



**Mecklenburg County
Department of Internal Audit**

Park and Recreation Department Cash Collections
Report 1369
July 9, 2014

**Internal Audit's
Mission**

Through open communication, professionalism, expertise and trust, Internal Audit assists executive management and the Audit Review Committee in accomplishing the Board's objectives by bringing a systematic and disciplined approach to evaluate the effectiveness of the County's risk management, control and governance processes in the delivery of services.

**Internal Audit
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MECKLENBURG COUNTY Department of Internal Audit

To: James Garges, Director, Park and Recreation Department
From: Joanne Whitmore, Director, Department of Internal Audit
Date: July 9, 2014
Subject: Park and Recreation Department Cash Collections Report 1369

The Department of Internal Audit has completed its audit of the Park and Recreation Department to determine whether internal controls over cash collections effectively manage key business risks inherent to those activities. Internal Audit chose nine Park and Recreation business locations and the 311 Call Center for its review. We interviewed key personnel, observed operations, reviewed policies and procedures, performed data analytics, and tested cash collections activity for January 1, 2010 through December 31, 2012.

This audit was conducted in conformance with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

OVERALL EVALUATION

Overall, key risks inherent to cash collections were managed to an acceptable level; however, opportunities exist to improve the design and operation of some control activities. Moreover, during the course of the audit, fraudulent activity was identified and promptly reported to the appropriate County officials for action and resolution. Internal Audit initiated a separate investigation to determine whether similar activities were occurring elsewhere in the Department.

RISK OBSERVATION SUMMARY

The table below summarizes the risk observations identified during the course of the audit, grouped by the associated risk factor and defined in Appendix A. The criticality or significance of each risk factor, as well as Internal Audit’s assessment of the design and operation of key controls to effectively mitigate the risks, are indicated by the color codes described in Appendix B. Appendix C summarizes the risk observations by risk category and location.

RISK OBSERVATION SUMMARY			
Risk Factors and Observations	Criticality	Design	Operation
1. Policies and Procedures Risk	●	●	●
1.1 Formal Documentation			
2. Accountability Risk	●	●	●
2.1 Pre-numbered Receipts 2.2 Mail Receipts			
3. Segregation of Duties Risk	●	●	●
3.1 Cash Receipt Processing			
4. Receipt Risk	●	●	●
4.1 Payment Verification 4.2 Class System Fees			
5. Compliance Risk	●	●	●
5.1 Cash Handling Training 5.2 Change Fund Reconciliations 5.3 Accounting 5.4 Daily Deposits			
6. Authorization Risk	●	●	●
6.1 Basic and Special Service Fees 6.2 Extended Service Fees			
7. Reconciliation Risk	●	●	●
7.1 Evidence of Review			
8. Documentation Risk	●	●	●
8.1 Supporting Documentation			
9. Physical Security Risk	●	●	●

RISK OBSERVATION SUMMARY			
Risk Factors and Observations	Criticality	Design	Operation
9.1 Cash Balancing			
9.2 Transporting Funds			

The risk observations and management’s risk mitigation strategies are discussed in detail in the attached document. Internal Audit will conduct a follow-up review at a later date to verify management’s action plans have been implemented and are working as expected.

We appreciate the cooperation you and your staff provided during this audit. Please feel free to contact me at 704-336-2575 if you have any questions or concerns.

- c: County Manager
- Deputy County Manager
- Assistant County Managers
- Deputy County Attorney
- Senior County Attorney
- Board of County Commissioners
- Audit Review Committee
- Financial Services Director

BACKGROUND

The Mecklenburg County Park and Recreation Department (the “Department”) is home to 210 parks and facilities located on more than 18,000 acres of parkland throughout Mecklenburg County. The Department is also responsible for 18 recreation centers, five public golf courses, three indoor pools, two outdoor pools, three nature centers, a public campground, and disc golf courses.

The Department’s mission statement is to “enrich the lives of our citizens through the stewardship of the County's natural resources and the efficient and responsive provision of quality leisure opportunities, experiences, and partnerships”. Their vision is that those who choose to recreate in Mecklenburg County will have “a system of parks, greenways, and open space located throughout the County that will provide more parkland per capita than the national average, will connect neighborhoods, satisfies public recreation needs, and will protect environmentally sensitive areas”.

