



Office of the City Auditor Parks and Recreation Fee Collection Procedures

Report Date: February 23, 2012



Office of the City Auditor

"Promoting Accountability and Integrity in City Operations"

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Office of the City Auditor
Transmittal Letter



Date: February 23, 2012
To: James K. Spore, City Manager
Subject: Review of Parks and Recreation Fee Collection Procedures

I am pleased to present the report of our review of Parks and Recreation Fee Collection Procedures. The results of our review are provided in this report. Findings considered to be of insignificant risk have been discussed with management. We completed our fieldwork on December 2, 2011. It should be noted that while we found a number of control weaknesses that resulted in recommendations for improvement, this was not prompted by any known instances of fraud. The results of this review will be provided to City Council through the City's Audit Committee.

The Office of the City Auditor reports to City Council through the City's Audit Committee and is organizationally independent of all other City Departments. This report is intended solely for the information and use of the Audit Committee, City Council, City Manager, and appropriate management. It is not intended to be 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 personnel from the Department of Parks and Recreation for their courtesy and cooperation extended to us during the review. It should also be noted that management agreed with our findings and recommendations and have promptly implemented most of them prior to the issuance of the report.

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

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
Mary Cole, Programming and Operations Administrator, Parks and Recreation



Office of the City Auditor

Review of Parks and Recreation Fee Collection Procedures

EXECUTIVE SUMMARY

Introduction

As part of our annual audit plan, we reviewed the Department of Parks and Recreation fee collection processes at the recreation centers. The six recreation centers provide social, recreational and wellness opportunities for citizens of all ages. The recreation centers, located in Bayside, Bow Creek, Great Neck, Kempsville, Princess Anne and Seatack, serve as a meeting place for civic, community service and recreational organizations. The recreation centers collected \$6,561,829 in revenue and fees in FY11.

Purpose and Scope

The purpose of our review was to assess the adequacy of controls over the collection, processing and recording of revenues collected at the recreation centers. The audit covered the period of recreation centers' fee collection processes between July 1, 2010 to September 23, 2011.

Summary of Findings

In conducting our review, we found that:

- Refunds were not consistently documented through the use of the *Refund Confirmation* form.
- Reasons for the refund were not consistently provided or descriptive enough to determine compliance with policy.
- For *cash* refunds, written acknowledgement from the customer verifying that he/she requested and received the refund was not consistently obtained.
- Authorization and approval for the refund as evidenced by a supervisory or secondary staff signature was not consistently documented.
- Reasons for voids and no sale transactions were not consistently documented on the receipt, nor were receipts consistently maintained for documentation purposes.
- Gift certificates sold were not regularly reconciled to gift certificates on hand.
- Gift certificates are no longer validated at time of purchase due to upgrading of point-of-sale (POS) equipment. The purpose of the validation was to authenticate the purchase amount.
- Sale of group fitness/flex cards were not consistently tracked and reconciled. This increases the risk of erroneous issuance and receipt of cash without the sale being posted in the system.
- Current written policies and procedures were not readily available to all staff involved in the processing and reconciling of revenue and associated transactions.

Conclusion

Overall, based on our review, the processes and controls governing fee collection processes at the recreation centers were adequate, but management can enhance these processes and improve efficiency by implementing our recommendations related to refunds, voided/cancelled and no-sale transactions, group fitness/flex cards and gift certificates.



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Purpose

The purpose of our review was to assess the adequacy of controls over the collection, processing and recording of revenues collected at the City's six recreation centers.

Scope and Objectives

The objectives of our review were:

- To gain an understanding of the procedures and related controls associated with the collection and processing of revenues at the City's recreation centers.
- To determine whether those procedures and controls are effectively designed to reduce the risk of loss and/or misappropriation.
- To ensure proper procedures and controls are in place to adequately safeguard and monitor the sale of group fitness/flex cards.
- To ensure proper procedures and controls are in place to adequately safeguard the issuance and redemption of gift certificates for Parks and Recreation services.
- To determine whether cash refunds are properly authorized and documented and that voids and no sales are legitimate.

