

Audit Report



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Parks and Recreation Tennis Division Cashiering/Revenue Controls

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Summary

The Tallahassee Parks and Recreation Department offers a variety of recreational activities to the citizens of Tallahassee and the surrounding area. At the Forestmeadows Park and Athletic Center (Forestmeadows) and Tom Brown and Winthrop Parks, the Parks and Recreation Tennis Division facilitated over 100,000 visits for participation in fee-based activities during the 2005 calendar year. Approximately 77% of that participation was related to tennis activities (i.e., daily play, league court rentals, tournaments, clinics, and individual instruction). Another 15% of that participation related to activities held in facility rooms rented at Forestmeadows for private events and instruction. The remaining participation (8%) pertained to fitness activities and utilization of racquetball courts. Fees collected for those activities during the 2005 calendar year totaled almost \$325,000.

Overall, we found that revenue due the City for activities provided through the Parks and Recreation Tennis Division was appropriately collected, accurately reported, and timely deposited. However we identified several issues, including some issues that had previously been identified in the City Auditor's 2001 Citywide Cash Controls audit, that indicate improvements should be made to further ensure that revenue is safeguarded and appropriately collected, accurately reported, and timely deposited. The more significant issues identified in this audit included:

- Audit findings where patrons did not pay for fee-based activities, as well as results from recent reconciliations conducted by Parks and Recreation staff, indicate the need for more frequent independent reconciliations of participation activities to related fee collections and deposits. Such reconciliations are essential to compensate for the lack of segregation of incompatible duties among different employees because of resource limitations and cost-benefit considerations.

- Patrons often did not properly complete sign-in registers documenting their participation in fee-based activities, thereby limiting the use of those registers as a means to ensure fees were properly collected and deposited.
- Written procedures have not been developed to clearly define tennis "leagues" and provide for consistent fee treatment and court use for various tennis groups.
- Contracts were not always properly executed or retained for rental of facilities for private events.
- Written rules and regulations for rental of facilities have not been updated and are no longer provided to entities renting those facilities.
- Contracts were not executed with instructors using Forestmeadows facilities to provide private instructional classes.
- The surcharge for clay court usage was not assessed during tournament play on those courts.
- State sales taxes were not always correctly applied and/or reported on cash reports.
- Written guidance has not been developed relating to employees' participation in fee-based activities at Forestmeadows, Tom Brown, and Winthrop Parks.
- Unique cash register codes were not assigned to cashiers thereby limiting accountability for cash register transactions.
- Safe combinations have not been periodically changed and are not routinely changed upon the turnover of staff working as cashiers.

Recommendations have been made to address these issues. Based on these recommendations, management has developed an action plan that is included as an appendix to this report.

Scope, Objectives, and Methodology

The scope of this audit included a review of 2005 calendar year revenue activity of the Tallahassee Parks and Recreation Department Tennis Division.

The objectives of our audit were to determine if:

- Fees were properly assessed, collected, processed, accounted for, and deposited;
- Internal controls were adequate in regard to revenue and cashiering operations; and
- Revenue and cash collection reports were accurate and timely.

To accomplish the above objectives we:

- Interviewed staff in the Parks and Recreation Tennis and Administrative Divisions;
- Observed processes;
- Reviewed and analyzed the division's internal financial reports and records as well as some department reports and records;
- Reviewed deposit records and available cash register tapes; and
- Reviewed other related records such as participant registration forms, accounts receivable reports, monthly bank draft reports, and facility rental records.

For the different revenue categories, we conducted data analyses, tests of controls, and relevant detailed tests of transactions. In addition, operating cash maintained at each of the three applicable sites (i.e., Forestmeadows, Tom Brown, and Winthrop) was counted and agreed to the amounts authorized for those locations.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards and the Standards for the Professional Practice of Internal Auditing.

Background

Activities. The City of Tallahassee Parks and Recreation Department provides various recreational opportunities to citizens at the Forestmeadows Park and Athletic Center (Forestmeadows) for which fees are collected. Participants in tennis, racquetball (includes wally ball, a modified version of volleyball), and fitness activities are charged a fee for each use, or may elect to pay monthly, quarterly, or annual fees that provide unlimited participation in specific activities as long as space is available. Fees are

also collected for some tennis activities at Tom Brown and Winthrop Parks. The specific activities for which fees were collected during the 2005 calendar year included:

