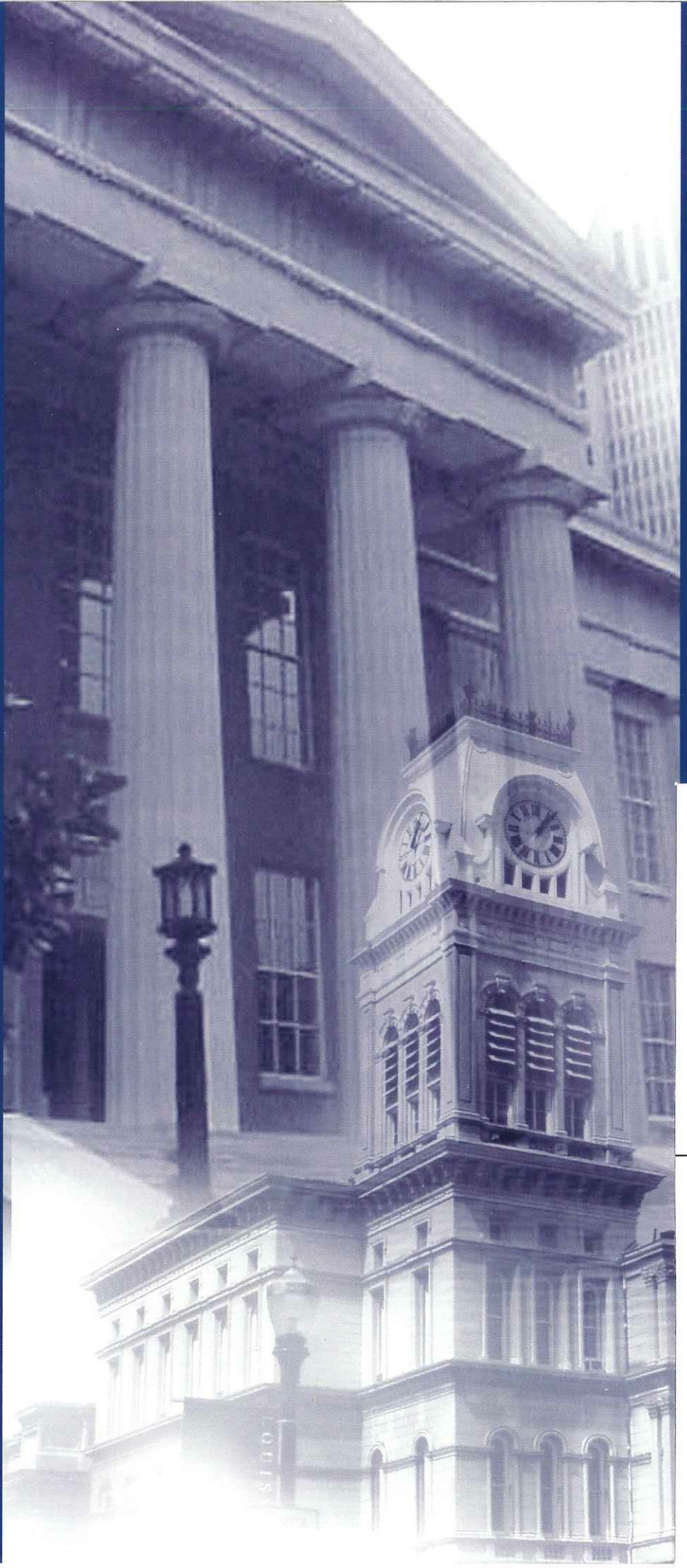




Jerry E. Abramson  
Mayor  
Louisville Metro Council

The Office of Internal Audit provides independent, objective assurance and consulting services that adds value to and improves Louisville Metro Government.



