



## CONTROL SELF-ASSESSMENT

### RECREATION DIVISION

## INTERNAL CONTROLS OVER

### CASH COLLECTIONS

Date: December 6, 2004

Report No. 05-07

## CITY OF ORLANDO

### OFFICE OF AUDIT AND EVALUATION

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# CITY OF ORLANDO

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## MEMORANDUM

To: Byron W. Brooks, Families, Parks & Recreation Department Director

From: Beryl H. Davis, CPA, CGFM, Audit and Evaluation Director

Date: December 6, 2004

Subject: Control Self-Assessment - Recreation Division Internal Controls over Cash Collections (Report No. 05-07)

The Office of Audit and Evaluation has performed a Control Self-Assessment (CSA) of the internal controls over cash collections in the Recreation Division of the Families, Parks & Recreation Department. The purpose of the CSA was to facilitate the Recreation Division's own assessment of its internal controls over cash.

This CSA is considered a "non-audit service" as defined by generally accepted government auditing standards and, therefore, such standards were not followed. Our activities included a review of relevant City policies and procedures, inquiries of City staff, review of other jurisdictions' CSA processes and the development of a Powerpoint training guide on internal controls for use by Families, Parks and Recreation management.

We encourage the Recreation Division to periodically perform a self-assessment process by updating and utilizing the training guide to help managers and staff to "continuously" determine the improvements needed to enhance the Division's internal controls over cash collections.

BHD/am

c: Honorable Buddy Dyer, Mayor  
Jose I. Fernandez, Jr., Chief of Staff  
Joseph Robinson, Deputy Chief of Staff  
Richard L. Levey, AICP, Chief Administrative Officer  
Marcia R. Bowen, Interim Recreation Division Manager  
Denise Aldridge, Families, Parks and Recreation Fiscal Manager

## **BACKGROUND**

The Recreation Division is a subdivision of the Families, Parks & Recreation Department. A Division Manager oversees five area managers. Three of the area managers are each in charge of several recreation and/or community centers, one manages athletics and aquatics, and the other handles the cultural arts and educational programs.

The employees of each recreation or community center are charged with many duties, including the collection of cash and checks for the various fees charged by the City for its recreation programs. The number and amount of collections made each day varies, but Division-wide the collections made in the recreation and community centers equated to \$1,926,316 in FY 2003-04. One of the most important business processes of the Recreation Division is the efficient and effective collection, reporting and depositing of cash and checks.

This is the first CSA performed by Audit and Evaluation, and it was performed at the request and with the support of the Families, Parks & Recreation Director. We chose to assess the Recreation Division's cash controls because proper controls over cash are fundamental to the success of this division.

During the course of this review, Recreation Division Manager Emery Hamilton passed away. We wish to acknowledge the efforts of Mr. Hamilton to improve the operation of the City's Recreation Division and his support of this Control Self-Assessment process.

## **OBJECTIVES, SCOPE AND METHODOLOGY**

**Objectives** The purpose of the CSA was to facilitate the Recreation Division’s assessment and improvement of its internal controls over cash collections at its Recreation and Community Centers through a unique communication and education project.

**Scope** The focus of the CSA was the internal controls over cash collections, reporting and deposits of the Recreation Division of the Families, Parks & Recreation Department.

**Methodology** After inquiring about other jurisdictions’ CSA processes, we composed an Internal Control Questionnaire and held sessions with Center Supervisors in each area to complete the questionnaire. We then observed operations at selected Centers and reviewed relevant City policies and procedures, in addition to the draft of the Division’s new internal policies and procedures. The most important controls over cash were identified and summarized into a Powerpoint training tool.

This Control Self Assessment is considered a “non-audit service” and therefore, is not subject to generally accepted government auditing standards.

## **WHAT IS A CONTROL SELF-ASSESSMENT?**

A Control Self-Assessment (CSA) is an alternative to the typical internal audit where, instead of conducting tests and observations, the auditor facilitates a process whereby the managers and employees of an entity perform an examination of the entity's business processes. The primary focus of a CSA is to review and assess an entity's system of internal control. An internal control is defined as any action taken by management to enhance the likelihood that established objectives and goals will be achieved. Toward this end, the management of an entity plans, organizes and directs the performance of sufficient actions to provide reasonable assurance that such objectives and goals will be achieved. The primary objectives of internal control are to ensure: the reliability and integrity of information; compliance with policies, plans, procedures, laws, regulations, and contracts; the safeguarding of assets; and the economical and efficient use of resources.

CSA is a methodology that provides a useful and efficient approach for managers and internal auditors to collaborate in assessing and evaluating internal control procedures. It integrates business objectives and risks with control processes. CSA is a process that allows management and work teams to participate in a structured manner for the purpose of identifying risks and exposures, assessing the control processes that mitigate or manage those risks, developing action plans to reduce risks to acceptable levels, and determining the likelihood of achieving the business objectives. While a complete CSA process would include all of these areas of review, managers could choose to concentrate the CSA on one or more areas.

