

Parks and Recreation Concessions Audit Report

November 2010

City Internal Auditor's Office

City of College Station

File#: 10-03

Why We Did This Audit

The fiscal year 2011 audit plan included an audit of the Parks and Recreation revenue generating programs. Also, Council considered the Concessions Program to be an area of concern, which was discussed in workshop meetings in August 2010.

What We Recommended

- Internal controls within Concessions should be strengthened and cash handling best practices should be implemented to significantly reduce potential fraud or abuse. There were ten specific recommendations identified in the report relating to internal control improvements that should be implemented.
- The city should solicit proposals from private vendors who are interested and qualified to provide concession sales at recreational and athletic events. These proposals should be evaluated against an internal proposal submitted by the Parks and Recreation Department.

Audit Executive Summary: Parks and Recreation Concessions Program

What We Found

During this audit, we tested for potential areas of fraud, abuse, and waste. Areas were identified within Concessions where possible fraud could occur if preventive action is not taken. We found that cash handling best practices such as: (1) appropriate segregation of duties, (2) effective receipting controls, (3) proper security measures regarding daily balancing and depositing of cash collections, and (4) sufficient management or officer review were not being put into practice within the program. The theft that took place on October 19, 2010, resulting in the loss of \$1,400 could have been avoided if these measures would have been in place. Without these proper internal controls, the chances of fraud or another theft occurring within Concessions increases considerably.

From fiscal year 2008 through 2010, concession revenue continued to increase due to strategic pricing and product decisions, making Concessions more in line with potential competitors. Despite this rising revenue, profitability within Concessions has decreased. This declining profitability can be attributed to the significant amount allocated to administrative cost. Total concession expenditures for fiscal year 2010 included a 58 percent overhead and administrative cost factor. For every dollar of direct concession cost, another 58 cents is tacked on for overhead and administrative cost. If not for the administrative costs associated with its operation, Concessions would have been profitable in the three fiscal years examined.

Outsourcing Concessions will not eliminate the administrative overhead costs if nothing else is done. Without restructuring or reducing administrative personnel within the organization, administrative cost currently allocated to Concessions will be allocated to other departmental programs. Also, a certain amount of administrative costs would be needed to monitor the contract if an outsourcing decision is made.

Concessions Audit

Table of Contents

Introduction	1
Concession Program Background	1
Audit Objectives	3
Scope and Methodology	3
Findings and Analysis.....	5
Cash Handling Best Practices should be Implemented	5
Reconciliation and Cashiering Duties Are Not Segregated	5
Concessions Receipting Controls Do Not Exist	5
Cash Collection Security Measures Are Not Adequate	6
Management Oversight and Review is Insufficient	9
Despite Rising Revenues Concessions is Unprofitable	10
Revenues Increased Despite Declining Attendance	10
Administrative Costs Challenge Concession Profitability	11
Challenges to Privatization of Concessions Exist	13
Recommendations	16

Appendices

Appendix 1 Management Response to Audit Recommendations	18
---	----

Introduction

The City Internal Auditor conducted this performance audit of the Parks and Recreation Department's Concessions Program pursuant to Article III Section 30 of the College Station City Charter, which outlines the City Internal Auditor's primary duties.

A performance audit is an objective, systematic examination of evidence to assess independently the performance of an organization, program, activity, or function. The purpose of a performance audit is to provide information to improve public accountability and facilitate decision-making. Internal audits encompass a wide variety of objectives, including those related to assessing program effectiveness and results; economy and efficiency; internal control; compliance with legal or other requirements; and objectives related to providing prospective analyses, guidance, or summary information.

A performance audit of Parks and Recreation programs that generate revenue was included in the fiscal year 2011 audit plan based on the results of the Citywide Cash Handling Questionnaire completed in August 2009, results of the Citywide Risk Assessment completed in July 2010, and findings from previous audit work. On August 12, 2010, the City Council approved the City Internal Auditor's audit plan. This is the first report in a series of audit reports that review the primary revenue generating programs in the Parks and Recreation Department.

