

CITY AUDITOR'S OFFICE



INTERNAL CONTROL REVIEW ACTIVITY REPORT JUNE 30, 2009

Report No. CAO 2900-0910-01

August 21, 2009

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CITY AUDITOR

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BACKGROUND

The City Auditor's Office has the responsibility to Evaluate, Enhance, Educate, and Enforce internal control issues that come to the Office's attention.

- **Evaluate** - The Office independently and objectively performs Internal Control Reviews to evaluate applicable internal controls through professional expertise and judgment.
- **Enhance** - After evaluation, the Office makes recommendations to enhance the adequacy and effectiveness of existing controls and further recommends additional controls as appropriate.
- **Educate** - Through the Internal Control Review Memorandums to management and the periodic Internal Control Review Activity Reports, the Office educates management and others of appropriate internal controls.
- **Enforce** - Enforcement is limited to supplying data to management to help them enforce the policies and procedures of the City.

The results of the Internal Control Reviews are reported in two steps:

- An Internal Control Review Memorandum is released to the appropriate levels of management and the Mayor and City Council. This Memorandum assists management in the timely correction of control deficiencies.
- Semiannually, a summary report is made of all findings and recommendations from the Internal Control Review Memorandums and released in a *formal Internal Control Review Activity Report*.

This report summarizes the Internal Control Review Memorandums issued since the last Internal Control Review Activity Report (December 31, 2008), including findings, recommendations, and management responses. The recommendations are included in the follow-up system for tracking purposes.

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OBJECTIVES

Our objectives in completing the *Internal Control Review Activity Report* are to:

- Review all activity for the period noted relative to internal control reviews;
- Document for tracking purposes findings and recommendations noted in Internal Control Review Memorandums; and
- Report to the public the results of activities of the City Auditor's Office.

The objectives of each of the Internal Control Reviews were to:

- Determine the adequacy of existing internal controls;
- Determine the reason(s) for any control failure;
- Recommend corrective action; and
- Report the results of our review.

SCOPE AND METHODOLOGY

The scope of the audit was limited to Internal Control Review Memorandums issued from December 31, 2008 through June 30, 2009.

The scope of our work on internal control was limited to the controls within the context of the objectives and the scope of each Internal Control Review.

Our audit methodology during each of the Internal Control Reviews included:

- Observing operations.
- Interviewing personnel.
- Reviewing records, reports, and other applicable documentation.

We conducted this performance audit in accordance with generally accepted government auditing standards except for the requirement for an external peer review every three years. 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.

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INTERNAL CONTROL MEMORANDUMS ISSUED

1. ICR-053 Internal Control Review: Administration of Community Schools

Background: The City's Leisure Services Department works in partnership with nine Community Schools to provide community recreation and education. The Community Schools are non-profit organizations and tax-exempt under the Internal Revenue Code Section 501(c)(3). The Community Schools have boards that act in an advisory capacity and maintain bank accounts for the deposit of funds from fund raising activities. Each Community School site has several Leisure Services staff members that manage the daily operations of the Community School.

Department of Detention and Enforcement was notified of a possible conflict of interest with a Leisure Services employee at one the Community Schools. The following is a summary of this incident:

- A Leisure Services employee at a Community School routinely used his personal funds for supplies for Community School events and was reimbursed by the Community School with checks from the Community School bank account.
- The Leisure Services employee had possession of the Community School account checkbook and a check written to him from this account. The check was signed by a Community School board member.
- The Leisure Service employee had made purchases on behalf of the Community School and inappropriately paid sales tax on these purchases.
- The Leisure Services employee had not requested reimbursement for all of his purchases.

Findings and Conclusions: Upon further review of cash handling practices at Community Schools, we identified the following internal control deficiencies:

- There are no documented procedures on the use of Community School bank accounts by Leisure Services employees. Certain Leisure Services employees are making deposits of Community School funds into Community School accounts without the involvement of a Community School board member. Certain Leisure Services employees have access to the Community School bank account checkbook and receive the bank statements.
- There are no documented policies on how Community School purchases should be handled and whether Leisure Services employees should be making purchases using their own funds and then requesting reimbursement.
- There are no controls in place to ensure that sales tax is not being paid on Community School purchases.
- Purchases made for the Community Schools are tax exempt. However, to maintain this status, the Community Schools must keep their "Domestic Non-Profit Corporation" status current with the Secretary of State of Nevada. A search of the Secretary of State's website for the status of the Community Schools revealed the following:
 - Molasky Community School status: "Permanently Revoked on May 1, 2007."

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- Brinley Community School status: “Default on June 1, 2008”
- Clark Community School status: “Revoked on October 1, 2004”
- Gibson Community School status: “Revoked on November 1, 2006”
- Remaining Community Schools: “Active”

Several Leisure Services managers with a long history with the Community Schools recently retired resulting in a loss of institutional knowledge

Recommendations:

1. We recommended that Leisure Services Management should document policies and procedures on the handling of Community School funds including how Community School purchases should be made and the requirement not to pay sales tax.
2. We recommended that Leisure Services Management should implement monitoring procedures to ensure that Leisure Service employees adhere to the documented Community Schools policies and procedures.
3. We recommended that Leisure Services Management should establish procedures for monitoring the compliance of the Community School boards with the provisions of their contracts with the City. These monitoring procedures should include monitoring the “Domestic Non-Profit Corporation” status of the Community Schools with the State of Nevada.

