

INTERNAL AUDIT OFFICE

VERSION REVISED

OCTOBER 4, 2016



PARKS & RECREATION DEPARTMENT CASH HANDLING AUDIT

WILLIAM BROWN, CIA, CGAP

CITY OF RIVIERA BEACH INTERNAL AUDITOR
600 WEST BLUE HERON BLVD., SUITE C-114
RIVIERA BEACH, FLORIDA 33404



City of Riviera Beach Internal Audit Office
"Promoting honest, efficient, effective, and fully accountable city government."

PARKS & REC CASH HANDLING AUDIT

Audit # IAO0915-02P&R

October 2016

Mr. Danny Jones
Interim City Manager
600 West Blue Heron Blvd.
Riviera Beach, Florida 33404

October 4, 2016

Re: Audit of Parks & Rec Cash Handling Process (IAO0915-02P&R)

Enclosed is the audit report for the Parks & Recreation Department, approved as part of the Annual Audit Plan. The Parks & Recreation Department is responsible for handling cash associated with City sports leagues, park and gym rentals, Jazz-After-Dark Concert Series and Barracuda Bay Aquatics Park, among others. The audit included a review of: a) compliance to Department policy, procedure, and management directives, b) evaluation of internal controls, c) compliance to cash handling industry practices, and d) evaluation of cash handling process efficiency & effectiveness.

The Department's current cash handling policy and procedures were last revised in 2004 and are based on systems, process and personnel in place at that time. Needless to say, much has changed since 2004, and Department Management is aware that there is a critical need to bring this policy up-to-date. Department Management has indicated that this report will provide valuable insight into policy and procedure updates to be developed in 2016. The program-specific detail, and the recommendations found within the audit report, should be used to evaluate the capabilities of any future "Parks and Rec" operating software. The audit did uncover several recordkeeping, bookkeeping, and internal control deficiencies. Improvements to internal controls related to management oversight, separation of duties, and revenue recording/reporting are recommended.

If you need additional information or have any questions, please contact me at (561) 845-3470.

Sincerely,

William Brown

William Brown, CIA, CGAP
Internal Auditor, City of Riviera Beach
wbrown@rivierabch.com



City of Riviera Beach Internal Audit Office

PARKS & REC CASH HANDLING AUDIT

Executive Summary

Audit # IAO0915-02P&R

October 2016

Purpose

During the City's Annual Risk Assessment process, the Riviera Beach Parks & Recreation Department (P&R) submitted its Cash Handling Process as the Department's number one candidate for audit. The Internal Audit Office (IAO) evaluated the internal controls associated with receipt, recording, security, management, and deposit of cash revenue.

Highlights

The Parks and Recreation Department's cash handling policy is outdated (2004) and many sections are no longer applicable to the current process; however the Department has instituted several well-intended controls in an effort to augment the policy. Department Management appears committed to updating cash handling policy and procedures in 2016 and there are several areas where improvement should be targeted.

The Department's cash handling efforts are hampered by a lack of capable technology: all registrations, applications, and payments are performed in person and manually recorded and filed. The Department does not offer on-line services at this time.

From an internal control and efficiency & effectiveness standpoint, several glaring weaknesses were observed, including:

- a) Information on cash handling forms was often incomplete – this affects the Department's ability to reconcile volume of activity to cash collected,
- b) Ineffective reporting (management oversight) and Separation of Duty conflicts for daily deposit, and authorization of voids and no-sale cash register functions,
- c) Revenues are often receipted to incorrect Financial Management System (FMS) accounts, and timeliness of receipting was observed to be an issue.

(Continued on next page)

Management Response

The City of Riviera Beach Parks & Rec Department (P&R) generally agrees with the findings and recommendations of the audit. The P&R responses follow each of the report's recommendations. The full Department response can be found in the report's appendix.

Recommendations

1. To address the non-compliance to procedures and inconsistent record-keeping found in the current cash handling process, develop revised Cash handling Policy and Procedures specifically addressing each revenue-generating service, program or activity. Parks and Rec Management should:

- a. Conduct a complete review of the existing 2004 procedures, and current management expectations; also review industry and Finance Department cash handling practices.
- b. Develop comprehensive cash handling policy & procedures: include clearly defined roles and responsibilities at each cash handling, reporting, and monitoring activity.
- c. For each major revenue stream: develop in-process controls in addition to end-of-day deposit controls - to monitor, reconcile, and report on cash handling activities occurring throughout the process.
- d. Increase the efficiency of the cash handling process, both from a citizen interaction, staff utilization, and monitoring perspective. Purchase a parks and recreation management system that provides web-based

(Continued on next page)



City of Riviera Beach Internal Audit Office

PARKS & REC CASH HANDLING AUDIT

Executive Summary

Audit # IAO0915-02P&R

October 2016

Highlights *(Continued from previous page)*

The deficiencies observed affect the Department's ability to use FMS to monitor and reconcile deposit activities, and to remit the correct amount of State Sales Tax.

Conditions exist where changes to cash handling data could occur without a significant ability to prohibit, monitor, or track the changes to data. So, a perpetrator of fraud has both access to cash handling records and the ability to conceal an act of fraud (for example, theft of concession inventory or recording registrations or rentals as paid without verifying the amount received in FMS, etc.) Although no fraud was uncovered, the current risk is that a staff person has the ability to record or alter cash handling records without detection, resulting in a significant risk for abuse and/or fraud.

The accompanying detail report is intended to assist the Parks & Rec Department in both establishing, and complying with, internal controls used to promote honest, efficient, effective, and accountable cash handling. IAO commends the department on steps already undertaken, and for the commitment to formulate a comprehensive policy and improved internal controls in 2016.

Recommendations *(Continued from previous page)*

registration, application, ticket sale and payment capabilities.

2. Create and implement internal controls to address deficiencies found in the current cash handling process, strengthen internal controls aimed at:

- a) Record-keeping accuracy,
- b) Security of cash and inventory assets, and
- c) Compliance with timeliness requirements.

Implement internal controls at each revenue-generating service, program or activity. An example of a recommended control is to provide the Department with the same/similar "Vault 360" technology as is in use by Utility Billing - eliminating the inherent risk of the current Parks and Rec security system, further reducing the risk of theft and fraud, while allowing deposits to "hit" the bank sometimes weeks prior to observed occurrences.

3. Ensure that revenue is receipted to the appropriate account in the City's Financial Management System (FMS): Create and implement internal controls designed to prevent incorrect receipting, and if and when a receipting error occurs, detect it.

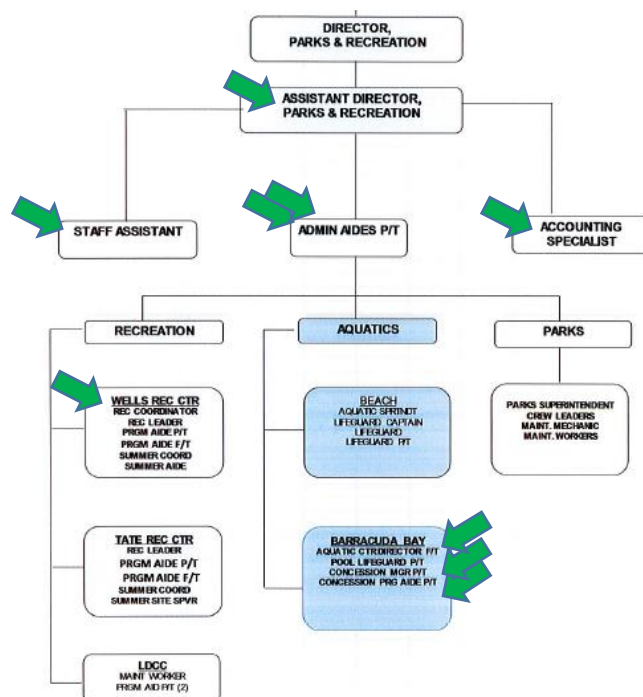
Table of Contents

I.	Background _____	Page 1
II.	Audit Scope & Audit Objectives _____	Page 5
III.	Methodology _____	Page 6
IV.	Findings & Recommendations	
	a. Finding 1 _____	Page 11
	b. Recommendation 1 _____	Page 15
	c. Management Response 1 _____	Page 17
	d. Finding 2 _____	Page 18
	e. Recommendation 2 _____	Page 21
	f. Management Response 2 _____	Page 21
	g. Finding 3 _____	Page 22
	h. Recommendation 3 _____	Page 26
	i. Management Response 3 _____	Page 27
V.	Appendix _____	Page 28

Background

During the City's Annual Risk Assessment process, the Riviera Beach Parks and Recreation Department (P&R) submitted the Cash Handling process as the Department's number one candidate for audit. The subsequent risk rating by the City Manager's Office placed the audit onto the 2015 Annual Audit Plan. The Parks and Recreation Department processes approximately \$170,000 in revenues annually. The Department has 25 unique revenue accounts and nine staff that interact with the cash handling process in a variety of capacities: cashiering, securing, authorizing, reconciling and monitoring (see Org Chart below).

