



Office of the City Auditor

Review of Out-of-School Time Program

Report Date: January 23, 2013



Office of the City Auditor

"Promoting Accountability and Integrity in City Operations"

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Office of the City Auditor Transmittal Letter



Date: January 23, 2013
To: James K. Spore, City Manager
Subject: Results of Agreed-Upon Procedures for Out-of-School (OST) Program

Independent Auditor's Report

We have performed the agreed-upon procedures enumerated herein, which were agreed to by the Department of Parks and Recreation to determine the sufficiency of the internal controls over revenues in the OST Program and to determine if the OST Program was operating efficiently in specific areas identified in the City Auditor's risk assessment process. This agreed-upon procedures engagement was conducted in accordance with Government Auditing Standards. Government Auditing Standards incorporate financial and attestation standards established by the American Institute of Certified Public Accountants. These standards also provide guidance for performing and reporting the results of agreed-upon procedures. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described herein either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to perform and did not perform an audit, the objective of which would have been the expression of an opinion on the financial information of the OST programs. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters may have come to our attention that would have been reported to you. We completed the agreed-upon procedures on November 27, 2012.

This report is intended solely for the information and use of the Audit Committee, City Council, City Manager, and appropriate management including Department of Parks and Recreation and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We would like to commend the Department of Parks and Recreation for the courtesy and cooperation extended to us during the review. If you have any questions about this report or any audit-related issue, I can be reached at 385-5872 or via email at lremias@vbgov.com.

Respectfully submitted,

Lyndon S. Remias, CPA, CIA
City Auditor

c: City Council Members
Audit Committee Members
Cindy Curtis, Deputy City Manager
Michael Kalvort, Director, Parks and Recreation



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Purpose

To perform agreed-upon procedures to determine if the Department of Parks and Recreation's Out-of-School Time (OST) Program has sufficient internal controls over its revenue and is operating efficiently in certain identified high risk areas.

Scope and Objectives

The objectives of our review were largely determined by specific issues identified during the Office of the City Auditor's annual risk assessment collection of information:

1. To determine if OST account write-offs have increased over the past three years and if so the reasons for an increase and review collection and write-off procedures.
2. To determine if the current internal controls over OST revenue are designed adequately to reduce risk to an acceptable level and if so, are they operating as designed.
3. To determine if there is excessive overtime charged in the OST program.
4. To determine whether there is waste and inefficiency in the purchase and use of food/snacks in the OST program.
5. To determine if the recommendations communicated in the Office of the City Auditor's memo "Results of Investigation 12-003" dated November 16, 2011 involving OST procedures for field trips have been successfully implemented.

Our review concentrated on the fiscal year ended June 30, 2012 and the current fiscal year. Some analysis, in particular involving write-off trends, utilized data from the prior three years. Policies and procedures reviewed were the most current in use.



Procedures

To accomplish our objectives, we performed the following agreed-upon procedures:

1. Documented and verified the amount of OST write-offs for the last three years; determined the cause for any upward trends; documented related collection and write-off procedures and recommended improvements.
2. Documented the OST revenue cycle and related controls and assessed whether they are designed adequately to reduce risk to an acceptable level and if so tested them to verify they are working as designed.
3. Documented the amount of overtime charged in the OST program (budget units 11089 and 11079) for the fiscal year ended June 30, 2012 and if significant, the reasons for such.
4. Documented OST methodology for food/snack purchases, inventory and usage. Documented the amount of food snacks purchased/used in the program for the fiscal year ended June 30, 2012. Compared actual to budgeted amounts for reasonableness.
5. Reviewed the City Auditor's recommendations concerning field trip procedures contained in the November 16, 2011 memo "Results of Investigation 12-003" and determined if the OST program has successfully implemented those recommendations.



Standards

This agreed-upon procedures engagement was conducted in accordance with Government Auditing Standards which incorporate financial and attestation standards established by the American Institute of Certified Public Accountants. These standards also provide guidance for performing and reporting the results of agreed-upon procedures. The Office of the City Auditor reports to City Council through the Audit Committee and is organizationally independent of all City Departments. This report will be distributed to the City's Audit Committee, City Council, City Manager, and the Department of Parks and Recreation. This report will also be made available to the public.