# Office of Internal Audit

Parks and Recreation

Athletics and Tennis Receipts



# **Audit Report**

## **Parks and Recreation**

### **Athletics and Tennis Receipts**

**February 2010**

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OFFICE OF INTERNAL AUDIT  
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### **Transmittal Letter**

February 10, 2010

The Honorable Jerry E. Abramson  
Mayor of Louisville Metro  
Louisville Metro Hall  
Louisville, KY 40202

### **Subject: Audit of Parks and Recreation's Athletics and Tennis Receipts**

#### **Introduction**

An audit of Parks and Recreation's recreation receipts was performed. The primary focus of the review was the operational and fiscal administration of athletics and tennis receipts. This included how activity is processed, recorded, and monitored. The objective was to obtain assurance that risks are adequately mitigated through the internal control structure.

The audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

As a part of the review, the internal control structure was evaluated. The objective of internal control is to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Achievement of business objectives and goals
- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of assets

There are inherent limitations in any system of internal control. Errors may result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personnel factors. Some controls may be circumvented by collusion. Similarly, management may circumvent control procedures by administrative oversight.

### Scope

The procedures for the administration of Parks and Recreation's recreation receipt activity were reviewed through interviews with key personnel. The focus of the review was the operational and fiscal administration of athletics and tennis receipts. Tests of sample data were performed for transactions from the period January 1, 2009 through June 30, 2009. Activity reviewed included athletic team registrations and supporting documentation, cash register reports, bank transactions and Louisville Metro financial system postings.

The review included assessing whether activity was processed, recorded, and monitored accurately and appropriately. This included assessing compliance with terms of the tennis license and revenue share agreement. The details of the scope and methodology of the review are addressed in the Observations and Recommendations section of this report. The audit would not identify all issues because it was based on selective review of data.

### Opinion

It is our opinion that the internal control structure for the Parks and Recreation's athletics and tennis receipts is satisfactory. The internal control rating is on page 5 of this report. This rating quantifies our opinion on internal controls. While the overall rating is satisfactory, some opportunities to strengthen the internal control structure were noted. Examples include the following.

- **Athletics Registration Activity.** The process to reconcile registration fees to participating teams is inefficient, and does not make full use of existing system capabilities. Also, policies and procedures require updates to ensure registrations are handled appropriately and reflect the most current practices, and that required documentation is completed and retained.
- **Daily Balancing Reports.** Athletics and tennis cashiers have the ability to view register receipt balances prior to register closing. This increases the risk that funds could be diverted without detection.
- **Tennis Activity.** There were no observations regarding the fiscal administration of tennis activity.

The implementation of the recommendations in this report will help improve the internal control structure and effectiveness of the administration of athletics and tennis receipt activity.

*Corrective Action Plan*

Representatives from Parks and Recreation have reviewed the results and are committed to addressing the issues noted. Parks and Recreation's corrective action plans are included in the Observations and Recommendations section of this report. We will continue to work with Parks and Recreation to ensure the actions taken are effective in addressing the issues noted.

