



**Compliance Audit 2016-05  
Parks, Recreation and Maintenance  
Nonresident Fees Implementation**

**January 2019**

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**OUR MISSION**

Provide independent, objective assurance and consulting services designed to add value and improve the City of Fayetteville’s operations.

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## ***EXECUTIVE SUMMARY***

The Parks, Recreation and Maintenance (PRM) Department's mission statement is to provide quality and affordable parks and recreation facilities. This includes quality and affordable programs for youth, adults and citizens with special needs throughout Fayetteville and Cumberland County. The department provides a wide variety of recreational and leisure programs that require payment of resident and nonresident fees to be processed at various parks and recreation facilities located throughout the Fayetteville and Cumberland County.

On September 28, 2015, City Council approved Budget Ordinance Amendment 2016-2 which established the resident and nonresident fees for parks and recreation services and facility usage. Due to the implementation of the new resident/nonresident fee structure by the PRM Department, an audit of the of the process for charging the nonresident fees was approved in the Fiscal Year 2017-2018 Audit Plan.

The Office of Internal Audit reviewed and documented the processes related to nonresident fees; determined if necessary documents supporting the charge of nonresident vs resident fees were received; determined if fees were charged correctly; and determined if deposits, fees, and revenues assessed and collected were accounted for and deposited intact with the Finance Department, Collections Division. In order to meet the objectives, Internal Audit examined parks and recreation program documents; interviewed personnel; and tested records.

This report addresses a number of areas where management actions could further reduce the risks associated with parks and recreation program fees. Those areas are discussed below:

1. Fees were not always charged correctly.
2. Fees were not always transparent on the fee schedule.
3. Sufficient documentation to validate fees charged was not maintained.
4. Internal controls need strengthened.

The audit did not find evidence of intentional fraud. However, based on internal control deficiencies within the RecTrac management software application used by the PRM Department, Internal Audit could not ensure fraud, waste and abuse did not exist. In addition, documented exceptions to the fee schedule were noted.

## ***BACKGROUND***

On September 8, 2015, City Council provided direction to City personnel to implement management's proposal to charge nonresident fees for parks and recreation services and facility usage at 100% above current fees for residents. The Council Action Memo taken to Council stated: "Implementing Non-Resident Fees will allow for a more equitable distribution of costs to provide recreational programming that may be enjoyed by both Residents as well as Non-Residents."

On September 28, 2015, City Council approved Budget Ordinance Amendment 2016-2 which established the resident and nonresident fees for parks and recreation services and facility usage. The Council Action Memo stated: "The Fayetteville-Cumberland Parks and Recreation Department is supported by taxes paid on property in the City of Fayetteville, the Towns of Eastover, Linden, Falcon, Godwin, Stedman, and Wade, and in the unincorporated areas of Cumberland County, excluding the Manchester District. Residents of these areas qualify for resident fees for Parks and Recreation programs and services. Organizations or businesses with physical addresses in these areas also qualify for resident fees for services such as facility rental."

Due to the implementation of the new resident/nonresident fee structure by the PRM Department, an audit of the of the process for charging the nonresident fees was approved in the Fiscal Year 2017-2018 Audit Plan.

### ***AUDIT OBJECTIVES***

The objectives of the audit were to: review and document the processes related to nonresident fees; determine if necessary documents supporting the charge of nonresident vs resident fees were received; determine if fees were charged correctly; and determine if deposits, fees, and revenues assessed and collected were accounted for and deposited intact with the Finance Department, Collections Division.

### ***AUDIT SCOPE***

The scope of the audit included parks and recreation fees paid from July 1, 2017 to June 30, 2018 which followed the resident/nonresident fee structure adopted by City Council in September 2015 and the current fee rates adopted by City Council for fiscal year 2018. Internal Audit used a RecTrac General Ledger Report provided by PRM personnel to select a five percent sample of receipts to determine if fees were charged correctly based on the resident/nonresident fee structure. Additionally, a complete population for this period could not be determined; therefore, an additional five percent sample of receipt numbers not reflected on the RecTrac General Ledger Report but within the receipt number range for the fiscal year were selected and reviewed. Although this was not a cash receipts audit, Internal Audit reviewed portions of cash receipts to determine if deposits, fees, and revenues assessed and collected related to the resident/nonresident fee structure were accounted for, deposited intact with the Finance Department, Collections Division; and determine if any fraud, waste or abuse existed.