- **Recreational Tennis** - Most of the fees collected for recreational tennis activities are generated from tennis play at Forestmeadows. However, fees are also charged and collected for evening and weekend tennis court use at Tom Brown and Winthrop Parks.
- **Tennis Leagues** – Various private tennis leagues pay court rental fees for league play.
- **Tennis Tournaments** – The City sponsors or cosponsors several tournaments for which fees are assessed and collected from participants.
- **Tennis Clinics** – Fees are collected from individuals participating in clinics held at Forestmeadows, Tom Brown, and Winthrop Parks. Tennis professionals working as temporary City employees teach the clinics.
- **Tennis Lessons** – Fees are collected for private tennis lessons taught by tennis professionals working as temporary City employees.
- **Recreational Racquetball/Wally Ball** – Fees are collected from patrons for use of racquetball courts at Forestmeadows for both racquetball and wally ball.
- **Fitness Rooms** – Fees are collected from patrons participating in exercise activities using the fitness equipment located in several rooms at Forestmeadows.
- **Facility Rentals** – Rooms available at Forestmeadows are rented for various activities including meetings, banquets, parties, and instruction.

Fee Collections. Fees collected at Forestmeadows, Tom Brown, and Winthrop Parks are processed through cash registers and the collections are prepared for deposit by applicable staff at all three locations. Deposits prepared at Tom Brown and Winthrop Parks are picked up by a Forestmeadows staff member and taken to Forestmeadows. The deposits from all three locations are picked up from Forestmeadows twice a week by a bank courier service and delivered to the bank for deposit. Cash reports accounting for the deposited collections are prepared by Forestmeadows staff and submitted to the Treasurer-Clerk's Revenue Office.

Personnel. During the 2005 calendar year, four full-time permanent employees and one part-time permanent employee operated Forestmeadows and the City’s tennis activities at Tom Brown and Winthrop Parks, with the part-time position being vacant in excess of two months during the year. Additionally, the Parks and Recreation Department utilized many temporary part-time employees to assist in the provision of recreational activities to citizens. Those temporary part-time employees worked in positions such as cashiers, schedulers, monitors, and instructors.

Citizen Participation. Participation in activities at Forestmeadows, Tom Brown, and Winthrop Parks during the 2005 calendar year indicates that many citizens of Tallahassee and the surrounding area enjoyed the activities provided through the Parks and Recreation Tennis Division. As shown in the following tables, data accumulated by Forestmeadows staff shows that more than 100,000 instances of citizen participation in activities at those parks occurred during calendar year 2005.

TABLE 1 – RECREATIONAL TENNIS PARTICIPATION – 2005 Calendar Year			
Forest-meadows	Tom Brown	Winthrop	Total Recreational Tennis
22,304	4,615	3,675	30,594

NOTE 1: Data accumulated by Forestmeadows staff based on estimates and actual participation data.

TABLE 2 - TOTAL TENNIS PARTICIPATION – 2005 Calendar Year Forestmeadows, Tom Brown, and Winthrop Parks			
Tennis Participation	Tennis Instruction	Tournament and Tennis League Play	Total Tennis Participation
30,594	15,236	37,764	83,594

NOTE 1 - Data accumulated by Forestmeadows staff based on estimates and actual participation data.

NOTE 2 - Tennis Instruction includes lessons and clinics.

TABLE 3 - TOTAL PARTICIPATION ALL ACTIVITIES 2005 Calendar Year Forestmeadows, Tom Brown, and Winthrop Parks				
Total Tennis	Activities held in Facility Rooms (Rentals)	Fitness	Racquet-ball & Wally Ball	Total Participation 2005 Calendar Year
83,594	16,310	5,031	3,649	108,584

NOTE 1- Data accumulated by Forestmeadows staff based on estimates and actual participation data.

Fees. Fees for activities offered through the Tennis Division have remained similar to the original fees charged at the time Forestmeadows was acquired by the City approximately 17 years ago. However, in response to recommendations of the City’s Financial Viability of the Government Target Issue Committee, Parks and Recreation management is currently in the process of planning fee increases for Parks and Recreation fee-based activities. Those increases are to be phased in over several years, starting in fiscal year 2007.

The fee schedule that was provided to participants during the audit period indicated the following daily participation fees (i.e., patrons pay at the time of play).

TABLE 4 - FEES Parks and Recreation Tennis Division (NOTES 1 and 2)			
Activity	Play Period	Rate Per Person	
		Singles	Doubles
Tennis-Hard Courts - Forestmeadows	1.5 hours	\$ 2.00	\$ 1.25
Tennis-Clay Courts – Forestmeadows (NOTE 3)	1.5 hours	\$ 4.00	\$ 2.50
Racquetball/ Wally Ball	1 hour	\$ 3.00	\$ 1.75
Weights/ Fitness	Not Applicable	\$ 2.00	Not Applicable
Tennis-Hard Courts – Tom Brown and Winthrop	1.5 hours	Set fee of \$2.00 per court for 1.5 hours of play. Fees are charged only for activity from 5:30 p.m. to 10:00 p.m. Monday through Friday and from 8:30 a.m. to 2:30 p.m. Saturday and Sunday.	

