I. EXECUTIVE SUMMARY

In this review, we examined accountability of reported cash collections, the adequacy of internal control procedures, and compliance with City and Department cash handling policies at the Edgerton Community Center. We accounted for all reported cash receipts within the test period. The results of this review indicate adequate internal control procedures over the Center's operations and, in general, compliance with City and Bureau cash handling policies. However, we noted the following findings that require management attention to ensure compliance with City and Bureau policies.

- The Office of Public Integrity (OPI) noted that personnel did not always follow the cash deposit procedures outlined in the City's and Bureau's cash handling policies. Of the 76 cash deposits made by the Bureau's central office in the scope period, Bureau personnel deposited 46 of them beyond the period required by City and Bureau policy.

- Three of the 55 permits issued by the Bureau of Recreation for the Edgerton Stardust Ballroom during the scope period examined were not paid in full, at the time of application, as required by Bureau policy.

- There is an inadequate separation of duties for the Permit Administrator who collects, records and deposits permit revenue for the entire Bureau. This condition is a violation of basic accounting principles and City Cash Collection Policies.

II. BACKGROUND, OBJECTIVES AND SCOPE

A. Assignment

The Office of Public Integrity conducts routine examinations of cash receipts, records and related internal controls at City recreation and community centers. The work plan for the current fiscal year includes the examination of one of these centers. We selected the Edgerton Community Center for this examination.

B. Background

The Edgerton Community Center (ECC) provides year-round and seasonal leisure activities in the northwest section of the City. The Edgerton Community Center Director is responsible for all activities at Edgerton. Some of these activities and programs require the payment of participant user fees. All fees of this type are processed at the Edgerton Center.

Additionally, this facility offers, for a fee, permits to use meeting rooms and the Edgerton Stardust Ballroom. The Bureau's central office collects, deposits and accounts for cash receipts attributable to permits. The following table summarizes reported cash collections related to Edgerton during the period July 1, 2007 to April 3, 2008.

Edgerton Community Center
Reported Cash Collections
For the Period July 1, 2007 to April 3, 2008

Activity	Reported Cash Collections
Dance Series	$ 1,582.00
Birthday Train Party	65.00
Breakfast With Santa	19.00
Monroe County Fair	318.00
Seabreeze Field Trip	1,270.00
Permit Sales	30,807.50
Total	$ 34,061.50

The Department of Finance issued the most recent City Cash Collection Policies in January 1998. Additionally, the Bureau of Recreation issued a separate cash handling policy in May 2000 that supplements the City's overall policy. Public Integrity used these two policies as standards to review and evaluate internal controls and procedures in this examination.

C. Objectives and Scope

The objectives of the review were to determine whether the Edgerton Community Center could account for reported cash collections, to determine the adequacy of internal control procedures, and to determine the extent of compliance with City and Bureau cash handling policies. The scope included cash receipts and corresponding records applicable to fees collected for all programs conducted at the Edgerton Community Center and all permits applicable to Edgerton issued during the period July 1, 2007 through April 3, 2008.

Management is responsible for establishing and maintaining a system of internal accounting and administrative control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system

are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of accurate, informative reports that are fairly stated.

Because of inherent limitations in any system of internal accounting and administrative control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any system evaluation to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

The recommendations presented in this report include the more significant areas of potential improvement that came to our attention during the course of the examination, but do not include all possible improvements that a more extensive review might develop.

III. RESULTS OF REVIEW

The results of our testing indicate that Edgerton Community Center personnel and the central office personnel generally appear to be complying with prescribed policy. Additionally, we were able to determine that the center has deposited all reported revenue. However, certain deficiencies exist that require management's attention to improve internal accounting and administrative practices.

A. Untimely Deposits

City Cash Collection Policies and the Department of Recreation and Youth Services Policy and Procedure No. 00-1 require that City personnel deposit all cash within five days of receipt or immediately upon the accumulation of $100.00, whichever occurs first. The Office of Public Integrity noted that personnel from the Bureau's central office do not always deposit permit revenue in accordance with these policies.

During the scope period, the Bureau's central office collected $30,807.50 for permit sales revenue related to Edgerton Community Center. The Office of Public Integrity noted that personnel in the Bureau's central office delinquently deposited 45 of the 76 permit payments. These 45 payments account for $18,830.00 or 61% of the total permit revenue collected in the test period. The following table summarizes these late deposits.

Edgerton Permit Revenue
Analysis of Delinquent Deposits
For the Period July 1, 2007 to April 3, 2008

	Frequency of Occurrence			
Days Deposited Late	Number	Percent	Amount	Percent
Timely Deposits	31	40.79%	$ 11,977.50	38.88%
Deposited 1 day late	35	46.05	13,980.00	45.38
Deposited 2 days late	9	11.84	4,335.00	14.07
Deposited 4 days late	1	1.32	515.00	1.67
Total	76		$ 30,807.50	

In addition to permit revenue collected at the Bureau's central office, personnel at the Edgerton Community Center collected $3,254.00 in revenue related to program fees directly at the center. The Office of Public Integrity noted that personnel at the Edgerton Community Center deposited all cash receipts in accordance with City policy indicative of delinquent deposits only at the central office.