Audit results were based on observations, inquiries, transaction examinations, and the examination of other audit evidence and provided reasonable, but not absolute, assurance controls were in place and effective.

### ***AUDIT METHODOLOGY***

In order to achieve the audit objectives, Internal Audit developed an understanding of processes related to charging of nonresident fees for parks and recreation programs by performing the following:

- Reviewed City Council Action Memos, Budget Ordinance Amendment 2016-2 and adopted fee schedules related to nonresident fees;
- Reviewed the *Fayetteville-Cumberland Parks & Recreation Non-Resident Fee Policy*;
- Interviewed Department personnel involved in establishing procedures for and charging of nonresident fees;
- Gained an understanding of the PRM Department's Enterprise Recreation Tracking Software (RecTrac);
- Conducted site visits of parks and recreation centers;
- Tested a sample of receipts for park and recreation program fees;
- Reviewed documentation maintained by the PRM Department to support the fees charged; and
- Traced cash receipts from the receipts originated in RecTrac to the amounts deposited with the City Finance Department, Collections Division.

### ***FINDINGS, RECOMMENDATIONS, AND MANAGEMENT'S RESPONSES***

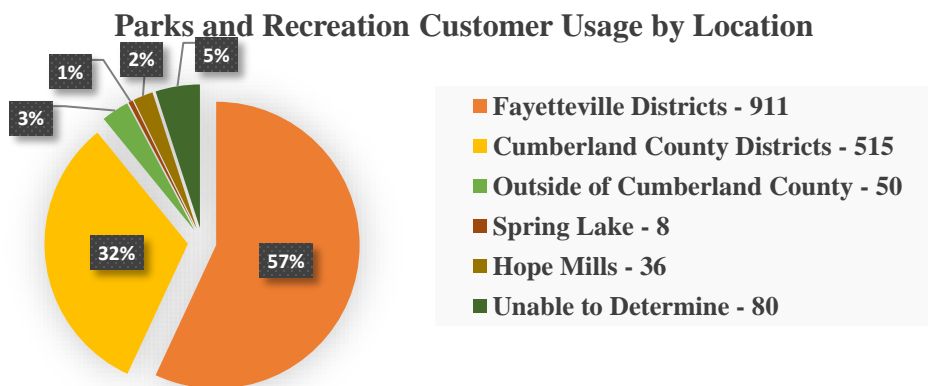
#### **Finding 1**

#### ***Fees were not always charged correctly.***

City Council approved the City of Fayetteville Fee Schedule for Fiscal Year 2017-2018 which stated: "The Fayetteville-Cumberland Parks and Recreation Department is supported by taxes paid on property in the City of Fayetteville, the Towns of Eastover, Linden, Falcon, Godwin, Stedman, and Wade, and in the

unincorporated areas of Cumberland County, excluding the Manchester District. Residents of these areas qualify for resident fees for Parks and Recreation programs and services. Organizations or businesses with physical addresses in these areas also qualify for resident fees for services such as facility rental”. Therefore, Internal Audit reviewed customer addresses on RecTrac receipts against the Cumberland County Property Tax records to determine if: the customer’s address qualified the customer for the resident fee, and was either the resident or nonresident fee charged correctly based on the fee schedule.

Below is a chart which summarizes the customer geographic:



Based on the review, there were 94 (6%) of the 1,600 receipts in the sample determined to be nonresidents, and 46 (49%) of the 94 receipts for nonresident addresses were incorrectly charged the resident rate.

Based on Internal Audit inquiry, PRM personnel focused on ensuring the participant registered for the correct youth athletic zone using a street index guide, and not about whether the customer was a resident or nonresident. The street index guide, a spreadsheet which had to be updated and maintained, identified for PRM personnel what zone the street was located. However, this may not have been the best resource to use due to addresses on the same street may have different residency status, but the street index guide only lists one zone for the respective street. In addition, the *Fayetteville-Cumberland Parks & Recreation Non-Resident Fee Policy* did not provide clear guidance on how staff should determine whether the resident or non-resident rate should be charged, and whether Fort Bragg was considered resident or nonresident.

