

# **CITY AUDITOR'S OFFICE**



## **INTERNAL CONTROL REVIEW ACTIVITY REPORT DECEMBER 31, 2008**

**Report No. CAO 2900-0809-04**

**March 5, 2009**

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**CITY AUDITOR**

# INTERNAL CONTROL REVIEW ACTIVITY REPORT DECEMBER 31, 2008

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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 (June 30, 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 June 30, 2008 through December 31, 2008.

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-036 Internal Control Review: McWilliams Safekey Theft**

**Background**

In January 2007, a parent whose child attended McWilliams Safekey requested a receipt for a past cash payment. No receipt could be located. Further research into transactions at this Safekey site found the following irregularities during the period from October 23, 2006 through January 5, 2007:

- Other parents who had paid cash had not been given receipts and the transactions had not been recorded.
- 73 payments had not been recorded or included in the daily deposits.
- 4 payments were recorded but at a reduced amount (e.g., \$14 fee paid but recorded as \$6).
- A registration form had not been completed for several participants and accounts had not been established in the computer system.

An investigation into these irregularities showed that the Lead Instructor had taken approximately \$1,313 in Safekey revenue.

**Findings and Conclusions:**

In 2006, the City Auditor's Office completed an audit of Safekey payment collection controls and issued a report (CAO 1601-0607-05) that identified cash collection control deficiencies and the high risk of skimming at Safekey sites. The following deficiencies outlined within the audit report contributed to the opportunity for skimming at McWilliams Safekey:

- Unclear payment policies and procedures.
- Inconsistent payment collection practices.
- Inadequate payment collection oversight.
- Lack of reconciliations of children in attendance to revenues received.
- Inadequate non-payment collection procedures.

While Leisure Services has already addressed certain aspects of these deficiencies in response to the audit recommendations, several recommendations have not yet been fully addressed.

**Recommendation:**

1. Safekey Management should fully address the outstanding audit recommendations from the *Audit of Safekey Payment Collection Controls* report to further reduce the risk of skimming at Safekey sites.

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**2. ICR-042 Internal Control Review: Culley Safekey Theft**

**Background**

In June 2007, the Safekey Administrative staff identified various irregularities in Culley Safekey's deposit records. Upon further investigation into these irregularities, staff members identified \$369 in cash payments that were never deposited. In addition, staff members identified that many children had been attending Culley Safekey without their parents paying for the service. The value of these unpaid services was found to be approximately \$5,851. The extent of the losses continues to be investigated.

**Findings and Conclusions:**

In 2006, the City Auditor's Office completed an audit of Safekey payment collection controls and issued a report (CAO 1601-0607-05) that identified cash collection control deficiencies and the high risk of skimming at Safekey sites. The following deficiencies outlined within the audit report contributed to the opportunity for skimming at Culley Safekey:

- Unclear payment policies and procedures.
- Inconsistent payment collection practices.
- Inadequate payment collection oversight.
- Lack of reconciliations of children in attendance to revenues received.
- Inadequate non-payment collection procedures.

While Leisure Services has already addressed certain aspects of these deficiencies in response to the audit recommendations, several recommendations have not yet been fully addressed.

**Recommendation:**

Safekey Management should fully address the outstanding audit recommendations in the *Audit of Safekey Payment Collection Controls* report to further reduce the risk of skimming and unpaid services at Safekey sites.

**3. ICR-048 Internal Control Review: Parson Safekey Theft**

**Background**

On February 26, 2008, a Safekey customer paid \$88.00 in cash and received a written receipt for the payment. At the end of the day when the Cash Summary was prepared there was a cash shortage of \$88.00. The Lead Instructor was interviewed but did not know what happened to the \$88.00 in cash and denied that she took it. Safekey admin staff visited the site and found the receipt book that contained a copy of the \$88.00 Cash Receipt marked "VOID". Detention and Enforcement concluded their investigation and were unable to identify a viable suspect.