Riviera Beach Parks and Recreation 2015-16 Organization Chart



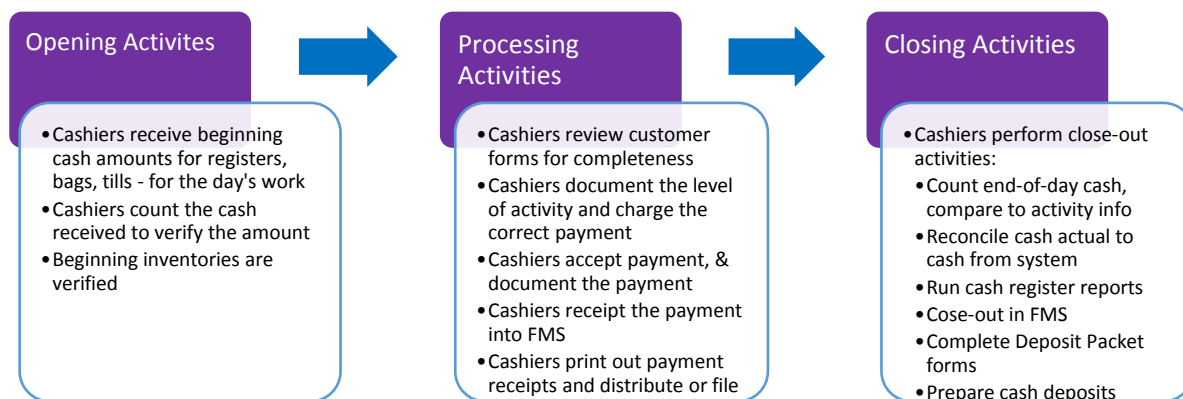
Parks and Recreation management is responsible for implementing internal controls that maintain the integrity of the cash handling process. This includes providing oversight to:

- ensure revenue-generating activity records are accurate (including inventory control),
- ensure revenues are accurately receipted into the City's Financial Management System (FMS), and
- ensure that revenues are held secure and safeguarded throughout the cash handling process

Cash handling encompasses all activities associated with the controlling and securing revenues generated from Parks & Recreation services and programs. Ensuring reliability and Integrity of information and compliance with Department Policy, procedures, and expectations during a) opening activities, b) processing activities, and c) closing activities is the foundation of an effective cash handling

process. Each of the Department's cash handling areas performs the general activities displayed in **Flowchart 1** below.

Flowchart 1: Cash Handling Process Activities



Parks and Recreation Department Cash Handling Roles & Responsibilities

Department Director - Sets Cash Handling Policy, establishes and implements internal controls to ensure the reliability and integrity of cash handling information (including staff adherence to policies, procedures, directives, and laws).

Assistant Department Director – Voids incorrect transactions and monitors cash handling activities; responsible for the combination to the Department's safe; is provided an individual alarm code to the Department's monitored alarm.

Aquatics Superintendent – In the absence of the Concessions Manager, coordinates start of the day Barracuda Bay cash register activities: distributes cash to cashiers, reviews Barracuda Bay cash handling activity reports, and is provided an individual alarm code to the Department's monitored alarm.

Aquatics Supervisor - Provides day-to-day oversight and authorizations to Barracuda Bay cash handling staff, maintains cash handling activity records, and is provided an individual alarm code to the Department's monitored alarm. [Vacant since summer 2015]

Concessions Manager (also acts as Barracuda Bay Admissions **Cashier**) – Monitors/orders/purchases, receives and controls Concession inventory for Barracuda Bay, football, basketball concessions, etc..

Concessions Cashier – Performs cashiering at the Barracuda Bay Concession Stand and at Sports League Concessions (football, basketball, etc.)

Accounting Specialist – Position added at end of audit work, duties being defined.

Staff Assistant (front office **cashier**) – performs end-of-day reconciliations of front office cashiers, prepares and documents daily deposits, secures daily deposits into the safe, secures cash tills (locked cash bags) in a locked desk drawer, documents daily deposits in the Brinks log, serves as point person on Brinks pick-up day; is provided an individual alarm code to the Department's monitored alarm.

Administrative Recreation Aide (front office **cashiers**) – Performs cashiering activities for payments processed in the front office (Barracuda Bay: group admissions, private rental fees, end-of-day admissions

and concessions; gym and park rentals fees; Jazz-after-Dark ticket payments; sports league and recreation program registration payments fees, etc.) and is provided an individual alarm code to the Department's monitored alarm.

Recreation Center Coordinator (acts as Parking Attendant **cashier**) – performs the Jazz-after-Dark parking attendant cashing activity.

Cash Handling Activity & Deposit Records

Cash handling operations occur primarily at the Department's main offices, located at the Barracuda Bay Aquatics Park on Blue Heron Boulevard. However, cash handling occurs periodically at remote locations, such as Dan Calloway Park (Jazz-After-Dark), Wells Gym/Park (football and basketball concessions), and the Utility Billing Office (Jazz-After-Dark ticket sales).

Effective management of activity and deposit records is an important element of any cash handling process. Effective cash handling provides assurance by monitoring that staff is:

- Receiving the correct payment for the Park's service purchased
- Cashiering (receipting) the payment to the proper Financial Management System (FMS) revenue account
- Correctly documenting the cash handling activity with: admission tally sheets, ticket sale forms, sign-in sheets, application or registration forms, etc.
- Physically securing revenues by documenting chain-of-custody, and by maintaining capable physical security of revenues prior to transportation to the City's bank (via the weekly Brink's pick-up and delivery to the City's bank)

The Parks and Recreation Department has developed several hardcopy forms that document cash handling activity, examples are as follows:

- Daily Cash Receipt Report – specifies the amount of cash and the FMS account number for the cashier to use when receipting the revenues into FMS (the City's Financial Management System)
- Revenue Collection Verification Form (RCVF) - documents the volume of activity associated with the revenues collected, and dual verification of end-of-day cash counts
- Application Form - records the information required when applying to rent a Park or Gym for a private event
- Registration Form - records a participant's registration information for one of the many programs offered by the Parks and Recreation Department

The majority of records are manually completed forms filed by front office staff. The Parks & Recreation Department has no online or web-based capability to register, rent, or pay for P&R services and programs). The only secure database record of cash handling is the City's Financial Management System (FMS). FMS generates a hard-copy receipt and creates a database record when: a) cash payments are receipted into FMS, and b) at the end of the day when cashiers close-out their FMS computer. Examples of front-office cashiering to FMS includes:

- Processing a payment from an individual who is registering for a recreation league or paying for a gym rental
- Processing the day's admission revenues from the Barracuda Bay Admissions cashier

- Processing revenues collected “off-site” from football game entrances fees or Jazz-After-Dark ticket sales

Receipt Packet

For the purposes of this audit, the various forms and support documentation gathered at each revenue-generating activity is defined as the “Receipt Packet.” The cash handling information documented within the Receipt Packet is a key internal control ensuring that revenues collected equal what is expected, based on the volume of activity documented. The Receipt Packet along with the FMS Close-out Report are further defined below:

- **“Receipt Packet”** – for the majority of revenue types, the packet should include the following:
 - Daily Cash Receipt Report - which lists the 27 revenue accounts, with a line beside each account number to enter the dollar amount collected (to receipt into the FMS account), and signature and date lines
 - The Revenue Cash Verification Form (RCVF) - which lists volume of activity (such as wristbands distributed during open swim at Barracuda Bay), or ticket numbers given out
 - Attendance listing - such as Jazz After Dark ticket sales, or sign-in sheets for Group Swims
 - Supporting Documentation - such as cash register receipts, Concession Items Discard form, or inventory reconciliation sheets,
 - Transfer of custody documentation - such as, when the Front Office cashier supplies the Concession Manager with an FMS-generated receipt indicating that the cashier has receipted and taken control of the concession cash.

Front Office

- **FMS Close-out Reports** – at the end of each day, anyone who has performed cashiering duties should close-out their “register,” run reports indicating how much cash they have collected, and then reconcile any differences with “actuals.” The Department has instituted dual count verifications of each cashier’s cash drawer. All “balanced” cash drawers are forwarded to the Staff Assistant who collects revenues for deposit. Deposit activities include: completing information on bank deposit bags and securing the deposit into the Department’s safe. Bank deposits are picked up by Brinks and delivered to the City’s bank on a weekly basis. FMS deposit reports are forwarded to the Finance Department, where they are reviewed and reconciled against bank deposit statements.

Audit Scope & Audit Objectives

Prior to developing the audit scope and audit objectives, the Internal Audit Office (IAO) performed a risk assessment of the Parks and Recreation Cash Handling Process. With the risk assessment, the IAO: a) identified threats associated with each revenue stream, b) identified the controls established by management to prevent, detect, eliminate or minimize the threats, and c) determined the inherent risk associated with the identified threats. The scope and audit objectives were defined to address the results of the risk assessment. The Internal Audit Office (IAO), along with the Parks and Recreation Department (P&R), developed the scope and objectives of the audit.

The scope is the boundary of the audit, directly tied to the audit objectives. The scope defines the: a) subject matter that the internal auditor will evaluate, assess and report on, b) period of time reviewed, and c) locations that will be included.

The scope of this audit included an examination of the internal controls employed in the cash handling process. The cash handling areas audited included: a) Sports League registration (football and Basketball), b) Sports Leagues concessions (football and Basketball), c) Barracuda Bay admissions, d) Barracuda Bay concessions, e) Barracuda Bay swim lessons, f) Summer Programs, g) Jazz-After-Dark admission, h) Jazz-After-Dark parking, and i) park and gym rentals.

The scope included an examination of compliance to Department Policy & Procedure as well as Department management's expressed expectations. The audit covered the period from January 1, 2014, through September 30, 2015. The audit period was selected in order to evaluate at least "two seasons" of seasonal revenue streams such as those at the Barracuda Bay Aquatics Park, and recreation league programs such as football and basketball.

The objectives for this audit were:

Objective 1: Determine whether the cash handling activities in each of the audited revenue areas complies with established Parks and Recreation Department Policy & Procedures.

Objective 2: Determine whether cash handling procedures and practices adequately control risks during the following: receive payments, manage payments, safeguard payments, and deposit payments.

Objective 3: Evaluate the efficiency of the current cash handling processes / revenue generating activities.

