

Audit Report

Parks and Recreation Department Cash Handling

March 2017



Parks and Recreation Department (PARD) staff made efforts to comply with the City's cash handling policies. However, several issues resulted in an increased risk that PARD may be missing revenue. Additionally, inconsistent oversight of cash handling operations resulted in a lack of compliance with the City's cash handling policy. However, in some cases, not following the policy requirements seemed to be justified. In other cases, efforts to comply with the policy requirements seemed to result in inefficiencies.

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Cover: Barton Springs Pool, City of Austin.

Objective

The objective of the audit was to determine if the Parks and Recreation Department (PARD) accounted for all the money it received. This audit was included on our FY2016 Audit Plan after PARD and City Auditor staff identified risks related to cash management in prior audits and investigations.

Background

PARD operates a wide range of facilities used by Austin residents and visitors including pools, museums, golf courses, and recreation centers. Over 50 of these sites charge visitors entrance or usage fees. Fees vary among sites and in some cases change depending on the time of year or other factors. For example, entrance fees at City pools vary depending on the visitor’s age and whether they reside in Austin. Also, pools that stay open during the winter months do not charge a fee during this time. Most sites accept all forms of payment, although some pools do not accept credit cards. PARD reported revenue of around \$20 million per year from their facilities between Fiscal Years 2012 and 2016.

Although “cash” commonly refers to paper money and coins, City policy uses it to refer to all forms of payment including checks and credit cards.

The City has established a policy for handling payments. The City’s policy outlines responsibilities for department directors, cash handlers, and the Financial Services Department. Specific procedures address things like receiving and depositing money, and reconciling transactions. The City’s policy also requires that all employees who handle money receive cash handling training. PARD’s policy mirrors the City policy. PARD’s Aquatics Division has additional procedures specific to pool operations.

What We Found

Summary

PARD staff made efforts to comply with the City’s cash handling policies. However, several issues resulted in an increased risk that PARD might be missing revenue including incomplete data, technology issues, and the continued acceptance of paper money. While some PARD sites are taking steps to reduce the amount of paper money they collect, this could also create challenges that must be addressed. Additionally, inconsistent oversight of cash handling operations resulted in a lack of compliance with the City’s cash handling policy. We also noted opportunities to better align policy requirements with the different operating environments at the various PARD sites. For example, in some cases, not following the policy requirements appeared to be done for justifiable reasons. In other cases, efforts to comply with the policy seemed to result in inefficiencies.

Finding 1

Incomplete data, technology issues, and the continued acceptance of paper money increase the risk that PARD may be missing revenue.

PARD cannot verify how much money it should have collected due to issues capturing the number of visitors and amounts charged.

Various issues increase the risk that PARD may not fully account for all of the revenue it receives. In some cases, this is because PARD lacks the data to know how much revenue it should have collected. In other cases, the technology used by PARD creates opportunities for money to be stolen by cashiers. Lastly, PARD may be increasing its risk of loss by continuing to accept paper money.

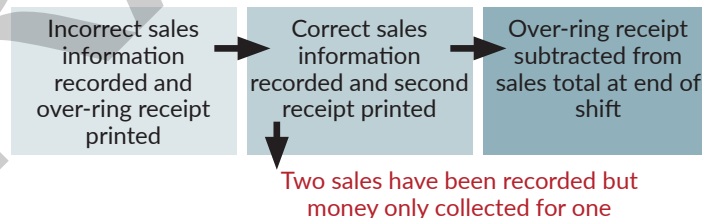
Incomplete Data

As noted in a previous audit,¹ many PARD sites cannot determine the number of daily visitors. This means that PARD cannot verify how much money it should have collected at these sites. Supervisors at these sites can only compare the number of visitors recorded with the amount of money collected. The supervisors cannot determine if visitors were allowed to enter without paying, or if cashiers collected money from a visitor but did not record it. Additionally, we noted instances at a City pool where the cashier did not verify the age or address of visitors. Since these factors determine how much the visitor should have paid, PARD is unable to determine if the correct fees were charged and collected.

