

**OFFICE OF THE CITY AUDITOR**

City of Long Beach  
333 W. Ocean Blvd.  
Long Beach, CA 90802  
Telephone: 562-570-6751  
Facsimile: 562-570-6167

**GARY L. BURROUGHS, CPA**  
City Auditor

April 18, 2006

Mr. Gerald Miller  
City Manager

Mr. Phil Hester  
Director of Parks, Recreation, and Marine Department

We have conducted a review of the Registrations/Reservations section of the Department of Parks, Recreation and Marine. The Registrations/Reservations section is responsible for processing of payments for Parks, Recreation, and Marine classes held throughout the City as well as for issuing permits for use of City park sites and facilities. The purpose of the review was to determine the adequacy of internal controls over revenue collection and refund operations. Our procedures are presented at Appendix A.

The Department utilizes the Class system, specifically designed for the parks and recreation environment. This system allows for the management of facility bookings, the maintenance of customer accounts, online access by customers for class sign-up and payment, and tracking of instructor income. Payments totaling nearly \$1 million annually and 33,000 registrations are processed through this system each year.

Based on the results of the procedures performed, we have determined that overall, internal controls in place over revenue collection and refund operations are generally adequate. However, we did identify one instructor who is not turning in all cash receipts to the City and have referred the matter to Department management for disposition. Our review also noted areas where internal controls could be enhanced. Attached are findings, with recommendations, related to internal controls and some additional recommendations regarding operations. Management of the Registrations/Reservations Section has provided audit responses, which are included herein.

Auditor observations were welcomed and staff has already begun to implement recommendations. We would like to thank the management and staff for their cooperation and assistance during this review.

Sincerely,  
GARY L. BURROUGHS, City Auditor

  
By: Janet Sutter  
Deputy City Auditor

Audit Staff: Vlad Marinescu, Senior Auditor

## **Background**

### *Staffing:*

The Registrations/Reservations section of the Department is responsible for processing of class registration payments, refunds, credits and collections and for issuing permits and entering into rental agreements for certain park facilities. The section was moved from the Contracts & Revenue division to the Community Recreation Services division in May, 2005. The Section has a staff of two full time Clerk Typists and two part time Recreation Leaders (one of which is vacant). One of the two Clerk Typists is also an Acting Supervisor as of August 2004.

### *Class Registrations:*

The Department offers a variety of courses throughout the year. Registration for these courses can be made in person, by fax, by phone, via the City website or by mail. Class instructors contract with the City and split the revenues generated from registration income. All administrative tasks are handled by City staff; such as class refunds and instructor income calculation and payment.

### *Facility Reservations and Blanket Permits*

Reservations for picnic sites and facilities are made in person at the reservations office. There are thirteen picnic sites and 19 facilities (i.e. community centers, social halls or activity rooms) available for reservation throughout the City. These sites must be paid for in advance, whereas free picnic sites do not require advance reservation or payment but do require a Permit to Gather for groups of 25 or more. In addition, a paid permit is required for parties utilizing a Moon Bounce at a City site. Applicants are assessed a refundable security deposit, which is returned to the applicant if the facility is left clean and free of damage after the event.

Blanket permits are issued to groups that use park facilities four or more dates within a calendar year. Reservations for blanket permits are generally booked at least one year in advance. Security deposits are not charged to blanket permit applicants since these groups have demonstrated responsible use and care of park facilities. Payment for blanket permits is due within 10 days prior to the scheduled event. If the reservation is on a monthly basis, payment must be received by the first of the month.

## **FINDINGS & RECOMMENDATIONS:**

### **1. Diversion of Revenues**

The instructor of an adult fitness class failed to submit a cash payment of \$25 to the City. Further review and investigation noted the following concerns:

- Analysis of the revenues received and recorded by the City for the 6 classes offered by this instructor over the 12-month period October 2004 through September 2005 indicates an average of **4.2** paying participants per class, which is inconsistent with observations made of these classes that indicate an average of **30** participants per class.
- This instructor conducts fitness classes in surrounding areas outside of Long Beach and allows participants to sign up in one city and attend classes in any of the various locations, which does not allow for proper revenue recognition by the City for participation in classes at Long Beach locations.
- The instructor offers class participants the ability to pay fees by Electronic Funds Transfer, which is not offered by the City. It is unlikely that revenues collected in this manner are being turned over to the City.
- The class description indicates "Child Care Available". While we did not observe child care being provided at the classes attended, we recommend management disallow this offer as it exposes the City to unnecessary liability.

### **Recommendation**

We recommend that management terminate this contract. Should management continue business with this instructor the contract should be revised and requirements for reporting developed and strictly enforced to ensure the City receives all revenue related to the class sessions.

