



DR. JAMES R. SMITH NEIGHBORHOOD CENTER

FACILITY RENTAL CONTRACTS

Exit Conference Date: July 7, 2006

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Report No. 06-18

CITY OF ORLANDO

OFFICE OF AUDIT SERVICES AND MANAGEMENT SUPPORT

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CITY OF ORLANDO

MEMORANDUM

To: Lisa C. Early, Families, Parks and Recreation Director

From: Beryl H. Davis, CPA, CGFM, Director
Office of Audit Services and Management Support

Date: Exit Conference: July 7, 2006; Release: August 7, 2006

Subject: Dr. James R. Smith Neighborhood Center Facility Rental Contracts
(Report No. 06-18)

At your request, we began an inquiry into an email you received alleging that Dr. James R. Smith Neighborhood Center (Smith Center) staff was making interest-free loans and free or discounted facility rentals. At the same time, Recreation Division management began an investigation into a misappropriation of assets at the Center. Therefore, we redirected our inquiry to cover both issues.

The objectives of our inquiry into the Smith Center's facility rentals were to: (1) determine whether any misappropriations of assets had occurred; (2) quantify any loss and determine the individual(s) involved, if possible; and (3) determine whether the Division's internal controls were adequate and followed to prevent or detect the misappropriation.

Our review was made in accordance with generally accepted government auditing standards and was conducted in conjunction with Families, Parks and Recreation (FPR) fiscal staff. The review was limited to facility rental activities and included management inquiries, confirming rental contracts with customers, reviewing documents related to the allegation and such other auditing procedures as we considered necessary in the circumstances. This review focused primarily on the January 1 – May 31, 2006 period. The scope and methodology are more fully described in the Issues and Recommendations section of this report.

The inquiry identified approximately \$3,400 of misappropriated funds and \$500 of possible additional misappropriated funds related to facility rentals. While available evidence can only be directly associated with one individual, details have been communicated to the Orlando Police Department for a possible criminal investigation of all Smith Center staff. We believe lax supervision at the Center, as detailed in the May 12 memorandum to Human Resources, contributed to the ability of the individual to misappropriate the funds without detection. Additionally, Recreation Division Center and Area management did not employ or did not enforce appropriate control procedures nor exercise appropriate oversight to prevent or detect the misappropriations. The attached report contains recommendations for strengthening these areas.

Jack Sirak, Audit Program Manager, and Chris Polke, Senior Auditor, performed the inquiry.

We would like to express our appreciation to the staff of the Families, Parks and Recreation Department for their courtesy and cooperation during this inquiry.

BHD/am

c: Honorable Buddy Dyer, Mayor
Cheryl J. Henry, Chief of Staff
Byron W. Brooks, Chief Administrative Officer
Amy Iennaco, Chief Assistant Attorney
Rodney I. Williams, Recreation Division Manager

BACKGROUND

The Dr. James R. Smith Neighborhood Center (Smith Center) is one of 17 recreation centers operated by the Recreation Division of the Families, Parks and Recreation Department (FPR). In early April, the FPR Director received an email from a citizen alleging improprieties at the Smith Center. The Department Director requested the assistance of Audit Services and Management Support to investigate the matter. Almost simultaneously, Recreation Division management began its own investigation of possible funds misappropriations at the Smith Center.

This is the second investigation of an alleged fraud at this facility in recent years. A similar funds misappropriation allegation was made in January 2005. At that time, the Center Manager was suspended and additional internal controls were to have been instituted. During the initial state of this recent inquiry, Recreation Division management again suspended the Center Manager and has since reassigned the Manager to a position with no cash handling responsibilities at another Center.

Facility rental contracts typically begin as “Tentative” when a patron first approaches the Center to rent one of its facilities (auditorium, kitchen, meeting room, etc.; athletic fields are rented by the Athletics program). The contract must become “Firm” before any payments can be received for a cleaning/damage deposit, partial or full rental payment; full payment for the event, including the deposit, is required no later than 48 hours prior to the event. After the event date has occurred, the contract should be noted as “Closed” and the deposit cleared by either a refund to the renter or withheld to help pay for cleaning of or damage to the facility. Contracts can be cancelled during either the “Tentative” or “Firm” stage.

The Recreation Division installed program and scheduling software, known as **CLASS**, in FY 2003. The FPR Administration Coordinator serves as the system administrator, with responsibility for establishing and terminating access to the system, and interacts with the vendor for non-hardware technical support. Three individuals (Center Manager and two seasonal employees) at the Smith Center had **CLASS** access at the time of the misappropriation.

