

BOARD OF COUNTY COMMISSIONERS

**RECREATION DIVISION
CASH TRANSACTION CYCLE
CONSULTING PROJECT**

SEPTEMBER 12, 2003

HERNANDO COUNTY CLERK OF CIRCUIT COURT

AUDIT SERVICES DEPARTMENT

MEMORANDUM

TO: Charles "Pat" Fagan, Parks and Recreation Department Director
Harry Johnson, Recreation Manager

VIA: Karen Nicolai, CPA, Clerk of Circuit Court
Richard "Dick" Radacky, County Administrator

FROM: Peggy Prentice, CIA, CISA, Audit Services Manager

DATE: September 12, 2003

SUBJECT: Recreation Division Cash Transaction Cycle Consulting Project Report

The Audit Services Department's (ASD) Audit Projects Schedule included a consulting project of the Recreation Division's cash transaction cycle. Based on testing and recommended corrective actions, ASD has produced the attached report for your review. The Report contains an executive summary and a corrective action plan.

A copy of the Report has been forwarded via Richard Radacky to the Board of County Commissioners as an agenda "correspondence to note" item.

I would like to take this opportunity to extend my appreciation to the Recreation staff and to Laurel Richardson for the courteous treatment extended to the ASD during this follow-up process. I would also like to thank Technology Services and MIS staff for their assistance with this project.

If you have any questions, concerns, or need additional information in regard to the above or the attached report, please do not hesitate to contact me at (352) 540-6235, or just stop by my office.

ATTACHMENT

copy: CLERK OF CIRCUIT COURT:

Amy Gillis, CPA, Finance Director

BOARD OF COUNTY COMMISSION:

Commissioner Mary Aiken

Commissioner Hannah "Nancy" M. Robinson

Commissioner Diane Rowden

Commissioner Robert C. Schenck

Commissioner Mary Whitehouse

George Roussos, P.E., Deputy County Administrator

George Zoettlein, Office of Management and Budget Director

OTHER:

Chip Jones, KPMG

Hernando Today

St. Petersburg Times - Hernando Edition

WWJB Radio Station

Hernando County Public Library

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ACKNOWLEDGMENT

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ACKNOWLEDGMENT

Other minor findings, not included in this report, have been communicated to management and/or corrected during the consulting process. I thank the management and staff for their cooperation throughout the project.

Fieldwork was performed by:

Peggy Prentice, CIA, CISA, Audit Services Manager

Barbara Fichter, Internal Auditor

Raquel Lao, Student Clerk

This report was reviewed and authorized by Karen Nicolai, CPA, Clerk of Circuit Court, on September 12, 2003.

PURPOSE AND SCOPE

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PURPOSE:

The purpose of this consulting project was to address the adequacy of the Recreation Division's cash transaction controls and to assist, inform, and counsel management, as needed, during implementation of processing and control enhancements.

SCOPE:

The Audit Services Department (ASD) addressed the Recreation Division's cash transaction cycle. The cash transaction cycle was evaluated under current conditions and an assessment was made as to what corrective actions, if any, are needed. ASD interviewed key personnel, observed actual work performance, traced cash transactions, performed site visits, and addressed the information system. The following were considered:

1. Cash fund controls
2. Written instructions and manuals
3. Cash control environment
4. Cash transaction processing controls
5. Physical safeguards protecting cash and cash equivalents
6. Information system
7. Long-term improvement strategies

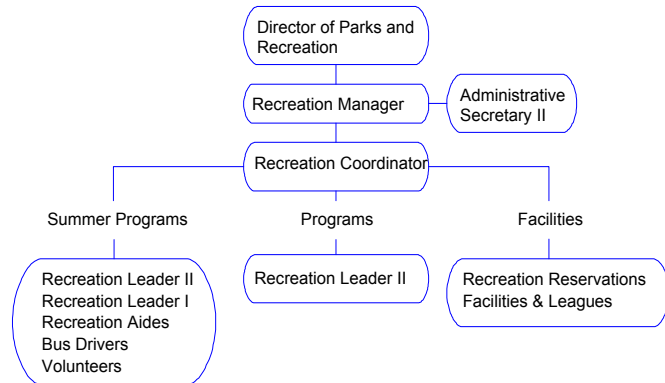
ASD informed and counseled management throughout fieldwork. ASD will continue assisting and consulting for the next 12 months or until management implements corrective action.

