



OFFICE OF
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November 10, 2005

The Honorable Antonio Villaraigosa, Mayor
The Honorable Rockard J. Delgadillo, City Attorney
The Honorable Members of the City Council
City Hall
Los Angeles, California 90012

Dear Mayor Villaraigosa, City Attorney Delgadillo, Members of the City Council:

Today I release a financial and compliance audit that evaluates important fiscal management issues of the Department of Recreation and Parks. To think of ourselves, much less actually be, a truly great City, Los Angeles must have safe, attractive and healthy parks and recreation facilities that provide programs that meet the needs of EVERY neighborhood in this City. By the end of this year, I will release two additional audits of Recreation and Parks, an analysis of facility maintenance, and a report on recreational services and programs.

My audit found the Department of Recreation and Parks is slow to change and unwilling or unable to address previously identified problems. In 2003, a complete outside review of financial operations was conducted that sits on a shelf without being fully implemented by management.

My audit found a woeful lack of oversight of Recreation and Parks' Municipal Recreation Fund. This account was created to collect fees from participants to cover the direct cost of providing programs. It appears that these monies are not always used for their intended purpose. Most puzzling is that \$21.5 million has been accumulating over the last several years.

November, 10, 2005

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Further, program fees for the same recreational services vary dramatically among facilities throughout Los Angeles. Since fees are designed to recover direct costs, why should it cost more money to play baseball in one park instead of another? The Department has also failed to transfer over \$2 million from the revenues of its Pershing Square parking operations to programs for youth who live in the downtown area. How can this happen? This is a population that needs more services not less!

In a City where park facilities are so scarce and inadequate, we cannot afford to turn a blind eye to their fiscal management. It is also important to note that core rules and regulations governing Recreation and Parks were written and adopted in the 1950's. Now is the time to revisit decisions that were made over fifty years ago to see if they make sense in the context of serving the needs of the people of Los Angeles in the 21st Century.

Sincerely,

A handwritten signature in black ink that reads "Laura N. Chick". The signature is written in a cursive, flowing style.

LAURA N. CHICK
City Controller



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November 10, 2005

Mr. Jon Kirk Mukri, General Manager
Department of Recreation and Parks
1200 West 7th Street, Suite 700
Los Angeles, CA 90017

Dear Mr. Mukri:

Enclosed is a report entitled, "Financial and Compliance Audit of the Department of Recreation and Parks (RAP)." A draft of this report was provided to your office on October 31, 2005. Comments provided by your Department at the November 8, 2005 exit conference meeting, as well as previous meetings with Department management, were evaluated and considered prior to finalizing this report.

Please review the final report and advise the Controller's Office by December 9, 2005 on actions taken to implement the recommendations. If you have any questions or comments, please contact me at (213) 978-7392.

Sincerely,

FARID SAFFAR, CPA
Director of Auditing

Enclosure

cc: Honorable Antonio R. Villaraigosa, Mayor
Honorable Members of the City Council
Honorable Rockard J. Delgadillo, City Attorney
Robin Kramer, Chief of Staff, Office of the Mayor
Jimmy Blackman, Deputy Chief of Staff
William T Fujioka, City Administrative Officer
Frank Martinez, City Clerk
Gerry F. Miller, Chief Legislative Analyst
Antoinette Christovale, Director of Finance
Christina Sanchez-Camino, President
Recreation and Park Board of Commissioners
Independent City Auditors





City of Los Angeles Office of the Controller

Financial and Compliance Audit of the Department of Recreation and Parks

November 10, 2005

Laura N. Chick
City Controller

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**FINANCIAL AND COMPLIANCE AUDIT OF
THE DEPARTMENT OF RECREATION AND PARKS**

EXECUTIVE SUMMARY

The Audit Division has completed a financial and compliance audit of the Department of Recreation and Parks (RAP). The primary objectives of the audit were to: 1) evaluate the Department's internal controls over its Municipal Recreation Program (MRP) special revenue fund, 2) evaluate its user fees to determine if the fees are developed in accordance with existing City/Departmental policy and that the fees recover all authorized costs, 3) assess the Department's budget controls to ensure it operates within its budget and that the Department properly accounts for its revenue and expenditures, 4) determine if weaknesses noted in RAP's Internal Control Certification Plan (ICCP) for fiscal year (FY) 2003-04, have been corrected.

Background

The Department of Recreation and Parks (RAP or Department) is responsible for providing diverse recreational opportunities and facilities for the benefit and enjoyment of the City of Los Angeles' residents. The Department's mission is "to provide the citizens of Los Angeles safe and beautiful parks and facilities, enriching and affordable recreation programs and human services for people of all ages, while building quality communities and caring for the environment". The Department's budgeted appropriations for Fiscal Year (FY) 2004-05 were approximately \$130 million, and the Department employs 1,905 employees.

Scope

Our audit was performed in accordance with Generally Accepted Government Auditing Standards and covered the period from July 1, 2004 to June 30, 2005. In performing our audit, we interviewed RAP management and staff; reviewed applicable policies and procedures; visited eight facilities; and sampled expenditure and revenue transactions.

Summary of Audit Results

In the last two years, RAP received a new General Manager (GM), a new Assistant General Manager (AGM) and a new Chief Financial Officer (CFO). The new

management has brought a new awareness of fiscal responsibility to the Department. Its budgeting and budget-monitoring performance has improved with the assistance of the City Administrative Office (CAO).

Despite these improvements, our audit identified several areas where the Department needs to strengthen its operations. Some of these had already been identified by an earlier management review of financial operations performed in 2003 by a consultant (at the request of the RAP's previous GM), but have not been corrected by management. Most significantly, RAP management needs to increase its oversight over MRP activities. Following are examples of our key findings:

Key Findings

Section I: Municipal Recreation Programs

- ❑ **RAP does not operate the MRP Fund in accordance with either the intent of the 1954 Board resolution or the intent of recovering program costs.**

The MRP fund was established in 1954 by the Department's Board of Commissioners (Board) via a resolution. The purpose of the fund was to hold monies on behalf of voluntary and adult organizations. Expenditures from the fund would then be used to pay for program related expenses. The fund is now used to account for program fees charged to participants. Program fees are deposited into the MRP fund and then used to pay for direct expenses associated with the program. The current purpose of the fund is similar to the 1954 Board resolution. The main difference is that today, the programs are organized and operated by the Department, whereas before, they were organized/operated by the voluntary and adult organizations.

Based on both the intent of the 1954 Board resolution and RAP's current intent, the fund should have a relatively small balance. The fund should contain only fees collected for programs that have not yet been spent on program activities. However, we found that the fund has continued to grow at a consistent and rapid pace over the past five years. At the end of FY 2000-01, the balance was \$8.8 million. At the end of FY 2004-05, the balance had grown to \$21.5 million, a 144% increase. The high balance in the fund is an indication that the Department may be charging too much for its programs, based on its existing policy of charging fees to recover direct costs, plus up to 15% for administrative expenses.

- ❑ **RAP uses MRP funds for other than their intended purpose.**

The MRP Fund should only be used for direct expenses of a recreation program. However, we identified several expenses from the MRP Fund that were not direct costs associated with a recreation program. Rather, the majority appeared to be for administrative expenses that should have been paid for from the 15% added

to direct costs. Most of the expenditures were made from sub-accounts associated with district and regional administrative offices. The Department has 67 district and region sub-accounts, totaling \$2.6 million. Since these sub-accounts are not associated with specific programs, it appears the amount is available to use for non-direct program expenses.