SUMMARY OF RECOMMENDATIONS AND RESPONSES

RECOMMENDATIONS	RESPONSES
1. Families, Parks and Recreation management should determine appropriate circumstances for the utilization of manual receipts and modify the current procedure to reflect these approved circumstances.	Concur
2. Manual receipt books should be sequentially issued, used books examined for compliance with procedures prior to issuing replacement books and appropriate control log entries made to document these actions.	Concur
3. Manual Receipt procedures should be better defined as to completion requirements and distribution to promote compliance and consistency by and among Center employees.	Concur
4. Area Managers should periodically inspect Center compliance with the manual receipt procedures and report the results to the Division Manager on a monthly or quarterly basis.	Concur
5. Families, Parks and Recreation management should require passwords to strengthen access to the CLASS software and to better identify activity with specific individuals.	Concur
6. Center Managers should generate and review reports consistent with the CLASS Procedures Guide and Area Managers should oversee their review and report results to the Division Manager on a periodic basis.	Concur
7. Area Managers should be instructed to periodically review the “Rental Contracts To Be Completed” reports for the Centers within their responsibility and follow-up any particularly old or unusual contracts.	Concur
8. Center Managers should review and electronically approve rental contract amendments; if electronic approval is not viable, the Managers should generate a report, approve and sign the report and forward it to the Area Manager for monitoring.	Concur

RECOMMENDATIONS

RESPONSES

- | | | |
|----|---|--------|
| 9. | The Families, Parks and Recreation fiscal office should provide late bank deposit data to Area Managers for investigation, resolution and/or corrective action. | Concur |
|----|---|--------|

ISSUES AND RECOMMENDATIONS

OBJECTIVES AND CONCLUSIONS

The objectives of our inquiry at the Dr. James R. Smith Neighborhood Center (Smith Center) were to: (1) determine whether any misappropriations of assets had occurred; (2) quantify any loss and identify the individual(s) involved; and (3) determine whether the Division's internal controls were adequate and followed to prevent or detect the misappropriation.

With the assistance of FPR fiscal staff, we were able to conclude that (1) funds totaling approximately \$3,400 were misappropriated, with another \$500 likely misappropriated (unable to document at this time); (2) only one individual can be identified as involved in the misappropriation at this time; and, (3) the Division's internal controls could be strengthened in some areas which are more fully described in the body of this report. Under separate cover, the Orlando Police Department has been requested to evaluate the situation and consider interviews of Smith Center staff and customers for a possible criminal investigation.

SCOPE AND METHODOLOGY

We interviewed the Families, Parks and Recreation (FPR) fiscal staff knowledgeable about the cash collection procedures and the **CLASS** software utilized by the Division to record facility rental activities as well as other activities. We also:

(1) Examined and accounted for the Smith Center's manual receipts books and related receipts.

(2) Reviewed the Manual Receipt control log maintained by FPR fiscal staff to ensure proper accounting of all books.

(3) Reviewed 87 Smith Center rental contracts during the

January 1 through May 31, 2006 period and selectively confirmed contract values, payments and remaining balances by mail (18 contracts selected, 11 returned) and by telephone (24 calls attempted, 16 contacts). Activity for those contracts not confirmed by mail or telephone were reviewed and either determined not to be involved in the allegations or documentation did not allow for a determination to be made.

(4) Reviewed other procedures and documents, as we considered necessary to the inquiry.

**The Manual
Receipt Procedure
Should Be
Amended To
Reflect
Appropriate Times
For Usage**

The current Manual Receipting procedure states manual receipts are to only be used “...for the occasional mishap and during emergency situations when **CLASS** software *cannot* be utilized for the processing of finances within the Complex.” In practice, however, manual receipts are routinely used in other situations, e.g., camp registrations, in order to expedite processing time because of the number of registrants being served at the same time. At the Smith Center, we noted the manual receipts were mainly used for cheerleading registrations and facility rentals. It should be noted that at least five of these manual receipts were involved in the misappropriation. Policies and procedures are most effective when management objectives are accurately defined and enforced, particularly when staff turnover is high as is the case with the many seasonal employees at the recreation centers.

In order to know the appropriate circumstances to utilize manual receipts, FPR staff should have the benefit of accurate and enforced policies and procedures.

Recommendation 1. Families, Parks and Recreation management should determine appropriate circumstances for the utilization of manual receipts and modify the current procedure to reflect these approved circumstances.

Response Concur and implemented. Policy revisions were approved July 20, 2006 with mandatory training scheduled for all Recreation Managers and all **CLASS** users.

**Accountability
Controls for
Manual Receipt
Books Should Be
Developed And
Utilized**

Manual receipts books are issued to the Centers by FPR fiscal staff. To provide accountability of the books, the fiscal staff uses a control log containing receipt book sequence, issued location, receiver' signature and date issued. Department practice is that a used book should be returned before a replacement book will be issued. Our review of the control log revealed:

- a) books not always issued sequentially;
- b) book sequences not shown as issued (missing sequences);
- c) books not returned prior to issuance of a replacement book; and,
- d) no space allocated to record completed book return.