Background

Virginia Beach Parks and Recreation offers before and after school, break and summer programming concurrent with Virginia Beach City Public Schools schedules at designated elementary and middle schools as well as each of the six Virginia Beach Recreation Centers. For



the school year 2012/13, Before School Programs are offered at 23 elementary schools and After School Program Programs are offered at *all* 56 elementary schools. Three middle school Before school programs are offered at Brandon, Larkspur and Princess Anne. After School programs are offered at all five community recreation centers. Kinderbuddies, a program for kindergarten children, is available at Glenwood, North Landing, Thalia, and Thoroughgood elementary schools; as well as Kempsville, Princess Anne and Williams Farm recreation centers. Preschool Programs are offered at Kempsville, Princess Anne and Williams Farm recreation centers. RISE After

School Programs, are offered at all 13 Title I schools. Bayside Middle and Bettie F. Williams Elementary offer, in partnership with Parks and Recreation, a Title IV Part b Program entitled “21st Century Community Learning Center” for free. In addition to these programs there are various school and recreational center based break camps offered. The OST activities are accounted for in two budget units; 11089 for school based programs and 11079 for Recreation Center programs. The programs are fee based and all accounting for revenue originates through Parks and Recreation’s CLASS software prior to being input into InSITE, the City’s general ledger software.

OST Revenue Cycle

The OST Revenue Cycle is detailed with many steps and controls in the process. We will not present the details of the process but will give the following overview:

All OST revenue begins with registration for the program in the CLASS system which sets up each individual patron’s account. Each billable OST session or course is two weeks long and each registrant must pay *before* attending. Prior to the ensuing session CLASS rolls up all of the registrants amount due in a report depicting the receivable/revenue amounts. At that point

Parks & Recreation’s Business System Finance Unit enters the summary amount into InSITE in the applicable receivable and revenue accounts. If payment is not made prior to the session registrants are withdrawn. Payments can be made in person at any community recreation center by cash, check, money order or MasterCard/Visa. They can also be made by autopay (prior authorization to debit credit card) online (EZreg), IVR- touchtone telephone (EZreg) or sent by mail. Every six days, Parks & Recreation’s Finance Unit will run the Deposit Record report from CLASS that will detail all payments from all locations and be used to reconcile the bank deposits made. Revenue not collected from a location – online, touchtone (EZreg) and autopay – are detailed in a section of the report with the location designation entitled “Public Access”. After multiple layers of review and reconciliation, the Parks & Recreation Finance Division forwards the revenue reports, with account designation, to the City Treasurers’ Office. The City Treasurers’ Office then reviews again, validates the revenue and posts the revenue to InSITE. Citywide then reviews the



City Treasurer's input to assure the revenue is posted accurately. The collection and write-off procedures are detailed below.

Account Collections and Write-offs

OST Revenue, no matter the specific program, place of registration or method of payment, flows through Parks and Recreation's *CLASS* software system. *CLASS* serves as OST's subsidiary account ledger (for other non-OST Parks and Recreation programs as well). Each registered participant has an account in *CLASS*. Each OST Program is divided into separate two week sessions for billing purposes and participants are required to pay in advance of attending the two week session.

CLASS is the subsidiary detail containing the payment details of all individual OST participants. Summary accumulated information (receivable, revenue, payment) from *CLASS* is periodically entered into InSITE receivable and revenue accounts which serve as the control accounts within the City's general ledger accounting system. At year end the InSITE receivable account is adjusted to reflect the *CLASS* subsidiary account balances at June 30 by the Department of Finance. In InSITE, Finance utilizes the allowance method for bad debts whereby receivables are aged at year end and an estimated uncollectible percentage becomes the allowance for doubtful accounts. Actual write-offs of uncollectible accounts are written against that allowance, removed from *CLASS* and bad debt expense is the amount needed to increase the allowance to its estimated amount at year end.