NOTE 1 - A 25% fee discount is provided to seniors (62 and over), students (with a valid I.D.), and youths (17 and under).

NOTE 2 - Monthly, quarterly, and annual payment options are also offered to participants at Forestmeadows. These options can result in savings when participants regularly participate in offered activities.

NOTE 3 - In addition to the fees noted on the fee schedule for clay tennis court rental, a \$1.00 surcharge is required for each clay tennis court use. The surcharge is collected and used to fund the construction of clay tennis courts.

Varying fees are also charged for participation in leagues, clinics, tournaments, and private lessons. As those fees vary based on the circumstances regarding the specific activity, they are not listed on the fee schedule.

Similarly, rental fees for the use of Forestmeadows banquet rooms vary based on the circumstances. Payment of those rental fees is made in one of three ways. Those circumstances and payment methods are described as follows:

- A set fee of \$50 or \$300 is charged for room rentals depending on the type of activity and duration of use. These rentals are for meetings, banquets, and other private events. For private parties requiring a fee payment of \$300, an additional refundable security deposit of \$200 may be required to cover any potential damages.
- When rooms are rented for instructional activities (yoga, exercise, dance, art, etc.), the rental fee is based on a percentage of the renter’s income. Specifically, the City assesses and collects a percentage (e.g., 20%) of the fee charged participants by the instructor.
- One entity (Tallahassee Crew) pays a \$300 monthly fee for eight months each year to rent a Forestmeadows’ outbuilding. That entity uses the rented building to hold meetings and provide instruction to students.

Collections/Expenditures/Budget. As shown in Table 5 below, fees collected and deposited by the Tennis Division during the 2005 calendar year totaled almost \$325,000. Those collections were used to help defray related expenses totaling \$611,369. The balance of those expenses was funded by the City’s General Fund.

2005 Calendar Year Collections	2005 Calendar Year Expenditures (NOTE 1)	Collections Over/(Under) Expenditures (NOTE 2)
\$ 324,594	\$ 611,369	(\$ 286,775)
NOTE 1 – Includes direct and indirect costs other than depreciation on facilities.		
NOTE 2 – The City’s General fund funded the balance.		

As shown below in Table 6, for the most recently completed fiscal year (2005), the Tennis Division was successful in not over-expending its operating budget.

2005 Fiscal Year Budget	2005 Fiscal Year Expenditures (including encumbered funds)	2005 Fiscal Year Budget Over/(Under) Expenditures
\$ 639,704	\$ 629,225	(\$ 10,479)

Internal Control. Pursuant to City Commission Internal Control Policy No. 220, guidelines were developed by the City Manager for City departments to use in the establishment of their internal control systems. Those “Internal Control Guidelines” were established in Administrative Procedures Manual (APM) Policy and Procedure No. 630. Also, in APM No. 616, Policy on Revenue Collection, the Treasurer-Clerk’s Office established additional requirements and guidelines for City departments and offices to use in the processing of revenues and receipts. Among other things, APM No. 616 requires the timely deposit of collections and preparation of cash reports. Consistent with these policies, the Parks and Recreation Department has established some written procedures for the Tennis Division to assist in the proper collection, processing, recording, and depositing of revenues.

Prior Audit. In the Citywide Cash Controls audit report #0134, issued in August 2001, the City Auditor reported on risks identified at various City locations where revenue was collected. Those locations included Forestmeadows, as well as Tom Brown and Winthrop Parks. Some of the risks previously reported continue to be of concern at the Parks and Recreation Tennis Division. Those continuing risks are addressed and described in the following section of this report.

Issues and Recommendations

Overall, our tests showed that revenue due the City and collected by the Parks and Recreation Department Tennis Division was appropriately reported and timely deposited. However, as discussed in more detail below, we identified instances in our tests where fees were incorrectly processed or not properly collected.

Additionally, we identified various issues, including some issues previously identified in the 2001 Citywide Cash Controls audit conducted by the City Auditor’s Office (discussed above in the Background section of this report), indicating that either sufficient internal controls have not been established as

needed to safeguard revenue, or established controls were not functioning as management intended. These issues are discussed below along with recommendations intended to provide assurance that controls established by the Parks and Recreation Tennis Division, are functioning as intended and that all fees due the City are correctly being received and timely deposited.

