
<td>Reconciliation</td>
<td></td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Post cash receipts</td>
<td>Record-keeping</td>
<td></td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Add to or edit the AR master file</td>
<td>Record-keeping</td>
<td></td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Process customer service calls and complaints</td>
<td>Authorization</td>
<td></td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Approve adjustments to AR</td>
<td>Authorization</td>
<td></td>
<td>No*</td>
<td>No*</td>
<td>No*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Independently Review AR</td>
<td>Authorization</td>
<td></td>
<td>No*</td>
<td>No*</td>
<td>No*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Independently Review AR aging trial balance</td>
<td>Authorization</td>
<td></td>
<td>No*</td>
<td>No*</td>
<td>No*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Independently investigate AR</td>
<td>Authorization</td>
<td></td>
<td>No*</td>
<td>No*</td>
<td>No*</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

No * - This were marked yes by the cashier supervisor and changed to no by IA. IA notes there is no independent verification because the person that is posting, approving and reviewing AR is the same person.

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.
City Wide Cash Handling Policy

There is no citywide cash handling policy to provide guidance to the various departments and divisions regarding cash handling procedures. A citywide policy would provide consistency and ensure compliance with a basic internal control structure. Departments and divisions could use this as a baseline and build policies and procedures that include these basics, but also include details specific to their operations. (SEE FINDING 3)

Citywide Policy on How to Write Policies

The City does not have a policy on how to write policies. The Temporary Employee Performance Audit cited a finding recommending that Human Resources update City policies. Management has already agreed to do this with an expected completion date of June 30, 2017. HR indicated that a Policy on How to Write Policies will be completed at that time. Since this is already in process, Internal Audit (IA) will pass on a finding to address this issue.

Parks and Recreation Cash Handling Policy in Effect for the April 16, 2016 Surprise Cash Count

The Cash Handling Policy stated that cash needed to be dropped when a certain number of certain types of bills was exceeded, while not including other types of bills.

This policy was too specific, and did not address all bills. Best practices generally target a dollar amount that allows for the cashier to make a drop as needed, which reduces exposure associated with theft or loss. IA made a recommendation to change the policy to follow best practices. Parks and Recreation made this change prior to the audit concluding so this Internal Audit will pass on citing a finding.

Parks and Recreation Cash Handling Policy in Effect for the January 9, 2017 Surprise Cash Count and GCCC Procedures

Management implemented the above recommendation and made a revision to the policy. The revised department level policy written by Parks and Recreation does not follow minimum best practices of including an effective date, a revision date or any formal signatures. It also requires two people to open the safe. IA noted that a single person accessed the cash vault on multiple occasions. (FINDING 5)

IA repeatedly requested policies and procedures for the GCCC from management. Management at the GCCC asserted that none existed. However, the Finance Department was able to provide Internal Audit with a few pages of a GCCC Administrative Manual dating back to 2009, specifically pages that dealt with cash procedures. When IA presented the excerpts from the manual to management at the GCCC no one was even aware of its existence. The cashier supervisor told IA that the procedures were very outdated and had been created when the center originally opened in 2000. Based on conversations with staff, the administrative manual was shelved in 2009, and no attempts were made to update it or have it used as guidance. This detailed procedure manual needs to be updated, or another one created. Running a multi-million dollar business without formal procedures is not in line with best business practices.

There are inadequate policies and no detailed procedures (FINDING 4) providing guidance to employees at the GCCC as to how to handle various situations including:

1) Segregation of duties;
2) Barter contracts;
3) Gift certificates;
4) Donated goods and services; 
5) Day Passes; and 
6) Rain Checks.

For the following activities:

1) Proper use of POS system; 
2) Revenue and expense recognition; 
3) Safeguarding of assets; 
4) Appropriate use of POS system; and 
5) Reconciliation.

Cashier Reporting Structure (FINDING 23) 
The cashiers at the GCCC report to the complex manager.

Cashier Vetting and Security
1) Background Checks - Historically, background checks have not been required for cashiers. (FINDING 24) 
2) Bonding - The City is self-insured. The cashiers do not have a separate bond, but are insured through the City’s risk management department.

Cameras
The security cameras in and around the cash handling areas at the GCCC are non-functional. (FINDING 6)

Training
There is no formal training provided to employees that handle cash. (SEE FINDING 7)

Rates - Promotions and Other Fee Waiver at the GCCC
City Council approves rates for the GCCC as part of the budget process. GCCC staff change rates for many reasons including offering promotions, and “memo’ing out” balances. The Parks and Recreational Director also periodically approves promotions offering reduced prices for memberships.

Cash Handling - Internal Audit Surprise Cash Counts
A former employee alleged skimming and smoothing were occurring within the cashiering function at the GCCC. (SEE APPENDIX B GLOSSARY OF TERMS) One way to detect this is to do surprise cash counts.

As such, IA conducted two surprise cash counts at the GCCC; the first on April 16, 2016, at 1:00 pm, and the second on January 9, 2017. Surprise cash counts are useful in determining how the individual cashiers are handling cash, and the effectiveness of City policies and management procedures. It also serves the purpose of keeping employees honest. After the first cash count the Parks Department revised their policy regarding when the cashier is supposed to drop cash, focusing on a dollar amount rather than a certain number of certain types of bills. One goal of the second surprise cash count was to determine whether the new policy had been implemented.
A second person provided assistance during the cash counts by observing the cashier(s) that remained working while IA was counting another cashier’s drawer. This allowed business operations to continue. The purpose of having an observer is to watch for cashiers either slipping money into the drawer or removing money from the drawer other than for a sale. The reason for this is that if a cashier has not rung up sales (skimming), with the intention of diverting cash, the drawer will be over in cash. Generally, if this type of fraud has been occurring, the cashier in question will be keeping a mental tally of the unrecorded sales and when it reaches a certain dollar amount, they remove the cash. For example, if they fail to ring up five classes that are $6.00 each, they know the drawer is $30 over in cash and they remove the cash at the first opportunity that presents itself. Alternately, they may remove the $30 (or whatever amount) at the start of their shift or at another opportune time knowing that over the next several hours they can make up the deficit by not ringing up five sales. In this instance, the drawer might be short in cash at the time of a surprise cash count.

It should be noted that drawers can also be over/short due to simple human error. In this case, we would expect to see the same pattern of over/shorts indicated during the surprise cash counts over time. Also, daily cash reports for the days of the surprise cash counts would be expected to reflect any over/short balances detected during the surprise cash count. This was not the case at the GCCC. IA pulled the daily reports for the days that the surprise cash counts were conducted. All reports indicated that every cashier balanced to the penny. (SEE BELOW – Review of Daily Cash Reports)

Also, if we find that the cashiers are off a few dollars during the surprise cash counts, we would expect daily cash reports over a period of time to reflect minor over/shorts. If the daily cash reports do not follow the same pattern, it could indicate a problem. (SEE BELOW - Daily Over / Shorts for December 2017)

Prior to showing up at the GCCC for the surprise cash counts, IA determined the following:

1) Park and Recreation Cash Handling Policy;
2) GCCC Cash Handling Procedures;
3) The total amount of money in the vault; and
4) The amount of money each cashier has at the beginning of the shift.

Results of Surprise Cash Counts

The following table summarizes the results of the surprise cash counts:

<table>
<thead>
<tr>
<th>Cashier</th>
<th>April 16, 2016</th>
<th>January 9, 2017</th>
<th>Excess Cash</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cashier 1</td>
<td>$</td>
<td>-</td>
<td>Yes**</td>
</tr>
<tr>
<td>Cashier 2</td>
<td>$ (1.00)</td>
<td>No*</td>
<td></td>
</tr>
<tr>
<td>Cashier 3</td>
<td>$</td>
<td>No*</td>
<td></td>
</tr>
<tr>
<td>Vault</td>
<td>$</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>Cashier 4</td>
<td>$ 4.00</td>
<td>Yes**</td>
<td></td>
</tr>
<tr>
<td>Cashier 5</td>
<td>$</td>
<td>Yes**</td>
<td></td>
</tr>
<tr>
<td>Vault</td>
<td>$ (1.00)</td>
<td>N/A</td>
<td></td>
</tr>
</tbody>
</table>

No* Cashier had just started their shift
Yes**This is a finding
The excess cash found during the surprise cash counts is a finding. Having excess cash in the drawer creates risk for both the cashier and the cash asset. *(SEE FINDING 8)*

The cashier overages and shortages represent a finding. *(SEE FINDING 9)*

**Review of Daily Cash Reports**

IA reviewed all cash reports for April 16, 2016, January 9, 2017 and January 10, 2017 to determine if the shortages found during the surprise cash counts were reported at the end of the cashiers shift. They were not. *(SEE FINDING 9)* This supports the allegation of skimming or smoothing occurring at the GCCC, but is not conclusive.

**Vault Shortage**

The vault being short $1 is also a finding. *(SEE FINDING 9)*

In this case, the cashier is the same person as the person making the daily deposit. The cashier counted her drawer down and showed zero over short, leaving a set up that was a $1 short. The money taken in for the day was in a bag in the vault. The shortage should have been reported as an over short for the drawer. The ‘set-up’ was left in a drawer up front and not locked in the safe. *(SEE FINDING 10)* A ‘set-up’ in this context is the amount of money a cashier needs to start their shift.

**Daily Deposits**

IA reviewed the daily deposits for the month of December 2016 in order to determine:

1) If the pattern of over/shorts is consistent with daily activity, the following results were noted:
2) If the deposits were made in accordance with the Parks and Recreation Cash Handling Policy which specifies that all deposits are made on a DAILY basis except for weekends and holidays, and must be completed prior to the outside courier pick up, the following results were noted:
3) If the Daily Cash Count Sheet is completed by two people.

The following results were noted:

**Daily Over / Shorts for December 2017**

During the month of December, 3 days showed an over / short amount as follows:

<table>
<thead>
<tr>
<th>Activity Date</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/22/2016</td>
<td>$ (4.00)</td>
</tr>
<tr>
<td>12/23/2016</td>
<td>$ 1.00</td>
</tr>
<tr>
<td>12/29/2016</td>
<td>$ (1.00)</td>
</tr>
</tbody>
</table>

The only cashier with overages or shortages was the cashier supervisor. All other cashiers showed zero over short for the entire 31 day period. The pattern for the daily deposits is not consistent with the pattern of overages and shortages found in the surprise cash counts. This may indicate either skimming or smoothing, but is inconclusive.
Daily Deposits

The following table is a summary of information gathered from comparing the deposit slip, to the actual deposit date on the bank statement. **Parks and Recreation Cash Handling Policy** states the following:

“Deposit is done on a **DAILY** basis except for holidays and/or weekends. The Daily Deposit is picked up by outside courier service every weekday. Daily deposit must be completed before the outside courier arrives for pick up.”

<table>
<thead>
<tr>
<th>Days Late*</th>
<th>Count of Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - No Exception</td>
<td>5</td>
</tr>
<tr>
<td>1</td>
<td>13</td>
</tr>
<tr>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Holiday - N/A</td>
<td>2</td>
</tr>
</tbody>
</table>

**31**

*Days Late factors in weekends and holidays, and does not include the immediate day after – which would be the expected deposit date.

Not making the deposit timely for 26 of 31 (31 minus the 5 days with no exception) days is a finding. **(SEE FINDING 11)**

Daily Reconciliations

The Parks and Recreation Policy states the following:

The overall daily reconciliation is prepared next morning for the previous business day. It is **conducted by two persons** who prepare the bank deposit and Payment Distribution Form. All Active Net Reports must be run and must agree to the cash checks and credit cards.

Internal Audit found that the daily reconciliations are prepared by one person. IA review indicated that a second person would be asked to re-count the cash to verify the deposit, then sign off on the worksheet, but that they are not present during the counting of the cash. This negates the concept of this process as any kind of internal control. The only purpose it serves is in validating the deposit. This is a violation of policy and is a finding. **(SEE FINDING 12)**

Bank Reconciliations

The Finance Department does the bank reconciliations for the GCCC. This is proper segregation of duties. IA requested and received the December 2016 bank reconciliation to determine if there were any overages or shortages reported by the bank for the December GCCC deposits. There were none noted.