The audit covered the period of recreation centers' front desk transactions between July 1, 2010 to September 23, 2011.

Methodology

To accomplish our objectives, we performed the following procedures:

- Obtained available Parks and Recreation documentation of recreation center front desk operations and CLASS system procedures for processing transactions and running reports.
- Observed and gained an understanding of opening, operational and closing procedures of front desk operations at each recreation center.
- Reviewed internal controls through inquiry and examination of documents.
- Examined procedures related to the safeguarding of cash received.
- Obtained and analyzed an extract of all Point of Sale (POS) transactions at the recreation centers between July 1, 2010 to September 23, 2011.
- Selected and tested a sample of cash refunds, voided/cancelled transactions and no sales for accuracy, compliance with policies and procedures and legitimacy.
- Analyzed group fitness/flex card and gift certificate issuances and supporting documentation for accuracy, completeness and accountability.
- Made recommendations to improve processes, increase efficiency and to strengthen the internal controls associated with revenue collection at the recreation centers.



Office of the City Auditor Review of Parks and Recreation Fee Collection Procedures

Standards

Our audit was conducted in accordance with generally accepted government auditing standards. 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 appropriate management within the City of Virginia Beach. This report will also be made available to the public.



Background

The Department of Parks and Recreation was established in 1956 by the Princess Anne County Board of Supervisors, and has a rich history of successful and innovative programs and facilities. The Department is accredited by the Commission for Accreditation for Parks and Recreation Agencies (CAPRA), and recognized by the National Recreation and Park Association. A variety of quality, diverse recreational programs and facilities are offered year-round. Program offerings include: Youth/Adult and Senior Citizen Activities, Athletics, Aquatics, and Therapeutic/Inclusion programs.

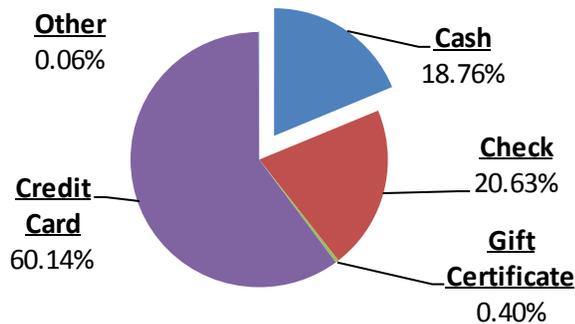


Parks & Recreation oversees and/or operates over 200 neighborhood parks, several community and district parks, six recreation centers, four municipal golf courses, a fishing pier, two Dog Parks, public tennis courts; city athletic fields; two disc golf courses; the Owl Creek Municipal Tennis Center; the Owl Creek Boat Ramp; the Lynnhaven Boat Ramp and Beach Facility; and a 50-slip marina on the Lynnhaven Inlet.

The six recreation centers provide social, recreational and wellness opportunities for citizens of all ages. The recreation centers, located in Bayside, Bow Creek, Great Neck, Kempsville, Princess Anne and Seatack, serve as a meeting place for civic, community service and recreational organizations. A recreation center membership gives access to all recreation center locations and amenities. Customers may also separately register for recreation classes, camps and care programs. Gift certificates are available for Parks and Recreation services.

The department uses the CLASS system software for sales of memberships and registrations for classes and programs. In FY11, the recreation centers collected \$6,561,829 in revenue. See Table 1 for percentages of collections by payment type.

Table 1. FY11 Recreation Center Collections by Payment Type





Office of the City Auditor Review of Parks and Recreation Fee Collection Procedures

During the period of review, July 1, 2010 to September 23, 2011, the recreation centers processed 161,072 transactions totaling \$8,161,962. Based on our analysis, we determined that cash refunds, cancelled/voided and no sale transactions presented the most risk. We also focused on the accounting and sale of group fitness/flex cards and gift certificates due to the manual processes involved.