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**Findings and Conclusions**

In 2006, the City Auditor's Office completed an audit of Safekey payment collection controls and issued a report (CAO 1601-0607-05) that identified cash collection control deficiencies and the high risk of skimming at Safekey sites. The following deficiencies outlined within the audit report contributed to the opportunity for skimming at Parson Safekey:

- Unclear payment policies and procedures.
- Inconsistent payment collection practices.
- Inadequate payment collection oversight.
- Lack of reconciliations of children in attendance to revenues received.

While Leisure Services has already addressed certain aspects of these deficiencies in response to the audit recommendations, several recommendations have not yet been fully addressed.

**Recommendation:**

Safekey Management should fully address the outstanding audit recommendations from the *Audit of Safekey Payment Collection Controls* report to further reduce the risk of skimming at Safekey sites.

**4. ICR-049 Internal Control Review: Mirabelli Basketball Team**

**Background**

A Recreation Leader who recently transferred from Doolittle Community Center to Mirabelli Community Center had the Blue Chips Basketball program move from Doolittle Community Center to Mirabelli Community Center. The Blue Chips was at one time a City sponsored program but evolved into a private organization run by the Recreation Leader. Upon further review and interviews, it was discovered that the Recreation Leader was collecting funds from the Blue Chip participants and depositing them into his personal checking account. He was also using Mirabelli Community Center's address and phone number on private organization correspondence.

The City's CLASS system did not show any revenue for the Blue Chips use of the City's facilities. Additionally, the Recreation Leader was coaching and administering the Blue Chip's Basketball program while working on City time. The Recreation Leader's outside employment was not reported to Human Resources as required by City policy. The amount of revenue lost from allowing the Blue Chips to use the City's facilities without payment is currently unknown.

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**Findings/Conclusions**

Leisure Services Management was unaware of the noted relationship with their customers, how their facilities were being used, and the expected revenues that the City should be receiving. As a result of this lack of awareness, there were uncollected revenues and increased liability to the City. In addition, management did not adequately consider the conflict of interest that can arise when an employee volunteers or is employed with an outside organization that uses City facilities.

**Recommendation 1:**

Leisure Services Management should ensure that all fees for leagues and classes are paid prior to participating in programs.

**Recommendation 2:** Leisure Services Management should ensure that all employees with outside jobs have an approved Outside Employment Request and that the outside employment does not conflict or compete with the interests of the City.

**Recommendation 3:** Leisure Services Management should ensure that none of its employees are acting as volunteers or employees of groups that use City facilities where there is a conflict of interest.

**5. ICR-050 Internal Control Review: Mobile Power Washer Theft**

**Background:** On January 22, 2008, a Park Maintenance Field Supervisor noticed that mobile power washer #3169 was missing from the equipment line where it was kept when not in use. The supervisor made several calls to see if other crews were using the power washer or if it had been left at another location. The mobile power washer with an estimated value of \$10,877 was never found. D&E investigated the incident but was unable to determine who took the power washer. According to the supervisor, the power washer was not secured at the time. The replacement power washer has a hitch lock that will deter unauthorized use.

**Findings / Conclusions:**

The following control weaknesses contributed to this theft:

- There were no anti-theft devices to prevent the theft of the mobile power washer
- There are no surveillance cameras at the East Yard exit gates at the to record what vehicles and/or equipment is leaving the yard
- The gates at the East Yard open automatically when exiting which allow anyone to leave the yard with unauthorized vehicles or equipment.

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**Recommendation 1:**

Field Operations Management should install concrete posts for mobile equipment to be locked and chained to when not in use.

**Recommendation 2:**

Field Operations Management should consider installing video surveillance cameras at the exit gates.

**Recommendation 3:**

Field Operations Management should consider installing LoJack/GPS devices on high cost equipment items.

**Recommendation 4:**

Field Operations Management should develop an inventory control system to account for all equipment and track locations.

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

**1. ICR-036 Internal Control Review: McWilliams Safekey Theft**

**Recommendation:**

Safekey Management should fully address the outstanding audit recommendations from the *Audit of Safekey Payment Collection Controls* report to further reduce the risk of skimming at Safekey sites.

**Management Response**

The following procedures have been implemented at all Safekey sites whether they are on the CLASS point of sale system or a cash summary (handwritten receipts only) site.