**Gift Certificates, Barter Contract and Donations**

**Gift Certificates**
The GCCC handles the sale and redemption of gift certificates differently, depending on the nature of the transaction. IA will explain this by presenting it categorically.

**Individual Sales**

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). (FINDING 13)

Using the manual system, the cashiers posts a credit when the gift certificate is purchased to the intended recipient’s account and when the recipient comes in to activate the gift certificate they activate the account. Since the POS system is not being utilized correctly, the daily report generated by the POS system “Cash Distribution By Account Summary” does not record this as a gift certificate sale, it simply shows it as a payment on account.

Since this credit created in the customer’s account does not show up as revenue in the report generated by the POS system (nor should it) the head cashier forces the reporting of revenue by adding the amounts credited to the customer accounts to a revenue line item – which she reports to Finance. This report is manual since the POS system does not interface with the City’s financial reporting system. This worksheet is titled the “Payment Distribution Form”. In this instance, there is a mistaken assumption that the receipt of cash triggers the recognition of revenue.

When the customer redeems the gift certificate the credit in the account is applied, and the membership is activated, but no revenue is recognized which again violates GAAP.

The POS system includes the functionality to properly record gift certificate sales, including proper revenue recognition. It would also enable management to enter the gift certificate number in the system and run reports to monitor the sales. This was tested during the walk through phase of this audit.

The current manual system does not include any tracking of the gift certificates by number. Management tried to remediate this by creating a handwritten log for gift certificate sales. This is a very inefficient way to deal with this individual sales as there is no way to run a report to monitor gift certificates sales, and redemptions.

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. (FINDING 14)

**Hutton Broadcasting, LLC (Hutton)—Barter Contract**

The City has a barter contract with Hutton. The contract states the following, in regards to compensation:

- $11,053 cash, plus;
- 175 day passes to the GCCC ($7 * 175 = $1,225);
- 60 one-month memberships GCCC (Gift Certificates) (69.50 * 60 = $4,170);
- 80 passes for one round of golf at the Links de Santa Fe ($47 * 80 = $3,760)

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2 This violates GAAP revenue recognition rules. Revenue should not be recognized until the gift certificate is redeemed. Until then it should be recorded as a liability.
In regards to the GCCC, as that is the scope of this audit, the marketing director for Parks and Recreation received a block of gift certificates from the GCCC for purposes of fulfilling this contract. These are noted on the inventory log found in (APPENDIX C – Items #226 to 250). He then distributes 5 gift certificates and 14 day passes per month, as per the terms of the contract. He tracks the one-month memberships (gift certificates) and day passes (card for a complimentary day pass) on a log. The remaining gift certificates, and complimentary day passes are stored in an unlocked cabinet above his desk. (FINDING 15)

Neither the Parks Department Office, nor the GCCC record any revenue or advertising expense for the Hutton contract. (FINDING 16)

Gift Certificates issued to Hutton
What happens at the GCCC when the Hutton gift certificates are presented?

When a Hutton gift certificate is presented at the GCCC for a one-month membership, the cashier opens an account for the person presenting the gift certificate, or pulls up their existing account. The cashier activates a one-month membership, but changes the amount owed to zero. IA was told that this is done because no money is exchanging hands. The cashiers refer to adjusting the monthly membership rate to zero as “Memo’ing Out” a balance. All cashiers have the capability of changing the membership rates to zero — or any other amount. This is a violation of segregation of duties in that the person handling the cash (custody) is the same person that is making the adjustment (record keeping). (FINDING 2)

IA asked if anyone reviews the amounts that are being “memo’ed” out as this is best practices for segregation of duties. The answer is no. When asked if anyone has to approve the amounts being “memo’ed”, again the answer was no. When asked if there were any internal controls around adjusting pre-set amounts in the system to zero, IA was told the only internal control they had was trust. IA asked for a report to be run on items that were memo’ed out from 04/01/2016 to 03/31/2017. During that time there were $60K worth of items memo’ed out. The report and rate adjustments are not reviewed or monitored by anyone. The problem being a cashier can reduce anyone’s membership rate to zero and no one would ever notice. (FINDING 17)

In the existing environment of no segregation of duties, a cashier can receive a cash payment on account, adjust the account to zero, and divert the cash. Since the adjustments are not being reviewed, this type of fraud can and will go undetected for long periods. Additional work in this area is warranted; however, it exceeds the scope of this audit.

Day Passes issued to Hutton
What happens at the GCCC when the Hutton day passes are presented?

When asked how the day passes were handled by the cashiers, IA was told the customers were simply waved through, and the day pass put into the cashiers drawer. Nothing was rung up because no cash is exchanging hands. These passes accumulate in the safe, but no one seems to know where they eventually end up. At the time of the surprise cash count(s) there were very few of these in the safe. Since there are no internal controls in place regarding issuance or redemption, these passes can be used over and over by whomever has them in their possession. IA is assuming that day passes issued for other purposes are also handled in the same manner. It should also be noted that no reconciliation is being done of the passes presented to the original log created by the Parks and Recreations Department for the Hutton PSA. (FINDING 18)

Santa Fe Area Home Builders Association (SFAHBA) LEGO Homebuilding Competition 2016 & 2017 (Barter)
The SFAHBA and the GCCC co-sponsor the Lego Home Building Competition. The City has a Memorandum of Understanding (MOU) with barter terms with SFAHBA. The barter is for advertising. (SEE APPENDIX F)

The terms of the agreement include the following:

1) 2016 - The GCCC contributes eight (8) gift certificates valued at $110 each for a total value of $880; and
2) 2017 – The GCCC contributes eight (8) gift certificates valued at $175 each for a total value of $1,400:

The processing of the gift certificates is identical to how the Hutton gift certificates are processed. As with Hutton:

1) Revenue and advertising expense are not being recognized; (FINDING 16) and
2) Membership rates are being adjusted to zero, by the cashiers – this is a segregation of duties issue. (FINDING 2)

**The New Mexican - Barter Agreement**

While this is also a barter contract, it is handled completely differently than the Hutton and SFAHBA contracts. According to a marketing administrator at Parks and Recreation, the City historically³ had a contract with the New Mexican for $800 per month in advertising. The New Mexican printed passes for distribution. This includes both day passes and class passes. Periodically, a marketing administrator picks up the passes from the GCCC and calculates the value of the passes used. He then drafts a memo to the New Mexican to let them know how many passes had been used, and asks for that amount to be credited to the City’s trade account. The trade is for advertising. For example, he would let them know that for the period of November 3, 2016 through February 7, 2017 the following passes were used:

- 76 day passes valued at $5 each = $380
- 14 class passes at $6.00 each = $84
- Total = $464

This is a $1 for $1 trade agreement. The City would then reduce the amount they owed the New Mexican by the $464.

Neither the marketing administrator nor the GCCC accounts for the revenue, or the advertising expense. (FINDING 16)

Neither the marketing administrator nor the GCCC reconciles the redemption of these passes to the log created by the marketing director. (FINDING 18)

**How do the cashiers at GCCC handle the receipt of the New Mexican passes?**

The cashiers at the GCCC take the coupon from the customer, and allow them to enter the facility. Since no cash is received, no transaction is recorded in the POS system. The coupons are put into the cashier’s drawer and at the end of the shift they end up in the safe. The passes are stored in the safe until the marketing director from the Parks Department picks them up. He picks these up on a periodic basis, generally about once every three months.

The New Mexican is billed for however many passes are presented. Therefore, the City does not have to control, monitor or track how many are printed. While the control over issuance and redemption is up to the New Mexican, the re-use of these passes is possible because there are no internal controls in place at the GCCC to prevent reuse. (FINDING 18)

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³ IA was told that the contract was not renewed in 2017.
Shelter Now Passes

The City Manager approved providing monthly membership passes to 10 to 12 youth participants in a winter shelter program. City staff working with Youth Works / Adelante requested this incentive. The estimated value of the passes was $1,926. The purpose of the program was to provide exercise and showers for homeless youth (ages 18 to 24) over the winter (January through April 2017). Donating the monthly memberships to this program meets one of the exception criteria of the “anti-donation clause” of the State constitution which allows for "provision for the care and maintenance of sick and indigent persons".

The City may still be required by GAAP to record this transaction. In addition, there may be tax implications that need to be considered.  (FINDING 19)

Santa Fe Chamber of Commerce-

This program began in 2017. The City gave the Santa Fe Chamber of Commerce (Chamber) youth memberships to be given out to students in grades 7-12. The prize is for an annual youth membership at the GCCC. Students that have not missed more than 2 days of school are eligible for the drawing. Two prizes are given for each grade.

This is not a like-kind exchange with the Chamber, nor is it a barter transaction, as the City does not receive anything in return for this (such as advertising). There is a question as to whether or not this would be considered a donation. Article IX, Section 14 of the New Mexico Constitution (referred to as the Anti-Donation Clause) prohibits donations.  (FINDING 20)

Consideration needs to be given to the proper accounting for this transaction.  (FINDING 16)
Library Passes

The Library has a summer reading program for young readers. All students that successfully complete the program are given a single day pass to use at the GCCC. This is an incentive to get the young readers to participate in the program and it also furthers the Library’s purpose which is encouraging reading.

The complex manager approves this program annually. The Library prints these passes, and issues them to the readers. The passes are not cancelled when received by the cashiers and there is no tracking of how many passes are issued nor reconciling of how many are used. In addition, there is no accounting done by either the GCCC or the Library, which would provide transparency to City management, the governing body and the constituents. (FINDING 21)

Preliminarly analysis by the Legal Department concludes that this does not constitute a donation under the anti-donation clause.

How do the cashiers at GCCC handle the receipt of the Library passes?

When asked how the Library day passes were handled, IA was told the customers were simply waved through, and the day pass put into the cashiers drawer. A sale is not rung up because no cash is exchanging hands. These passes accumulate in the safe, but no one seems to know where they eventually end up. At the time of the surprise cash count(s) there were many of these in the safe (close to a hundred). Since there are no internal controls in place regarding issuance or redemption, these passes could potentially be used over and over by whomever has them in their possession.

Return Passes

There was a stack of these passes in the safe. Return passes can be used as rain checks – or can be given to a disgruntled customer. IA was told the center rarely uses these anymore.

<table>
<thead>
<tr>
<th>Start</th>
<th>End</th>
<th>Comments 04/15/2016</th>
<th>Comments 01/09/2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>All On Top Of Safe</td>
<td>All in Safe</td>
</tr>
<tr>
<td>1</td>
<td>2475</td>
<td>Missing</td>
<td>Missing - no log</td>
</tr>
<tr>
<td>2476</td>
<td>2500</td>
<td>Missing</td>
<td>Unused - In safe</td>
</tr>
<tr>
<td>2501</td>
<td>2525</td>
<td>Missing</td>
<td>Missing - no log</td>
</tr>
<tr>
<td>2526</td>
<td>2550</td>
<td>Unused sitting on top of safe*</td>
<td>Used - Carbon copies in safe</td>
</tr>
<tr>
<td>2551</td>
<td>2575</td>
<td>Unused sitting on top of safe*</td>
<td>Used - Carbon copies in safe</td>
</tr>
<tr>
<td>2576</td>
<td>2600</td>
<td>On top of safe</td>
<td>Unused - In safe</td>
</tr>
<tr>
<td>2601</td>
<td>2625</td>
<td>Used – carbon copies only partially filled out*</td>
<td>Used - Carbon copies in safe</td>
</tr>
<tr>
<td>2626</td>
<td>2650</td>
<td>Unused sitting on top of safe*</td>
<td>Used - Carbon copies in safe</td>
</tr>
<tr>
<td>2651</td>
<td>2675</td>
<td>Unused sitting on top of safe*</td>
<td>Missing – no log</td>
</tr>
<tr>
<td>2676</td>
<td>2700</td>
<td>On top of safe</td>
<td>Unused - In safe</td>
</tr>
<tr>
<td>2701</td>
<td>2750</td>
<td>Missing</td>
<td>Missing - no log</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>-------</td>
<td>-------</td>
<td>-------------------------------</td>
<td></td>
</tr>
<tr>
<td>2751</td>
<td>2775</td>
<td>Missing</td>
<td></td>
</tr>
<tr>
<td>2775</td>
<td>2850</td>
<td>Missing</td>
<td></td>
</tr>
<tr>
<td>2851</td>
<td>2875</td>
<td>On top of safe - Unused</td>
<td></td>
</tr>
</tbody>
</table>

Unused - In safe
Unused - In safe
Missing - no log

* This statement subject to change - further testwork required.

