



# City of Bowling Green

## Internal Auditor's Office

Russell Sims Aquatic Center Audit

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**Transmittal Letter**

TO: Kevin D. DeFebbo, City Manager  
Charles T. Hays, Audit Committee Chair  
Harold Wills, Audit Committee Vice-Chair  
Jean Cherry, Audit Committee Member  
James Martens, Audit Committee Member  
Bruce Wilkerson, Commissioner and Audit Committee Member

CC: Ernie Gouvas, Director of Parks and Recreation

FROM: Deborah Jenkins, Internal Auditor

Pursuant to the approved 2007/2008 Internal Audit Plan, I hereby submit my internal audit report covering the Russell Sims Aquatic Center of the City of Bowling Green. The objective of this audit was to 1.) identify strengths and weaknesses in the internal control environment and any resulting impact on operations; 2.) ensure that fees were properly charged, collected and recorded; 3.) ascertain if inventory is properly recorded, safeguarded, and accounted for; and 4.) provide recommendations to management that can assist them in improving the overall control environment.

This report includes background information to assist the reader in understanding the Russell Sims Aquatic Center. The body of the report consists of observations, recommendations and management's responses to the recommendations.


**Results in Brief**

Overall, management has made numerous improvements over the past year, but still has some internal control and accountability issues that should be resolved. Five risk areas have been identified and my recommendations are as follows:

1. Inventory and resale items should be properly accounted for.
2. Prepared food at the concession stand should be discounted to customers at the end of the day.
3. Internal controls over cash handling needs improvement.
4. Additional cameras should be installed to increase general security.
5. A standardized group admissions procedure should be created.

I would like to thank the Parks and Recreation Department administrative staff, aquatics staff, and management for their cooperation and assistance during this audit.

Sincerely,



Deborah Jenkins, CFE  
Internal Auditor

**Background**

The City of Bowling Green opened its first municipal pool in 1974 at Parker-Bennett and a second pool in 1975 at T.C. Cherry. They were both located next to elementary schools in an effort to coordinate municipal and school programs and provide a variety of recreational programs to the citizens of Bowling Green. These two pools remained open to the citizens until 1985, when Parker Bennett Pool was closed due to severe cracking around the pool and a playground area was developed in its place.

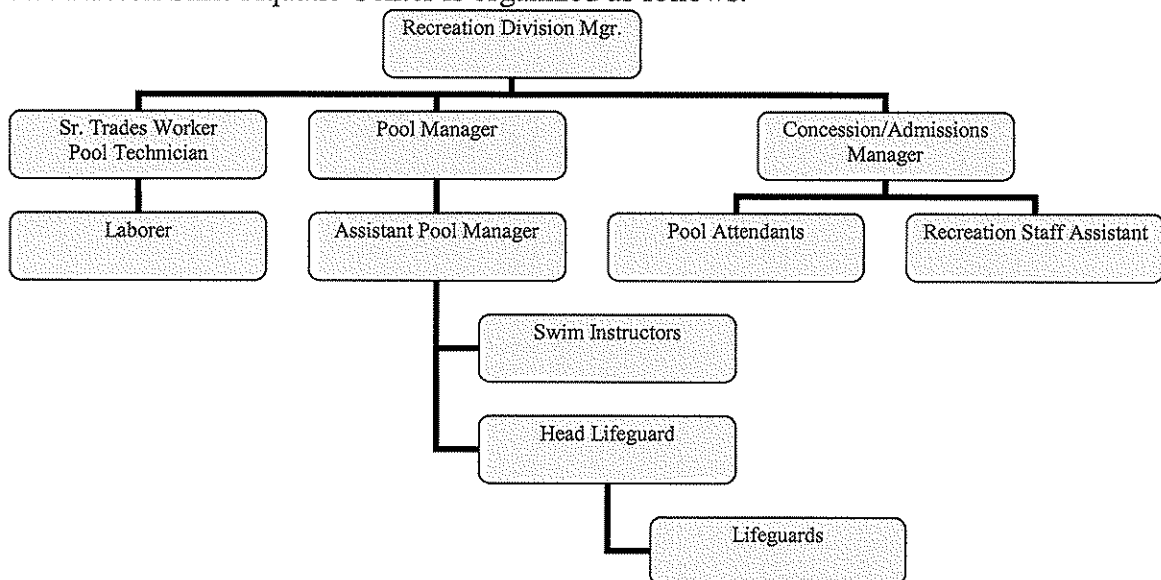
In 2000, the Russell Sims Aquatic Center opened, which is the largest water playground in South Central Kentucky. It is named after Dr. Sims who served as the Director of the Parks and Recreation Department from 1983-2000. The Aquatic Center includes a zero depth entry pool with palm trees, water buckets, lemon drops, splash playground, and beach area, as well as a 50 meter pool, two waterslides, and two diving boards. A concession stand is on site that offers a variety of food and resale items, such as goggles, which are available for sale at the admissions counter.