Concession Program Background

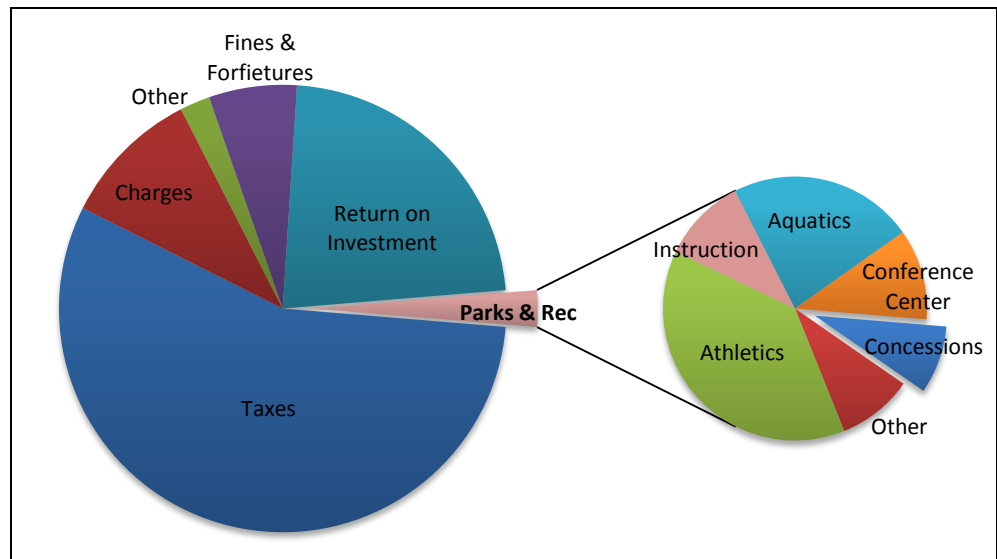
The Concessions Program is one of many programs in the city's Recreation Division of the Parks and Recreation Department. The role of concessions is to provide a service to those who are attending or participating in athletic leagues, athletic tournaments, city-sponsored events, and swimming activities at city facilities.

The Concessions Program has three main facilities, with two special event only stands and a mobile concession trailer. The three main facilities are at Veteran's Park, Adamson Lagoon Pool, and Central Park. Veterans and Central Park are used during athletic league play and tournaments. The concession facility at Adamson Lagoon is used only during the summer

swim season. The concession facilities at Bee Creek Park and Wolf Pen Creek Amphitheater are used during special events only. The mobile unit is also used for special events or athletic leagues or tournaments where more facilities are needed or not available. There are also concession facilities at the Southwood Valley Athletic Park and the Wayne Smith baseball fields. However, these facilities are not operated by the city; instead, they are managed by College Station Little League (an organization independent of the city).

Concession revenue accounts for a small percentage of total Parks and Recreation revenue and only a small fraction of a percentage of overall revenue collected by the city. Figure 1 below illustrates this relationship.

Figure 1: City Revenue Breakdown



The Parks and Recreation Department accounted for fewer than two percent of the total General Fund revenue in fiscal year 2010, with total receipts of approximately \$1.0 million. Of these receipts, Concessions accounted for approximately \$125,000 in fiscal year 2010. Including allocated administrative costs, expenditures for Concessions in fiscal year 2010 were approximately \$215,000—which is a 58 percent cost recovery for the program.

Currently, there are three full-time equivalent employees budgeted for the Concessions program. The concessions supervisor is a fulltime, salaried employee who oversees the operations and staff working at the various concession locations. There were 14 part-time employees who staffed the various concession facilities throughout fiscal year 2010. The

salary and benefits for the concession supervisor was \$69,000 in fiscal year 2010. The part-time employees pay rate ranged from \$7.25 to \$8.00 an hour, but the majority of these employees are making \$7.50 per hour.

Adamson Lagoon is the only pool in the city with concession operations. The pools at Southwood and Thomas are serviced by vending machines, which are not maintained by Concessions. These machines are part of the Coca-Cola exclusivity contract with the city and are serviced by Coca-Cola.

The menus at concession facilities consist of hamburgers, hot dogs, pizza, barbeque sandwiches, nachos, chips, candy, snow-cones and a variety of drink choices. Prices at each concession location vary throughout the year, and are set based on expected attendance and demand.

Audit Objectives

This audit addresses the Parks and Recreation Concessions Program's cash handling policies, procedures, processes and practices; in addition to a review of the program's operational effectiveness. This report answers the following questions:

- Does Concessions have adequate procedures to receive, handle, safeguard, and deposit cash and cash equivalents and does concessions staff comply with those procedures?
- Based on an examination of expenditures and revenues, are there ways the efficiency and profitability of concession operations can be enhanced?

Scope and Methodology

This audit was conducted in accordance with government auditing standards, which are promulgated by the Comptroller General of the United States. Audit fieldwork was conducted from July 2010 through October 2010.

The audit scope included procedures and practices used by concessions staff to receive, handle, record, and deposit cash and credit card payments during the time of fieldwork. The scope also included a review of revenue and expenditure transactional data for fiscal years 2008 through 2010.