Additionally, Internal Audit could not determine if the proper fee was charged for 80 (5%) of the 1,600 receipts for which a resident or nonresident fee was applicable due to either the recreation centers address was listed as the customer’s address or the listed address was invalid, whereas, Internal Audit was unable to validate the address the customer resided or the applicable tax district. Of these 80 receipts for which it could not be determined whether the resident or nonresident fee should be charged:

1. Fifty<sup>1</sup> (62%) of the 80 receipts were charged at the resident rate for swimming pool fees; and
2. Twenty-five (31%) of the 80 receipts were charged at the resident rate for fees charged using the ‘Adult Open Play Athletics’ fee.

The review identified the PRM Department did not have a system in place to validate if users of the swimming pools or the gym for Adult Open Play Athletics were resident or nonresident in order to charge the approved rate set by City Council in the fee schedule.

The parks and recreation programs are funded by taxes paid by the households and businesses considered ‘residents’ per the fee schedule. Charging nonresidents an increased rate allows nonresidents to participate in the parks and recreation programs, and help fund the programs. Therefore, when nonresidents are charged at the resident rates, the intent of the Budget Ordinance Amendment is not being adhered to, and potential City revenues are being lost.

<sup>1</sup> These 50 receipts accounted for \$6,050 (90%) of the \$6,704 revenue received on the receipts reviewed for swimming pool fees.

## **Recommendation**

1. The Office of Internal Audit recommends management amend the written *Fayetteville-Cumberland Parks & Recreation Non-Resident Fee Policy* to provide clear guidance on how to accurately and consistently charge fees. This policy should be amended to include sufficient guidance to allow an individual who is unfamiliar with the operations to perform the necessary activities. Finally, subject matter experts should be included in updating and reviewing the policy to ensure only attainable and realistic requirements are included. Improvements to the policy based on Internal Audit's observations should include, but not be limited to:
  - a. Define the process for determining whether the resident or nonresident fee should be charged;
  - b. Establish specific guidance on what areas, if any, of Fort Bragg should be charged the resident fees; and
  - c. Establish specific guidance and expectations on charging swimming pool and Adult Open Play Athletic fees.
2. Once the policy and procedures are updated, management should provide training to PRM personnel involved in charging and monitoring of the parks and recreation program fees.
3. Management should develop a quality review program for the fees and conduct an adequate number of appropriate quality reviews in a timely manner. The documented results should be maintained and utilized as measures of effectiveness during performance evaluations.

## **Management's Response:**

We Concur. Management is in full agreement with the recommendation. Recreation and Administrative management staff will review and amend the Fayetteville-Cumberland Parks and Recreation Non-Resident Fee Policy by May 1, 2019 with training to occur in May/June and full implementation July 1, 2019. A new procedure will be implemented to define the process for staff to determine whether the resident or nonresident fees should be charged. The procedure will also include specific guidance on which fee to charge residents of Fort Bragg. During the review process we will determine if it is operationally feasible to charge nonresident fees for pool entry, Adult Open Play and other similar programs. Training will be provided to all full-time and part-time staff once the policy and procedures are updated and ready for implementation. Recreation and Administrative management will also develop a review process that will ensure that fees are being charged in accordance with the fee schedule.

Responsible Party: Adrienne Thomas, Business Manager

Implementation Date: 07/01/2019

## **Finding 2**

### ***Fees were not always transparent on the fee schedule.***

The fee schedule approved by City Council should be complete and transparent. However, Internal Audit noted:

1. Fees not specifically listed on the fee schedule, but charged as resident and nonresident.
  - a. Amateur Athletic Union (AAU) travel teams in which coaches paid the fees for the team to practice at PRM facilities were charged at the 'Adult Open Play Athletics' rate which was \$2 for a resident and \$4 for a nonresident. However, they were all charged at the resident rate (See Finding #1).
  - b. Days during the school year when school was not in session (i.e. spring break, intercessions for year round, etc.) and children attended a camp led by PRM personnel at the recreation centers, PRM personnel charged based on the 'Summer Day Camp' fee which was listed as a weekly rate on the fee schedule. However, PRM personnel would prorate the weekly fee based on the

number of days of camp the child attended. The adopted fee schedule did not indicate the 'Summer Day Camp' fee could be prorated, and based on the name of the fee it was not clear this fee could be used for camps not held during the summer.