1. Unclear payment policies and procedures
  - Safekey now has a payment policy which leaves little room for misinterpreting. The payment policy has a weekly or daily rate payment for the program. The policy states that if the weekly rate is not paid by Friday at 6 pm for the following week, the daily rate will apply for the following week. If the participant comes on Tuesday and payment has not paid, then the participant is escorted to the school office and may not return until payment is made in full. If payment is not received for a drop-in participant, the participant may not return until payment is made.
  - Signage explaining the policy is posted at every site and is stated in the parent handbook and on the participation form which parents sign upon initial registration into the program.
2. Inconsistent payment collection practices
  - Each Safekey Region Supervisor is tasked to do a weekly site audit. This is done by comparing the sign in/out sheet to the registrations taken. The sign in/ out sheet should match up to the amount collected. If it does not, then the site leader/cashier is questioned and appropriate steps are taken to make sure that payment is collected and/or proper disciplinary action will be taken.
  - There are other reports that are accessed through CLASS that will assist in the audit: Amounts Due and Paid, Refunds, Credits etc. The Safekey Region Supervisor is tasked with utilizing these reports to ensure proper collection procedures are followed.
  - Signage has been placed at each site that states: “*You are entitled to a receipt. Make sure that you keep your receipt as proof of payment. If you do not receive a receipt, please call 229-3312 or 229-6512.*” The signage notifies parents that it is their responsibility to procure a receipt and our obligation to provide one.

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3. Inadequate payment collection oversight
  - Each time a Safekey Region Supervisor visits a site (which is a minimum of three times a week), a site audit is conducted. Among the steps to a site audit is verification that the number of children is identical to the number of payments, and the number of participants is the same as the number on the sign in /out sheets. If the numbers do not match, a roll call is taken.
  - If discrepancies are found, the site staff is put on notice to make corrections. An extensive audit of the week will then be conducted in the Safekey office and if other discrepancies are found, the proper disciplinary action will be taken. This may also be a red flag that a full site audit from beginning of school year to present may be advised.
4. Lack of reconciliations of participants in attendance to revenues received
  - See #3
5. Inadequate non-payment collection procedures
  - It has been instituted in our cash flow procedures training that if payment is not received for services, it is to be entered into the participant's CLASS account as balance due. There is a procedure built into CLASS that if no payment is received for 30 days, a reminder letter is generated and mailed to the customer. After 60 days, a letter is generated that states if payment is not brought current within 30 days the account will be sent to a collection agency. At 120 days, the account is sent to collections.
  - If payment is not made at a handwritten receipt site, then the non-payment is logged onto a Non-Payment log. The Safekey Region Supervisor then enters the amount owed as a balance on account in the CLASS account, and the above collection process is put into action.
6. Beginning with the 2008-2009 school year, all Safekey sites will be cashless, which should help eliminate the temptation of skimming.

**Estimated Date of Completion:** All of the above recommendations will be in place and enforced at the beginning of the 2008-09 school year.

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**2. ICR-042 Internal Control Review: Culley Safekey Theft**

**Recommendation:**

Safekey Management should fully address the outstanding audit recommendations in the *Audit of Safekey Payment Collection Controls* report to further reduce the risk of skimming and unpaid services at Safekey sites.

**Management Response:**

Effective August 25, 2008 the City of Las Vegas Safekey program instituted a “no cash payment” policy at all CCSD sites. Customers may pay for Safekey services at the site using any of the following methods: credit card, debit card, personal check or money order. Customers who wish to pay for services with cash are directed to the nearest Leisure Services facility where staff at that location will take the cash payment and complete the transaction. This policy has eliminated the opportunity for fraud as Safekey field staff no longer handles any cash. Safekey management has created several training tools and documents that clearly outline and provide direction to line staff regarding accepted cash handling and reporting procedures. These tools are available in hard copy and electronically are used throughout the year to train staff. Additionally, management staff has created a draft document that will outline the steps and processes that Recreation Leaders will use when they perform a cash handling review. Processes to be included in the cash handling review are: reconciliation of attendance vs. revenue, inspection of non-payment records and adherence to collection procedures. This document will also include a means to track and record the number of reviews completed by the Recreation Leader as well as the outcome of each review.