A few instances were noted where fees were not properly assessed, collected, accounted for, or timely deposited. In our testing, we examined a representative sample of 60 individual patron's participation in Forestmeadows activities. For the sampled participation, we determined if the appropriate fees were assessed and collected based on the established fee schedule and applicable patrons' chosen methods of payment. Generally, amounts collected were in agreement with amounts determined to be due. However, we did note several instances where fees were not correctly or timely received, accounted for, and/or deposited:

- One patron that elected an annual payment option (i.e., pay an annual fee for unlimited tennis play to the extent that courts are available) continued to sign in to play tennis for two months as an annual patron after the expiration of his annual participation period. No fees were collected for the patron's participation during that two-month period. Subsequent to our inquiry, Forestmeadows staff contacted this patron and appropriate payment (about \$26) was received for tennis participation during those two months. This incident was attributable, at least in part, to turnover in staff at Forestmeadows during this time period.
- One patron that elected a monthly payment option (i.e., pay a monthly fee for unlimited tennis play to the extent that courts are available) inadvertently did not make a monthly payment for November 2005. This patron's required monthly payment was \$24.19. In addition, the monthly payment (check) made by this patron for December 2005 was placed in a desk drawer by Forestmeadows staff and not deposited until audit found and inquired about the check. As a result, that check was not deposited until 48 days after it was received. Subsequent to our inquiry, Forestmeadows staff contacted this patron and obtained payment for the month of November 2005. This incident was attributable to: (1) allowing this patron to pay by submission of a monthly check to Forestmeadows staff instead of drafting the patron's bank account on a monthly basis as done for all other patrons electing the monthly payment option and (2) turnover in staff at Forestmeadows during this time period.

- A fee agreement executed with one patron indicated an incorrect level of participation in Forestmeadows activities resulting in an overpayment by the patron of \$19.15. Upon audit inquiry, a new fee agreement was executed. Forestmeadows staff indicated that the overpayment would be refunded.
- The Clay Court City Championship tournament fees totaling \$1,890 were incorrectly recorded in the reserve account established to maintain and improve clay tennis courts rather than as an income item in the General Fund. Upon audit inquiry, department staff indicated that they had previously detected, but not yet corrected, this reporting error. This error occurred in October 2005 and was corrected in March 2006.

We recommend that management follow up on each of the instances noted above to ensure that all fees are correctly assessed, collected, accounted for, and/or refunded. (Note: These are the type of issues expected to be detected and corrected by "independent reconciliations" as addressed in the following issue.)

Independent reconciliations of participation activities and related fee collections/deposits indicate a need for increased emphasis on the reconciliation process. In response to the 2001 Citywide Cash Controls audit (City Auditor's report #0134), management established a schedule for independent supervisory staff to periodically reconcile participation activities (e.g., observed and recorded) to evidence of the related collection and deposit of appropriate fees. The purpose of these independent reconciliations is to compensate for lack of segregation of incompatible duties among different employees due to resource limitations and cost-benefit considerations. Examples of duties at Forestmeadows that are not adequately segregated among different employees include:

- Cashiers and monitors that schedule activities also reserve courts, accept payments, and prepare deposits. (Both full-time permanent employees and part-time temporary employees act as cashiers.)
- One employee handles registrations for tournaments and clinics. That same employee accepts registration fees, makes up rosters, and prepares collections for deposit.
- Rentals are scheduled and the associated fees are collected and prepared for deposit by one individual.

Persons performing these incompatible duties, as described above, are in the position to make errors or divert fees for unauthorized purposes without

timely detection. Under these circumstances, the performance of periodic independent reconciliations is essential to provide reasonable assurance that fees are properly, correctly, and timely assessed, collected, processed, and deposited into the City's bank account.

Contrary to management's stated action plan, we found that documentation was not available to show that such reconciliations had been performed between 2001 and 2004. Starting in 2004 the following reconciliations were performed:

- In March 2004 a reconciliation of one tennis clinic roster to clinic participants was performed. That reconciliation identified two individuals participating in the clinic although their names were not on the clinic roster:
 - o One individual participating in the clinic was not on the clinic roster and had not paid the clinic registration fee. The fee was subsequently collected from the participant.
 - o One individual participating in the clinic had inadvertently been omitted from the clinic roster. This participant had completed a registration form and paid the appropriate fee.
- In January 2005 a review was conducted of the rain check process during which an improvement in the process was recommended to Forestmeadows staff.
- Reconciliations of several tennis activities were conducted in May 2005:
 - o One tennis tournament registration roster was reviewed. That review showed that \$236 in tournament registration fees had not been collected; however, follow up efforts were not completed to determine the final status of the uncollected tournament fees.
 - o Actual tennis clinic participants were verified for one clinic. All participants attending this clinic were correctly listed on the clinic roster.
 - o Court reservations for one time period on May 19, 2005, were verified to actual tennis patrons on the tennis courts. It was noted that one patron on the courts had not paid. The patron paid, at the request of staff, after her participation.
 - o One day's cash collections per the cash register tape were traced to the daily cash report and verification of deposit. No exceptions were noted.

- o The cash drawer was counted and it was determined that the correct amount was on hand.