Parks and Recreation Revenue Account Characteristics and Trends

The IAO reviewed the City's Financial Management System (FMS) to document the revenue trends of each of the twenty-seven revenue accounts associated with the Parks and Recreation Department. The Parks and Recreation Department processes ~\$170,000 dollars of revenue per year. The highest percentage of revenue-generating programs were chosen for inclusion in the audit. These programs (revenue streams) are identified as follows:

Audited Areas

Barracuda Bay Admissions / Gate / Open Swim
(Revenue Account 001-00-347241)

Barracuda Bay Group Admissions
(Revenue Account 001-00-347241)

Barracuda Bay Concession Stand
(001-00-347231)

Barracuda Bay Rental Income – Private Events
(001-00-347235)

Barracuda Bay Swim Lessons
(001-00-347233)

Recreation Gym Rental
(001-00-347229)

Recreation Park Rental
(001-00-347230)

Recreation Football
(001-00-347218)

Recreation Basketball
(001-00-347219)

Recreation Concession Stand
(001-00-347212)

Methodology

This audit was conducted in accordance with generally accepted government auditing standards. Those standards require that the Internal Audit Office (IAO) plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objectives. The IAO believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

The methodology developed for this audit included an assessment of Internal controls placed by management to provide: a) effective and efficient cash handling operations, b) reliable financial and performance reporting, and c) compliance with applicable laws and regulations. The IAO seeks to provide reasonable assurance that internal controls are operating as management intends. Internal controls include the processes and procedures for organizing, managing, and safeguarding cash handling operations - including management's system for: measuring, monitoring and reporting cash handling performance.

During the audit planning stages, the Internal Audit Office (IAO) reviewed documents pertinent to the audit objectives, including: a) the Parks and Recreation Department Policy and Procedures Manual¹, b) Parks and Recreation cash handling “directive” memorandum², c) Interim Department Director’s cash handling activity documentation expectations, d) National Recreation and Parks Association (NRPA), e) Florida Recreation and Parks Association (FRPA) Parks and Recreation, f) Martin County Parks and Recreation Department, and g) Palm Beach County Parks and Recreation Department.

After a review of pertinent resources, the Internal Audit Office (IAO), along with the Interim Parks and Recreation Department Director, established **criteria** to use in evaluating the cash handling process. The IAO used interviews, observations, review of cash handling records, data analysis, and various testing methods to document the current **condition** of the Parks and Recreation Department’s Cash Handling Process. The resulting gaps between criteria (“what is desired”) and condition (“what actually exists”) yielded the **findings** and **recommendations** contained within this report.

Methodologies employed by the Internal Auditor included: a) staff and management interviews, b) written surveys/ questionnaires, c) observations, d) a review of policy, and practices, e) analysis of cash handling documentation, and f) analysis of separation of duties controls, etc.

To accomplish the agreed upon audit objectives, IAO performed the following:

- Obtained documentation related to current cash handling activities.
- Reviewed internal controls through interviews, observation and examination of documents.
- Met with appropriate staff to discuss existing procedures and practices.
- Performed site visits of cash handling areas.
- Observed physical security in place at cash handling and storage areas.
- Sampled Department cash handling records³.
- Reviewed supporting documentation.
- Analyzed Chain of Custody, and other process documentation for completeness, and accuracy.
- Reviewed the physical and system security intended to control unauthorized access to Department revenues and cash handling data.
- Reviewed best practices and compared with the policy, procedures, and practices of the current cash handling process.
- Reviewed FMS revenue accounts verifying activity and receipt of revenues.
- Reviewed the Department’s Brinks Log

The IAO conducted a variety of testing to gain an understanding of the current condition of the Cash Handling Process, including:

- Tested Department cash handling documentation for compliance to procedures and management expectations
- Observed staff activities for procedural compliance

¹ City of Riviera Beach Parks and Recreation Policy & Procedure Manual, Cash Receipts, Inventory and Related Financial Reporting; PR 1-04

² Parks and Recreation Department cash handling “directive” memo’s dated: March 30, 2004, March 20, 2007, October 4, 2011 (Finance) Interim Department Director highlighted required fields on cash handling forms.

³ Judgmental sampling was used, detail findings contained in audit work papers documents sample sizes used. In some cases a lack of complete records impacted possible sample size.

- Traced cash handling documentation, and activity volume, to the corresponding revenue account of City's Financial Management System (FMS)
- Vouched FMS database transactions to Department source documents
- Analyzed effectiveness of internal controls to mitigate risk
- Conducted a follow-up review on the 2007 State audit report
- Identified inherent risks and possible impacts to the City
- Reviewed the audit trail/Chain of Custody documentation of the Cash Handling Process
- Evaluated the effectiveness of current process monitoring controls

The audit's systematic approach enabled the IAO to fully achieve the audit objectives, including assessing the risk that abuse or illegal acts could occur and go undetected, or that unintentional errors could otherwise impede the department's ability to efficiently and effectively process revenues.

The audit steps specifically associated with **Audit Objective 1** ("determine compliance") included the following:

- 1) Reviewed the Parks & Recreation Department's criteria for the cash handling process, and then sampled and tested the compliance of each revenue-generating area audited. For example, the Department shared policy and procedure documents, as well as written directives to staff concerning roles and responsibilities for the cash handling process. Each area was tested to see if procedures and directives are followed.
- 2) Wherever the Department does not meet the established criteria, a) document the possible impact and, b) recommend ways that the Department can meet the agreed upon criteria.

The audit steps associated with **Audit Objective 2** ("control risk") included testing the effectiveness of internal controls in place at each stage of the cash handling process, for each area audited. This included the following:

- 1) Identify internal controls in place to prevent or detect deviations from policy, procedure, defined expectations of management, as well as those designed to prevent errors, theft, etc.
- 2) Evaluate the effectiveness of internal controls. This included assessing the effectiveness of activity and cash handling controls designed to prevent and/or detect errors, theft or fraud.

This included evaluating:

- Chain of Custody / Separation of Duties controls
 - Cash handling documentation accuracy and completeness controls
 - Physical security controls
- 3) Observed and compared staff practices, with recognized best practices and cash handling standards recommended by organizations such as: a) National Recreation and Parks Association (NRPA), b) Florida Recreation and Parks Association (FRPA) Parks and Recreation, c) Martin County Parks and Recreation Department, and d) Palm Beach County Parks and Recreation Department.
 - 4) Document the inherent risk of current controls and assess the potential impact to the City.

The audit emphasis associated with **Audit Objective 3** (“efficiency of processes and revenue activities”) included a high-level review of the operational efficiency of how staff is utilized, and the effectiveness of staff to ensure the level of cash handling oversight and security intended by management. The Internal Audit Office (IAO) reviewed the efficiency of certain elements of the current cash handling process, and offers insight on the impact of staffing levels and technology systems on cash handling efficiency and customer service.

As defined by Government Auditing Standards, the Riviera Beach Internal Audit Office (IAO) is free from organizational impairments to independence. We report directly and are accountable to the City Manager. Organizationally, the IAO is outside the staff or line management function of the units that we audit. We report the results of our audits to the City Manager, the Auditee, and the City Council. Audit Reports are available to the public.

Findings and Recommendations

The Internal Audit Office (IAO) performs audit work as an independent, outside observer for the purpose of providing assurance that internal controls are in place and functioning as intended to mitigate risk. Management’s internal controls promote honest, efficient, effective, and accountable operations. The following findings and recommendations have been developed in an impartial manner, based on sufficient and appropriate evidence, free from personal or organizational impairment. A response to each recommendation was provided by the management of the Parks and Recreation Department. Selected text from the response is provided following each recommendation. The full Parks and Recreation Department response is included in the Appendix of this report.

The Internal Audit Office (IAO) evaluated each area contained herein by first establishing evaluation *criteria* with the Parks and Recreation Department, then through interviews, observations, data analysis, and various testing methods, the IAO documented the current *condition* of the Department’s Cash Handling Process. The audit resulted in the findings and recommendations presented within this section of the report. A **Finding** statement is followed by: a) the **Criteria** used to evaluate the area, b) the **Condition** found to exist during the audit, c) the resulting **Recommendations** to improve the audited area, and d) the Parks and Recreation Department’s **Management Response**.

Requirements & Expectation Criteria

At each phase of the Cash Handling Process, the Department has established requirements and process expectations for staff involved in the process. Examples of requirements include the following:

- **Opening Activities** (start-of-day): Verify or document items, such as:
 - The amount of cash in cash registers, tills, cash bags, etc.
 - The starting number of wristbands to distribute at Barracuda Bay, or recreation league football games, or ticket numbers of Jazz-After-Dark tickets.

- **Processing Activities** – document **cash-generating activity volume and resulting revenues** occurring during-the-course-of-day, such as:
 - Daily admissions into Barracuda Bay (using a tally sheet and recording the beginning and ending numbers of wristbands distributed)
 - Revenue resulting from Barracuda Bay admissions or concessions
 - Security deposits and rental fees for Parks or Gym rentals
 - Recording concession item spoilage, refund, or disposal reasons
 - Recreation league registrations and complete and accurate applications
- **Closing Activities** (end-of-day reconciliation data, and deposit verification), such as:
 - Receipt Packet forms, including: a) Daily Cash Receipt Form (revenue account, and revenues collected), b) Revenue Collection Verification Forms (RCVF), and c) required support documentation, such as: cash register reports, number of wristbands distributed, group swim sign-in sheets, concession item discard forms, ticket sales, etc.
 - FMS deposit receipts and reconciliation reports

Internal Controls Criteria

Internal controls should exist at each stage of the cash handling process to ensure: a) the amount of cash collected is accurate based on the level of service provided, b) cashiering errors, theft or fraud do not go undetected, and that c) cash and cash-generating assets (concession inventory, Jazz-after-Dark concert tickets or football game wristbands/tickets) are safeguarded during “use,” and physically secure during “non-use” (storage). In general, internal controls include:

- Limiting cash access to those responsible and accountable for cashiering or securing cash
- Recording cash handling activity and generating reconciliation reports to monitor cash handling activities
- Separation of Duties – no one person should be responsible for activities whereby the person could commit theft or fraud and cover it up
- Keeping cash physically secure throughout the cash handling process, and
- Documenting transfer of custody of cash when it leaves one person’s accountability and is transferred to another person’s custody

In order to achieve the Audit’s objectives, the IAO reviewed internal controls to:

- Ensure revenue-generating activities are accurately documented
- Prevent and/or detect staff errors, theft, or fraud
- Secure and safeguard revenues
- Ensure the accuracy of FMS Revenue Accounts
- Ensure State Sales Tax is accurately calculated and remitted

Condition

In general, the following condition was observed in two or more areas audited:

- Revenue-generating activity volume is not consistently documented (conflicting activity volume was observed) – see Finding 1
- Activity volume is not consistently monitored and verified

- Department cash handling timeliness expectations are not consistently met – see Finding 2
- Revenue is not accurately receipted into the correct FMS account – see Finding 3
- State Sales Tax is not accurately calculated and remitted – see Finding 3
- Cash handling procedures and expectations are not effectively monitored

Report Structure

First, a general **Finding Statement** is provided that pertains to a significant number of the areas audited.