As the above results from the surprise cash counts indicate, internal controls regarding return passes are ineffective. **(FINDING 22)**

Both gift certificates and the return passes should be treated as a form of cash, and internal controls should be implemented to ensure that they are safeguarded and accounted for accordingly. An Audit Alert “Treatment of Gift Certificates or Vouchers” was issued to Senior Management dated May 13, 2016. This alert emphasized that these items are cash instruments and should be treated accordingly.
FINDINGS

IA’s Response only included when the auditor does not believe the response adequately addresses the recommendations.

The overall assessment of the responses from the Parks Department is that in most cases while agreement is made that the finding needs to be resolved, there is no real plan for completion nor is there a sense that some of these issues are really understood. Further, the expected completion dates (from Parks) in most instances seems arbitrary and unrealistic.

FINDING 1 - Lack of Leadership and Oversight

Condition - The issues surrounding the operations of the GCCC are complex and multi-layered. With a focus on cash handling, which is the scope of this audit, IA noted that leadership in regards to setting policy and providing guidance and training that is in line with the complex laws and regulations so that staff can meet high-level objectives is negligible.

Criteria – The following criteria is taken from “Business Directory”, and is included as an example of best practices.

Leadership involves:

1) Establishing a clear vision;
2) Sharing that vision with others so that they willingly follow;
3) Providing the information, knowledge, and methods to realize that vision; and
4) Coordinating and balancing the conflicting interests of all members and stakeholders.

A leader steps up in times of crisis and is able to think and act creatively in difficult situations.

Cause – The various issues in this audit illustrate lack of leadership, and oversight for the administration of the GCCC.4

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4 Specific information regarding personnel matters as related to this audit are included in a separate memorandum, which is a matter of opinion for a personnel file, provided to the City Manager, and the City Human Resources Director to determine proper action. This memorandum is confidential per the Inspection of Public Records Act 14-2-2 A. (3).
Effect - The effect of not having leadership and oversight is seen in the findings as noted in this audit report.

Recommendation – The department director and complex manager should ensure:

1) Compliance with the City’s, State, and Federal Law;
2) Staff are provided leadership in the form of guidance, support and training to meet the City’s objectives; and
3) An adequate internal control framework exists at the GCCC to protect the City’s assets.

Finding Owners – Robert Carter, Department Director, Parks and Recreation and Liza Suzanne, GCCC Complex Manager

Management’s Plan of Action and Expected Remediation Date (provided by Robert Carter, IA format edit only)
Director of Parks and Recreation and Recreation Section management will develop a training plan for all existing staff and future staff in the current Department Cash Handling Policy.

1) Under the Parks and Recreation Director’s direction, the Department’s Administrative Manager and Supervisors will conduct a monthly review with all cash handling staff of the Department and City’s Cash Handling Policy, to ensure proper procedures are being followed.
2) Director of Parks and Recreation, along with the department’s Recreation Complex Managers, will research all current City, State, and Federal Laws pertaining to Cash Handling Policy, as well as other issues addressed in this report, to ensure that they are being address daily and that they are addressed in the overall Cash Handling Policy. Will share the Department’s policy with Finance, to ensure that all areas of the policy are covered in a City Policy on Cash Handling. Please see Finding #2- Item (1) for more.
3) Parks and Recreation Director will assign the Department’s Administrative Manager to conduct periodic reviews and cash audits at all community centers, and they will provide a monthly review for the Director to share with the Finance Director.
4) The Parks and Recreation 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.

Expected Implementation Date To be completed by December 1, 2017.

IA’s Response – The response is inadequate, as it does not address management ensuring that “An adequate internal control framework exists at the GCCC to protect the City’s assets.” Also assigning the “Department’s Administrative Manager to conduct periodic reviews and cash audits at all community centers, and they will provide a monthly review for the Director to share with the Finance Director” is a monitoring and detection control, but does not provide guidance and support.

FINDING 2 - Segregation of Duties Over Cash Handling Not Enforced
Condition - Neither the complex manager nor the cashier supervisor at the GCCC are familiar with the concept of segregation of duties. For this reason, the GCCC does not incorporate segregation of duties into its operations. IA also noted that cashiers have the ability to change

A more comprehensive audit is warranted in this area, but exceeded the scope of this audit.
rates in the POS system. Without proper segregation of duties it is very easy for staff to bypass other internal controls including system controls around cash handling. If a cashier can set up an account, adjust the balance owed for an annual membership to zero without getting the transaction approved, knowing no one will ever review it there is nothing stopping them from diverting the cash.

The same employees are responsible for:

- Custody of Cash;
- Record Keeping; and
- Authorization;

Criteria - Segregation of duties is a fundamental concept in business operations and is critical to having a strong internal control environment. The necessity for strong internal controls including proper segregation of duties increases with the liquidity of the transaction. Cash is of primary concern for this reason.

The Government Accounting Office (GAO) has issued Standards for Internal Controls in the Federal Government. Those standards state:

10.13 Segregation of duties helps prevent fraud, waste, and abuse in the internal control system. Management considers the need to separate control activities related to authority, custody, and accounting of operations to achieve adequate segregation of duties. In particular, segregation of duties can address the risk of management override. Management override circumvents existing control activities and increases fraud risk. Management addresses this risk through segregation of duties, but cannot absolutely prevent it because of the risk of collusion, where two or more employees act together to commit fraud.

Duties or responsibilities for cash handling can be broadly classified into:

- Authorization
- Custody
- Record-keeping
- Reconciliation

Some examples of incompatible duties are:

<table>
<thead>
<tr>
<th>SOD Category</th>
<th>An employee who.....</th>
<th>should not.......</th>
</tr>
</thead>
<tbody>
<tr>
<td>Custody / Cash Handling</td>
<td>Runs the cash register (handles cash receipts)</td>
<td>*Post to accounts receivable (AR)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>*Review or approve AR</td>
</tr>
<tr>
<td></td>
<td></td>
<td>*Reconcile cash</td>
</tr>
<tr>
<td>Custody / Cash Handling</td>
<td>Makes the deposit</td>
<td>*Receive deposit slips or corrections from the bank</td>
</tr>
<tr>
<td></td>
<td></td>
<td>*Verify cash receipts</td>
</tr>
<tr>
<td>Reconciliation</td>
<td>Reconciles the bank statement</td>
<td>*Handle cash</td>
</tr>
<tr>
<td></td>
<td></td>
<td>*Make the deposit</td>
</tr>
<tr>
<td></td>
<td></td>
<td>*Review AR</td>
</tr>
<tr>
<td></td>
<td></td>
<td>*Approve adjustments to AR</td>
</tr>
</tbody>
</table>
In an ideal system, different employees would perform each of these four major functions. In other words, no one person should have control of two or more of these responsibilities. The more negotiable the asset, the greater the need for proper segregation of duties, especially when dealing with cash, negotiable checks and inventories.

If a single person can carry out and conceal errors and/or irregularities in the course of performing their day-to-day activities, they have generally been assigned or allowed access to incompatible duties or responsibilities; which, increases the likelihood of fraudulent behavior, the length of time that it occurs undetected, and the dollar amount of the loss.

The segregation of duties issue is problematic because it is the cornerstone for fraud prevention, and detection. Adequate segregation of duties reduces the likelihood that errors both intentional and unintentional, will remain undetected by providing for separate processing by different individuals at various stages of a transaction and for independent reviews of the work performed.

**Cause** - The root cause is management’s lack of knowledge regarding designing, implementing, and monitoring internal controls around cash handling, including segregation of duties.

**Effect** - Failure to segregate the duties initiating the account set up, approving and posting adjustments, and handling cash is a critical mistake for any business. The lack of segregation of duties enables a person to perpetrate and conceal fraud for longer periods of time. Fraudulent activity is harder to commit, and more quickly noticed when duties are properly segregated, or compensating controls are in place.

**Recommendation** – IA recommends that a thorough analysis be done by an independent third party of the cash handling procedures at the GCCC, with the intent purpose of mapping out an internal control framework that can be implemented utilizing the current POS system, and size of staff. This analysis should include an assessment of the segregation of duties and system capabilities to enforce these controls as well as addressing the best way to comply with revenue recognition rules as defined by Generally Accepted Accounting Principles (GAAP).

**Finding Owners** – Robert Carter, Department Director, Parks and Recreation and Liza Suzanne, Complex Manager, GCCC

**Management’s Plan of Action and Expected Implementation Date (provided by Robert Carter, IA format edit only)**

1) 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. The assessment would follow the above recommendation of the IA for the City. **Expected Implementation Date December 15, 2018**
Parks and Recreation Director, Administrative Manager/Supervisors, and Complex Managers will develop and implement a Segregation of Duties Policy for Cash Handling, once the independent analysis is complete. **Expected Implementation Date December 15, 2018**

**FINDING 3 - Lack of a Citywide Cash Handling Policy**

**Condition** - The Finance Department does not have adequate formal policies and procedures. Some areas of Finance have ordinances or City Code that provide high level mandates to City employees, but there has been little follow up management to develop detailed policies and procedures to ensure compliance, and implementation. The policies and procedures would also provide guidance to City employees as to how to achieve the goals set in the mandates.

All entities that handle cash are responsible for developing their own policies and procedures. Cash handling policies at the department level are not consistent and may not include key internal controls intended to mitigate identified risks.

**Criteria** - Public sector managers and employees are accountable for the resources entrusted to them for ensuring programs and services are administered effectively and efficiently. A significant component in fulfilling this responsibility is ensuring that an adequate system of internal control exists within City government.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines internal control as a process designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

1. Effectiveness and efficiency of operations;
2. Reliability of financial reporting;
3. Compliance with applicable laws and regulations; and
4. Safeguarding of assets.

The foundation of an effective internal control environment includes formal policies and procedures designed and implemented to ensure meeting the City’s objectives. These policies and procedures are the documents that set forth the fundamental principles and methods that employees rely on to do their jobs.

Policies and procedures are preventative controls and are a first line of defense.

The following will help distinguish between an ordinance, a policy and a procedure:

1. Ordinances create a mandate;
2. Policies are the rules and guiding principles of the department or division;
3. Procedures are the step-by-step sequence for the performance of the activity within the department or division that is defined in the policy.

Together these create the internal control environment. Effective policies ensure the achievement of the high-level mandate in the ordinance. Comprehensive procedures assure efficiency and effectiveness in day-to-day operation, completeness and accuracy of data, uniformity, replication, and succession planning.

**Cause** - The root cause appears to be a lack of an internal control environment, including the foundation, which includes clearly defined policies and procedures. This is a widespread problem with the City and is not limited to the Finance or Parks and Recreation Departments, or to the GCCC.
**Effect** - The overall effect is a lack of cohesion in the City regarding the basic internal controls around cash handling, which creates an environment that is conducive to fraudulent activity.

**Recommendation** - Finance should develop detailed policies and procedures to provide guidance to staff in achieving the objectives set forth in City Code, and for creating an effective internal control environment. These policies and procedures should include cash handling.

