

Internal Audit Service Center

Community Centers Revenue Collection Process Performance Audit

Division of Parks and Neighborhoods
February 7, 2020



INTERNAL AUDIT TEAM

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Credential Key:

ACRONYM	DESIGNATION
CFE	Certified Fraud Examiner
CICA	Certified Internal Controls Auditor
CMFO	Certified Municipal Financial Officer

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**JIM STRICKLAND
MAYOR**

EXECUTIVE DIVISION

February 7, 2020

Mr. Carey Walker, Interim Director
Parks and Neighborhoods
City of Memphis
2599 Avery
Memphis, Tennessee 38112

Dear Interim Director Walker:

We have completed our limited scope performance audit of the community centers revenue collection process. The findings and recommendations contained in this report should assist management in conducting a more effective and efficient operation.

The primary objective of this audit was to evaluate controls over the revenue collection process with respect to accountability, safeguarding and compliance. Our secondary objective was to identify weaknesses impacting the effectiveness and efficiency of the revenue collection process. To accomplish our objectives, we interviewed pertinent management and staff to gain an understanding of the revenue collection process. We reviewed facility rental support documentation and tested Oracle transactional data for select revenue accounts covering the period July 1, 2017 to December 31, 2018. Our scope was limited to the community centers.

Overall, we concluded internal controls over the revenue collection process needs improvement. Revenue streams were improperly accounted for in Oracle, several revenue receipts, including support documentation for facility rentals, was not available for review, and safeguards were not adequate. We also found a significant deficiency with fund raising activities (booster clubs). The following pages provide the details of our findings and recommendations.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those 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. Due to the limited scoping of this engagement, our audit may not necessarily disclose all weaknesses related to the revenue collection process.

City of Memphis – Internal Audit
Parks and Neighborhoods Division
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Our audit process provides management with the option to submit a written response to the draft report for inclusion in the final report; or to submit a written response within 30 days after issuance of the final report. We presented you with the draft report dated January 2, 2020. Management's written response to the draft appears in full text in the appendix of this report. We will evaluate the response and the adequacy of corrective action during a follow-up review.

We appreciate the cooperation of Parks and Neighborhoods management and staff during our audit. If we can be of further assistance, please advise.

Sincerely,



Catrina McCollum, CFE, CICA, CMFO
Project Manager

APPROVED:



Debbie Banks, CFE, CICA, CMFO
City Auditor

- c: Jim Strickland, Mayor
Doug McGowen, Chief Operating Officer
Shirley Ford, Chief Financial Officer
Jennifer Sink, Chief Legal Officer
Chandell Ryan, Deputy Chief Operating Officer
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Tiffany McCollins, Youth and Family Services Administrator,
Parks and Neighborhoods Division
Lewis Burton, Recreation Program Manager, Parks and Neighborhoods Division
Charles Fung, Recreation Program Manager, Parks and Neighborhoods Division

BACKGROUND

The background information provides relevant and pertinent information to assist the reader with gaining a reasonable understanding of the activity under review. Additionally, the information helps to provide the reader with the best possible context for which to understand the nature of audit findings, observations, and recommendations.

The Parks and Neighborhoods Division plays a major role with the involvement of community and neighborhood youth, adults and senior citizens. The community centers offer a variety of classes, programs and events in five core services: health, fitness and wellness services, education development, cultural arts, dance and social development.

The Parks and Neighborhoods Division operates 24 community center facilities. Each community center has a Director and/or Assistant Director and a custodian who are responsible for daily operations. Duties include, but are not limited to: safekeeping and deposit of funds generated for community center activities; maintaining and reviewing required documentation supporting community center activities; forwarding required documentation to the respective Recreation Program Manager (RPM) for further review and approval. The facilities are located throughout the City and are assigned to two RPMs who provide oversight for community center activities. Each RPM is responsible for 12 community centers.

