



CITY OF COLORADO SPRINGS OFFICE OF THE CITY AUDITOR

06-181 – CITY AUDITORIUM INTERNAL CONTROL REVIEW

PUBLIC REPORT

FEBRUARY 23, 2007

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Office of the City Auditor

PUBLIC REPORT

Date: February 23, 2007
To: Honorable Mayor and Members of City Council
Re: 06-181 – City Auditorium Internal Control Review

We have completed a review of the Internal Control Structure at the City Auditorium.

The purpose of this review was to evaluate whether the City Auditorium was: 1) in compliance with applicable laws and regulations, 2) preparing reliable financial reports, 3) safeguarding City assets, and 4) operating in an economical, efficient and effective manner. Based on the information we reviewed, we conclude the internal control structure was lacking in all areas and identified eight areas where improvement could be made.

Our report is attached for your review.

As always, feel free to contact me if you have any questions.

Sincerely,

A handwritten signature in purple ink that reads "Jeff Litchfield".

Jeff Litchfield
City Auditor

Cc: Lorne Kramer, City Manger
Mike Anderson, Assistant City Manager
Greg Nyhoff, Assistant City Manager
Paul Butcher, Parks, Recreation and Cultural Services Director

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Introduction

AUTHORIZATION

We performed an audit to evaluate the internal control environment and structure of the Colorado Springs City Auditorium. We conducted this audit under the authority of Chapter 1, Article 2, Part 7 of the Colorado Springs City Code, and more specifically parts 703, 705 and 706, which state:

1.2.703: ENSURE PUBLIC ACCOUNTABILITY:

The City Auditor shall ensure that administrative officials are held publicly accountable for their use of public funds and the other resources at their disposal. The City Auditor shall investigate whether or not laws are being administered in the public interest, determine if there have been abuses of discretion, arbitrary actions or errors of judgment, and shall encourage diligence on the part of administrative officials.

1.2.705: DETERMINE EFFECTIVENESS AND EFFICIENCY OF PROGRAMS:

The City Auditor shall determine the extent to which legislative policies are being efficiently and effectively implemented by administrative officials. The City Auditor shall determine whether City programs are achieving desired objectives. The City Auditor shall review the administrative control systems established by the enterprises, department or group managers and by the City Manager, Utilities Executive Director and Memorial Hospital Executive Director and determine whether these control systems are adequate and effective in accomplishing their objectives.

1.2.706: EXAMINE BOOKS, RECORDS:

The City Auditor shall examine and inspect all books, records, files, papers, documents and information stored on computer records or in other files or records relating to all financial affairs of every office, department, group, enterprise, political subdivision and organization which receives funds from the City or under the direct or indirect control of the City Council. The Auditor may require any person to appear at any time upon proper notice and to produce any accounts, books, records, files and other papers pertaining to the receipt or expenditure of City funds, whether general or special. If that person fails to produce the papers, then the Auditor may request Council approval to search for and take any book, paper or record in the custody of that person or public official.

ORGANIZATION PLACEMENT

The City Auditor's Office of the City of Colorado Springs is structured in a manner to provide organizational independence from the entities it audits. This independence is accomplished by the City Auditor being appointed by and reporting directly to the City Council. The entity in this audit was the City Auditorium, which is under Parks and Recreation which is under the purview of the City Manager. The City Manager is a City Council Appointee.

Introduction

SCOPE AND METHODOLOGY

We conducted our audit in a manner that meets or exceeds the Standards for the Professional Practice of Internal Auditing, a part of the Professional Practices Framework promulgated by the Institute of Internal Auditors. Our review included such tests of records and other supporting documentation as we deemed necessary in the circumstances. We reviewed the internal control structure and compliance tests were performed. Sufficient competent evidential matter was gathered to support our conclusions.

The purpose of this review was to evaluate whether the City Auditorium was: 1) in compliance with applicable laws and regulations, 2) preparing reliable financial reports, 3) safeguarding City assets, and 4) operating in an economical, efficient and effective manner. Our audit period focused on calendar year 2005 through June 2006.

BACKGROUND

In the spring of 2006, a call was received on the City Auditor's Fraud Hotline regarding possible wrongdoing at the City Auditorium. After discussions with the caller and the obtainment of information to support their claims, the City Auditor visited with the City Manager and the Director of Parks, Recreation and Cultural Services regarding the allegations and all agreed enough information had been obtained to indicate a high probability the claims were true. As a result of that meeting, the information was turned over to the Colorado Springs Police Department (CSPD) for their review. The CSPD investigated the case and turned it over to the El Paso County District Attorney's Office for prosecution. The District Attorney elected to not prosecute the case.