The audit methods used to complete the audit objectives included:

- Reviewing the work of auditors in other jurisdictions and researching professional literature to identify best practices for cash handling functions.
- Interviewing staff responsible for performing cash handling, recording, and oversight functions.
- Conducting data analysis using specialized auditing software to test for fraud indicators and system control failings.
- Reviewing cash receipt support documentation, the city's fiscal policy on cash handling, and Parks and Recreation procedures.
- Observing concessions staff perform their cashiering and financial recording responsibilities; and the receipt reconciliation processes performed by the program's supervisor.
- Reviewing various financial and participation records related to concession operations and associated Parks and Recreation activities including athletic leagues, tournaments, special events and swimming.
- Visiting the key concessions locations to analyze the differences in facilities and operations between locations.
- Examining every individual purchase made by concession staff during the scope of the audit. Purchasing methods were scrutinized, vendors were verified, and support documentation was reviewed for specific purchases.

Findings and Analysis

Cash Handling Best Practices should be Implemented

Cash may include currency, coins, checks, money orders, or credit/debit card transactions. The following are generally considered to be best practices in cash handling: (1) appropriate segregation of duties, (2) effective receipting controls, (3) proper security measures regarding daily balancing and depositing of cash collections, and (4) sufficient management or officer review. Policies and procedures were reviewed, concession staff was interviewed, system functional access authority was analyzed, and operations were observed to determine if the Parks and Recreation Concessions Program exhibited these characteristics.

Reconciliation and Cashiering Duties Are Not Segregated

Separation of duty, as a security principle, has as its primary objective the prevention of fraud and errors. This objective is achieved by disseminating the tasks and associated privileges for a specific business process among multiple users. Concession sales are all point-of-sale transactions; therefore, there are no billings or adjustments that need to be made to customer accounts or collection efforts for accounts receivable. However, cashiering and reconciliation/approval functions should still be performed by separate concession employees.

At least two concession employees are needed to ensure proper segregation of duties. Based on audit work conducted in July 2010, the concession supervisor was required to perform daily reconciliations of transactions processed by a separate cashier and make daily bank deposits. These procedures have recently changed, however, resulting in no segregation of duties amongst concession staff. Consequently, one concession employee may be responsible (under currently accepted procedures) for performing all cash handling functions such as: taking payments, end of the night balancing of their cash drawer, morning reconciliations and establishing beginning cash banks, and depositing of cash into the city's bank account.

Concessions Receipting Controls Do Not Exist

The following are generally considered to be best practices in receipting cash: (1) A duplicate receipt should be provided to the payor for each

transaction. (2) Official pre-numbered receipts should be used. (3) Information on receipts should include the payor's name; purpose or description of the cash payment; quantity; and unit price, if applicable; type of cash received (check, currency, etc.); total amount of cash received; and the signature of the person collecting or receiving the cash.

Cashiers do not provide duplicate receipts to customers. City cash handling procedures state that cashiers should always give the customer a receipt. Based on my observations of Adamson Pool, Veteran's Park, and Central Park concessions operations, cashiers do not provide duplicate receipts to concessions customers. Furthermore, the receipt machines at Veteran's Park and Adamson Pool have been inoperable for at least the past four months, making it impossible for customers to receive receipts.

Receipts should contain adequate information to reconcile to detailed accounting records. Receipt documentation created by registers should contain all the necessary features to effectively reconcile processed payments to accounting records. Because no receipts have been produced for several months at several concession locations, receipts are neither pre-numbered or contain the necessary information to perform proper reconciliations to inventory or accounting records.

Cash Collection Security Measures Are Not Adequate

Effective security measures for balancing and depositing cash collections have the following elements: (1) Cashiers should have a lockable cash drawer, and it should be secured in a locked safe, to which access is limited to the employee collecting the cash and a supervisor. If there is more than one person receiving cash at the same time, each person should have his/her own cash drawer. (2) All cash receipts should be balanced daily by comparing the pre-numbered receipts issued with the actual amount of cash in the drawer, and reconciled to inventory. (3) Deposits should occur at the earliest possible time with all funds intact. The entire amount of receipts collected must be deposited so that all collections are posted as receipts to the city's accounts. (4) The deposit receipt should be reconciled to cashiers' receipt documents after the deposit has been made.

Cash drawers are not individually assigned or secure. Automated cash registers are used at the Veteran's Park and Adamson Pool locations. These registers use RecWare software and touch screen monitors to conduct point-of-sale transactions. To use these automated

cash registers, a concessions worker must be an authorized user. However, only the concessions supervisor is set up to use the RecWare system; therefore, all cashiers log on to the system using the supervisor's identification and password. Since registers are not individually assigned to cashiers, individual point-of-sale transactions cannot be tied back to any specific cashier who actually processed the transaction.