It should be noted that one of the manual receipts involved in the misappropriation was missing from a book that was not returned prior to issuance of a replacement book (we located the non-returned book at the Smith Center). To enhance accountability, manual receipt books should be issued sequentially, completed books returned prior to issuance of replacement books and appropriate entries made in the control log to evidence these actions occurred. The FPR fiscal staff should also examine the returned books to further help ensure manual receipt usage is in compliance with the manual receipting procedures.

Recommendation 2. Manual receipt books should be sequentially issued, used books examined for compliance with procedures prior to issuing replacement books and appropriate control log entries made to document these actions.

Response Concur and partially implemented. A spreadsheet has been created to track issuance and receipt of all manual receipt books. The manual receipting policies and procedures have been revised to incorporate accountability of all manual receipting processes and mandatory training has been scheduled for all Recreation Managers and all **CLASS** users.

Manual Receipt Usage Procedures Should Be Better Defined and Enforced

Each manual receipt book contains 50 prenumbered 3-part receipts which, according to FPR fiscal management, are to be distributed as follows when utilized: white – customer, yellow – forward to FPR fiscal office with Daily Cash Report, and green – remain in receipt book for accountability purposes. The Manual Receipting procedure calls for the manual receipt information to be subsequently entered into **CLASS** and the **CLASS** transaction number entered on the manual receipt green copy to ensure all manually receipted transactions are entered in **CLASS**. Current practices also call for all three copies to remain in the book when a receipt is voided. Our review of the Smith Center manual receipt books (three completed and one in use) revealed:

- a) several undated receipts;
- b) yellow copies that should have been attached to Daily Cash Reports and submitted to the fiscal office;
- c) **CLASS** transaction numbers missing from every receipt; and,
- d) missing green copies.

It should be noted that a total of 39 green copies were missing from the receipt books at the Smith Center; photocopies of five of these receipts were subsequently obtained from facility renters and all five receipts were involved in the misappropriation.

Area Managers routinely visit Centers and fiscal staff believed these visits included reviews of Division fiscal-related

practices, at least occasionally. In order to determine whether the above situations were unique to the Smith Center or more widespread, FPR fiscal staff designed a manual receipt inspection checklist which was given to a recently appointed Area Manager to review at selected centers other than the Smith Center; the Manager made visits to nine Division locations and found one or more of the above situations at each of the visited locations. Based on these results, it appears that Area Managers do not routinely review fiscal-related practices during their reviews.

Internal controls are most effective when staff complies with the controls and supervisory controls are in place and followed. To provide better direction and consistency among staff at multiple locations, as well as accommodate staff turnover, the existing Manual Receipting procedure should be modified to provide more details of the processes to be employed. Additionally, Area Managers should periodically perform Center inspections utilizing the Manual Receipt Inspection checklist (as developed by fiscal staff during the inquiry) and report results to the Division Manager on a routine basis as a method to ensure Center employees are following policies and procedures and supervisory oversight is in place.

Recommendation 3. Manual Receipt procedures should be better defined as to completion requirements and distribution to promote compliance and consistency by and among Center employees.

Response Concur and implemented. See responses to recommendation #'s 1 and 2 preceding. In addition, all new **CLASS** users will be required to receive training in manual receipt procedures upon receipt of their **CLASS** user ID.

Recommendation 4. Area Managers should periodically inspect Center compliance with the manual receipt procedures and report the results to the Division Manager on a monthly or quarterly basis.

Response Concur and will be implemented by the end of the fourth quarter. Area Managers will be required to perform quarterly

inspections using the form created by the Fiscal Manager during this audit review. Findings will be reported to the Recreation Division Manager and the FPR Director.

CLASS Software Access Controls Should Be Strengthened

CLASS is the computer application FPR uses for program registration, facility rentals, cash management and scheduling. Access to **CLASS** is administered by the FPR Administration Coordinator and is only provided after Technology Management has given an employee computer network access. Currently, **CLASS** access is provided solely through user ID; passwords are not required for access. Without use of a password, it becomes much easier for one employee to utilize another employee's user ID to access the system with all subsequent activity attributed to the user ID used to gain access. This situation apparently contributed to the current misappropriation to some extent. Computer access best practices typically require both a user ID as well as a password to help prevent unauthorized access and to more appropriately associate activity with a particular user ID.

Recommendation 5. Families, Parks and Recreation management should require passwords to strengthen access to the **CLASS** software and to better identify activity with specific individuals.

