

Audit

Follow-Up

As of September 30, 2016



T. Bert Fletcher, CPA, CGMA
City Auditor

Audit of Parks, Recreation and Neighborhood Affairs Trousdell Aquatics Center and Gymnastics Center Revenues

(Report #1606, Issued January 14, 2016)

Report #1704

January 26, 2017

Summary

This is the second follow-up on the Audit of Parks, Recreation and Neighborhood Affairs Trousdell Aquatics Center and Gymnastics Center Revenues (report #1606, issued January 14, 2016). Sixteen action plan steps were established to address issues identified in that audit. All 16 steps were scheduled for completion as of September 30, 2016. Eight of those 16 action plan steps have been successfully completed (three were completed this follow-up period while five were completed in the previous follow-up period). Of the remaining eight steps, three have been resolved through alternative actions with management accepting the remaining risks, actions are in progress to complete four, and one has been turned over to management to ensure appropriate actions are taken to address the identified risk. We will follow up on efforts to complete the four action plan steps considered in progress in our subsequent follow-up audit.

In audit report #1606, Audit of Parks, Recreation and Neighborhood Affairs Trousdell Aquatics and Gymnastics Center Revenues, issued January 14, 2016, we concluded that, overall, the internal controls in place at the Trousdell Aquatics Center (Pool) and Gymnastics Center (Gym) provided reasonable assurance revenues were properly assessed, collected, safeguarded, deposited, and recorded in the City's records. We did, however,

identify instances where the internal controls should be strengthened at both the Pool and Gym. A total of 16 action plan steps were developed by Parks, Recreation, and Neighborhood Affairs (PRNA) management to address the identified issues. Five of those 16 steps were completed as of March 31, 2016, as reported in our initial follow-up engagement (audit report #1615).

In regard to the remaining eleven action plan steps, each due for completion no later than September 30, 2016, three steps were completed, three steps were resolved through alternative actions with management accepting the remaining risks, four steps are in progress, and one step was turned over to management to ensure appropriate actions are taken to address the identified risk.

The three action plan steps completed during the period covered by this follow-up engagement consisted of the following:

- Locker usage was reviewed and reconciled to locker rental agreements.
- Inventory records of items held for sale through the Splash Shop were updated to reflect purchases and sales in an appropriate, ongoing manner.
- The results of physical counts of Splash Shop inventory items and related reconciliations and analyses were provided to PRNA management for review and approval.

Regarding the three action plan steps resolved through alternative actions with management accepting the remaining risks, we determined the following:

- Procedures were put in place to help ensure only authorized individuals that paid fees (or had their fees waived) participate in applicable aquatic activities and that the appropriate fees are collected and recorded. However, because of other staff responsibilities and a limitation on the number of PRNA staff, those procedures are performed by staff that are not independent of the revenue and recording processes (i.e., incompatible duties are not adequately segregated due to staffing limitations).
- Because of other staff responsibilities and a limitation on the number of PRNA staff, management does not plan to segregate the duties relating to the purchasing, custody, recordkeeping, and sales of Splash Shop inventory items.
- Procedures were put in place to provide for periodic physical counts of Splash Shop inventory items, reconciliations of those counts to the related inventory records, and analyses of any differences. Similar to the above, due to other staff responsibilities and a limitation on the number of PRNA staff, those procedures are performed by staff that have conflicting duties (i.e., incompatible duties are not adequately segregated due to staffing limitations).

The four action plan steps determined to be in progress but not completed included the following:

- Reviewing, on a sample basis, records scanned into the City's electronic document management system for completeness and accuracy.
- Preparing periodic formal trend analyses of aquatic activities and related revenue collections.

- Researching, analyzing, and explaining unusual variations in activities or revenues identified through the trend analyses.
- Submitting the trend analyses and related explanations of unusual variations to PRNA management for review and approval.