Second, the general finding statement is supported by a description of the **Audit Criteria** used (that is, a description of what was expected to be in place based upon Department Policy, procedures, management directives or expressed expectations).

Third, following the description of the audit criteria used, the **General Condition** found in a significant number of audited areas is described. The condition leads to the Finding.

Fourth, the IAO draws conclusions from the condition found, and describes the resulting **impact to the Department**.

1. Finding: A significant number of cash handling areas do not consistently comply with cash handling documentation and record keeping requirements.

Criteria:

The City of Riviera Beach Parks and Recreation Department (P&R) has developed and implemented policy and procedures “for cash register operations, cash receipts, admission & concession deposits, journal entries and inventory.”⁴ At each cash handling activity, the Department has established documentation or record-keeping standards designed to ensure accurate and complete documentation, such as: a) the level of activity, b) the amount of revenue collected, and c) the person accountable for cash handling.

Documenting activity volume (such as attendance to a Parks and Rec program) is important because it allows cash handling reconciliations to take place – to ensure that revenues collected equate to the amount of revenue-generating activity that took place. The Department documented for the Internal Audit Office (IAO), the procedural requirements and management expectations related to cash handling documentation and record-keeping. The Interim Department Director highlighted required information, or “data fields” on cash handling forms, that she expects to be completed.

The IAO used these data field requirements to establish criteria for evaluating record-keeping at each of the audited areas. The first column of **Table 1** lists the criteria supplied by the Department. Examples of the forms and support documents used by staff to record cash handling activity are listed in the second column. Finally, column three lists examples of data controls designed to ensure that cash is sufficiently safeguarded and that staff fulfills the record-keeping expectations of management.

⁴ City of Riviera Beach Parks and Recreation, Policy PR 1-04, Effective 3/01/2004 Cash Receipts, Inventory and Related Financial Reporting

Table 1: Record-Keeping Requirements, Documentation and Controls

Parks & Recreation Department Cash Handling Record-Keeping Requirements	Examples of Record-Keeping Forms and Support Documentation	Examples of Cash Handling Controls (includes monitoring of each)
Criteria Resources: A) Policy and Procedure: PR 1-04 ⁵ B) Department Directives ⁶ C) Daily Activity documentation ⁷ D) Receipt Packet (end-of-day) ⁸ E) Financial Management System (FMS) Revenue Account	<ul style="list-style-type: none"> - Daily Cash Receipt Report Form, - Revenue Cash Reconciliation Forms (RCVF), - Applications (details of a gym rental, or the participants of a group swim), - Registrations (resident or non-resident for a recreation league or program), - Volume of activity sheets (hand-tallied sheet recording admissions into Barracuda Bay, number of tickets sold to Jazz-after-Dark, or football games), - Cash register reports (number and type of transactions, total dollar value of transactions) 	<ul style="list-style-type: none"> -Two signatures verifying cash counts - Ensure accurate revenue account numbers (FMS) are used by staff - Ensure payment amounts are accurate and collected according to Policy - Cash handling actions are sufficiently documented to ensure staff accountability - Recorded level of activity (people admitted, tickets sold, wristbands distributed, concession sales, etc.) compared to the revenue collected - Daily revenue generated reconciled with daily deposit prepared

Significant risk exists if cash handling record-keeping standards are not followed - if records are not accurate, management cannot effectively monitor the accuracy of revenues collected/deposited. When cash handling activity records are incomplete, an important internal control is lost – the ability to equate level of activity to amount of revenue collectible. Ideally, the staff person recording activity volume is independent of the person collecting revenue. For example, a cashier collects admission revenue, but a separate staff person (or a mechanism such as: a barcode scanner, or a turnstile counter) counts the number of admissions. Then, a third person (Front Office staff perhaps) checks to make sure the activity level (turnstile) matches the amount of revenue received. A clearly defined separation of duties for, a) record-keeping and b) monitoring are often included in a comprehensive Policy and Procedure document.

Condition:

In each of the revenue-generating areas audited, the Department has developed processing and record-keeping requirements designed to:

- Document the level of revenue-generating activity
- Document the corresponding amount of revenue

⁵ Policy & Procedures PR 1-04: Cash Receipts, Inventory and Related Financial Reporting (Effective date 3/1/04)

⁶ Memo from Parks Director: Updated - Online Cash Handling Procedures for P&R Department 2015 (Memo dated March 20, 2007) – Process payments in FMS opening a cash drawer / Processing payments instructions / Closing a cash drawer / Deposit reporting / Void Procedure

⁷ Daily Tally Sheet - Open Swim admission tracking form (highlighted form requirements identified by Interim Department Director, for example: numbered wrist bands and Resident/Non-resident admission tally sheet)

⁸ **Daily Cash Receipt Report** form (highlighted form requirements identified by Interim Department Director, for example: amount of revenue per revenue account number, totaled deposit and signed by “preparer.”)

Revenue/Cash Verification Form (RCVP) (highlighted form requirements identified by Interim Department Director, for example: Dual cash verification counted by Admissions cashier and the Concession Cashier), date and time revenue collected, number of wristbands distributed accounting for admission revenue, employees name responsible for collecting the revenue documented on the form.

- Place responsibility and accountability on staff performing cash handling activities
- Enable management to provide oversight of staff's cash handling activities

The IAO evaluated the compliance to cash handling policy, procedures and expectations in each area audited. Although there were many areas where the Department was found to be in compliance, **Table 2**, lists the areas where deficiencies were found and should be addressed (that is, areas that do not predominantly comply with criteria or expectations established by management). The risk associated with each finding is color-coded as follows:

	Yellow – Mild-to-moderate risk exists, controls can be improved
	Red – Significant risk exists, controls should be improved

Table 2 Compliance to Cash Handling Record-Keeping Criteria – Summary

1.	Barracuda Bay Admissions/Gate/Open Swim (Revenue Account 001-00-347241)		
	Example Deficiencies: <ul style="list-style-type: none"> • 11% of sampled records were missing the required dual verification signatures for cash collections • 76% of sampled records did not record the number of wristbands distributed (wristbands = admission volume) • 64% of sampled records had a manually recorded resident and non-resident count that did not match the count on cash register report 		
2.	Barracuda Bay Group Admissions (Revenue Account 001-00-347241)		
	Example Deficiencies: <ul style="list-style-type: none"> • 48% of sampled records had a number of wristbands given to groups that did match the group's attendee list 		
3.	Barracuda Bay Concession Revenue (Inventory Control) (Revenue Account 001-00-347231)		
	Example Deficiencies: <ul style="list-style-type: none"> • Discarded and voided concession items do not appear on concession inventory reconciliation records • Discrepancies in numbers of concession items sold were found among sale & inventory records 		
4.	Recreation Concession Revenue (football, basketball, etc.) (001-00-347212)		
	Example Deficiencies: <ul style="list-style-type: none"> • Records for "remote" concession operations (sport leagues) were not provided by the Department 		
5.	Recreation Football (001-00-347218)	Recreation Basketball (001-00-347219)	
	Example Deficiencies: <ul style="list-style-type: none"> • Required FMS receipt #s were missing on some registration records - how were these paid, and were they receipted into FMS? 		
6.	Barracuda Bay Rental Income – Private Events (001-00-347235)	Recreation Gym Rental (001-00-347229)	Recreation Park Rental (001-00-347230)
	Example Deficiencies: <ul style="list-style-type: none"> • Rental Records (FMS, Outlook Calendar, Applications) listed different numbers of rentals for the same time period • The required rental information, from various records, was not consistently recorded 		

In **Table 2**, areas coded red predominantly indicate a condition where activity records do not yield the amount of revenue collected – for example: a) records contain contradictory activity volume, and, b) records do not contain required documentation. In the "code red" areas identified in **Table 2**, record keeping deficiencies include:

- The count of attendees to Barracuda Bay found on the attendee tally sheet is different from the number recorded on cash register reports

Impact: When the level of activity recorded by staff is not matched / reconciled with actual revenue collected, management sends the message: “recording activity volume accurately is not important,” and diminishes staff’s accountability.

- Missing the signatures of staff that verify cash counts, or missing signatures of staff authorizing a transaction

Impact: When staff’s signatory responsibilities are not required / not monitored, management sends the message: “dual verification of cash collected and reconciled is not important,” and diminishes staff’s accountability.

- Missing (2014 concession records were not provided), incomplete, and inaccurate concessions inventory records

Impact: When concessions inventory is not accurate or complete, especially where the same staff person: a) conducts physical inventories, b) manages cash register reconciliations, c) approves spoilage and concession discards, d) purchases inventory, and e) receives and stocks inventory, then management sends the message that inventory control is not important, and diminishes staff’s accountability.

In the areas noted, **record-keeping activity data deficiencies were not detected by management. This leads IAO to conclude that cash handling activity volume is not reconciled to cash collected.** As long as revenue-generating activities are not documented in a way that promotes accountability, **there is a significant risk that if staff errors, mismanagement or fraud occurs, it will go undetected for extended periods of time.**

Process Efficiency

The Parks and Recreation Department’s cash handling process, with the exception of FMS receipting is entirely manual. The “in-process,” during-the-day cash handling documentation, is essentially uncontrolled - multiple staff have unfettered access to cash handling records that (that documents activity volume, amount of payment, status of payments, “paid in full” notations, concession inventory, etc.). Access to cash handling data is not limited – **there are no access or change controls in place** that would identify which staff updated or changed which record. There were multiple areas observed where activity volume is not reconciled to actual cash collected. **The manual methods used to record, track, and monitor cash handling activity is as antiquated, as it is inefficient.** In a mostly manual record-keeping process (without the proper internal controls), staff errors, theft, or fraud could go undetected for extended periods of time.