**Finding Owner** - Adam Johnson, Director, Finance

**Management’s Plan of Action and Expected Implementation Date (provided by Adam Johnson, IA format edit only)**

The Finance Department has actively undertaken efforts to draft a city-wide cash handling policy, with subsections for various revenue intake sites and their unique activities and responsibilities. The policy is guided by best practices established by the Government Finance Officers Association (GFOA), the Government Accountability Office (GAO), the Federal Deposit Insurance Corporation (FDIC) and the Federal Bureau of Investigation (FBI). The policy will be implemented at every revenue intake site within the City once finalized. **Expected Implementation Date:** To be completed by December 31, 2017.

**FINDING 4 - Inadequate Department and Division Level Cash Handling Policy and Procedures**

**Condition** - The department level policy written by Parks and Recreation does not follow minimum best practices of including an effective date, a revision date or any formal signatures.

The Finance Department provided Internal Audit with a few pages of GCCC Administrative Manual, specifically pages that dealt with cash procedures. Internal Audit was told by the GCCC that the procedures were very outdated and had been created when the center originally opened in 2000. The current GCCC staff are unaware of the procedures and are not using them.

**Criteria** – Public sector managers and employees are accountable for the resources entrusted to them for ensuring programs and services are administered effectively and efficiently. A significant component in fulfilling this responsibility is ensuring that an adequate system of internal control exists within City government.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines internal control as a process designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

1) Effectiveness and efficiency of operations;
2) Reliability of financial reporting;
3) Compliance with applicable laws and regulations; and
4) Safeguarding of assets.

The foundation of an effective internal control environment includes formal policies and procedures designed and implemented to ensure meeting the City’s objectives. These policies and procedures are the documents that set forth the fundamental principles and methods that employees rely on to do their jobs.

Policies and procedures are preventative controls and are a first line of defense.
The following will help distinguish between an ordinance, a policy and a procedure:

1) Ordinances create a mandate;
2) Policies are the rules and guiding principles of the department or division;
3) Procedures are the step-by-step sequence for the performance of the activity within the department or division that is defined in the policy.

Together these create the internal control environment. Effective policies ensure the achievement of the high-level mandate in the ordinance. Comprehensive procedures assure efficiency and effectiveness in day-to-day operation, completeness and accuracy of data, uniformity, replication, and succession planning.

**Cause** - The root cause appears to be a lack of an internal control environment, including the foundation, which includes clearly defined policies and procedures. This is a widespread problem with the City and is not limited to the Finance or Parks and Recreation Departments, or to the GCCC.

**Effect** – Issuing policies without effective dates, revision dates, or formal signatures makes it difficult to determine which version of the policy is valid and when it became effective.

The overall effect is a lack of cohesion at the GCCC regarding the basic internal controls around cash handling, which creates an environment that is conducive to fraudulent activity.

**Recommendation** - Coordinate with Human Resources on best practices for the basic elements to be included on a formal policy. At a minimum include effective date, revision and formal signatures (with dates) indicating formal approval by the department head, the city manager, and the Legal department.

Coordinate with Finance to determine which elements will be included in an overall cash handling policy and which need to be defined in cash handling procedures specific to the GCCC.

Develop comprehensive policies and procedures to provide guidance to the staff at the GCCC and other Parks facilities. Update the administrative procedures manual.

**Finding Owner** – Robert Carter, Department Director, Parks and Recreation

**Management ’s Plan for Correction and Expected Remediation Date (provided by Robert Carter, IA format edit only)**

1) Department Director will work with Human Resources on getting the proper format to use for Policies and include the department’s cash handling policy to this format. **Expected remediation date – June 30, 2017**

2) Parks and Recreation Department’s Administrative Manager and Supervisors will work with Finance to ensure that all elements of the department’s cash handling policy meets the City’s cash handling policy. **Expected remediation date – November 1, 2017**

3) See #2- they will also develop amendments to the policy for GCCC, Salvador Perez, Ft Marcy, and BC Pools. **Expected remediation date – December 1, 2017**

4) In consideration of the findings of this report and the state of affairs at the GCCC, the Director of Parks and Recreation will update the administrative procedures manual with all items listed in this report, to ensure that all areas are addressed. **Expected remediation date – December 1, 2017**
FINDING 5 - Violation of Park Cash Handling Policy - Vault does not Require Dual Access

Condition - The vault is opened by a single person.

Criteria - Parks and Recreation Cash Handling Policy States the Following:

“All cash and negotiable items must be secured in a safe overnight and during business hours. Cash deposits are transported to the bank via a courier company. The cash vault must be opened and closed under dual control, (two persons required to gain access). When not in use the vault must be locked.”

Recommendation - Parks should evaluate whether this is a key control or not, and if it is, then safe’s should be provided at the site that support dual control.

Finding Owner - Robert Carter, Department Director, Parks and Recreation

Management’s Response and Implementation Date (provided by Robert Carter, IA format edit only)

Once the Cash Handling Policy has been corrected and updated, the Director of Parks and Recreation will evaluate whether this control is needed. See Finding - 4. Expected remediation date – November 1, 2017

FINDING 6 - Security Cameras Not Working

Condition – The security cameras over the cashier area at the GCCC are non-functional.

Criteria – Security cameras over cashiers are a routine internal control which provide protection to the cashier and are also a good detection, and monitoring control.

Cause – Not having an adequate internal control environment.

Effect – The overall effect is a lack of basic internal controls around cash handling, which creates an environment that is conducive to fraudulent activity.

Recommendation - Evaluate the cost / benefit of fixing or replacing the security cameras at the GCCC. Develop an implementation plan to ensure coverage in critical cash handling areas.

Finding Owner – Liza Suzanne, GCCC Complex Manager, Joshua Elicio, CISO, ITT

Management’s Plan of Action and Expected Remediation Date (provided by management, IA format edit only)

Parks Response (Robert Carter)

The Parks and Recreation Director and ITT have been working on this issue since July 2016. Please see Joshua Elicio’s response below.

ITT Response – Joshua Elicio, Chief Information System Security Officer

Executive Summary:
Since July 2016, ITT has been involved with assisting in the risk assessment of the GCCC’s video surveillance camera system. During the course of the year, ITT took action to work closely with Ms. Liza Suzanne, GCCC Complex Manager, to identify the current configuration of the video surveillance setup, immediate improvement needs, budgetary outlook and a recommend way forward. Outlined below is ITT initial findings, interim improvement actions, and recommendations.

- **Management’s Plan of Action and Expected Remediation Date**

**Initial Video Surveillance Findings:**

The initial findings of the current video surveillance system became evident in the July 2016 time period where the City of Santa Fe, Chief Information Security Officer (CISO) was asked by the City’s Internal Auditor to assess security risks at the GCCC. The findings by the CISO were antiquated/unreliable system server setup which was 3 years out of manufacture warranty, misconfigure video surveillance server, and a lack of audit security to manage and maintain proper video. 4 of the functional digital video cameras were unreliable, where services had to be manually re-enabled on a regular basis; no real pattern. Services from video surveillance vendor were utilized on a regular basis to troubleshoot shut down of services. Additional findings were 14 analog video cameras nonfunctional due to DVR malfunction and bad cabling. Cameras went dark approximately in 2014.

**Interim Actions as of 6/7/2017:**

The interim actions by ITT resulted in 7 restored analog cameras and adding a 16 port switch to ensure that video from these cameras are recording to the current system server. The restoration of these analog cameras will enable the surveillance capability. In addition, full auditing and control of the server system is now under ITT purview.

**Recommendation:**

ITT has evaluated and assessed the GCCC for a recommended network rewiring of CAT6 cabling and the implementation of a modernized video surveillance system. For fiscal year 2017-2018, an estimated budget by the GCCC of $35,000 was set aside to modernize the GCCC in a phased approached. ITT is estimating phase I implementation of 11 new interior cameras to be installed replacing the current digital and analog cameras covering the critical areas at the GCCC. ITT is estimating a December 2017 timeframe when new interior cameras will be installed. Phase II implementation will consist of 6 exterior cameras at an approximate cost of $20,000 that will cover the other areas at the GCCC. These exterior cameras will be budgeted for next fiscal year of 2018-2019 and have an implementation timeline of October 2018. This modernized system will be centralized and controlled by ITT exclusively.
FINDING 7 - Lack of Training for Employees Handling Cash

Condition - There is no formal training provided to employees that handle cash.

Criteria - See Criteria for FINDING 3

Adequate training of staff to policies and procedures are part of the foundation for an effective internal control environment. Training ensures effective and efficient implementation of stated ordinances, policies and procedures and is crucial for meeting stated objectives.

Training is a preventative control and is a first line of defense.

Cause - The root cause appears to be a lack of an internal control environment, including the foundation, which includes training. This is a widespread problem with the City and is not limited to the Finance or Parks and Recreation Departments, or to the GCCC.

Effect - The overall effect is a lack of cohesion in the City regarding the basic internal controls around cash handling, which creates an environment that is conducive to fraudulent activity.

Recommendation - Provide uniform training to all employees that handle cash. This training should also include an ethics component. Provide training to all new employees handling cash. Ethics training should be done annually.

Finding Owner – Robert Carter, Department Director, Parks and Recreation

Management ‘s Plan for Correction and Expected Remediation Date (provided by Robert Carter, IA format edit only)

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.

IA’s Response – Management’s response is inadequate, as it does not include an expected implementation date.

FINDING 8 – Excessive Cash in Cashiers Drawers Found During Surprise Cash Counts

Condition - It was noted during the surprise cash counts that 3/5 cashier drawers counted by IA had excessive cash as defined by the Parks and Recreation Cash Handling Policy.

Criteria – Parks management has a stated policy requiring that excessive cash be dropped into the safe as needed.

Cause – Not having an adequate internal control environment.

Effect – Having excessive cash in the cashier’s drawer increases risk to both the cashier and the cash asset.

Recommendation - Excess cash needs to be dropped periodically into the vault in accordance with management policies, and sound business practices.

Finding Owner – Liza Suzanne, GCCC Complex Manager, Robert Carter, Department Director, Parks and Recreation

Management’s Plan of Action and Expected Remediation Date (provided by Robert Carter, IA format edit only)
Memo was sent to managers and staff to be reminded of the policy and manager needs to conduct random checks of cash drawers. Staff need to be disciplined for infractions. Administrative Manager will work on conducting random checks at all facilities and recording any findings. **Expected Remediation Date – August 15, 2017.**

**IA’s Response** – The response is inadequate as it does not provide any guidance, training or support to the staff. There is no plan to find out the root cause of the issue. Why is this occurring, how can management help?

**FINDING 9** – Cash Overages and Shortages Found During Surprise Cash Counts and Absence of These Overages and Shortages on the Corresponding Daily Cash Reports

**Condition** - It was noted during the surprise cash counts that 2/5 drawers counted by IA did not balance, as follows:

1) April 16, 2016 - $1.00 short; and
2) January 9, 2017 - $4.00 over.

IA also noted the following vault shortage:

1) January 9, 2016 – set up $1 short.

In order to determine if this was an ordinary pattern in regards to either the cashiers or for the vault, IA pulled “Daily Cash Reports” for the entire month of December 2016. It is noted that neither of these cashiers nor the vault had any cash shortages or overages for the entire month of December 2016.

Additionally, the “Summary Daily Balance Sheets” were pulled for April 16, 2016, January 9, 2017 and January 10, 2017 to determine if the shortages found during the surprise cash counts were reported. They were not. All three summary reports showed zero over / short for the day.

IA also reviewed the cashier’s individual “Daily Balance Sheets”. These also indicated zero over / short for the days in question.

What IA expected to find is that the individual cashiers would have shown the respective $1 shortage and $4 overage on their “Daily Report” when they counted their drawer down for the day. We also expected to see the $1 vault shortage showing up later that day, or the following day when the cashier got the setup with a $1 short.

