

Hernando County Clerk of Circuit Court  
Audit Services Department  
**Board of County Commissioners**  
**Parks and Recreation Department**  
**Recreation Division**  
**Cash Transaction Cycle Consulting Project, Phase II**  
November 16, 2004

**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  
Gary Adams, County Administrator

**FROM:** Peggy Prentice, CIA, CISA, Audit Services Director

**DATE:** November 16, 2004

**SUBJECT:** Recreation Division, Cash Transaction Cycle Consulting Project - Phase II

The Audit Services Department's (ASD) Audit Projects Schedule included a second phase to the Recreation Division's Cash Transaction Cycle Consulting Project. Phase I's report was issued September 12, 2003. Based upon testing, observations, and communications with key Recreation personnel, the ASD produced the attached report for your review. This Report contains the ASD's opinion of the Division's current cash transaction cycle internal control environment.

Although the ASD did not identify employee fraud or abuse during its review, it should not be construed to mean that unreported non-compliance or irregularities do not exist. The deterrence of employee fraud or abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that unreported noncompliance or irregularities will be detected.

The purpose of this report is to furnish management independent, objective analyses, recommendations, counsel, and information concerning the activities reviewed. This Report is a tool to help management discern and implement specific improvements. The report is not an appraisal or rating of management.

A copy of this Report has been forwarded 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 and Pat Fagan for the courteous treatment extended to the ASD during this consulting 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, Room 201.

**ATTACHMENT**

**copy: CLERK OF CIRCUIT COURT:**

Amy Gillis, CPA, Finance Director

**BOARD OF COUNTY COMMISSION:**

Commissioner Christopher "Chris" Kingsley

Commissioner Hannah "Nancy" M. Robinson

Commissioner Diane Rowden

Commissioner Robert C. Schenck

Commissioner Jeff Stabins

Kurt Hitzemann, Senior Assistant County Attorney

George Zoettlein, Office of Management and Budget Director

**OTHER:**

Chip Jones, Partner, KPMG

Hernando Today

St. Petersburg Times - Hernando Edition

WWJB Radio Station

Hernando County Public Library

**TABLE OF CONTENTS**

SECTION	PAGE
ACKNOWLEDGMENT .....	i
PURPOSE AND SCOPE .....	ii
BACKGROUND .....	iii
EXECUTIVE SUMMARY .....	iv
COMMENTS AND RECOMMENDATIONS	
MANAGEMENT MONITORING CONTROLS AND OVERSIGHT .....	1
COMPUTERS AND SOFTWARE .....	1
AFTER HOURS PHYSICAL SECURITY .....	1
STANDARD OPERATING PROCEDURES .....	1
SEGREGATION OF INCOMPATIBLE DUTIES .....	2
PATRONS' SENSITIVE INFORMATION .....	2
COMPLIANCE WITH SENATE BILL 1774 .....	2
FACILITY USAGE FEES AND SECURITY DEPOSITS .....	2
SUMMER CAMP RECORDKEEPING AND OPERATIONS .....	3
IN-HOUSE CASH COLLECTIONS .....	3
OFF-SITE CASH COLLECTIONS .....	4
FUNDRAISERS .....	4
DONATIONS .....	4
FEE SCHEDULES .....	4

## **ACKNOWLEDGMENT**

## **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:

Barbara Fichter, Internal Auditor

Betty Sue Kautsky, Student Clerk

Peggy Prentice, CIA, CISA, Audit Services Director

This report was reviewed and authorized by Karen Nicolai, CPA, Clerk of Circuit Court, on November 16, 2004.

## **PURPOSE AND SCOPE**

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### **PURPOSE:**

Provide consultation services that will reinforce and/or compliment the improvements made during Phase I of the Recreation Division's cash transaction cycle consulting project.

### **SCOPE:**

During Phase I, the ASD identified improvement opportunities for the Recreation Division's cash transaction cycle which, if implemented, could strengthen the internal control environment, thereby, improving efficiency and effectiveness. During Phase II, the ASD considered current conditions by testing and observing operations, and by communicating with key personnel. Testing was performed on summer camp records for the period of May 1 through June 18, 2004. Testing was performed on other forms and records for the period of October 1, 2003, through July 31, 2004.