### **Management Response**

A meeting has been set with the instructor of these classes to discuss the discrepancies outlined as a result of random audits conducted by the Auditor's office. Resolution to this issue is still pending. Immediate action taken in the interim has been as follows:

- The instructor was directed to stop allowing participants to pay fees by electronic funds transfer.
- The instructor was directed to stop allowing participants to pay in one city and participate in another.
- The instructor was directed to stop offering child care services during class instruction periods.

## **2. Instructor Contracts Lack a Right to Audit Clause**

City contracts with class instructors do not include a Right to Audit clause. This hinders the City's ability to determine whether contractors are diverting revenues.

### **Recommendation**

We recommend that management include a Right to Audit clause in all contractor agreements.

### **Management Response**

The Department has added a Right to Audit clause in all Contractor Personal Services Agreements.

## **3. Cash Receipts Not Received Timely**

As part of our review of class revenue receipt, City employees attended various classes and attempted to enroll at the first class session with cash. A total of 7 tests were performed with the following results:

Two class instructors would not accept cash payment. One accepted only checks payable to the City of Long Beach and the second accepted check or credit card. A credit card was used in the latter instance and the credit card charge slip was turned in to the City for processing.

The remaining 5 class sessions were paid for in cash. The City received only 4 of these cash payments. The City requires cash payments to be submitted within 3 days of receipt. Two of the three cash payments received were turned in late (i.e. 5 days and 21 days after receipt). The cash payment not received by the City related to an adult fitness class (reported at Finding #1).

### **Recommendation**

We recommend that management devise procedures to monitor and enforce late fees upon instructors who do not forward revenues in a timely manner.

### **Management Response**

Management is evaluating the feasibility of charging late fees to instructors for failure to submit revenues to the City within the appropriate timeframe outlined in department policies.

#### **4. Expired Credit Memos**

The City issues a 12-month credit memo to class participants that cancel their registration after a class has begun. As of our review, over 300 expired credits totaling \$11,022.69 were reflected in the Class system. There is no policy in place for regular review and disposition of expired credits.

##### **Recommendation**

We recommend management develop and implement procedures for regular review and disposition of expired credits.

##### **Management Response**

The Registration/Reservations supervisor will review and dispose of expired credits every year in September.

#### **5. Instructor Notification of Refunds**

Class instructors receive only one roster, usually a couple of days before a class begins. They do not receive notification of refunds and/or credits issued subsequent to the printing of this roster.

##### **Recommendation**

We recommend that instructors be notified of refunds/credits issued in order to properly update their records.

##### **Management Response**

Effective February 1, 2006, Registration/Reservations staff are required to notify instructors of any refunds or credits issued to participants to ensure accurate record keeping.

#### **6. System Access Controls**

Review of the Class system user access report as of July 28, 2005 noted 18 terminated employees with access. The terminations occurred as far back as October 2002.

##### **Recommendation**

We recommend management develop written policies and procedures to ensure timely deletion of system users upon termination.

### **Management Response**

Terminated employees must stay in Class due to the inability to delete a person within the system. However, each former employee has been deactivated, denying them any access to the system. We will implement procedures to ensure timely deactivation of employees in the system upon their termination.

## **7. Maintenance of the Instructor Database**

As of July 28, 2005, 54 instructors are listed in Class that are not currently contracting with the City.

### **Recommendation**

We recommend that management keep the instructor database up-to-date in order to allow for an accurate listing of current contractors for use as a reference tool and for periodic review of contract agreements on file.

### **Management Response**

The contract class coordinator is in the process of inactivating all instructors not currently on contract. This process will be complete by February 15, 2006 and we will set up a procedure for regular review and update of the database.

## **8. Collection Activities**

The Department does not forward overdue accounts receivable to the City's Centralized Billing & Collections section for follow-up.

### **Recommendation**

We recommend that management utilize the services of the City's Billing & Collections section to work overdue accounts.

### **Management Response**

The Registrations/Reservations supervisor is in the process of gathering information to forward the Billing & Collections section. This process will be completed by March 31, 2006 and procedures will be developed for the timely forwarding of accounts for collection efforts.

## 9. Asset Security

Cashiers store cash and checks in envelopes during the day, accessible to all employees in the Registration office.

### Recommendation

We recommend that management order lock boxes and provide each cashier a secure place to store negotiable items.

### Management Response

Individual lock boxes have been ordered and will be put to use by February 2006.

## Appendix A

The following represents our procedures:

- We performed interviews of various individuals involved in the processing of customer payments, balancing of the daily work, preparation of the bank deposit, processing of customer adjustments, returns, collections and refunds.
- We performed walkthroughs and testing of all payment receipt processes, as well as the daily balancing and deposit preparation process. We also tested to determine whether cash receipts paid to instructors in class are being deposited with the City as required by contract.
- We performed observations throughout the audit of the overall control environment with relation to physical security controls and safeguarding of assets.
- We reviewed the instructor database and tested to determine that records are maintained up-to-date and that a contract is on file for all instructors.
- We reviewed user security reports related to the system administered by the Registration/Reservations Section.