Sincerely,

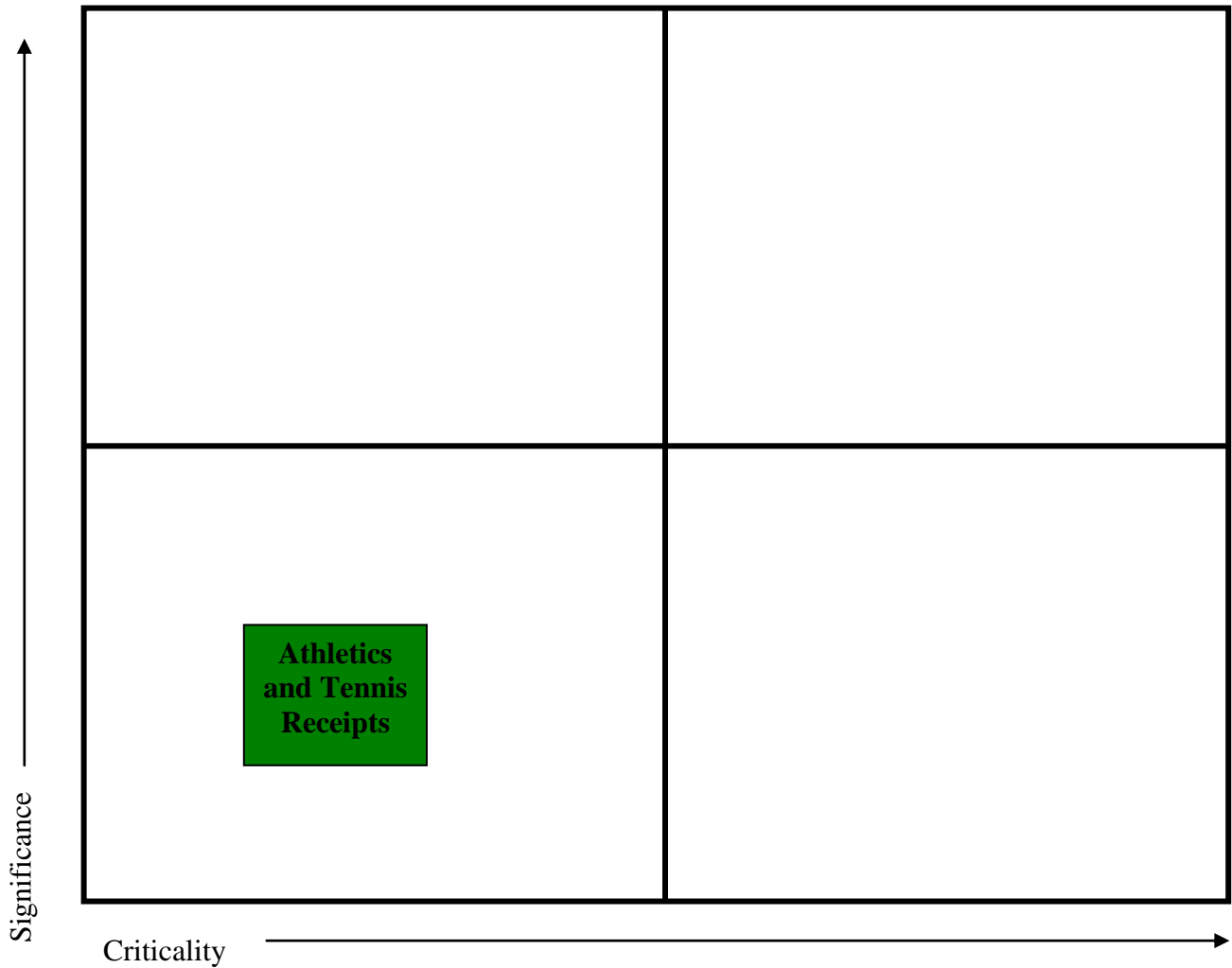


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Michael S. Norman, CIA, CFE, CGAP  
Chief Audit Executive

cc: Louisville Metro Council Government Accountability and Oversight Committee  
Director of Parks and Recreation  
Louisville Metro External Auditors

**Internal Control Rating**



<u>Legend</u>			
<u>Criteria Issues</u>	<b>Satisfactory</b> Not likely to impact operations.	<b>Needs Improvement</b> Impact on operations likely contained.	<b>Inadequate</b> Impact on operations likely widespread or compounding.
<b>Controls</b>	Effective.	Opportunity exists to improve effectiveness.	Do not exist or are not reliable.
<b>Policy Compliance</b>	Non-compliance issues are minor.	Non-compliance issues may be systemic.	Non-compliance issues are pervasive, significant, or have severe consequences.
<b>Image</b>	No, or low, level of risk.	Potential for damage.	Severe risk of damage.
<b>Corrective Action</b>	May be necessary.	Prompt.	Immediate.

## **Background**

Parks and Recreation serves as the community's largest fitness club, with more than 14,000 acres of natural space, specialized recreation programs and facilities, and 16 community centers. The Louisville Tennis Center, located in Joe Creason Park, is home to Metro Parks Athletics, a part of the Recreation Division, which offers youth and adult sports leagues. Parks Athletics staff develops and coordinates sporting events and team leagues, such as softball and kickball, and provides support for golf and tennis activities through an athletics service desk. During fiscal year 2009, Athletics activities generated operating revenues of approximately \$146,000.