Recommendation Purpose

Internal Controls Statement:

Recommendations are intended to improve internal control. Ideally, internal controls⁹ work to assure: a) the reliability and integrity of information, b) compliance with Policy and Procedures, and laws, c) the safeguarding of assets, and d) the efficient use of resources. Internal controls prevent and/or detect situations that cause risk for the City (theft, fraud, employee errors).

Department Management:

Management is responsible for implementing recommendations. It is the responsibility of Department Management to implement cash handling controls designed to decrease cash handling risk. As with any cash handling process, management should strive to create and implement internal controls designed to assure the following:

- a) Staff documents all transactions,
- b) Staff documents all transactions correctly,
- c) There exists transactional documentation that can be audited,
- d) There exists transactional reporting to allow for effective oversight, ensuring accountability,
- e) Any part of the cash handling process not conforming to policy, procedure, proper bookkeeping, and accounting standards should be detected and corrected in a timely manner.

The Internal Audit Office (IAO):

The IAO strives to assure Department management that internal controls are: a) in place and functioning as intended, or conversely, b) to identify where internal controls are not working as management has intended. The IAO makes recommendations to improve internal controls.

Recommendation 1

Recommendation 1.a. To address the procedural non-compliance and record-keeping inconsistencies found in the current cash handling process, *develop revised Cash Handling Policy and Procedures specifically addressing each revenue-generating service, program or activity.*

Procedures should detail each step of the cash handling process. Procedural steps describing the required record-keeping documentation should refer to the appropriate forms or computer screens to use in the step. As forms and computer screen requirements change, the procedure should be updated.

These detailed steps should map out each step of the activity so that persons not familiar with the process can follow them to perform the duties when necessary. The Policy and Procedures should be used to train new staff and cross train existing staff, it should serve as an accessible, easy-to-understand resource of what is expected of staff and management alike.

⁹ Examples of internal controls: policy and procedure, exception reporting, documented process monitoring, and management information systems (data field access and logic controls).

Separation of Duties is an essential internal control to clearly define in the Department's cash handling procedures - preventing one individual from having responsibility for more than one of the following cash handling responsibilities: collecting, reconciling and depositing. A proper Separation of Duties protects the individual, as well as the Department.

Further, Policy and Procedures should clearly define the steps and documentation requirements of each cash handling activity - the actual cashing (cash collected) *and* documenting the level of activity (that generates the cash collected). This allows reconciliation of activity volume to the amount of revenue collected. The revised Policy and Procedure should address:

- a) Roles and responsibilities of staff and management
- b) Cash handling forms and support documentation requirements

Note: Policy and procedures should specify cash handling accountability for: cashing, FMS receipting, and activity documentation, including:

- Authorization signatures
- Revenue-generating activity level
- Accurate revenue collections
- Revenue receipting accuracy and timeliness
- Inventory records
- Reconciling revenue-generating activity with the amount of revenues collected
- Deposit information

c) Methods used to monitor and verify that procedures and record-keeping requirements are consistently met, including:

- Verifying the accuracy of cash handling activity records,
- Verifying the accuracy of the amount receipted into FMS,
- Verifying the accuracy of bank deposits (Finance Department reconciliations),
- Monitoring the level of revenue-generating activity or type of revenue (amount, volume, etc.)

Everywhere management creates an internal control, a monitoring mechanism should also be created - to ensure their intentions are followed.

The Department should designate specific staff for specific monitoring responsibilities. Results of monitoring should be reported to management.

Recommendation 1.b. (Efficiency) The Department should **replace antiquated methods of documenting cash handling activities** (both activity level and cash collected). Partner with the City's I.T. Department to **develop an automation/technology strategy** that can be implemented with limited/existing resources, as well as, be part of the City's technology master plan (ERP).

For all cash handling activities in the current process, the Department should identify each manually performed documentation and discuss ways to automate with the City's I.T. Department. The impact would likely be increased:

- Customer service/satisfaction

- Data accuracy
- Cash handling consistency
- Audit trail
- Staff efficiency
- Management control

As the first point of contact, as a frequent point of contact, in many ways, the face of the City, the Parks and Recreation Department should utilize available resources to ensure an efficient, customer focused, well-controlled process. Automation and on-line capabilities should provide a secure capability to:

- Register participation in leagues and programs
- Reserve and schedule venue rentals
- Count attendance (Barracuda Bay, Football games, Jazz-after-Dark, events and programs)
- Cashier/collect fees and ticket sales
- Inventory control
- Event and program scheduling
- Receipt into the City's Financial Management System (FMS)

Where automated system controls are employed (IT Master Plan), create exception reporting, and where on-line forms are used, define: a) logic (access controls such as user ID's and passwords) and b) application input controls (data field check, validity checks, reasonableness checks, etc.)

Recommended resources to investigate immediately include: admission turnstiles, barcode scanners for tickets/admissions, registration kiosks/online registrations and venue rentals, online payment, and Point-of-Service cash registers.

Management Response 1:

1a. The Department agrees. The department's plan of action is to: 1) evaluate the number of revenue accounts and narrow them to a reasonable number...make posting to the correct FMS revenue account more efficient, 2) evaluate those programs, events, functions that we actually charge for and determine if the revenue generated is worth the effort of collecting, monitoring and auditing the funds, 3) work with the Finance department to update policies and procedures (draft received September 22, 2016). We will ensure that separation of duties (SoD) is clearly defined and we will place more emphasis on our accounting technician guiding all collections, SoD, and financial policy adherence – including appropriate cross checking for balances, receipts, separation of duties and reporting. The collection of funds at the gyms and centers will be accommodated by the new software Rec Trac.

Estimated date of completion for Items 1, 2 and 3 is December 1, 2016

1b. The Department agrees. The Departments plan of action is to automate our registration process (Rec Trac) which will include Point of sale for concessions, on line registration, which we will push, inventory control, facility scheduling, as well as the ability to take monies at the outlying gyms and community centers therefore increasing our level of customer service. We will also implement the revised Policies and Procedures (draft received on September 22, 2016 from the Finance Department.)

The Software has been identified. The date of installation is unknown at this time, however it will be in FY17. Training of staff will be concurrent with installation.

2. Finding: There are opportunities within the Cash Handling Process to strengthen internal controls intended to promote:

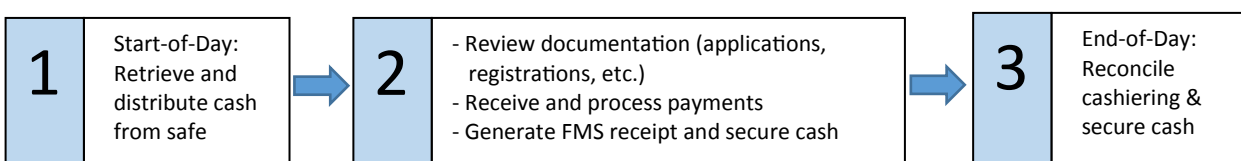
- A) Record-keeping accuracy
- B) Security of cash and inventory assets
- C) Compliance with timeliness requirements

Finding two is related to Finding one - in the first finding, the IAO documented the Department's *compliance to existing* expectations and requirements based on policy, procedure, written directives, etc. and the second finding documents opportunities for *improvement in the Department's internal controls*. Finding 2 also comments on the possible impact resulting from control deficiencies.

Criteria:

The Parks and Recreation Department has designed cash handling controls for each stage of the cash handling process. Internal controls include Policy & Procedure, as well as management guidelines and cash handling expectations concerning: quality, accuracy, completeness, security, and timeliness. The high-level stages of the Cash Handling Process are displayed in the flowchart below. Following the flowchart, there is a brief description of expectations expressed by Department Management.

Flow Chart 2: Phases of the Cash Handling Process



Specific internal control criteria, and management expectations, for each phase of the cash handling process are listed in the Appendix of this report. The IAO sought to determine if existing internal controls ensured that payments are “processed” according to management’s expectations of: a) accuracy, b) security, and c) timeliness of receipt into the City’s Financial Management System (FMS).

Examples of each of these expectations includes:

- **Accuracy** requirements (such as, the correct amount is received and receipted to the correct FMS account)
 - Cash collected should match the level or type of revenue-generating activity. When cash handling activity data is not accurately recorded and monitored, the risk of staff errors, theft or fraud increases.
- **Security** of assets (for example, cash, but also assets such as concession inventory. Cash and inventory should be secure from theft during the day’s activity, and at the end of the day, overnight)
 - When cash or cash-producing assets are not properly secured and reconciled, then the risk of staff errors, theft or fraud increases.

- **Timeliness** requirements (for example, Group swim payments or Parks facility rentals are received per Department requirements. Likewise, payments are processed and receipted into FMS per Department expectations).

When cash is not promptly receipted, prepared for deposit, and forwarded to the City's bank, then risk of staff errors, theft or fraud increases. When the cash handling process is not monitored regularly, the ability of the Department to prevent or detect staff errors, theft or fraud is decreased.