The concessions supervisor has supervisory access to the RecWare system. Because concession workers log on to the RecWare system using the concession supervisor's login identification, these cashiers have inappropriate access to the RecWare system. For example, all concession workers have the ability to add or edit system users, enter various point-of-sale products for use, and access all reporting and inquiry functions—along with other various incompatible functions.

The cash register's cash drawer at Veteran's Park and Adamson Pool has not functioned properly for several months. When a point-of-sale transaction is made, the cash drawer should automatically open from the locked position. Because this functionality is inoperable, the cashiers simply leave the drawer unlocked during their entire shift. According to Parks and Recreation, several unsuccessful attempts have been made by IT department personnel to fix the cash drawers.

Concession receipts are not effectively pre-numbered. Individual receipts in the RecWare system are not pre-numbered by point-of-sale location. Therefore, RecWare's pre-numbered receipt functionality is ineffective. For example, when cash receipts are balanced daily for a specific location, the beginning receipt tape subtracted from the ending receipt tape should total the amount of transactions made that day. Since all Parks and Recreation point-of-sale locations are factored in the RecWare system, this control is of no use for daily balancing.

Limited balancing of cash collections to receipts are done, but the process is not adequate. At the end of each business day, cashiers are asked to count their ending cash register balance, subtract their starting cash balance from the ending balance, and record these amounts on a cash count form. Sometimes cashiers will reconcile the amounts recorded on the cash count form to a summary receipt report produced by RecWare. No other balancing is done at the Adamson or Veteran's concessions locations because the receipt tape machine has been broken for the past several months.

The summary receipt report does not include any detailed receipt information, only the credit card and cash sale totals for all concessions locations on the RecWare system. When Adamson Pool and Veteran's Park concessions are open during the same day, cashiers are unable to balance the cash count form to the RecWare summary report because this report summarizes the receipts for all RecWare concession locations.

Concession inventory is not reconciled to receipts. An effective control is reconciling inventory sold to daily receipts. This can be accomplished by counting the beginning inventory less ending inventory and multiplying this amount by the unit sale price for each item. By totaling this amount of inventory sold, a reconciliation to end of the day sale receipts can be performed. Although cashiers record beginning and ending inventory for some concession items, no concession worker or supervisor performs inventory to sales receipt reconciliation.

Deposit should occur at the earliest possible time with all funds intact. When there are multiple concession locations in operation during the same day, cashiers take the cash they have on hand for that day and put it in a bank bag with their cash count form. They then take it to the Veteran's Park concessions safe. These cash drops include the cash count form, inventory form, and the daily employee time record. Historically, the concessions supervisor was responsible for depositing the amounts stored overnight in the Veteran's Park safe the following morning.

There were instances when the concession supervisor was waiting more than one day to deposit the amounts stored in the concessions safe. We randomly selected 30 days in 2010 when concessions were in operation and reviewed the following support documentation: cash count form, summary receipt reports, bank deposit slip, bank receipt, and the financial export report. Based on the bank deposit receipt date, cash was left in the Veteran's Park safe for more than one day 21 percent of the time (in the sample reviewed).

Bank deposits should be made nightly immediately after closing. On October 19, 2010, approximately \$1,400 was stolen from the Veteran's Park concessions building. The stolen money was being stored in the freezer because the safe was broken at the time. All concession workers are given a key to the concession buildings and some former concession employees' keys had not been collected. In addition, Parks and Recreation supervisors, facility maintenance workers, and various other city employees (e.g. aquatics staff) have keys to concession

facilities. As a result, access to the building was compromised allowing former and current city employees inappropriate access to city funds. This theft could have been avoided if nightly deposits had been made.

Management Oversight and Review is Insufficient

In absence of strong cash handling controls, the level of supervisory oversight should be increased. This can be accomplished by providing sufficient (1) training and instruction to staff so they understand written policies and procedures that conform to cash handling best practices; (2) supervisory oversight during hours of operation; and (3) review of daily transactions processed by cashiers.

Concession staff did not receive sufficient instruction regarding cash handling best practices. Prior to October 28, 2010, there were no written cash handling policies and procedures specific to concessions. Based on interviews with concession staff, cashiers did not receive any formal instruction on proper cash handling practices; instead, instruction was given while on the job by another cashier. In addition, the written procedures distributed to concessions workers on October 28, 2010 is very limited and does not contain necessary key elements that exist in the city's cash handling policies and procedures.