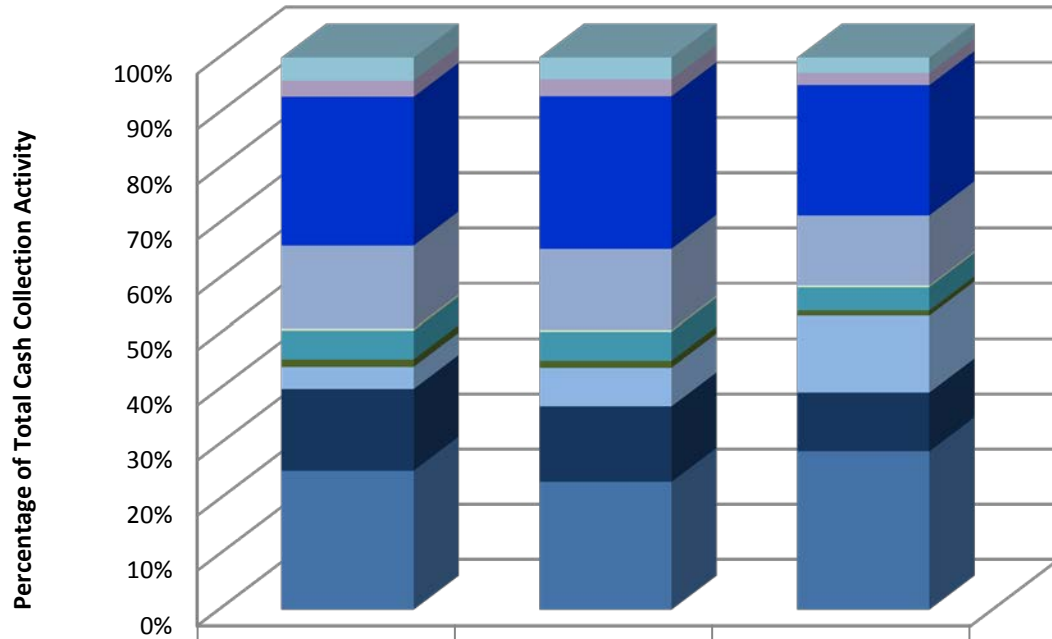
Cash Collections

The Department uses a recreation software called Class to manage its recreation activities and facilities, including class registration, customer account management, and point-of-sale transactions. Department staff at each location records into Class the initial receipt of cash payments for activities, programs, and rentals. Customers typically complete a manual form at the time of registration for a program or facility reservation, with the exception of requests made through the City of Charlotte’s 311 Call Center.

At the end of their shift, staff records and reconciles total cash collected, prepares the necessary supporting documentation, and the facility manager or designee reviews the documentation and prepares the daily bank deposit. The bank deposit and supporting documentation are maintained in a lockable location until the armored car picks them up for deposit. The locations send all daily cash receipts and deposit documentation to Administrative Office Building (AOB) staff to record the deposit in Advantage, the County’s financial system.

The table below summarizes cash collections processed between January 1, 2010 and December 31, 2012. Total collections for years 2010, 2011 and 2012 were \$2,661,908, \$3,383,493 and \$4,140,280 respectively.

Cash Receipt Activity



	2010	2011	2012
Therapeutic Recreation	110,990	133,971	115,542
St. Mary's Chapel	78,405	102,963	91,502
Ray's Splash Plant	528,681	660,731	617,006
Park Rd	187,818	273,875	359,763
Aquatic Ctr	398,213	495,021	523,547
MLK School Site	11,055	12,281	14,357
Marion Diehl	137,794	176,169	174,839
Ivory Baker	36,380	42,765	38,086
Grady Cole	106,739	237,493	574,150
311 Call Ctr	394,444	463,741	441,751
AOB	671,389	784,483	1,189,737

Source: Park and Recreation Department data, unaudited

COUNTY MANAGER'S OVERALL RESPONSE

The County Manager concurs with all risk mitigation strategies and timeframes for implementation.