Since several of the allegations would have been prevented or more easily detected if proper internal controls were in place, we began this audit of their internal control environment.

The City Auditorium is a unit within Parks and Recreation. It was completed in 1923 and today the facility is primarily used for trade shows, meetings, concerts, auctions, sporting, and social events.

OVERALL CONCLUSION

We conclude the City Auditorium was not: 1) in compliance with applicable laws and regulations, 2) preparing reliable financial reports, 3) safeguarding City assets, and 4) operating in an economical, efficient and effective manner. We have identified eight areas where internal controls were either not being followed or were non-existent. Implementation of the recommendations should correct the deficiencies identified.

For the findings that follow, we have made no determination as to which findings are more important than others. Therefore, the findings are not listed in order of importance.

Findings, Recommendations and Responses

1. Payroll policies were not followed.

Employee time was not reported accurately. There were instances of: 1) time being carried over to the following pay period to avoid paying overtime, 2) reporting the incorrect number of hours on an employee time card, and having the employee use the overage to pay City expenses, 3) reporting more hours than those worked on an employee time card and using the overage to pay another employee for their hours worked, or 4) paying an independent contractor as an employee.

It is against the City's overtime policy and against State and Federal regulations to falsify time records.

Auditor's Recommendation:

We recommend that procedures be developed to ensure that proper payroll procedures are followed and appropriate management oversight is provided.

City Response:

Employees schedules are prepared in advance.

Time clock is in use.

Office Specialist transfers timecard information to pay slips.

Manager reviews and signs all pay slips.

Any write-in times must be authorized and witnessed

Findings, Recommendations and Responses

2. Rental Agreements were not always prepared or were not signed by both parties.

A signed Rental Agreement between two parties represents an understanding of the terms and conditions of the agreement. If there was a dispute between the parties, the signed agreement could be used to resolve the dispute.

Auditor's Recommendation:

We recommend that signed agreements be prepared for all users of the City Auditorium.

City Response:

City Auditorium staff will convene pre-event meetings with all event organizers. Event type, terms and conditions will be reviewed during pre-event meetings. During pre-event meetings, both party signatures will be complete once event type, terms and conditions are agreed upon. City Attorney's office is reviewing the language in the existing contract.

Findings, Recommendations and Responses

3. There were no controls in place to ensure that events were properly billed and paid.

In some instances, a deposit was paid when the event date was reserved and the balance would be billed and paid after the event. In some instances, the event would be paid for in cash the same day as the event. If a balance was still owed, the event holder would be billed. However, there were no procedures in place to ensure that all events were paid for. We identified and verified three events in 2005 and 2006 that had not been billed or paid. The amount of unbilled revenue for these events was \$3,190.00. The City Auditorium will be invoicing these vendors. We also identified other events that may not have been billed. This information has been provided to management for further research.

Auditor's Recommendation:

We recommend that procedures and a reconciliation be developed to ensure that events are billed and paid.

City Response:

Recreation Services has documented billing and payment policies and procedures in place (Accounts Receivable and Payable Policy Turn-in Reconciliation Procedure.)

The City Auditorium will follow the billing and payment policies and procedures.

City Auditorium staff will draw up deposit and payment terms for all events hosted at the venue. These terms will be followed.

Methods of payment used for deposits are payments include: Check, Cash, Money Order, Visa, MasterCard or Discovery.

Note: Cash transactions will be recorded and receipted.

With approval from both parties, the Organizations invoice system will be used.

Note: The invoice system will be used should the renter not meet the contractual payment terms.

Same day payments will not be available under the terms and conditions of all events.

Findings, Recommendations and Responses

4. There were no controls in place to ensure that cash revenue collected was reported.

In some instances, event and/or concession payments were made by cash. Receipts weren't issued to payee for cash payments. Cash was received by the same person responsible for billing and depositing the payments. Some cash deposits couldn't be traced to deposits. There were no segregation of duties for cash handling.

Auditor's Recommendation:

We recommend that procedures be developed to ensure that cash payments are properly received and reported. We also recommend that segregation of duties be developed so that the person receiving the cash is not the same person billing or reporting the payment.