During fieldwork, the ASD provided recommendations to fine-tune and compliment the improvements made during the past year. The ASD also assisted management with enhancing other areas of operations such as: the concessionaire agreement template, Camp Funshine's recordkeeping, men's softball team forms, accounts receivable procedures, and assurance of compliance with Senate Bill 1774.

## **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 reserved through the Recreation Division, provide a resource for outside activities and indoor programs. The programs are designed for all ages. Recreation funds programs with tax dollars, user fees, donations, and fundraisers. 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 personnel. The Division hires temporary personnel to assist with operating summer programs. Independent contractors provide lessons and courses. These contractors pay the County a fee to offset administrative 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 personnel reside. Recreation utilizes Class software to record and report facility bookings, program registrations, and financial recordkeeping. Recreation's software and data are administered by the Division's personnel. 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 recordkeeping based on efficiency, effectiveness, and performance. An effective internal control structure provides for a means of detecting errors and omissions.

During Phase I, the ASD identified cash control weaknesses, inefficiencies and ineffectiveness throughout the cash transaction cycle. Cash recording and reporting processes lacked an adequate audit trail. Management monitoring controls and oversight were lacking. Incompatible duties were not segregated. Automated controls were lacking. Electronic records were unreliable and financial records did not reflect the true nature of the transactions.

The ASD worked with management to create a corrective action plan that included implementation, training, and follow-up. This plan was designed to strengthen the internal control environment which would improve efficiency and effectiveness. During Phase I, the ASD assisted management with initiating the plan. Because partial implementation would be ineffective, management was encouraged to implement the remainder of the plan. During the implementation stage, the ASD continued to provide guidance by meeting with management on a regular basis. Management addressed each of the recommendations and made improvements to the internal control environment.

Based on the successful implementation of most of the recommendations in Phase I, it is evident that the Division worked diligently over the past 18 months to improve overall operations. The Division has accomplished the following since Phase I:

- Management monitoring and oversight controls are generally reasonable. There has been much improvement in this area.
- Management and staff software knowledge is reasonable.
- Per management, staff no longer share computers to utilize software.
- The after hours' physical security environment is reasonable.
- Some Standard Operating Procedures (SOP's) were updated and others are in the process of being fine-tuned.
- Segregation of incompatible duties and segregation of automated controls are reasonable.
- Patrons' sensitive information appears to be adequately safeguarded from public view.
- The Division addressed compliance with Senate Bill 1774.

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## RECREATION DIVISION CASH TRANSACTION CYCLE CONSULTING PROJECT - PHASE II

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- Facility usage fees and security deposits have been revised to improve efficiency.
- Internal controls for monies collected off-site are reasonable.
- The donation cash transaction internal control environment is reasonable.

Phase II was designed to compliment Phase I by fine-tuning the improved operations. During this Phase, the ASD has found that due to management's commitment to strengthen the internal control environment, the Division is working much more efficiently and effectively. The following areas could be strengthened to bring the internal control environment up to the next level:

- The Division's security deposit recordkeeping practices are not adequate.
- Late fees for monies due on account were not consistently charged/collected. Management took corrective action during fieldwork but not enough time has passed to ensure that these corrective actions alleviate the concern.
- Summer camp recordkeeping processes have improved but require reinforcement.
- Internal controls for monies collected in-house have improved but require additional strengthening.
- The fundraiser internal control environment has improved but requires additional strengthening.
- Most fee schedules now have the Board of County Commissioners' (Board) approval. The 2005 summer camp seasonal fee schedule has not been approved by the Board as these fees have not yet been determined.

The corrective action plan developed in Phase I was aggressive and was not expected to be fully implemented in less than one year. Some plan elements, such as fine-tuning the SOP manual and refining agreement templates, forms, and processes, which are designed to compliment the enhanced internal control environment and reinforce management's directives, were not expected to be fully implemented until Phase II.

The Division has been transformed from a relaxed climate to an overall proficient internal control environment. This transformation can be directly correlated to management's commitment to improve, fine-tune, reinforce, and strengthen overall operations. To compliment what has been accomplished thus far, and to meet long-term goals, management is encouraged to commit to continuously improving operations by planning, organizing, scheduling and controlling on an annual cycle.