Municipal Order No. 2002-168 was approved in August 2002 to lease T.C. Cherry Pool to Warren County Government. Due to the population growth, in 2007 the T.C. Cherry Pool closed in order to build a new T.C. Cherry school. The Bowling Green Independent School System broke ground on the new T.C. Cherry School in May 2008 and it is still under construction.

The Aquatics Fund is accounted for in an enterprise fund. Fiscal Year 2008/2009 budget includes total revenues of \$973,400, \$509,900 from Special Revenue and General Fund transfers. Budgeted expenditures total \$973,832.30 of which \$454,400 is directly for debt payments. Fiscal Year 2007/2008 included operational revenues of \$452,873 and operational expenses of \$347,582. Revenue is generated through yearly passes, rentals, daily fees, concessions, resale items, and community lifeguard certification courses.

**Organization**

The Russell Sims Aquatic Center is organized as follows:



### **Objectives**

The objective of this audit was to 1.) identify strengths and weaknesses in the internal control environment and any resulting impact on operations; 2.) ensure that fees were properly charged, collected and recorded; 3.) ascertain if inventory is properly recorded, safeguarded, and accounted for; and 4.) provide recommendations to management that can assist them in improving the overall control environment.

### **Scope**

The scope of this audit included Aquatic Center operations for the 2008 swim year that ran from May 24, 2008 through September 7, 2008.

### **Criteria and Approach**

This audit was based on documented policies and procedures, as well as general best business practices. The audit was conducted in accordance with generally accepted governmental auditing standards. My approach consisted of three phases:

#### **1. Understanding the Process:**

During Phase One, I held an entrance conference with the Recreation Division Manager and two Office Associates related to aquatics to discuss objectives of the audit work, collect information and documentation, and inform them on the audit plan and why they were selected. I then conducted walkthroughs with Aquatics Division staff to understand their roles and responsibilities as well as observe key processes.

#### **2. Sample Determination and Detailed Testing:**

During Phase Two, I set a confidence level of 90% to conduct the various testing. The specific items tested were randomly selected with the use of a research randomizer website. I structured testing based on potential risks associated with admission and concession revenues and inventory/resale items.

#### **3. Reporting:**

During Phase Three, I analyzed and evaluated the results of the tests performed. In addition, I summarized my observations and recommendations based on the analysis as well as best business practices into a report format. An exit conference was conducted with management and their responses are incorporated into this report.

### **Audit Conclusion**

Russell Sims Aquatic Center's internal controls should be improved. Cash controls should be improved; concession and resale inventories have been tracked for the first time this year; however they are not complete or accurate. Management has made numerous improvements since the Recreation Division Manager took over in 2007, but included in this report are recommendations that will assist management in continuing to improve the overall control environment and operations of the Aquatic Center.

## Observations and Recommendations

### **1. Inventory and resale items should be properly accounted for.**

#### **Observation**

Inventory for the Aquatic Center is mainly purchased for operation of the concession stand. Concession inventory that is on site at the Aquatic Center is entered into RecTrac POS software by the Sr. Office Associate located at the Parks and Recreation Department's administrative building. Five nights a week, the Concession Manager conducts an inventory count of the items on hand at the concessions stand. This "Russell Sims Aquatic Center Inventory" form is faxed to the Sr. Office Associate after each count. The following morning the Sr. Office Associate will manually adjust each of the inventory items to match what the Concession Manager has on the "Russell Sims Aquatic Center Inventory." There is also concession and resale inventory stored at the Parks and Recreation Department's administrative building that is not entered into inventory until it is taken to the Russell Sims Aquatic Center. Cost figures are not entered into the system for the warehoused inventory items.

