



CITY OF ORLANDO

MEMORANDUM

To: Robert E. Bowden, Acting Families Parks and Recreation Director
Rodney I. Williams, Recreation Division Manager

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

Date: Exit Conference: May 6, 2005; Issuance Date: May 20, 2005

Subject: Beardall Senior Center – Thursday Night Dances (Report No. 05-22)

We conducted an inquiry into a report of irregularities regarding the cash collections and payments at the Beardall Senior Center. We restricted our review to the procedures for collecting cash and paying a contractor for the Thursday night dances held at the Center in the months of October 2004 through February 2005.

Our inquiry was made in accordance with generally accepted government auditing standards.

Background

For many years, the Beardall Senior Center has held weekly dances for the patrons on both Thursday and Saturday evenings. At these dances, a band is hired to entertain the patrons. A nominal charge of \$3.20 is charged to each attendant. Due to budgetary restraints, the dances held on Thursday night were ended in September 2004. Because of a perceived continued interest in having the Thursday night dance, the supervisor and staff of the Beardall Senior Center determined that the dances should continue. They proposed a method whereby the entertainment for these dances would be paid from a portion of the proceeds collected from the dances. We were informed that this method of paying contractors is consistent with arrangements made at other recreation centers for holding dance and karate instruction classes.

This arrangement began in October 2004 and was memorialized into a formal “Employment Contract” with Loretta Loukanova (also known as Loretta Ivanov) to provide “Ballroom Dance Music” at the Beardall Senior Center effective December 1, 2004. This agreement notes that the City will pay Ms. Ivanov 70% of the revenues received from the dances held at the Center at which she works.

In early March, after a change in the management of the Beardall Senior Center, it was discovered that the money collected from the Thursday night dances was not being properly accounted for in accordance with the policies and procedures of the Recreation Division. The new Center Supervisor immediately notified the Area Manager for this Center and performed a short investigation into the matter. The Office of Audit and

Evaluation became involved after being notified of these findings by the Families, Parks and Recreation Fiscal Manager.

Summary of Staff Interviews

The Office of Audit and Evaluation began its investigation by interviewing the staff members who worked at the Beardall Senior Center during the time these conditions were occurring. This included a Center Supervisor, Recreation Specialist and Office Assistant. The Center Supervisor during the time of the occurrences noted in this report is no longer working at the Beardall Senior Center. Therefore, throughout this report, this individual is referred to as the “previous” Center Supervisor.

We learned from the previous Center Supervisor that he and a staff member determined after some consultation that the Center would simply pay the entertainer at the Thursday night dances the entire proceeds collected from the patrons, rather than 70% of proceeds. This was done by paying Ms. Ivanov once per month with the cash that was collected on Thursday evenings, placed into bank envelopes and held in the safe at the Center. This practice began in October 2004 before the Employment Agreement was signed by Ms. Ivanov and continued through early March 2005, when it was discovered and reported to Recreation Division management by the new Center Supervisor.

When asked why cash was paid to Ms. Ivanov, the previous Center Supervisor stated that because there was a delay in finalizing the Employment Agreement, he believed that there was no way to process a check request to pay for the entertainment at the dances. The previous Center Supervisor also stated that he and his staff often used their own money to pay for the refreshments provided to the patrons at the Thursday night dances. We learned that the Thursday night dances were held beginning October 7, 2004 and 6 dances were held prior to the finalization of the Employment Agreement with Ms. Ivanov on December 1, 2004. However, even after the agreement was finalized the payments to the entertainer continued to be made in cash from the proceeds collected from the patrons.

In order to independently determine the amounts paid to Ms. Ivanov, we interviewed her and her husband. They could not provide any information regarding the amounts they were paid. They did confirm that they were paid once per month in cash that was contained in bank envelopes. They stated that they believed they were paid between \$60 to \$75 for each dance.

We also interviewed the Office Assistant responsible for collecting the dance fees from the patrons of the Beardall Center. She explained that she collected the fees from the attendants at the entrance to the dance, utilizing a \$35 change fund. At 9:00 p.m. on these evenings, she would leave the area and count the cash receipts in the center office, write the amount of cash collected on the outside of a bank envelope, sign and seal the envelope and drop it into the safe. She stated that the attendance at the Thursday night dances as reported on the Beardall Senior Center Weekly Attendance Report was determined by dividing the cash collected by the individual entrance fee. She said that she would then adjust the attendance figure upwards by adding the members of the

band and their guests to the figure to report total attendance at the Thursday night dance.

We inquired into why the cash collected was not processed into the CLASS system or deposited into the bank. The Office Assistant stated that she had entered the first Thursday night (October 7th) dance's cash collections into CLASS, but that she was told by the previous Center Supervisor to stop doing so. While discussing the procedures used to account for the cash collected at these dances, the Office Assistant reported another questionable activity. She reported that when she found she was over or short in the amount of cash collected on Thursday evenings, she would use the center's "copier fund" to rectify this difference. She explained that the copier fund consists of the fees collected from patrons for use of the copier at the Beardall Center. We found that this "fund" is kept in a small plastic container on the desk of the Center Supervisor. These collections are not regularly accounted for in CLASS or deposited in the bank.