Technology Issues

City pools that take payments also have an increased risk because of their cash registers. These registers cannot void sales, so if a cashier incorrectly enters information (i.e. the number of people in a group) it is automatically recorded as a transaction. When this happens, cashiers are instructed to record a second sale with the correct information. The first incorrect sale is called an “over-ring.”

Exhibit 1: PARD's Over-ring Process



SOURCE: OCA analysis of over-ring process, November 2016

At the end of each shift, PARD policy requires that cashiers document their over-rings along with a reason for the error(s). The over-ring amount(s) are then subtracted from the day's sales totals. However, these procedures could easily be used to hide a theft of money.

PARD procedures could easily be used to hide a theft of cash.

Records reviewed from one pool indicated over-rings happened nearly every day in some months of 2016. Many of those over-rings were for hundreds of dollars and several totaled nearly \$1,000. Although PARD staff stated that such over-rings might trigger an internal cash audit, there was no record of such an audit during 2016.

¹ Parks and Recreation Department Resource Allocation Audit, published in September 2016.

Acceptance of Paper Money

A paper published by the National Bureau of Economic Research notes that “it is appropriate to consider the costs and benefits to a more proactive strategy for phasing out the use of paper currency.” McKinsey & Company, a well-known management consulting firm, notes that paper money “exact[s] an invisible but very real cost on...government budgets” because it must be safeguarded and processed.

Industry research indicates that phasing out paper currency could reduce costs.

As noted in Exhibit 2, nearly 50% of all payments at a sample of PARD sites were made with paper money/coins. However, that figure drops to about 20% if municipal pool revenue is excluded. This is because municipal pool revenue is primarily paper money.

Exhibit 2: Sources of Revenue for Three Months at Select PARD Sites

| | Paper Money | Checks | Credit Cards |
|-----------------------------------|-------------|------------|--------------|
| Museums and Environmental Centers | 14% | 26% | 60% |
| Recreation Centers | 6% | 72% | 22% |
| Golf Courses | 22% | 12% | 66% |
| Pools | 84% | - | 16% |
| TOTAL | 48% | 12% | 40% |

SOURCE: OCA analysis of FY 2016 revenue records for February, July, and October at select PARD sites, November 2016

Some PARD sites appear to be taking steps to reduce the amount of paper money collected, including some pools. For example, Barton Springs Pool recently installed two pay stations that allow visitors to pay entry fees with credit cards. However, infrastructure issues at other sites may limit PARD’s ability to reduce the amount of paper money they accept. For example, at one recreation center, staff noted that they recently stopped accepting credit cards due to issues with the site’s phone line. According to staff, some visitors were frustrated with this change and began using other recreation centers instead. Staff at this site are in the process of having another phone line installed to alleviate this issue. PARD staff also said that Deep Eddy Pool’s historical designation has made it hard to install credit card machines.

Barton Springs Pool recently installed two pay stations that allow visitors to pay entry fees with credit cards.

Through technology, PARD could reduce or eliminate the acceptance of paper money, but management would have to consider the needs of visitors who may have limited payment options. Examples include accepting payments by mobile app or at pay stations, including those that accept paper money. As shown in Exhibit 3, there are both benefits and challenges that could come with such a change.

Exhibit 3: Benefits and Challenges to Reducing Acceptance of Paper Money

| <u>Benefits</u> | <u>Challenges</u> |
|---|---|
| Fewer resources spent storing, transporting, and depositing | Some visitors may have no other payment option |
| Reduced risk of theft or robbery | Additional credit card processing fees |
| Additional resources available for operational needs | Increased risk associated with securing credit card information |
| Reduced training need | |

SOURCE: OCA analysis of cash handling operations, November 2016

Finding 2

PARD sites do not fully comply with the City's cash handling policy largely due to inconsistent oversight and the policy may not fully address differences among PARD operations.

A list of cash handlers helps management know who is authorized to handle cash at their sites and which employees require training.