- ❑ **RAP does not reconcile the balance in its Municipal Recreation sub-accounts maintained on its Action Information Management System (AIMS) with the City's Financial Management Information System (FMIS).**

As of June 30 2005, RAP had a balance of \$19.1 million on AIMS, while FMIS showed a cash balance of \$21.5 million. The Department does not attempt to reconcile the two systems.

Section II: Pershing Square Parking Garage

- ❑ **Since the collections from the Pershing Square Parking Garage are not received from program participants, the collections should not be accounted for in the Municipal Recreation Program Fund.**

It is questionable why activities related to the garage are accounted for in the MRP Fund, since the collections are not received from program participants. Because the revenue derived does not relate to the intent of the MRP Fund, we believe the collections should be deposited to its Operating Fund.

- ❑ **The Department has not operated the Pershing Square Park Garage sub-account in accordance with the 2000 Board Resolution.**

The Department has not always made the required transfers and designations outlined in the Board resolution. For example, RAP did not make the required \$300,000 designation per year for capital improvements at the end of FYs 2000-01, 2001-02, 2002-03. Instead, it designated \$1.9 million at the end of FY 2003-04. This is \$700,000 more than it should have designated if the required yearly designations had been made. In addition, the Department did not make the required \$505,900 transfer to Pershing Square Park for youth programming for either FY 2000-01 or FY 2001-02.

Section III: Cash and Payment Controls at RAP Facilities

- ❑ **RAP does not have an effective method to detect facilities that fail to make timely bank deposits.**

RAP's cash handling policy requires facilities to make bank deposits at least once a week or when accumulated collections exceed \$300. We found instances of late deposits at four of the eight locations visited. In addition, a \$2,500 theft occurred at one facility that had not made a deposit in over four weeks. The

amount of the theft would have been much less if the facility had complied with the cash handling policy.

- ❑ **RAP does not have adequate controls over the receipts issued to facilities.**

The Department's procedures do not require staff to verify that the receipt number indicated in the current deposit transmittal sequentially follows the last number in the previous transmittal. Therefore, RAP cannot ensure that all receipts issued to facilities have been properly accounted for.

Section IV: User Fees

- ❑ **Program Fees set by Municipal Recreation Program managers often vary dramatically amongst facilities.**

We noted that fees charged by various facilities for the same type of recreation program vary dramatically from one facility to another. For example, fees charged for baseball programs ranged from \$35 to \$110. Since the fees are supposed to be set based on the direct cost of the program, we would expect only small differences. None of these six facilities we reviewed attempt to determine their direct costs in order to calculate an appropriate fee to charge, as required by the Department's procedures.

Section V: Budgetary Control and Adherence to City Budget

- ❑ **Facility directors do not utilize available reports to help them ensure they operate within their budget.**

While budget reports mandated by the City Administrative Office have been very useful to management in monitoring budget variances at a high level, facility directors do not utilize various monitoring reports developed by RAP's Accounting Section to help ensure they operate within their budget. Some facilities do not even have intranet capability to access the reports.

Section VI: ICCP Administration

- ❑ **The Department has not corrected several weaknesses identified in its Fiscal Year 2003-04 Internal Control Certification Program.**

In its Fiscal Year 2003-04 Internal Control Certification Program certification, RAP identified eight weaknesses, mainly in its cash and revenue controls. The Department submitted action plans to correct all weaknesses by September 2004. However, we found that only three of the eight weaknesses have been corrected.

Recreation and Park's Review of Report

We met with RAP management on November 7, 2005. The Department generally concurred with the findings and recommendations.

TABLE of RECOMMENDATIONS

RECOMMENDATIONS	PAGE REFERENCE
<p>Section I: Municipal Recreation Program (MRP)</p> <p>We recommend that RAP management:</p> <ol style="list-style-type: none"> 1. Resolve issues related to its MRP Special Revenue fund by: <ol style="list-style-type: none"> a) Determining how much of the \$21.5 million in the MRP Special Revenue Fund relates to recent collections that are anticipated to be used for direct costs associated with these MRP programs. b) Working with the City Administrative Office, City Attorney, and the Office of the Controller to determine the legality of transferring the excess funds (\$21.5 million less the amount determined in a) above) to the City's General Fund. c) Working with the City Administrative Office, City Attorney, and the Office of the Controller to determine the appropriate disposition for the excess funds, if it is determined that it cannot be legally transferred to the City's General Fund. d) Eliminating use of the MRP fund. All collections, except for restricted donations, should be deposited to the Operating Fund. e) Consulting with the Office of the Controller on how accounts can be set-up in its Operating Fund to account for revenues and expenditures related to recreation programs. 2. Budget for MRP activities. 	<p>11</p>

RECOMMENDATIONS	PAGE REFERENCE
<ol style="list-style-type: none"> 3. Eliminate sub-accounts within its Action Information Management System that do not directly relate to recreation programs. 4. Work with the Board to revise the 2002 policy memorandum. The revised policy should specify that MRP funds be used only for direct program expenses. The policy should also provide examples of allowable and non-allowable expenses. 5. Establish controls, such as periodic reviews of sample transactions, to ensure MRP funds are used only for items specified in the revised 2002 policy memorandum. 6. Investigate the discrepancy between its Action Information Management System and the City's Financial Management Information System, and establish procedures to reconcile the balances from the two systems on a regular basis. 7. Determine the disposition of any excess funds identified by the reconciliation. 	
Section II: Pershing Square Parking Garage	17
<p>We recommend that RAP management:</p> <ol style="list-style-type: none"> 8. Work with the Board to modify the Pershing Square Parking Garage resolution to require that all collections from the garage operations be deposited into RAP's Operating Fund. 9. Ensure that allocations of net revenues from garage operations are based on an assessment of Departmental needs, allocations are made in accordance with the needs assessment, and that allocations are periodically reviewed to determine if they need to be adjusted. 10. Seek clarification from the Board on how the 	

RECOMMENDATIONS	PAGE REFERENCE
allocations/designations should be adjusted based on actual net revenue from the parking garage operations.	
11. Ensure monthly financial statements for the garage are prepared timely and that required annual reports are submitted to the Board.	
Section III: Cash and Payment Controls at RAP Facilities	21
<p>We recommend that RAP management:</p> <ol style="list-style-type: none"> 12. Ensure that facilities post required signs at cashiering windows. 13. Remind facilities of its deposit policy requiring that deposits be made at least weekly or when accumulated collections exceed \$300. 14. Require Revenue Accounting to generate the transmittal exception report weekly and follow-up with the district managers to inquire as to why specific facilities have not made deposits within the past week. 15. Continue to explore ways to reduce the amount of cash on-hand at its facilities. 16. Establish procedures to ensure that collections are deposited into the correct account. 17. Establish separate accounts for each program/class. 18. Require Revenue Accounting periodically review receipts to ensure they have been used sequentially and that the total of the receipts equals the deposited amount. 19. Instruct facilities to submit a Payment Voucher only for services already received. 20. Remind facilities of the City's 30-day requirement for paying vendors and periodically monitor to ensure compliance. 	

