

A U D I T

City of Los Angeles

Limited Scope Fiscal Audit at the Department of Recreation and Parks

January 24, 2017



RON | GALPERIN
Los Angeles City Controller

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CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

DATE: January 24, 2017

TO: Michael A. Shull, General Manager
Department of Recreation and Parks

FROM: Alfred Rodas, Director of Auditing
Office of the Controller



SUBJECT: LIMITED SCOPE FISCAL AUDIT AT THE DEPARTMENT OF RECREATION AND PARKS

The Controller's Office conducted a limited scope fiscal audit at the Department of Recreation and Parks (RAP) focused on cash handling and payroll. We performed surprise cash counts to ensure that collections and authorized petty cash/change funds are properly accounted for and that adequate controls are in place over these funds. We also completed a limited payroll review, which entailed verifying hours worked, overtime, and bonuses paid to RAP employees during a two-week pay period to provide assurance that payments made to employees were appropriate and properly supported.

Our audit was performed in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Overall Results

Petty cash, change funds, and collections were properly accounted for, but improvements could be made to ensure that certain collections are not used as change funds for non-City concessionaires and employees at the Cabrillo Aquarium (Aquarium). In addition, we recommend that RAP assess the need and use of handwritten official receipts throughout the Department, and significantly reduce the amount of unused official City receipts throughout RAP. Regarding payroll, we noted weaknesses in the supporting documentation related to pre-approval of overtime worked by Park Rangers and employees at the Park Filming Office (PFO). These weaknesses are described in the Observations Section.

Department Response

A draft report was provided to RAP on December 19, 2016, and the Department's Action Plan is included as an Appendix to this report. Based upon the Action Plan, we now consider recommendation 1.1 as implemented and recommendations 1.2, 2.1, 2.2, 2.3, 2.4, 3.1, and 4.1 as In Progress.

We appreciate the cooperation and assistance provided by RAP management and staff during our review.

OBSERVATIONS

CASH HANDLING AND RECEIPTS

It is the responsibility of each City Department to have effective controls to properly account for and safeguard cash and collections, depositing all collections in a timely manner. Departments must develop cash handling procedures for their specific operations that reduce the risk of errors and irregularities and incorporate good internal controls, including segregation of duties. Department management should monitor compliance with these procedures.

Cash is defined as coin, currency, checks, electronic fund transfers, and credit card transactions. All cash received by any employee of the City for, or in connection with, the business of the City, shall be deposited with the Office of Finance or a City bank account.

RAP collects payments at its locations for various fees and donations. Individual divisions are responsible for depositing all collections into a City bank account and reporting collection transmittals, typically on a daily basis, to the RAP Central Accounting Office.

As of July 2015, RAP reported 262 collection locations with a combined average daily departmental collection of \$273,000. The Department also reported 27 change fund locations, and 38 petty cash funds totaling \$19,820 and \$19,300, respectively¹.

¹ Based on an analysis of RAP collections, we selected and visited the following five RAP locations for our review. 1) Wilson & Harding Golf Courses, 2) Golf Reservations Office, 3) Valley Municipal Sports Center, 4) Cabrillo Aquarium, and 5) Griffith Observatory.

Observation#1: Weak cash handling at Cabrillo Aquarium could lead to accounting error and misappropriation.

In lieu of charging an admission fee, the Aquarium provides a donation box and posts a "suggested donation" amount of \$5 per adult and \$1 per child. During our review, we observed that cash donations collected at the Aquarium's entrance had been used as a change fund by the Aquarium's Gift Shop Concessionaire and by employees, to facilitate exchanging of coins and bills. The use of collected funds as change funds increases the risk of accounting error and potential misappropriation.

The Aquarium Manager indicated that the new Gift Shop Concessionaire was struggling to have enough daily change for their operations. The Concessionaire has now agreed to modify their operations so that Aquarium collections are not used for change funds.

In addition, we noted that deposits of cash donations from the Aquarium were being processed on a weekly basis at levels well above the City's established threshold. The weekly collections pending deposit were approximately \$3,500, which is well above the \$1,000 threshold established by the Controller Manual requiring deposits no later than one business day after collection. The Aquarium currently relies on one weekly Brinks pick-up to facilitate the deposit of cash collections. Collections can vary significantly due to days with higher attendance and/or special events, however, the addition of one additional weekly Brinks pick-up would minimize risk of theft, facilitate better safeguards over high-dollar collection amounts, and help maximize interest earned on collections.

Recommendations

RAP Management should:

- 1.1 Ensure that donations at the Aquarium are not used as change funds.**
- 1.2 Consider increasing the frequency of Brinks deposit pick-ups at the Aquarium to two times per week (i.e. Mondays and Fridays).**

Observation#2: Inventory and obsolescence of official City receipts could lead to inappropriate use.