Findings and Recommendations

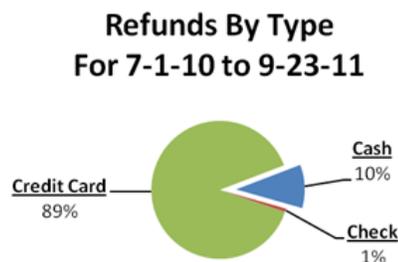
Finding 1: Strengthen controls over processing of cash refunds

The recreation centers provide many classes and programs for Virginia Beach citizens that involve use of the center's facilities. Use of the facilities requires the customer to purchase a membership and register or obtain a group fitness/flex card to participate in fitness activities. However, there are times when classes and programs are cancelled or the customer has circumstances where they request a refund of their membership or class fees.

The department's refund policy is specific as to the situations in which a refund may be granted. Refunds must be made back to the original method of payment, i.e., credit card sales must be refunded back to the same credit card and cash sales to cash refunds. Sales made by check can be refunded in cash provided 14 days have passed since the sale. Refunds are documented using the system-generated *Refund Confirmation* form in CLASS.

The recreation centers processed 3,819 refunds to customers amounting to \$122,821.78 during our review period. Of the 3,819 refunds, there were 651 cash refunds which accounted for approximately 10% of the total amount refunded.

While most refunds are processed via credit card, *cash* refunds present a higher risk for misappropriation. We reviewed a sample of 107 (16.4%) cash refund transactions processed by the recreation centers to determine whether cash refunds were properly authorized, adequately documented and made in accordance with departmental policy. General observations based on our review are as follows:



- Refunds were not consistently documented through the use of the *Refund Confirmation* form.
- Reasons for the refund were not consistently provided or descriptive enough to determine compliance with policy. A descriptive and detailed reason is necessary to determine if the refund is legitimate.
- Written acknowledgement from the customer verifying that he/she requested and received the refund was not consistently obtained. It is important to obtain acknowledgement from the customer that he/she received the cash. This lowers the risk of the customer receiving more than one cash refund by claiming at a later date that he/she did not receive his/her refund.



- Authorization and approval for the refund as evidenced by a supervisory or secondary staff signature was not consistently documented. A signature provides responsibility and accountability over disbursement of cash back to the customer.

Overall compliance rates and those by individual center are provided in Table 2.

Table 2. Results of our Review of Cash Refund Transactions

Number and Percentage of sample items in compliance with attribute

Recreation Center	Sample Size	Refund Confirmation Form		Valid Reason of Refund Provided		Customer Signature		Approval and/or Authorization Documented	
		#	%	#	%	#	%	#	%
		Bayside	22	20	91%	13	59%	13	59%
Bow Creek	21	7	33%	7	33%	1	5%	5	24%
Great Neck	8	5	63%	7	88%	2	25%	6	75%
Kempsville	27	20	74%	20	74%	13	48%	4	15%
Princess Anne	22	9	41%	22	100%	19	86%	22	100%
Seatack	7	5	71%	4	57%	1	14%	3	43%
Overall	107	66	62%	73	68%	49	46%	40	37%

Recommendation

We offer the following recommendation to strengthen controls over cash refunds and reduce the risk of loss to the City:

- 1.1 Require all refunds be supported by the *Refund Confirmation* form and maintain this form with the *Daily Cash Balance- Closeout Report*. The *Refund Confirmation* form should contain all of the following elements:
 - Descriptive reason for the purpose of the refund;
 - Separate signature authorizing the refund;
 - Customer’s signature acknowledging request for and receipt of the refund.



Finding 2: Ensure voided, cancelled and no sale transactions are adequately supported, approved and monitored

Reasons for voids and no sale transactions were not consistently documented on the receipts, nor were receipts consistently maintained for documentation purposes. Whenever a transaction is voided or cancelled or the cash drawer is opened during a no sale transaction, a receipt should be printed and a reason for such action should be notated on the receipt to provide accountability and possible resolution in the event of a discrepancy.