After initial attempts by OST staff to collect outstanding balances, overdue accounts are referred to Parks and Recreation Business Systems Finance Unit. They write the patron a letter informing them that if the balance is not paid in 10 days the account will be turned over to the Treasurer's Office for the Set Off Debt Collection Process. If the debt is still not satisfied at the end of three fiscal years via debt set-off or repayment, Parks and Recreation writes off the balance due in *CLASS* and notifies Finance of the accounts written off. This has now been changed to five years effective for the fiscal year ending June 30, 2013.

We analyzed write-offs from a total departmental (*CLASS*) basis to include OST accounts since they are treated that way internally, OST accounts are the largest percentage of *CLASS* revenue and write-offs and any recommendations made would apply to all accounts receivable write-offs, not just OST related ones. We identified and analyzed the account write-offs/trends.



OST Food/Snack Purchases

During the school year, the OST program contracts (two annual contracts – one for school year, one for summer) with Virginia Beach City Public Schools (VBCPS) to supply the children with food/snack purchases. The school's cafeterias purchase and inventory the items for OST. Each school's cafeteria bases their purchases on OST registration numbers supplied every two weeks to the cafeteria manger by OST personnel. The food/snack then is dispersed *daily*, again by the registration numbers OST has supplied. (OST zone specialists pick the food/snack orders up from Landstowne Middle for the *recreation centers* every two weeks and deliver them to the proper program.) Those food/snack disbursements are accumulated monthly and VBCPS invoices and IDTs OST monthly.

The food/snack is dispersed daily in quantities as requested by OST based on registration. Thus, if a registrant does not attend *or* attends but does not desire a snack, there will be excess snack items left that OST will be charged for. (Obviously, OST must have a snack available for *every* registrant so it could *appear* they are over ordering/serving and wasteful.) Each school location has an assigned locked closet where the excess (issued by VBCPS but unused) food/ snack are stored and reused. The OST Recreation Supervisor in charge of food/snack is constantly monitoring the excess food (in the locked closet) and the registration and attendance records and uses that information to adjust ensuing orders with VBCPS.



The summer program works slightly different. The total registration numbers for each weekly session are forwarded to VBCPS every three weeks. The food/snacks are picked up every three weeks from the Landstowne Middle Complex and drinks are delivered to the City-Wide Programs Office. All of the summer food/snack and drinks are secured in storage building or mess hall until requisitioned by the Zone Specialist and delivered to the programs.

There is a smaller amount of OST food items that are purchased via ProCard transactions. These transactions do not go through VBCPS and also are accounted for through InSITE object code 606420 (Food and Food Service Supplies). These ProCard transactions are for: (1) the Early Childhood programs at Kempsville, Princess Anne and Williams Farm recreation centers and have their own licenses and USDA compliance standards (2) Field Trip food/snacks (3) items such as pizza for special events, summer tournaments and middle school breakfast trips. These ProCard expenditures are approved prior to ordering by the Recreation Supervisors.

OST Field Trip Procedures

As a result of Investigation 12-003, the City Auditor issued a memo dated November 16, 2011, making certain recommendations concerning OST field trip procedures; specifically dealing with procurement card controls (Recommendation #3) and controls over event tickets purchased (Recommendation #4). OST management responded to the recommendations by revising its



“Revised OST Field Trip Procedures” and “OST Field Trip Packet” in a memo dated February 14, 2012 to the City Auditor. We reviewed the recommendations made for the OST program as a result of Investigation 12-003 and the OST changes as set forth by OST management in the revised field trip procedures and field trip packet.

Results of Agreed- Upon Procedures

- 1. Documented and verified the amount of OST write-offs for the last three years; determined the cause for any upward trends; documented related collection and write-off procedures and recommended improvements.**

OST receivable accounts comprise the majority of CLASS accounts. The following chart depicts **all CLASS accounts written off over the past three years**. An aging schedule of receivables as of June 30, 2012 and Finance’s computation of the allowance for doubtful accounts follows.