The findings of the Parks and Recreation reconciliations and reviews emphasize the need for continued focus on a reconciliation process designed to assist in mitigating the risks associated with the collection of revenue, including the inherent risk associated with inadequate segregation of duties among staff. Therefore, we recommend that management continue to perform independent reconciliations on a regularly scheduled basis.

Efforts should be made to ensure that patrons correctly and completely document their participation and payment method on sign-in registers. At Forestmeadows, patrons are required to provide their name, payment method (daily or monthly, quarterly, or annual fees), and planned activity (tennis, racquetball, fitness, etc.) on standardized sign-in registers. Those registers are intended to document participation in Forestmeadows activities. Such records are critical to the performance of an independent reconciliation of participation to collection and deposit of related fees. Specifically, such records provide a source for independent supervisory staff to trace to evidence of appropriate fee collections.

In our review of a representative sample of 60 days, we found that patrons did not always properly complete the sign-in registers. Specifically:

- We compared the number of daily patrons signed in on those registers as "daily players" (for which a daily cash fee should be collected) to the number of patrons participating based on daily fee transactions recorded on the cash register tapes for those days. That comparison showed 1,209 daily fee transactions on the cash register tapes, but only 885 patrons signed in on the registers, or a difference of 324. This difference indicates that a significant number of patrons are not completing the sign-in registers.
- Out of a total of 5,938 patrons that signed in on the registers for those 60 days, we noted that 295 (almost 5%) did not correctly indicate their method of payment.

Incomplete and incorrect sign-in registers reduce the ability of management to independently verify that fees are properly collected and deposited for patron participation in Forestmeadows activities. We recommend that enhancements be made to the sign-in and cashiering processes such that cashiers ensure that all patrons (regardless of payment method) properly complete the sign-in registers.

Written procedures have not been developed to clearly define tennis “leagues” and provide for consistent fee treatment and court use for various tennis groups. Various groups play tennis at City facilities. We found that the method of paying for the groups’ court reservations and use was inconsistent among the different groups and that there is confusion among participants and staff as to what constitutes a “league” versus a “group”.

During our audit, we noted that no written policies and procedures have been established by Parks and Recreation staff to outline use of City facilities for league activities. Additionally, no clear definition of what constitutes a “league” has been formalized. Notes and restrictions listed on the City’s fee schedule for Forestmeadows provides that “league fees will be charged for all league play on City courts.” In addition, those notes and restrictions provide that “monthly, quarterly, and annual fees at Forestmeadows do not cover league play.” Based on those provisions, the intent appears to be that leagues must pay fees for each court use, regardless of whether league participants are patrons that pay monthly, quarterly, or annual fees.

In regard to payment methods, we found the following inconsistencies:

- Three groups do not pay separate league fees although they are routinely and consistently referred to as “leagues”. For two of those groups, the participants reserve courts and complete the regular sign-in registers as if the courts are to be used for non-league play. For the other group, the process is the same except that participants complete a separate sign-in register used exclusively for that group. For all three groups, payment is determined as if the participants were using courts for non-league play. Accordingly, participants that pay monthly, quarterly, or annual fees do not pay a separate fee, while other participants pay the regular daily court usage fees for non-league play. This appears to be in violation of the notes and restrictions listed on the City’s fee schedule, as described above, if these groups are actually “leagues”.
- Other groups pay separate league fees for their tennis activities at Forestmeadows. Those fees are paid for each court use regardless of whether any of the participants also pay monthly, quarterly, or annual fees for non-league participation at Forestmeadows. Unlike the groups described above, this process appears to be in accordance with the notes and restrictions listed on the City’s fee schedule. However, the following inconsistencies in the payment methods accepted for these groups were noted:
 - o One group was billed for tennis activities through the City’s accounts receivable system, with the corresponding payment mailed by the group representative directly to the Treasurer-Clerk’s Revenue Office.
 - o For one group, participating players prepared and submitted individual payments to Forestmeadows staff for their tennis activities.
 - o For another group, one representative made a single payment directly to Forestmeadows staff for their scheduled tennis activities.

These inconsistencies in fees and payment methods and the lack of written policies and procedures addressing league play on City courts, have contributed to perceptions by some group participants that they are not getting equal and/or fair treatment as to fees and court reservation/use. We noted in discussions with department staff that management is aware of this issue and is in favor of a formal league policy being developed.

We recommend that written policies and procedures be developed addressing various aspects of group tennis activities, including a clear definition of what constitutes a league, league fees, acceptable methods and timing of payment of league fees, court reservation and use, and roles and responsibilities of both the City staff and league participants. Additionally, to facilitate and ensure appropriate understandings by groups wishing to participate in league play at Forestmeadows, we recommend that management consider entering into written agreements with each league to clearly address any deviations from the written policies and procedures.