The community centers generate revenue from various revenue streams as noted in Table 1 below. Facility rentals provide a significant source of revenue. All community centers are available to rent for family reunions, banquets, wedding receptions and more. In order to rent a facility, the potential renter completes the rental packet and pays the required rental deposit of \$100 to secure the facility. Acceptable payment method is by cashier's check or money order which must be made payable to *City of Memphis-Park Services*. Applicable rental fees are based upon a tiered pricing model with the facilities classified within four tiers and fees ranging from \$50 to \$125 per hour.

During the audit period (July 1, 2017 through December 31, 2018), revenue from the various revenue streams was as follows:

TABLE 1 – COMMUNITY CENTER REVENUE STREAMS

REVENUE SOURCE	FY18		*FY19	
	BUDGET	ACTUAL	BUDGET	ACTUAL
Class Fees	1,000.04	3,282.00	0.00	2,567.00
Rental Fees	160,000.00	275,197.13	160,000.00	64,030.00
Day Camp Fees	0.00	(200.00)	0.00	0.00
Food Service Revenue	0.00	0.00	0.00	0.00
Local Shared Revenue	45,000.04	43,449.69	45,000.04	0.00
Miscellaneous Income	500.04	7,333.83	500.04	57,753.66
TOTAL	206,500.12	329,062.65	205,500.08	124,350.66

Source: Oracle Appropriation Statement. * FY19 covers the period July 1, 2018 to December 31, 2018

FINDINGS AND RECOMMENDATIONS

OBJECTIVE 1:

To determine accuracy and propriety of revenue receipts.

FINDING 1:

Internal controls over the revenue collection process are not adequate to ensure accuracy and propriety of revenue receipts.

We reviewed the CMEM AR Receipts Information Report (obtained from Finance) and the Oracle Transaction Listing reports for each revenue stream (class fees, rental fees, day camp fees, food service revenue, local shared revenue, and miscellaneous income). We also selected a judgmental sample of revenue transactions from each report to vouch to supporting documentation. Additionally, we performed site visits to select facilities to confirm the existence of and review available supporting documentation, which we attempted to trace to Oracle. Based on our testing we noted the following:

Policy and Procedures Weaknesses

- The Facility Rental Policy does not provide guidance for executing the facility rental process from inception to completion, including, but not limited to completing the facility rental forms, and Oracle revenue posting. There is no consistent practice throughout the community centers.
- We found that the practice for documenting the for-profit (80/20%) activities varied between facilities and RPMs. According to the Facility Rental Policy, entities wishing to rent space for events which are fundraisers and for-profit must remit 20% of the total proceeds to the Recreation Department in addition to the regular tier fee amounts.
 - One RPM stated that cash is accepted for for-profit events and another RPM stated that cash is not accepted.

NOTE: During our exit conference with the RPMs, management stated that they are currently working with the IS Division to implement new software, CivicRec, to manage the revenue generated activities online.

CMEM AR Receipt Information Report – Facility Transaction Testing

- We found exceptions with 98% (92 of 94) of the transactions we selected for testing from the CMEM AR Receipts Information Report. Exceptions included:
 - Documentation not available at the facility at the time of our on-site review. We noted numerous instances where the supporting documentation was not at the community center and/or the Area Office; therefore, we could not validate some transactions.

FINDINGS AND RECOMMENDATIONS

- Missing supporting documentation (i.e., no copy of community center receipt, facility rental payment, bank deposit records, etc.).
- Money Order/Cashier's Check payments not made payable to *City of Memphis-Park Services*. Several monetary instruments were made payable to the various community centers and in various name versions for Parks.
- We were unable to confirm the accuracy of the rental fees for 49% (46 of 94) due to inadequate supporting documentation (not available at the center and/or Area Office, or missing supporting documentation).
- Although the RPMs stated that they monitor the revenue process to ensure revenue was deposited into the City's account, there was no documentation of the monitoring, specifically to look for questionable, unusual or suspicious activity.
- During our testing we noted that the payment method for several transactions was recorded as "cash" on the CMEM AR Receipts Information Report. However, the Revenue and Cash Handling Policies and Procedures state "cash" is not accepted as a form of payment. According to the administrative assistant responsible for posting the receipts in Oracle, all transactions prior to 2018 were entered as cash. The administrative assistant further explained that the practice ceased in 2018 and payments are recorded as "cashier's check" or "money order".