**Criteria** - Over short balances should be reported as they are found.

**Cause** - The root cause appears to be a lack of an adequate internal control environment regarding cash handling, including segregation of duties.

**Effect** - Not ringing up cash sales will result in underreported revenue. Also, the lack of internal controls over cash creates an environment that is conducive to fraudulent activity including the diversion of cash.

**Recommendation** - IA recommends that GCCC management perform surprise cash counts periodically on their cashiers targeting different times in shifts. Overages and shortages found during the surprise cash counts should be taken seriously including proper personnel action.

**Finding Owner** - Liza Suzanne, GCCC Complex Manager
Management’s Plan of Action and Expected Remediation Date (provided by Robert Carter, IA format edit only)

1) Community Center Management and Parks & Recreation Management will set up a plan for surprise cash counts at all four facilities: Salvador Perez, Ft. Marcy, GCCC, and BC Pool. Overages/Shortages will be addressed with employee at that time, and proper disciplinary action will occur. Debora Trujillo, Administrative Manager, will administer this. **Expected Remediation Date - August 1, 2017**

2) Cash Overage/Shortage forms will be developed to record these discrepancies. Debora Trujillo, Administrative Manager, will administer this. **Expected Remediation Date - August 1, 2017**

**Expected Remediation Date - August 1, 2017** - Debora Trujillo, Administrative Manager, will administer this.

**FINDING 10 – Ineffective Safeguarding of Assets - Set Up Not in Vault**

**Condition** - During the surprise cash count on January 9, 2017 it was noted that one of the set ups was not in the vault. The set-up was left in a drawer at the cashier station ready to use.

**Criteria** - Parks and Recreation Policies state the following:

“All cash and negotiable items must be secured in a safe overnight and during business hours.”

**Cause** - The root cause is an inadequate internal control environment over cash handling.

**Effect** - Ineffective safeguarding of assets which puts the City at risk for loss.

**Recommendation** - Keep set-ups locked in the safe until needed.

**Finding Owner** - Robert Carter,

**Management’s Plan of Action and Expected Remediation Date (provided by Robert Carter, IA format edit only)**

1) Memo was sent to Community Center Complex Managers and Administrative Supervisors, requiring that set ups be locked in the safe until needed on June 27, 2017. **Expected Remediation Date - July 1, 2017**

2) This wording will be added to Cash Handling Policy. **Expected Remediation Date - At completion of Cash Handling Policy**

**IA Response** – A memo does not resolve this issue. This is already part of policy. What is management’s plan for finding out the root cause? How can management support staff in achieving this objective? Is any follow up action going to be done to ensure this is not happening in the future?

**FINDING 11 – Deposits Are Not Being Made Timely**

**Condition** - GCCC cash deposits as reflected on deposit slips attached to the Summary Daily Balance Sheet for the month of December were traced to the December bank statement.

In summary, 26 of 31 days did not make a deposit timely. The days late did factor in holidays and weekends.

**Criteria** - Parks and Recreation Cash Handling Policy States the Following:
“Deposit is done on a **DAILY** basis except for holidays and/or weekends. The **Daily Deposit** is picked up by outside courier service every weekday. Daily deposit must be completed before the outside courier arrives for pick up.”

**Cause** - There is an inadequate internal control environment over cash handling as well as staffing and scheduling issues.

**Effect** - The overall effect is a weak or minimal internal control environment, which creates an atmosphere that is conducive to fraud.

**Recommendation** – Ensure that deposits are ready for pick up when the outside courier service arrives.

**Finding Owner** - Liza Suzanne, GCCC Complex Manager

**Management’s Plan of Action and Expected Remediation Date (provided by Robert Carter, IA format edit only)**

The Director of Parks and Recreation will work with the Recreation Complex Managers to ensure that deposits are being made daily, except weekends and holidays. Complex Manage will conduct weekly inspections of deposit log book, to ensure that this is being done. Recreation Complex Manager will update the Director of Parks and Recreation and the Administrative Manager monthly, of any deviations from this policy. **Expected Remediation Date – September 15, 2017**

**FINDING 12 – Daily Reconciliations are Being Prepared by One Person**

**Condition** – Daily deposits and reconciliation is being prepared by one person; however, a second person will generally sign off on the worksheet.

**Criteria - Parks and Recreation Cash Handling Policy States the Following:**

“The overall daily reconciliation is prepared next morning for the previous business day. It is **conducted by two persons** who prepare the bank deposit and Payment Distribution Form. All Active Net Reports must be run and must agree to the cash checks and credit cards.”

**Cause** - There is an inadequate internal control environment over cash handling.

**Effect** - The overall effect is a weak or minimal internal control environment, which creates an atmosphere that is conducive to fraud.

**Recommendation** – Ensure that the daily reconciliation is prepared by two people in accordance with stated department policies.

**Finding Owner** - Liza Suzanne, GCCC Complex Manager

**Management’s Plan of Action and Expected Remediation Date (provided by Robert Carter, IA format edit only)**

The Director of Parks and Recreation will work with Recreation Complex Managers and Administrative Manager/Supervisors to establish a two-person reconciliation process. The plan process must include two supervisors/managers in the same room at the same time conducting the count. Once the count has been completed both supervisors/managers will sign the proper documents. Documents will be reviewed weekly by the Recreation Complex Managers, with updates given periodically to the Director of Parks and Recreation. **Expected Remediation Date – September 15, 2017**
FINDING 13 – The GCCC’s Active Net POS System Not Utilized for Gift Certificate Sales

**Condition** – The GCCC is not using the POS system for gift certificate sales. This effectively eliminates system controls that would allow for monitoring and tracking, and proper revenue recognition. In addition, revenue is being recognized at the time of sale and not at the time of redemption, which is not in line with Generally Accepted Accounting Principles.

**Criteria** – The POS system has built in controls that will allow for tracking gift certificate sales and redemption.

Generally Accepted Accounting Principles (GAAP) stipulate that a liability is to be set up at the time the gift certificate is sold, and the revenue to be recognized when the gift certificate is redeemed.

The correct accounting would be:

**Sale**

Debit Cash XXX
Credit Gift Certificate Liability XXX
To record the sale of a gift certificate or gift card

**Redemption**

Debit GC Liability XXX
Credit Revenue (whatever the revenue account is) XXX

**Cause** – Lack of understanding of the:

1) Underlying accounting principles regarding revenue recognition;
2) Underlying accounting principles regarding gift certificate sales and redemption;
3) Capabilities of the POS system; and
4) Basic concepts regarding internal controls.

**Effect** – The overall effect is a nonexistent internal control environment in regards to gift certificates, as well as revenue recognition problems. *This creates an atmosphere that is conducive to fraud.* Assigning a numeric value to help gauge the extent of the problem is not possible due to the inability to track or monitor sales.

**Recommendation** – An assessment needs to be made of the POS system to optimize built in capabilities to track and record gift certificate sales and redemptions, and properly record revenue. This assessment should be made with someone that is familiar with internal controls and accounting standards.

Ensure that the manual interface reflects GAAP revenue recognition rules and gift certificate liability issues.

**Finding Owner** - Robert Carter, Department Director, and Liza Suzanne, GCCC Complex Manager

**Management’s Plan of Action and Expected Remediation Date (provided by Robert Carter, IA format edit only)**

1) Administrative Manager and the Director of Parks and Recreation will work with Finance Department on best practices for Gift Certificates and develop a policy for Gift Certificates. *Expected Remediation Date – December 10, 2017*
2) POS System reviewed by Finance Department, Parks and Recreation Director and Administrative Manager, to ensure
3) Recreation Complex Managers and the Administrative Supervisors at the Community Centers will ensure that POS for recreational software is being used to process all Gift Certificates. Training of the recreational
software and the operation of the POS is first conducted by the software provider, and then will future training will be conducted with ITT and Recreation section management. Expected Remediation Date - September 25, 2017.

4) Administrative Supervisors at the Community Centers will ensure that all Gift Certificates are numbered and have an expiration date, of no more than 2 years as per Gift Certificate Policy. Expected Remediation Date - December 10, 2017

Internal Audits Response – This response is inadequate. Management’s response in #2 above is not complete. It does not address the recommendation “An assessment needs to be made of the POS system to optimize built in capabilities to track and record gift certificate sales and redemptions, and properly record revenue. This assessment should be made with someone that is familiar with internal controls and accounting standards.”

FINDING 14 - Inadequate Management and Accounting for Batches of Gift Certificates

Condition – Batches of gift certificates are given to employees for various reasons – for example to marketing to issue per the terms of a barter contract. These are not being effectively tracked, monitored, or reconciled.

Criteria – Gift certificates, return passes, library passes, New Mexican passes, and any other type of pass that the GCCC uses are to be controlled like cash instruments. Sales need to be monitored, reconciliations need to occur, and they need to be secured in the safe when not being used.

Cause – Lack of an effective internal control environment

Effect - The overall effect is a nonexistent or very weak internal control environment, which creates an atmosphere that is conducive to fraud.

Recommendation – Track and monitor the issuance of batches of gift certificates including recording numbers and amount of gift certificates in logs. Reconcile redemption of batches given out. Individual sales should be tracked in the POS system as mentioned in Finding 9.

Finding Owner - Liza Suzanne, GCCC Complex Manager

Management’s Plan of Action and Expected Remediation Date (provided by Robert Carter, IA format edit only)

1) Develop a log to list gift certificate numbers, and who the gift certificates will given to – i.e Chamber of Commerce, Library, Marketing Section of the department, etc. All Gift Certificates must be numbered. All passes must be numbered and recorded. Passes and gift certificates that are received must be stamped “Used” or have a hole punched to represent that it can no longer be used.

2) All passes must also have a log that names the parties and numbers given to, as addressed in #1. Passes and gift certificates that are received must be stamped “Used” or have a hole punched to represent that it can no longer be used.

3) Gift Certificates should be kept in a locked safe and only be removed for sales.

Expected Implementation Date – December 10, 2017

Internal Audits Response – The response is inadequate. The recommendation is intended to log batches of gift certificates given out, not individual sales. The reconciliation is in regards batches of gift certificates given out, not individual sales. As mentioned in the condition “Batches of gift certificates are given to employees for various reasons – for
example to marketing to issue per the terms of a barter contract. These are not being effectively tracked, monitored, or reconciled. “Also, the reconciliation of gift certificates given out in batches is not addressed.

It is not clear who is going to “develop” the log.

The logging of passes is not relevant to this finding.

**FINDING 15 – Gift Certificates / Complimentary Passes Are Not Secured at Parks and Recreation Department Office**

**Condition** - 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.

**Criteria** – Gift certificates and complimentary passes need to be treated as cash instruments. This includes ensuring they are securely locked.

**Cause** - Lack of an effective internal control environment.

**Effect** - The overall effect is a weak or minimal internal control environment, which creates an atmosphere that is conducive to fraud.

**Recommendation** – Safely secure these items in a locked cabinet or safe.

**Finding Owner** - Robert Carter, Department Director, Parks and Recreation

**Management’s Plan of Action and Expected Remediation Date (provided by Robert Carter, IA format edit only)**

Safe was purchased and is located in Marketing & Special Events Administrator’s office. **Expected Implementation Date – Completed**

**FINDING 16 – Unreported Revenue and Advertising Expense – Barter Contracts**

**Condition** The City has the following agreements in place:

1) A Professional Services Agreement (PSA) with **Hutton Broadcasting, LLC**. The terms of this contract include trading advertising for gift certificates and day passes with the GCCC. (SEE APPENDIX E for Compensation Breakdown).

2) A Memorandum of Understanding (MOU) with the **Santa Fe Area Home Builders Association**. The terms of the MOU include trading advertising for gift certificates at the GCCC. (SEE APPENDIX F for Compensation Breakdown).

