



21-03

INTERNAL AUDIT REPORT

Midco Aquatic Center Cash Handling

July 2021

City of Sioux Falls Internal Audit Department
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Contents

- Introduction 1
- Background 1
 - Table 1. Midco Annual Attendance 1
 - Table 2. Midco Admission Rates 2
 - Table 3. Midco Annual Revenue 2
- Objectives 3
- Scope 3
- Methodology..... 3
- Results..... 4
 - Segregation of Duties..... 4
 - Finding 1 4
 - Finding 2 4
 - Safeguarding of Cash..... 5
 - Finding 3 5
 - Deposit Slip Accuracy..... 5
 - Finding 4 6
 - Policy and Procedure..... 6
 - Finding 5 6
- Recommendations and Management Response..... 7
- Opportunities for Improvement 9
- Conclusion..... 10
- Authorization 10
- Audit Standards 10
- Statement of Independence..... 10
- Distribution of Report..... 10
- Performed By 10

Introduction

The Midco Aquatic Center (Midco) cash handling audit was included on the 2021 annual audit plan as a carryforward audit from 2020. The purpose of this audit was to review the cash handling policies and procedures at Midco to ensure internal controls are in place and functioning properly. Controls are intended to provide reasonable assurance, but cannot guarantee, that fraud and errors will not occur. The audit focuses on money (cash and checks) received each day, the deposit process, and reconciliation into Munis.

Background

The Midco Aquatic Center opened October 13, 2016 as Sioux Falls's first public indoor aquatic center and is located at Spellerberg Park. The 61,180 gross square foot multi-purpose facility features a 50-meter Olympic size pool with high and low diving boards, recreation pool, warm water pool, water slide, current channel, meeting rooms, outdoor splash pad and sundeck, lobby and concessions area, locker and changing areas, and more. The City of Sioux Falls (City) partnered with Midco, a provider of internet, phone, and cable TV services, to be the exclusive naming rights title sponsor for the facility. The 10-year sponsorship agreement has a total value of \$2.2 million. The facility is open year-round with a calendar full of events for every age group. [See Table 1 below for Midco's annual attendance for the last three years.](#)

Table 1. Midco Annual Attendance

	2018	2019	2020
Swim Pass	79,610	76,324	33,422
Daily Admission	60,049	56,324	26,113
Swim Meet	24,080	33,354	11,221
Swim Lesson	21,482	17,632	7,061
Swim Team	17,964	17,533	12,910
Other	6,033	3,525	2,279
Total Attendance	209,218	204,692	93,006

The Finance Department is responsible for managing the City's cash handling and ensuring compliance with the policies governing the use of cash. All departments and individual employees that handle cash are responsible for adhering to these policies. A cash handler is any employee with custodial responsibility and liability for City money. Custodial responsibility means any employee that receives cash and cash equivalents are liable for that cash until it is deposited in a City bank account. Finance is also responsible for reconciling all revenue accounts and uploading them into Munis, a comprehensive enterprise resource planning software suite encompassing financials, human resources, asset management, and revenues.

Revenue at Midco is obtained from daily admission fees, annual pass sales, program registrations, meeting room reservations, and swim lane reservations. [See table 2 below for Midco admission rates.](#)

Table 2. Midco Admission Rates

	Daily	Summer	Fall/Winter/ Spring	Annual
Child (ages 2-17)	\$5	\$30	\$70	\$80
Adult (ages 18-54)	\$6	\$70	\$170	\$190
Senior Citizen (55+)	\$5	\$40	\$95	\$110
Veteran	Standard	\$40	\$95	\$110
Family	N/A	\$100	\$240	\$300
Reduced-Income Adult	\$1	\$40	\$95	\$110
Reduced-Income Family	\$1	\$50	\$120	\$155
Free Family/Adult/Senior	N/A	Free	N/A	N/A

Midco has two cash points which are located at the front desk. Cash points are equipped with a computer connected to RecTrac. RecTrac is a comprehensive computer software package used to record sales, manage reservations, schedule events, and track attendance. All rates and fees are pre-programmed into the software. Staff at Midco are responsible for setting up the cash drawers, processing transactions throughout the day, preparing the bank deposit, and sending all required documentation via inter-office mail to Finance on a daily basis. [See Table 3 below for revenue from the last three years.](#)