- c. Clark Park and Lake Rim Park camps were programs led by PRM personnel, charged based on a resident/nonresident fee structure, and not specifically listed on the fee schedule. Based on Internal Audit inquiry, these programs were considered 'Leisure Activities' which were listed as variable on the fee schedule and were not presented to City Council as being based on a resident/nonresident fee structure.
2. When the fee schedule originally went to City Council for approval of the resident and nonresident rates in September 2015, golf lesson fees were highlighted indicating they were applicable to the resident/nonresident fee structure. However, Internal Audit noted golf lessons were not charged using a resident/nonresident rate. Based on Internal Audit inquiry, PRM personnel indicated the golf lessons were instructed by a contractor; therefore, the rates charged were based on rates established in the contract with the instructor.
3. When trying to obtain a sufficient sample, Internal Audit initially reviewed 1,575 receipts and determined 507 (32%) of the 1,575 receipts were not applicable to the resident/nonresident fee structure. Based on Internal Audit inquiry, 493 (97%) of the 507 receipts were determined to fall under the 'Senior Programs/Leisure Activities' on the fee schedule for which the rate is variable, and based on the way the fee schedule was taken to City Council were not applicable to the resident/nonresident fee structure. Internal Audit noted these receipts not only included programs instructed by contractors but also regularly scheduled programs instructed by PRM personnel.

Based on Internal Audit inquiry, fees were not specifically listed on the fee schedule to allow for flexibility in changing fees. However, when fees are not clearly stated on the fee schedule, citizens may be unaware if the correct fee was charged, and it also creates the opportunity for misappropriation or theft of funds. In addition, City Council may not clearly understand the fees they are adopting in the fee schedule.

### **Recommendation**

The Office of Internal Audit recommends management update the existing fee schedule to provide additional transparency and clarity for City Council and citizens. This should include, but not be limited to, all fees applicable for the resident and nonresident rates, and fees for regularly scheduled programs led by PRM personnel.

### **Management's Response:**

We partially concur. Management is in agreement with a portion of the recommendation. Recreation and Administrative management staff will review the fee schedule and update to ensure transparency and clarity regarding the PRM rates and fees. This includes the fees charged for County-wide regularly scheduled programs and services will be listed on the fee schedule reflecting the appropriate fee, to include the resident and non-resident fee, if applicable. However, the fees that are assigned by Recreation staff based on community interest along with the fees that are determined by contractors providing instructional programs will be reflected on the fee schedule as not applicable to the resident and non-resident fee structure.

Recreation staff creativity and response to community needs may be stifled if every program they lead must be listed on the fee schedule separately, whereas, these fees will be identified as Leisure Activities. Parks and Recreation provides constantly changing and varying programs through 21 facilities in unique communities all over Cumberland County. In order for Parks and Recreation to include all programs on the fee schedule, as opposed to having them listed as under the Leisure Activity designation, would add hundreds of lines to the fee schedule for activities and limit the ability of staff to meet the needs of their communities without having fees approved through City Council. Many of these programs may have the same name, but are slightly different from site to site. For example, Movie Night may be a free activity at one center and another center may charge a fee because they offer the participant dinner and a movie. Another example would be summer programs offered through the park rangers division. They offer six

different summer programs for youth and teens that would all have to be listed separately because they are of varying prices. As stated in the report “when fees are not clearly stated on the fee schedule, citizens may be unaware if the correct fee was charged and it also creates the opportunity for misappropriation or theft of funds” we disagree as fees for all programs are listed on the Fayetteville-Cumberland Parks and Recreation website.