3) A Barter Agreement with **The New Mexican**. The terms of this contract include trading advertising for membership and day passes, printed by the New Mexican, with the GCCC. (SEE APPENDIX G for Compensation Breakdown)

4) The City has donated gift certificates to the **Santa Fe Chamber of Commerce** - At the time of the writing of this report this was a donation of gift certificates as prizes to the Santa Fe Chamber of Commerce. There is no exchange of services for this donation. If the City determines that this should be a barter contract it needs to be accounted for accordingly.

**Criteria** – Barter contracts for advertising are fairly commonplace and are recognized by the Financial Accounting Standards Board (FASB) in Statement of Financial Accounting Standards No. 63 Financial Reporting by Broadcasters. While this guidance is written from the perspective of the advertiser, the same basic principles would apply to the entity they are
entering into the barter agreement with. These standards state that barter transactions shall be reported at the estimated fair market value of the product or service received, and revenue is recognized at the time that the service is rendered.

Applying those standards to the contract with Hutton, the City should be recording an element of advertising expense

DR. Advertising Expense (for the fair market value of the trade / as realized)
CR. Revenue (GCCC Membership Fees (or other appropriate acct)
To record advertising expense and revenue.

Cause – Lack of an internal control framework

Effect - The effect is underreported revenue and underreported advertising expense.

Recommendation – The Parks and Recreation Department needs to work with the Finance department to ensure the proper recording of all revenue and expense items as related to this or other barter contracts. (Please note this finding specifically addresses the portion of the contract that deals with the GCCC as that is the scope of the audit. However, Parks and Recreation should also record the necessary entries for Links de Santa Fe and any other barter contracts they have that are not within the scope of / or otherwise mentioned in this report.)

Finding Owner – Robert Carter, Department Director, Parks and Recreation, Liza Suzanne, GCCC Complex Manager

Management ‘s Plan for Correction and Expected Remediation Date (provided by Robert Carter, IA format edit only)
Director of Parks and Recreation, 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. This Barter System Policy will include all sections of the Parks and Recreation Department including: GCCC, FM, SP, and Marty Sanchez Golf Course Expected Implementation Date – October 30, 2017

FINDING 17 – Memo’ed Out balances are not approved or reviewed

Condition - Adjustments and rate changes are not approved or reviewed. IA requested a system generated report detailing all “memo’ed out” transaction for the previous year. The report totaled over 60K.

When asked what kind of internal controls were in place to ensure someone did not just memo out a family member or friends balance we were told that the internal control was trust.

Criteria – Parks and Recreation Cash Handling Policy – Revised

“Any void MUST be approved and preferably performed by a supervisor, with notes on the Account Tech’s spreadsheet explaining the reason for the void.”

Best business practices also stipulate that employees who handle cash should never do rate adjustments or any other kind of adjustments.

In an article on the Association of Fraud Examiner’s website titled Skimming Revenue, Part One, by Joseph R. Dervaes, CFE, ACFE Fellow, CIA, he states the following:
“Employees are tempted and even put at risk in work environments where internal controls are weak or aren't properly monitored to ensure that management's expectations are being met. Managers tell employees what to do and expect them to do it, but then don't subsequently review their work once the job is done. This lack of monitoring is called "blind trust." This issue is at the heart of many fraud cases and often rears its ugly head in cash receipting frauds.”

Simply put, trust is not an internal control, and is one of the key contributors to cash receipting fraud.

“Trust but verify” is the overarching internal control principle that helps deter fraud.

**Cause** – An ineffective internal control framework

**Effect** - The overall effect is a weak or minimal internal control environment, which creates an atmosphere that is conducive to fraud.

**Recommendation** – 1) Ensure voids or “Memoe’d out balances are properly approved and reviewed, and 2) Review and approve adjustments appropriately. Following segregation of duties guidelines, all adjustments should be reviewed for propriety by someone not involved in the cash handling or accounts receivable process. This typically falls to a high-level person. This responsibility should fall to the GCCC complex manager or department director.

**Finding Owner** – Robert Carter, Department Director, Parks and Recreation, Liza Suzanne, GCCC Complex Manager

**Management ‘s Plan for Correction and Expected Remediation Date (provided by Robert Carter, IA format edit only)**

Director of Parks and Recreation, will work with Recreation Complex Managers, Administrative Manager and Supervisors to develop a plan for voids and “memoe’d” out balances as referred to in the Department’s Cash Handling Policy. All voids and “memoe’d” out balances will be recorded on a form (to be developed by the Department’s Administrative Manager). The Department’s Administrative Manager will conduct bi-weekly inspections of the documentation and provide the Director of Parks and Recreation, a monthly log of this information.

**Expected Remediation Date** - September 1, 2017

**Internal Audit’s Response** – Management’s response is inadequate. It does not address the recommendation. Specifically, recording the balances on a form serves no purpose. It is not an internal control. The recommendation of ensuring review and approval is not being addressed.

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

**Condition** - When a customer presents a day pass at the GCCC the cashier takes the pass and then waves the customer through. The pass is put into the cashier’s drawer, and eventually makes its way to the safe, however, no one seems to know where they eventually end up. Since there are no internal controls in place regarding issuance or redemption, these passes can be used repeatedly by whoever has them in their possession.

Day passes used in regards to the Hutton PSA are not reconciled to the original log.

Day passes used in regards to the New Mexican PSA are not reconciled to the original log.
Criteria – Gift certificates and complimentary passes need to be treated as cash instruments. This includes monitoring and reconciling their use.

Cause – Lack of an internal control framework

Effect – The overall effect is a weak or minimal internal control environment, which creates an atmosphere that is conducive to fraud. There is also unreported revenue each time a pass is used and no transaction is recorded.

Recommendation – Develop internal controls over the issuance and redemption of day passes.

Reconcile to issuance logs the redemption of day passes used to fulfill contractual agreements.

Finding Owner – Robert Carter, Department Director, Parks and Recreation, and Liza Suzanne, GCCC Complex Manager

Management’s Plan for Correction and Expected Remediation Date (provided by Robert Carter, IA format edit only)
Director of Parks and Recreation, Complex Managers, and Administrative Manager will develop a policy regarding reconciliation and uses of day passes for all Community Centers. Policy should include: tracking, marking as used or punching holes in the card; and recording on proper forms to ensure proper reporting is being done. Expected Remediation Date – September 15, 2017

FINDING 19 – Inadequate Accounting of Donated Goods

Condition – The GCCC has an agreement with Shelter Now to provide exercise and showers for homeless youth. This is an allowable exception under the anti-donation clause of the New Mexico Constitution – Article IX, Section 14. However, there has been no accounting to record the transaction on the City’s books.

Criteria – Accounting for the donated goods would provide transparency to City management, the governing body, and the constituents.

Cause – Parks and the GCCC lack an internal control framework including policies and procedures to provide guidance to staff as to how to handle donations.

Effect – Lack of transparency with record keeping.

Recommendation – Work with the Finance Department to determine what is any accounting needs to occur regarding the donated goods and services. Determine the tax consequences, if any of the donated goods.

Finding Owner - Robert Carter, Department Director, Parks and Recreation

Management’s Plan of Action and Expected Remediation Date (provided by Robert Carter, IA format edit only)
Administrative Manager and Director of Parks and Recreation will develop a policy with Finance on Accounting of Donated Goods. Expected Remediation Date – October 1, 2017

FINDING 20 – Youth Membership Passes Given to the Santa Fe Chamber of Commerce

Condition – In May, 2017 the City agreed to give the Santa Fe Chamber of Commerce (Chamber) 2 gift certificates to be used for youth membership passes at the GCCC, for each grade 7 through 12 as an award for participating in a school attendance program. There was no exchange of goods or services with the Chamber.
Preliminary analysis by the Legal Department indicates that the provision of twelve free GCCC annual youth memberships to the Chamber of Commerce to be awarded to schoolchildren with near-perfect attendance records likely would not, be found to violate the Anti-Donation Clause.

**Criteria** – The New Mexico Constitution – Article IX, Section 14 does not allow a local government to make donations, no matter how worthy the cause, unless a listed exception is met. Youth membership passes given to non-profits for students participating in attendance programs is not a listed exception.

**Cause** – Parks and the GCCC lack an internal control framework including policies and procedures to provide guidance to staff as to how to handle potential donations vs an MOU or a barter agreement for an exchange of goods or services.

**Effect** – The City is at risk of being in non-compliance with the State Constitution.

**Recommendation** – Ensure compliance with Article IX, Section 14 of the New Mexico Constitution by requiring and formally documenting an exchange of goods or services with the non-profit of equal or lesser value for the membership passes, or having them purchase the goods. Parks and Recreation needs to work with Finance to determine the proper accounting for these transactions as well as any tax implications.

**Finding Owner** - Robert Carter, Department Director, Parks and Recreation

**Management’s Plan of Action and Expected Remediation Date (provided by Robert Carter, IA format edit only)**
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. Implement the policy and procedures once created. **Expected Remediation Date** - October 15, 2017

**FINDING 21 – Library Passes – Tracking and Reconciling Passes Used**

**Condition** – Passes issued by the Library for young reader’s participation in a summer reading program are not:

- Cancelled when presented at the GCCC;
- Tracked by either the GCCC or the Library to see how many are issued or used, nor
- Accounted for. The passes do have an expiration date. However, there is no tracking of how many passes are issued in order to assess the fair market value of the donation.

**Criteria** – Track and monitor the number of passes issued and redeemed to determine the value of the program.

**Cause** - The GCCC lacks an internal control framework, including written policies and procedures to provide guidelines as to how to handle requests from department’s, non-profit agencies and others in regards to making donations or otherwise reducing or waiving fees.

**Effect** – Not cancelling the library passes when used makes them vulnerable to reuse. There is a lack of transparency as to the effectiveness of the program.

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5 For example, use a Memorandum of Understanding, or a Professional Services Agreement.
Recommendation – Track the number of passes redeemed at the GCCC. Management can then use this information to make informed decisions about the effectiveness of the program for both the Library and the GCCC. Consult with the Finance Department to determine the proper accounting for these transactions. Ensure passes are not reused by stamping them or otherwise marking them as void.

Finding Owner – Liza Suzanne, GCCC Complex Manager

Management’s Plan for Correction and Expected Remediation Date (provided by Robert Carter, IA format edit only)
Administrative Manager and the Recreation Complex Managers will develop procedures for tracking Library passes with Library and Center. Number all passes and when distributed by Library, numbers are recorded and information is sent to the Administrative Supervisor or Complex Manager for proper tracking by staff. When pass is present, pass is stamped or punched, so that it cannot be used. Pass is documented on a proper form so that passes can be tracked on usage. As above, will work with Finance Department on proper accounting procedures for pass transactions. Expected Remediation Date – October 1, 2017

FINDING 22 – Lack of Internal Controls Regarding Return Passes

Condition - Results obtained during two surprise cash counts indicate that return passes are not being treated like cash instruments.

Criteria – Return passes should be treated as a form of cash, and internal controls should be implemented to ensure that they are safeguarded and accounted for accordingly.

Cause – The GCCC lacks an internal control framework for cash handling.

Effect – The overall effect is a weak or minimal internal control environment, which creates an atmosphere that is conducive to fraud.

Recommendation – Design and implement internal controls to prevent the misuse of these passes.

Finding Owner – Liza Suzanne, GCCC Complex Manager

Management’s Plan of Action and Expected Remediation Date (provided by Robert Carter, IA format edit only)
Administrative Manager and Complex Managers will develop a plan to address proper reconciling of passes and to prevent the misuse of passes by staff. Expected Remediation Date – August 15, 2017

FINDING 23 – Organizational Structure – Satellite Cashiers

Condition - The Finance Department overseas the cashiering functions for main cashiers and the satellite cashiers at the water utility. All other cashiering functions are de-centralized. Each department is responsible for determining appropriate cash handling procedures.

The management team at the GCCC does not specialize in cash handling nor are they familiar with internal controls around cash handling including segregation of duties.

Criteria – Fraud Related Internal Controls – Association of Certified Fraud Examiners

The COSO Internal Control Model
“A company’s organizational structure defines the lines of authority and responsibility, and provides the overall framework for planning, directing, and controlling its operations. Important aspects of organizational structure include:

• The centralization or decentralization of authority...”

