



City of  
Corpus  
Christi

**AU14-010**  
**Parks and Recreation Department**  
**Beach Operations**

**City Auditor's Office**  
**Arlena Sones, CPA, CIA, CGAP**  
**City Auditor**

**January 8, 2015**

# Executive Summary

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In accordance with the 2014 Annual Audit Plan, we conducted an audit of the Parks and Recreation Department of the City of Corpus Christi (the City).

## Audit Objective

The focus of this audit was to investigate allegations of impropriety occurring at the Beach Operations Division of the Parks and Recreation Department. The original scope period for this audit was FY 2014; however, we expanded the scope for several areas of testwork.

We notified the Corpus Christi Police Department of the issue and assisted in its investigation of the criminal activity which resulted in the indictment of two City employees.

We enlisted the aid of various City departments during this audit. We wish to acknowledge the assistance received from the Human Resources Department, the Financial Services Department, the Fleet Services Department, the Budget Department, the Office of Strategic Management, and the City Attorney's Office.

## Audit Conclusion

Two employees were able to take advantage of many of the weaknesses in the City's system of internal controls, and they defrauded the City in a variety of ways including:

- Creating a ghost employee through a temporary employment agency and splitting the proceeds.
- Making personal purchases on the City procurement cards.
- Misappropriating City assets.
- Submitting false mileage reimbursement requests.
- Falsifying timekeeping records.

We would like to commend the Parks and Recreation Department for the corrective measures it has already taken. With new management at Beach Operations, the division reduced its FY 2015 operating expenses<sup>1</sup> by 10% when compared to a 12-month annualized operating expenses for FY 2014.<sup>2</sup>

Management substantially agrees with the recommendations included in this report. Management responses have been imbedded in the report, but its response can be seen as a whole in Appendix B.

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<sup>1</sup> Department expenses are generally grouped into three activity levels: personnel costs, operating costs, and allocation costs.

<sup>2</sup> FY 2014 contained 14 months of expenses due to a change in fiscal year end. Normalizing the FY 2014 operating expenses to a 12 month period [(\$624,353/14 months) x 12 months] results in a 12 month annualized cost of \$535,160 for Beach Operations. In FY 2015 Beach Operations had operating expenses of \$483,860. The calculation of the percentage by which operating costs were reduced is as follows:  $((\$535,160 - \$483,860) / \$535,160) = 10\%$ .

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## Introduction

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In accordance with the revised 2014 Annual Audit Plan, we conducted an audit of the Parks and Recreation Department of the City of Corpus Christi (City). The focus of this audit was to investigate allegations of impropriety occurring at the Beach Operations Division. The allegations included the possibility of a ghost employee<sup>3</sup> and questionable procurement card purchases.<sup>4</sup>

The Human Resources Department received allegations of wrongdoing during the spring of 2014. The preliminary investigation conducted by Human Resources uncovered potential fraudulent activity, so it was referred to the City Auditor's Office in June 2014. After corroborating the initial findings of the Human Resource Department, we reported this issue to the City Manager and to the Corpus Christi Police Department (CCPD). We assisted the CCPD with its criminal investigation.

In September 2014, this investigation was added to the 2014 audit plan. The scope of this audit included FY 2014; however, we expanded the scope as needed.

### Background

The Parks and Recreation Department manages and maintains parks, beaches, open spaces, and recreational facilities. It also provides recreational, social, and cultural programs and activities.

In 2014, management of the Parks and Recreation Department was divided between the director, assistant director, and seven superintendents. The superintendent of Natural Resources and Aquatics oversaw the managers assigned to Beach Operations, Aquatics, and Oso Bay. Beach Operations is comprised of several functions including beach maintenance, lifeguards, Packery Channel boat patrol, and beach parking permit sales.

Employees in Beach Operations spent over \$619,000 using their City procurement cards in FY 2014. The Parks and Recreation Department made purchase transactions of \$1.9 million using City procurement cards which represents 10.4% of the \$18.3 million in City-wide procurement card transactions.

