



CITY of RIVERSIDE

Parks, Recreation and Community Services Recreation Contracts, Contract Fees, and RecWare

AU12 – 02
September 2011

INTRODUCTION

In accordance with the City Internal Audit FY 2011/12 Work Plan, we have completed an audit of recreation contracts, contractual fees charged by the Parks, Recreation and Community Services Department (PRCSD), and RecWare, the Department's recreation management software from The Active Network, Inc.

STATEMENT of OBJECTIVES

The objectives of the audit review were to:

- ❑ Determine if the fees charged for contract services for the PRCSD are accurate and in compliance with the regulations set forth in the City of Riverside's Municipal Code *Chapter 3.30, Fee and Service Charge Revenue/Cost Comparison System* and the City's *Master Fees and Charges Schedule*;
- ❑ Determine if the fees charged for contract services are in compliance with the regulations set forth in the various State of California codes (e.g. Gov't Code and Public Resources Code) and propositions (e.g. Propositions 13, 62, 218, and 26);
- ❑ Ascertain if controls over the creation of fees are adequate;
- ❑ Ascertain if controls over the creation of Contractor/Instructor Agreements are adequate; and
- ❑ Ascertain if controls over the addition, change, and deletion of activity fees and users of the RecWare systems are adequate.

SCOPE and METHODOLOGY

The review was conducted during the period from May 2011 to July 2011, and addressed the Department's recreation management software, RecWare and the development of PRCSD Contract/Instructor Agreements and associated contractual fees for city-run programs, events, and classes from inception of program to advertising of classes to charging of patrons. To address audit objectives and as part of our assessment of risk, we:

- ❑ Reviewed the appropriate State of California and City of Riverside rules and regulations regarding the creation of fees;
- ❑ Interviewed staff from the Finance Division of the City Manager's Office and reviewed various *Fees and Charges Studies* and current *Master Fees and Charges Schedule* and supporting documentation to gain an understanding of the creation of fees on a city-wide basis;
- ❑ Interviewed PRCSD staff and reviewed internal documents to gain an understanding of the creation of fees, allowed to be created as the need arises, pursuant to the *Master Fees and Charges Schedule*;
- ❑ Performed a walk-through of the creation of PRCSD fees;
- ❑ Vouched fees from the *Fees and Charges Study* to the *Master Fees and Charges Schedule* to RecWare to the most recent Parks, Recreation and Community Services Activity Guide (Summer 2011);
- ❑ Met with the City Attorney's Office to address fee related issues as they arose;
- ❑ Interviewed PRCSD staff and reviewed internal documents to gain an understanding of the contract process for instructors/contractors; and
- ❑ Interviewed PRCSD staff and reviewed internal documents to gain an understanding of the Department's recreation management software, RecWare.

Our review was conducted in accordance with *Generally Accepted Government Auditing Standards* and according to the *Standards for the Professional Practice of Internal Auditing* of the Institute of Internal Auditors. Those standards require that the audit is planned and performed to afford a reasonable basis for judgments and conclusions regarding the department, division, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe our audit provides a reasonable basis for our conclusions.

BACKGROUND

PRCSD offers numerous classes, programs, activities and special events to the City of Riverside residents and surrounding communities. The majority of these services are advertised quarterly in the PRCSD Activity Guide. The Summer 2011 Activity Guide is over 50 pages long and provides information on more than 200 classes/activities.

To provide the community with a variety of classes, PRCSD does not have the staffing or staff with specific skills needed for some of the classes requested by the community (e.g. karate, blow-dry boot camp, etc.). As such, the department enters into agreements with various independent contractors/instructors to provide classes to supplement those provided by City staff. PRCSD estimates that in any given year approximately 300 classes/activities are provided, with approximately 83% or 250 provided by contractors.

Based on the FY 2010/11 PRCSD budget, revenue is expected to be \$1.55 million for the use of pools, facility rentals, classes, special events, and activities.

Contract Classes, Contracts, and Fees

The administration for PRCSD contract classes is facilitated from the Youth Opportunity Center, located at 2060 University Avenue. Per conversations with PRCSD staff, contractors are chosen through an interview process based on the needs of each community center and the City as a whole. PRCSD stays current on the needs and wants of the City's citizens by taking class requests at each community center and networking with other local agencies to compare classes. Each year PRCSD advertises openings for new contractors/instructors in their quarterly recreation guide, on the City's website, and in other recreational materials. To be eligible for an interview, each potential contractor must fill out an application and return it for review to PRCSD. The Department does not go out to bid for contract classes, unless a contract class is expected to provide the City with more than \$25,000 in revenue. Individual agreements that require City Council approval (Major League Softball, Tennis Center, etc.) are not part of the scope of this audit.