Timely deposits of cash are important because a delay in deposit results in a greater risk of theft or diversion. Additionally, personal checks received in payment may be good upon receipt, but not at a later point in time. Finally, undeposited cash is idle cash and does not contribute to the best possible utilization of City resources.

◆ Recommendation

The personnel at the Bureau's central office should deposit cash collections in accordance with City and Bureau policies.

B. Partial Payments

The Bureau of Recreation utilizes a permit application agreement, which stipulates the price and terms of renting the Edgerton Stardust Ballroom. The application agreement also requires applicants to pay in full at the time that they submit the permit application. The responsible Bureau employee and the applicant note acceptance of the terms by signing this agreement. We noted that three of the 55 permit applications examined were received and accepted with only a partial payment made. Inconsistent application of policy may create disgruntled applicants if they believe they have been unfairly treated due to the inconsistent application of payment policies.

- Recommendation

The Bureau of Recreation should require all applicants to submit payment in full as the application agreement stipulates.

C. Inadequate Separation of Duties

The Bureau of Recreation has designated an employee as the Permit Administrator responsible for processing all Recreation Center permits. These permits are for the use of City recreation facilities, such as Edgerton Stardust Ballroom, portions of Recreation Centers, playing fields, pools, or ice rinks. The administrative duties of this employee include accepting application fees, issuing cash receipts, preparing deposits of permit revenue, updating database information, monitoring unpaid balances, and obtaining fee waivers for eligible groups or organizations submitting the applications.

The concept of separation of duties requires that whenever possible, there should be a separation of functions and duties such that no employee has the ability to control all aspects of a particular operation. Inadequate separation of duties increases the possibility that errors and irregularities, both of an intentional and unintentional nature, can occur and not be readily detected. Because of limited personnel, it is not always feasible to achieve a desirable separation of duties. In these situations, compensating controls such as increased supervisory review can help assure that adequate safeguards and accuracy in reporting are achieved. City Cash Collection Policies require an adequate separation of duties.

OPI noted that the individual in charge of issuing permits and collecting permit payments related to the Bureau, including Edgerton Community Center, also has the responsibility to record all payments with minimal supervisory review. This condition potentially allows the employee the ability to manipulate cash transactions.

- Recommendation

We recommend that the Bureau comply with Cash Collection Policies by instituting increased supervisory review over the permit process. Increased supervisory review should include a documented daily reconciliation of permit applications to cash deposits and cash collection records.

IV. DEPARTMENT RESPONSE

The response of the Department of Recreation and Youth Services to this report begins on the next page.

City of Rochester

one city ROCHESTER

Inter-Departmental Correspondence

RECEIVED
JUL 16 2008
CITY OF ROCHESTER
OFFICE OF PUBLIC INTEGRITY

To: Daniel Markese, Manager/Internal Audit

From: Charles Reaves, Commissioner/DRYS

Date: July 16, 2008

Subject: Audit Response

Following is our response to the Office of Public Integrity's Review of Edgerton Community Center Cash Handling Activities.

Finding:

A. Office of Public Integrity noted that personnel did not always follow the cash deposit procedures outlined in the City's and Bureau's cash handling policies. Of the 76 cash deposits made by the Bureau's central office in the scope period, Bureau personnel deposited 46 of them beyond the period required by City and Bureau policy.

B. Three of the 55 permits issued by the Bureau of Recreation for the Edgerton Stardust Ballroom during the scope period examined were not paid in full, at the time of application, as required by Bureau policy.

C. There is an inadequate separation of duties for the Permit Administrator who collects, records and deposits permit revenue for the entire Bureau. This condition is a violation of basic accounting principles and City Cash Collection Policies.

Recommendation:

A. Untimely Deposits

The personnel at the Bureau's central office should deposit cash collections in accordance with City and Bureau policies.

Departmental Response:

Permit Coordinator will ensure that all deposits are deposited per City policy guidelines/time frames.

Recommendation:

A. Partial Payments

The Bureau of Recreation should require all applicants to submit payment in full as the application agreement stipulates.

Departmental Response:

The back-up Clerk was not familiar with the policy. All staff have been made fully aware of the policy requiring payment in full. Furthermore, we will review our full payment policy to determine if there is an opportunity for change to improve customer service yet not adversely effect efficiency and economy achieved by existing administrative procedures.

Recommendation:

B. Inadequate Separation of Duties

We recommend that the Bureau comply with Cash Collection Policies by instituting increased supervisor review over the permit process. Increased supervisory review should include a documented daily reconciliation of permit applications to cash deposits and cash collection records

Departmental Response:

The Department will implement documented supervisor review/approval of cash deposits and cash collection records.

CR:pb
xc: L. Burgos

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