### Criminal Investigation

We worked with the CCPD to identify questionable charges made on the City procurement cards by two Parks and Recreation Department employees. The employees were terminated, and criminal charges of 2<sup>nd</sup> degree felony theft were filed by the CCPD.

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<sup>3</sup> A ghost employee refers to someone who is paid, but does not actually perform work. The ghost employee can be a real or fictitious person. This is a common type of payroll fraud.

<sup>4</sup> A City procurement card is the equivalent of a credit card issued in the name of the employee which is paid by the City.

The two received adjudicated sentences and were ordered to pay \$100,000 restitution to the City

Even though these two employees held management positions, they will be referred to in this report as “employee #1” and “employee #2”.

Per one Beach Operations staff member, other employees at the Beach Operations and Park Operations divisions of the Parks and Recreation Department were aware of the fraudulent activity. Most of the employees involved in this audit have voluntarily terminated their employment with the City.

We assisted the CCPD in gathering evidence on many of the questionable procurement card transactions. While many more transactions might be considered questionable, the CCPD included only those items for which they had sufficient evidence for prosecution. The transactions are summarized in the table below. The information in Exhibit 1 was provided to the District Attorney during the criminal investigation.

**Exhibit 1**

**Summary of Questionable Charges Made on City Procurement Cards**

<b>Leased Worker</b>		
<b>Vendor</b>	<b>Item Description</b>	<b>Amount</b>
Absolute Staffing	Ghost employee	\$ 56,078.31
<b>Questionable Purchases on City Procurement Cards</b>		
<b>Vendor</b>	<b>Item Description</b>	<b>Amount</b>
Amazon	Miscellaneous Items <sup>5</sup>	\$ 17,221.17
All-terrain Vehicle (ATV) Usage	Depreciation on two ATVs	\$ 5,565.32
Under Armour	Clothing, sun glasses	\$ 8,465.86
Vehicle Repairs	Maintenance/Repair	\$ 7,648.92
Best Buy	Electronics	\$ 13,040.00
Other	Generator, rods and reels, etc.	\$ 18,150.47
Total Questionable Purchases		\$ 70,091.74
<b>Total</b>		<b>\$ 126,170.05</b>

<sup>5</sup> After fieldwork was completed, several binoculars that were included in this list were located per the Parks and Recreation Department, and they believe other small items could be located.

The first item in Exhibit 1 labeled Absolute Staffing shows the total amount spent on a ghost employee created by employee #1 and #2, and paid with a City procurement card. This is discussed further in Issue A.

Purchases believed to be for personal use are listed by vendor. The chart includes \$8,466 in Under Armour clothing purchases made in FY 2012, 2013, and 2014. The amount was determined by “shopping carts” of family, friends, and co-workers emailed to employee #1 and #2; however, the amount spent on personal items could be much higher. The full cost of the two stolen all-terrain vehicles (ATVs) (\$11,573) was not included because the ATVs were returned during the investigation. Only the depreciated expense was included. The section labeled “Other” includes purchases made from miscellaneous vendors.

There are no controls that will prevent collusion among employees; however, other preventative and detective controls were either overridden or poorly executed by former department management which allowed the questionable activity to continue undetected for years.

### **Audit Objective and Conclusions**

The first three audit objectives were based on the original allegation; however, we expanded the scope of the audit after other issues were discovered.

1. Are ghost employees paid through the temporary staffing agency?
2. Are procurement cards used for personal purchases?
3. Is inventory/equipment missing?
4. Is contract management effective?
5. Are employees reimbursed for mileage expense inappropriately?
6. Are the City’s payroll/timekeeping rules overridden?
7. Does cash on hand agree to financial records?

We conclude that:

1. Yes, at least one ghost employee was paid as a leased worker through a temporary agency.
2. Yes, City procurement cards were used for personal purchases.
3. Yes, two ATVs had been stolen, but were returned to the City during the investigation. Other tools and small equipment were missing, and could not be located.
4. No, multiple vendors were not invoicing according to City contracts.
5. Yes, employees who submitted requests for reimbursement for mileage on their privately-owned vehicles were also making purchases of fuel on the City issued procurement card and the City issued fuel card.
6. Yes, the City’s payroll/timekeeping rules were overridden by former management
7. Yes, the cash on hand agrees to City financial records.