29% of PARD staff identified as cash handlers may not have taken the required cash handling training.

Required cash handling practices and paperwork may not be receiving management oversight and action.

Our work indicated that PARD staff made efforts to comply with policies and we did not identify any instances of theft or misuse during the audit. However, none of the sites tested fully complied with all requirements of the City's cash handling policy. The most common compliance issues included:

- cash handlers without required training;
- shared cash registers which makes it harder to track accountability; and
- deposit records not verified by all required parties.

While we noted several issues related to inconsistent oversight of cash handling, we also noted opportunities to better align policy requirements with the different operating environments at the various PARD sites. In some cases, not following the policy requirements appeared to be done for justifiable reasons. In other cases, efforts to comply with the policy seemed to result in inefficiencies.

Cash Handlers

City policy requires the Financial Services Department to maintain a list of all departmental cash handlers. However, Financial Services Department staff did not appear to be aware of this policy requirement and were unable to provide a complete list of PARD cash handlers. Early in this audit, we were unable to obtain a complete list of cash handlers from PARD staff, but they did provide a list to the Financial Services Department in January 2017.

PARD's Financial Services Division is responsible for ensuring that PARD staff who handle cash take the required training. However, PARD's Aquatics Division manages its own cash handling training and the Financial Services Division did not have these records. There were also inconsistencies among training records maintained by PARD and the Financial Services Department.

Additionally, staff at PARD sites identified 55 employees who handled cash. However, our review of training records showed that 16 of those employees (29%) did not appear to have taken the required cash handling training. Employees who do not receive training may not be aware of how to appropriately safeguard the money they collect.

Cash Register and Deposit Issues

Additionally, we noted several instances of shared cash registers and inaccurate cash register reports which makes it harder to track who is accountable for any issues. We also noted issues with missing deposit slips and site deposit records. These records are prepared by the individual sites and then sent to PARD's Financial Services Division for review and storage. Multiple records from the previous year did not include verification from two people as required by policy. Although the records appeared to have been reviewed, it does not appear that the lack of dual signatures had been identified or addressed.

PARD Financial Services does not plan cash audits based on a site's opportunity for loss.

PARD Cash Audits

Although PARD's Financial Services Division conducts cash audits at various sites, the audits are not planned based on a site's opportunity for loss. For example, one site is scheduled for three audits per year based on high annual revenue. However, most of this site's revenue is from credit card payments and less than 10% is from paper money. Another site is only scheduled for one audit per year even though nearly 30% of its revenue is from paper money. PARD staff stated they were changing the audit schedule to address more opportunity for loss, but this had not been documented or implemented at the time of this audit.

Opportunities to Align City Policy

In some cases, non-compliance with the City's cash handling policy may have reduced risks for PARD sites. For example, one site often collected more than \$500 each day during the weekend, but did not deposit the funds each day as required by policy. Instead, staff secured the money in an on-site safe monitored by video cameras and deposited the money on the following Monday. Compliance with the policy would have required staff to make deposits at a predictable time each night, increasing the risk of robbery. Additionally, staff was able to get a receipt from the bank rather than putting the deposit into an after-hours dropbox. This helped ensure that deposits were accurately recorded.

Conversely, we noted cases where compliance with the policy may have led to inefficient use of staff time and City funds. For example, one site did not collect much revenue, but made deposits according to City policy. As a result, around 7% of the site's roughly 150 deposits were for less than \$20. This amount is less than the minimum hourly pay for the supervisor at this site. Considering the amount of time it takes to prepare the deposit, travel to and from the bank, and review paperwork, it likely cost PARD more money to make these deposits than was actually deposited.

Establishing a minimum deposit amount could significantly reduce time and resources dedicated to making deposits.

If City policy established a minimum deposit amount of \$500, the site noted above would have made only 68 deposits. This is a reduction of more than 50% of staff time and PARD resources dedicated to making deposits. It also represents the same reduction in creating, processing, reviewing, and storing deposit-related paperwork. As shown in Exhibit 4, other PARD sites would have had similar results, with possible resource savings of up to 70%.