Condition

The IAO evaluated the cash handling practices of each area audited in reference to the above listed criteria. Although there were many areas where the Department was found to have adequate controls, functioning as intended, **Table 3**, lists the areas where deficiencies were found and should be addressed (that is, areas where current controls do not meet criteria established by management). The risk associated with each finding is color-coded as follows:

	Yellow – Mild-to-moderate risk exists, controls can be improved
	Red – Significant risk exists, controls should be improved

Table 3 Internal Controls Analysis of the Cash Handling Process

	Internal Control Area / Example Deficiencies
1.	Internal Controls for Record-Keeping Accuracy
	<p><u>Example Deficiencies:</u></p> <ul style="list-style-type: none"> • Barracuda Bay Group Attendance: Current internal controls have not prevented, nor detected, when wristbands given to groups do not match the attendee list for the group; impact – incorrect revenue is collected • Concessions inventory: Current internal controls have not prevented, nor detected inventory reconciliation forms that do not reconcile to sales, discards, and voids; some inventory reconciliation monthly forms were not provided for analysis; some reconciliation forms were not fully completed and/or conflicted with supporting records.
2.	Internal Controls for Security of Assets
	<p><u>Example Deficiencies:</u></p> <ul style="list-style-type: none"> • Barracuda Bay Admissions and Concessions Cashiering: Current internal controls have not prevented, nor detected, when cash register “No Sales” averaged 20 times per day at recreation league concession cashiering, and 8 times per day at Barracuda Bay concession cashiering. The No-Sale cash register button can be used to complete “off-record” sales. • The physical security features protecting the end of day deposits (alarm system, cash storage) could be breached. The exterior window to the room where cash is held (either in the safe, or in a locked desk drawer), could be broken and would not set off the alarm system, a locked file cabinet could easily be forced open. This same room has no security camera. • Parks and Gym Venue Rental Revenue – There are no access controls for the Outlook Calendar and hard-copy applications that track payments and rental status, there is no verification using FMS that information residing on the rental records (such as the Outlook calendar) is accurate.
3.	Internal Controls for Timeliness
	<p><u>Example Deficiencies:</u></p> <ul style="list-style-type: none"> • Barracuda Bay Revenue Receipting (Gate/Open Swim Individual Admissions) - Current internal controls have not prevented, nor detected the five observed exceptions where: average days from transaction date to receipt into FMS was 10.8 days. The revenue from these five days missed the Brinks pick-up resulting in \$6,889 held in the Department safe until the next week's pick-up. • Barracuda Bay Group Swim Payments - Current internal controls have not prevented, nor detected, the 7 instances where the FMS deposits occurred after the group attended (conflict with policy). From 12 group payments analyzed, 2 payments were receipted into FMS two weeks following the Group's attendance (conflict with policy). • Gym (29%) and Park (45%) rentals – Current internal controls have not prevented, nor detected, required deposits and final payments being made in violation of the 2 week “all fees must be paid” policy. • Deposit Preparation & Brink's Pick-up - Current internal controls have not prevented, nor detected, the 20 unique deposits that missed the scheduled pick-up, and had to wait an extra week to be deposited.

The IAO concludes that **inaccurate or missing data recorded on cash handling and activity forms has not been prevented, nor detected** (forms with missing or inaccurate data: Revenue Cash Verification Form (RCVF), program applications, rental documentation, inventory documentation, etc.). **Internal controls have not been adequately placed in all situations where theft or fraud *can* occur.** Internal controls have not detected instances where **cash receipting, deposit preparation, and payments do not occur in a timely manner.** As long as internal controls are not implemented, monitored, and reported, revenue-generating activities are not properly controlled in a way that promotes accountability and security. So, **there is a significant risk that *if* staff makes errors, and *if* mismanagement or fraud occurs, it will go undetected for extended periods of time.**

Recommendation Purpose

Internal Controls Statement:

Recommendations improve internal control. Ideally, internal controls¹⁰ work to assure: a) the reliability and integrity of information, b) compliance with Policy and Procedures, and laws, c) the safeguarding of assets, and d) the efficient use of resources. Internal controls prevent and/or detect situations that cause risk for the City (theft, fraud, employee errors).

Department Management:

Management is responsible for implementing recommendations. It is the responsibility of Department Management to implement cash handling controls designed to decrease cash handling risk. As with any cash handling process, management should strive to create and implement internal controls designed to assure the following:

- a) Staff documents all transactions,
- b) Staff documents all transactions correctly,
- c) There exists transactional documentation that can be audited,
- d) There exists transactional reporting to allow for effective oversight, ensuring accountability,
- e) Any part of the cash handling process not conforming to policy, procedure, proper bookkeeping, and accounting standards should be detected and corrected in a timely manner.

The Internal Audit Office (IAO):

The IAO strives to assure Department management that internal controls are: a) in place and functioning as intended, or conversely, b) where internal controls are not working as management has intended. The IAO makes recommendations where internal controls are not functioning as intended.

¹⁰ Examples of internal controls: policy and procedure, exception reporting, documented process monitoring, and management information systems (data field access and logic controls).

Recommendation 2

Recommendation 2. Create and implement internal controls to address deficiencies found in the current cash handling process, **strengthen internal controls aimed at: a) Record-keeping accuracy, b) Security of cash and inventory assets, and c) Compliance with timeliness requirements.** Implement internal controls at *each* revenue-generating service, program or activity.

Internal controls should provide assurance that: a) cash handling documentation is **accurate**, b) cash is held **secure**, during the day as well as at night, and that c) cash receipting and deposit preparation are performed in a **timely** manner (for example, explore obtaining an efficient “Vault360-type device” that counts cash, issues receipts, “wires” deposits to the bank, and safely secures cash – the Vault360 is currently utilized in the City’s Utility Billing area). It is important that internal controls be **monitored frequently**, and cash management systems be designed with access, authorization, and audit trail controls built into the system (including exception reporting).

Internal controls are necessary to prevent mishandling of funds and to safeguard against loss. **Strong internal controls also protect employees from unfounded accusations or charges of mishandling funds.** The Department should design and implement separation of duties controls to prevent one individual from having responsibility for more than one of the following cash handling responsibilities: collecting, depositing and reconciling.

Internal Controls should be developed for all Department cash handling - to prevent and/or detect occurrences of: a) inaccurate record-keeping, b) security shortcomings, and c) tardy cash receipting.

Management Response 2:

2. The Department agrees. The Department’s plan of action is to review our existing policies and procedures to evaluate whether or not they are applicable, how automation may change them and if they are necessary, redundant and effective. We will include the new policies and procedures that are being developed for us by the Finance Department (draft received September 22, 2016). We will investigate the Vault 360 system for its application to our issues. We will also speak with Utilities regarding sharing the use of their Vault 360. We will implement improved SOD policies based on the new policies being discussed with Finance.

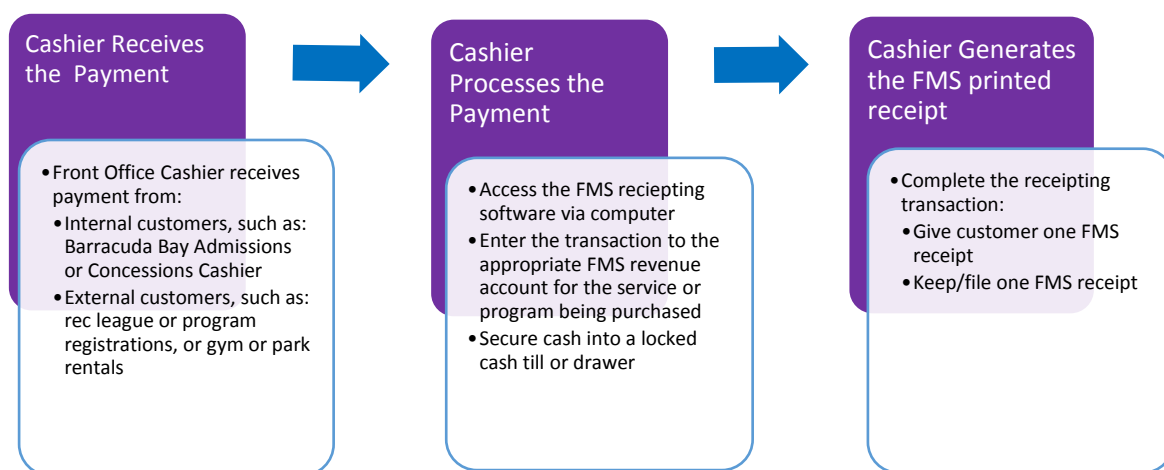
Estimated date of completion of review and approval by all parties is December 1, 2016. The evaluation of the 360 Vault system has been completed. We are now evaluating other options.

3. Finding: Department revenues are often not receipted to the correct Financial Management System (FMS) account.

Criteria:

The City's FMS database is where revenues generated from Parks and Recreation programs are recorded. Revenue-generating programs have a designated FMS revenue account where cash collections are "receipted." The Parks and Recreation Department has 27 revenue account numbers. The receipting process is illustrated in the **Flowchart 3**.

Flowchart 3: Cash Receipting Process



Accurate revenue data in the FMS database begins with the accuracy of the revenue receipting activity. Front Office cashiers are primarily responsible for this activity. During the period audited, any of three Front Office staff (either of the two Parks & Rec Aids or the Staff Assistant) can perform the receipting activity.

The IAO tested to determine whether receipting controls implemented by management were functioning at each phase of the cash handling process (Flowchart 3). Ideally, the Department's documentation of payments received should match what is receipted into the City's Financial Management System (FMS). Transactional revenue data found in FMS was compared with Department-supplied cash handling information from source documents.

The IAO evaluated revenue information found in the City's FMS database to determine whether the following questions could be answered: a) Are payments received for the correct amount? b) Are revenues receipted to the correct FMS account? and c) Have payments been receipted in a timely manner?

FMS account transaction descriptions can contain valuable useful information, such as:

- Date of the revenue activity, for example, "reservation for Wells gym on 11/24/16," or revenue for "7/20/16 Barracuda Bay Concessions," or "Final Payment for Wells gym rental on 11/24/16"

- Date the payment was cashiered, or receipted, into FMS, for example, the FMS system-generated date: “11/25/16 Security Deposit for event”
- Type of payment, for example, “security deposit for gym rental on 11/24/16”
- Identify the person or entity making payment, for example “Donna D Wedding”
- The amount of revenue received for the particular P&R service or program, for example, “\$200 rental fee for Wells Gym on 7/20/16”

Additionally, in order to assure that the correct amount of State Sales Tax is remitted, taxable Parks revenues must be receipted to FMS accounts set up for calculation of sales tax; and vice versa, if a revenue is not taxable, it should be receipted to a corresponding non-taxable FMS account.