#### **Risk**

Inaccurate inventory counting and reporting leads to unreliable cost and revenue data, potential misstatements, and creates an environment which is susceptible to manipulation by employees.

#### **Recommendation**

Per my conversation with RecTrac POS software support staff, it is possible to enter inventory items twice into the system, once for warehouse items another for on-site items. This would allow all inventory items to be entered into RecTrac with accurate cost information and then be transferred from warehouse to on-site as items are taken to the Aquatic Center for resale. A variance threshold should be set by management as to when follow-up is required before inventory items are manually changed by staff.

#### **Management Response**

Russell Sims Aquatic Center (RSAC) inventory is counted FIVE (5) nights per week (Sunday-Thursday). As suggested in "Recommendation" portion of Internal Auditor's Report, an official threshold had not been established during the 2008 pool season. However, Parks Department Senior Office Associate would notify Recreation Division Manager or RSAC Concessions/Admissions Manager of large variances between Russell Sims Aquatic Center Inventory Report and computer inventory computed through RecTrac. Items with high variances were recounted the next BGPR business day. It is my opinion these variances are attributed to: 1) RSAC concession delivery not being entered into RecTrac computer software before nightly inventory count. 2) Human error of RSAC staff. 3) Spoiled/Left Over food from recent business days not being accurately reported to Parks Department Senior Office Associate. This last issue was resolved with the creation of a point of sale icon (implemented on 8/5/08) on the RecTrac computer system available to RSAC Managers so as to enter totals for food that was spoiled/left

over directly into the computer system. For the 2009 pool season, a variance threshold of 5 will established to ensure all inventory items are properly accounted for.

Recreation Division Manager was not aware of “warehouse” feature through RecTrac computer system. We are excited to utilize this feature and look forward to it being implemented with the purchase of all 2009 swim season items.

**2. Prepared food at the concession stand should be discounted to customers at the end of the day.**

**Observation**

At the end of each swim day, concession stand attendants will list the remaining prepared foods such as pizzas, hotdogs, pretzels, and breadsticks on the “Russell Sims Aquatic Center Inventory Void for Spoil/Left Over/Dropped/Promotional Food” form so the inventory can be adjusted by administrative staff the following day. The prepared foods are then gathered up and given to the employees at closing. I observed concession closing and inventory counts on August 17,2008, and there were 9 ½ pizzas, approximately 25 hotdogs, and several breadsticks remaining that were given to staff at closing.

**Risk**

The present practice of allowing staff to eat any remaining prepared foods each night encourages staff to prepare more food than will conceivably be purchased by the end of the day.

**Recommendation**

Aquatic Center management should add additional icons to the POS system in concessions with a reduced end of day pricing for only prepared foods. This change in procedure would allow customers to purchase remaining items at a reduced price and the City will recoup the cost for those items. Management would also need to periodically monitor those icons to ensure that the end of day pricing was only given at the correct time of day. Management should create a strategy to decide the appropriate amount of prepared foods to maintain towards the end of each day to avoid excess.

**Management Response**

This suggestion was orally discussed during the audit process and plans have already been designed to make this possible for the 2009 RSAC swim season. This will enhance customer experience while neutralizing loss product. RSAC will be excited to begin this in 2009 as RSAC is always receptive to ways to enhance customer service. For the 2009 R.S.A.C. swim season, the following standards shall be instituted for appropriate levels of food remaining at the end of the day: Hot Dogs = 5; Pretzels = 0; Pepperoni Pizza = 8 slices; Cheese Pizza = 8 slices; and Breadsticks = 4 servings.

### **3. Internal controls over cash handling needs improvement.**

#### **Observation**

The following control deficiencies were observed:

- Keys are left in all cash register drawers.
- Registers open for all tender types.
- Receipts are not provided at the concession stand.
- Multiple cash transactions during my observations were not completed until after the customer left the concession stand.
- Aquatic Center employees are not rang into the POS system. (Aquatic employees are allowed to swim for free when off duty.)

#### **Risk**

Registers that open for all tender types as well as keys that are left in the register drawers' only increase exposure of cash to potential employee or customer theft. Transactions that are not finalized in the customer's presence increases the ability of employees to manipulate the POS system and potentially skim cash.