The action plan step turned over to management to ensure appropriate actions are taken to address the identified risk included:

- Preparing, on a regular and periodic basis, reconciliations of recorded revenue collections to records showing customer participation in gymnastics activities. (Note: Management indicated that, currently, this procedure could not be done efficiently, but that efforts would continue to identify and obtain technology that would facilitate tracking of participation and revenues and thereby provide a means to complete accurate and efficient reconciliations as recommended.)

We will follow up and report on management's efforts to complete the four action plan steps considered in progress in our subsequent follow-up audit.

We appreciate the cooperation and assistance provided by PRNA staff and management during this follow-up audit.

Scope, Objectives, and Methodology

We conducted this audit follow-up in accordance with the International Standards for the Professional Practice of Internal Auditing and Generally Accepted Government Auditing Standards. Those standards require we plan and perform the audit follow-up to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit follow-up objectives.

Original Report #1606

The scope of our initial audit (report #1606) included a review of the fee collection (revenue) process at the Trousdell Aquatics and Gymnastics Centers (Pool and Gym, respectively) during the period August 2013 through March 2015. The objectives of the audit were to determine, for each center, if their respective internal controls effectively ensured: (1) revenues were properly assessed, collected, safeguarded, and deposited; and (2) revenues were properly recorded and accounted for in the City’s records.

To address the stated objectives, we interviewed staff at the Pool and Gym, observed processes related to the revenue functions, reviewed and analyzed internal financial reports and records, conducted tests of relevant controls for selected activities, and conducted detailed tests of transactions.

Report #1704

This is our second follow-up on action plan steps identified in audit report #1606. The purpose of this follow-up is to report on the progress and status of efforts to complete action plan steps due for completion as of September 30, 2016. To determine the status of the action plan steps, we interviewed staff and reviewed relevant documentation.

Background

The Trousdell Aquatics Center (Pool) is one of eight aquatics facilities (e.g., swimming pools) operated and maintained by PRNA. The Pool operates year-round and generates revenues from multiple aquatics related activities. Activities for which revenues are collected include recreational swimming, water aerobics classes, swim lessons, lifeguard lessons, pool facility rentals, and sales from the Splash Shop.

The Trousdell Gymnastics Center (Gym), which is located adjacent to the Pool, offers gymnastics programs, classes, and training to the public. Similar to the Pool, the Gym generates revenues through fees for recreational classes, a competitive

gymnastics program, private lessons, and facility rentals for events such as birthday parties.

Table 1 below shows the revenues collected through each facility during the 2013, 2014, and 2015 fiscal years.

**Table 1
Aquatics and Gymnastics Revenue Summary**

Fiscal Year	Aquatics	Gymnastics
FY 13	\$ 217,044	\$ 497,323
FY 14	\$ 212,650	\$ 485,856
FY 15	\$ 220,419	\$ 512,641
Totals	\$ 650,113	\$ 1,495,820

Note: Revenues are shown net of state sales taxes and are rounded to the nearest dollar.

**Previous Conditions and
Current Status**

In our initial audit (report #1606) we noted that, overall, the internal controls in place provided reasonable assurance that revenues due the City for Pool and Gym activities were properly assessed, collected, safeguarded, deposited, and recorded in the City’s records. We did identify issues which indicated the need to strengthen and enhance those controls. PRNA management developed 16 action plan steps to address the identified issues and related audit recommendations.

Table 2 that follows shows the status of the 16 action plan steps developed to address issues in audit report #1606. As indicated in that table, five of the 16 steps were completed in the period covered by our previous follow-up audit (report #1615). Regarding the remaining eleven steps, three have been completed, three have been resolved with management accepting the remaining risks, actions are in progress to complete four, and one has been turned over to management to ensure appropriate actions are taken to address the identified risk. We will follow up on efforts to complete the four action plan steps considered in progress in our subsequent follow-up audit.