The Louisville Tennis Center includes 11 fence-enclosed clay courts and a clubhouse. Indoor facilities include locker rooms, showers, snack bar and tennis service desk. Parks and Recreation is responsible for maintenance of the grounds, while the Tennis Head Professional is responsible for daily management of tennis activities. This includes providing clinics, camps, leagues and lessons starting in May and running through the end of October. The Tennis Head Professional operates under a license and revenue share agreement with Parks and Recreation. In fiscal year 2009, tennis activities generated approximately \$156,460 in operating revenues, of which over \$41,000 was retained by Parks and Recreation through revenue share.

This was a scheduled audit. As athletics and tennis recreational activities function on a cash basis, there are inherent risks associated with this type of business operation (e.g., completeness of activity reported). There are no inventories or records of goods sold to reconcile revenue activity. Routine audits of this activity are warranted to ensure compensating controls are in place to mitigate risks.

## **Summary of Audit Results**

### **I. Current Audit Results**

See Observations and Recommendations section of this report.

### **II. Prior Audit Issues**

The Office of Internal Audit has not previously audited Parks and Recreation's athletics and tennis receipts.

### **III. Statement of Auditing Standards**

The audit was performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

### **IV. Statement of Internal Control**

An understanding of the internal control structure was obtained in order to support the final opinion.

## V. Statement of Irregularities, Illegal Acts, and Other Noncompliance

The review did not disclose any instances of irregularities, any indications of illegal acts, and nothing was detected during the review that would indicate evidence of such. Any significant instances of noncompliance with laws and regulations are reported in the Observations and Recommendations section of this report.

## VI. Views of Responsible Officials / Action Plan

A draft report was issued to Parks and Recreation on January 14, 2010. An exit conference was held at the Parks and Recreation administrative office on February 3, 2010. Attending were Mike Heitz, Mary Ann Westenhofer and Anthony Williams representing Parks and Recreation; and Mike Norman and Scott Shelton representing Internal Audit. Final audit results were discussed.

The views of Parks and Recreation officials were received on February 5, 2010 and are included as corrective action plans in the Observations and Recommendations section of the report. The plans indicate a commitment to addressing the issues noted.

LMCO §30.36(B) requires Louisville Metro Agencies to respond to draft audit reports in a timely manner. It specifically states that

*“The response must be forwarded to the Office of Internal Audit within 15 days of the exit conference, or **no longer than** 30 days of receipt of the draft report.”*

Parks and Recreation’s response was provided within this required timeframe.

## Observations and Recommendations

### Scope

A review of Parks and Recreation's recreation receipts activity was performed. The focus of the review was the operational and fiscal administration of athletics and tennis receipts. Examinations were performed to determine whether fiscal activity was complete, accurate and in compliance with Metro policies and procedures. This included the processing, recording and monitoring of activity. Documentation reviewed included register point of sale reporting, financial system records, deposit slips, and other supporting documentation.

Tests of sample data were performed on athletics and tennis receipt activity from the period January 1, 2009 through June 30, 2009. Documentation was reviewed to ensure timeliness, accuracy and completeness and to assess compliance with athletic league team registration requirements and terms of the tennis license and revenue share agreement.

This information was reviewed to ensure that activity was processed accurately and appropriately. This examination would not reveal all noncompliance issues because it was based on a selective review of data.

### Observations

The internal control structure for the Parks and Recreation's athletics and tennis receipts is satisfactory. While the overall rating is satisfactory, some opportunities to strengthen the internal control structure were noted. Examples include the following.

- **Athletics Registration Activity.** Participation in Parks and Recreation's athletic leagues requires team fee payment in full at the time of registration. After registration, a team representative is required to pick up an information packet and submit a completed team sports roster.
  - Payment of the registration fee for 1 of 24 (4%) athletic teams sampled could not be substantiated. A check in the amount of \$321 was identified as payment of the registration fee on behalf of the team by a sponsoring organization. However, the payment was dated after the end of the Spring Kickball season and the check memo noted sponsoring of the Summer Kickball league.
  - The process to reconcile registration fees to teams participating in Parks and Recreation's athletic leagues is inefficient. Payments are processed through the Active Network's Class Point of Sale (POS) module, which does not identify the team for whom payment is processed. Instead, the cashier dates and initials the registration form during payment and makes a copy for the Athletics Supervisor, who manually keys the payments into a spreadsheet for tracking and reporting purposes.
  - Required documentation for some teams participating in Parks and Recreation's athletic leagues could not be found. For 12 of 24 (50%) teams sampled, a team sports roster could not be found. Of the 12 rosters found, 2 (17%) were missing