Once a contractor/instructor is chosen, the contractor and PRCSD staff work together to develop a fee to be charged based on market rates and the rates of current classes offered by the City. Development of the fee is not a formally documented process, but done internally by staff during discussions with the potential contractor/instructor pursuant to a City Council approved contractor/instructor agreement template.

Fees are advertised in the quarterly Recreation Activity Guide and included in RecWare. In addition to the contract template adopted by the City Council, the authorization to use contract classes exists in the *Master Fees and Charges Schedule* under the Youth Contract Class (5210) and Adult Contract Class (5214) fee categories. Each fee has the following language, which gives PRCSD the authority to create a fee, "Fee set by Park and Recreation Department in conformity with RMC 3.30.030 and Master Fees and Charges Schedule."

Chapter 3.30, *Fee and Service Charge - Revenue/Cost Comparison System*, of the Riverside Municipal Code requires the City to reviews fees on an annual basis. In addition, the Chapter establishes a policy for the recouping of "reasonably borne costs" to be recovered from users of City services. The establishment of City fees, in conformity with Chapter 3.30 of Riverside's Municipal Code and various State of California codes (e.g. Gov't Code and Public Resources Code) and propositions (e.g. Propositions 13, 62, 218, and 26) is formally adopted by Resolution. The most recent Resolution, Resolution No. 22227, which amended Resolution 21960 (January 2010), was adopted on June 21, 2011. Internal Audit performed an in-depth review of PRCSD non-contractual fees from May to July 2011 (AU12-01).

Once the rate is determined, PRCSD has a policy of collecting 30% of the gross revenue per participant for those activities that take place at a non-city owned facility and 40% for those activities held at a City

owned facility. This policy was a result of the Department's findings from a market study in 2007 of over 40 local municipalities. The allocation of gross revenues is initially communicated to all potential contractors through the Interested Instructor Letter, which states, "Compensation for instructors teaching at a City provided facility is based on 60% of the registration received for the class. Instructors teaching at their own facilities receive 70% of the registration for each class."

Once an instructor has been selected and a class/activity fee has been agreed upon, a background check and in-processing is performed by Human Resources.

The City Council adopted a template for the PRCSO to use to contract with recreation instructors/contractors on an as needed basis. PRCSO staff uses this document to develop a draft agreement. This agreement is sent to the City Attorney's Office along with copies of the instructor/contractor's business license and insurance certificates. Each Department/Office signs on the signature page of each agreement after their review. PRCSO follows the citywide agreement process, in which all documents are reviewed by the City Attorney's Office, Department, and City Clerk's Office.

Exhibit A to each Agreement outlines the basic information in the agreement, specifically noting each contractor's name, address, phone number, compensation percentage, fax number, email, instructor's names, and a brief description of duties.

The New Instructor Checklist, an internally created document, explains the process for setting up new a contractor/instructor. The document outlines the contract/agreement process, the need for various approvals, ensures up to date business license and insurance requirements, etc. To monitor all of the contract requirements and expirations, PRCSO had created a Contact List. Internal Audit noted the policies and procedures for the contract process have not been approved by management nor documented as part of a comprehensive departmental policy and procedure manual.

Contractor Payment Process

Payment to each instructor/contractor is outlined in each agreement, *Section 14, Compensation*:

"In consideration for the provision of the class including services, materials equipment at the site as herein provided, City shall pay Instructor a percentage of all enrollment fees collected per each session of the class as specified in Exhibit "A." In no event shall an Instructor be paid both a flat-rate and a percentage of the enrollment fees. Said sum(s) shall be paid in accordance with City's usual accounting procedures not more often than bi-weekly following submission on an invoice in triplicate from Instructor to City. Instructor will be paid, after a completed attendance roster is received by the City. City shall charge a five percent (5%) processing fee for invoices not submitted by the deadline."

PRCSO staff provided Internal Audit with three (3) internal policies and procedures related to the payment of instructors/contractors: *Contract Class Instructor Payments, How to Prepare Instructor Payments, and Instructor Payment Schedule 2011*. Upon initial review, all three (3) policies provide details and assign responsibilities to the process set forth in Section 14 of the agreements between the City and instructors/contractors. However, the policies and procedures reviewed by Internal Audit do not appear to be part of a comprehensive departmental policy and procedure manual nor have evidence of formal management approval and review (e.g. name and signature of division/department head).