BACKGROUND

BACKGROUND

Recreation is a division of the Board of County Commissioners' (BCC's) Parks and Recreation Department. The Division provides citizens and visitors with leisure activities. Its goal is to provide quality community activities and programs.

The County's parks and community centers, which are maintained by another division but are rented by Recreation, provide a resource for outside activities and indoor programs. The programs are designed for all ages. Recreation funds programs with tax dollars, user fees, scholarships, grants, donations, and fund raisers. The Division rents its facilities for a nominal fee and refundable security deposit.



The Division is managed by Harry Johnson who oversees recreation programs and facility usage staff. The Division hires temporary staff to assist with summer programs. Independent contractors provide lessons and courses. These contractors pay a portion of their lessons/class revenue to the County to offset administration costs.

Recreation records and reports cash transactions manually and through automation. Since monies are collected at the Division's main facility and at various off-site locations, cash handling controls and recording processes vary by location. The cash transaction processes are merged at the main facility where data input and bookkeeping staff reside. Recreation utilizes Class software to record and report facility bookings, program registrations, and financial record keeping. Recreation's software and data are administered by the Division's staff. Data backups are maintained by the BCC's Technology Services Department.

EXECUTIVE SUMMARY

Executive Summary

A cash transaction cycle, when viewed as a whole, should provide complete and reliable record keeping based on efficiency, effectiveness, and performance. An effective internal control structure minimizes the potential for employee fraud and abuse. It also provides an audit trail of what transpired which allows management to identify the guilty party in instances of misappropriation. Based on testing, it appears that the Recreation Division's cash transaction cycle is not meeting these objectives.

Audit Services identified significant cash control weaknesses, inefficiencies and ineffectiveness throughout the cash transaction processes. For example,

- Cash recording and reporting processes lack an adequate audit trail.
- Management monitoring controls and oversight is lacking.
- Incompatible duties are not segregated.
- Automated controls are lacking. Electronic records are unreliable and financial records do not reflect the true nature of the transactions.

During fieldwork, Audit Services assisted management with identifying cash control and processing weaknesses. A corrective action plan was created that includes implementation and training. Some of the plan has been implemented. Not enough time has passed for full implementation. Full implementation will maximize the Division's efficiency and effectiveness and minimize the potential for employee fraud and abuse.

The recommendations implemented thus far provide a good basis for executing the rest of the corrective action plan. Partial implementation is ineffective and, therefore, management is encouraged to complete implementation and then plan, organize, schedule and control on an annual cycle. The degree to which management is committed to implementing the corrective action plan will directly correlate with the effectiveness of what has been implemented thus far, as well as impact the success of the long-term improvement goal.

CORRECTIVE ACTION PLAN

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Fieldwork Observations

Based on observations, incoming phone calls are answered and walk-in customers are assisted timely. Staff uses radio, email, cellular telephones, and land lines to ensure efficient communications. Communications between management and staff appear to be good. In all observed instances when staff identified a need for management assistance, they were able to contact the Recreation Manager who made himself immediately available.

Recreation's web site is up-to-date and easy to use.

Cash Transaction Cycle

A cash transaction cycle, when viewed as a whole, should provide complete and reliable record keeping based on efficiency, effectiveness, and performance. An effective internal control structure minimizes the potential for employee fraud and abuse. It also provides an audit trail of what transpired which allows management to identify the guilty party in instances of misappropriation. Based on testing, it appears that the Recreation Division's cash transaction cycle is not meeting these objectives.

During fieldwork, Audit Services assisted management with identifying cash transaction weaknesses.

- The cash recording and reporting processes do not provide an adequate audit trail.
- Management monitoring controls and oversight is lacking. Management is responsible for carefully monitoring their internal control environment to ensure that weaknesses, once identified, are promptly and effectively corrected.
- Incompatible duties are not segregated. Segregating incompatible duties and responsibilities ensures that errors and irregularities are identified during the normal course of business by employees performing their job functions. Incompatible duties that should be segregated are: authorization, custody of assets, recording transactions, and reconciliation.
- Automated controls are lacking. Electronic records are unreliable and financial records do not reflect the true nature of the transactions.