- the team captain signature. A signed sports roster acknowledges the understanding of and agreement to abide by the rules governing the league and that participation is entered at his or her own risk.
- There are no documented policies concerning the early registration process or payment of athletic league participation fees after the registration deadline. Early registrations and payment after the registration deadline have been allowed at the discretion of the Recreation Supervisor. As there are no documented guidelines for these situations, team slotting and scheduling may not be treated in a consistent manner. This could result in the appearance of preferential treatment through inconsistency in processing, and increase the risk of non-compliance with intended policies and procedure.
  - **Daily Balancing Reports.** The Louisville Tennis Center athletics and tennis cashiers have the ability to view register system receipt information and print activity reports (e.g., Daily Cash Balance and Drawer Balance). This allows the cashier to be aware of revenue receipt balances prior to register closing. This increases the risk that funds could be diverted for personal use without detection.
  - **Tennis Activity.** There were no observations regarding the fiscal administration of tennis activity.

### Recommendations

Appropriate Parks and Recreation personnel should take corrective actions to address the issues noted. Specific recommendations include the following.

- ✓ Proper reconciliation and monitoring is an integral component of the control structure. It is imperative that Parks and Recreation personnel review the athletics activity information on a regular basis. This includes verification of receipts to the records and, ultimately, to the financial statements. Monitoring should include comparisons of athletic league teams to registration revenues.
- ✓ Parks and Recreation personnel should consider using the Active Network's Class Program Registration module, which is immediately available as part of the existing cash register installed software. The module ties directly to POS, supports the payment of fees in full during registration, and provides reporting that would simplify the reconciliation of league registration payments with participating teams. This would also strengthen the internal control structure through automated reporting and improved segregation of duties.
- ✓ Parks and Recreation personnel should consider the usefulness of the sports roster form and take appropriate actions to emphasize the importance of the document and ensure consistent use or to modify the current requirement.
- ✓ Documented policies and procedures should exist for all critical areas of operations, reflect the most current processes, be updated periodically and should be distributed to all applicable personnel involved in processing. This helps ensure personnel understand expectations, promotes consistency and adherence to applicable guidelines, and efficiency and effectiveness of processing.

- ✓ Parks and Recreation personnel should determine whether Active Network's Class Point of Sale (POS) module has security features to prohibit cashier access to receipt information / activity reports. If so, these controls should be activated. In the absence of these security features, future system modifications should be considered to improve internal controls. Compensating controls (e.g., unannounced cash counts compared to system activity) could be performed to help ensure the accuracy of revenue receipts.

**Parks and Recreation's Corrective Action Plan**

The following response was provided by the Director of Parks and Recreation.

Thank you for the opportunity to respond to the 2010 Athletics and Tennis Receipts audit. I am pleased to work as a team with Internal Audit to improve accountability and professionalism both in Athletics and our entire department.

**Athletics Registration Activity** - Since the audit, our Recreation Division has experienced a management change. The former manager is no longer with Metro Government. The current manager is working with staff to develop policies and procedures for this area. With the management change, the Business Office converted all current and new leagues to Program Registration.

**Daily Balancing Reports** - We have turned off this feature for all cashiers. In addition, our software has an audit function built in which notes all activity (including changes to prior events), the time of the activity and the originator. This audit function is not visible to our cashiers. The audit function provides a trail of all activity of cashiers and administrators throughout the day. It also notes when a cash drawer is opened without activity.

**Inventory Reconciliation** - We have informed our tennis pro that we will convert his inventory to our ACTIVE software this spring. We have requested a listing of the information for input into our system. We anticipate that the information will be complete for the Spring opening in April.

**Office of Internal Audit**  
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