Table 2
Current Status of Action Plan Steps from Audit Report #1606
Due as of September 30, 2016

Action Plan Steps Due	Current Status as of September 30, 2016
Trousdell Aquatics Center	
<i>Reduce the risks associated with the performance of incompatible duties by supervisory staff.</i>	
<ul style="list-style-type: none"> • On a regular and periodic basis documented reconciliations of recorded revenue collections to records showing customer participation in aquatics activities will be prepared and retained for PRNA management review and approval. The reconciliations will be prepared by staff independent of the revenue collection process. 	<ul style="list-style-type: none"> ○ <u>Resolved: Risk Accepted</u> - In the initial audit, we noted that the limited number of staff at the Trousdell Aquatics Center precluded segregating certain incompatible duties that pertained to receipt of, or access to and custody of, fee collections and maintenance of the related records. Not segregating those incompatible duties increased the risk that collections could be diverted for unauthorized uses without timely detection. To address that risk, we recommended that a compensating control be put into place. The recommended compensating control, which had been previously used by PRNA, involved periodic and documented reconciliations of recorded revenues to records showing customer participation in aquatic activities by staff independent of the revenue process. <p>During this follow-up process, we determined that PRNA staff now print rosters of participants for applicable activities (lifeguard classes, swim lessons, etc.) from the recently implemented point-of sale and recordkeeping application (REC-1), and compare the names on that roster to the individuals actually participating in those activities (i.e., through observation). This procedure helps ensure only authorized individuals that paid fees (or had fees waived) are participating and that appropriate fees were collected and recorded. Notwithstanding this process, the comparisons are not performed by PRNA staff independent of the revenue and recording processes. Accordingly, while the described compensating control does help detect staff errors or unauthorized participation, it is not designed to detect an unauthorized and intentional diversion of fees by staff collecting or having access to those fees and also recording those fees in the REC-1 system.</p> <p>PRNA management indicated that due to staff's other responsibilities and limitations on the</p>

	<p>number of staff, the risk associated with not having the comparisons performed by independent staff has been accepted and no further actions are planned. Accordingly, this action plan step is considered resolved.</p>
<ul style="list-style-type: none"> • The assignment of duties related to the purchasing, custody, recordkeeping, and sales of inventory at the Splash Shop will be reviewed and separated between staff. 	<ul style="list-style-type: none"> ○ <u>Resolved: Risk Accepted</u> – PRNA management has determined staffing limitations preclude the segregation of duties related to the purchasing, custody, recordkeeping, and sales of Splash Shop inventory. As such, management has elected to accept the risks associated with a lack of segregation of duties and will not complete this action plan step. Accordingly, this action plan step is considered resolved.
<p><i>Improve the completeness and accuracy of the record retention process.</i></p>	
<ul style="list-style-type: none"> • Applicable staff will be reminded of the importance of properly and completely scanning documents into the City’s electronic document management system. 	<ul style="list-style-type: none"> ✓ <u>Completed</u> in prior period.
<ul style="list-style-type: none"> • On a periodic basis, a sample of records scanned into the electronic document management system will be reviewed for accuracy and completeness. 	<ul style="list-style-type: none"> ➤ <u>In Progress</u> – Management indicated that once the currently vacant Administrative Services Manager position is filled, that employee will assume responsibility for spot checking documents to ensure they are accurately and properly scanned. We will address that planned action in our subsequent follow-up engagement.
<p><i>Improve management’s oversight of revenue collections.</i></p>	
<ul style="list-style-type: none"> • Periodic formal documented trend analyses of activities at the Pool (Trousdel Aquatics center) and of related revenue collections will be prepared. 	<ul style="list-style-type: none"> ➤ <u>In Progress</u> – In 2015 PRNA implemented the REC-1 point-of sale and recordkeeping application to enhance collection and recordkeeping processes. PRNA management indicated that once sufficient historical data has been recorded in that system (e.g., two full years), assigned staff will commence conducting the recommended trend analyses. PRNA management also provided evidence that other revenue analyses (not trend analyses) are currently being conducted to help ensure revenues are reasonable and are properly reflected in PRNA and City records. We will address the status of the planned trend analyses in our subsequent follow-up engagement.
<ul style="list-style-type: none"> • Unusual variations in activities at the Pool or revenue collections identified in the trend analyses will be researched, analyzed, and explained. 	<ul style="list-style-type: none"> ➤ <u>In Progress</u> – The completion of this action plan step is dependent on the completion of the trend analyses provided for by the previous action plan