During fieldwork, Audit Services and management created a corrective action plan that includes implementation and training. Some of the plan has been implemented. For example,

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- Management implemented an off-site cash transaction processing cycle that ensures segregation of duties. The new process has checks and balances that are part of the daily routine;
- Management dedicated an employee to the Class software administration function;
- Management enhanced after-hours cash security measures;
- Management updated the Facility Usage Application's (FUA's) language and thereby minimizing the County's liability; and
- Management discontinued the practice of allowing certain Recreation employees to attend County summer camps and County programs free of charge or at reduced rates.

Not enough time has passed for full implementation. See the corrective action plan in Appendix A which details identified concerns, recommendations, and a time table for taking corrective action. Full implementation will maximize the Division's efficiency and effectiveness and minimize the potential for employee fraud and abuse.

The recommendations implemented thus far provide a good basis for executing the remaining portion of the corrective action plan. Partial implementation is ineffective and, therefore, management is encouraged to complete implementation and then plan, organize, schedule and control the Division's processes on an annual cycle. The degree to which management is committed to implementing the corrective action plan will directly correlate with the effectiveness of what has been implemented thus far, as well as impact on the success of the long-term improvement goal.

CORRECTIVE ACTION PLAN

Item No.	Concern	Recommended Corrective Action	Mngt. Assigned To	Time Table	See Exhibit
1	<p>The manager's monitoring and oversight of record keeping and financial activities is not sufficient to ensure that his directives are followed. Management needs to take responsibility for overall data and record keeping.</p>	<p>Management is responsible for carefully monitoring record keeping, financial, and staff activities to ensure that weaknesses, once identified, are promptly and effectively corrected. To promote adequate monitoring and oversight, consideration should be given to regularly reviewing record keeping and financial data, policies and procedures, and require management's authorization by signature. Management should also have a working knowledge of Class software and Crystal report generator abilities and reporting. Management should also implement a continuous improvement plan and follow up schedule to ensure timely and complete performance.</p>	Harry	Mar. 2004	See annual management cycle and list of Class reports at Exhibit 1
2	<p>Employee duties conflict with segregation of duties principles. The basic concept is that no one employee or group of employees is in a position to potentially commit fraud or employee abuse and/or conceal errors. Incompatible duties that should be segregated are: authorization, custody of assets, recording transactions, and reconciliation.</p>	<p>To enhance the internal control structure, consideration should be given to segregating incompatible duties and responsibilities so that errors and irregularities are identified during the normal course of business by employees performing their job functions.</p> <p>Job descriptions may require updating once the segregation of duties are implemented and processes are enhanced.</p>	<p>Harry, Adele & Marie</p> <p>Harry/Adele</p>	<p>June 2004</p> <p>June 2004</p>	See recommended segregation of duties matrix at Exhibit 2
3	<p>Patron information is not adequately safeguarded to provide privacy of sensitive information.</p>	<p>To ensure that sensitive information (i.e., bank account numbers, social security numbers and medical data) is adequately safeguarded, consideration should be given to enhancing how this information is stored and used.</p>	Harry & Christie	Mar. 2004	NA

Item No.	Concern	Recommended Corrective Action	Mngt. Assigned To	Time Table	See Exhibit
4	The fee and security deposit amounts required to rent a County facility are not sufficient for all rental usage types. The amounts charged do not adequately protect the County from potential liability.	Facility usage fees and security deposit amounts should be dependent upon attendance and usage type. A tiered structure would provide a fair and equitable means of reaching this goal. A tiered structure will reduce the County's potential for liability. This tiered structure should be printed on the Facility Usage Application (FUA) form.	Marie & Chasity	Mar. 2004	See FUA form at Exhibit 3
5	Manual and automated camp attendance records are not reliable.	To ensure that camp attendance records are reliable, site supervisors, or their designees, should perform an oral role call each day. The role call document should be used as the basis for recording attendance in Class. The Class record should be entered with diligence to ensure that data input is complete and accurate. Site Supervisors should ensure that parents/guardians sign out their child when they pick up their child from camp.	Financial training - Marie & Adele General training - Harry & Christie	May 2004	NA