The concession supervisor typically does not work during concession operating hours. The hours of operation at the various concession locations throughout the city generally occur during nights and weekends. The concession supervisor is scheduled to work during city normal business hours, which are Monday through Friday 8:00 AM to 5:00 PM. The concession supervisor provides his cell phone number to all concession staff. According to concession employees, the best way to contact their supervisor is call his cell phone or via a text message.

The concession supervisor no longer performs consistent reviews of cashiers' daily transactions. As mentioned previously, the concession supervisor was responsible for performing daily reconciliations of transactions processed by cashiers. Although this review was not in complete alignment with cash handling best practices, it did provide some management oversight. Sometime during the course of the audit, the concession supervisor ceased regularly performing these reconciliations.

Despite Rising Revenues Concessions is Unprofitable

According to the Department of Parks and Recreation, concession operations function as complementary service to the customer of their associated recreation activities. For example, three of the major recreational activities provided by Parks and Recreation are adult softball, youth softball, and swimming. Concessions are provided in conjunction with these activities at the Veteran’s and Central Park softball fields and the Adamson swimming pool. However, concessions are not intended to be a customer destination of their own. Instead, concessions are intended to complement and enhance the enjoyment of the primary activities of softball, swimming, and other city-sponsored recreational events. As a complementary service, concessions are almost exclusively dependent upon the number of customers participating in these recreational activities.

Revenues Increased Despite Declining Attendance

Over the past year, Concessions has proactively made changes to operations to increase revenues such as increasing pricing for food and beverages to be more in line with competition. Hours of operation at specific concessions locations were also adjusted to achieve optimum efficiency without compromising service. In addition, management increased its focus on tournament related concessions.

Concession revenues have increased over the last three fiscal years. All of these recent changes, in the face of declining activity levels, have had a positive impact on concessions operations. From fiscal year 2008 through 2010, concessions revenue has continued to increase. Revenues increased by 17 percent and 7 percent in fiscal years 2009 and 2010 respectively. A revenue comparison by concession location can be seen in Table 1 below.

TABLE 1: Fiscal Years 2008 to 2010 Concessions Revenue

Location	FY 2008	FY 2009	FY 2010
Veterans Park	\$50,800	\$58,300	NA
Adamson Pool	24,300	11,500	NA
Central Park	10,400	17,400	24,400
Wolf Peen Creek	8,900	27,100	17,100
Bee Creek Park	3,900	1,700	5,300
Lincoln Center	2,700	2,100	900
Total Revenue:	\$101,000	\$ 118,100	\$126,500

Softball leagues and tournaments dominate the field usage of Veterans, Central, and Bee Creek parks. Therefore, concessions revenues associated with softball activity accounted for approximately 64 and 66 percent of all of the total concessions revenues in fiscal years 2008 and 2009 respectively. Swimming activities accounted for 24 percent of revenues in fiscal year 2008 but declined to only account for 10 percent in 2009. Special events at the Wolf Pen Creek Amphitheater accounted for 9, 23, and 14 percent of revenues in fiscal years 2008, 2009, and 2010 respectively. A change in the method of RecWare recording and the lack of support documentation made it infeasible to identify revenues by location for Adamson and Veterans Park for fiscal year 2010.

Participation in concession driven recreational activity declined in 2010. Increases in fiscal year 2009 revenues can be accounted for by an approximate 26 percent increase in 2009 attendance to recreational activities. Participation to recreational activities decreased by 14.5 percent in 2010. The only activity that increased in 2010 was participation in softball tournaments, which increased by 5 percent. Estimated attendance data to concession driven recreational activity can be seen in Table 2 below.

TABLE 2: Attendance to Concession Driven Recreation Activity

Estimated Attendance	2008	2009	2010
Athletic Leagues	49,900	53,800	48,700
Tournaments	17,300	22,400	23,500
Adamson Pool	32,500	33,200	26,700
Wolf Pen Creek	33,600	58,200	44,400
Total Attendance:	133,300	167,600	143,300

If recreational activity continues to decline in the future, finding ways to increase concessions revenues will be challenged even further. In addition, the constant pressure from private sector fast-food competition in numerous locations throughout the city will also be an ongoing concern for concessions sales. As a result, future policy decisions regarding concession operations should be made within this possibly declining customer base and private sector competition context.

Administrative Costs Challenge Concession Profitability

Total concession expenditures for 2010 include a 58 percent overhead and administrative cost factor. For every dollar of direct concession cost,

another 58 cents is tacked on for overhead and administrative cost. This level of indirect cost has a significant negative impact on total cost, which determines concession profits or losses. The 58 percent consists of three layers. The first layer is top level parks and recreation department overhead. The second is recreation division overhead. The third layer is made up of the salary and benefits of the concessions supervisor.