	<p>step. As noted above, the trend analyses have not yet been prepared. Accordingly, this action plan step has not been completed and will be considered in progress. We will address this action plan step in a subsequent follow-up audit.</p>
<ul style="list-style-type: none"> The trend analyses and explanation of unusual variations in Pool activity or revenue will be submitted to PRNA management for review and approval. 	<ul style="list-style-type: none"> ➤ <u>In Progress</u> – Similar to that reported in the previous action plan step, completion of this action plan step is dependent on PRNA’s completion of the trend analyses described above. Accordingly, we will address the status of providing PRNA management with results of trend analyses and related explanation of any unusual variations identified through those trend analyses in our subsequent follow-up engagement.
<p><i>Update procedures to improve and/or clarify revenue collection related procedures.</i></p>	
<ul style="list-style-type: none"> Cashiering procedures will be updated to delineate the process cashiers should follow when errors occur while processing sales in the REC-1 system. 	<ul style="list-style-type: none"> ✓ <u>Completed</u> in prior period.
<ul style="list-style-type: none"> Procedures providing for swim lesson fee waivers will be updated to include eligibility and documentation requirements 	<ul style="list-style-type: none"> ✓ <u>Completed</u> in prior period.
<p><i>Develop a process whereby locker rentals are appropriately reviewed and managed.</i></p>	
<ul style="list-style-type: none"> Locker usage will periodically be reviewed and reconciled to locker rental agreements. 	<ul style="list-style-type: none"> ✓ <u>Complete</u> – Aquatics supervisory staff completed a review of locker usage and reconciled that usage to associated locker agreements. Accordingly, this action plan step has been completed.
<p><i>Improve the recordkeeping and controls related to inventory in the Splash Shop.</i></p>	
<ul style="list-style-type: none"> Splash Shop inventory records will be updated for purchase of new inventory when those purchases occur. Additionally, those inventory records will be updated for sales on a periodic regular basis (weekly at a minimum). 	<ul style="list-style-type: none"> ✓ <u>Complete</u> – Splash Shop inventory records were updated to reflect purchase of new inventory items when those purchases occurred. Additionally, those inventory records were updated for sales of Splash Shop inventory items on a weekly basis. Accordingly, this action plan step is complete.
<ul style="list-style-type: none"> Physical counts of the inventory held for sale through the Splash Shop will be conducted on a periodic regular basis and reconciled to the inventory records by staff who does not have conflicting duties, such as access or custody of the inventory or responsibility for maintenance of related records. Any differences between the physical counts and related inventory records will be researched and explained. 	<ul style="list-style-type: none"> ○ <u>Resolved: Risk Accepted</u> – Physical counts of the inventory held for sale though the Splash Shop are now being conducted on a periodic basis. The physical counts have been reconciled to the inventory records, with differences between the counts and records analyzed. However, due to staffing limitations, the physical counts and related analyses are conducted by staff that perform conflicting duties (i.e., also have access to inventory and responsibility for maintenance of associated inventory records). Accordingly, while