**Estimated Date of Completion:** Completed on August 25, 2008.

**3. ICR-048 Internal Control Review: Parson Safekey Theft**

**Recommendation:**

Safekey Management should fully address the outstanding audit recommendations from the *Audit of Safekey Payment Collection Controls* report to further reduce the risk of skimming at Safekey sites.

**Management Response:**

Effective August 25, 2008 the City of Las Vegas’ Safekey Program instituted a “no cash payment” policy at all CCSD sites. Customers may pay with any of the following at the site; credit or debit card, check or money. Customers who wish to pay with cash are directed to the nearest Leisure Services center in order to complete their transaction. This policy has effectively eliminated the opportunity for Safekey Field Staff to defraud the city by stealing cash payments.

**Estimated Date of Completion:** Completed on August 25, 2008.

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**4. ICR-049 Internal Control Review: Mirabelli Basketball Team**

**Recommendation 1:**

Leisure Services Management should ensure that all fees for leagues and classes are paid prior to participating in programs.

**Management Response:** Leisure Services Management will ensure that Community Center Coordinators will review CLASS Program Registrations for all Leagues. This will provide us with an accurate account on the number of teams that have paid registration fees. The review and verification of collected revenues will be compared or matched with league schedules. This will provide us with an accurate account of participating teams per league. In the case of Leagues with Individual Registrations, Coordinators will review CLASS Program Registration Reports and cross reference those with participant Waiver-of Claims and Roster/Enrollment forms. These actions will be verified by Leisure Services Field Supervisors that oversee the operations of a said facility.

**Estimated Date of Completion:** November 3, 2008

**Recommendation 2:** Leisure Services Management should ensure that all employees with outside jobs have an approved Outside Employment Request and that the outside employment does not conflict or compete with the interests of the City.

**Management Response:** Leisure Services Management will mandate that all staff submit an outside employment form once a year and when not applicable the employee will sign that he/she does not have another job outside of the city.

**Estimated Date of Completion:** November 3, 2008

**Recommendation 3:** Leisure Services Management should ensure that none of its employees are acting as volunteers or employees of groups that use City facilities where there is a conflict of interest.

**Management Response:** Leisure Services Management will instruct its staff that they are not allowed to volunteer with groups that use city facilities in a financial capacity that may afford that group an advantage or where it poses a conflict of interest with city programming.

**Estimated Date of Completion:** November 3, 2008

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**5. ICR-050 Internal Control Review: Mobile Power Washer Theft**

**Recommendation 1:**

Field Operations Management should install concrete posts for mobile equipment to be locked and chained to when not in use.

**Management Response:** Parks and Open Spaces will begin the process to install concrete embedded rings at the ESC that can be used to lock and chain the power washers and any other trailer mounted equipment. Equipment, when not in use, is currently tongue-locked so that it cannot be connected to a vehicle.

**Estimated Date of Completion:** September 2008

**Recommendation 2:**

Field Operations Management should consider installing video surveillance cameras at the exit gates.

**Management Response:** The CLV Safety/Loss Divisions is in the process of purchasing and installing video surveillance equipment at both the ESC and WSC to better secure each site. Neighborhood Services has volunteered to monitor these video surveillance cameras.

**Estimated Date of Completion:** October 2008

**Recommendation 3:**

Field Operations Management should consider installing LoJack/GPS devices on high cost equipment items.

**Management Response:** The Streets and Sanitation Divisions has placed GPS units on all of their Sweepers (approx. \$150,000/unit), Vactors (approx. \$250,000/unit), 18-wheelers, etc.

**Estimated Date of Completion:** Completed

**Recommendation 4:**

Field Operations Management should develop an inventory control system to account for all equipment and track locations.

**Management Response:** Parks and Open Spaces Division is in the process of researching and reviewing the opportunity to add two additional reporting locations. Once all reporting locations are determined, we will look into developing an inventory control system based on vehicle location.

**Estimated Date of Completion:** 1/09