We also interviewed the Families, Parks and Recreation Fiscal Manager regarding the reconciliation of cash collections entered into CLASS with the bank deposits made by Recreation center employees. She stated that the fiscal management staff had not been regularly reconciling the entries made into CLASS with bank deposit information. However, since that time, the Fiscal Manager has learned that a report is available from CLASS that can be used to perform this reconciliation. We believe that this reconciliation is an important internal control and should occur on a regular basis.

Two further items were learned from the above interviews. First, we learned that the fees collected from the Beardall Center patrons are a taxable sale and the City should have accounted for the taxes collected and properly remitted these taxes to the State. Because the amounts collected were not properly accounted for, the City currently retains a tax liability for the collections made from the Thursday night dances. Second, we learned that there are other dances held at the Beardall Senior Center where the entertainment is retained by event "sponsors." The employees of the Beardall Senior Center seek these sponsors and when they agree to sponsor a dance at the center, they are asked to provide entertainment. No City contracts are prepared for these events and no documentation exists regarding the sponsorship arrangements between the City and the event sponsor.

Review of Available Documentation

We attempted to determine the extent of the payments made to Ms. Ivanov and learned that no reliable documentation of the amounts collected at the Thursday night dances exists. While we were given the Beardall Senior Center Weekly Attendance Report, which is periodically reported to Recreation management, and a report of the money collected that was prepared by the previous Center Supervisor, the two reports are not comparable and no information can be confirmed to any other documents. This is the case because receipts were not issued to the patrons for the amounts collected for the dance admission and information regarding the cash collected for these events was not regularly entered into the Recreation CLASS registration and cash management system.

We did obtain one piece of information that is a copy of the outside of three bank envelopes believed to contain the proceeds from three Thursday night dances. The copy was signed by Ms. Ivanov as an acknowledgement of her receipt of these collections on February 24th. The document included the amounts collected for three dances but the envelopes were not dated, so we cannot determine when these collections were made. Also, these amounts do not agree with amounts on either of the other two reports. Schedules compiling all available information are included as Attachments 1 and 2.

Types of Entertainment Contracts

We also reviewed the agreements used to contract for the entertainment provided to the patrons attending the dances held at the Beardall Senior Center. We learned that two individuals are under contract to entertain the patrons at these events. One is contracted to perform on Saturday nights and, as previously reported, the other is contracted for Thursday nights. The vendor who performs on Saturday nights is retained through a “Contract Agreement” and the Thursday night vendor is retained using an “Employment Agreement.” We consulted with several knowledgeable City parties regarding the use of each of these contract types.

Review of Employment Agreement

The Employment Agreement contract-type has been used for several years at the City to augment the workforce at the Recreation centers. It has been used to contract with instructors and entertainers and compensate these individuals through a split of the proceeds collected from the events they are contracted to lead. We learned that each Recreation center offers different classes based upon the demands of the patrons who use these centers. Therefore, contracts are negotiated by center supervisors and/or area managers and prepared in accordance with City policy 808.9 (Contract Positions). This policy allows for employment contracts for temporary and seasonal employees and requires review by Legal Affairs and approval by the Human Resources Division Manager.

While discussing the Employment Agreement with Legal Affairs, Purchasing, Human Resources, Payroll and Risk Management, it became clear that the use of this type of agreement to obtain services for the Recreation Division should be reviewed to clarify several issues. These issues include 1) whether the individuals contracted with should be referred to as “employees” or “independent contractors”; and 2) if they are indeed “employees” whether they should be paid through the City’s payroll system and have the appropriate payroll taxes deducted from their gross pay. In addition, we learned from Risk Management that the individuals working under these agreements are currently eligible to receive worker’s compensation benefits if injured on the job, which increases the risk exposure to the City.

In the specific case of the current Employment Agreement with Ms. Ivanov, we also noted that the agreement was not dated and not signed by the Recreation Division Manager or the Families, Parks and Recreation Director. Therefore, there is no indication on the contract that it has been reviewed and approved by these managers or that they are kept informed of the types of agreements being made in the Recreation

Division. Also, the contract terms state that the Recreation Division shall keep a record of the number of hours worked by the employee to ensure that the employee is paid a minimum wage and to ensure that the employee does not work more than 1,000 hours per year. We learned that there is no tracking of these conditions by the Recreation Division.

Review of “Contract Agreement”

We also discussed the Contract Agreement type of agreement with Purchasing and learned that the Purchasing Code exempts “entertainment” from its provisions. While Purchasing was involved in previous years in preparing and administering an Annual Agreement for Band Entertainment, the current “Contract Agreement” for these services at the Saturday night dances held at the Beardall Senior Center, which is effective October 1, 2004, was prepared by the Recreation Division and signed by the Families, Parks and Recreation Director. It should be noted that the agreement does not indicate that it was reviewed and approved for legality by the Office of Legal Affairs.