Responsible Party: Adrienne Thomas, Business Manager

Implementation Date: 07/01/2019

### **Finding 3**

#### ***Sufficient documentation to validate fees charged was not maintained.***

Sufficient documentation should be obtained to determine if the resident or nonresident rate should be charged and to allow for adequate quality reviews. In addition, the documentation should be maintained based on the North Carolina Department of Cultural Resources Records Retention and Disposition Schedule adopted by City Council to ensure compliance with the State’s record retention requirements. However, sufficient documentation was not provided for 1,369 (86%) of 1,600 receipts. Therefore, Internal Audit had to rely on the address entered into RecTrac by PRM personnel and/or the address written by the customer on enrollment or facility rental forms to validate whether the correct resident or nonresident fee was charged. Internal Audit considered the documentation sufficient if it originated from a creditable third party and was dated within the last two years. The *Fayetteville-Cumberland Parks & Recreation Non-Resident Fee Policy* did not provide clear and sufficient guidance on what documentation to obtain, and how the documentation should be maintained.

Without sufficient documentation being maintained, management cannot ensure fees are being charged properly; therefore, the City may not be receiving all revenue associated with the resident and nonresident fees.

### **Recommendation**

The Office of Internal Audit recommends management amend the written *Fayetteville-Cumberland Parks & Recreation Non-Resident Fee Policy* to ensure clear guidance is provided on documentation for resident and nonresident fees. This policy should be amended to include sufficient guidance to allow an individual who is unfamiliar with the operations to perform the necessary activities. Finally, subject matter experts should be included in updating and reviewing the policy to ensure only attainable and realistic requirements are included.

Improvements to the policy based on Internal Audit’s observations should include, but not be limited to:

- a. Types of documentation considered sufficient and insufficient;
- b. Frequency for updating documentation; and
- c. Documentation maintenance, retention and destruction requirements which should ensure adherence to the security of sensitive and confidential information and the State’s retention requirements.

### **Management’s Response:**

We concur. Management is in full agreement with the recommendation. The policy already lists documentation that is acceptable, more clarification will be added as to what is not acceptable, frequency for updating documentation and document maintenance. Recreation and Administrative management staff will review and amend the Fayetteville-Cumberland Parks and Recreation Non-Resident Fee Policy by May 1, 2019 with training to occur in May/June and full implementation July 1, 2019.

Responsible Party: Recreation Division Supervisor

Implementation Date: 07/01/2019



#### **Finding 4**

##### ***Internal controls need strengthened.***

Internal control is the integration of the activities, plans, attitudes, policies, and efforts of City personnel working together to provide reasonable assurance that the City will achieve its mission. More simply, internal control is what the City does to see the things they want to happen will happen...and the things they don't want to happen will not happen. Internal controls provide reasonable assurance that the City will be successful and achieve its mission and accomplish certain goals and objectives. An effective internal control system helps the City to:

- Promote orderly, economical, efficient and effective operations.
- Produce quality products and services consistent with the City's mission.
- Safeguard resources against loss due to waste, abuse, mismanagement, errors and fraud.
- Promote adherence to statutes, regulations, policies and procedures.
- Develop and maintain reliable data, and accurately report that data in a timely manner.

Internal Audit noted several areas which internal controls within RecTrac could be strengthened for cash receipting.

1. ***A conflict of interest may exist with PRM personnel having oversight of RecTrac administration.*** Principle 10 of the United States Government Accountability Office *Standards for Internal Control in the Federal Government* lists segregation of duties as a control activity in which: "Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions and handling any related assets so that no one individual controls all key aspects of a transaction or event." Currently personnel who utilize RecTrac to perform their daily duties or supervise personnel who utilize RecTrac to perform daily duties, also have administrative rights within RecTrac. This allows for a conflict of interest with RecTrac administration supervised by the PRM personnel who can require the RecTrac administrator to circumvent controls in place. Removing RecTrac administration from the PRM Department would allow for proper segregation of duties related to the oversight of RecTrac administration. Segregation of duties involving RecTrac administration was previously recommended to City management in September 2017 in a Fraud, Waste and Abuse Report on the security of sensitive information within RecTrac. When RecTrac was initially implemented, PRM personnel were established as the administrators.
2. ***A complete population could not be determined by Internal Audit for sampling.*** There should be no question as to whether the data in RecTrac was complete. Incomplete data could be a way to hide fraud, waste or abuse. Therefore, Internal Audit conducted testing for completeness to determine if a receipt was generated in RecTrac for each transaction and was assigned a unique receipt number. However, Internal Audit noted 21,656 missing receipt numbers. These missing receipts represented a significant impairment to the overall data integrity so further analysis was conducted, and it was determined a complete report showing all RecTrac transactions from July 1, 2017 to June 30, 2018 was not provided by PRM personnel. Internal Audit was able to run reports in RecTrac to provide a more complete report. However, Internal Audit could not determine if all receipts generated from July 1, 2017 to June 30, 2018 were included on the report due to the lack of controls within RecTrac which included RecTrac users' ability to:
  - a. Change dates on receipts – Internal Audit noted 259 receipts had been predated at the time of issuance (thus the general ledger date was also predated) and three had been postdated; and
  - b. Change general ledger dates in RecTrac – Internal Audit noted the general ledger date within RecTrac for 122 receipts had been predated and three postdated after the receipt was issued.