Receipts provide customers with a written record of their payment, and provide an official accounting of individual revenue transactions. RAP utilizes electronic systems such as cash registers and Point-of-Sale (POS) terminals to process a majority of collection transactions. These systems produce automated receipts; however, some locations do not utilize these systems. Therefore, many RAP collection transactions are recorded manually, handwriting information onto a multi-copy pre-printed form known as "official City receipts". Inventories of blank official City receipts are maintained at various locations throughout RAP to facilitate collection processing, including locations with electronic systems or POS terminals, to be used in an emergency during power/system failure.

For example, at the Griffith Observatory (Observatory) staff use official City receipts when donations or permit fees are collected. However, Observatory staff do not maintain an onsite log of their official City receipt inventory; making it difficult to ensure that official City receipts are appropriately utilized and recorded in sequence. At the Observatory, RAP staff are unable to effectively monitor the use of official City receipts within their custody.

We also found weak controls over official City receipts were weak at the Wilson & Harding Golf Courses. Specifically, we observed that approximately 2,800 unused official City receipts were stored within the Golf Starter's Office without an onsite official City receipt log. Such a large inventory of official City receipts at RAP Golf Courses may not be needed, since electronic systems and POS terminals are used by RAP staff to facilitate collections.

Furthermore, we observed that the official City receipts at all four locations were significantly outdated. Specifically, receipt forms have not been updated and/or resupplied at these locations for at least 16 years since the pre-printed year section of the receipt forms are noted as "19____" instead of "20____." Without a proper accounting of official City receipts and use of a modern receipt form, there is an increased risk of accounting error and misuse.

Recommendations

RAP Management should:

- 2.1 Perform a department-wide inventory of all unused official City receipts in the custody of RAP, and assess the business need for sustaining inventories of official City receipts at divisional offices to meet business needs.**
- 2.2 If official City receipts are required, ensure that division staff maintain appropriate onsite logs of official City receipt inventories, and that the inventory provided to division staff is reasonable to support business needs.**
- 2.3 Consider modernizing the inventory of official City receipts to reflect current business needs and processes, and establish controls to account for the inventory of official City receipts provided to division offices.**
- 2.4 Implement a process to account for, and ultimately destroy, the Department's outdated official City receipt inventory.**

PAYROLL

It is the responsibility of each City Department to ensure accurate timekeeping and timely processing of payroll for its employees. Based on our analysis of departmental payroll data, we selected two RAP divisions for testing and evaluation of supporting documentation: 1) Park Filming Office (PFO), and 2) Park Ranger Division.

We conducted a payroll observation and evaluated supporting payroll documents for a sample of eight PFO and 10 Park Ranger staff. Overtime authorizations and support for bonus payments were provided for all 18 employees; however, the forms for overtime authorizations are outdated and do not support pre-approval requirements.

We also observed that several Park Rangers had worked significant amounts of overtime.² According to RAP Management, limited staffing at the Park Ranger Division has forced the need for some employees to work significant amounts of overtime to meet departmental responsibilities. RAP management stated that demand for overtime has been exacerbated by operational functions requiring specialized skills that only a limited number of Park Rangers possess. These skills include the experience and knowledge to deal with homelessness issues, peace officer classification to perform enforcement activities, and certifications to operate specialized fire patrol equipment.

RAP management indicated that it has received budget authority to increase Park Ranger staff, which will eventually help alleviate the demand for overtime. However, due to the lengthy recruitment and training process, the need for Park Ranger overtime is expected to persist for some time.

Observation #3: RAP overtime authorizations do not adequately document evidence of pre-approval.

RAP utilizes overtime authorization forms (Form RP-0427B) which are required for all planned and unplanned overtime worked. After the overtime has been worked, approved forms are forwarded to RAP Central Payroll for recordkeeping and reconciliation purposes. However, the Form RP-0427B does not have a specific field for a pre-authorization signature, nor date; therefore, RAP Payroll staff and auditors cannot verify the timing and adequacy of supervisory and/or management approval of overtime worked as required by RAP policy. By not effectively documenting overtime pre-approvals by supervisors and management, RAP cannot effectively ensure that overtime is worked within policy requirements.

Recommendation

RAP Management should:

- 3.1 Revise Form RP-0427B to provide adequate documentary evidence that all overtime is pre-approved by supervisory staff.**

² We consider "significant amounts of overtime" to be at least 16 hours of overtime worked during a bi-weekly pay period (i.e. two full-time equivalent work days within a two-week period).

Observation #4: Overtime authorizations are not processed in a timely and effective manner.

According to RAP Policy Instruction 469, all overtime must be authorized prior to the overtime being worked.³ Employees must complete Form RP-0247B, and the Form must be approved by the employee's supervisor, and the Division Head (for accumulated/unpaid time), and/or the Branch Head/Superintendent (for paid overtime). The approved Form should then be forwarded to RAP Payroll for reconciliation and record-keeping purposes.