RISK OBSERVATIONS AND MITIGATION STRATEGIES

Risk Factor	Criticality	Design	Operation
1. Policies and Procedures Risk	●	●	●

Risk Observation

1.1 Formal Documentation—While the Department has formal, documented policies and procedures for some aspects of its cash collection operations, the procedures do not reflect some current and best practices. Yet, policies and procedures are important control activities to help management ensure its directives are carried out while mitigating risks that may prevent the organization from achieving its objectives.

Activities impacted include but are not necessarily limited to:

- Cash receipt processing, including collection, documentation, cash transfer and transport, check endorsement, and voided transactions
- Authorizing and maintaining access to the safes
- Monitoring cash receipt activities
- Segregating incompatible duties
- Assigning staff roles and responsibilities
- Training staff
- Updating policies and procedures

Recommendation

1.1 Internal Audit recommends management revise its current policies and procedures to include, at a minimum:

- All phases of the cash receipt process
- Authorization and maintenance of access to safes
- Monitoring
- Segregation of duties
- Staff roles and responsibilities
- Staff training
- Policy and procedure updates

Management's Risk Mitigation Strategy

1.1 Management agrees with the recommendation to revise Park's current policies and procedures to include the above processes. As of June 24, 2013, the accounting team began implementing the procedures outlined by County Finance Cash Handling procedures, including but not limited to

authorization and access of safes, segregation of duties, staff roles and responsibilities and updating policy and procedures. As of June 24, 2013, the accounting team provides email notifications to the SuperTeam (Park’s Manager and Supervisors) regarding any policy changes or updates. As of July 1, 2014, all Park policies and procedures will be completely revised. In the fall of 2014 the cash handling procedures training will be available to all staff on-demand through a MeckEdu training module.

Risk Factor	Criticality	Design	Operation
2. Accountability Risk	●	●	●

Risk Observations

- 2.1 Pre-numbered Receipts—The Department did not consistently control the issuance and use of pre-numbered cash payment receipt books provided to locations.
- 2.2 Mail Receipts—Staff members at several locations did not document the initial receipt or subsequent transfer of checks received by mail. Thus, there is a lack of accountability in the event funds are lost or stolen.

Recommendations

- 2.1 Internal Audit recommends management ensure the issuance of pre-numbered receipt books are adequately documented and used and unissued inventory is periodically reconciled.
- 2.2 Internal Audit recommends management ensure the initial receipt of mailed payments and subsequent transfers are adequately documented. Documentation should evidence, as applicable, the date of receipt or transfer, the remitter, the amount received, and staff involved in the receipt and/or transfer of funds.

Management’s Risk Mitigation Strategy

- 2.1 As of June 24, 2013 the management team implemented a process to track all pre-numbered receipt books which includes the beginning and ending receipt numbers, the staff’s name and location. Starting July 1, 2014 the accounting team will reconcile the inventory on an annual basis. This file is now maintained electronically; all Park accounting employees are able to access the log.
- 2.2 As of August 30, 2013 the Administrative Office Building began documenting all checks received and subsequently transferred on the department’s SharePoint Site Check Log. This process will be implemented for all locations by July 1, 2014.

Risk Factor	Criticality	Design	Operation
3. Segregation of Duties Risk	●	●	●

Risk Observation

3.1 Cash Receipts Processing—Adequate segregation of duties for cash receipt and recordation, deposit preparation, and cash reconciliation review was not always in place at the AOB, Martin Luther King School Site, Ivory Baker, and Park Road Park. Yet, proper segregation of incompatible duties is an essential internal control to help prevent errors or fraud. A lack of segregation of duties at the AOB allowed one staff to intentionally misapply four payments made by one vendor to another vendor’s account.

Recommendation

3.1 Internal Audit recommends management segregate the responsibilities of receiving, recording, and depositing cash to ensure no one person has the responsibility to conduct two or more phases of the cash receipt process. If adequate segregation of duties cannot be achieved, management should implement appropriate compensating controls.