Exhibit 4: Some PARD Sites May Have Made More Deposits Than Necessary

| | # of deposits in FY16 | # of deposits if minimum amount established | % reduction in deposits |
|--------|-----------------------|---|-------------------------|
| Site 1 | 87 | 26 | 70% |
| Site 2 | 149 | 68 | 54% |
| Site 3 | 43 | 23 | 47% |

SOURCE: OCA analysis of FY2016 deposit records for February, July, and October at select PARD sites, November 2016

Since the City's Cash Handling Policy was written in 1992 and updated in 2008, it may not reflect current cash handling practices at PARD. Department directors can modify the cash handling policy procedures with the approval of the City's Financial Services Department. PARD management asserted that they have discussed modifications to the policy with Financial Services Department staff, but were told that modifications to the policy were not allowed.

Additional Observation

While this audit focused on cash handling at the Parks and Recreation Department, there may be opportunities for other City departments to review their cash handling practices for efficiency and effectiveness improvements and engage with Financial Services Department staff. It could also benefit the City's Financial Services Department to review policy requirements in order to address current gaps and better align needed financial controls with changing City operations.

DRAFT

Recommendations and Management Response

- 1 | The PARD Director should identify ways that technology and/or process changes can be used to independently determine expected revenue at PARD sites and eliminate the need for the “over-ring” practice at municipal pools.

Management Response: Agree

Proposed Implementation Plan: The Parks and Recreation Department (PARD) is collaborating with the Austin Transportation Department to increase the installation and distribution of pay stations that accept cash, as well as, credit cards at municipal pool sites. The Aquatics staff and supervisors will be provided additional training on the importance of avoiding “over-rings.” Also, the expected increase in use of pay stations will reduce cash register errors. PARD is also exploring the option of installing more credit card terminals system-wide to reduce the amount of cash being handled and to improve the safety of those handling the cash. Other solutions are being explored subject to adequate funding/resource redistribution. When additional resources become available, increased managerial oversight of “over-rings” will be implemented.

Card reading turnstiles, e-ticketing, people-counters and other options are being explored with Communications and Technology Management (CTM) to improve the recording of attendance that can be directly traced to fees charged and projected revenue. All technology changes are dependent upon adequate funding/resource redistribution.

Proposed Implementation Date: June 30, 2018

- 2 | The PARD Director should identify ways that technology and/or process changes can be used to reduce or eliminate the acceptance of paper money at a department or site level.

Management Response: Agree

Proposed Implementation Plan: Plans are underway to streamline the credit card handling capabilities at PARD facilities, as well as adding credit card processing at more sites. The Department's top priority is to add credit card processing at City swimming pools where an entrance fee is charged. The Parks and Recreation Department (PARD) is collaborating with the Austin Transportation Department to increase the installation and distribution of pay stations that accept cash, as well as, credit cards at municipal pool sites.

PARD is also investigating having PARD personnel equipped with hand-held units that scan barcode entrance slips at the entrance to pools, special events, etc. These entrance slips can be generated by users at home, through online purchase; at kiosks mounted outside of pool and other facilities; and over the counter at various sites. These hand-held units can also be used by summer camp personnel to “check in” participants each morning to provide an accurate count of attendees and traceable record each day. These units would also serve as cell phones for emergency purposes.

Proposed Implementation Date: June 30, 2018

3

The PARD Director should take steps to improve oversight of the department's cash handling operations. This should include, but not be limited to:

- a) maintaining a single list of all department cash handlers and providing this list to the Financial Services Department;
- b) ensuring all department cash handlers take required cash handling training;
- c) ensuring cash handling policies are followed; and
- d) developing and implementing a risk-based audit plan.