Oracle Transaction Listing Report – Revenue Streams

- During our review of revenue transactions (class fees, rental fees, day camp fees, food services, local shared revenue, and miscellaneous income), we found that several community center receipts could not be traced back to a specific community center. The comment section was left blank in Oracle. Without sufficient information to identify the revenue source, we were unable to confirm accuracy and propriety of those receipts, which impaired our testing.
- We also found that various refunds were processed through the City's check request process and improperly paid from the wrong revenue accounts. For example, food service revenue transactions were largely related to day camp fee refunds.

Class fees

We tested 17 of 88 transactions from the Class Fees Transaction Listing Report and noted multiple exceptions for each, which are summarized as follows:

- Nine transactions could not be traced to a specific community center to conduct on-site transaction testing.

FINDINGS AND RECOMMENDATIONS

- For seven transactions, there was no support documentation available for review at the community center.
- We noted other exceptions, such as activity improperly recorded in Oracle as Miscellaneous Revenue instead of Summer Program/Community Center Fees.

Rental Fees

In addition to the findings noted above in the **CMEM AR Receipt Information Report – Facility Transaction Testing** section, we tested a judgmental sample of 23 of 531 transactions from the Rental Fees Transaction Listing Report. We were able to trace them to the CMEM AR Receipt Information Report, so no additional testing was performed.

Day Camp Fees

We tested the only transaction listed on the Day Camp Fees Transaction Listing Report and found that the supporting documentation was for a facility rental refund totaling \$200, and not for day camp fees.

Food Services

We tested 7 of 14 transactions from the Food Services Transaction Listing Report and found that none were related to food services. All seven were refunds; three for summer camp and four for facility rentals. Based on the Oracle transaction descriptions, the remaining seven also appear to be transactions that were not related to food services.

RECOMMENDATION(S):

- Parks and Neighborhoods management should ensure the written policies and procedures provide adequate guidance for all employees involved in the revenue collection process. The policies and procedures should include, but not be limited to:
 - Detailing specific requirements for Community Center Directors and RPMs for the facility rental process from facility rental initiation to revenue being recorded in Oracle.
 - Ensuring all facility rental packets are complete and accurate with all required documentation prior to approval.
 - Requiring that all support documentation (i.e. facility rental agreement, receipts) is maintained and proper location for maintaining them (community center and/or Area Office).
 - Ensuring staff training for consistent practices regarding the various revenue streams.

FINDINGS AND RECOMMENDATIONS

- Performing routine reviews of revenue receipts to ensure financial information inputted in Oracle is accurate.
 - Specific statements regarding management's expectations for integrity and accountability in revenue collections.
 - A documented reconciliation process to ensure all revenue is being deposited into the City's bank account.
 - Routine site visits (monitoring activity) by RPMs to ensure compliance with established policies and procedures, and to identify questionable, unusual or suspicious activity.
- Parks and Neighborhoods management should periodically review revenue activity to ensure all revenue and refunds are recorded to the proper account. Parks and Neighborhoods management should ensure that all monetary instruments are made payable to *City of Memphis – Park Services*. Management should also ensure that the correct fee is being charged based on the rental tier, timeframe and location.
 - Monitoring activity related to the periodic reviews should be documented in sufficient detail to show dates, activity reviewed, and monitoring results. The following would assist with the monitoring to ensure compliance with the policies and procedures:
 - Scheduling for facility rentals to be maintained in a central location (i.e. Microsoft Outlook Calendar) to provide visibility and a record of all scheduled rental events.
 - Establishing standards to ensure consistency with maintaining documentation at the facilities and/or Area Office.

FINDINGS AND RECOMMENDATIONS

OBJECTIVE 2:

To determine if safeguards related to revenue sources are adequate.

FINDING 2:

Internal controls over the safeguarding of assets needs improvement.