Table 3. Midco Annual Revenue

	2018	2019	2020
Daily Admissions	\$281,861	\$262,418	\$119,841
Swim Passes	\$263,533	\$287,738	\$99,753
Advertising	\$230,000	\$262,500	\$252,500
Program Registration	\$140,239	\$128,789	\$41,976
Swim Lane Reservation	\$47,241	\$45,128	\$32,476
Meeting Room Reservation	\$9,719	\$15,332	\$4,200
Other	\$2,275	\$8,404	\$11,187
Total Revenue	\$974,868	\$1,010,309	\$561,933

Objectives

- 1 | Determine if sufficient segregation of duties exists over the collection of cash.
- 2 | Determine if cash is adequately safeguarded.
- 3 | Determine if cash is deposited in a timely, secure, and accurate manner.
- 4 | Determine if written cash handling policies and procedures are current, properly documented, and being followed.

Scope

The audit scope included a review of cash handling processes, current software roles and permissions, and policies and procedures as they are currently in place. The detailed testing of cash deposits covered the twelve-month period of January 1, 2020 through December 31, 2020. Our audit work included the following.

Methodology

To complete this audit, we performed the following steps:

- Review of written policies and procedures over the cash handling process.
- Interviews with management and staff.
- Site visits with cashiers to observe the cash handling process.
- Review of other municipal cash handling policies and best practices.
- Review of a sample of bank deposits to determine if they were completed timely and accurately, verify all required documentation was included, review deposit details were accurately entered in Munis, and review reconciliation was completed accurately and timely.
- Review of RecTrac system to verify access is limited to only those employees who require it to complete their job duties.

Segregation of Duties

Proper segregation of duties in line with best practices ensures accuracy and compliance while assisting to prevent fraud, waste, and abuse. In order to follow best practices, each step in the cash handling process should be completed by a different individual. Ensuring segregation of duties also involves following the principle of least privilege, which is the idea of granting the appropriate individuals only the minimum access they need to perform their job duties. We interviewed Finance and Midco staff and reviewed policy and procedure documents to determine who performs each step in the cash handling process. We also reviewed the various profiles used in RecTrac to figure out what tasks each has access to.

The following audit findings were noted during our review of the segregation of duties and principle of least privilege.

Finding 1

Deposit slips are not completed by manager/head guard.

The Midco Aquatic Center Facility Deposit Procedure provided to the Audit team states, "The manager/head guard counts the money and fills out a deposit slip." While conducting a site visit, we observed the cashiers filling out deposit slips, which is not following established procedures on cash handling or best practices for segregation of duties. Additionally, in the sample of bank deposits tested, 72 out of 77 (94%) slips were filled out and signed by the cashier. Since cashiers are responsible for recording cash transactions, deposit slips should be completed by a different individual to maintain segregation of duties.

See Recommendation 1 below.

Finding 2

RecTrac lacks proper controls for segregation of duties.

Upon testing of user roles and permission in RecTrac, we identified the following:

- Cashier and Finance user profiles have access to process refunds.
- Finance user profiles have access to enter transactions.

While no fraud was found, giving employees access to multiple steps of the cash handling process increases the likelihood of fraud, misappropriation, or errors. Since cashiers receive and record cash and Finance employees perform the reconciliations, neither should be able to process refunds. In the current practice, the Midco manager typically processes refunds, and they should be the only ones who have this access. Finance performs the reconciliation, so they should not be able to enter transactions. Removing the access from these profiles would help

ensure segregation of duties is being followed and each person in the cash handling process only performs the tasks for which they are responsible.

See Recommendation 2 below.

Safeguarding of Cash

Cash safeguarding processes are vital in protecting City money from being stolen by customers or employees. In order to test Midco's ability to safeguard cash, we conducted process observations and interviews with staff. Midco does have some controls in place to safeguard their cash, including glass panels at the front desk, surveillance cameras, locked deposit bags, and a locking safe for overnight storage.

The finding below addresses some gaps in controls at the facility.

Finding 3

Shortage of controls in cash safeguarding.

The following controls are not being used in the safeguarding of cash:

- *Locking cash drawers.* Currently, cash drawers do not have locks on them.
- *Restricted access to the cashier's area.* The door from the lobby to the cashier's area can't be locked.
- *Cash is kept out of sight of customers and employees.* Cash counts are performed at the front desk in view of the public.
- *The safe's combination is updated regularly.* The combination has not been changed in over a year.