RecWare

PRCSO uses recreation management software called RecWare. RecWare is an internet based application that allows for in-person activity registration, Internet registration, and point of sale (both in-person and online). The application also allows staff to schedule team sports and facility rentals.

Once a new instructor has completed their requirements and entered into an agreement with the City, their information is entered into RecWare via a *Request for RecWare POS* or a *Request for Activity*. According to PRCSO staff, depending on the type of activity, one time or reoccurring, will dictate what form is used. Generally, the forms state the activity name, season, dates, requestor, approval, etc. for each class, activity or event. The process for filling out the forms is formally documented as part of in the Departments policies and procedures, *RecWare Classes & Point of Sale Request Number I-33*. However, per conversation with PRCSO, the process set forth in Policy I-33 is not always followed. Specifically, PRCSO staff noted that most activities are not formally documented *on Request for RecWare POS* or a *Request for Activity Input*; these forms are usually only obtained from the community center coordinators for input into RecWare for activities such as cheerleading, after school programs, events, etc. The remaining classes/activities, which would exceed 100 classes/activities per season, are directly input by a

Recreation Coordinator and/or Instructor. After input, a report is then provided to the Recreation Supervisor or Superintendent for review.

Authorization to add users (employees) to RecWare is formally documented with the use of an internal form, *RecWare Request Form*. The Recreation Coordinator and PRCSD Supervisors are responsible for setting up users in the system after receiving the signed *RecWare Request Form* from a Recreation Supervisor or Recreation Superintendent. The *RecWare Request Form* has been used for approximately four (4) years. A copy of the *RecWare Request Form* is retained with each employee's personnel file kept by PRCSD. Levels of authorization to perform certain tasks in RecWare can be determined by department management based on each employee's responsibility and the Department's needs; there are 14 profiles in RecWare to choose from.

According to RecWare there are 285 active and non-active users. According to Staff, when an employee separates from the City and PRCSD receives their P-2, the appropriate Recreation Coordinator or Recreational Supervisors removes that employee's access to RecWare by designating them "prevent from further use" in RecWare. Internal Audit noted formal policies and procedures do not exist over the removal of employees from RecWare upon separation from the City; however, periodically, Recreation Supervisors review the listing of RecWare profiles for active/non-active employees. PRCSD noted RecWare does not have the ability to run reports for active vs. non-active employees; Recreation Supervisors must manually review the listing and vouch the list to the employees profile in RecWare.

Per conversation with PRCSD, Internal Audit noted the version of RecWare currently in use will stop being supported by The Active Network, Inc. in the near future. As of the date of this report, PRCSD is in the process of developing an RFP for recreation management software. The Department's goal is to select a new software solution in six (6) months, with implementation for the start of FY 2012/13.

Contract Attribute Testing: Contract Classes, Programs, Activities and Events

During the course of the audit, we created a profile in RecWare that would simulate what an individual signing up for a class would use over the Internet. Using the category search tool, we randomly selected 15 classes in total from contract categories.

Classes Selected:

- Blow-Dry Boot Camp
- KO Running Club
- Introduction to Fencing
- Beginning Tumbling
- Kids Brazilian Jiu Jitsu
- Beginning Piano for Kinda
- Acting For Youth
- Childrens Hip-Hop
- Go 4 Goal Soccer
- Pom-Pom Cheerleading
- Beginning Reading for Grades K-1
- Karate Weapons Kebodo
- Heart and Soul Line Dancing
- Art Masters – Beginning
- Ballet for Tots

After selection of the 15 classes, we tested the following attributes:

- 1) Agreement between City and Instructor/Contractor is properly authorized and reviewed;
- 2) Instructor/Contractor has a current business license;
- 3) Instructor/Contractor has current insurance requirements;
- 4) Documentation exists for the correct percentage allocations of gross revenues to City and Instructor/Contractor;
- 5) Fee(s) charged is consistent with the cost recovery policy adopted in the *Master Fee and Charges Schedule*;
- 6) Non-resident fees are properly charged/advertised as adopted in the *Master Fee and Charges Schedule*;
- 7) Fees charged are allowable under the provisions of Propositions 13, 62, 218 and 26 and allowable with respect to the applicable State code sections (Gov't Code, Public Resources Code, etc.); and
- 8) Fees charged in RecWare are consistent with the Fees posted in the *Summer 2011 Activity Guide*.

Using the City Clerk's online document storage, Internal Audit located the majority of the agreements. Due to the timing of scanning in the documents, we had to obtain a few updated agreements from Recreation Coordinator whom oversees contracts. Without exception, all agreements obtained were properly authorized.