Recommendations

- 2.1 Print and maintain receipts for all voided, cancelled and no sale transactions.
- 2.2 Require all voided/cancelled transactions be approved by someone other than the employee processing the transaction. Review/approval should be indicated on the receipt.
- 2.3 Require the cashier to notate on the receipt the reason for all no sale and voided/cancelled transactions.
- 2.4 Maintain the voided/cancelled transaction and no sale receipts with the *Daily Cash Balance- Closeout Report*.
- 2.5 Monitor voided/cancelled and no sale activity by cashier on a regular basis. Excessive voided/cancelled and no sale activity can be an indicator of improper training or act as a red flag for inappropriate access to monies.



Finding 3: Strengthen internal control and accounting for gift certificates

During our review period, the recreations centers sold 565 gift certificates totaling \$33,493. Gift certificates expire one year from the date of issuance. We reconciled the number of gift certificates sold according to the CLASS system with the records of the recreation centers. The results of our review are provided in Table 3.



Gift certificates are no longer validated at time of purchase due to upgrading of POS equipment. The purpose of the validation was to authenticate the purchase amount; therefore, the current process does not include manual or automated controls to associate the redemption of the gift certificate with the sale. Gift certificates sold are not regularly reconciled to gift certificates on hand. During our review, we identified a gift certificate redeemed for which no record exists that it was ever sold.

Without appropriate internal controls, gift certificates are susceptible to manipulation by employees and/or customers possibly resulting in reduced revenue.

Recommendation

To reduce the risks associated with the issuance and redemption of gift certificates, management should:

3.1 Consider the implementation of electronic (debit) gift cards to eliminate the need for paper gift certificates and ensure that all sales are recorded in the point of sale (POS) system.

In the meantime, management should at a minimum:

- Affix the sales receipt to the gift certificate at the time of sale.
- Effectively cancel redeemed certificates and file with daily reports to satisfy City record retention policies and also provide supporting documentation for future reconciliations.
- Reconcile the certificates on hand to the number of certificates sold on a regular basis.
- Compare the redemption amounts to the sales amounts periodically.



Finding 4: Improve group fitness/flex card process to increase efficiency and reduce risk of loss

Recreation center memberships provide access to facilities, but participation in group fitness classes require the customer to pay additional fees. Customers may purchase a single pass, a punch card (18 or 30 punch) for use at any time with no expiration date or a 30-Day or 90-Day unlimited pass. The cards are color coded and pre-numbered. While memberships are tracked via electronic cards, the group fitness/flex cards are tracked manually. A staff member must be present at each group fitness class to punch the applicable number of punches to each card and ensure the user paid the extra fee. Management stated that this process is cumbersome and cost-prohibitive.

At the time of sale, the transaction is entered into the POS system and the card number and customer name are entered in a manual log. We found that the cards are not consistently tracked and reconciled. This increases the risk of erroneous issuance and receipt of cash without the sale being posted in the system.

Recommendation

We offer the following recommendation to increase efficiency and strengthen internal controls related to the payment for and use of group fitness/flex cards:

- 4.1 Consider implementing an automated process of recording, tracking and reconciling sales and attendance in group fitness classes, or an alternative means for managing the group fitness classes such as including group fitness classes in the price of membership to facilitate the entire process. Either solution would reduce the risks associated with the sale and use of group fitness/flex cards.

In the meantime, management should at a minimum:

- Properly record and account for all flex cards and day passes sold by using pre-numbered log sheets to ensure accuracy of passes sold.
- Regularly reconcile group fitness/flex cards on hand with issue records.



Finding 5: Establish standardized, written policies and procedures governing the fee collection process

Although the recreation centers have established procedures for processing revenue; current *written* policies and procedures are not readily available to all staff involved in the processing and reconciling of revenue and associated transactions. There are a number of internal control weaknesses in the fee collection process due to a lack of coherent policy and procedures applicable to all recreation centers. Lack of standardized procedures can cause inconsistent application of internal controls across the recreation centers.

Recommendation

- 5.1 Establish and maintain current *written* policies and procedures related to the collection and reporting of revenue. Policies and procedures should be readily available to all staff involved in the processing and reconciling of revenue and associated transactions at the recreation centers.



Conclusion

Overall, based on our review, the processes and controls governing fee collection processes at the recreation centers were adequate, but management can enhance these processes and improve efficiency by implementing our recommendations related to refunds, voided/cancelled and no-sale transactions, group fitness/flex cards and gift certificates.