RECOMMENDATIONS	PAGE REFERENCE
21. Re-instruct facilities to obtain proper approvals before making purchases.	
Section IV: User Fees	26
<p>We recommend that RAP management:</p> <ul style="list-style-type: none"> 22. Require facility directors to track the direct costs of operating each program and set program fees to recover these costs (plus up to 15% for administrative expenses). 23. Convene the Program Fee Committee to conduct regular surveys and reviews of program fees throughout the City to ensure consistency, fairness, and compliance with Departmental policy. 24. Ensure facilities comply with Departmental policies with respect to approval of program fees, maintaining program materials, and approving discounts. 	
Section V: Budgetary Control and Adherence to City Budget	29
<p>We recommend that RAP management:</p> <ul style="list-style-type: none"> 25. Train facility directors on budgeting principles and monitoring tools. Once training is provided, hold managers accountable for operating within budgets. 26. Continue its efforts to make all monitoring reports accessible to the field locations. 	
Section VI: Internal Control Certification Program (ICCP) Administration	31
<p>We recommend that RAP management:</p> <ul style="list-style-type: none"> 27. Require its managers to submit periodic status reports to show the progress in correcting remaining weaknesses identified in its FY 2003-04 ICCP. 	

INTRODUCTION AND BACKGROUND

The Department of Recreation and Parks (RAP or Department) is responsible for providing diverse recreational opportunities and facilities for the benefit and enjoyment of the City of Los Angeles' residents. The Department's mission is "to provide the citizens of Los Angeles safe and beautiful parks and facilities, enriching and affordable recreation programs and human services for people of all ages, while building quality communities and caring for the environment". The Department's budgeted appropriations for Fiscal Year (FY) 2004-05 were approximately \$130 million, and the Department employs 1,905 employees.

To accomplish its mission, the Department is organized into five regions: the Griffith, Metro, West, Valley and Pacific regions. The five regions maintain 389 parks, 176 recreation centers, 59 swimming pools, 29 senior citizens centers, 13 golf courses, 7 museums, and 9 lakes.

RAP has a Board of Commissioners (Board) with the power to: (1) control all recreation and park sites; (2) control, appropriate and expend all money in the RAP fund; (3) request that the City Treasurer invest any surplus funds under its control; (4) organize the work of the Department into divisions; (5) set fees for the use of RAP's facilities and (6) appoint an administrative officer for each division or any group of divisions. The General Manager is the Chief Administrative Officer and reports to the Board. An Executive Officer, two Assistant General Managers, Chief Financial Officer and administrative management staff support the General Manager.

AUDIT FINDINGS

I. Municipal Recreation Program (MRP)

In the early 1950s, adult participation in municipal sports increased and became widespread. The participants formed voluntary organizations in connection with team and league administrations to provide orderly competitions. The voluntary organizations set and collected membership fees from participants to help support their programs. The Department held the fees and money collected on behalf of the organizations and made the funds available to them as needed.

With the growth and increase of adult participation in the voluntary organizations, the amount of money held by the Department increased. As a result, in September 1954, the Board adopted a resolution, which established a special revenue fund called the Municipal Sports Account (MSA) to hold money on behalf of voluntary and adult organizations (i.e., money not considered departmental revenue). In general, the resolution required receipts and disbursements to be tracked separately for each organization. It also required subsidiary ledgers (i.e., sub-accounts) to be maintained for each facility to account for donations received from local communities for the general welfare of recreation center patrons and from proceeds from fundraising activities.

The MSA's general ledger is reflected in the City's Financial Management Information System (FMIS), while the Department maintains 463 subsidiary accounts in its Action Information Management System (AIMS) to track amounts held in the MSA. Throughout the remainder of this report, the MSA will be referred to as the Municipal Recreation Program (MRP) Fund.

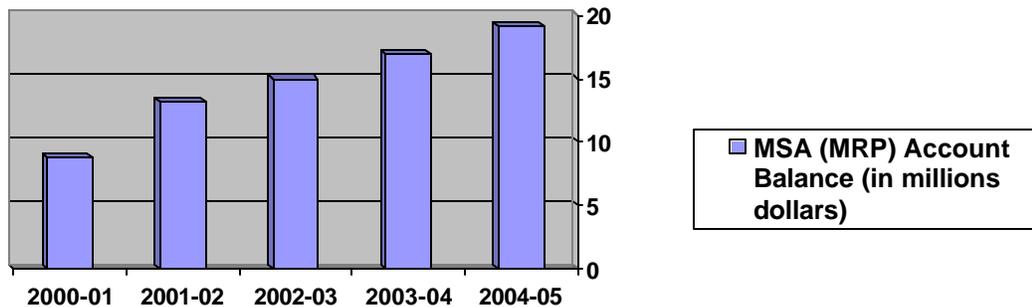
Finding #1: RAP does not operate the MRP Fund in accordance with either the intent of the 1954 Board resolution or the intent of recovering program costs.

Based on discussions with RAP management, the current intent of the fund is to account for program fees. Program fees include amounts collected for Citywide sports leagues, sport leagues operated by specific facilities and class fees (e.g., karate, dance, computer, etc.). Program fees do not include fees set by the Board, such as fees for renting gymnasiums, baseball fields, and meeting rooms; swimming pool and golf fees; and fees for Citywide day camps. These fees are generally accounted for in the Department's Operating Fund.

Program fees collected are deposited into the MRP Fund and used to pay for direct expenses associated with the program. As discussed later in the User Fee Section of

this report, the program fees should be set at a rate to recover direct costs¹. For example, a facility may collect \$5,000 from participants of a basketball league. The \$5,000 would then be used to pay for officials, uniforms, trophies, etc. Since the fees are supposed to be designed to recover direct costs, the amount in the MRP Fund associated with a particular program should be close to zero when the program ends.

Based on both the intent of the 1954 Board resolution and RAP's current intent, the fund should have a relatively small balance at any point in time. The fund should only contain fees collected for programs that have not yet been spent on program activities. However, we found that the fund had a June 30, 2005 balance of \$21.5 million.² In addition, the fund has continued to grow at a consistent and rapid pace over the past five years. For example, as of the end of FY 2000-01, the balance was only \$8.8 million, as reflected in the Department's AIMS. Therefore the balance in the fund has increased 144% over the last four years. The large increase in the fund balance (as reflected in AIMS) is shown in the chart below.



Of the \$21.5 million balance, approximately \$8.3 million relates to collections that are not program fees and therefore should probably not be accounted for in the MRP fund. This includes collections at the Cabrillo Beach parking lot, a portion of collections at golf courses, and collections at the Pershing Square Parking Garage (discussed later in the report).

It is reasonable to conclude that the remaining \$13.2 million (\$21.5 - \$8.3) were received as fees collected from program participants. This high amount is an indication that the Department may be charging too much for its programs, based on its existing policy of charging fees to recover direct costs. In fact, a recent study performed by RAP for a sample of programs, showed that for 12 of 19 programs, estimated revenues exceeded estimated costs. This issue is discussed further in the User Fee Section of the report.

¹ Departmental policies allow the rates to include up to 15% administrative costs. However, as discussed in the User Fee section of this report, facilities do not attempt to determine direct costs when setting fees.

² The City's Official Accounting Records, the Financial Management Information System, shows a balance of \$21.5 million. However, the Department's internal accounting system, the Action Information Management System shows a balance of \$19.1 million. This difference is discussed in Finding #4.

Our review also found that RAP uses funds from the MRP Fund to pay for routine expenses, which should have been paid for with its Operating Fund dollars. In addition, we found that RAP does not budget for the fund or for individual sub-accounts within the fund. These, as well as other problems, are discussed in the remainder of this section.

It should be noted that we contacted six other large governmental agencies to inquire as to whether the agency uses a separate fund, other than its general/operating fund, to account for program fee revenue. Five of the six agencies deposit program fee revenue to its general/operating fund. The remaining agency, like RAP, deposits program fees into a separate special revenue fund. However, unlike RAP's MRP fund, this agency's fund is budgeted, and the total balance of the fund as of June 30, 2005 was only \$1.6 million.