Using the Database search tool for the City's Business License, we reviewed the status of each contractor's business license, noting zero exceptions. Without exception, Internal Audit reviewed each instructor's insurance certificates, noting they were up to date and for the appropriate amounts noted in the agreement. Copies of the insurance certificates were attached to each agreement.

To ensure the appropriate gross revenue allocations were contractually stated in each agreement, Internal Audit reviewed Exhibit A for each instructor/contractor agreement. Internal Audit noted five (5) exceptions:

- 1) Blow-Dry Boot Camp: Compensation percentage states, "per contract"
- 2) KO Running Club: Compensation percentage is blank
- 3) Beginning Tumbling: Compensation percentage is blank
- 4) Kids Brazillian Jiu Jitsu: Compensation percentage is blank
- 5) Children's Hip-Hop: Compensation percentage states, "60% to 70%"

As previously noted, the gross revenue allocations are stated in the *Instructor Welcome Letter* and discussed as part of the fee negotiation between City staff and the instructor. However, a formal agreement between the City and the instructor/contractor will take precedence over what percentage is included in any informal letter or in any RecWare report generated by PRCS staff.

The City Council adopted a template for the PRCS staff to use to contract with recreation instructors/contractors on an as needed basis. PRCS staff uses this document to develop a draft agreement. Exhibit A to each Agreement outlines the basic information in the agreement, specifically noting each contractor's name, address, phone number, compensation percentage, fax number, email, instructor's names, and a brief description of duties.

Charges for the City's contract classes are as different as the classes themselves. However, a specific fee recovery percentage exists in the *Fees and Charges Study* for contract classes. For Youth Contract Classes, Reference Number 5210, the cost recovery percentage is 30% and for Adult Contract Classes, Reference Number 5214, the cost recovery percentage is 75%. To complicate matters further, we noted the *Master Fees and Charges Schedule* allows PRCS staff to set fees at any cost, while the *Fees and Charges Study* provides an estimated cost for the city to provide contract classes. In short, these documents appear to contradict themselves. Furthermore, the cost recovery percentages are not feasible for contract classes, since prices are set at market rate because they are provided by a third party and not PRCS staff.

Since contract fees are charged for services provided by a third party, PRCS is not held to the general fee requirements of various State of California codes (e.g. Gov't Code and Public Resources Code) and propositions (e.g. Propositions 13, 62, 218, and 26). By entering into an agreement, PRCS assumes the responsibility that the services being provided, fees charged, and percentage of gross revenue received are in the best interest of the City and community alike. Eliminating these fee categories from the *Fees and Charges Study* and *Master Fees and Charges Schedule* would greatly eliminate confusion of PRCS's contract fee requirements.

Internal Audit vouched the non-resident fees stated in the Summer 2011 Activity Guide and the RecWare system, to the non-resident fees stated in the *Master Fees and Charges Schedule* for Adult (5214) and Youth (5210) Contract Classes without exception. We noted no exceptions when vouching fees posted in RecWare to fees included in the *Summer 2011 Activity Guide*.

User Fees Charged vs Fees Posted in RecWare

Internal Audit was given administrative access to RecWare, which includes the ability to run reports. Using the report tool function, we ran the *Activity Overview Report*, which notes key and non-key fees. Key fees are defined as the base fees charged for a class. Non-key fees included non-resident, Southern California Municipal Athletic Foundation (SCMAF) insurance, and donations. These non-key fees can be added and charged on an as needed basis by staff.

Using RecWare, we ran the *Instructor Payment Due Report* for the 15 contract classes selected for the contract attribute testing. From this report, we selected two classes: *Go - 4 Goal* and *Art Master - Beginning*. We obtained a breakdown of each of the amounts due to each instructor based on the current enrollment (certain classes have not started yet), and obtained a detailed listing of each payment/sign-up pursuant to each class. Internal Audit reviewed the listing to determine if the amounts charged to each person matched the amounts advertised on the *Summer 2011 Activity Guide*.

Based on testing, Internal Audit noted a \$2 charge for SCMAF Insurance for all patrons signing up for classes; an amount that is not published separately in the *Master Fees and Charges Schedule*, in the

Summer 2011 Activity Guide, or on a fee worksheet developed internally by PRCSD. The \$2 charge was listed separately on a patron's RecWare receipt.

We reviewed the City's general ledger and identified two payments to SCMAF over the past year, one for \$256.20 and one for \$180.00. Per review of the documentation, the \$256.20 is for insurance for instructors and the \$180.00 payment is for six (6) annual banquet spots.