Acknowledgements

We would like to thank the staff of Parks and Recreation Administration and the Recreation Centers for their cooperation and responsiveness to our requests during the review and their receptiveness to questions, recommendations and suggestions.



City of Virginia Beach

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INTER-OFFICE MEMORANDUM

DATE: February 20, 2012
TO: Lyndon S. Remias, City Auditor
FROM: Michael J. Kalvort, Director 
SUBJECT: Review of Parks and Recreation Fee Collection Procedures

Thank you for your comprehensive review and recommendations regarding the fee collection procedures at the front desks of our recreation centers. Below, please find our action plan for addressing each of your findings.

Finding 1: Process to strengthen controls over cash refunds

- *Class* software does not have the capability to generate a "Refund Confirmation Form" through Point-of-Sale, even if the initial purchase was a Point-of-Sale item. Accordingly, cash refunds will only be processed through Program Registration; Point of Sale will no longer be used for this purpose.
- Using Program Registration, staff will print a "Refund Confirmation Form" that requires the signature of the issuing staff, the signature of the customer, the signature of a second staff, and an explanation of the reason for the refund.
- All "Refund Confirmation Forms" will be included with the "Daily Cash Balance" closeout report.

Finding 2: Process to strengthen controls over voided, cancelled and no sale transactions

- All voids, cancellations, and no sale transaction receipts will require the signature of the issuing staff, the signature of a second staff, and an explanation of the reason for the transaction.
- These printed receipts will be attached to the "Daily Cash Balance" closeout report.
- Each Office Supervisor will review the "No Sale" activity report from *Class* at a minimum of one time per month to monitor the frequency of these transactions.
- The cash drawer can also be accessed by key; accordingly, the key will be secured in the administration office and the front desk staff will request the cash drawer key as needed.

Finding 3: Process to strengthen control and accounting for gift certificates

- The gift card module for *Class* will be purchased in the current fiscal year. The module will automate this process and will utilize a declining balance card which will be tracked in the database and eliminate paper certificates and manual tracking.
- In the interim, the inventory of certificates will be reconciled with the number sold and/or redeemed. This will occur on a daily basis for the front desk allotment and on a weekly basis for the master inventory secured in the safe.
- The sales receipt will be attached to the certificate at the time of sale.
- Staff will write "Redeemed" across used certificates and attach them to the "Daily Cash Balance" closeout report.

Finding 4: Process to strengthen control over fitness/flex cards

- The use of pre-numbered log sheets of cards to be sold will be implemented. The practice of hand-written recording of card numbers as they are sold will be eliminated.
- The inventory of cards will be reconciled with the number sold. This will occur on a daily basis for the front desk allotment and on a weekly basis for the master inventory secured in the safe.
- Long term strategies being considered which would eliminate this issue include:
 - Converting to a declining balance card in lieu of a punch card

Finding 5: Process to standardize written policies and procedures for fee collection

- Office Supervisors will review and update the existing Front Desk Manual to include the changes recommended through the audit no later than March 1, 2012. Currently, team members are being retrained.
- Front Desk operating processes will be incorporated into the Recreation Operations Facility manual and will be easily accessible to front desk staff.
- Training will be provided to existing front desk staff no later than April 15, 2012.
- Staff training will be documented.
- Office Supervisors will conduct an annual review of the manual and make changes accordingly.

The entire Parks and Recreation Department appreciates the audit team's efforts to strengthen internal controls over the revenue collection process. The recommendations will be implemented consistently within all six community recreation centers, along with the Williams Farm Community Recreation Center, which opens in September, and I am confident the changes will enhance revenue tracking and reduce the potential for inappropriate activity. If you need any further information, please contact me at 385-1122. Again, thank you for all your help and support.

c: Cindy Curtis, Deputy City Manager
Timothy Bell, Assistant City Auditor
Gretchen Hudome, Assistant City Auditor
Mary Cole, Programming and Operations Administrator
Alice Striffler, Recreation Operations Coordinator
Cathy Staples, Recreation Operations Coordinator