	<p>the described compensating control does help detect staff errors, it is not designed to detect an unauthorized and intentional diversion of inventory items by staff having access to those items and also maintaining the related inventory records. PRNA management indicated that due to staff's other responsibilities and limitations on the number of staff, the risk associated with not having the physical counts and analyses performed by independent staff has been accepted and no further actions are planned. Accordingly, this action plan step is considered resolved.</p>
<ul style="list-style-type: none"> The results of the reconciliation of Splash Shop inventory and the investigation of differences, with any adjustments, will be submitted to PRNA management for review and approval. 	<ul style="list-style-type: none"> ✓ <u>Complete</u> - The physical counts of the inventory held for sale through the Splash Shop, the reconciliation of those counts to the related inventory records, and the results of the analyses of differences were submitted to management for review and approval. Accordingly, this action plan step is complete.
<p>Trousdell Gymnastics Center</p>	
<p><i>Improve safeguarding of collections at the Gym.</i></p>	
<ul style="list-style-type: none"> Checks received at the Gym will be restrictively endorsed upon receipt. 	<ul style="list-style-type: none"> ✓ <u>Completed</u> in prior period.
<p><i>Reduce the risk of unauthorized access to locations where monies may be stored.</i></p>	
<ul style="list-style-type: none"> Procedures will be amended to require locks, combinations, and access codes to locations where monies are stored be changed on a periodic basis. 	<ul style="list-style-type: none"> ✓ <u>Completed</u> in prior period.
<p><i>Reduce the risks associated with the performance of incompatible duties by supervisory staff.</i></p>	
<ul style="list-style-type: none"> On a regular and periodic basis, documented reconciliations of recorded revenue collections to records showing customer participation in gymnastics activities will be prepared and retained for PRNA management review and approval. The reconciliations will be prepared by staff independent of the revenue collection process. 	<ul style="list-style-type: none"> ❖ <u>Turned Over to Management</u> – In the previous follow-up audit (report #1615), we reported a decision was made that, in lieu of performing reconciliations that provided assurance based on estimates and trend analyses, efforts would be made to identify and use available technology to facilitate tracking participation and accounting for revenues, and therefore provide for more accurate and efficient reconciliations. For the period covered by this follow-up engagement, PRNA management indicated it had worked with the City Technology and Innovations Department and the City Treasurer-Clerk's Revenue Office to identify available technology for the described purpose, but that no technological solutions had been

	<p>identified that would accommodate the level of customer service currently provided at the Trousdell Gymnastics Center. As such, PRNA management indicated this action step will not be completed at this time, but PRNA staff will continue to explore options to provide for accurate, meaningful, and efficient reconciliations. Based on these circumstances, responsibility for ensuring this step is completed is turned over to PRNA management.</p>
<p>Table legend</p> <ul style="list-style-type: none"> ● Issue to be addressed from original audit. ○ Issue resolved through alternative action; remaining risks accepted by management. ✓ Issue addressed and resolved. ➤ Actions to address action plan step are in progress. ❖ Responsibility to complete appropriate action to address risks turned over to management. 	

Conclusion

Table 2 above shows that three of the eleven action plan steps due for completion this follow-up period have been completed, three have been resolved with management accepting the remaining risks, four are in progress, and one has been turned over to management to ensure appropriate actions are taken to address the identified risks.

We will follow up and report on management’s efforts to complete the four action plan steps that are in progress in our future follow-up audit. Those steps pertain to ensuring documents are properly scanned and trend analyses are performed, analyzed, and provided to PRNA management for review and approval.

Appointed Official’s Response

CITY MANAGER

We appreciate the thorough job the City Auditor's staff did in examining the Trousdell Aquatics and Gymnastics revenue process and operations, and the steps the Parks, Recreation and Neighborhood Affairs Department have taken to successfully rectify identified deficiencies. We recognize and appreciate the importance of good internal controls and are confident that additional controls implemented as a result of this audit will continue to improve operations and performance within these areas.

Copies of this audit follow-up #1704 or audit report #1606 may be obtained from the City Auditor’s website (<http://www.talgov.com/auditing/auditing-auditreports.aspx>) or via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (Office of the City Auditor, 300 S. Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (auditors@talgov.com).

Audit follow-up conducted by:
 Dennis R. Sutton, CPA, CIA
 T. Bert Fletcher, CPA, CGMA, City Auditor