In reviewing the standard agreement language, *Section 5, Insurance*, instructors must have insurance prior to entering into an agreement with the City. The standard agreement does provide a provision for the City to collect a fee from each participant and remit those payments to SCMAF or another insurance agency.

Per conversations with PRCSD, Internal Audit noted instructors do have insurance prior to entering into an agreement, and SCMAF is one of their options. PRCSD explained that instructors can either obtain their own insurance or be added to the SCMAF insurance umbrella. The \$2 fee is included in the total fee/amount advertised in the Activity Guide. Internal Audit reviewed the fees advertised and agrees that the \$2 SCMAF fee is included in the total amounts charged to the patron, which matches the amount advertised.

Per documentation provided by PRCSD, we noted the cost per individual per class is actually \$1.60, not \$2. The difference of \$0.40 is considered to be a "processing fee." Internal Audit noted the department does not have documentation for charging the additional \$0.40 "processing fee." Furthermore, we noted the SCMAF fees should be "passed through" the City by being deposited into a trust account and paid from that trust account to SCMAF; a process that is not currently practiced by PRCSD.

RecWare: Review of Employee Users and Authorizations

Using the RecWare user list from PRCSD staff (285 users), we randomly selected a sample of 10 employees for testing. We requested the *RecWare Request Form* for each employee selected to vouch the information in RecWare. The RecWare users report does not provide details on the status of employees (active vs. inactive). As such, Internal Audit used IFAS HR module to verify the accuracy of inactive employees in RecWare's System Users module (Safari Central – Lists – Common Lists – System Users).

From the selection of the ten (10) employees, three (3) were inactive per IFAS. Of the three (3) employees, two (2) were designated "prevent further use" in RecWare. Internal Audit noted one (1) exception; Valerie Simpson, was not designated "prevent further use" after her separation from the City in April of 2008.

Instructor Payment Process Testing

Internal Audit also obtained departmental policies and procedures relating to the processing of instructor payments and compared the information to each agreement. Per review of *Contract Class Instructor Payments I-32*, Internal Audit noted the controls set forth in the policy, including proper review and compliance with *Section 14, Compensation*, appear to be adequate. However, Internal Audit noted the internal policy does not have an effective date, or approval signatures. The remaining departmental policies and procedures obtained, *How to Prepare Instructor Payments* and *Instructor Payment Schedule*, are desktop procedures. The documents provide staff specific direction on how to use RecWare and when payments should be processed. These policies and procedures provide controls to help ensure timely payment to instructors/contractors.

To test internal controls over the payment process, Internal Audit performed a walk-through of two (2) contracts, *Pom-Pom Cheerleading Drill Team* and *Shotokan Karate* payments, to determine if the process stated in the instructor agreements and PRCSD internal policies and procedures were being followed.

The payments selected for testing were not on the selection of the 15 classes substantively tested. Due to the fact that the classes selected for testing have not been completed, instructors/contractors have not been paid. In order to perform the walk-through we selected two instructors from the 15 classes selected for testing that taught/conducted classes previously. Based on the review, Internal Audit noted payments are timely and appear to follow the documented processes as previously explained.

Substantive testing over the payment process was performed in a separate audit, *AU12-03, Cash Handling*.

SUMMARY

PRCSD reacts to the needs of Riverside citizens and the surrounding community, by continuing to look for new classes, activities, and special events. As a result, staff must develop fees for these city-run classes, activities, and special events on a regular basis, while entering into many agreements to provide the classes/activities wanted by the community for those services unable to be provided by staff.

Based on our review of contracts and contract fees, it appears PRCSD staff is knowledgeable with respect to the contract/instructor agreement process. Staff have created numerous internal policies and procedures, and have a documented, well thought out process, from recruiting instructors to entering into an agreement to payment. However, we noted many of these policies and procedures take on various formats, do not have evidence of formal management approval (e.g. name and signature), and are not incorporated into a comprehensive departmental policies and procedures manual (hardcopy or online).

Lack of departmental management approved/reviewed policies and procedures is not unique to the areas of the development of contracts and contract fees. Similar issues related to policies and procedures were found in *AU12-01, Non-Contractual PRCSD Activity Fees* and *AU12-03, Cash Handling*. We believe that a review and subsequent approval (in writing) of the current policies by management, and incorporation into a comprehensive manual, would have identified many of the shortcomings and findings found during our review. In this report management is referred to as department director, acting deputy director, superintendents, and senior analyst.