Recommendation

- 1. RAP management resolve issues related to its MRP Special Revenue Fund by:**
 - a) Determining how much of the \$21.5 million in the MRP Special Revenue Fund relates to recent collections that are anticipated to be used for direct costs associated with these MRP programs.**
 - b) Working with the City Administrative Office, City Attorney, and the Office of the Controller to determine the legality of transferring the excess funds (\$21.5 million less the amount determined in a) above) to the City's General Fund.**
 - c) Working with the City Administrative Office, City Attorney, and the Office of the Controller to determine the appropriate disposition for the excess funds, if it is determined that it cannot be legally transferred to the City's General Fund.**
 - d) Eliminating use of the MRP Fund. All collections, except for restricted donations, should be deposited to the Operating Fund.**
 - e) Consulting with the Office of the Controller on how accounts can be set-up in its Operating Fund to account for revenues and expenditures related to recreation programs.**

Finding #2: RAP does not budget for the MRP Fund.

RAP does not budget for the MRP Fund. RAP management indicated that this is because it cannot estimate program revenues and expenditures in advance. However, based on the Department's records, revenue and expenditures have been steady and reasonably predictable. For example, MRP generated revenues were \$26.8 million in FY 2002-03, and \$28.2 million in FYs 2003-04 and 2004-05. Actual expenditures were

\$24.7 million, \$26.6 million and \$25.2 million, respectively. Since the Department maintains readily available revenue and expenditure data for its programs, it should be able to reasonably prepare a budget based on historical trends and participation data. Budgeting for the MRP Fund will help increase planning, control, and accountability.

Recommendation

2. RAP management budget for MRP activities.

Finding #3: RAP uses MRP funds for other than their intended purpose.

RAP's MRP policies allow the Department to add up to 15% to the direct costs of operating recreation programs to pay for administrative costs. Amounts collected for administrative costs should be transferred to the Operating Fund. Therefore, any expenditures from the MRP fund should only be used for direct costs associated with the programs for which the monies were collected.

Our review disclosed that, in general, RAP does not attempt to calculate direct costs for programs plus the 15% for administrative costs. In general, the fees are set based on the fee charged in the prior year and/or set at a rate that encourages participation in the program (see also Finding #17). Further, we identified several expenses from the MRP Fund that were not direct costs associated with a recreation program. Rather, the majority appeared to be for administrative expenses that should have been paid for from the 15% added to direct costs (assuming RAP was calculating the 15%). Examples of expenditures using MRP funds included:

- \$10,381 to purchase equipment supplies for a district office.
- \$9,200 to purchase computers for the district office.
- \$10,000 to reimburse staff salaries at the regional office. First of all, the transfer should not have been made because regional office salaries are considered overhead and not directly related to recreation program. Secondly, we were unable to determine that fund was used to pay for salary expenses at the regional office.
- \$5,000 to assist in opening new facilities.
- \$18,000 to cover the operating cost of a lighthouse.

Most of the expenditures were made from sub-accounts associated with district and regional administrative offices. The Department has 67 district and region sub-accounts, totaling \$2.6 million. Since these sub-accounts are not associated with specific programs, it appears the amount is available to use for non-direct program expenses. The MRP Fund should only be used for direct expenses of a recreation program.

RAP also maintains a sub-account for the General Manager. Documents show that the funds in this sub-account were received as donations. The balance in the General Manager's sub-account was \$10,736 as of June 30, 2005. Recent expenses paid out of

the account included \$516 for a conference the General Manager attended in Sacramento. Since the district, region, and General Manager sub-accounts do not directly relate to program activities, they should be eliminated.

When we questioned RAP personnel about the appropriateness of the expenditures, they stated that these expenses were allowable based on a policy memorandum approved by the Board in August 2002. This memorandum allows Departmental staff to purchase all of the items necessary to fulfill the mission of the Department, including automobiles, material for construction and other uses, and anything else that is approved by Department management.

Allowing MRP funds to be used for anything the Department desires, defeats the purpose of maintaining a separate special revenue fund to account for MRP activities and supports our position that MRP collections should no longer be deposited to the MRP Fund. In addition, since the Department does not calculate the 15% administrative cost, we are unable to determine whether the Department is exceeding the 15% limitation.

Recommendations

RAP management:

- 3. Eliminate sub-accounts within its Action Information Management System that do not directly relate to recreation programs.**
- 4. Work with the Board to revise the 2002 policy memorandum. The revised policy should specify that MRP funds be used only for direct program expenses. The policy should also provide examples of allowable and non-allowable expenses.**
- 5. Establish controls, such as periodic reviews of sample transactions, to ensure MRP funds are used for items specified in the revised 2002 policy memorandum.**

Finding #4: RAP does not reconcile the balance in its MRP sub-accounts with FMIS.

As discussed earlier, the MRP fund's general ledger is reflected in the City's FMIS, while the Department maintains the amounts held by each facility in sub-accounts within its AIMS. As of the end of our fieldwork, RAP had 463 sub-accounts in AIMS. The balance in AIMS should agree with the balance in the general ledger. A discrepancy would indicate errors in posting and/or deficiencies in the system. A periodic reconciliation should help identify any discrepancies.

RAP does not reconcile the balance in its AIMS with FMIS. MRP Accounting indicated that they always check to ensure that all receipts and authorized expenditures are accurately reflected on FMIS. However, they do not compare the total balance in AIMS

to the balance in FMIS. As of June 30 2005, the AIMS balance was \$19.1 million, while FMIS showed a cash balance of \$21.5 million, a difference of \$2.4 million. One possible reason for some of the difference could be investment income that is reflected in FMIS, but not in AIMS.

It should be noted that a management review of financial operations (Management Review) performed in 2003 by a consultant (at the request of RAP's previous General Manager) also reported that the Department was not reconciling AIMS to FMIS.

Recommendations

RAP management:

- 6. Investigate the discrepancy between its Action Information Management System and the City's Financial Management Information System, and establish procedures to reconcile the balances from the two systems on a regular basis.**
- 7. Determine the disposition of any excess funds identified by the reconciliation.**

II. Pershing Square Parking Garage

The largest sub-account in the MRP fund is the Pershing Square Parking Garage (garage) sub-account. The sub-account had a June 30, 2005 balance of \$3.3 million (15% of the MRP Fund's balance). As with the overall MRP fund, we noted that the Department needs to increase its oversight over the account. The Department does not make required transfers from the sub-account, does not develop spending plans for how funds in the account will be used, and does not prepare required financial statements for the sub-account. These problems are discussed in the remainder of this section.

Background

RAP assumed the operation of the Pershing Square Parking Garage (garage) on September 22, 2000. Previously, a private company operated the garage under a 50-year lease which expired in 2000. Under the Department's arrangement with the private operator, the City received about \$300,000 annually in revenue. This amount was deposited into RAP's Operating Fund. Under the operator, the garage averaged approximately \$3 million in gross parking receipts annually.

RAP assumed operations for the garage because it estimated that it could generate net revenue of \$1.6 million (\$3.6 million in gross receipts less \$2 million in estimated expenditures) a year. Currently, the General Services Department (GSD) operates the garage on behalf of RAP under a Memorandum of Understanding (MOU). Under the agreement, GSD is responsible for cash collections and deposits, security, and repairs and maintenance.³ Parking receipts are deposited into the MRP Fund and approved expenses are paid out of the Fund.