“In today’s business world, drastic changes are occurring within management. Hierarchical organizational structures, with many layers of management who supervise and control the work of those under them, are disappearing. They are being replaced with flat organizations that have self-directed work teams composed of employees formerly assigned to separate and segregated departments. Team members are empowered to make decisions and no longer have to seek multiple layers of approvals to complete their work.”

**Cause** – De-centralization implemented without oversight, training or the hiring of managers who possess the necessary skills to manage cash.

**Effect** – The overall effect is a weak or minimal internal control environment, which creates an atmosphere that is conducive to fraud. A decentralized management team that is not familiar with proper cash handling procedures including segregation of duties increases the risk of loss.

**Recommendation** – Evaluate various reporting structures by reviewing best practices and benchmarking with cities of comparable sizes to determine the reporting structure that would provide the City with an efficient and effective internal control environment around cash handling.

While a decentralized model may be an ideal reporting structure, there are certain aspects of cash handling that might benefit from leadership that specializes in cash handling, such as overall policies (FINDING 3), and training (FINDING 7).

**Finding Owner** - Adam Johnson, Department Director, Finance

**Management’s Plan of Action and Expected Remediation Date (provided by Adam Johnson, IA format edit only)**

The Finance Department concurs that broad cash handling policies and procedures should originate from the Finance Department. The Finance Department 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. **Expected remediation date is TBD.**

**FINDING 24 – No Background Check is Required for Cashiers**

**Condition** - The cashiers at the GCCC have not had background checks.

**Criteria** – Best practices require background checks of employees in sensitive positions such as cash handling.

**Cause** – Historically, the City has not required background checks for cashiers.

**Effect** – The overall effect is a weak or minimal internal control environment, which creates an atmosphere that is conducive to fraud.
Recommendation – Conduct background checks prior to hiring cashiers.

Finding Owner - Lynette Trujillo

Management’s Plan of Action and Expected Remediation Date (provided by Lynette Trujillo, IA format edit only)
The Human Resources Department (HR) has been dedicated to assisting all Departments with their hiring needs, while that is the current practice; HR is in the process of undergoing a comprehensive classification and compensation study. This study will include the review and update of all job descriptions. In addition to updating the job descriptions to include a condition of a criminal background screening, HR will need to meet and negotiate the inclusion of requiring the criminal background screening for bargaining unit positions with the union. Since the criminal background screening would be considered a working condition, it requires that the City and Union agree to those terms. The classification and compensation study is scheduled to begin around August of this year and will be completed within six to eight months. Within that timeframe, 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. Expected Remediation Date – December 31, 2018.
# SUMMARY OF FINDINGS AND REMEDIATION DATE

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Department or Division</th>
</tr>
</thead>
<tbody>
<tr>
<td>Robert Carter</td>
<td>Department Director</td>
<td>Parks and Recreation</td>
</tr>
<tr>
<td>Liza Suzanne</td>
<td>Complex Manager</td>
<td>GCCC</td>
</tr>
<tr>
<td>Adam Johnson</td>
<td>Department Director</td>
<td>Finance</td>
</tr>
<tr>
<td>Joshua Elicio</td>
<td>Chief Information Security Officer</td>
<td>ITT</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>#</th>
<th>Finding</th>
<th>Finding Owner</th>
<th>Remediation Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Lack of Leadership and Oversight</td>
<td>Robert Carter, and Liza Suzanne</td>
<td>12/01/2017</td>
</tr>
<tr>
<td>2</td>
<td>Segregation of Duties Over Cash Handling Not Enforced</td>
<td>Robert Carter, and Liza Suzanne</td>
<td>12/15/2018</td>
</tr>
<tr>
<td>3</td>
<td>Lack of a Citywide Cash Handling Policy</td>
<td>Adam Johnson</td>
<td>12/31/2017</td>
</tr>
<tr>
<td>4</td>
<td>Inadequate Department and Division Level Cash Handling Policy and Procedures</td>
<td>Robert Carter</td>
<td>06/30 to 12/01/17</td>
</tr>
<tr>
<td>5</td>
<td>Violation of Park Cash Handling Policy - Vault does not Require Dual Access</td>
<td>Robert Carter</td>
<td>11/01/2017</td>
</tr>
<tr>
<td>6</td>
<td>Security Cameras Not Working</td>
<td>Liza Suzanne, and Joshua Elicio</td>
<td>10/2018</td>
</tr>
<tr>
<td>7</td>
<td>Lack of Training for Employees Handling Cash</td>
<td>Robert Carter</td>
<td>Not Provided</td>
</tr>
<tr>
<td>8</td>
<td>Excessive Cash in Cashiers Drawers Found During Surprise Cash Counts</td>
<td>Liza Suzanne</td>
<td>08/15/2017</td>
</tr>
<tr>
<td>9</td>
<td>Cash Overages and Shortages Found During Surprise Cash Counts and Absence of These Overages and Shortages on the Corresponding Daily Cash Reports</td>
<td>Liza Suzanne</td>
<td>08/01/2017</td>
</tr>
<tr>
<td>10</td>
<td>Ineffective Safeguarding of Assets - Set Up Not in Vault</td>
<td>Liza Suzanne</td>
<td>07/01/2017</td>
</tr>
<tr>
<td>11</td>
<td>Deposits Are Not Being Made Timely</td>
<td>Liza Suzanne</td>
<td>09/15/2017</td>
</tr>
<tr>
<td>12</td>
<td>Daily Reconciliations are Being Prepared by One Person</td>
<td>Liza Suzanne</td>
<td>09/15/2017</td>
</tr>
<tr>
<td>13</td>
<td>The GCCC’s Active Net POS System Not Utilized for Gift Certificate Sales</td>
<td>Robert Carter, and Liza Suzanne</td>
<td>09/25 to 12/10/17</td>
</tr>
<tr>
<td>14</td>
<td>FINDING 14 – change title to</td>
<td>Liza Suzanne</td>
<td>12/10/2017</td>
</tr>
<tr>
<td>15</td>
<td>Gift Certificates / Complimentary Passes Are Not Secured at Parks and Recreation Department Office</td>
<td>Robert Carter</td>
<td>Closed</td>
</tr>
<tr>
<td>16</td>
<td>Unreported Revenue and Advertising Expense – Barter Contracts</td>
<td>Robert Carter, and Liza Suzanne</td>
<td>10/30/2017</td>
</tr>
<tr>
<td>17</td>
<td>Memo’ed Out balances are not approved or reviewed</td>
<td>Robert Carter, and Liza Suzanne</td>
<td>09/21/2017</td>
</tr>
<tr>
<td>18</td>
<td>No Reconciliation Done Of Day Passes Used to Fulfill Contractual Agreements &amp; No Internal Controls Around Issuance of Day Passes for Other Use</td>
<td>Robert Carter, and Liza Suzanne</td>
<td>09/15/2017</td>
</tr>
<tr>
<td>19</td>
<td>Inadequate Accounting of Donated Goods</td>
<td>Robert Carter</td>
<td>10/01/2017</td>
</tr>
<tr>
<td>20</td>
<td>Youth Membership Were Passes Given to the Santa Fe Chamber of Commerce</td>
<td>Robert Carter</td>
<td>10/15/2017</td>
</tr>
<tr>
<td>21</td>
<td>Library Passes – Tracking and Reconciling Passes Used</td>
<td>Liza Suzanne</td>
<td>10/01/2017</td>
</tr>
<tr>
<td>22</td>
<td>Lack of Internal Controls Regarding Return Passes</td>
<td>Liza Suzanne</td>
<td>08/15/2017</td>
</tr>
<tr>
<td>23</td>
<td>Cashiers Reporting Structure</td>
<td>Adam Johnson</td>
<td>TBD</td>
</tr>
<tr>
<td>24</td>
<td>No Background Check is Required for Cashiers</td>
<td>Lynette Trujillo</td>
<td>12/31/2018</td>
</tr>
</tbody>
</table>
APPENDIX A – Legal and Regulatory Environment

The following laws, standards, and policies were used to help establish criteria for this audit: (full text is available upon request, but was not included here due to space limitations.

1) State of New Mexico Anti-Donation Clause, New Mexico State Constitution, Article IX, Section 14;
2) City of Santa Fe Resolution 2013-103 Waivers or reductions of fees for special events or for the use of City Facilities exclusive of Convention Center.
3) Government Accountability Office, Standards for Internal Control, September 2014
4) Parks and Recreation Cash Handling Policies and Procedures, and
5) Parks and Recreation Cash Handling Policies and Procedures Revised.

APPENDIX B – Glossary of Terms

Cash Receipts Report Summary – This is a cash report that summarizes the cash activity at the GCCC.

Class Passes – These were used by the City of Santa Fe’s Wellness program. The City’s Wellness Program purchased these passes up front to use as incentives and prizes for employees participating in the program. The GCCC does not record these as cash when used. The sale has recorded when the Program purchased the passes so this is appropriate.

Daily Balance Sheet - This is a cash report generated by the POS system used to count down the individual cashier’s drawer. The totals from this report are compared to Cash Receipts Report (Summary). If there is a discrepancy it is reported as an over/short amount so that the two reports tie out. The cashier and the supervisor both sign off on the Daily Balance Sheet verifying that all amounts are correct.

Donation - Something of value given without consideration.

Gift Certificates – Customers can purchase these for use as gifts. In this case, the sale is rung up at the time of purchase, not redemption. Revenue is properly recorded at the time of the sale via the cash register transaction (Active Net).

The GCCC uses these for barter with Hutton for advertising, etc. Hutton uses them for class passes.

There is minimal tracking of numbers with the Gift Certificates, and there is no way to run a report to tell you which numbers are being used.

Lapping – According to the Association of Government Auditors – “Lapping, which is fairly common, occurs when money received in payment of an account is taken by an employee rather than being appropriately deposited. This shortage is covered by misapplying the next remittance to the deficiency, and so on. Like other fraud, lapping usually starts small, with the fraudster intending to make up the
deficiency. Failure to detect the theft emboldens the fraudster and, instead of making up the deficiency, the fraudster expands it. Lapping schemes tend to unravel when they have become too large for the fraudster to manage.”

**Library Coupons** – The GCCC provides the coupons to the Library as a donation. The Library uses them as an incentive for kids in the summer reading program. A sale is not recorded when the coupon is used.

**New Mexican Passes** – The GCCC uses these for bartering with the New Mexican for advertising. A sale is not recorded when the pass is used.

**Rain Checks** – The GCCC gives these to customers when there is a problem that cannot be resolved. A sale is not recorded when the rain checks are used.

**Return Passes** – These can be used like rain checks – or can be given to a disgruntled customer. The GCCC rarely uses these anymore.

**Set-up** – The opening cash balance in a cashier’s drawer. This amount is pre-determined as how much the cashier will need to make change for transactions.

**Skimming** - – According to the Association of Government Auditors “When cash is taken before being deposited and without a record being made of its receipt, the fraud is referred to as skimming. This is most often accomplished by failing to ring up a sale on the cash register or by failing to write up a receipt. More sophisticated versions of skimming involve the use of a second receipt book or even a second cash register.”

**Smoothing** – The act of ensuring there are no cash over / shorts reported by either taking out the excess amount or putting in cash to make up for a deficiency. This can be done either by an individual cashier at the end of a shift or by the cashier preparing the deposit.