When users are able to change dates on receipts and the general ledger, a receipt which should have fallen in the audit period may not have been selected for review because it was predated or postdated before or after the audit period. Additionally, Internal Audit noted RecTrac users had the ability to change drawer numbers (as it relates to the location of receipt) and pay codes, whether a cash, check or credit card payment was made. Changing the dates and drawer numbers could allow for revenue to be misappropriated without being discovered.

**Recommendation**

1. Management should consider having RecTrac administration supervised by the Information Technology Department. This should not only alleviate the current conflict of interest but would allow personnel to supervise this position with knowledge of the need for segregation of duties, access controls and security over RecTrac.
2. Management should review RecTrac user accesses to ensure users only have access for which there is a necessary business need. This should include but not be limited to determining if a necessary business need exists for the ability to change receipt and general ledger dates, drawers, and pay codes.

**Management's Response:**

4.1 We concur. Management is in full agreement with the recommendation. After ensuring that Information Technology (IT) had the capacity to accommodate RecTrac administration, management will outline a transition plan over the next several weeks, to include the delineation of "administrative rights" and as identified in our response to Recommendation 4.2. Additionally, given RecTrac's integral role in sustaining PRM operations, it is Management's belief that dedicated technical administration is required. The creation of a RecTrac Systems Analyst in the FY21 budget would enhance day-to-day support/user experience, identify and resolve issues and improve process efficiencies as online transactions grow.

Responsible Party: Michael Gibson, PRM Director and Adrienne Thomas, Business Manager

Implementation Date: 03/01/2019

4.2 We concur. Management is in full agreement with the recommendation. Access will be updated for Recreation Division Supervisors to restrict access and the ability to change receipt and general ledger dates, drawers, and pay codes. This access will be updated by February 1, 2019 and remain with the Business Manager and Management Analysts only until PRM management can outline and implement a transition plan as identified in Management's Response 4.1, to include collaborating with Finance management on the impact the process changes will have on the day-to-day operations.

Responsible Party: Michael Gibson, PRM Director and Adrienne Thomas, Business Manager

Implementation Date: 03/01/2019

***CONCLUSION***

The Fayetteville-Cumberland Parks & Recreation offers recreational and leisure programs to the City of Fayetteville and surrounding areas. These programs help make our community a more desirable place to live and work. In order for the City to provide the current level of services and add new services, facilities and programs, the PRM Department must ensure adequate controls are in place to safeguard the funds supporting these activities to include nonresident fees charged. However, if the nonresident fees aren't being collected as required by the fee schedule, then nonresidents may not be fairly contributing to funding these programs as was the intent when the nonresident fees were taken to City Council in September 2015. In addition, based on the number of nonresident customers Internal Audit noted who utilized the parks and recreation programs, management should consider if the implementation of the nonresident rates are achieving the expected outcomes when the fees were originally approved by City Council, and is the additional work and controls to charge the nonresident fees cost beneficial.

Regardless of whether nonresident fees remain, management needs to strengthen the controls around cash receipting. This should include ensuring adequate controls within RecTrac; establishing clear guidance on fees and the cash receipting process; ensuring personnel are properly trained, and establishing a quality review process.

Although the management responses are included in the report, Internal Audit does not take responsibility for the sufficiency of these responses or the effective implementation of any corrective actions.

Internal Audit would like to thank Department personnel for their assistance and numerous courtesies extended during the completion of this audit.

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