Year Written Off	2012	2011	2010
Billing Year of Accounts	2009	2008	2007
Total P&R Amount Accounts Written Off	\$29,982.69	\$20,969.32	\$8,291.04

Aged Receivables as of June 30, 2012			
	A/R Amount	Estimated Uncollectable Percentage	Allowance For Doubtful Accounts
2010 Billed Accounts 2 to 3 years old	\$13,255.00	90%	\$11,930.00
2011 Billed Accounts 1 to 2 years old	\$16,676.00	70%	\$11,673.00
2012 Billed Accounts 90 Days to 1 year Old	\$15,691.00	40%	\$6,276.00
2012 Accounts less than 90 Days Old	\$74,719.00	1%	\$747.00
Total Accounts Receivable June 30,2012	\$120,341.00		\$30,626.00
			Total Allowance June 30,2012

Causes - The recession as expected has resulted in increased bad debts and write-offs over the past three years. Also, though the various programs have had a written policy requiring payment prior to the beginning of OST programs, it was not strictly enforced until the current (2012/2013) school year.



Collection and write-off procedures - After initial attempts by OST staff to collect outstanding balances, overdue accounts are referred to Parks and Recreation Business Systems Finance Unit. They write the patron a letter informing them that if the balance is not paid in 10 days the account will be turned over to the Treasurer's Office for the Set Off Debt Collection Process. If the debt is still not satisfied at the end of three fiscal years via debt set-off or repayment, Parks and Recreation writes off the balance due in *CLASS* and notifies Finance of the accounts written off. This has now been changed to five years effective for the fiscal year ending June 30, 2013.

Recommendations

- 1.1 We recommend Parks and Recreation join the City Treasurer's delinquent collection program which is provided at no cost to City Departments and has more extensive collection powers (liens, wage garnishments).

- 2.1 We recommend the department continue its efforts in withdrawing registrants from the programs prior to the start if they have not paid – this has been effective in reducing bad debts.

Note: *It is important to note that while OST has always had the written policy that patrons be required to pay prior to attending a program, beginning this school year(2012/13) they are now withdrawing registrants prior to the start of the program(each two week billing session) if they have not paid. Theoretically then only the unpaid receivable for that one two week session they registered for would be an unpaid receivable. We would also never provide them the service nor would they effect food/snack ordering.*

2. **Documented the OST revenue cycle and related controls and assessed whether they are designed adequately to reduce risk to an acceptable level and if so tested them to verify they are working as designed.**

Revenue Cycle - See report background section for summary of the OST revenue cycle.

Controls - The controls were designed to effectively minimize risk and are operating as designed. It should be noted that while we did not perform an IT audit the *CLASS* data base, network and server security is managed by ComIT. ComIT manages the security for EZreg and credit card processing via the internet. Security for user rights in *CLASS*, including which staff can view credit card information and which processes staff can run are managed by the *CLASS* Support Team.

Testing - We chose the period of September 13, 2012 through September 18, 2012 (revenue is processed every six days) and we reconciled the OST revenue from *CLASS* (all recreation centers, Citywide and Public access – *autopay, online, telephone payments*) to the bank



deposits, bank statements, credit card detail and accurate account distribution into InSITE. We were able to reconcile all of the revenue without exception.

OST revenue, along with all fee revenue (*CLASS*), has detailed procedures and controls in *CLASS* and InSITE, from registration in *Class*, recording of the revenue and receivable, the various payment modes and the collection and write-off procedures. Many of the procedures are detailed, well-designed and are being performed but are not written down. The Revenue process has many aspects other than the front desk portion.

Recommendation

2.1 We recommend establishing and maintaining current written policy and procedures for not only the front desk recreation centers revenue but the entire Parks and Recreation fee revenue process.

3. Documented the amount of overtime charged in the OST program (budget units 11089 and 11079) for the fiscal year ended June 30, 2012 and if significant, the reasons for such.

Our analysis indicated that \$939.38 was paid in overtime for the fiscal year ended June 30, 2012 for the OST program – budget units 11089 and 11079. Considering the size of the OST program and amount of payroll, we do not consider this amount of overtime excessive.

Note: It should be noted that \$18,768.39 of comp time was paid out during the fiscal year June 30, 2012, earned from 2012 and prior fiscal years. In 2012, 618 hours of comp time was earned.