During our review, RAP Central Payroll could not immediately provide all overtime authorization forms requested for the Park Ranger Division. Payroll authorizations were eventually provided for all staff in our sample; however, some took several weeks after our original request, indicating that significant delays exist in Form RP-0247B approvals and distribution. Without timely submission of overtime authorization forms to RAP Central Payroll, RAP is unable to adequately support overtime costs in a timely manner; increasing the risk of improper overtime payments.

Implementation of an automated overtime approval process could significantly improve controls over overtime usage and reporting. An automated process would also facilitate timelier approvals and reconciliations by RAP Central Payroll of authorized overtime, to overtime hours reported on individual employee timesheets.

Recommendation

RAP Management should:

- 4.1 Consider alternate methods of overtime authorization to better control and monitor overtime authorizations and enhance distribution processes.**

³ A policy exception is allowed when emergency situations do not allow staff sufficient time to secure all necessary approvals prior to working overtime (e.g. natural disasters). However, a Form 0247-B is required to be completed immediately thereafter by staff, and should be approved and distributed in the same manner as an advance approval.

APPENDIX

CITY OF LOS ANGELES
INTERDEPARTMENTAL CORRESPONDENCE

DATE: January 13, 2017

TO: Alfred Rodas, Director of Auditing
Office of the Controller

FROM: Michael A. Shull, General Manager
Department of Recreation and Parks



**SUBJECT: LIMITED SCOPE FISCAL AUDIT AT THE DEPARTMENT OF
RECREATION AND PARKS**

In response to the above-entitled report, attached is the proposed action plan that the Department of Recreation and Parks is taking to address your recommendations.

If you have additional questions, please contact Noel Williams, Chief Financial Officer at (213) 454-6978 or Eleanor Chang, Departmental Chief Accountant at (213) 202-2734.

cc: Georgia Mattera, Chief Deputy Controller
Noel Williams, Chief Financial Officer
Eleanor Chang, Departmental Chief Accountant

Recreation and Parks Department Response to the Limited Scope Fiscal Audit					
Observation No.	Summary Description of Observation	Rec. No.	Recommendations	Action Plans	Target Date for Implementation
Section 1					
Cash Handling and Receipts					
1	Weak cash handling at Cabrillo Aquarium could lead to accounting error and misappropriation.	1.1	Ensure that donations at the Aquarium are not used as change funds.	Facility staff and Concessionaire are no longer using the donation funds for change. The Concessionaire has now agreed to modify their operations so that Aquarium collections are not used for change funds.	Immediately
		1.2	Consider increasing the frequency of Brinks deposit pick-ups at the Aquarium to two times per week (i.e. Mondays and Fridays).	The Department is currently working with The Office of Finance to increase the frequency of Brinks deposit pick-ups.	April 2017
2	Inventory and obsolescence of official City receipts could lead to inappropriate use.	2.1	Perform a department-wide inventory of all unused official City receipts in the custody of RAP, and assess the business need for sustaining inventories of official City receipts at divisional offices to meet business needs.	The Department will be performing an inventory count for all unused official City receipts and evaluate the business need for sustaining inventories of official City receipts and also types of receipts needed.	June 2017
		2.2	If official City receipts are required, ensure that division staff maintain appropriate onsite logs of official City receipt inventories, and that the inventory provided to division staff is reasonable to support business needs.	Each Facility using official City receipts will be required to maintain physical inventory logs. The amount of inventory provided will be based on the usage totals from previous years.	June 2017
		2.3	Consider modernizing the inventory of official City receipts to reflect current business needs and processes, and establish controls to account for the inventory of official City receipts provided to division offices.	The Department started the implementation for the new Online Registration and Reservation System in May 2016. The new system is generating e-receipts. The implementation is ongoing and the facilities are scheduled to go live in phases. The objective of this system is for all facilities to utilize the new RecTrac system for all activity and facility reservations. The Department will continue to work with the IT section regarding the specific needs and issues for each Facility.	June 2017
		2.4	Implement a process to account for, and ultimately destroy, the Department's outdated official City receipt inventory.	The Finance Division will implement a process to identify and account for all outdated official City receipt inventory to discard and discontinue its use.	June 2017
Section 2					
Payroll					

3	RAP overtime authorizations do not adequately document evidence of pre-approval.	3.1	Revise Form RP-0427B to provide adequate documentary evidence that all overtime is pre-approved by supervisory staff.	The Department will revise Form RP-0427B to provide adequate documentary evidence that proper pre-approval procedures were followed. This will include adding mandatory date fields for Requestor, Supervisor, and Superintendent signatures.	July 2017
4	Overtime authorizations are not processed in a timely and effective manner.	4.1	Consider alternate methods of overtime authorization to better control and monitor overtime authorizations and enhance distribution processes.	The Department will develop and implement better control procedures to monitor the overtime approval process. These procedures will ensure that appropriate paper or electronic documentation is forwarded to the Payroll division.	July 2017