During this process, we also questioned the inclusion of contract related fee categories (5210 and 5214) in the *Master Fee and Charges Schedule*, Chapter 3.30 of the Riverside Municipal Code, *Fee and Service Charge Revenue/Cost Comparison System*, and the *Fees and Charges Study*. Since contract fees are charged for services provided by a third party, PRCSD is not generally held to the fee requirements of various State of California codes (e.g. Gov't Code and Public Resources Code) and propositions (e.g. Propositions 13, 62, 218, and 26). By entering into an agreement, PRCSD assumes the responsibility that the services being provided, fees charged, and percentage of gross revenue received are in the best interest of the City and community alike. Eliminating these fee categories from the previously mentioned documents would greatly eliminate confusion of PRCSD's contract fee requirements.

RecWare, the PRCSD recreation management software, was also tested by Internal Audit during this review. The original scope of this contract and contract fee review and the non-contractual activity fee review (AU12-01), did not contain testing of RecWare. However, after similar issues arose with inaccuracies of fees contained in the instructor agreements, *Master Fees and Charges Schedule*, and quarterly activity guide compared to RecWare, we determined additional testing of RecWare was needed.

The Department uses RecWare for nearly every aspect of activity operations. Policies and procedures developed by staff relating to the addition and removal of one-time and ongoing activities/classes are not being followed, mostly due to lack of staffing. Through testing, we identified various former employees are still active in RecWare, which can be attributed to lack of formal policies and procedures over this process.

We would like to thank the PRCSD employees for all their help and insight during this audit. Internal Audit will plan to follow-up on implementation of recommendations within 12-18 months.

Respectfully,

Adam Raymond, Senior Internal Auditor
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Finding #1: Gross revenue allocations are incorrectly stated or missing on certain PRCSO agreements with instructors/contractors.

To ensure the appropriate gross revenue allocations were correctly stated in each agreement, Internal Audit reviewed Exhibit A for 15 instructor/contractor agreements, noting five (5) exceptions:

- 1) Blow-Dry Boot Camp: Compensation percentage states, "per contract"
- 2) KO Running Club: Compensation percentage is blank
- 3) Beginning Tumbling: Compensation percentage is blank
- 4) Kids Brazillian Jiu Jitsu: Compensation percentage is blank
- 5) Children's Hip-Hop: Compensation percentage states, "60% to 70%"

The gross revenue allocations are stated in the *Instructor Welcome Letter* and discussed as part of the fee negotiation between City staff and the instructor. However, a formal agreement between the City and the instructor/contractor take precedence over what percentage is included in any informal letter or in any recreation management software report generated by staff. Disagreement between a contractor and staff over the compensation percentage is a risk. If the percentage is not explicitly stated in the agreement or attachments, the City might be faced with a "he said she said" argument over payment due to the contractor.

Recommendation

Internal Audit recommends the addition of another Exhibit or amending Exhibit A that specifically addresses the percentages of gross revenues: 60/40 for activities at city owned facilities and 70/30 for those actives held at contractor owned/leased locations. To provide flexibility for PRCSO, an "other" category could be created in case a different percentage arrangement is made with a contractor. We also recommend that PRCSO staff work with the City Attorney's Office to amend the agreements where expectations were noted. Finally, we recommend that staff perform a review of all current agreements, noting any further exceptions, and work with the City Attorney's Office to correct any issues.

Management's Response

The Department concurs with this finding. For classes/activities that are provided by independent instructor/contractors, the typical revenue split is 70/30 for those activities held at non-city facility, and 60/40 for those held at city owned facilities. These arrangements should be explicitly stated in a fully executed agreement with instructors/contractors.

A review of all agreements with instructors/contractors has been conducted to ensure that revenue allocations are correctly stated in each agreement. Findings from review are documented in a memo to Parks Director date 9/01/11. Memo documents the number of agreements reviewed, discrepancies found, and steps taken to correct discrepancies.

Finding #2: Lack of management approved, comprehensive, policies and procedures manual.

Staff have created numerous internal policies and procedures, and have a documented, well thought out process, from recruiting instructors to entering into an agreement to paying them. However, we noted many of these policies and procedures take various shapes and formats, do not have evidence of formal management approval (name and signature), and are not incorporated into a comprehensive departmental policies and procedures manual (best practice).

Throughout this review, we have also identified other areas that are lacking policies and procedures; such as, the process for adding and removal of employees from RecWare.