Contracts executed for facility rentals were not always prepared or completed. During the 2005 calendar year, records show 12 entities rented Forestmeadows banquet rooms for private events (i.e., other than for private instruction). Our review of records for those rentals showed that fees were properly collected and deposited (unless waived by department management). In addition, except for the following instances, rental contracts were properly executed and completed.

- For one rental, a contract was not executed with the renting entity.
- For one rental, staff indicated that a contract had been properly executed, but the contract was not located and provided for our review.
- For three rentals, the contracts were not signed by the Forestmeadows superintendent or supervisor. Accordingly, evidence was not available to document review and approval by management.

In addition to the above, we identified four other scheduled rentals for which evidence was not available showing that the fees had been collected and deposited, or that the events had been cancelled. Without that evidence, Forestmeadows staff cannot demonstrate the proper disposition of those events. In response to our inquiries on this matter, Forestmeadows staff indicated that the events were likely cancelled and never held.

As noted in the background section of this report, similar findings were noted in City Auditor's report #0134. We again recommend that action be taken to ensure that rental agreements are properly executed and completed with each entity renting Forestmeadows facilities. In addition, to provide adequate accountability, we recommend that records be prepared and maintained that document the disposition of all scheduled rental events.

Written rules and regulations for rental of Forestmeadows facilities have not been updated and are no longer provided to entities renting those facilities. The Parks and Recreation Tennis Division has a set of written rules and regulations governing the rental of facilities by individuals or external entities. Those rules and regulations address areas such as personal conduct, responsibilities, time periods, fees, required notifications, clean up, parking, etc. Providing rules and regulations addressing those areas is helpful in ensuring that renting entities understand and conduct their events in the appropriate manner.

When we inquired as to the current use of these rules and regulations, Forestmeadows staff responded they were outdated and, as a result, were no longer provided to renting entities. Instead, staff indicated that rules and regulations were verbally discussed with the renting entities.

To ensure that rules and regulations are properly communicated to renting entities, we recommend that these written rules and regulation be updated and copies provided to each entity prior to or at the time that a rental contract is executed. Preferably, the written contract should make a direct reference to, or include as an appendix, those updated rules and regulations.

Contracts should be executed with instructors using Forestmeadows facilities to provide private classes; additionally, consideration should be given to using a different method of assessing fees for that usage. Outside entities sometimes use facility rooms for the purpose of providing instruction to individuals in various activities. Activities include, for example, dance, ballet, jazzercise, art classes, yoga, etc. We determined that no written agreements or contracts

were executed or completed for these facility uses. In addition, we noted that fees for that usage were generally assessed based on a percentage of the instructor's collections (i.e., 20% of each participant's fee due the City). Forestmeadows staff indicated that these terms and conditions were based on verbal agreements made between Forestmeadows staff and the instructors.

Written contracts or agreements are important tools for ensuring the proper communication and understanding of terms, provisions, fees, and requirements relating to use of Forestmeadows facilities for the stated purposes. Accordingly, we recommend that written contracts be prepared and executed with each entity or individual renting Forestmeadows facilities. Those contracts should delineate the roles and responsibilities of each entity (City and instructor) as well as applicable terms, conditions, fees, and requirements.

As noted above, the usage fee for private instructional classes generally is 20% of the instructor's fees collected from each participant. To ensure that the instructors are accurately calculating and correctly paying the fees under this methodology, Forestmeadows staff must observe classes and count participants, at least on a sample basis. Because of the time and resources required to perform these observations and counts, consideration should be given to revising the fee methodology from a calculated percentage of individual fee payments to a flat rental fee.

Consideration should be given to applying a surcharge for clay court usage during tournament play. Clay courts require more resources to maintain than hard courts. Accordingly, the Parks and Recreation Tennis Division applies a \$1.00 surcharge for each use of clay tennis courts during normal (or daily) play. That surcharge is applied and collected regardless of whether the patron pays daily fees or pays under a monthly, quarterly, or annual payment option. In addition, a \$1.00 per court surcharge is assessed and collected for league play on clay tennis courts. The collected surcharges are accounted for separately from other fees and are used to fund the construction of the clay tennis courts.

We determined that the surcharge is not applied and collected for tournament play on clay courts. Accordingly, participants and/or sponsors of tournaments using clay courts are not contributing to the construction of those courts. We recommend that the surcharge be applied equitably to all clay court users, regardless of whether that use is based on daily, league, tournament, or other play.

State sales taxes were not always correctly applied to certain fees. In most instances, fees assessed and collected by the Parks and Recreation Tennis Division are subject to state sales taxes. We noted that state sales taxes were generally properly applied and collected by Forestmeadows staff. In addition, fee income was generally properly classified and reported as taxable income (or non-taxable in the few applicable instances) on daily cash reports prepared and submitted to the Treasurer-Clerk's Revenue Office by the Tennis Division. Proper reporting of that activity on those cash reports helps ensure that collected sales taxes are properly reported and remitted to the state Department of Revenue.