We selected a judgmental sample of community centers 11 of 24 (46%) to conduct on-site observations to evaluate safeguards. We reviewed customer activity reports (security reports) to identify whether any questionable or unusual activity occurred outside normal business hours, such as unauthorized facility openings. We selected a few dates from a sample of customer activity reports to confirm whether adequate documentation existed to support the activity (outside normal business hours). We also selected a judgmental sample of rental documents during our on-site visits and traced them to the customer activity reports to confirm whether the activity was adequately reflected.

Policy and Procedures Weaknesses

- The written Revenue and Cash Handling Policies and Procedures was last reissued in February 2010 and provides specific guidance on the safeguarding of revenues; however, the policy is not consistently followed by staff. For example, the policy states all revenues (checks, cashier's checks, money orders, cash, etc.) must be properly accounted for and secured in a lockable storage area (i.e. drawer, safe, file system, etc.). As noted below in the **On-Site Visits - Discrepancies** section, this procedure was not always followed.
- The policy states the rental security deposits are generally obtained and (held on-site) to offset any required clean-up or damage. Therefore, some security deposits are kept on-site for an extended period, which is high risk for theft or misappropriation. According to the RPM the money orders, cashier's check, etc. are kept on-site and the payee line left blank so that the deposit can easily be returned to the renter.
- The policies and procedures do not provide guidance for resolving/handling customer complaints.
- We did not find any guidance regarding monitoring activity or specific details regarding reviews for unusual or suspicious activity. According to the RPMs, they monitor by reviewing the monthly reports for any suspicious and unusual activity. Once identified, the Community Center Director is contacted to provide an explanation. We found no documented evidence of monitoring specifically related to the customer activity reports (CAR).

FINDINGS AND RECOMMENDATIONS

On-Site Visits - Discrepancies

- We reviewed 65 of 549 CAR dates to confirm the existence of supporting documentation for activity outside normal business hours. We noted 37 exceptions (57%), where facility access was questionable, as summarized in Table 2 below.

TABLE 2 – FACILITY ACCESS OUTSIDE NORMAL BUSINESS HOURS

Questionable Openings/ Closings	# of Exceptions
Facility openings/ closings outside scheduled time	19
Customer Activity Report not available	10
Customer Activity Report does not include open/close activity for date tested	5
Facility was scheduled to be closed (Sunday)	1
No explanation provided for the opening	1
No documentation available to support a facility rental	1
TOTAL	37

- We randomly selected 24 dates from the on-site facility transaction sample testing. 96% of the CARs reviewed did not contain an exception.
- Safeguarding of assets methods utilized by the community centers were not consistent. Revenue and rental deposits were not always located inside a locked device located in a restricted area. We noted the following:
 - 5 of 11 (45%) sites visited did not have a lockable storage area to secure revenue for facility rentals and deposits, as summarized in Table 3.

FINDINGS AND RECOMMENDATIONS

TABLE 3 – INADEQUATE SAFEGUARD OBSERVATIONS

Community Center	Revenue Storage Area	# of Keys to Storage Area	Access to Key
Cunningham	File cabinet in the closet of Multi-purpose room (closet requires key access)	3	Community Center Director Assistant Director Custodian
Ed Rice	Unlocked drawer of file cabinet in the Community Center Director's office	2	Community Center Director Custodian
Gaston	Folder in the back of an unlocked cabinet	4	Community Center Director Other Employees
Hickory Hill	Cabinet in the Community Center Director's office (cabinet does not require key access)	2	Community Center Director Recreation Program Manager
Raleigh	Unlocked drawer of file cabinet in the Community Center Director's office	5	Assistant Director Other Employees

- We found rental security deposits were not always deposited into the City’s bank account in a timely manner.
 - 3 of 11 (27%) community centers had security deposits maintained on-site, as summarized in Table 4.
 - The payee section for each of the money orders were blank, which increases the risk of misappropriation or theft. The policy states that “all checks, cashier’s checks, and money orders are to be made payable to City of Memphis – Park Services”. Additionally, the policy instructed staff to not accept if the Payee Line is not filled in.