Well written policies & procedures allow employees to understand their roles and responsibilities within predefined limits. Basically, policies & procedures allow management to guide operations without constant management intervention. Policies identify the key activities and provide a general strategy to decision-makers on how to handle issues as they arise. A well written procedure will help eliminate common misunderstandings by identifying job responsibilities. Good procedures actually allow managers to control events in advance and prevent the organization (and employees) from making costly mistakes. Policies/procedures are required when there is a need for consistency in day-to-day operational activities. Policies and procedures also provide clarity when dealing with accountability issues or activities that are of importance to the organization, such as legal liabilities, regulatory requirements, etc.

Recommendation

Internal Audit recommends PRCS D develop a comprehensive policy and procedure document, with documented approval from the PRCS D Director or designee. The policies and procedures should be written to ensure they can be followed and still provide internal controls over the accuracy and completeness of information; regardless of staffing levels. In addition, management should identify areas that lack, but need, formal policies and procedures.

Assistance with writing policies and procedures can be located on the City's external website, under the City Manager's Office – Internal Audit webpage.

Management's Response

The Department concurs with this finding and recommendations. Over the next 12 months, the PRCS D will work toward establishing an overall operations manual with annexes for each operation in coordination with departmental staff and Finance.

Each Superintendent will review and update policies and procedure pertaining to their respective areas of operations and submit to the PRCS D Director or designee for review and inclusion in the overall operations manual. The standardized format available on the Intranet will be used so that each established policy and procedure will bear a review date with signature block for Director's approval.

The following policies which were either reviewed or noted in audit will be given priority:

- 1) Access to RecWare (how access is granted; how/when access is terminated; levels of access granted)
- 2) Updating information in RecWare (such as fees – who has access to update info, what documentation is needed)
- 3) Fees and Charges creation, review, and documentation process
- 4) Cash Handling
- 5) Contracting process for Instructors/Contractors that provide classes/activities

6) Class instructor payment processing

7) Refund Policy

8) Pool Cash Handling

Staff in the Administration division will be responsible for maintaining policies and procedures and coordinating with other departmental staff to review and update all internal policies and procedures on an on-going basis. An electronic copy of the Department's overall policies and procedures will be maintained on the common drive and a hard copy binder will be maintained in the Administrative Office.

Finding #3: Authority to set contract class fees exists in two places, causing confusion.

The City Council adopted a template for the PRCSD to use to contract with recreation instructors/contractors on an as needed basis. PRCSD staff uses this document to develop a draft agreement. Exhibit A to each Agreement outlines the basic information in the agreement, specifically noting each contractor's name, address, phone number, compensation percentage, fax number, email, instructor's names, and a brief description of duties.

Charges for the City's contract classes are as different as the classes themselves. However, a specific fee recovery percentage exists in the *Fees and Charges Study* for contract classes. For Youth Contract Classes, Reference Number 5210, the cost recovery percentage is 30% and for Adult Contract Classes, Reference number 5214, the cost recovery percentage is 75%. To complicate matters further, we noted the *Master Fees and Charges Schedule* allows PRCSD staff to set fees at any cost, while the *Fees and Charges Study* provides an estimated cost for the city to provide contract classes. In short, these documents appear to contradict themselves. Furthermore, the cost recovery percentages are not feasible for contract classes, since prices are set at market rate because they are provided by a third party and not PRCSD staff.

Since contract fees are charged for services provided by a third party, PRCSD is not held to the general fee requirements of various State of California codes (e.g. Gov't Code and Public Resources Code) and propositions (e.g. Propositions 13, 62, 218, and 26). By entering into an agreement, PRCSD assumes the responsibility that the services being provided, fees charged, and percentage of gross revenue received are in the best interest of the City and community alike. Eliminating these fee categories from the *Fees and Charges Study* and *Master Fees and Charges Schedule* would greatly eliminate confusion of PRCSD's contract fee requirements.

Recommendation

Based on these facts, coupled with the advice from the City Attorney's Office on July 29, 2011, Internal Audit recommends Riverside Municipal Code Section 3.30.030 be amended, to eliminate Reference Number 5210 and 5214 to avoid future confusion. PRCSD should work with the Finance Division, so the elimination of these fee categories coincides with the necessary changes to the *Master fees and Charges Schedule* and *Fees and Charges Study*.

Management's Response

The Department concurs with this finding and with recommendation to eliminate Reference Numbers 5210 and 5214 by amending the Riverside Municipal Code Section 3.30.030. The Deputy Director will work directly with Finance to coordinate elimination of these fee categories with necessary changes to the Master Fees and Charges Schedule and Fees and Charges Study during the next update of the citywide fees and charges.

Finding #4: Charges to PRCSD patrons for SCMAF insurance fees are not properly documented or accounted for.