The current “Contract Agreement” for the Saturday night dances notes that the City will pay a flat rate of \$175 per dance to the contractor. The agreement also states that the contractor is considered an independent contractor and shall not be entitled to any City employment benefits. Further, the contract states that the contractor shall hold harmless and indemnify the City for personal injury or property damage liability. Therefore, we believe that the “Contract Agreement” type may be a better method to contract for the entertainment services needed at the Beardall Senior Center’s dance events.

Violations of Policy and Other Conclusions

This inquiry indicates the following internal policies and procedures of the Recreation Division were not followed:

- No expenditures may be made . . . of cash receipts.
- Every employee . . . is expected to process all revenue collected through the CLASS software system.
- No unofficial funds may be maintained in any Complex owned and operated by the City of Orlando.
- A receipt will be issued to the client immediately upon receiving payment for any transaction.
- All money . . . tendered on a particular business day shall be deposited promptly in the financial institution as designated by the City of Orlando . . .
- All money . . . tendered on a particular business day shall be properly recorded on Bank Deposit Slip . . .
- If at any time . . . the daily receipts should be over or short, the overage or shortage will be reported by telephone to the Fiscal Manager . . .
- When revenue has been collected during the course of any given day, the “Daily Cash Balance Report” will be submitted the following business day . . .

In addition, the following practices indicated weaknesses in internal controls:

- Not properly accounting for taxable amounts collected from the patrons.

- Employing and paying a contract employee without a properly authorized “Employment Contract.”
- Paying a contract employee an amount greater than authorized.
- Not calculating the hours worked by a contract employee to ensure she is paid minimum wage and does not work more than 1,000 hours in a calendar year.
- Not having formal agreements with event sponsors.
- Not regularly reconciling cash collection entries in CLASS with bank deposit records.

Because of a lack of documentation, our inquiry could not confirm that all amounts collected from the patrons were properly controlled, secured and paid to the entertainer who performed at the Thursday night dancers. Therefore, we cannot conclude with certainty that no cash was stolen from the Beardall Senior Center. Please note on the attachments that the total cash collected from these events is estimated to be \$2,070 and that after deducting sales tax, the City’s portion of these proceeds in accordance with the Employment Agreement is estimated to be \$583 (30% of estimated proceeds less sales tax).

Recommendations and Auditee Responses

1. We recommend that the Recreation Division Manager determine whether discipline is needed for the individuals who did not follow Recreation Division policies and procedures.

Concur. Discipline will take place for individuals violating policies and procedures.

2. We recommend that the Recreation Division, in consultation with the Families, Parks and Recreation Fiscal Manager, design a cash collection methodology for properly collecting dance or class fees that meets all requirements of the department’s policies and procedures for cash collections.

Concur. Recreation Division has implemented this policy.

3. We recommend that the Recreation Division expedite the training of all employees in the division involved in cash collection activities by utilizing, along with other tools and techniques, the Powerpoint presentation given to the division after the recent Control Self Assessment.

Concur. We conducted our first meeting/training on Wednesday, May 4th with the Area Managers and Facility Managers.

4. We recommend that the Recreation Division ensure that the proper sales taxes for the Thursday night dances held between October 2004 and February 2005 are determined and paid to the State of Florida.

Concur. We will work with fiscal to get matter resolved by June 15th.

5. We recommend that the Families, Parks and Recreation fiscal management section regularly reconcile the cash collection entries made in its CLASS system to bank deposit information, to ensure that all collections are deposited.

Concur. This practice is currently being performed by fiscal section.

6. We recommend that the Recreation Division consult with knowledgeable City officials regarding continuing use of the current "Employment Agreement," whether such employees should be paid through the City's payroll system to ensure payroll taxes are deducted and whether the Division is required to track the number of hours worked and hourly wages paid to these employees.

Concur. We will review current Agreement within the next few months and compare it to the existing contractual services.

7. We recommend that the Recreation Division discuss with Legal Affairs the need to formalize event sponsorships through formal agreements or other appropriate documentation.

Concur. We will meet with legal to discuss and establish policy as it pertains to sponsorships.

BHD/gjm

Attachments

- c: Honorable Buddy Dyer, Mayor
Cheryl J. Henry, Chief of Staff
Joseph Robinson, Deputy Chief of Staff
Byron W. Brooks, Interim Chief Administrative Officer
Amy T. Iennaco, Chief Assistant City Attorney
Deborah D. Girard, Management, Budget and Accounting Director
Jon D. Mead, C.P.M., Purchasing and Materials Management Director
Leland W. Brown, Human Resources Division Manager
Jay R. Goldrick, Risk Manager
Denise M. Aldridge, Families, Parks and Recreation Fiscal Manager