As part of its plan for operating the garage, GSD submitted an annual budget to the Board, based on \$3.6 million in FY 2000-01 anticipated gross parking receipts. The budgeted net revenue was \$1.6 million after subtracting budgeted operating expenses of \$2 million. The Board approved resolution required that the net revenue of \$1.6 million be allocated/distributed as follows:

- \$300,000 designated for capital improvements
- \$150,000 designated for added surface maintenance
- \$500,000 to be transferred to the Recreation and Parks Operating Fund
- \$605,900 to be transferred to Pershing Square Park sub-account (\$505,900 for youth programming in the Pershing Square community and \$100,000 for added concert programming)⁴

³ GSD recommends that certain repairs and maintenance be performed. The expenses are paid out of the Pershing Square Parking Garage's MRP fund sub-account.

⁴ The Pershing Square Park sub-account is a separate sub-account from the Pershing Square Parking Garage sub-account.

- \$100,000 for marketing expenses.

Designations for capital improvements and added surface maintenance are accounted for in sub-accounts within the garage sub-account.

Finding #5: Since the collections from the Pershing Parking Garage are not received from program participants, the collections should be deposited to RAP's Operating Fund.

It is questionable why activities related to the garage are accounted for in the MRP Fund, since the collections are not received from program participants. Because the revenue derived does not relate to the intent of the MRP Fund, we believe that all revenue should be deposited into the Department's Operating Fund. A yearly amount could be transferred to the Pershing Square Park sub-account, as required by the resolution and funds could be set aside in the Operating Fund to pay for capital improvements and surface maintenance.

Recommendation

RAP management:

- 8. Work with the Board to modify the Pershing Square Parking Garage resolution to require that all collections from garage operations be deposited into RAP's Operating Fund.**

Finding #6: The Department has not operated the Pershing Square Park Garage sub-account in accordance with the 2000 Board Resolution.

We reviewed transactions of the garage sub-account to determine if the required allocations (transfers/designations) are being made and noted the following:

- The Department has not always made the required transfers and designations outlined in the Board resolution. For example, RAP did not make the required \$300,000 designation per year for capital improvements at the end of FYs 2000-01, 2001-02, 2002-03. Instead, it designated \$1.9 million at the end of FY 2003-04. This is \$700,000 more than it should have been designated if the required yearly designations had been made. In addition, the Department did not make the required \$505,900 transfer to Pershing Square Park for youth programming for either FY 2000-01 or FY 2001-02.
- The allocations are not based on departmental needs. For example, based on the Board resolution, over \$2.5 million (\$505,900 x 5 years) should have been transferred to the Pershing Square Park for youth programming since 2000.

However, over these five years, less than \$300,000 (\$60,000 a year) has been spent.

Additionally, when the \$1.9 million designation was made at the end of FY 2003-04 for capital improvements, the Department did not have plan in place as to how the money was to be spent. The Department still does not have a plan as to how the remaining designated amount plus anticipated additional designations will be used. Thus, it cannot make a good assessment regarding whether \$300,000 is an appropriate amount to designate each year.

Recommendation

- 9. RAP ensure that allocations of net revenues from garage operations are based on an assessment of Departmental needs, allocations are made in accordance with the needs assessment, and that allocations are periodically reviewed to determine if they need to be adjusted.**

Finding #7: The Board approved resolution does not indicate how allocations/designations should be adjusted based on actual net revenue from garage operations.

As indicated on page #17, the Board resolution for the parking garage operations shows how net revenues should be allocated to other MRP sub-accounts or designated for specified improvements. The amounts of these allocations/designations were based on estimated annual net revenue of \$1.6 million.

We noted that the resolution does not indicate how allocations/designations should be adjusted if the amount of net revenue generated is either more or less than the projected \$1.6 million. For example, if net revenue for a particular year is less than \$1.6 million (net revenue was \$1.3 million in FY 2001-02), RAP would not be able to make the required allocations/designations. By not addressing how the allocations/designations should be adjusted based on actual net revenue, the Department cannot be assured that funds are used in accordance with the Board's intent and that funds are properly designated for specified improvements.

Recommendation

- 10. RAP management seek clarification from the Board on how the allocations/designations should be adjusted based on actual net revenue from the parking garage operations.**

Finding #8: RAP does not submit required financial statements for garage operations to the Board.

RAP does not submit the garage's annual financial statements to the Board, as required in the Board's 2000 resolution approving the self-operation of the lot. While the

Department prepares financial statements monthly, the statements are not submitted to the Board.⁵ The statements are also not prepared timely. For example, the February 2005 monthly financial statement for the garage was not completed until June 2005, even though the Department has dedicated Accounting staff for the garage operations.

Recommendation

- 11. RAP management ensure monthly financial statements for the garage are prepared timely and that required annual reports are submitted to the Board.**

⁵ RAP prepares basic statements on revenue and expenditures, and a balance sheet showing capital improvement designations and the fund balance. These documents are for internal use only.

III. Cash and Payment Controls at RAP Facilities

Finding #9: Facilities do not have required signs posted at cashiering windows.

The Office of the Controller's User Department Manual, Section 1.7.2 requires that a sign be posted at cashiering windows, informing the public of the types of payments accepted, and to obtain a receipt for any payment made. In addition, the MRP Manual also requires that two other signs be posted, one requesting the public to make checks payable to the City of Los Angeles or Department of Recreation and Parks, and the other to advise patrons that a collection fee will be charged for all returned checks.

Six of 8 (75%) facilities we visited did not have at least one of the required signs posted. Reminding the public to ask for receipts helps minimize the risk of misappropriated collections. The other three signs provide important information to patrons regarding their payments.

Recommendation

12. RAP management ensure that facilities post required signs at cashiering windows.

Finding #10: RAP does not have an effective method to detect facilities that fail to make timely bank deposits.

RAP requires facilities to complete a quadruplicate transmittal form showing amounts collected and the appropriate accounts the collections should be deposited into. RAP's cash handling policy requires facilities to make bank deposits at least once a week or when accumulated collections exceed \$300. A transmittal form is required to accompany each deposit. Thus, a transmittal must be completed at least once a week.

We found that facilities do not always make deposits timely. We found instances of late deposits at four of the eight locations visited. For example, at one location, Friday and Saturday collections of \$6,565 were not made until the following Tuesday.

Untimely deposits result in increased risk of loss due to theft or other misappropriations of collections. For example, recently, a theft of \$2,500 cash occurred at one facility when a burglar broke into the facility's safe. The facility Director had lost the safe keys and had not made a deposit in four weeks. If the deposits were made more timely, the amount lost would have been much less. RAP management should remind facilities of its deposit policy requiring that deposits be made at least weekly or when accumulated collections exceed \$300.

We also noted that RAP does not have an effective method to identify facilities that fail to make a weekly deposit. The Revenue Accounting Section stated it generates bi-weekly exception reports to identify facilities that fail to complete a weekly transmittal

form. However, it appears the reports are not reviewed. For example, in the theft situation discussed above, Revenue Accounting did not detect that the facility had not made a deposit within four weeks.

The lack of timely deposits was reported in the 2003 Management Review. Specifically, the auditors noted that eight (50%) of the 16 facilities reviewed did not make a deposit by the end of the day when fees collected exceeded \$300.

Recommendations

RAP management:

- 13. Remind facilities of its deposit policy requiring that deposits be made at least weekly or when accumulated collections exceed \$300.**
- 14. Require Revenue Accounting to generate the transmittal exception report weekly and follow-up with the district managers to inquire as to why specific facilities have not made deposits within the past week.**

Finding #11: RAP should continue to explore ways to minimize the amount of cash on-hand at its facilities.