However, we noted the following instances where changes in the collection and reporting of state sales taxes should be made.

- State sales taxes were not properly assessed and collected on fees charged and collected from instructors using (renting) facility rooms for private instructional classes. Those fees were properly reported as taxable sales on the cash report (even though such taxes were not assessed and collected).
- State sales taxes were not properly assessed and collected on fees for tennis ball machine rentals. In addition, daily cash reports did not allow for the correct reporting of those sales as taxable sales. Revisions made to the daily cash report by the Revenue Office will now allow correct reporting of tennis ball machine rental income.
- Commission checks, received from the vendor that contracted with the City to provide vending machines at City facilities, were incorrectly reported as non-taxable collections on daily cash reports. The Revenue Office, upon audit inquiry, has determined that vending machine commissions are taxable income and that sales tax should be paid on vending machine commissions. A directive has been sent to all revenue collection locations by the Revenue Office notifying City staff of this change.

In those instances where taxes were not assessed, collected, or properly reported, the state did not receive taxes that were due based on the related sales activity. For those instances where taxes were not assessed or collected by City staff from applicable participants but, the related sales activity was nonetheless properly reported as taxable sales on the cash reports, the applicable taxes due were determined and the appropriate amounts were remitted to the state. However, instead of the

applicable participants paying those taxes, the City had to pay those taxes from available City funds.

While the amount of state sales taxes pertaining to these collections are, overall, insignificant in relation to City revenues that are subject to state sales taxes, appropriate corrective actions should be taken to properly and correctly assess, collect, and report state sales taxes for division activities.

No written policy has been established that provides for free participation by Parks and Recreation Tennis Division staff in fee-based activities at Forestmeadows, Tom Brown, and Winthrop Parks. During our review, we noted that division employees participated in tennis and other fee-based activities free of charge with management's approval. This practice may benefit these employees from a health perspective, as well as allow the employees the opportunity to practice skills necessary to instruct, demonstrate, and understand activities offered at the parks. However, no written policy has been established by the Parks and Recreation Department to clarify management's intent in this area.

We recommend that management formally evaluate and consider the department's position on employee participation in fee-based activities at Forestmeadows, Tom Brown, and Winthrop Parks. After that consideration, management should establish a written policy clearly specifying employee fee requirements and defining the term "employee" (i.e., City employee, department employee, division employee, permanent employee, etc.). Once developed and finalized, applicable department employees should be made aware of that policy.

Unique cash register access codes should be used to identify employees entering transactions in cash registers. Cash registers used at the three parks can be programmed to require entry of unique access codes before a transaction can be entered and the cash drawer opened. This feature is designed to allow identification of specific individuals that enter transactions and open the cash drawer through assignment of unique codes to different employees. If properly used, that feature results in increased employee accountability in the event of errors or inappropriate transactions.

We determined that this feature is not being used. Management has not assigned unique access codes to each employee working as a cashier. Rather, management has assigned common access codes that are used by all cashiers using a particular cash register. As a result, accountability for individual transactions cannot be determined.

We recommend that management consider assigning each cashier a unique access code and

instruct those cashiers to protect and not share those codes.

Combinations are not periodically changed to safes in which cash operating funds and deposits are stored. Two types of safes are used at Forestmeadows, Tom Brown, and Winthrop Parks.

- Drop safes are used to safeguard and store collections prepared for deposit and pending pick up by either the designated staff (Tom Brown and Winthrop Parks) or by the bank courier (Forestmeadows). The Tennis Superintendent, Forestmeadows Supervisor, Forestmeadows Assistant Supervisor, and Tennis Coordinator know the combinations to those safes. Those individuals are responsible for opening those safes and transferring the prepared deposits to either Forestmeadows or to the bank courier for delivery to the bank. Individual cashiers can “drop” prepared deposits into those safes through open slots, but those cashiers cannot retrieve “dropped” deposits and do not have the combinations to those safes.
- Other safes are used to store and safeguard operating funds used to make change for patrons paying fees by cash. Cash funds maintained for these purposes include a \$300 fund at Forestmeadows and \$25 funds at both Tom Brown and Winthrop Parks. Combinations to those safes are provided to supervisory staff and temporary part-time employees working as cashiers. That access is reasonable and appropriate given the nature of the cashiering function.

Notwithstanding that the safe combinations appear to be properly restricted to appropriate staff, we noted that the combinations have not been periodically changed as provided by good internal controls. Specifically:

- Combinations to the drop safes have not been periodically changed. Routine and periodic changes of those combinations reduce the risk that combinations will be observed and identified by unauthorized individuals.
- Combinations to the other safes have not been routinely changed upon turnover of staff working as cashiers, thereby increasing the risk of loss.