## **COMMENTS & RECOMMENDATIONS**

## **COMMENTS AND RECOMMENDATIONS**

Phase II was designed to compliment Phase I. During Phase II, the ASD worked with management to fine-tune the improved operations. This report contains recommendations that have not yet been fully implemented or not enough time has passed to ensure that management's corrective actions alleviate the concerns. Some of the recommendations cannot be fully implemented until preparations for the 2005 summer camp season begins.

### **Management Monitoring Controls and Oversight**

There appears to be reasonable monitoring, preventative, reconciliation, and delineation of responsibility controls in the in-house and off-site cash receipts processing cycles. The manager has become more involved in daily operations and monitors activities more closely. There has been much improvement in this area.

### **Computers and Software**

Recreation personnel who work with Class software have a reasonable working knowledge of Class. Some Recreation staff members attended Crystal Report training which provided them with a basic working knowledge of Crystal Reports. Additional training is needed to utilize Crystal Reporting to its full potential, but it does not appear to be necessary at this time.

Per management, all of the Division's computers and software were upgraded. Software required for staff to perform their job duties has been installed on their computers.

Class table codes appear to be utilized effectively and expired transactions were cleared from the Class database in Fall 2003.

### **After Hours Physical Security**

Due to improved dual controls, the physical security environment provides reasonable assurance that cash is adequately safeguarded after hours.

### **Standard Operating Procedures**

During fieldwork, the ASD provided SOP procedure enhancement and development guidance. Using the guidance provided, management produced, updated and/or enhanced several SOPs. At the end of fieldwork, the ASD reviewed these revised SOPs and found that they adequately communicate management's directives. They are well-written and easy to understand. Reference materials are used to provide the reader with additional information resources. Forms, letters, flow charts, and other visual aides are exhibited.

Recommendation: As processes, forms, fee structures and recordkeeping are implemented or changed, consideration should be given to updating those policies and procedures that are affected by those changes so that they represent management's intent.

### **Segregation of Incompatible Duties**

Although there were several processing and staff assignment changes during the past year, management maintained the strength of the recommended internal control environment. Based upon a comparison of Class user access rights to the segregation of incompatible duties matrix, as developed by the ASD and management, the Division appears to have significantly strengthened automated internal controls.

No significant conflicts were identified when comparing staffs' electronic access rights to their assigned job duties.

### **Patrons' Sensitive Information**

Based upon communications with Recreation management and upon supporting documentation, it appears that management has taken reasonable measures to ensure that patrons' sensitive information is adequately safeguarded from public view.

### **Compliance With Senate Bill 1774**

During Phase II, the County Attorney's Office (CAO) was asked for an interpretation of SB 1774 and what, if any, impact it may have on the Division's internal control structure. Based upon the CAO's opinion, it appears that there is no impact at the Divisional level. Compliance is a Human Resources Department function.

### **Facility Usage Fees and Security Deposits**

The Department simplified summer camp, concession rental, field lighting fees and security deposit structures. These fees were converted to flat rates. Raffle tickets are now sold at a single dollar value. These changes have made the financial recordkeeping process more efficient.

The Finance Department cited that when they asked the Division for a list of customers who made up the fiscal year-end security deposit balance, the Division was not able to provide the list. This was due to a lack of adequate recordkeeping. To clean up the security account balance, any security deposits that could not be traced to a customer were "written-off" and the funds were transferred to a revenue account. At the end of fieldwork, the Finance Department was working with the Division to enhance the Division's recordkeeping practices.

Recommendation: Consideration should be given to working with the Finance Department until corrective action is fully implemented. Once implemented, on a quarterly basis, the Division should reconcile its records to the Finance Departments records. Any non-reconciling differences should be identified and corrected timely.

The number and dollar amount of customer accounts with credit balances, per the Accounts Receivable Aging Report, is insignificant. However, when examining the Department's accounts receivable aging reports, patterns of "difficult-to-collect" fee types were identified. A reason for some types of late payments may have been a lack of customer incentive to pay timely. For example, sports-related agreements did not contain a late fee clause for past due amounts. Although concessionaire agreements had a late fee clause, late fees were not enforced. The waiver of late fees

requires the Board's authorization. During Phase II, management restructured fee schedules and enhanced the concessionaire agreement template. Management also improved financial recordkeeping and collection practices. Not enough time has passed to ensure if these improvements have alleviated the concerns.