Cash, by the nature of its liquidity, is subject to a high risk of thefts and misappropriations. In an effort to minimize the amount of cash on-hand at its facilities, RAP recently implemented the use of daily, weekly and monthly passes at City swimming pools. RAP management should continue to explore ways to reduce the amount of cash on-hand at its facilities.

Recommendation

- 15. RAP management continue to explore ways to reduce the amount of cash on-hand at its facilities.**

Finding #12: RAP needs to ensure that facilities deposit collections to correct accounts.

MRP guidelines require that Board approved fees and charges for the use of RAP's facilities, and any administrative fees be deposited into the Department's Operating Fund. MRP guidelines also state that fees collected for a program should be spent on that program. This suggests that collections should be maintained separately for each program so that expenditures associated with each program can be tracked and paid for with fees collected for that program.

At the eight facilities visited, we reviewed supporting documentation for deposits made into the MRP accounts. We noted instances at two facilities where a total of \$1,216 collected for administrative activities (organization and administration of program,

scheduling, and awards) and facility rentals were deposited into the facilities' MRP Fund instead of the Department's Operating Fund, understating Departmental revenue. The facilities indicated these instances were due to oversights.

In addition, the facilities do not separately account for fees collected for their various programs and classes. This makes it difficult to ensure that fees collected for one program are used only for the expenses of that program. One reason why it is difficult to separate the collections by programs/classes is because each facility generally has only one MRP sub-account.

Recommendations

16. RAP management establish procedures to ensure that collections are deposited into the correct account.

17. RAP establish separate accounts for each program/class.

Finding #13: RAP does not have adequate controls over the receipts issued to Facilities.

The MRP Manual requires that an official receipt be given to each person paying for enrollment in any adult/youth, class/program or youth sport activity. RAP's Revenue Accounting Section orders the receipts for the districts. The district offices distribute the receipts to the field locations within their districts, as needed. Facilities are required to list the receipt numbers used on their transmittal forms that accompany each deposit.

We obtained a listing of receipt books issued to eight different facilities between July 1, 2004 and May 31, 2005. We then conducted an inventory of the receipt books at these facilities. We were unable to account for receipt books, as either used or unused, at two facilities. One location was missing three receipt booklets, but we verified that the receipts were accounted for by tracing them to the transmittal forms submitted by the facility. However, we were unable to trace the missing receipts at the other location.

RAP Revenue Accounting staff indicated that it reviews transmittals submitted by each facility to ensure the receipts have been used sequentially. However, their records do not show that the one unaccounted receipt book had been identified as missing. In addition, Revenue Accounting's current procedures do not require staff to verify that the receipt number indicated in the current transmittal sequentially follows the last number in the previous transmittal. Therefore, RAP cannot ensure that all receipts issued are accounted for.

Recommendation

- 18. RAP management require Revenue Accounting to periodically review receipts to ensure they have been used sequentially and that the total of the receipts equals the deposited amount.**

Finding #14: Facilities issue signed blank Payment Vouchers to the Department of Transportation (DOT) for bus services not yet received.

A Payment Voucher (PV) initiates a disbursement of City funds to a vendor. The Office of the Controller's User Department Manual requires that upon receipt of an invoice, the storekeeper or other responsible individual verify and certify that goods or services covered by the invoice have actually been received and that these goods or services are in accordance with the specification of the original authority.

At one of the facilities visited, we noted that five blank signed PVs were forwarded to Department of Transportation (DOT) in advance for rental of buses to events held by the facility. The DOT coordinated the bus services for the facility's events. In all cases, the services were sub-contracted to private bus companies. The facility indicated that DOT required blank PVs be sent in advance of the services being provided.

DOT staff confirmed that it is their policy to request RAP facilities to submit signed blank PVs in order to ensure that vendors are paid promptly. Vendors are required to submit their invoices to DOT after services are provided. DOT staff then writes the invoice amount on the blank PV obtained from the facility and submits it along with the invoice to RAP's MRP Accounting for payment. However, DOT stated that they are in the process of changing this practice and will start requiring PVs after invoices are received.

Since the facility did not receive the invoices before payments, it was not possible for the facility to certify that the services were provided before payments were made, as required by City guidelines. RAP management should instruct facilities to submit a PV only for services already received. In order to make the vendor payments more efficient and timely, the facilities should work with DOT to have the vendors mail the invoices directly to MRP Accounting.

Recommendation

- 19. RAP management instruct facilities to submit a Payment Voucher only for services already received.**

Finding #15: Facilities do not forward Payment Vouchers in a timely manner to the MRP Accounting Section.

We also noted that three of the eight facilities visited did not forward several PVs timely to the MRP Accounting Section (as discussed above, this is the main reason cited by

DOT for requiring facilities to submit blank signed PVs). For example at one location, a PV was not forwarded to MRP Accounting until 120 days after it was received. According to User Department Manual, Section 1.4.1, the City's policy requires that vendors be paid within 30 days.

The 2003 Management Review also noted problems in paying vendors in a timely manner. Of 60 payments reviewed, 16 (26%) were not paid within 30 days.

Recommendation

- 20. RAP management remind facilities of the City's 30-day requirement for paying vendors and periodically monitor to ensure compliance.**

Finding #16: Facility directors do not comply with the approval requirements of the MRP Manual.

According to the MRP Manual, Section XI-3, purchases over \$1,000 require prior written approval by higher level managers. At four facilities, we noted 14 purchases, totaling \$34,123, made without the required prior written approval.

Recommendation

- 21. RAP re-instruct facilities to obtain proper approvals before making purchases.**

IV. User Fees

The City Charter gives the Board sole authority to set fees for use of the Department's facilities and property. The Board approved rates are published in the Department's Manual of Rates and Fees, which covers all admission costs, rates fees, reimbursements, usage requirements for all Department business activities and other uses. With public service goals in mind, the Department states that its fees and charges are set very competitively in comparison with market value for similar facilities and programs offered by smaller jurisdictions or private entities. Board approved fees include rental of gymnasiums, baseball fields, and meeting rooms; swimming pool and golf fees; and fees for Citywide sport leagues and day camps.

In addition to Board approved fees, the Department also charges program fees. Examples of program fees include fees for sports leagues operated by individual facilities and class fees (e.g., karate, dance, computer, etc.). The Board delegated the authority for setting program fees to the MRP Managers (usually the facility directors) with their supervisor's approval.

Board Approved Fees

We visited eight facilities to determine whether the fees collected for facility rentals were in compliance with the Board approved Manual of Rates and Fees. No problems were noted.

Fees Set by Facility Directors

As previously indicated, the Board grants MRP Managers the authority to set fees for their programs. According to the MRP Manual, Section X, the program fees set by MRP Managers should be in accordance with the following:

- The fee must be approved by the MRP Manager's supervisor.
- The fee must be reasonable and sufficient to cover the costs of the programs.
- Program fees should recover the direct costs (umpire fees, uniforms, trophies, etc.), and up to 15% for supplies, equipment, printing etc.
- The fee charged must be printed in the facility's Schedule of Activities.
- Printed materials must be maintained at the facility for at least three years.
- Any discount given must be approved and fully supported.

The MRP Manual also requires the Assistant General Managers to convene a Program Fee Committee to conduct a survey and review of program fees throughout the Department to ensure equity, consistency and fairness.

Finding #17: Program fees set by MRP managers often vary dramatically amongst facilities.

We reviewed the fees set by directors of six facilities to determine whether the fees were consistent for similar programs. Since the fees are supposed to be set based on the direct cost of the program, we would expect some differences. However, we would expect the differences to be relatively small.

Our review disclosed that the fees set for similar programs vary dramatically from one facility to another. This is demonstrated in the table below.