Management’s Risk Mitigation Strategy

3.1 As of June 24, 2013, management implemented procedures at the AOB location to allow for segregation of duties for all phases of the cash handling process including, collections of cash/checks, recording, depositing of funds, approval of transactions within our Advantage System. As of December 1, 2013, Martin Luther King School Site no longer accepts payments at their site; all payments are received at the Sugar Creek location. On June 19, 2014 a new administrative assistant position will be established at Park Road Park to assist with providing segregation of duties for cash transactions. As of July 1, 2013 Ivory Baker has implemented segregation of duties for all cash receipts.

Risk Factor	Criticality	Design	Operation
4. Receipt Risk	●	●	●

Risk Observations

4.1 Payment Verification—Staff did not consistently verify customers paid the correct amount per contract or facility reservation terms. As a result, the County was underpaid by \$27,075 over the course of one vendor’s contract.

4.2 Class System Fees—The Class system fee table, used by staff to determine facility rental fees and other charges, does not always reflect those fees approved by the Board of County Commissioners.

Recommendations

4.1 Internal Audit recommends management ensure staff members verify customer payments against contract or facility reservation terms.

4.2 Internal Audit recommends management ensure the Class system fee table, department forms, and other notices provided to the public agree with those fees approved by the Board of County Commissioners.

Management’s Risk Mitigation Strategy

- 4.1 The new Contract Compliance Analyst will review all contracts to ensure the payments received are accurate as outlined by contracts or facility reservation terms. This staff will begin her role as of July 1, 2014 and assigned activities will be subject to supervisory review.
- 4.2 On July 1, 2014, the new ActiveNet system will reflect the current BOCC¹ approved fees. During the initial set up and implementation all fees and charges have been reviewed and updated to reflect the current approved fee schedule. All related forms and other notices will be updated as of July 1, 2014.

Risk Factor	Criticality	Design	Operation
5. Compliance Risk	●	●	●

Risk Observations

- 5.1 Cash Handling Training—Management did not maintain documentation to evidence that new and current staff obtained staff training as required by County policy.
- 5.2 Change Fund Reconciliations—The AOB staff was not compliant with County policy to conduct bi-annual change fund reconciliations.
- 5.3 Accounting—A review of 587 cash deposits processed by the AOB showed 112 or 19% were not recorded in Advantage within one week of deposit as required by County policy. Timeliness depends upon both the locations’ submission of deposit documentation and the AOB staff’s processing.
- 5.4 Daily Deposits—Some locations did not always timely deposit cash receipts.

Daily Deposits		
Location	Sample Exceptions	Percent Exceptions
Park Road Park	26 of 50	52%
Martin Luther King School Site	1 of 53	2%
Grady Cole Center	8 of 53	15%
Marion Diehl – Therapeutic Recreation	3 of 63	5%
Aquatics Center	1 of 69	1%
Administrative Office Building	4 of 68	6%
Ivory Baker	2 of 65	3%
St. Mary’s Chapel	5 of 49	10%

¹ Board of County Commissioners

Recommendations

- 5.1 Internal Audit recommends management ensure staff involved in cash handling activities receive the required annual training and maintain documentation to evidence training was provided.
- 5.2 Internal Audit recommends management ensure change fund reconciliations are performed twice a year on a surprise basis; the reconciliations should also be properly documented.
- 5.3 Internal Audit recommends management implement procedures to ensure all cash receipts are timely entered into Advantage.
- 5.4 Internal Audit recommends management implement procedures to ensure deposits are timely deposited in compliance with County policy and North Carolina General Statute §159-32.

Management’s Risk Mitigation Strategy

- 5.1 As of June 1, 2014 Park staff began receiving cash handling training during the new Active Net System training. A copy of the PowerPoint presentation is available as well as signed roster of attendees. All staff involved in cash handling will receive training by June 30, 2014. In the fall of 2014 this training will be provided in the form of a MeckEdu module training, which will require a passing score. All staff who manages funding will be required to take this module training annually.
- 5.2 By December 31, 2013, the first of the bi-annual change fund audit was completed for all Park change funds and a second audit will be performed by June 30, 2014. The audits are documented and completed on a surprise basis. This process will continue yearly as required by County policy.
- 5.3 On July 20, 2013 Park Accounting team hired a new full-time Fiscal Analyst, whose primary responsibility includes approving daily cash receipts timely. The Analyst consistently tracks the timeliness of all cash receipts to ensure Park is compliant with County policy and North Carolina General Statute §159-32.
- 5.4 See response 5.3.