4. Documented OST methodology for food/snack purchases, inventory and usage. Documented the amount of food snacks purchased/used in the program for the fiscal year ended June 30, 2012. Compared actual to budgeted amounts for reasonableness.

OST methodology for food/snack purchases, inventory and usage- See report background section for summary of methodology.

OST food/snack purchases – Documented the amount of food/snack purchases, (see following chart) and inventory processes and related controls and determined they were adequate to safeguard inventory.

Monitoring of registration numbers - Verified that the OST Recreation Supervisor monitors the registration numbers in the program to order and disperse food *and* the excess inventory to adjust ordering food/snack for ensuing sessions.

Compared actual OST food/snack purchases – We compared actual with estimated budgeted amounts and concluded the amounts purchased were reasonable.



Budget and Actual Food and Food Services Year End June 30, 2012		
	Budget Unit	Budget Unit
	11089	11079
Budget	\$356,500.00	\$55,000.00
Actual	\$357,175.97	\$57,696.51
Difference	-\$675.97	-\$2,696.51

ProCard transactions - Identified and isolated the food/snack purchased amounts made in the OST program via ProCard. The ProCard transactions were made for the Early Childhood programs which have a separate state license and related USDA standards, for field trips and special events. Food ProCard transactions in the OST program amounted to approximately \$50,000 of the \$415,000 total food purchases for the year ended June 30, 2012. All ProCard transactions were recently audited by the Office of the City Auditor. The audit covered the thirty (30) month period of January 1, 2009 to June 30, 2011. ProCard purchases are pre-approved by supervisors.

- Reviewed the City Auditor's recommendations concerning field trip procedures contained in the November 16, 2011 memo "Results of Investigation 12-003" and determined if the OST program has successfully implemented those recommendations.**

We reviewed the revised OST Field Trip Procedures and Field Trip Packet and determined that the written procedural changes made did effectively address the recommendations made by the Office of the City Auditor as a result of investigation 12-003. We then randomly selected 2 field trips to verify that the new procedures were in fact being followed. The records for the two field trips selected indicated that the new procedures were in fact being followed.

Conclusion

We conducted the agreed-upon procedures related to the Department of Recreation's Out-of-School Program in regards to its revenue controls and certain other areas of identified high risk. We found that overall the revenue controls were designed effectively and were operating as designed and the other areas of high risk are being managed effectively.

Acknowledgements

We would like to thank the Department of Parks and Recreation for their responsiveness to our requests during the review and their receptiveness to questions and comments. We thank all involved in the process for their help and offer our assistance should future concerns regarding this or other audit issues arise.



City of Virginia Beach

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INTER-OFFICE MEMORANDUM

DATE: January 16, 2013
TO: Lyndon S. Remias, City Auditor
FROM: Michael Kalvort, CPRE, Director of Parks and Recreation
SUBJECT: Review of Out-of-School Time Program

Thank you for your comprehensive review and recommendations regarding the sufficiency of internal controls over the revenue collection and high risk operational areas of our Out-of-School Time Programs. We are pleased the results were overall very favorable. Below, please find our action plan for addressing each of your recommendations.

Recommendation 1: Join the City Treasurer's Delinquent Collection Program

We are currently in the process of setting up a meeting with the City Treasurer's Office to discuss the possibilities.

Recommendation 2: Continue to Withdraw Unpaid Registrants Prior to Program Start

We agree this effort has been effective in reducing bad debt and it is our full intention to continue with this process.

Recommendation 3: Establish and Maintain Written Policy for all Parks and Recreation Revenue Collection

We will undertake a review of revenue collection processes not conducted through the recreation center front desks, such as the Sports Management Unit and Parks and Natural Areas. We welcome assistance from the Office of the City Auditor if this is feasible.

Parks and Recreation appreciates the Audit Team's efforts to strengthen internal controls. Please do not hesitate to contact me at 385-1122 if you have additional questions. I thank you for your continued help and support.

MJK/amf

cc: Cindy A. Curtis, CPRP, Deputy City Manager
Mary Cole, Parks and Recreation
Harry Young, Parks and Recreation
Mary Anna Twisdale, Parks and Recreation