The Division does not consistently indicate on their daily work the three-part customer receipt numbers issued that day. The lack of the information makes it difficult for the Finance Department to desk-audit the Division's daily work. During fieldwork, management took steps to enhance daily work report forms.

Recommendation: Management should ensure that daily work forms include the appropriate receipt numbers. Incomplete manual recordkeeping is an indication of a potential weakness in the management oversight and monitoring control.

### **Summer Camp Recordkeeping and Operations**

Based on testing, it appears that summer camp role calls are not consistently performed. Parental sign-in/sign-out forms are not reliable and complete.

Recommendation: To ensure that summer camp attendance records are reliable and complete, consideration should be given to implementing additional monitoring controls whereby camp records are spot-checked for completeness and accuracy. Consideration should also be given to additional staff training in this area.

Electronic attendance records appear to be reliable however, camp registration forms (the manual record) were not completed/filled out.

Recommendation: Consideration should be given to implementing a review and oversight process whereby summer camp registration forms are reviewed for accuracy and completeness.

There were instances when children who did not meet the minimum age criteria were allowed to attend summer camp. Publically-advertised camp age criteria were not consistently advertised in the literature.

Recommendation: Summer camp program literature should also be reviewed for accuracy and consistency prior to issuance.

Due to the seasonality of summer camps, full corrective action cannot be taken until the 2005 summer camp season begins.

### **In-House Cash Collections**

Based on testing, it appears that facility usage fee structure amounts that should have been charged to customers were collected and accurately recorded in the electronic records. However, these fees were not consistently recorded on the corresponding Facility Usage Agreement (FUA) forms. The FUA form is the manual record and the customer's receipt for the transaction. During Phase II,

management provided additional staff training in this area. As a monitoring control, management cited that spot checks are now performed. Not enough time has passed to ensure if these corrective actions have alleviated the concern.

### **Off-Site Cash Collections**

The off-site cash transaction cycle internal control environment provides reasonable assurance that cash transactions are adequately processed.

### **Fundraisers**

The fundraiser cash transaction internal control environment provides reasonable assurance that cash transactions are adequately safeguarded. However, test results indicate that manual recordkeeping information is not complete.

Recommendation: Consideration should be given to additional staff training and improving continuous monitoring to ensure that forms are complete and accurate.

### **Donations**

The donation cash transaction internal control environment provides reasonable assurance that cash transactions are adequately safeguarded and processed. As with any door-to-door solicitations for donations, there are inherent risks that can be minimized, but fully eliminating those risks would neither be reasonable nor feasible. Monitoring controls and selecting trustworthy employees to solicit door-to-door are the most beneficial controls that can be reasonably implemented. The Division has implemented reasonable monitoring controls.

### **Fee Schedules**

To subsidize the Division, due to a lack of grant funding, the Board increased the County's fiscal year 2003/04 support through the budget process which the Division worked with the Office of Management and Budget to develop. Based on this support, management provided children of low-income families the opportunity to attend summer camp at a reduced or no fee. Per management, these low-income families were considered for eligibility using the same criterion established for grant funding. Three concerns were identified with the above:

- Management does not have the authority to set or waive fees. These are Board-level decisions.
- Application and eligibility qualification data was not clearly documented. Management is in the process of revising these forms and enhancing recordkeeping tools in preparation for the 2005 summer camp season. Not enough time has passed to provide an opinion as to whether these enhancements alleviate the concern.
- Eligibility decisions lacked the Manager's written approval.

Recommendation: Since the 2004 summer camp season ended prior to identifying these concerns, no corrective action is required for that season. As discussed with management, the

Board's approval must be obtained for any future summer camp fee structures. The Board's authorization is required to deviate from approved fee structures. If the Board authorizes the waiver of fees for low-income families, the criterion used to determine eligibility should also be approved by the Board. Management should approve, in writing, any fee waivers.

Most fee schedules have now been approved by the Board. The 2005 summer camp seasonal fee schedule has not been approved by the Board as these fees have not yet been determined.