Response Concur and in progress. The FPR Administration Coordinator is working with Technology Management and **CLASS** customer support to convert the current login set-up to one where individual passwords are required for **CLASS** access.

Routine CLASS Reports Should Be Generated and Reviewed

In the winter of 2005-2006, all Recreation Division managers attended **CLASS** training sessions conducted by FPR fiscal management and were instructed to generate and review certain **CLASS** reports on a daily, weekly or monthly basis as reflected in the **CLASS** Procedures Guide.

During our review, we noted that the Smith Center May 2, 2006 "Rental Contracts To Be Completed" report, which reflects open contracts that should be closed because the

event date has passed, contained 69 open contracts. Of these 69 contracts, 30 (43.5%) had event dates in 2005 or prior; 44 of the contracts remained in a “Tentative” status. A “Rental Contracts To Be Completed” Division-wide report dated May 11, 2006 contained 409 open contracts of which 152 (37%) had event dates in 2005 or earlier. In the latter report, we noted that the Smith Center had 3–4 times more unclosed rentals than any other center except one.

We believe that adherence to the report generation and review practices might have prevented or led to earlier detection of the misappropriations. Good control practices also include supervisory oversight and regular summary reporting to management to help ensure established procedures and practices are followed.

Recommendation 6. Center Managers should generate and review reports consistent with the **CLASS** Procedures Guide and Area Managers should oversee their review and report results to the Division Manager on a periodic basis.

Response Concur and in progress. All Recreation Managers have received training on this. Area Managers will ensure these tasks are completed and report results to the Recreation Division Manager and FPR Director on a quarterly basis.

Recommendation 7. Area Managers should be instructed to periodically review the “Rental Contracts To Be Completed” reports for the Centers within their responsibility and follow-up any particularly old or unusual contracts.

Response Concur and in progress. Area Managers will ensure all “Rental Contracts To Be Completed” reports are performed as outlined in the **CLASS** Procedures Guide and report results to the Recreation Division Manager and FPR Director on a quarterly basis.

Rental Contract Amendments Should Be Reviewed and Current procedures do not require supervisory review and approval of rental contract amendments. Consequently, amendments could be used to misappropriate funds by reducing or eliminating cash receipt transactions in **CLASS**

Approved without detection. In fact, one of the contracts involved in the current misappropriation had *eight* amendments, which ultimately reduced the contract value from \$542.43 to zero in the **CLASS** records. Supervisory review and electronic approval of rental contract amendments would heighten awareness of contract adjustments and might help prevent or detect a defalcation. If **CLASS** cannot accommodate electronic approvals, Center Managers should generate a report of amendments for review and subsequent approval, sign the report and forward it to the appropriate Area Manager for monitoring compliance.

Recommendation 8. Center Managers should review and electronically approve rental contract amendments; if electronic approval is not viable, the Managers should generate a report, approve and sign the report and forward it to the Area Manager for monitoring.

Response Concur and in progress. The **CLASS** Procedures Guide will be updated to incorporate an Amendments Report to be submitted and approved by Center Managers and forwarded to Area Managers for review and approval on a weekly basis.

Reporting Process of Late Bank Deposits Should Be Restructured Current policy states bank deposits are to be made the following day, except on weekends. To help ensure compliance, the FPR fiscal office tracks late deposits and contacts the Centers as necessary if deposits are not being made timely. Although most Centers routinely made late deposits, the Smith Center's late deposits occurred more often or were later than the other centers; this issue was also noted in our previous review of allegations at the Smith Center. In addition to the late deposits, deposits for some revenue receipt dates occurred after deposits for later revenue receipt dates (e.g., February 6, 2006 revenue of \$956.00 deposited February 17 and February 10 revenue of \$421.30 deposited February 16), which might be an indicator of "lapping" (using one customer's receipts to cover stolen funds from another customer's payment).

In addition to contacting the Centers, the fiscal office also communicates late deposit and related missing cash report information to operating management as an aid for supervisory oversight. Operating management does not appear to have used this information to effectively monitor Center activities. As a consequence, most Centers appear to have an unacceptably high exception rate in these categories with no apparent corrective actions being taken. This lack of supervisory oversight may also have allowed the misappropriation to occur without detection. To strengthen supervisory oversight, the late bank deposit reporting process should be restructured to include regular (monthly) standardized reporting to all operating managers as well as a requirement to report back the corrective actions taken. As an added incentive, these areas should be made part of managers' performance evaluations.

Recommendation 9. The late bank deposit reporting process should be restructured to include regular (monthly) standardized reporting to all operating managers and a requirement to report back the corrective actions taken.

Response Concur and in progress. The Fiscal Office will provide a spreadsheet monthly to Recreation Managers, including the Division Manager and FPR Director, of all non-compliant deposits by site.