Concessions revenue exceeds direct costs. Concessions would be profitable if not for the administrative costs associated to its operation. Even if the two layers of indirect costs at the department and division level were eliminated, Concessions would still operate at a loss due to the concession supervisor's salary and benefits. Table 3 below provides a summary of Concessions expenditures and revenue for the last three fiscal years, along with the amount the General Fund is subsidizing the operation each fiscal year.

TABLE 3: Concessions Expenditures and Revenue

Location	FY 2008	FY 2009	FY 2010
Department	13,900	15,400	17,000
Recreation Division	32,200	51,500	38,400
Supervisor	<u>65,600</u>	<u>67,900</u>	<u>69,300</u>
Total Admin Cost:	111,700	134,800	124,700
Staff	19,100	23,200	25,000
Supplies	20,400	8,900	1,000
Inventory	44,700	51,600	61,300
Other	<u>2,400</u>	<u>3,200</u>	<u>2,000</u>
Total Direct Cost	86,600	86,900	89,300
Total Cost	198,300	221,700	214,000
Total Revenue	<u>101,000</u>	<u>118,100</u>	<u>126,500</u>
Subsidy	97,300	103,600	87,500

The concessions business plan contained inaccurate revenue forecasts. In September 2006, the Parks and Recreation Department developed a business plan for concession operations before it took over operations from a private operator in fiscal year 2007. The business plan included a financial section describing forecasted expenditures and revenue. Based on this report, the revenue expected to be generated was \$184,000, \$214,000, \$225,000 and \$229,000 for fiscal years 2007, 2008, 2009, and 2010 respectively.

Pre-established pricing agreements have been used to decrease some inventory costs. In fiscal year 2009, there was \$16,800 in purchases to Coca Cola through the use of pre-established price agreements. According to the concession supervisor, he has tried to establish additional pricing agreements with potential vendors, but has been told that his volume of purchasing is not sufficient to be beneficial for the vendor to offer any pricing discounts.

There were also \$34,200 in inventory purchased using field purchase orders and \$600 was made using city purchasing cards. Using these methods may not always lend themselves to obtaining the most competitive and lowest cost items. However, purchasing card or field purchase order transactions can be used as a stopgap measure to offset inventory shortages before the next scheduled concessions delivery date, quickly refill seasonal resale items due to unexpected increased traffic at specific concessions locations or purchase those other items that would not be readily available.

Some concession personnel were paid in cash. Based on interviews with former concession workers, there have been instances when concession personnel were paid in cash for working special events. These concession workers did not go through the normal Human Resources hiring practices and were not on the city payroll.

Challenges to Privatization of Concessions Exist

The College Station Parks and Recreation Department resumed the management of concession operations at several of its facilities in fiscal year 2007. The Department ran concessions for several years in the 1990's until it was decided to privatize the operation. In 1998, the city began contracting its concession operations at Central Park, Veteran's Park, Bee Creek Park, Adamson Pool, and Wolf Pen Creek Amphitheater. In 2004, the concessions at these locations were contracted with Parthenon Concessions. This contract was terminated in December of 2005 at the contractor's request. Since 2002, the College Station Little League has operated concessions at Southwood Valley and the Wayne Smith baseball fields.

No vendor responded to the last concessions request for proposal. On January 1, 2006, the city solicited proposals from vendors who were interested and qualified to provide concession sales at Central Park, Veteran's Park, Bee Creek Park, Adamson Pool, and Wolf Pen Creek

Amphitheater. There were no responses to the proposal and there have been no additional request for proposals solicited after January 2006.

Several factors may have made it cost prohibitive for vendors to submit concession proposals. The city's desire to maintain some level of control over product, pricing, and advertising decisions could have prevented some vendors from submitting proposals. According to the request for proposal, vendors were prohibited from changing concession prices during the life of the contract from the original proposed prices without prior approval from the city. The city also reserved the right to determine the brands and selection of products to be sold to the public for sponsorship and promotional purposes. The city also required all advertising materials and the sale of all non-food items be approved by the city prior to their implementation by the vendor. The request for proposal also stated that the vendor would provide any and all equipment and supplies necessary to fully operate concessions. In addition, vendors were required to have the following standard insurance policies: (a) General Liability Policy, (b) Automobile Liability Policy, (c) Worker's Compensation Policy, and (d) Employer's Liability

Other considerations besides costs should be included when deciding to outsource concession operations. By operating the concession, the city has staff on site to assist the public with issues that may not be addressed by a contract concessionaire. These issues include injury/incidents reports, policy questions, and reporting facility problems.