FINDINGS AND RECOMMENDATIONS

TABLE 4 - LIST OF SECURITY DEPOSITS MAINTAINED ON-SITE

Community Center	Deposit Amount	Date Deposit Paid / Date of Monetary Instrument	On-Site Visit Date	Event Date	Payee
Hickory Hill	\$100.00	4/25/2019	8/13/2019	10/26/2019	Blank
Raleigh	\$100.00	1/7/2019	7/22/2019	7/26/2019	Blank
	\$100.00	1/14/2019	7/22/2019	7/27/2019	Blank
	\$100.00	6/10/2019	7/22/2019	7/7, 7/14, 7/21, 7/28/19	Blank
	\$100.00	7/12/2019	7/22/2019	8/4/2019	Blank
Whitehaven	\$100.00	7/8/2019	7/16/2019	8/3/2019	Blank

NOTE: During our exit conference with the RPMs, management stated that effective October 2019, all rental deposits were being deposited into the bank.

- Only 1 of 11 (9%) had signage stating that the community center does not accept cash (Cunningham). Although no cash was discovered during the on-site visits, signage is important to inform citizens of acceptable payments. We could not confirm that the acceptance of cash was a prohibited practice for community center personnel. Based on our interviews, we believe that cash is accepted for various functions (i.e. for-profit rentals).
- According to the Community Center Directors that we visited, there was no documented process in place to resolve customer complaints. Establishing and implementing a clearly defined process for handling and resolving complaints is imperative to the day-to-day operations of the community centers.

Fundraising Activities (Booster Clubs/Advisory Boards)

- Although we found a written Support Group Fund-Raising Policies and Procedures Manual, the Community Center Directors that we interviewed were not aware of the guidance regarding booster club activity.
- Five of 11 (45%) community centers we visited had active booster clubs (Bert Ferguson, Cunningham, Hickory Hill, Raleigh, Whitehaven). We noted the following internal control weaknesses regarding booster club activity:

FINDINGS AND RECOMMENDATIONS

- Hickory Hill has two booster clubs. Periodically, purchases were made by community center employees, and they were reimbursed by the booster club president. The operation of two separate booster clubs increases the likelihood of improper and unauthorized fundraising activity.
- Bert Ferguson community center employees were involved with the booster club and assisted with functions sponsored by the booster club.
- As a result of our previous investigation of the Bert Ferguson community center, Internal Audit has contacted Legal for guidance to ensure proper oversight of booster club/ advisory board activity.

Vending Machines

- Most of the community centers maintain vending machines that were serviced by a third party. According to Community Center Directors, the third party was responsible for replenishing the vending machines and removal of funds. Funds from the vending machines were mailed back to the facility from the third party. We found no policies and procedures that provide guidance for revenue generated from the vending machines. We found:
 - Cunningham – Fifteen checks from 2016 and 2017 were on-site and stored in a desk drawer. The checks totaled \$453.26. According to the Community Center Director, the checks for 2019 had been given to a booster club representative and deposited into the booster club’s bank account.
 - Ed Rice – One vending machine check was on-site. According to the Community Center Director, the checks are mailed to the community center and forwarded to the RPM for deposit.
 - Raleigh – Although the community center did not have any vending machine checks on-site, according to the Community Center Director, the vending machine checks are given to a booster club representative.

RECOMMENDATION(S)

- Parks and Neighborhoods management should develop written detailed procedures that include all aspects of the safeguarding assets. The procedures should include but not be limited to:
 - Ensuring all revenue and or deposits received are properly secured in a safe, cabinet, or drawer which is only accessible by combination, key, or lock and key. The location should be restricted to prevent unauthorized access.

FINDINGS AND RECOMMENDATIONS

- Establishing a formal process of handling complaints from citizens. The process should also ensure unusual, questionable, or suspicious activity denoted from complaints is communicated to Director and/or Internal Audit for formal investigation.
- Establishing a written policy to address vending machine receipts. The policy should be reviewed, evaluated, and if necessary revised to ensure all proceeds from vending machine sales are properly deposited into the City's bank account. This will also mitigate the risk associated with possible misappropriation of vending machine proceeds.
- Parks and Neighborhoods management should formally document monitoring activity of the monthly Customer Activity Reports. All unusual openings and closings should be investigated. The resolution of exceptions identified during the monitoring activity should be documented via email and retained with the applicable reports(s) for future reference. In addition, RPMs should document the results of periodic unannounced site visits to monitor compliance with policies and procedures.
- Parks and Neighborhoods management should ensure all cashier's checks and money orders are made payable to *City of Memphis – Park Services*. During management's review of community center deposit activity, they should specifically look for payments with blank payees and other unusual and questionable activities.
 - Staff should be notified of noncompliant activity (blank payees, etc.) and/or disciplined for noncompliance.
- Additionally, management should consider applying the rental deposit to the rental balance. This should also minimize the risk associated with possible misappropriation of funds.