#### **Recommendation**

Keys should be removed from the registers and provided to Aquatic Center management only. The software settings should be set to where the cash drawer only opens for cash transactions. At the concession stand, all transactions should be finalized in front of the customer. Register (Pole) displays should be purchased so that the customer sees their transaction. Signs should be posted at both admissions notifying customers that they should obtain a receipt with their transaction and asking them to notify management if they do not receive one.

For accurate reporting, all individuals entering the Aquatic Center should be entered into the system. All off duty employees should still go through admissions, being entered into the system, and obtain a receipt. This will provide more accurate participation numbers for reporting and not create the perception that friends are allowed to swim for free.

#### **Management Response**

Beginning with the 2009 RSAC swim season, cash register keys will be removed. Copies of keys will be made to ensure no money is locked inside cash registers.

Parks Department Senior Office Associate revised the software settings during the audit process. Drawers opened for only cash transactions during the final weeks of 2008 RSAC swim season. This will remain for the 2009 RSAC swim season.

In 2009, register operators will be trained to NOT accept money until all food order is compiled. However, I do feel it necessary to explain the practice employees were using at the concession stand. Customers would order their food. Employees would enter the food order into the computer system. Computer system would total customer order. Employee would relay customer's food order total and accept money for this transaction.



Employee would then place bills under their register's keyboard (necessary because wind tends to blow in the concession stand). Either the register employee or a second RSAC Concession's employee would compile the food order on the counter. Register employee would then hit payment key. The food order is entered into the RecTrac computer system once payment key is activated (food order disappears from screen).

As budget permits, pole displays will be installed for all registers (totaling 6) at RSAC.

Signs will be purchased stating "Please notify management if receipt is not provided" for the 2009 RSAC swim season.

Parks Department Senior Office Associate revised RecTrac point of sale icons within Admissions during the audit process to include a "RSAC employee button". This will become standard in 2009. In addition, Recreation Division Manager will analyze an "Employee ID Badge" system whereby employees on the clock are wearing an ID badge. Ideally, this badge would serve as a Season Pass swipe to enter the park when RSAC employees are off the clock.

#### **4. Additional cameras should be installed to increase general security.**

##### **Observation**

In spring 2008, before the Aquatic Center opened, the Information Technology Department installed five security cameras. This was a very proactive effort to protect both employees and customers while at the Aquatic Center. Currently, the five are concentrated on the front entryway, the kiddie pool, and one in the concession stand. The DVD installation was added mid-summer and now the Recreation Division Manager and the Director of Parks and Recreation can view these cameras from their offices as well as look back at certain dates and times if needed. However, when I observed the video from the cameras, I identified additional camera positions that would increase general security.

- There are no cameras pointing to the main pool or diving areas;
- The registration camera cannot see customers or the main registration cash registers;
- The concession camera cannot see customers or the transactions at the main cash register;
- The front camera facing the parking lot doesn't completely view the parking lot; it only shows the front entrance area.

##### **Risk**

Without adequate camera positioning, in the event of child abduction, robbery, injury, or employee theft, our current security cameras would not document the event and limit management review or potential law enforcement investigations.

##### **Recommendation**

Additional security cameras should be requested for installation prior to the next swim season if feasible in the current budget. I recommend additional cameras at both the registration and concession areas that will face the front counter of each and video both

the employee and customer actions. In addition, for safety and liability concerns, I recommend installing cameras that view the main pool area and diving area. Lastly, additional parking lot cameras could help protect customers' vehicles from theft, as well as adding additional vehicle information to police if needed.

**Management Response**

Five (5) security cameras were initially installed at the RSAC in May, 2008. Please know that the current locations are: 1) Pointed towards the front entrance/sidewalk of RSAC. 2) RSAC Breezeway entrance. 3) RSAC Front Desk/Admissions counter. 4) RSAC Zero-Depth entry (Butterfly slide area). 5) Inside RSAC Concession Stand. Cameras #1-#4 primary responsibility was to view customers entering and exiting the facility so as to help identify those involved in inappropriate behavior or possible child abductions. Currently, a person can walk from the Butterfly slide area of the pool directly through the RSAC Breezeway towards the two-way street in front of RSAC and be on film the entire time. Cameras #2 and #3 have the dual purpose of highlighting the RSAC Admissions front counter. These cameras can see employees at their work stations and will provide footage in cases of illegal customer and/or employee behavior. Camera #5 is strictly focused on the concession stand work area. This camera shows all functions of the RSAC Concession Stand employees working the front area of the Concession Stand (including the three cash registers). Customers are not in view through this camera. These five cameras cost \$16,000+. RSAC would very much welcome additional security cameras for all recommended sites with budget allocations to do so.