The decision needs to be made as to whether concessions should be run as a business profit model, or as a complementary service to the citizens of the city. The city could continue subsidizing the program to fund the concession locations throughout the city. This would be done to provide a complementary service to enhance the overall experience of participants. In addition, considerable investment has been made in facility improvements since the last 2006 request for proposal.

With an outsourcing decision, it will be important to protect the city against a poor performing vendor. The perception of the vendor will be based on (1) price gouging of products, (2) the quality of the products sold, (3) the maintenance of city facilities, and (4) the overall perception of the vendor's employees. These will be areas the city will need to ensure are not problems as customers will perceive the vendor as an employee of the city. A poor performing vendor could shed a negative light on the city.

Privatizing concessions may not save the city money. As mentioned earlier, the reason Concessions was unprofitable in fiscal year 2010 was due to the 58 percent overhead and administrative cost factor. Outsourcing concessions may not have any effect on these costs, nor is it within the scope of this audit to evaluate the administrative structure and costs of the Parks and Recreation Department. Assuming that the concessions supervisor would be reassigned to another administrative function within the department, outsourcing concessions may lead to a net loss to the city of \$28,900—which is the difference between fiscal year 2010 revenue and direct cost. In order to break even, the city would need \$28,900 from the vendor. This would mean a vendor who is required to pay the city 10 percent of their profit would have to make a \$289,000 profit each year for the city to break even on concessions—assuming no Parks and Recreation administrative overhead costs are reduced.

Recommendations

Concessions need a few improvements, encompassed in the following audit recommendations. Implementing these recommendations would strengthen internal controls to further prevent any misappropriation of cash on hand.

1. Each concession location should maintain separate inventories. This inventory should include opening inventory, closing inventory, and number of items sold. Upon arrival each day, opening staff should be required to complete a daily inventory count of the items on hand. At closing, the inventory and the cash register tape should be balanced with stock and cash on hand. Spot inventory checks should also be conducted by the concession supervisor and/or the recreation superintendent.
2. A deposit slip should be prepared and cash, minus start up, with deposit slip should be placed in a locking bag and delivered to the bank and deposited nightly.
3. The concessions supervisor should perform daily reconciliations of the deposit slip and bank receipt, the daily inventory, and cash register tape. Preferably, this should be done each night at the close of all the concession operations. If this is cost prohibitive, these documents should be left for the concession supervisor to pick up each morning, or on Monday for weekends. The copy deposit slip and bank receipt, the inventory, and cash register tape should be kept securely for future audit purposes.
4. According to city policy, receipts should be provided to customers and receipt support documentation retained in cash drawers for end of the day balancing. In addition, each cashier location should have a sign encouraging customers to notify management if they do not get a receipt. Before this recommendation can be implemented, receipt tape machines at all concession facilities need to be operational.
5. Cash drawers at all concession locations should be repaired to ensure that they automatically open from the lock position when a point-of-sale transaction occurs.

6. When automated cash registers are used, user names and passwords to the RecWare system should not be shared amongst multiple users. In addition, functional access to the RecWare system for cashiers should be limited to only those functions that are necessary to perform their essential job duties.
7. Receipt tape produced by (either manual or automated) cash registers should contain the following control features: information identifying the cashier who processed the payment, pre-numbered receipt numbers in sequential order, mode of payment, transaction date, payment amount, and itemized payment descriptions.
8. Cash handling policies and procedures specific to concession operations that are aligned with cash handling best practices should be drafted and communicated to all current and future concession personnel.
9. Adequate records should be maintained in order to track detailed sales receipts and revenue by concessions location. The RecWare system should have the capability to be configured to accomplish this objective.
10. Under no circumstances should concession staff be compensated in cash for services rendered to the city. The Department of Parks and Recreation should follow proper hiring and payroll procedures as set by Human Resources Department.
11. The city should solicit proposals from vendors who are interested and qualified to provide concession sales at Central Park, Veteran's Park, Bee Creek Park, Adamson Pool, and Wolf Pen Creek Amphitheater. An internal proposal submitted by the Parks and Recreation Department should be included and evaluated against all private sector proposals that are submitted. This will require Parks and Recreation to conduct a thorough examination of all costs and revenue associated with the concessions program within the context of private sector competition.

If outsourced, administrative overhead costs currently associated with concessions would most likely still exist (but will be allocated to other Parks and Recreation programs). Therefore, only direct costs should be taken into consideration when comparing Parks and Recreation's proposal to other private businesses' proposals.