The IAO sought to determine the effectiveness of Department directives and management oversight in FMS receipting activities. For example, a review of the “Gym rental” FMS account can be used to double check that rental information recorded on the Department’s Outlook Calendar has been properly receipted. For example, if the Department’s Outlook Calendar lists a deposit as paid, or a rental fee as paid, and it has the FMS receipt number listed, the Department can review the FMS account to verify that the:

- a) FMS receipt number is legitimate
- b) Payment was receipted to the correct FMS account number
- c) Amount on the FMS Calendar is the amount actually received, and
- d) Amount received is the correct amount based on timeliness and other criteria

Condition:

The IAO assessed the accuracy of what is receipted into FMS revenue accounts. The IAO evaluated the accuracy of data residing in FMS revenue accounts for each area audited. Although there were many areas where the Department was found to receipt revenues to the correct FMS account, **Table 4**, lists the areas where deficiencies were found and should be addressed (that is, areas where data residing in FMS is not accurate, where revenues have not been receipted to the correct account). The risk associated with each finding is color-coded as follows:

	Yellow – the results of sampling indicates that mild-to-moderate risk exists, controls can be improved
	Red – the results of sampling indicates that significant risk exists, controls should be improved

Table 4 Analysis of FMS Revenue Receipting – Summary

	FMS Account Accuracy / Example Deficiencies
1.	Barracuda Bay Admissions/Gate/Open Swim (Revenue Account 001-00-347241)
	<u>Example Deficiencies:</u> <ul style="list-style-type: none"> • Revenue account analysis yielded six days (totaling \$1,978 in revenues) where the Barracuda Bay Gate / Admission revenue (FMS Account 001-00-347241) was deposited incorrectly to the Swim Lessons Account (001-00-347233)

	FMS Account Accuracy / Example Deficiencies		
2.	Barracuda Bay Group Admissions (Revenue Account 001-00-347241)		
	<u>Example Deficiencies:</u> <ul style="list-style-type: none"> Revenue account analysis comparing Department-supplied revenue records with FMS accounts transactions yielded: Group revenues that are listed in department records, but not in the corresponding FMS account; and some records found in FMS are not supported by department documentation. 		
3.	Barracuda Bay Concession Revenue (Revenue Account 001-00-347231)		
	<u>Example Deficiencies:</u> <ul style="list-style-type: none"> Revenue account analysis yielded monthly revenue in FMS that does not match department records. Revenue totals for the year from two independent sources do not equal each other. 		
4.	Recreation Concession Revenue (football, basketball, etc.) (Revenue Account 001-00-347212)		
	<u>Example Deficiencies:</u> <ul style="list-style-type: none"> Revenue account analysis yielded a single exception, the Sept. 26th football games, 511 concession items were sold generating \$708.50 of revenue – this amount was not found in the football Recreation Concession FMS account. Additionally, football gate receipts and Barracuda Bay Admissions revenue were receipted incorrectly to the Recreation Concessions account. 		
5.	Barracuda Bay Swim Lessons (Revenue Account 001-00-347233)		
	<u>Example Deficiencies:</u> <ul style="list-style-type: none"> Revenue account analysis for year 2015, yielded 16 non-related revenues incorrectly receipted to this account, examples include: a) Open Swim revenues, and b) Group Swim revenues. 		
6.	Football Registrations (Revenue Account 001-00-347218)		
	<u>Example Deficiencies:</u> <ul style="list-style-type: none"> The 2015 FMS revenue account listed 149 registration payments, compared with the Department's 2015 Registration spreadsheet that listed 156 registrations, including: a) 9 Sponsor Exemptions, and b) six with "No Receipt # and no date paid." The Department's provided hardcopy list contains 151 registration names. The Official Pop Warner Football Team Rosters for 2015 lists 155 names on Riviera Beach teams. 		
7.	Barracuda Bay Rental Income – Private Events (Rev. Account 001-00-347235)	Recreation Gym Rental (Rev. Account 001-00-347229)	Recreation Park Rental (Rev. Account 001-00-347230)
	<u>Example Deficiencies:</u> <ul style="list-style-type: none"> The department-supplied rental revenue documentation does not match data found in corresponding FMS revenue accounts. A subset of months: March-June 2015 and March through July 2015, returned similar results - neither period tested found a match between Department revenue records and FMS. 		
8.	Jazz-after-Dark Ticket Sales (JAD) (Revenue Account 001-00-347218)		
	<u>Example Deficiencies:</u> <ul style="list-style-type: none"> The IAO reviewed JAD cash handling records from selected months. The IAO was unable to trace Department revenue records to the corresponding JAD FMS Account. The IAO reviewed the sales records of advance ticket purchases at the Department's Front Office and at City Hall's Water Utility payment window. Each ticket outlet/seller of pre-sales manually records the number of tickets they sell. For each sale, the cash payment is entered into FMS and a FMS receipt is generated, the amount of the sale is receipted to the correct FMS account, 001-00-347237. <p>The ticket sheets and Event Ticket Accounting forms are not reconciled against actual FMS receipts, a critical control is lost. When the ticket sheet and accounting forms are not compared with the revenue collections listed in the FMS account, the risk exists that someone at one of the various ticketing outlets could record an advance ticket sale on the ticket sheet and accounting form, take the ticket, and not actually make the sale. In the current condition, ticket sales are not reconciled to FMS account receipts, ticket fraud could occur without being detected.</p>		

The IAO concludes that there is a general lack of receipting controls – the Department does not monitor that revenues are receipted to the correct FMS account. When this type of internal control is weak, the ability of management to identify staff error or fraud is weakened; therefore, the risk of error or fraud increases. An internal control should be implemented on a daily, weekly, or monthly basis to ensure that activity documentation matches receipting documentation. As long as revenue-generating activities are not documented in a way that promotes accountability, **there is a significant risk that if staff errors occur, mismanagement, or fraud occurs, it will go undetected for extended periods of time.**

The IAO concludes that internal controls to prevent or detect incorrect or inaccurate revenue receipting to the City's Financial Management System (FMS) are either not in place, or not working effectively.

Impact: It is significantly more difficult to monitor, audit and “follow the handling of cash” when revenues are not receipted to the correct FMS revenue account. **Receipting to the proper FMS account is a primary function of the Cash Handling Process.** While no evidence of fraud or theft was uncovered, unless records can be matched-up and reconciled, the Department cannot be assured that program or service fees are accurately: a) charged, b) collected, and c) receipted.

State Sales Tax Remittance, Condition:

The IAO performed a review of FMS accounts associated with taxable revenue. The IAO sought to determine whether the Department’s receipting practices impacted the correct calculation and remittance of State sales tax. Additionally, the City’s Finance Department supplied the IAO with a list of the Parks & Rec revenue accounts where sales tax is currently calculated and remitted.

The IAO sought to determine the sales tax risk associated with the way revenues are receipted to the City’s Financial Management System (FMS).

- Jazz-after-Dark revenues are receipted to an FMS revenue account intended only for revenues connected with the concert series (Recreation Jazz, 001-00-347237). Prior to this audit, the Finance Department configured FMS to automatically remove sales tax when the ticket sale is cashiered in FMS; the system then places the tax amount in a sales tax account. In this way, the cashier does not have: a) manually calculate the amount of tax, b) subtract the tax amount from the payment, and c) then receipt the tax to a separate sales tax account. However, this was the only Parks Department revenue account so configured (coincidentally, this was the only account mentioned in the State Auditor’s report in 2007 (follow-up audit).
- For the following FMS revenue accounts, sales tax is manually calculated by the Finance Department. The calculation is based on the monthly receipts in each revenue account.
 - 001-00-347211 Recreation Activity Fees
 - 001-00-347212 Recreation – Concessions
 - 001-00-347229 Recreation – Gym Rental
 - 001-00-347230 Recreation – Park Rental
 - 001-00-347231 Barracuda Bay – Concessions
 - 001-00-347237 Recreation – Jazz
 - 001-00-347241 Swimming Pool Fees
 - 001-00-362103 Rent & Leases – Ocean Mall
 - 001-00-362104 Rent & Leases – Beach Concessions
 - 001-00-362110 Rent & Leases – Blue Heron Parking Lot

Note: For the sales tax calculation to be accurate, only taxable revenues must be receipted to the designated accounts (or in the case of non-taxable security deposits, they must be receipted and refunded from the same taxable account).

When the IAO observed incorrect and/or inaccurate cashiering/receipting to FMS, the impact on sales tax calculation and remittance was investigated. When taxable revenues are not correctly receipted to the intended revenue accounts, Sales Tax calculations are erroneous and the incorrect amount of sales tax is remitted to the State. Based on the revenue records supplied by the Department, the IAO reviewed the receipting information contained in the FMS database. **Due primarily to incorrect revenue receipting, the IAO concludes that the City, in some instances, has underpaid State Sales Tax, and in other instances has overpaid.**

Recommendation 3

Recommendation 3a. Ensure that revenue is receipted to the appropriate account in the City's Financial Management System (FMS): Create and implement internal controls designed to prevent incorrect receipting, and if and when incorrect receipting occurs, to detect incorrect receipting.

FMS account monitoring can be performed using the activity documentation found at each revenue-generating area to ensure that revenues are receipted to the intended FMS account. The FMS database should be reviewed on a regular basis (daily if need be, as part of a designated staff person's daily responsibilities) to determine whether Front Office cashiers are processing revenues to the correct FMS account. Training or retraining on FMS account receipting should be conducted when deficiencies are observed.

Internal controls, including FMS account receipt monitoring, should provide Management the assurance that:

- a) Staff records *all* transactions performed,
- b) Staff records all transactions *correctly*, to the designated FMS account,
- c) There exists an auditable, accurate record of the transaction,
- d) There exists activity reporting to allow for effective oversight of the cash handling process, thereby ensuring accountability,
- e) Any part of the cash handling process not conforming to policy, procedure, proper bookkeeping, and accounting standards should be detected and corrected in a timely manner.

Develop standard "FMS descriptions" that allow intuitive monitoring (for example: for gym or park rentals, describe: renter name, rental date, payment description/use, etc.) in an order that is consistently repeated by each cashier. If staff accurately receipts revenue into the correct FMS account, using standard descriptions, this will facilitate the monitoring of the expectations listed above.