FINDINGS AND RECOMMENDATIONS

OBJECTIVE 3:

To evaluate internal control weaknesses that impact effectiveness and efficiency of the revenue collection process.

FINDING 3:

Controls over the revenue collection process needs improvement.

Effective controls over revenue collection include, but are not limited to written policies and procedures; adequate segregation of duties; and supervisory reviews. Based upon our evaluation of the community center revenue collection process, we noted the following elements of effective controls:

- Community Center Director submits rental support documentation to Recreation Program Manager and Deputy Director for approval.
- Community Center Director provides renter with receipt regarding the facility rental.
- Responsibility of inputting community center revenue into Oracle is separate from the personnel that receives the community center revenue.

However, we noted a material weakness related to monitoring. There was no documented evidence of monitoring to ensure facility rental revenue was deposited into the City's bank account, compliance with established policies and procedures, and unusual and suspicious trends. Although the Recreation Program Managers state that monitoring of revenue was conducted, we found no evidence.

Additionally, we found that as of June 10, 2019, there are two RPMs to oversee 24 community centers (12 community centers each). The reduction of RPMs can negatively impact their ability to ensure consistency, accuracy, and completion of tasks and monitoring. Additionally, this hampers adequate oversight.

Lack of adequate monitoring helped to precipitate the fraudulent activity that we investigated at Bert Ferguson Community Center.

Bert Ferguson Community Center Investigation Results

- During a previous investigation, we found that funds from community center activities was improperly deposited into the booster club/ advisory board account.

FINDINGS AND RECOMMENDATIONS

- We found no approval documentation from Parks Division management that authorized City funds to be deposited into the non-City account.
- We identified questionable payments made to community center employees for work provided for community center rentals. However, we did not find sufficient documentation to justify the work or pay rate.
- We found customers were instructed to make their cashier's checks and money orders made payable to the community center instead of City of Memphis.

RECOMMENDATION(S):

Parks and Neighborhoods management should perform routine site visits to monitor significant operational tasks to ensure employees are following prescribed routines, and to identify unusual, questionable or suspicious activity such as monetary instruments with missing payees, activity without proper support documentation, etc. Monitoring activity should be documented in sufficient detail to show dates, activity reviewed, and monitoring results, to provide evidence of monitoring.

Policies pertaining to booster clubs/ advisory boards should be reviewed for adequacy and revised accordingly. We recommend that management work closely with Legal to ensure the policies allow adequate oversight of booster club/ advisory board fund raising activities.

APPENDIX

Response from Interim Director of Parks & Neighborhoods



JIM STRICKLAND City of Memphis
MAYOR Internal Audit

DIVISION OF PARKS & NEIGHBORHOODS

TENNESSEE

February 6, 2020

Debbie Banks, CFE, CICA, CMFO
City of Memphis
City Auditor

RE: Response from Interim Director Nick Walker

The Parks and Neighborhoods Division appreciates the due diligence related to the investigation of the community center revenue collection process from July 1, 2017 to December 31, 2018. The Parks and Neighborhoods acknowledges the need for measures to be taken regarding the accountability, safeguarding and compliance of our revenue collection process identified.

Parks and Neighborhoods management will ensure that written policy and procedures provide adequate guidance for all employees involved in the revenue collection process. The policy and procedure set forth will be implemented and adhered to moving forward by all personnel involved in the revenue collection process.

I look forward to our continued collaborations for best practices and process improvements.

Nick Walker
Interim Director of Parks and Neighborhoods
City of Memphis