Implementing these additional controls will improve Midco's compliance with Finance's Billing, Cash Receipts, and Collections Policy in regards to keeping cash secure and out of sight. Unrestricted access to the cashier's area, cash drawers, and safe increases the possibility of cash being stolen by customers or employees.

See Recommendation 3 below.

Deposit Slip Accuracy

Out of the 274 days Midco was open, we selected a random sample of 37 days and conducted a detailed review of the 77 deposits made on those days. The deposit slips were compared to reports ran out of RecTrac, and we verified all required elements listed in the Midco Aquatic Center Facility Deposit Procedure were included in each deposit. The procedure document calls for deposit slips to have the date of deposit, name of the aquatic facility, and staff's name. Many deposit slips were accurate and contained all the required components.

The finding below addresses some discrepancies found in the sample tested.

Midco was open for 274 days in 2020. They were closed March 13th – June 7th because of COVID.

Finding 4

Deposit slips are not being consistently filled out.

Bank deposits are not being consistently filled out according to Midco Aquatic Center Facility Deposit Procedure. About 20% of deposits tested were missing at least one of the requirements in the procedure document outlined above.

Deposit slips offer protection to the City by serving as a receipt that the bank properly accounted for the funds received and deposited the correct amount into the correct account. Inaccurate deposit slips make it harder for the bank to deposit the money and for Finance to perform the reconciliation, especially when any issues arise.

See Recommendations 1 and 4 below.

Policy and Procedure

We reviewed the policies and procedures relating to cash handling and compared them to Midco's processes. The development and use of written policy and procedures are important for a successful quality control system. Additionally, unclear guidelines greatly increase the risk of errors. Outdated policies can leave the City at risk by failing to comply with new laws and regulations or by not addressing new systems and technology. Policies should be monitored, reviewed, and updated as needed in a systematic way. It is best practice to have up-to-date policies in place to encourage the development of standard operating procedures that ensure consistent and efficient cash handling practices.

The finding below was noted in our review of the relevant policies and procedures.

Finding 5

Finance's Billing, Cash Receipts, and Collections Policy is outdated.

The current policy available to all City Employees on In-Site has not been updated since March 10, 2016. During our review, Finance provided us a version that was updated in 2017 and located in a folder that only Finance has access to. Finance is responsible for regularly reviewing their policies and procedures, making necessary updates, and communicating those changes to all relevant parties. Currently, Finance is not conducting the necessary reviews, making updates, and publishing them in a manner that City employees have access to them.

See Recommendation 5 below.

Recommendations and Management Response

1

We recommend Midco staff establish a process to regularly monitor the compliance with Midco Aquatic Center Facility Deposit Procedure and the Billing, Cash Receipts, and Collections Policy to ensure:

- Existing procedures and policies are being followed;
- Segregation of duties is maintained; and
- Proper documentation is retained as required by the procedures.

Management's Response:

"All pool managers will oversee counting of individual cash drawers on a daily basis as well as provide a second count of each drawer. Managers will then complete the daily bank deposit slip and include date, location as well as include employee city ID number. This action will be documented in the manager employee handbook."

Management Representative Responding: Jean Pearson

Date of expected implementation: Already implemented

2

We recommend an increase in controls added to RecTrac to limit access for users based on segregation of duties and principle of least privilege:

- Access to process refunds should be removed from cashiers and Finance employees.
- Access to enter transactions should be removed from Finance users.
- If access can't be removed, we recommend reports of these transactions be ran and reviewed by management regularly.

Management's Response:

"RecTrac software leads within Parks and Recreation and Information Technology made adjustments to profile permissions within RecTrac. RecTrac adjustments made include creating a finance read-only profile with limited access/permissions, and removing all refund rights for part-time parks and recreation employees."

RecTrac software leads within Parks and Recreation and Information Technology will reach out to all finance employees with a RecTrac profile to determine their work responsibilities within RecTrac. RecTrac software leads within Parks and Recreation and Information Technology will then update permissions and assignments accordingly to ensure proper segregation of duties are in place.

RecTrac software leads within Parks and Recreation and Information Technology are also looking into setting up refund override settings to allow pool managers to approve a cashier-led refund. This process would still maintain a high level of customer service due to full-time staff not working all operation hours, but would put enhanced cash handling measures in place.