**Summary Daily Balance Sheet** – a cash report that shows the totals for all cashiers combined into a summary amount.

**APPENDIX C – Inventory of Gift Certificates and Return Passes as Noted During Two Surprise Cash Counts**
### Gift Certificates

<table>
<thead>
<tr>
<th>Start</th>
<th>End</th>
<th><strong>Comments April 15, 2016</strong></th>
<th><strong>Comments January 09, 2017</strong></th>
<th><strong>Finding #</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>125</td>
<td>Log states these were given to Rachel / Liza S. in June, 2013.</td>
<td>Log Gone, no stubs</td>
<td></td>
</tr>
<tr>
<td>126</td>
<td>150</td>
<td>Missing</td>
<td>Used stubs in safe</td>
<td></td>
</tr>
<tr>
<td>151</td>
<td>175</td>
<td>Log states these were given to Ivie Vigil (Hutton Trade) September 5, 2013</td>
<td>Log Gone</td>
<td></td>
</tr>
<tr>
<td>176</td>
<td>177</td>
<td>Missing</td>
<td>On a sales log developed by the cashier supervisor after the 1st surprise cash count. Where were they at the time of the last audit?</td>
<td></td>
</tr>
<tr>
<td>178</td>
<td>200</td>
<td>Missing</td>
<td>Unused in safe</td>
<td></td>
</tr>
<tr>
<td>201</td>
<td>225</td>
<td>Missing</td>
<td>Found in Bottom Safe on a follow up visit by IA on January 23, 2017. Where were they during the April 2016 surprise cash count?</td>
<td></td>
</tr>
<tr>
<td>226</td>
<td>250</td>
<td>Missing</td>
<td>Missing - not on log. IA received a subsequent email from the cashier supervisor stating that she had traced this missing book to park's marketing. An email sent to the coordinator dated January 23, 2017 asked him to confirm the numbers of the book of certificates that he took. His responded that he had the book that began with 0226 and ended with 0250. This is a finding as issuance of the book to park's marketing coordinator should have been noted on the log. The marketing coordinator stated that the gc's are to be used as part of the PSA with Hutton Broadcasting.</td>
<td></td>
</tr>
<tr>
<td>#</td>
<td>#</td>
<td>Status</td>
<td>Description</td>
<td></td>
</tr>
<tr>
<td>-----</td>
<td>-----</td>
<td>-----------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>*251</td>
<td>275</td>
<td>Missing</td>
<td>Missing January 9, 2017 (as well as April) but in vault when IA did a follow up on January 23, 2017. Dates start on December 13, 2016. Not sure where these were during April Surprise cash count. #'s 0252, 0259, 260, 263, 267, 268, 269, 270, 271, 272, 273, are listed on a log of GC sold. Not sure why they have this log? What purpose does it serve?</td>
<td></td>
</tr>
<tr>
<td>**252</td>
<td></td>
<td>Filled out on top of safe</td>
<td></td>
<td></td>
</tr>
<tr>
<td>*254</td>
<td></td>
<td>Void in Safe</td>
<td></td>
<td></td>
</tr>
<tr>
<td>**269</td>
<td></td>
<td>Filled out on top of safe</td>
<td></td>
<td></td>
</tr>
<tr>
<td>274</td>
<td>275</td>
<td>Missing</td>
<td>Used stubs in safe - where were these during the April surprise cash count?</td>
<td></td>
</tr>
<tr>
<td>276</td>
<td>300</td>
<td>Missing</td>
<td>Unused - In safe - where were they at the time of the April CC?</td>
<td></td>
</tr>
<tr>
<td>301</td>
<td>304</td>
<td>Used stubs in safe</td>
<td>Missing - not sure why these are gone.</td>
<td></td>
</tr>
<tr>
<td>305</td>
<td>315</td>
<td>unused remaining book in safe</td>
<td></td>
<td></td>
</tr>
<tr>
<td>305</td>
<td></td>
<td>on sales log</td>
<td></td>
<td></td>
</tr>
<tr>
<td>306</td>
<td></td>
<td>missing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>307</td>
<td>310</td>
<td>on sales log</td>
<td></td>
<td></td>
</tr>
<tr>
<td>311</td>
<td>312</td>
<td>missing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>313</td>
<td>315</td>
<td>on sales log</td>
<td></td>
<td></td>
</tr>
<tr>
<td>316</td>
<td>325</td>
<td></td>
<td>Not on log, but email dated December 8, 2016 received from the cashier supervisor states that these went to a cashier. Email states that this was written on a paper and put in an envelope that says gift cards - at the time of the surprise cash count 01/09/2017 there was no envelope in the safe with &quot;Gift Cards&quot; written on it.</td>
<td></td>
</tr>
<tr>
<td>**315</td>
<td></td>
<td>Filled out on top of safe</td>
<td></td>
<td></td>
</tr>
<tr>
<td>*326</td>
<td>350</td>
<td>Missing</td>
<td>Used stubs in safe - all either filled out or voided. Dates jump from December 28, 2015 to March 11, 2016</td>
<td></td>
</tr>
<tr>
<td>*351</td>
<td>375</td>
<td>Missing</td>
<td>Used stubs in safe</td>
<td></td>
</tr>
<tr>
<td>376</td>
<td>425</td>
<td>Missing</td>
<td>Missing - no log</td>
<td></td>
</tr>
<tr>
<td>**421</td>
<td></td>
<td>Filled out on top of safe</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Used stubs in safe 0426, and 0427 the stubs are blank. No record of who received it or gave it out. Dates range from December 22, 2014 to October 6, 2015. Jump in dates from December 30, 2014 to August 15, 2015. Who had these at the time of the last cash count in April 2016?

Log states these were given to Ivie Vigil (Hutton Trade) 11/14/14

Log states these were given to Ivie Vigil (Hutton Trade) 11/14/14

Unused sealed stack starting with 0501

Found in Bottom Safe 01/23/17. This is not an exception. Stack is now unused but open, i.e. not wrapped in plastic.

<table>
<thead>
<tr>
<th>Start</th>
<th>End</th>
<th>All On Top of Safe</th>
<th>All in Safe</th>
<th>Finding #</th>
</tr>
</thead>
<tbody>
<tr>
<td>426</td>
<td>450</td>
<td>Missing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>451</td>
<td>475</td>
<td>Log states these were given to Ivie Vigil (Hutton Trade) 11/14/14</td>
<td>Log Missing</td>
<td></td>
</tr>
<tr>
<td>476</td>
<td>500</td>
<td>Log states these were given to Ivie Vigil (Hutton Trade) 11/14/14</td>
<td>Log Missing</td>
<td></td>
</tr>
<tr>
<td>501</td>
<td>1000</td>
<td>Unused sealed stack starting with 0501</td>
<td>Found in Bottom Safe 01/23/17. This is not an exception. Stack is now unused but open, i.e. not wrapped in plastic.</td>
<td></td>
</tr>
</tbody>
</table>

**Return Passes**

<table>
<thead>
<tr>
<th>Start</th>
<th>End</th>
<th>Comments 04/15/2016</th>
<th>Comments 01/09/2016</th>
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APPENDIX D – AUDIT ALERT – Treatment of Gift Certificates or Vouchers
(Memo given to the Senior Management Team May 13, 2016)

Date: May 13, 2016

To: Brian Snyder, City Manager
    Senior Management
    Governing Body
    Audit Committee

From: Liza Kerr, Internal Auditor

EXECUTIVE SUMMARY - OBSERVATION

Gift certificates, gift cards and vouchers need to be treated as cash.

CONDITION
It came to the attention of Internal Audit during a surprise cash count that gift certificates and vouchers for services are not always secured, tracked or treated as cash.

CRITERIA
Gift certificates, gift cards and vouchers for services are cash-like instruments and are subject to the same internal controls as cash.

RECOMMENDATION
Design and implement internal controls to ensure gift certificates, gift cards and vouchers for services are secure, and are accounted for properly. This includes formulating formal written policies over the handling of these assets. At a minimum the internal controls should address security, use of pre-numbered certificates, cards or vouchers, a log, periodic reconciliation, and how to handle voids.

Please refer any further questions regarding above to Oscar Rodriguez, Finance Director, (505) 955-6530.6

APPENDIX E – Hutton Broadcasting PSA - Extract

COMPENSATION

A. The City shall pay to the Contractor in full payment for services rendered, a sum not to exceed eleven thousand thirty-five dollars and thirteen cents ($11,035.13) plus the following items of compensation, not to exceed a value of a total of nine thousand one hundred fifty-five dollars ($9,155.00):

6 Oscar Rodriguez was the Director of Finance at the time this alert was issued, Adam Johnson is the Director of Finance at the time of the report release.
1) One-hundred and seventy-five (175) one-day passes to the GCCC for the Contractor for its employees. Total value of the one-day passes is $1,225.00 ($7.00 x 175).

2) Sixty (60) one-month membership passes for the Contractor for its employees. Total value of the one-month membership passes is $4,170.00 ($69.50 x 60).

3) Eighty (80) passes for one round of golf and a cart at the Links de Santa Fe for the Contractor. Total value of the round of golf and a cart passes is $3,760.00 ($47.00 x 80).

The total value of this Agreement shall not exceed $20,190.13,

APPENDIX F – Santa Fe Area Home Builders Association - MOU Extract

1. EXCHANGE OF IN-KIND SERVICES

A. As a co-sponsor of the 2017 Lego Home Building Competition, the City shall provide to SFAHBA the following in-kind services: Eight (8) gift certificates of $175.00 each, for a total value of $1,400.00.

B. In exchange for the in-kind services outlined in paragraph (A) above, SFAHBA shall provide to the City the following: inclusion of the GCCC's name and/or logo in promotional materials such as: website, registration, flyers to Santa Fe Public Schools K-6, social media, Del Norte Credit Union promotions (estimated value: $7500); and inclusion of the GCCC name and/or logo in advertising (estimated value: $36,000) such as posters, Comcast commercial Hutton Broadcasting, Santa Fe New Mexican and a variety of other digital & print advertisements.

2. RECORD

SFAHBA shall maintain a record showing the in-kind services rendered to the City and the approximate value of the service. SFAHBA shall email a copy of the record to Liza
Suzanne, GCCC Recreation Complex Manager (lsuzanne@ci.santa-fe.nm.us), by March 20, 2017.

APPENDIX G – The New Mexican

THIS AGREEMENT is made and entered into by and between and the City of Santa Fe ("City") and The Santa Fe New Mexican ("SFNM"). The date of this Agreement shall be the date when it is executed by the City. It is the goal of the City to utilize this Agreement to promote programs and services for the Parks & Recreation Department.

1. It is hereby mutually agreed to between the Parties:

A. The SFNM will provide advertising space on a "trade out" basis to the City of Santa Fe, Parks & Recreation Department, P.O. Box 909, Santa Fe, NM 87504, in return for the creation of a debit account at the Santa Fe New Mexican as described as follows:

   (1) The City and The SFNM will create a unique type of one day pass for entry to the GCCC, Salvador Perez Pool and Ft. Marcy Recreation Complexes. The pass will include the respective logos of the Genoveva Chavez Community Center and the SFNM.

   (2) Each one day pass will have an advertising trade value of five dollars ($5.00).

   (3) The New Mexican will distribute the one-day passes to employees of The New Mexican.

   (4) The City will collect the one day passes at the Genoveva Chavez Community Center, Salvador Perez and Ft Marcy front counters. The City will be responsible for keeping a record of use at each venue.

   (5) Every month, the City representative and New Mexican representative will total the number of the collected one-day passes and multiply times $5.00. That total dollar amount will be added into a debit account for the City at the SFNM.

   (6) The City will be allowed to use the monthly balance in the debit account at the SFNM to trade for ad space in SFNM on a dollar-for-dollar amount at the rate of thirty two dollars fifty cents ($32.50) per column inch (color included), to promote programs and services provided by the Parks & Recreation Department.

   (7) The SFNM and the Parks & Recreation Department will invoice each other respectively for services rendered. The Parks & Recreation Department will provide monthly reconciliation to the City Finance Department in memo form to record receipts and vendor payments.

2. COMPENSATION VALUE

The value of this trade out will be on a dollar-for-dollar basis.

3. TERM AND EFFECTIVE DATE

This Agreement shall terminate on June 30, 2017. This Agreement may be terminated by the terminating party giving 30 days written notice to the non-terminating party.