Management Response: Agree

Proposed Implementation Plan:

- a) PARD maintains a single list of employees who have taken cash handling training either in person or online. PARD provided the most current Cash Handlers list to Financial and Administrative Services Department on January 24, 2017, and will continue to provide the most current list twice a year (June and December). PARD is currently developing an online process by which Division Managers will be given access to the electronic database to review, update, and verify on a quarterly basis.
- b) PARD Human Resources Division will provide a list of New Hires identified as cash handlers monthly to PARD-Financial Services Division. This will enable PARD-Financial Services Division to cross reference and track staff who require cash handling training.
- c) PARD will diligently adhere to the cash handling policies, and a copy of the Department's current list of cash handlers will be provided to the Financial and Administrative Services Department twice a year. During cash handling training, PARD will continue to emphasize the requirement and importance of having two signatures on all cash receipt documents that are turned into PARD-Financial Services Division for processing.
- d) A new and improved cash audit plan will be implemented with a focus on high-risk sites, which will be determined by cash payments taken in person. The Department is changing our cash audit matrix to "currency collected based," instead of "revenue based," and will implement this matrix for the FY 2017 cash audits. PARD has researched best practices in the development of audit plans. As a result, PARD will also consider other risk-factors in developing the audit plan, such as, the number of temporary workers, the presence of on-site managers or cameras and cash handlers who never take vacation.

Proposed Implementation Date: March 31, 2017

4

The PARD Director should work with the Financial Services Department to develop and implement cash handling procedures that take into account the specific practices and environments of the various PARD sites that collect revenue.

Management Response: Agree

Proposed Implementation Plan: As recommended, PARD-Financial Services Division will work collaboratively with the City of Austin Controller's Office on modifications to PARD cash handling procedures to align these procedures with PARD's business needs.


Proposed Implementation Date: September 30, 2017

Management Response



MEMORANDUM

TO: Corrie Stokes, CIA, CGAP, CFE, Auditor
Office of the City Auditor

FROM: Sara L. Hensley, CPRP, Director
Austin Parks and Recreation Department 

DATE: February 13, 2017

SUBJECT: Parks and Recreation Department Cash Handling Audit Report - Management Response

The Parks and Recreation Department appreciates the opportunity to respond to the “*Cash Handling Audit Report*,” dated February, 2017.

Audit Recommendations

1. *The Director should identify ways that technology and/or process changes can be used to independently determine expected revenue at PARD sites and eliminate the need for the “over-ring” practice at municipal pools.*
2. *The Director should identify ways that technology and/or process changes can be used to reduce or eliminate the acceptance of paper money at a department or site level.*
3. *The Director should take steps to improve oversight of the department’s cash handling operations. This should include, but not be limited to*
 - a. *maintaining a single list of all department cash handlers and providing this list to the Financial Services Department;*
 - b. *ensuring all department cash handlers take required cash handling training;*
 - c. *ensuring cash handling policies are followed; and*
 - d. *developing and implementing a risk-based audit plan.*
4. *The Director should work with the Financial Services Department to develop and implement cash handling procedures that take into account the specific practices and environments of the various PARD sites that collect revenue.*

Management Response

The Department agrees with the report findings and recommendations. Staff is working diligently on the attached proposed strategies for implementation.

Should you have any further questions or require additional information, please contact my office at (512) 974-6717.

Cc: Bert Lumbreras, Assistant City Manager
Angela Means, Acting Assistant Director, Austin Parks and Recreation Department

Attachment

Scope

The audit scope included PARD's cash management activities for Fiscal Year 2016 to date.

Methodology

To accomplish our audit objectives, we performed the following steps:

- reviewed City and PARD policies and procedures related to cash handling;
- interviewed PARD staff;
- observed cash handling practices at seven PARD sites;
- reviewed deposit records for eight PARD sites;
- evaluated the risks for fraud, waste, or abuse related to PARD's cash management; and
- evaluated internal controls related to cash management.

Audit Standards

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.

The Office of the City Auditor was created by the Austin City Charter as an independent office reporting to City Council to help establish accountability and improve City services. We conduct performance audits to review aspects of a City service or program and provide recommendations for improvement.

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