Risk Factor	Criticality	Design	Operation
6. Authorization Risk	●	●	●

Risk Observations




- 6.1 Basic and Special Service Fees—Wedding decoration rental fees had not been approved by the Board of County Commissioners as required by the Department’s Revenue and Pricing Policy.
- 6.2 Extended Service Fees—Management approval of fees, which is required by department policy to help ensure program fees consider all associated direct costs, were not documented for some Grady Cole athletic programs.

Recommendations

- 6.1 Internal Audit recommends management seek board approval for all fees when applicable, including the wedding decoration rental fees.
- 6.2 Internal Audit recommends management implement procedures to ensure fees for extended services are properly reviewed, approved, and documented.

Management’s Risk Mitigation Strategy

- 6.1 On July 1, 2014 the new BOCC approved fees will include the wedding decoration rental fees.
- 6.2 The extended service fees are related to additional services. The process requires the staff to complete a program cost and fee determinant form. On May 28, 2014 management implemented new procedures for the extended services programs to ensure the form is completed.

Risk Factor	Criticality	Design	Operation
7. Reconciliation Risk			

Risk Observation




- 7.1 Evidence of Review—Some cash balancing reports, revenue reports, and/or voided coupon logs did not evidence review and approval of staff involved in the cash collection process. Such verifications and approvals serve to detect recording errors or fraudulent activity.

Recommendation

- 7.1 Internal Audit recommends management ensure staff evidences their review and approval of cash receipt activities.

Management’s Risk Mitigation Strategy

- 7.1 Management agrees with this recommendation and will ensure that all staff consistently provides signatures on all cash balancing reports, revenue reports and all other financial documents. This process will be fully implemented on July 1, 2014.

Risk Factor	Criticality	Design	Operation
8. Documentation Risk			

Risk Observation

- 8.1 Supporting Documentation—Several locations did not maintain appropriate documentation to support some cash receipt and change fund activity, which impairs management’s ability to properly review and/or reconcile cash handling activities. For example, the Ivory Baker location was missing all cash receipt documentation for January 1 through June 30, 2010. Also, 17 of 67 or 25% of cash receipt reviewed at the Marion Diehl Recreation Center did not include a completed Daily Cash Balance report, which confirms the amount of cash collected for deposit.

Recommendation

8.1 Internal Audit recommends management ensure staff complete and maintain appropriate supporting documentation to support cash receipt transactions and balancing activities.

Management’s Risk Mitigation Strategy

8.1 Management agrees with the recommendation and will ensure that all locations maintain supporting documentation. The incident at Ivory Baker was due to a disgruntled employee impacted by the Reduction in Force during FY10. The staff intentionally destroyed the financial records. As of August 1, 2013 all locations have been made aware of the required policy and procedures for retaining documentation.

Risk Factor	Criticality	Design	Operation
9. Physical Security Risk	●	●	●

Risk Observations

9.1 Cash Balancing—Although staff has lockable drawers and safes to ensure cash and negotiable instruments are secure, the AOB location does not have a secure area designated for staff to conduct cash balancing activities segregated from the public and other staff not involved in cash handling activities.

9.2 Transporting Funds—Some department staff collects money in the field and transports the funds in personal or County vehicles, which could result in loss or theft and could put staff at risk.

Recommendations

9.1 Internal Audit recommends management designate a secure area within the AOB where staff can carry out cash handling activities.

9.2 Internal Audit recommends management develop and implement a secure process for staff collecting money in the field to ensure the safety of both funds and staff.

Management’s Risk Mitigation Strategy

9.1 As of May 22, 2014 new procedures were established for AOB to perform cash handling procedures in the Accounting Office, which is a secured location.