**5. A standardized group admissions procedure should be created.**

**Observation**

Russell Sims Aquatic Center offers group discounts at the following published rates:

Number of people in group	15-49	50-199	200+
Adults (18 yrs. +)	\$6 ea.	\$5 ea.	\$4 ea.
Youth (6-17 yrs.)	\$4 ea.	\$3 ea.	\$3 ea.
Seniors (55 yrs. +)			
Child (2-5 yrs.)	\$3 ea.	\$2 ea.	\$2 ea.
Babies (under 2)	\$2 ea.	\$2 ea.	\$2 ea.

As of September 11, 2008, there were nine documented company groups that had made reservations at the Aquatic Center and issued purchase orders for payment. I reviewed all nine of these group rentals to see if the published rates were being given, if the invoice was issued and received in a timely fashion as well as traced each transaction to the general ledger. The following exceptions were found:

- Receipt# 411818 charged \$3 for youth rate even though the whole group totaled 15;
- Receipt# 431740 charged \$4 for adult rate even though the whole group totaled 59; and

- Receipt# 442597 charged \$5 for adult rate and \$4 for youth rate even though the whole group totaled 25. The invoice was created on 8/1/08 and the \$46 balance due had not been paid as of 9/16/08.

In addition, during the admission observation on 7/29/08, there were several groups visiting the Aquatic Center. One private group arrived in separate vehicles from Owensboro, paid separately, and expected to receive the 15-49 group rate even though their arrival spanned over an hour. The registration associates charged the customers the normal rate and the group asked later to speak to management and stated that they had arrived in this manner numerous times and had always been given the group rate without question.

Wrist bands were provided to a large group that arrived via buses. The wrist bands were given to the main contact from the organization and when additional customers arrived and stated to be with that group, they were allowed to enter without confirmation of actually being with the group.

### **Risk**

Without standard pricing and group entrance procedures, City revenues are potentially being decreased. Customers could manipulate employees into allowing free admission or undeserving group rates.

### **Recommendation**

The standard published group rates should be adhered to and any approved exceptions should be documented by management. Groups that cannot feasibly arrive at once should be paid for in advance and a list of the individuals that have not arrived should be kept in admissions for verification. As the remaining individuals arrive, they should sign by their respective name. For very large groups which do not know each individual that will be attending, specifically colored wrist bands should be given at the admissions counter, tracking the number given for reconciliation of payment, and the individuals should be required to sign a log sheet for verification.

Wrist bands are relatively inexpensive and are a great way to visually see who belongs in which group. The Aquatic Center is already using them in some situations, but should incorporate a standard policy of when they should be used to maximize accuracy of fees being charged.

### **Management Response**

During the 2008 RSAC swim season, wristbands were used for all groups that scheduled their swim date through the Recreation Division Manager. Wristbands were also distributed to all birthday party reservations. RSAC's group price structure was established for the 2008 pool season with the intent of eliminating all "wiggle" room for group pricing. Presently, only the BGPR Director and City of Bowling Green City Manager have authority to override group price structure. Instances in this audit that show groups were undersold are not ideal and should not occur. The Recreation Division Manager does not believe these instances indicate that, as a whole, group price structure

was not followed or that group price structure was unsuccessful. Recreation Division Manager had over Thirty (30) groups pre-register for group discounts. Furthermore, numerous groups arrived at RSAC without pre-registration. For 2009, RSAC will continue to enhance group price structure and procedures. All groups will receive wristbands as standard procedure and a process for tracking late arrivals will be developed for separate arriving groups. In addition, the Recreation Division Manager suggests the following additional procures:

- Pre-registered groups rates remain similar to 2008's
- Pre-registered groups prepay for group tickets redeemable at the RSAC Admissions to receive their group price structure.
- Groups that arrive without pre-registration have only ONE (1) price discount option (ex-\$5 per person) so that RSAC employees will have only one price option for unannounced groups.