Fees Charged by Selected Facilities

Facility	Lafayette Rec Cen	Normandie Rec Cen	Poinsettia Rec Cen	Woodland Hills R C	Bogdanovich Rec Cen	Highland Pk Rec Cen
Baseball Ages 5-12	\$35.00			\$80.00	\$110.00	\$70.00
Baseball Ages 9-15		\$55.00	\$70.00	\$80.00	\$110.00	\$70.00
Basketball Ages 4-8		\$50.00	\$65.00		\$120.00	\$70.00
Basketball Ages 9-15		\$50.00	\$70.00			\$70.00
Soccer Ages 4-8	\$55.00		\$65.00			\$40.00
Softball			\$10.00	\$80.00		
Flag Football			\$60.00	\$100.00		\$70.00

None of these facilities attempt to determine their direct costs in order to calculate an appropriate fee to charge. Instead, the fees are generally set based on the fee charged in the prior year and/or set at a rate that encourages participation in the program. In addition, based on discussions with RAP representatives, the Department could not recall if a Program Fee Committee has even been convened.

At RAP management’s request, managers at the above facilities estimated the costs (direct costs plus administrative costs) of operating various programs. The costs were then compared to the estimated revenue. Of the 19 programs reviewed, the managers showed an estimated profit for 12 (63%) of the programs.⁶ In several instances, the profit was fairly substantial. For example, one park reported a profit of 34% of costs for one program and a profit of 27% for another program. This data supports our comment in Finding #1 that the Department may be charging too much for its programs based on its policy of charging fees based on direct costs plus up to 15% for administrative costs.

⁶ Most of these programs are the same as those in the chart above.

Recommendations

RAP management:

- 22. Require facility directors to track the direct costs of operating each program and set program fees to recover these costs (plus up to 15% for administrative expenses).**
- 23. Convene the Program Fee Committee to conduct regular surveys and reviews of program fees throughout the City to ensure consistency, fairness, and compliance with Departmental policy.**

Finding #18: Facilities do not always comply with Departmental program fee policies.

We reviewed operations at four facilities to determine whether the fees were approved by a supervisor, program materials were maintained, and discounts were properly supported and approved. Our review disclosed that none of the fees were approved by the MRP managers' supervisor. The table below summarizes the results:

Non-Compliance with Departmental fee policies

Facility	Lafayette Rec Cen	Normandie Rec Cen	Poinsettia Rec Cen	Cabrillo Museum
Fees Not Approved by Supervisor	X	X	X	X
Program Material Not Maintained	X	X		
Discounts Not Approved by Supervisor			X	

Recommendation

- 24. RAP management ensure facilities comply with Departmental policies with respect to approval of program fees, maintaining program materials, and approving discounts.**

V. Budgetary Control and Adherence to City Budget

In examining the Department's adherence to its Operating Fund Budget, we compared the Department's actual financial results to its adopted budget for Fiscal Years (FY) 2001-02, 2002-03 and 2003-04. The results are summarized below:

Budget and Actual Financial Results

Fiscal Year 2003-04

	Adopted Budget	Actual	Positive or (Negative) Variance
Expenditures	\$ 134,216,006	\$ 130,697,210	\$ 3,518,796
Revenues	\$ 134,216,006	\$ 134,994,000	\$ 777,994
Budget Surplus/ (Overrun)			\$ 4,296,790

Fiscal Year 2002-03

	Adopted Budget	Actual	Positive or (Negative) Variance
Expenditures	\$ 122,655,675	\$ 127,460,173	\$ (4,804,498)
Revenues	\$ 122,655,675	\$ 122,423,086	\$ (232,589)
Budget Surplus/ (Overrun)			\$ (5,037,087)

Fiscal Year 2001-02

	Adopted Budget	Actual	Positive or (Negative) Variance
Expenditures	\$ 123,719,309	\$ 126,286,819	\$ (2,567,510)
Revenues	\$ 123,719,221	\$ 128,723,477	\$ 5,004,256
Budget Surplus/ (Overrun)			\$ 2,436,746

The Department had significant variances in its salary and expense accounts for all three years. During FY 2001/02, RAP exceeded its salary budget by approximately \$5 million. As a result of the salary over expenditure and in order to help the Department control its salary budget, the City Council held back approximately \$7.5 million of its FY 2002-03 budget in "unappropriated funds". This action required the Department to obtain approval from the City Council to spend the money. The Department was under budget by \$4.1 million in its salary account in FY 2003-04. RAP attributed the surplus in

the salary account in FY 2003-04 to the hiring freeze imposed by the City Council, which prevented the Department from filling its vacant positions.

In order to help RAP better manage its Operating Fund budget, the Department's Accounting Section developed various monitoring reports. The reports provide actual versus budgeted data and are available to staff on the Department's intranet. The Department also uses its internally developed Contract Purchase Order system (CPO) to specifically monitor other expense budget items. The expense budgeted amounts are loaded into the CPO at the beginning of the year. RAP staff are required to access the CPO to ensure that there are enough funds available before placing orders for purchases.

In addition to its internal reports, RAP now completes a monthly financial summary in accordance with the City Administrative Officer's (CAO) instructions to all Council controlled departments (as directed by the City Council). The reports include financial analyses and explanation of variances in expenditures, revenue, employment levels, sources of funding and any other issue that may impact the budget.

Finding #19: Facility directors do not utilize available reports to help them ensure they operate within their budget.

While the CAO mandated reports have been very useful to management in monitoring the variances at a high level, we noted that facility directors do not utilize various monitoring reports developed by RAP's Accounting Section to help ensure that they operate within their budgets. Some field locations do not even have intranet capability to access the reports. Additionally, based on our interviews, most facility directors could benefit from training on proper budgeting and the available monitoring tools. RAP management indicated that they are working on resolving the access issue.

Recommendations

RAP management:

- 25. Train facility directors on budgeting principles and monitoring tools. Once training is provided, hold managers accountable for operating within budgets.**
- 26. Continue its efforts to make all monitoring reports accessible to the field locations.**

VI. Internal Control Certification Program (ICCP) Administration

Finding #20: The Department has not corrected several weaknesses identified in its FY 2003-04 ICCP.

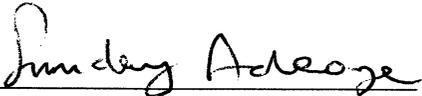
The maintenance of good internal accounting and administrative controls is the responsibility of departmental management. The Controller's Office developed the ICCP to assist City departments in fulfilling this responsibility and to improve overall departmental internal controls, thereby reducing the risk of errors, fraud, and other improper activities. The ICCP program is intended for departments to assess their own internal controls and take corrective actions to ensure compliance with City policies and standards.

In its FY 2003-04 ICCP certification, RAP identified eight weaknesses, mainly in its cash and revenue controls. The Department submitted action plans to correct all weaknesses by September 2004. However, we found that only three of the eight weaknesses have been corrected.