Based on testing, Internal Audit noted that in certain cases PRCSD patrons are being charged a fee for insurance that is incorporated into the published totals for classes/activities, but broken out separately on receipts and payments to instructors. Specifically, Internal Audit noted a \$2 charge for SCMAF Insurance for all patrons signing up for Go 4 Goal and Art Masters classes.

Per conversations with PRCSD, and as required by the current standard agreements, instructors must have insurance prior to entering into an agreement; SCMAF is one of their options. Instructors can either obtain their own insurance or be added to the SCMAF insurance umbrella.

Per documentation provided by PRCSD, we noted the cost per individual per class is actually \$1.60, not \$2. The difference of \$0.40 is considered to be a "processing fee." Internal Audit noted the department does not have documentation for charging the additional \$0.40 "processing fee." Furthermore, we noted the SCMAF fees should be "passed through" the City by being deposited into a trust account and paid from that trust account to SCMAF; a process that is not currently practiced by PRCSD.

Internal Audit inquired with the City Attorney's Office to determine if the \$2 fee collected by the City, and remitted to SCMAF at the City's own expense, constitute a fee that needs to be properly documented (as an amendment to fee categories in Chapter 3.30.030 / *Master Fees and Charges Schedule*) and advertised (*Master Fee and Charges Schedule* and/or *Activity Guide*).

Recommendation

Based on a conversation with PRCSD management and the City Attorney's Office, on July 20, 2011, Internal Audit recommends participation in SCMAF or another insurance option provided by the City to instructors/contractors is formally documented in each Agreement. Furthermore, any service provided by the City and charged to a patron needs to be formally documented. As such, Internal Audit recommends PRCSD work with the City Attorney's Office to amend the current instructor/contractor agreement template to include a revised insurance section that would allow for the City to collect and pay for insurance based on the actual amount billed to the City, on behalf of the instructor/contractor. In addition, we recommend these funds collected be accounted for in a revolving account since these funds are not considered revenue, but rather a liability, as they are owed to a third party.

Management's Response

The Department concurs with this finding. Agreements with instructors/contractors already require that they provide proof of liability insurance. Effective Spring 2012 programming, staff will no longer perform this task but will instead require the instructors/contractors to provide proof of having adequate insurance before they are allowed to conduct their class/activity.

Finding #5: Former employees are still active users in the RecWare and documentation for controls over RecWare, upon request by Internal Audit, were not submitted by PRCSO.

Using the RecWare user list from PRCSO staff (285 users), Internal Audit randomly selected a sample of 10 employees for testing. We requested the *RecWare Request Form* for each employee to vouch the information for each employee selected to the information in RecWare and determine if any former employees were still active in RecWare.

At the date of this report, our request for the *RecWare Request Forms* for each of the 10 employees has remained open. We could not assert that employees selected had a *RecWare Request Form* and vouch the information to the information in RecWare.

From the selection of the 10 employees, three (3) were inactive per IFAS HR module. Of the three (3) employees, two (2) were designated "prevent further use" in RecWare. Internal Audit noted one exception (Valerie Simpson) that was not designated "prevent further use" after separation from the City in April of 2008.

Per discussions with PRCSO, we noted that employees, once they process any transaction in RecWare, cannot be deleted.

Finding #2 of this report addressed the need for a formalized policies and procedures.

Recommendation

Internal Audit recommends PRCSO review the list of system users and ensure all former employees are designated "prevent further uses." The Department should develop a formal policy and procedure for the removal of access to RecWare upon separation from the City.

Management's Response

The Department concurs with this finding and recommendations. A review of system users will be conducted to ensure that all former employees are designated "prevent further use." The results of this review will be documented in an internal memo to the PRCSO Director.

A formal policy and procedure for granting and removal of access to RecWare will be developed for inclusion in the overall Department's policy and procedures manual. A separate policy regarding the levels of access that users are granted in RecWare also will also be developed.

MANAGEMENT LETTER COMMENTS & RECOMMENDATIONS

During the course of this review Internal Audit discovered the following scenario that does not require a response by PRCSD, but is important to our review of PRCSD contracts, contractual fees, and RecWare.

Management Comment # 1: The PRCSD needs to initiate a RFP for new recreation management software or pursue a sole source provider of recreation management software.

Per inquiry with PRCSD, Active Network, Inc. will be ending their support of RecWare in the relatively near future. Requests of the department for information on new recreation management software or possible upgrade of their current software remains open as of the date of writing this report.

Recommendation

Internal Audit recommends PRCSD begin to identify alternatives to RecWare.