We recommend that combinations to the safes be periodically changed. In addition, combinations should be routinely changed upon termination of staff that were provided or otherwise know safe combinations.

Conclusion

Overall, we found that revenue due the City and collected by the Parks and Recreation Tennis Division was generally appropriately collected, reported, and timely deposited. However, as discussed above, we identified issues that should be addressed by management. Some of these issues were previously identified in our 2001 Citywide Cash Controls audit.

Specific recommendations have been made within this report to assist the Parks and Recreation Department in implementing appropriate corrective actions. Management’s planned actions based on these recommendations are provided in Appendix A of this report.

We would like to acknowledge the cooperation and support of Department of Parks and Recreation Tennis and Administrative Division staff during this audit.

Appointed Official’s Response

City Manager Response:

We appreciate the thorough job the City Auditor's staff did in examining the Tennis Division's revenue process and operations, and the steps the Parks and Recreation Department has taken in developing the audit action plan. We recognize and appreciate the importance of good internal controls, and are confident that continued active monitoring of the controls that have been implemented will result in improved operations and performance within the Tennis Division.

Appendix A - Action Plan			
Action Steps		Responsible Employee(s)	Target Date
Objective A: To ensure that revenue (fees) is properly collected, processed, accounted for, and deposited and fee-based activities are properly administered.			
1.	Increased emphasis will be placed on the performance of regularly scheduled independent reconciliations of participation activities to related fee collections and deposits in the following areas: (Those reconciliations will be documented):	Cindy Mead	6/1/06*
	a. Rosters of monthly/quarterly/annual payees to amounts collected and deposited.		
	b. Actual court use to scheduled court use, and scheduled court use to amounts collected and deposited.		
	c. Rosters for City-sponsored tournaments and fee-based instructional classes (e.g., clinics) to event participants and to amounts collected and deposited.		
	d. Facility rentals to amounts collected and deposited.		
	e. Lessons taught by City staff to amounts collected and deposited.		
	f. Pro shop purchases to recorded sales and pro shop inventory.		
2.	Review and revise the sign-in process to assure that all participants sign-in and clearly denote their method of payment.	Steve LeRoy	7/1/06
3.	Formal, written procedures will be developed addressing appropriate aspects of league play, including a clear definition of “leagues”, fees, methods and timing of payment, court use, and roles and responsibilities of City staff and league representatives.	Ashley Edwards	10/1/06
4.	Written agreements will be entered into with each league to address any deviations from established policies and procedures and fees, methods and timing of payment, court use, and roles and responsibilities of City staff and league representatives.	Ashley Edwards	10/1/06
5.	Proper rental agreements will be executed with each entity renting facilities for private events. Management’s review and approval of those agreements will be documented.	Steve LeRoy	6/1/06*
6.	Records will be maintained that document the disposition of scheduled rental events as well as rental inquiries.	Steve LeRoy	6/1/06*
7.	Written rules and regulations addressing rental of facilities for private events will be updated and a copy of those rules and regulations will be provided to each renting entity.	Cindy Mead	7/1/06
8.	Written contracts will be executed with instructors using facilities to provide private instructional classes. Those contracts will delineate the roles and responsibilities of division staff and the instructor, as well as applicable terms, conditions, fees, and requirements.	Cindy Mead	8/1/06

Appendix A - Action Plan (Continued)			
Action Steps		Responsible Employee(s)	Target Date
9.	Management will explore whether a flat fee methodology is appropriate and more efficient than the current process of charging usage fees based on a percentage of participants in the instructors' classes.	Cindy Mead	8/1/06
10.	The \$1.00 clay court surcharge will be assessed for all clay court usage, including tournament activity.	Steve LeRoy	6/1/06*
11.	State sales taxes will be properly assessed on appropriate revenues, including fees collected from entities using facilities for private instructional classes, tennis ball machine rentals, and vending machine commissions. Those revenues will be properly classified as taxable income on the daily cash reports.	Karen Minno	6/1/06*
12.	A formal written policy will be developed addressing employee participation in fee-based activities at Forestmeadows and Tom Brown and Winthrop Parks. That policy will be made available to applicable employees.	Ashley Edwards	10/1/06
13.	Each cashier will be assigned a unique cash register access code and instructed to protect and not share that code with others. Cashiers will be required to use their assigned access codes to enter transactions in the cash registers.	Steve LeRoy	7/1/06
14.	In accordance with established policies and procedures, combinations to all safes will be periodically changed, including routine changing of safe combinations whenever there is termination or turnover of staff having knowledge of or access to those safe combinations.	Steve LeRoy	7/15/06

* As per department, action plan step has been completed as of indicated date. Completion will be verified during the follow up process.

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