Item No.	Concern	Recommended Corrective Action	Mngt. Assigned To	Time Table	See Exhibit
6	<p>Both the on-site and off-site cash transaction cycles are weak and do not provide an adequate level of internal control. The processes do not ensure complete and reliable record keeping based on efficiency, effectiveness, and performance. They do not provide an adequate audit trail of what transpired. The processes cannot be relied upon to identify the guilty party in instances of misappropriation.</p>	<p>During fieldwork, ASD recommended and assisted management with implementing enhancements to their cash transaction cycles. ASD provided management with examples of adequate processes and forms, trained management on the basic elements that all internal control structures should have, provided management with bank DeposiTacs and three-part pre-numbered receipt books, provided Site Supervisor training, provided software training manuals, recommended specific and general policies and procedure updates, provided a detailed segregation of duties matrix, recommended Class user access rights by user needs, and more.</p> <p>Specifically, the following were addressed:</p> <ul style="list-style-type: none"> In-house cash receipts cycle Off-site cash receipts cycle Physical cash security Fund raisers cash receipts cycle Donations cash receipts cycle Scholarship & grant funding Refunds Write-offs Receipt book inventory Class table code enhancements Class expired transaction listing City of St. Petersburg site visit Camp fee structure 	<p>Adele Implemented Implemented Adele Bob Adele Adele Marie/Harry Adele Marie/ Adele Marie Harry Christie</p>	<p>Nov. 2003 Nov. 2003 NA Nov. 2003 Dec. 2003 Dec. 2004 Nov. 2003 Jan. 2004 Dec. 2003 Jun. 2004 Jun. 2004 Sept. 2003 May 2004</p>	<p>Exh. 4 Exh. 5 Exh. 6 Exh. 7 Exh. 8 Exh. 9 Exh. 10 Exh. 11 Exh. 12 Exh. 13 NA NA Exh. 14</p>

Item No.	Concern	Recommended Corrective Action	Mngt. Assigned To	Time Table	See Exhibit
7	It appears that Recreation staff lack adequate Class software knowledge. This affects the Division's ability to create and maintain reliable record keeping and reporting. Unreliable reports affect the efficiency and effectiveness of other departments that utilize this data.	<p>Consideration should be given to providing staff with Class training. This training should be administered by a Class representative.</p> <p>To ensure that a staff member is dedicated to the Class software administration function, during fieldwork, the department hired a bookkeeper/technology person.</p>	<p>Harry</p> <p>Marie</p>	<p>Nov. 2003</p> <p>Sep. 2003</p>	<p>NA</p> <p>NA</p>
8	The Class user access rights do not adequately safeguard automated records. Class tables (field codes) are not sufficient and do not allow the user to clearly record a transaction.	<p>Consideration should be given to providing Class access rights contingent upon the user's needs. Access rights should be authorized by management. Once established, the rights should be periodically reviewed for accuracy.</p> <p>To ensure that automated data is reliable and valuable, consideration should be given to updating the table codes, as applicable.</p>	<p>Marie</p> <p>Marie & Adele</p>	<p>Tentative Jan. 2004, Full June 2004</p> <p>Jan. 2004</p>	See list of recommended Class access rights at Exhibit 15 and table codes at Exhibit 13
9	Although the Administrative Secretary's computer has two spreadsheet programs on it (WordPerfect and Excel), due to inadequate training, she utilizes a co-worker's computer to create and maintain spreadsheets. This is not efficient and it may be a potential security concern.	Consideration should be given to providing sufficient software training to ensure that the user has ample knowledge to utilize the software products available. Technology Services offers in-house training. During fieldwork, the Administrative Secretary was provided spreadsheet software training manuals for the software products on her personal computer.	Adele	Mar. 2004	NA
10	The Division's policies and procedures will require updating.	As processes, forms, and record keeping are enhanced, consideration should be given to updating those policies and procedures that are affected by the changes so that they represent management's intent.	Harry/ Adele	Jun. 2004	NA