In addition to the direct examination of internal controls by those most responsible for them, self-assessment methodologies motivate staff to take "ownership" of the control processes in their units and the corrective actions taken by them are often more effective and timely. Through this process staff becomes trained and experienced in assessing risks and associating control processes with managing those risks and improving the chances of achieving business objectives. Further, the entire objectives-risks-controls infrastructure of an organization is subject to greater monitoring and continuous improvement.

# **THE CONTROL SELF-ASSESSMENT PROCESS**

## **Processes in Other Jurisdictions**

In order to design our CSA process, we researched what other government auditors are doing in this area. We found several processes but narrowed our detailed look to three governments: Maricopa County, Arizona; Cornell University; and the University of Texas. We gathered information on these processes to help design a process that would be effective for the City of Orlando.

Maricopa County has developed three CSA workshops that they present to targeted groups of County employees. One of these workshops focuses on cash handling. In the first part of the workshop, employees are educated on internal controls and what basic controls should exist within their departments and functions. They then assess their operations and develop an action plan. We found that, after an initial round of workshops held in each department, Maricopa County now holds two workshops per year in selected departments. The workshops include group exercises, case studies, and participant workbooks.

Cornell University has developed a CSA Guide that was created to provide a central reference to generally accepted management policies and procedures for all staff in establishing and maintaining effective internal controls. Many internal controls must be administered at the department level. Therefore, each department has a guide with the following sections: Purpose, Overview, Internal Controls, Related Policies and Guidelines, Resources for Help, and Control Checklist.

The University of Texas is committed to providing internal control training to its employees. A workshop was developed to teach departments about controls and how to conduct a self-assessment. The University of Texas CSA workshop is designed to facilitate a department's self-assessment of internal control over operations, financial reporting, and compliance activities. The workshop is a presentation of internal control concepts and applications and includes such things as: definition of internal control, the control environment, case studies, risk/control worksheets, and internal control questionnaires.

## **The City of Orlando Process**

After inquiring about other jurisdictions' CSA processes, we developed the following methodology for the CSA of the Recreation Division's Internal Controls over Cash Collections. First, we composed an Internal Control Questionnaire for the cash collection function that we could use as a model for the necessary internal controls over cash collections. Second, we held a session with the Recreation/Community Center Supervisors from each of the three regional areas of the Recreation Division. These supervisors represented the following recreation centers and sites: Dover Shores, Colonialtown, Engelwood, Reeves Terrace, Citrus Square, Beardall, Jackson, L. Claudia Allen, Wadeview, Callahan, Northwest, Loch Haven, Hankins Park, Smith and Ivey Lane.

During these sessions, we asked each group each question from the Internal Control Questionnaire to initiate a discussion among the Center Supervisors about the internal controls at the Centers under their purview. For some questions, we found the answers to be relatively uniform among the Centers; for others, we received significantly different responses. We documented the areas that we noted internal controls were successful and the areas where we believed that improvements could be made.

In the third step of our methodology, we observed the operations at selected Centers to ascertain the accuracy of what we learned during the discussion of the Internal Control Questionnaire; in effect we determined if internal controls were operating as reported during these discussions.

Fourth, we reviewed relevant City policies and procedures and a draft of the Division's new internal policies and procedures, which at that time was being written by a committee of Center Supervisors. After this process, we finalized our identification of the Division's effective controls over cash collections, as well as others that could be improved.

Finally, we designed and presented two Powerpoint presentations. The first presentation (see Exhibit A), which outlined the CSA process and summarized our conclusions, was presented to the Families, Parks and Recreation Director and his

management staff to update them on the CSA project. The second presentation (see Exhibit B) is a tool that can be utilized by Recreation Division managers and staff during their training sessions. It introduces the concept of internal controls and their importance. It also outlines what we believe are the most important internal controls over the Recreation Division's cash collections processes. We have shown this second Powerpoint presentation to the Families, Parks and Recreation Director, the department's Fiscal Manager and an Area Manager of the Recreation Division and have encouraged them to utilize the presentation as a training tool for both current and new staff. We also hope that the Recreation Division can use the presentation to periodically review the current system of internal control to ensure that it continues to meet division needs and encourages staff to remain aware of possible control weaknesses that should be reported to management for resolution.

## **CONTROL SELF-ASSESSMENT RESULTS AND FUTURE ACTIONS**

We found that the Recreation Division has in place a number of good controls, most noteworthy that it has recently written a complete set of internal policies and procedures to guide Recreation staff in the performance of their duties at the Recreation Centers. We also observed that all Centers secure cash and checks in safes or strongboxes until they can be deposited; to help ensure that every transaction is recorded, the Centers have signs asking customers to call a number if they do not receive a receipt; and voided transactions require management approval and leave an audit trail.