All corrective action should be completed by the end of August, 2021."

Management Representative Responding: Chad Quissell

Date of expected implementation: September 1, 2021

3

We recommend additional steps be taken to comply with Finance's Billing, Cash Receipts, and Collections Policy, which states, "Cash shall be appropriately secured [...] and be kept out of sight from employees and customers." These steps are:

- Locked cash registers are installed and connected to RecTrac.
- A lock and badge reader are installed on the door to access the cashier's area.
- Cash counts are performed away from the front desk and out of sight.
- The safe's combination is changed on a regular basis.

Management's Response:

"Steps to be taken include:

- 1. RecTrac leads in Parks & Recreation with the assistance of Innovation and Technology will investigate new secured cash drawers that will be connected to RecTrac. By having this function, drawers will only unlock following a transaction made through RecTrac module.*
- 2. Facilities will look to install a badge reader to the office door off the main hallway.*
- 3. Cash counts for each drawer will be conducted in the Recreation Coordinator's office where the bank deposit procedure will take place and be completed by the pool manager on duty.*
- 4. The safe's code lock will be changed on a quarterly basis by the Recreation Program Specialist who directly oversees the front desk staff."*

Management Representative Responding: Jean Pearson

Date of expected implementation: May 31, 2022

4

We recommend Midco staff who fill out deposit slips sign off with their City-assigned employee number. This will be easier to read than employee signatures which makes it a more reliable way to identify who filled out the slip.

Management's Response:

"All indoor and outdoor pool managers filling out the bank deposit slip will be adding their City-assigned employee number below their full name to assist in identification, when needed."

Management Representative Responding: Jean Pearson

Date of expected implementation: Already implemented

5

Based on the Government Finance Officers Association best practices, we recommend that Finance review, monitor, and update the Billing, Cash Receipts, and Collections Policy every other year. This review ensures all departments that process cash align with the policy. All policies should be uploaded to In-Site when updated so City employees have access to them.

Management's Response:

"The finance department will review and update all policies on an ongoing and annual basis and will make sure that all updated policies are added to Insite so they are available for all City employees to read and review."

Management Representative Responding: Cody Papke

Date of expected implementation: August 31, 2021

Opportunities for Improvement

- 1 We recommend Midco start scanning deposit slips and required documentation and sending them electronically to Finance. This will decrease paper usage and mail carrier costs and increase reconciliation efficiency. They could also install hardware to utilize electronic signatures which will eliminate the need for paper receipts.

Management's Response:

"Each night the Front desk staff will scan deposit slips to Finance AP and email individual station GL and Cash Journals to Finance AP. We will monitor this process for 30 days to determine whether or not printed receipts continue to be necessary."

Management Representative Responding: Jean Pearson

- 2 We recommend Finance to update the credit card signature section of the Billing, Cash Receipts, and Collections Policy. This section should define the thresholds that each department should follow in regard to receipt signatures to increase transparency.

Management's Response:

"The City will add more specific policies based on systems to help make this more clear to departments going forward. We are working on assessing all of this at the present time and will make sure it is documented by September 15, 2021."

Management Representative Responding: Cody Papke

Conclusion

In conclusion, we determined that several adequate controls exist over the cash handling process at Midco. However, we believe opportunities exist to address some control deficiencies noted above. No evidence of fraud, waste, or abuse was identified. The recommendations we have provided will help ensure Midco has an efficient cash handling process that reduces the possibility of fraud and increases security. We would like to thank the Midco staff and Finance Department for their assistance provided during this audit.

Authorization

The Sioux Falls City Council approved this audit by resolution and it was included as an Assurance Audit in the 2020 Annual Audit Plan. The Internal Audit Division operates under the authority of Sections 32.010 through 32.025 of the Sioux Falls Code of Ordinances.

Audit Standards

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

Statement of Independence

Internal Audit is administratively and operationally independent of the programs and departments it audits, both in appearance and in fact. The Internal Audit Manager is accountable to an Audit Committee appointed by the City Council per Section 32.022 of the Code of Ordinances of Sioux Falls, SD.

Distribution of Report

This report is intended for the information and use of the Mayor and City Council, management, and others within the City of Sioux Falls. However, the report is a matter of public record and its distribution is not limited.

Performed By

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