9.2 A written request will be made to County Manager Dena Diorio requesting authorization to allow funds to be transported by designated employees at three park locations in the North Region. The employees will be escorted by an armed guard (off-duty police officer). At this point no other location within Park and Recreation will transport funds. This request will be submitted by July 1, 2014 and implemented upon receipt of approval.

APPENDIX A—Risk Factor Definitions




Risk Factor	Definition
Policies and Procedures Risk	Policies and procedures that are non-existent, ineffective, unclear, or outdated may result in poorly executed processes and increased operating costs.
Accountability Risk	Failure to establish and maintain accountability of cash collected, assigned, or transferred to individuals may result in lost or stolen.
Segregation of Duties Risk	Inadequate segregation of duties may allow employees to divert cash receipts without timely detection.
Receipt Risk	Failure to properly receipt cash may compromise accountability and result in untimely or inaccurate compilation and reporting of financial or operational information.
Compliance Risk	Lack of compliance with established policies, procedures, and/or statutory requirements may result in unacceptable performance that impacts financial, operational, or customer objectives.
Authorization Risk	Failure to clearly communicate authority may result in employees carrying out their responsibilities in a manner that is inconsistent with management's expectations.
Reconciliation Risk	Failure to consistently and completely reconcile accounts, transactions, and other activities may prevent accounting errors or omissions from being timely detected and adjusted.
Documentation Risk	Failure to adequately collect, file, and retain documentation may impair the organization's ability to sufficiently support cash receipt activities, financial reporting, and/or disclosure requirements.
Physical Security Risk	Inadequate physical security of cash receipts may allow unauthorized access, increasing the risk of theft.

APPENDIX B—Color Code Definitions

The criticality of a risk factor represents the level of potential exposure to the organization and/or to the achievement of process-level objectives before consideration of any controls in place (inherent risk).

Criticality	Significance and Priority of Action
	The inherent risk poses or could pose a <i>significant</i> level of exposure to the organization and/or to the achievement of process level objectives. Therefore, management should take immediate action to address risk observations related to this risk factor.
	The inherent risk poses or could pose a <i>moderate</i> level of exposure to the organization and/or to the achievement of process level objectives. Therefore, management should take prompt action to address risk observations related to this risk factor.
	The inherent risk poses or could pose a <i>minimal</i> level of exposure to the organization and/or to the achievement of process level objectives. Risk observations related to this risk factor, however, may provide opportunities to further reduce the risk to a more desirable level.

The assessment of the design and operation of key controls indicates Internal Audit’s judgment of the adequacy of the process and system design to mitigate risks to an acceptable level.

Assessment	Design of Key Controls	Operation of Key Controls
	The process and system design does not appear to be adequate to manage the risk to an acceptable level.	The operation of the process’ risk management capabilities is not consistently effective to manage the risk to an acceptable level.
	The process and system design appear to be adequate to manage the risk to an acceptable level. Failure to consistently perform key risk management activities may, however, result in some exposure even if other tasks are completed as designed.	The operation of the process’ risk management capabilities is only partially sufficient to manage the risk to an acceptable level.
	The process and system design appear to be adequate to manage the risk to an acceptable level.	The operation of the process’ risk management capabilities appears to be sufficient to manage the risk to an acceptable level.

APPENDIX C—Risks by Location Impacted

Location	Policies and Procedures Risk	Accountability Risk	Segregation of Duties Risk	Receipt Risk	Compliance Risk	Authorization Risk	Reconciliation Risk	Documentation Risk	Physical Security Risk
Administrative Office Building	X	X	X	X	X		X	X	X
311 Call Center	X			X					
Grady Cole	X	X		X	X	X			X
Ivory Baker	X		X	X	X			X	
Marion Diehl	X	X		X	X			X	
Martin Luther King Site	X		X	X	X				
Aquatic Center	X	X		X	X			X	
Park Road Park	X		X	X	X		X	X	
Ray’s Splash Planet	X	X		X	X		X		
St. Mary’s Chapel	X			X	X	X			