City Response:

Recreation Services has cash revenue policies and procedures in place (Daily Account Balance Reconciliation Policy, Segregation of Duties Policy, Accounts Receivable and Payable Policy, Turn-in Reconciliation Procedure.)

The policies and procedures will be used for all cash transactions.

In most instances the office specialist will record and receipt cash transactions.

The manager is responsible for deposits. The Senior Office Specialist at Sertich Ice Center will assist the City Auditorium manager on deposits.

Note: There will be times when the requested segregation of duties can not be accomplished. The concessionaire is to make special event commission payments to the manager, per the agreement.

Findings, Recommendations and Responses

5. There were no controls in place to ensure that proper accounting procedures were followed for reporting revenues and expenses.

In some instances, event and/or concession payments were made by cash. Not all cash received was deposited. It appears some was used for miscellaneous expenses or was unaccounted for. In other instances, payments were made to vendors in lieu of auditorium fees. For example, Star Bar Players made payments to Graingers (\$1,348.95), Regal Plastics (\$60.28), Western Services (\$1,000.00), and All Phase Flooring (\$1,500.00) in lieu of paying rental fees. Unaccounted for cash was also used to pay expenses such as \$1,692.00 to Beacon Hill Decorative Hardware. Several payments on a storage trailer rented from STX were paid by an employee by adding extra hours to their employee's time card and then having the employee write a check to STX using the additional money that was received through payroll.

All revenue received should be deposited and all expenses paid should be through proper accounting processes. The true financial condition of the City Auditorium was unknown since all revenues and expenses weren't reported.

Auditor's Recommendation:

We recommend that policies be developed to ensure that proper accounting procedures are followed.

City Response:

Recreation Services has accounting policies and procedures in place (Accounts Receivable and Payable Policy, Segregation of Duties Policy, Daily Account Balance Reconciliation Policy, Turn-in Reconciliation Procedure.)

City Auditorium will follow these policies and procedures.

All general fund transactions will be properly recorded and deposited.

All cash transactions will be receipted.

Findings, Recommendations and Responses

6. The fee schedule was not always followed.

Rental agreements were entered into that did not follow the established fee schedule. For example, the Rocky Horror Picture Show was charged \$40.00. According to the fee schedule, it should have been \$200.00. Several agreements included multiple discount fees. The fee schedule does not address multiple discount fees. For example, the Jehovah's Witness discount was \$475.00 per event. At a minimum, there was a loss of revenue to the City Auditorium of \$13,070.00 for 2005 from these two entities.

Auditor's Recommendation:

We recommend that the fee schedule be followed for events held at the City Auditorium. Any exception should be approved by the Parks, Recreation and Cultural Services Director or the Recreation Services Manager.

City Response:

All events will follow the fees and charges ordinance approved by City Council. When an event organizer request a reduced or waived rental fee, the organizer will be required to submit a written proposal which will be reviewed and approved by the Director or the Recreation Services Manager.

Findings, Recommendations and Responses

7. Two deposits were posted in error.

In 2005, two deposits were posted to the wrong department or account.

1. \$400.00 received for utilities from the Café was posted to Adult Sports in error.
2. \$125.00 received for the City Auditorium Gift Trust was posted to Fire Camp for Young Girls in error.

Cash receipts and disbursement transactions must be posted accurately to provide reliable financial statements. As a result, the financial statements are misstated by the amount of the posting errors.

Auditor's Recommendation:

We recommend that management review the deposit posting to ensure that the deposits were posted accurately.

City Response:

Recreation Services has cash revenue polices and procedures in place (Daily Account Balance Reconciliation Policy, Segregation of Duties Policy, Accounts Receivable and Payable Policy, Turn-in Reconciliation Procedure.)

On a monthly basis, the Office Specialist will review all PeopleSoft ledger postings (revenue and expense) and cross check transactions and deposit with a secondary system to assure accuracy.

Findings, Recommendations and Responses

8. Access to the City Auditorium was not controlled.

Keys were given to event holders for access to the City Auditorium. It was unclear who had access. Access to the City Auditorium should be restricted so management has control of its use and to reduce the opportunity for theft.

Auditor's Recommendation:

We recommend that procedures be developed to ensure that access to the building is controlled. The new manager has changed the locks twice since June 2006 and has established tighter control over the keys.

City Response:

A building monitor(s) will be scheduled and present during any event held at the City Auditorium.

Only employees are issued building keys.

Upon leaving employment from the City Auditorium, individuals will be required to return all issued building keys.