Recommendation 3b. The Parks and Recreation Department should partner with the City's Finance Department to develop revenue accounts and FMS system configuration so that State Sales Tax is calculated automatically during the receipting process. Create and implement internal controls designed to prevent and detect incorrect sales tax calculation and remittance. Incorporate these controls into any future Parks & Rec software purchased.

Management Response 3:

3. The Department agrees. We will work with Finance to evaluate our revenue accounts and the necessity to have so many revenue accounts. If Finance is agreeable we will reduce the number of revenue accounts greatly. This will assist staff in applying the correct FMS posting. Department automation will assist staff in being more accurate and timely in postings. We will make sure our SOP includes measures of accountability for timely postings and accuracy. We will also implement the new Policies and Procedures once approved. (Draft received September 22, 2016)

Training on new policies and procedures will begin as soon as policies are approved by all parties. We anticipate training dates in November 2016.

Date of completion and full implementation is estimated to be December 1, 2016.

Appendix

Audit Terms and Definitions

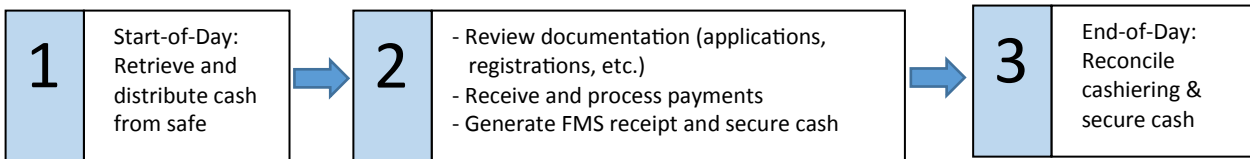
Cause:	"Cause" is the "who, how or why" the problem occurred.
Chain-of-Custody:	The Chain-of-Custody is the written record of all individuals who have maintained unbroken control/custody of cash or inventory. The Chain-of-Custody begins when an item of cash or revenue is collected and is maintained through deposit or use.
Compliance:	Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.
Condition:	"Condition" is what currently exists, the condition describes what is currently practiced.
Control:	Any action taken by management, and the board to manage risk and increase the likelihood that established objectives and goals will be achieved.
Control Process:	The policies, procedures (both manual and automated), and activities that are part of a control framework, designed to ensure that risks are contained within the level that an organization is willing to accept.
Criteria:	"Criteria" is what should exist. Criteria are the standards used to determine if a program meets or exceeds expectations. Criteria provide a context for understanding the results of the audit. The audit plan, where possible, should state the criteria to be used.
Effect:	"Effect" is the gap between the condition and criteria. Effect documents the impact (actual or potential) in services, dollars, or people resulting from the stated condition. The harm that could occur from the condition.
Fraud:	Any illegal act characterized by deceit, concealment, or violation of trust. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage.
Internal Audit:	A department, an office, or other practitioners that provides independent, objective, assurance and consulting services designed to add value and improve an organization's operations. The internal audit function helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.
Recommendations:	"Recommendations" are actions that will address the cause of the condition.
Risk:	The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Separation of Duties: SoD is an internal control intended to prevent or decrease both the occurrence of innocent errors and intentional fraud. This is done by ensuring that no single individual performs any two of the following duties: transaction authorization, custody of cash or inventory, transaction record keeping, and transaction cash reconciliation. In other words, no one person has control of two or more of these responsibilities.

The more negotiable the asset, the greater the need for proper Separation of Duties, especially when dealing with cash, negotiable checks and inventories.

Significance: The relevant importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance, and impact. Professional judgement assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

Phases of the Cash Handling Process



General Criteria:

Phase 1, Start-of-Day: a) Retrieve cash from safe or locked desk drawer and, b) distribute to cashiers

- Control: Verify cash amount at transfer of custody: cashiers verify the amount they receive as “custody” moves from the safe or locked desk drawer to the cashier
- Control: Each cashier has an assigned, locking, cash till/bag/drawer
- Control: Front Office cashiers lock their assigned cash bags and then place bag into a desk drawer and lock the drawer. Cash bags are only accessed to process a payment, then they are locked as stated above.

Management expectation:

- Cash tills/bags/drawers have the accurate amount of “starting cash”
- Cashiers keep their cash safe and secure from unauthorized access

Phase 2, During-the-Day “Processing”: a) Review program activity records (registrations, applications, etc.), and b) Receive and Process Payments

Processing Payments

- Control: Separation of Duties
- Controls: Reporting and oversight/monitoring

Management expectation:

- Staff receives the correct fees for service or program purchased
- Staff accurately and correctly documents the revenue transaction
- No staff performs an activity where they could make an error, commit theft or fraud and then conceal it (proper Separation of Duties)

Manage payments, Record Revenue Activity

- Control: Management has provided staff with detailed FMS receipting instructions; resources include: fee schedules, FMS account numbers, and timeliness expectations

- Control: Separation of Duties (access to the Outlook scheduling calendar and various “payment status” records)
- Control: Each cashier has an assigned, locking cash till/bag/drawer
- Control: Front Office cashiers lock their assigned cash bags and then place bag into a desk drawer and lock the drawer. Cash bags are only accessed to process a payment, then they are locked as stated above.
- Controls: Reporting and Management oversight

Management expectation:

- Staff accurately and correctly receipts the payment into the correct FMS account (including security deposits, refunds, registrations, etc. – addressed in Finding 3)
- Revenues are receipted into FMS in a timely fashion (within 24 hours of being collected)
- Staff safeguards access to the cash register, till, bag, used for cashiering
- Staff creates activity documentation that corresponds directly to the amount of revenue processed
- Staff accuracy in documenting revenue-producing activity and in complying with procedures is effectively monitored

Phase 3, End-of-Day: Close-out & return cash to safe (transfer of custody)

- Control: Cashiers verify their cash and revenue transactions (dual count control) - as cash moves from the cashier to deposit activities and the safe
- Control (activity reporting): Daily Activity and Daily FMS Deposit reports
- Control: Separation of Duties
- Control: safe, locking file cabinet, alarm system (physical security)
- Control: deposit preparation (final authorization)
- Control: Brinks Log pick-up (transfer of custody) and deposit documentation

Management expectation:

- Staff performs dual verification cash counts at end-of-day close, and reconciles discrepancies
- Staff accurately completes all end-of-day transactional and deposit documentation in a timely manner
- Chain of custody of revenues, from cashiers to deposit staff is safe and secure
- Deposit activities are accurately and completely documented
- Revenues are prepared in a timely manner in advance of the Brink’s pick-up
- Deposits are held safe and secure until Brink’s pick-up
- The Brink’s pick-up is documented in the Brink’s Log accurately

AUDIT OBJECTIVE 2

Determine whether cash handling procedures and practices adequately control risks during the following: receive payments, manage payments, safeguard payments, and deposit payments.

Department Response to Audit Findings/Recommendations

Management Response to Audit Report

September 26, 2016

Management Response 1:

1a. The Parks and Recreation Department agrees with recommendation. The departments plan of action is to 1) evaluate the number of revenue accounts we have and narrow them to a reasonable number that meets the City's and the Department's needs. This will make posting to the correct FMS revenue account more efficient. 2) **Evaluate** those programs, events, functions that we actually charge for and determine if the revenue generated is worth the effort of collecting, monitoring and auditing the funds. For example we charge \$2 per person to get into a football game. Over the course of the football season we generally raise plus or minus \$7,500, however the cost of collecting those funds and the processes that follow nets us much less than \$7,500. Therefore we could replace the gate fee with an aggressive sponsorship campaign. We are revenue neutral but greatly more efficient in the process. 3) We will work with the Finance department to update our policies and procedures (draft received September 22, 2016). We will ensure that separation of duties is clearly defined and we will place more emphasis on our accounting technician guiding all collections, SOD and financial policy adherence. 4) Because we will be collecting monies at the Gyms and Community centers we will amend our policies to include SOP for funneling those monies to a depository with the appropriate cross checking for balances, receipts, separation of duties and reporting. The collection of funds at the gyms and centers will be accommodated by the new software Rec Trac.

Estimate date of completion for Items 1, 2 and 3 in Section 1a is December 1, 2016

1b. The Parks and Recreation Department agrees with recommendation. The Departments plan of action is to automate our registration process (Rec Trac) which will include Point of sale for concessions, on line registration, which we will push, inventory control, facility scheduling, as well as the ability to take monies at the outlying gyms and community centers therefore increasing our level of customer service. We will also implement the revised Policies and Procedures (draft received on September 22, 2016 from the Finance Department.)

The Software has been identified. The date of installation is unknown at this time, however it will be in FY17. Training of staff will be concurrent with installation.

Management Response 2:

2. The Parks and Recreation Department agrees with recommendation. Our plan of action is to review our existing policies and procedures to evaluate whether or not they are applicable, how automation may change them and if they are necessary, redundant and effective. We will include the new policies and procedures that are being developed for us by the Finance Department (draft received September 22, 2016). We will investigate the Vault 360 system for its application to our issues. We will also speak with Utilities regarding sharing the use of their Vault 360. We will implement improved SOD policies based on the new policies being discussed with Finance.

Estimated date of completion of review and approval by all parties is December 1, 2016. The evaluation of the 360 Vault system has been completed. We are now evaluating other options.

Management Response 3:

3. The Parks and Recreation Department agrees with recommendation. We will work with Finance to evaluate our revenue accounts and the necessity to have so many revenue accounts. If Finance is agreeable we will reduce the number of revenue accounts greatly. This will assist staff in applying the correct FMS posting. Department automation will assist staff in being more accurate and timely in postings. We will make sure our SOP includes measures of accountability for timely postings and accuracy. We will also implement the new Policies and Procedures once approved. (Draft received September 22, 2016)

Training on new policies and procedures will begin as soon as policies are approved by all parties. We anticipate training dates in November 2016.

Date of completion and full implementation is estimated to be December 1, 2016.