Appendix 1:
The Parks and Recreation Department's
Acting Director's Response to the Audit Recommendations

1. Each concession location should maintain separate inventories. This inventory should include opening inventory, closing inventory, and number of items sold. Upon arrival each day, opening staff should be required to complete a daily inventory count of the items on hand. At closing, the inventory and the cash register tape should be balanced with stock and cash on hand. Spot inventory checks should also be conducted by the concession supervisor and/or the recreation superintendent.

Response: Management concurs. This process will be implemented with the new season. Each location will be operated as an individual site.

2. A deposit slip should be prepared and cash, minus start-up, with deposit slip should be placed in a locking bag and delivered to the bank and deposited nightly.

Response: Management concurs. Policies and procedures will be developed so that staff can begin to make night deposits at the bank. The operating cash will continue to remain at the concession sites, within secure safes.

3. The concessions supervisor should perform daily reconciliations of the deposit slip and bank receipt, the daily inventory, and cash register tape. Preferably, this should be done each night at the close of all the concession operations. If this is cost prohibitive, these documents should be left for the concession supervisor to pick up each morning, or on Monday for weekends. The copy deposit slip and bank receipt, the inventory, and cash register tape should be kept securely for future audit purposes.

Response: Management concurs. This process will be implemented immediately. Policies and procedures will be developed for the reconciliation of all deposits against cash register tapes and inventories, with spot checks by the Recreation Superintendent.

4. According to city policy, receipts should be provided to customers and receipt support documentation retained in cash drawers for end-of-the-day balancing. In addition, each cashier location should have a sign encouraging customers to notify management if they do not get a receipt. Before this recommendation can be implemented, receipt tape machines at all concession facilities need to be operational.

Response: Management concurs. We will purchase new cash registers that have the capability to produce customer receipts. Signs will be posted encouraging customers to notify management if they do not get a receipt. Additionally, we will work with IT to ensure proper operation of the receipt printers associated with the point-of-sale workstations.

5. Cash drawers at all concession locations should be repaired to ensure that they automatically open from the lock position when a point-of-sale transaction occurs.

Response: Management concurs. We will work with IT to ensure all non-functional drawers are repaired or replaced.

6. When automated cash registers are used, user names and passwords to the RecWare system should not be shared amongst multiple users. In addition, functional access to the RecWare system for cashiers should be limited to only those functions that are necessary to perform their essential job duties.

Response: Management concurs. We will purchase additional cash registers to allow each concession worker doing sales to not have to share cash registers. All concessions employees with responsibility for handling cash will be issued log-in rights to Safari with user profiles consistent with their job duties.

7. Receipt tape produced by (either manual or automated) cash registers should contain the following control features: information identifying the cashier who processed the payment, pre-numbered receipt numbers in sequential order, mode of payment, transaction date, payment amount, and itemized payment descriptions.

Response: Management concurs. New cash registers will be purchased that have these capabilities. We will also pursue an upgrade of the automated system to ensure it has these capabilities.

8. Cash handling policies and procedures specific to concession operations, that are aligned with cash handling best practices, should be drafted and communicated to all current and future concession personnel.

Response: Management concurs. These cash handling policies and procedures will be drafted and implemented.

9. Adequate records should be maintained in order to track detailed sales receipts and revenue by concession location. The RecWare system should have the capability to be configured to accomplish this objective.

Response: Management concurs. The RecWare programs will be upgraded to work with new cash registers to be able to perform these tasks.

10. Under no circumstances should concessions staff be compensated in cash for services rendered to the city. The Parks and Recreation Department should follow proper hiring and payroll procedures as set by the Human Resources Department.

Response: Management concurs. This practice will not be allowed and proper hiring and payroll procedures will be followed.

11. The city should solicit proposals from vendors who are interested and qualified to provide concession sales at Central Park, Veterans Park, Bee Creek Park, Adamson Lagoon Pool and Wolf Pen Creek Amphitheater. An internal proposal submitted by the Parks and Recreation Department should be included and evaluated against all private sector proposals that are submitted. This will require Parks and Recreation to conduct a thorough examination of all costs and revenue associated with the concessions program within the context of private sector competition.

If outsourced, administrative overhead costs currently associated with concessions would most likely still exist, but will be allocated to other Parks and Recreation programs. Therefore, only direct costs should be taken into consideration when comparing Parks and Recreation's proposal to other private businesses' proposals.

Response: Management concurs. Bid documents will be produced to solicit Requests for Proposals for the operations of the concession stands. We will include an updated business plan by the Parks and Recreation Department.