2. ICR-054 Internal Control Review: Muni Sports Office - Missing Deposit

Background: On February 2, 2009, a Muni Sports Office employee notified Detention and Enforcement that a deposit bag was missing. A Recreation Leader had opened the safe and taken out a deposit bag containing three checks totaling \$12,715 and left it on his desk on his way to a meeting. After returning from the meeting a few hours later, the deposit bag was gone and a search was made to locate the missing deposit bag. When it was evident that the deposit bag was missing, the employee called the makers of the checks and requested that they place “stop payments” on the checks immediately. None of the checks had been cashed and the makers provided replacement checks to the City.

While investigating another deposit made by the same employee, mathematical errors were found on the deposit slip and the employee had forged the initials of his supervisor on the deposit slip. Leisure Services’ policy states that a second employee should initial the deposit slip to verify accuracy and prevent errors.

In conjunction with our review of this incident, we were made aware of the following inconsistencies in how deposits are being completed at other Leisure Services locations:

- The section on deposit slips where checks are to be individually listed are sometimes annotated with “See Tape” when there is sufficient room to list all of the checks. The “See Tape” annotation is only to be used when the number of checks exceeds the number that can be recorded on the deposit slip.

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- The restrictive endorsement stamp is not always placed on the back of checks as required by policy.
- Checks do not always have the driver's license number or other I.D. numbers written on the face of the check as required by policy.

Findings and Conclusions: Certain Leisure Services employees need to be more diligent in following Leisure Services' established cash handling policies and procedures in the following areas:

- Safeguarding deposits
- Completing deposit slips
- Obtaining second verifications on accuracy of deposits
- Placing restrictive endorsements on all checks received
- Writing driver license numbers or other I.D. numbers on checks

Recommendations:

1. Each Leisure Service Employee should attend a Mandatory 1 hour Cash Handling Procedures training after any violation of the policy.
2. Leisure Services should consider any "Cash Handling Violation" to be action that should be addressed within the city's Positive Progressive Discipline System, and follow all contractual rights offered them by the Collective Bargaining Unit.
3. Leisure Services should consider mandatory Cash Handling Procedures Training every six months to all Executive, Appointive, Classified, Seasonal and Hourly Employees. As specified by the Department Director.
- 4: Leisure Services should explore the possibility of creating a "time log" of the approximate time the bag will actually be deposited at the bank.

**MANAGEMENT RESPONSES
TO
INTERNAL CONTROL REVIEW ACTIVITY REPORT**

1. ICR-053 Internal Control Review: Administration of Community Schools

Recommendation 1: We recommended that Leisure Services Management should document policies and procedures on the handling of Community School funds including how Community School purchases should be made and the requirement not to pay sales tax.

Management Response:

- City employees and hourly employees will no longer have access to Community School Boards bank accounts.
- Board checks, checkbooks, deposit slips and withdrawal slips will be kept in the hands of the Board President or Treasurer. They are not to be in city facilities or accessible to city and hourly employees.
- City employees and hourly employees will not make deposits on behalf of the board into the board accounts.
- All bank statements will go in care of the board president or treasurer to their home address. The Community School address will not appear on the bank statements.

Estimated Date of Competition: Completed: 1 April 2009

Recommendation 2: We recommended that Leisure Services Management should implement monitoring procedures to ensure that Leisure Service employees adhere to the documented Community Schools policies and procedures.

Management Response:

- City and hourly employees may not use board checks or cash to purchase services and supplies for their facility.
- Board members can make purchases that are on the board spending plan and give the purchases to the Community Schools
- Board members will need to use the Tax Exempt letter when making such purchases.
- Boards may donate to the Community Schools services or supplies that are not on the spending plan. However, city employees will be responsible for completing the City policy on accepting donations.
- City and hourly employees will not be personally reimbursed by any Community School.
- City and hourly employees may not use board checks or cash to make purchases for the facility.

Estimated Date of Competition: Completed: 1 April 2009

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Recommendation 3: We recommended that Leisure Services Management should establish procedures for monitoring the compliance of the Community School boards with the provisions of their contracts with the City. These monitoring procedures should include monitoring the “Domestic Non-Profit Corporation” status of the Community Schools with the State of Nevada.

Management Response: We have drafted the attached LS policy/procedure to comply with this recommendation.

Estimated Date of Competition: Completed: 1 April 2009

2. ICR-054 Internal Control Review: Muni Sports Office - Missing Deposit

Recommendation 1: Each Leisure Service Employee should attend a Mandatory 1 hour Cash Handling Procedures training after any violation of the policy.

Management Response: Management agrees with this recommendation.

Estimated Date of Competition: Completed: 1 April 2009

Recommendation 2: Leisure Services should consider any “Cash Handling Violation” to be action that should be addressed within the city’s Positive Progressive Discipline System, and follow all contractual rights offered them by the Collective Bargaining Unit.

Management Response: Management agrees with this recommendation. The department staff will be responsible to report all infractions of the "Cash Handling Procedure" to the Director of Leisure Services. The Director will be responsible to support equal and equitable discipline for violations of the "Cash Handling Procedures".

Estimated Date of Competition: Completed: 1 May 2009

Recommendation 3: Leisure Services should consider mandatory Cash Handling Procedures Training every six months to all Executive, Appointive, Classified, Seasonal and Hourly Employees. As specified by the Department Director.

Management Response: Management agrees with this recommendation. Leisure Services Director will advise management team to implement and track this recommendation.

Estimated Date of Competition: Completed: 1 June 2009

Recommendation 4: Leisure Services should explore the possibility of creating a “time log” of the approximate time the bag will actually be deposited at the bank.

Management Response: Management agrees with this recommendation. The Administration Division of Leisure Services with research a process, creates a document, and implement.

Estimated Date of Competition: Completed: 1 May 2009