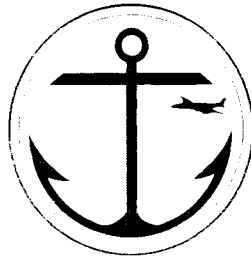


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Rick Mystrom, Mayor

OFFICE OF THE INTERNAL AUDITOR

October 8, 1999

Internal Audit Report 99-11
Cash Controls at Fairview Recreation Center
Sports and Recreation Division
Cultural and Recreational Services

Introduction. The Sports and Recreation Division of Cultural and Recreational Services oversees the activities of the Fairview and other recreation centers. The recreation centers provide a variety of services ranging from room rentals to recreational sports. For the year ended December 31, 1998, Fairview Recreation Center (Center) collected \$74,612 in revenue.

Scope. The objective of this audit was to determine whether proper cash controls exist at the Center. The audit was conducted in accordance with generally accepted government auditing standards, except for the requirement of an external quality control review, and accordingly, included tests of accounting records and such other auditing procedures as we considered necessary in the circumstances. The audit was performed during the period of April through July 1999 and covered the October 1998 to March 1999 period. The audit was part of the 1999 audit plan.

Overall Evaluation. Procedures and controls over cash required strengthening. Cash controls did not provide strict accountability over cash receipts and change funds, supervisory review functions required strengthening, a Cashier Daily Summary Report was not completed for each cashier operating a cash register during the day, and controls over room rental revenue and prenumbered forms required improvement.

FINDINGS AND RECOMMENDATIONS

1. Cash Controls Did Not Provide Strict Accountability Over Cash Receipts and Change Funds.

- a. Finding.** Cash controls at the Center did not provide strict accountability over cash receipts and change funds. All employees had access to the safe containing the change funds, cashiers had access to each other's cash drawers and all cashiers had access to the supervisor's key to the cash register, giving them the ability to zero-out the transaction registers and void transactions. The reason for the lack of limited access was due to the fact that the Center was open up to 14 hours a day, 7 days a week, while the supervisor worked a 40-hour work week. While we are required to disclose the weak control environment, we also recognize that the risk to any material amount of Municipal cash is minimal and does not warrant the implementation of costly control procedures. Strong supervision can compensate for weak controls. However, we found that supervisory review over cash handling could be improved. Our review of a sample of Cashier Daily Summary Report's and supporting documentation revealed a variety of errors that had not been detected by the Center Director even though he had signed the Reports. We also found that required monthly unscheduled supervisory cash counts were not properly documented and gave the impression that the counts were not performed properly.
- b. Recommendation.** Supervisory oversight of cash handling procedures and documentation should be improved. Cashier Daily Summary Report's should be closely reviewed to detect errors or other problems. In addition, unscheduled cash counts should be performed monthly and properly documented. Further, access to the cash register should be restricted to the assigned cashier and access to the

supervisor's cash register keys should be restricted to the Center Director when possible.

c. **Management Comments.** Management concurred and stated, "Supervisory oversight of cash handling procedures and documentation will be improved. Center Directors will closely review Cashier Daily Summary Reports to detect errors or other problems. Unscheduled Cash Counts will be adequately documented on a form provided by the Internal Auditors. Access to the cash register will be restricted to the assigned cashier and access to the supervisor's cash register keys will be restricted to the Center Director when possible."

d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

2. **Cashier Daily Summary Report Was Not Prepared for Each Cashier Operating a Cash Register in Accordance With Municipal Policy and Procedure 24-1.**

a. **Finding.** A Cashier Daily Summary Report was not completed for each cashier operating a cash register during the day as required by Municipal Policy and Procedure 24-1. Instead, only one Cashier Daily Summary Report was prepared for the Center, summarizing all of the cashier activity during the day. The Cashier Daily Summary Report provides a detailed record of all cash transactions performed by the cashier, including register corrections, refunds and any cash overages or shortages. The form is used to reconcile documentation on hand to cash received and is an invaluable record by which to monitor cashier performance.

b. **Recommendation.** A Cashier Daily Summary Report should be prepared for each cashier operating a cash register during the day to reconcile payments received to

other daily documentation. The Report should be verified and signed by the Center Director and forwarded to Cash Management.

- c. **Management Comments.** Management concurred and stated, "A Cashier Daily Summary Report will be prepared for each cashier operating a cash register during the day to reconcile documentation on hand to cash received. This report will be verified and signed by the Center Director and forwarded to Cash Management."
- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

3. **Controls Over Room Rental Revenue Required Improvement.**

- a. **Finding.** Fees collected from room rental contracts were not always adequately documented. Some room rental contracts required that the renter pay a percentage of their sales revenue when the renters engaged in sales of snacks, crafts, etc., at the Center. However, there was no requirement to provide any documentation to support the sales revenue due the Center. In addition, the amount of money collected from these renters for the sales portion was not clearly entered on the "revenue producing" portion of the room rental permit. Without proper documentation of rental income, supervisory review and verification of cash transactions is difficult.
- b. **Recommendation.** Revenue collected from room rental functions should be properly documented and controlled. Documentation containing the gross amount collected should be obtained to support the amount due to the Center, the amount collected should be clearly displayed in the space provided on the permit, and there should be an indication on the permit whether revenue producing activities were applicable or not.

- c. **Management Comments.** Management concurred and stated, “A form will be adopted for percentage of sales revenue that the renter will provide to staff. The amount of money collected will be clearly documented on the room rental permit and the form signed by the renter will be attached to the permit.”

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

4. **Controls Over Prenumbered Permit Forms Required Improvement.**

- a. **Finding.** Controls over prenumbered forms required improvement. There was no procedure in place to reconcile the prenumbered permit forms to the amounts collected and deposited and numbered forms were not periodically inventoried to ensure all forms were accounted for. Although a permit log was maintained, it could not be used for reconciliation purposes because it was not always properly completed. In general, payment amount, payment date and transaction number were not documented. In addition, we found two instances where renters had not been billed. Further, we found that a single permit could be used for several activities. These permits were labeled “on-going” and could be used for up to one year to document recurring uses of the Center’s facilities. Although the permit forms were designed for multiple uses, this prevents an accounting for each use by controlled permit number and limits the control provided by prenumbered forms. Prenumbered forms provide a means for controlling the collection of room rental revenue. Documenting and accounting for each room rental and the associated fees will help ensure that all revenue is collected and deposited.

- b. **Recommendation.** Prenumbered permit forms should be reconciled on a routine basis to account for each permit and to verify that the amounts collected per the

permit forms were deposited. This function could be incorporated into the supervisor's daily deposit verification procedures. In addition, consideration should be given to using permit forms on a single use basis only.

- c. **Management Comments.** Management concurred and stated, "Pre-numbered permits will be accounted for in a spreadsheet format that will allow for better inventory control and timely verification of fee payment. In addition, permits will be issued for a limited duration."

- d. **Evaluation of Management Comments.** Management comments were responsive to the audit finding and recommendation.

Discussion With Responsible Officials. The results of this audit were discussed with appropriate Municipal officials on August 30, 1999.

Audit Staff:
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