We also noted several areas where controls over cash could be enhanced. It is very important to utilize the newly written internal policy and procedure manual to its fullest extent by making every Center staff member aware of its existence and significance. Staff members should know that this manual is their guide to the consistently effective and efficient operation of each Center.

It is important to remember that internal control is a process, a means to an end, and must be encouraged by people at every level: managers, supervisors, and front-line staffers. As changes in Center operations arise, controls must be reexamined to determine if they continue to provide the fundamental assurances that goals and objectives will be achieved. The managers can use the presentation at Appendix B to periodically stimulate the staff to consider possible control weaknesses and report them to management for resolution.

## APPENDIX A

### Control Self-Assessment Process

#### Recreation Division

#### Families, Parks & Recreation Department

### What We Did

- Composed IRQ (Internal Control Questionnaire)
- Held sessions with Center Supervisors in each area to identify current control practices
- Observed operations at selected Centers
- Identified existing controls as well as others that should be implemented
- Reviewed draft of new internal policies and procedures



## Importance of Internal Controls over Cash Collections

- Internal controls provide reasonable assurance about:
  - The efficiency and effectiveness of Center operations and resources
  - The reliability and integrity of financial reporting
  - Compliance with City and Recreation Division policies and procedures



## Importance of Internal Controls over Cash Collections

- Internal controls provide reasonable assurance about (con't):
  - The safeguarding of City assets
  - The accomplishment of established goals and objectives for Recreation programs

## What You're Doing Right

- Have written a comprehensive set of internal policies & procedures
- Utilize signage asking customers to call if no receipt is given
- Safeguard cash and checks in safes/strongboxes until deposited
- Depositor verifies funds to deposit slip
- All receipts are deposited—nothing held back
- Voided transactions require management approval
- Center visitors are required to sign in

## What Can be Improved

- Finalize internal P & P, and enforce it
- Train all employees to adhere to P & P

## APPENDIX B

### Internal Controls Over Cash Collections

#### Recreation Division

#### Families, Parks & Recreation Department

### What is an Internal Control?

- An internal control is the performance of any action directed by management to provide reasonable assurance that established objectives and goals will be achieved
- Internal control is a process, a means to an end



## Primary Objectives of Internal Control

- To ensure the economical and efficient use of resources
- To ensure the reliability and integrity of information
- To ensure compliance with policies, plans, procedures, laws, regulations, and contracts
- To ensure the safeguarding of assets
- To ensure the accomplishment of established objectives and goals for operations or programs



## More about Internal Control

- It must be effected by people at every level
  - Managers
  - Supervisors
  - Front-line staffers
- It needs continuous attention, especially during times of change
- Staff should be alert to possible internal control weaknesses and report them to management for resolution



## Important Internal Controls for Recreation Division Cash Collections

- All revenue and every transaction must be processed through the CLASS system and a transaction receipt issued to patron
- Field trip participants should be counted as they board and disembark buses to ensure each is accounted for in CLASS
- Consecutively pre-numbered manual receipts must be used when the CLASS system is not operational; these transactions must then be entered into CLASS within one business day




## Important Internal Controls for Recreation Division Cash Collections

- Only authorized staff may collect revenue
- Checks must be payable to the City of Orlando for the exact amount due and restrictively endorsed before being placed in the cash drawer
- Any voided transactions must be approved by a manager
- Any refunds must be processed by a manager
- Funds should be counted and balanced out of public view



## Important Internal Controls for Recreation Division Cash Collections

- Only authorized staff may perform opening and closing procedures, to include verifying the change fund amount
- The cash drawer and change fund should be stored overnight in the safe
- Only authorized staff should have access to the safe and handle change funds
- All funds must be kept in the safe until they are deposited




## Important Internal Controls for Recreation Division Cash Collections

- All funds collected must be deposited intact; no expenditures may be made from these receipts
- Only authorized staff may prepare bank deposit bags and slips; this staff will never be the same staff that was responsible for revenue collection
- Only authorized staff may make bank deposits
- Bank deposits must be made timely as designated in policy



## Important Internal Controls for Recreation Division Cash Collections

- Deposits may only be made during regular banking hours and a validated deposit receipt must be received
- Bank deposit slips must be used consecutively
- Change funds are not petty cash
- No checks may be cashed



## Important Internal Controls for Recreation Division Cash Collections

- The Daily Cash Balance Report must be submitted the following business day with all attachments
- All cash overages or shortages will be reported, investigated and disciplinary action will be taken as necessary
- Division internal policies and procedures must be followed at all times



## Important Internal Controls for Recreation Division Cash Collections

Managers should:

- Visit Centers regularly
- Perform occasional unannounced cash counts



## Summary

- All staff are responsible for adhering to established internal controls
- Management will periodically review the current system of internal control to ensure that it continues to meet Division needs
- Front-line staffers can provide valuable assistance by remaining attentive to potential control weaknesses and initiating the necessary changes through suggestions to management