Recommendation

- 27. The Department require its managers to submit periodic status reports to show the progress in correcting remaining weaknesses identified in its FY 2003-04 ICCP.**

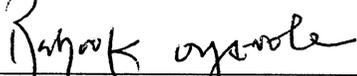
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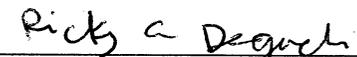
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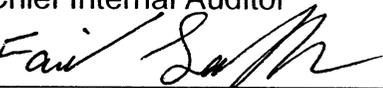
Melani Rejuso
Internal Auditor II



Rahoof Oyewole, CPA, CIA, CISA
Internal Auditor III



Ricky Deguchi, CPA, CIA, CISA
Chief Internal Auditor



Farid Saffar, CPA
Director of Auditing

August 31, 2005

**ATTACHMENT I
OFFICE OF THE CONTROLLER**

**FINANCIAL AND COMPLIANCE AUDIT OF THE DEPARTMENT OF RECREATION AND PARKS (RAP)
Ranking of Recommendations**

Finding Number	Description of Finding	Ranking Code	Recommendations
1.	RAP does not operate the MRP Fund in accordance with either the intent of the 1954 Board resolution or the intent of recovering program costs.	U	<p>We recommend that RAP management:</p> <ol style="list-style-type: none"> 1. Resolve issues related to its MRP Special Revenue Fund by: <ol style="list-style-type: none"> a) Determine how much of the \$21.5 million in the MRP Special Revenue Fund relates to recent collections that are anticipated to be used for direct costs associated with these MRP programs. b) Working with the City Administrative Office, City Attorney, and the Office of the Controller to determine the legality of transferring the excess funds (\$21.5 million less the amount determined in a) above) to the City's General Fund.

			<ul style="list-style-type: none">c) Working with the City Administrative Office, City Attorney, and the Office of the Controller to determine the appropriate disposition for the excess funds, if it is determined that it cannot be legally transferred to the City's General Fund.d) Eliminating use of the MRP fund. All collections, except for restricted donations, should be deposited to the Operating Fund.e) Consulting with the Office of the Controller on how accounts can be set-up in its Operating Fund to account for revenues and expenditures related to recreation programs.
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2.	RAP does not budget for the MRP Fund.	U	<p>We recommend that RAP management:</p> <p>2. Budget for MRP activities.</p>
3.	RAP uses MRP funds for other than their intended purpose.	N	<p>We recommend that RAP management:</p> <p>3. Eliminate sub-accounts within its Action Information Management System (AIMS) that do not directly relate to recreation programs.</p> <p>4. Work with the Board to revise the 2002 policy memorandum. The revised policy should specify that MRP funds be used only for direct program expenses. The policy should also provide examples of allowable and non-allowable expenses.</p> <p>5. Establish controls, such as periodic reviews of sample transactions, to ensure MRP funds are used only for items specified in the revised 2002 policy memorandum.</p>
4.	RAP does not reconcile the balance in its MRP sub-accounts with FMIS.	U	<p>We recommend that RAP management:</p> <p>6. Investigate the discrepancy between its Action Information System, and the City's Financial Management Information System, and establish</p>

			<p>procedures to reconcile the balances from the two systems on a regular basis.</p> <p>7. Determine the disposition of any excess funds identified by the reconciliation.</p>
5.	<p>Since the collections from the Pershing Square Parking Garage are received not from program participants, the collections should be deposited to RAP's Operating Fund.</p>	N	<p>We recommend that RAP management:</p> <p>8. Work with Board to modify the Pershing Square Parking Garage resolution to require that all collections from garage operations be deposited into RAP's Operating Fund.</p>
6.	<p>The Department has not operated the Pershing Square Parking Garage sub-account in accordance with the 2000 Board resolution.</p>	N	<p>We recommend that RAP:</p> <p>9. Ensure that allocations of net revenues from garage operations are based on an assessment of Departmental needs, allocations are made in accordance with the needs assessment, and that allocations are periodically reviewed to determine if they need to be adjusted.</p>
7.	<p>The Board approved resolution does not indicate how allocations/designations should be adjusted based on actual net revenue from garage operations.</p>	N	<p>We recommend that RAP management:</p> <p>10. Seek clarification from the Board on how the allocations/designations should be adjusted based on actual net</p>

			revenue from the parking garage operations.
8.	RAP does not submit required financial statements for garage operations to the Board.	U	We recommend that RAP management: 11. Ensure monthly financial statements for the garage are prepared timely and that required annual status reports are submitted to the Board.
9.	Facilities do not have required signs posted at cashiering windows.	U	We recommend that RAP management: 12. Ensure that facilities post required signs at cashiering windows.
10.	RAP does not have an effective method to detect facilities that fail to make timely bank deposits.	U	We recommend that RAP management: 13. Remind facilities of its deposit policy requiring that deposits be made at least weekly or when accumulated collections exceed \$300. 14. Require Revenue Accounting to generate the transmittal exception report weekly and follow-up with the district managers to inquire as to why specific facilities have not made deposits within the past week.
11.	RAP should continue to explore ways to	D	We recommend that RAP management:

	minimize the amount of cash on-hand at its facilities.		15. Continue to explore ways to reduce the amount of cash on-hand at its facilities
12.	RAP needs to ensure that facilities deposit collections to correct accounts.	U	<p>We recommend that RAP management:</p> <p>16. Establish procedures to ensure that collections are deposited into the correct account.</p> <p>17. Establish separate accounts for each program/class.</p>
13.	RAP does not have adequate controls over the receipts issued to facilities.	U	<p>We recommend that RAP management:</p> <p>18. Require Revenue Accounting to periodically review receipts to ensure they have been used sequentially and that the total of the receipts equals the deposited amount.</p>
14.	Facilities issue signed blank Payment Vouchers to the Department of Transportation (DOT) for bus services not yet received.	U	<p>We recommend that RAP management:</p> <p>19. Instruct facilities to submit a Payment Voucher only for services already received.</p>

15.	Facilities do not forward Payment Vouchers in a timely manner to the MRP Accounting Section.	N	<p>We recommend that RAP management:</p> <p>20. Remind facilities of the City's 30-day requirement for paying vendors and periodically monitor to ensure compliance.</p>
16.	Facility directors do not comply with the written approval requirements of the MRP Manual.	U	<p>We recommend that RAP management:</p> <p>21. Re-instruct facilities to obtain proper approvals before making purchases.</p>
17.	Program fees set by MRP managers often vary dramatically amongst facilities.	N	<p>We recommend that RAP management:</p> <p>22. Require facility directors to track the direct costs of operating each program and set program fees to recover these costs (plus up to 15% for administrative expenses).</p> <p>23. Convene the Program Fee Committee to conduct regular surveys and reviews of program fees throughout the City to ensure consistency, fairness, and compliance with Departmental policy.</p>
18.	Facilities do not always comply with Departmental program fee policies.	N	<p>We recommend that RAP management:</p> <p>24. Ensure facilities comply with</p>

			Departmental policies with respect to approval of program fees, maintaining program materials, and approving discounts.
19.	Facility directors do not utilize available reports to help ensure they operate within their budgets.	D	<p>We recommend that RAP management:</p> <p>25. Train facility directors on budgeting principles and monitoring tools. Once training is provided, hold its managers accountable for operating within budgets.</p> <p>26. Continue its efforts to make all monitoring reports accessible to the field locations.</p>
20.	The Department has not corrected several weaknesses identified in its FY 2003-04 ICCP.	U	<p>We recommend that RAP the Department:</p> <p>27. Require its managers to submit periodic status reports to show the progress in correcting remaining weaknesses identified in its FY 2003-04 ICCP.</p>

Description of Recommendation Ranking Codes

U- Urgent- The recommendation pertains to a serious or materially significant audit finding or control weakness. Due to the seriousness or significance of the matter, immediate management attention and appropriate corrective action is warranted.

N- Necessary- The recommendation pertains to a moderately significant or potentially serious audit finding or control weakness. Reasonably prompt corrective action should be taken by management to address the matter. The recommendation should be implemented within six months.

D- Desirable- The recommendation pertains to an audit finding or control weakness of relatively minor significance or concern. The timing of any corrective action is left to management's discretion.