### **Management and Auditor Responsibility**

City management is responsible for establishing and maintaining a system of internal controls to ensure assets are safeguarded, financial (and non-financial) activity is accurately reported and reliable, and management and employees are in compliance with laws, regulations, and agreements with other entities.

This audit report provides independent, objective analysis, recommendations, and information concerning the activities reviewed. The report is a tool to help management discern and implement specific improvements. The report is not an appraisal or rating of management.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit results and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit steps were developed to provide sufficient evidence to answer the objectives of this audit. Test methodology can be found in **Appendix A - Audit Scope and Methodology**.

### **Evaluation of Management Response**

Management concurs with the majority of the recommendations in the audit report, and its responses can be seen in Appendix B

### **Staff Acknowledgement**

Jacey Reeves, Auditor  
Sarah Arroyo, Assistant Auditor

## Audit Results and Recommendations

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### A. Temporary Agency Leased Worker Contracts

**Condition:** The City paid for a temporary leased worker who didn't actually perform work at the Beach Operations Division (a ghost employee).

**Causes:** The root cause of this is the collusion of employee #1 and #2. By colluding together, they hired a friend as a leased worker through a temporary personnel agency. However, there are other contributing factors to be considered.

The department had not established adequate segregation of duties. Employee #2 placed the orders for leased workers; submitted documentation of hours worked to the temporary agency; received the invoices; and paid for the invoices with his procurement card.

Further, leased workers at the Beach Operations were not required to record their work hours (i.e. punch a time clock). In this case, employee #1 and #2 emailed the names of leased workers and the weekly billable hours to the temporary agency which invoiced accordingly.

Finally, one of the controls built into the contract was the submission of quarterly summary reports to the Procurement Division for review. The temporary agency did not submit these reports and the Procurement Division did not follow-up.

**Criteria:** The temporary agency contract does not explicitly state the type of support documentation needed to record the hours worked by leased employees; however, other City departments and other divisions of the Parks and Recreation Department require the use of a time card signed by both the leased worker and a City representative (supervisor).

Per the Human Resources Policy Manual each department will maintain internal controls to protect the department and City from loss or other damages as a result of a fraudulent act. City management and departments are responsible for instituting and maintaining internal controls to provide reasonable assurance for the prevention and detection of fraud, misappropriation of funds, and other irregularities. Management should be familiar with types of improprieties that might occur within their areas of responsibility, be alert for any indications of such conduct, and follow reporting procedures.

**Effect:** Over an 18-month time period (July 2012 to January 2014), the City paid \$56,078 for this ghost employee.

We discussed this issue with the Office of Strategic Management due to the citywide use of temporary leased workers. The Office of Strategic Management initiated a review of leased workers in all other City departments. They drafted twelve recommendations to

improve the leased worker program which will be implemented by the Human Resources Department.

Additionally, the City Manager has strengthened the internal controls over procurement cards by prohibiting recurring charges (i.e. weekly or monthly invoices) from being paid with procurement cards.

**Recommendation:** It is essential that adequate segregation of duties be established by management. This can be accomplished by identifying the critical functions of the department and splitting duties among several employees so that no single employee performs all aspects of a function (i.e. ordering, receiving, and paying for services or goods).

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>Reba George, Interim Beach Superintendent</i>	<i>COMPLETED December 2014</i>
<p><i>Action Plan: A segregation of duties was implemented in December 2014 in the Beach Operations Division. Shortly after termination of employees #1 and #2, the division's vacant Administrative Assistant position was upgraded to a Management Assistant position to ensure segregation of duties. The Beach Operations Superintendent places orders for temporary leased workers; the Management Assistant verifies time worked and rates to be paid. The Superintendent reviews invoices with the attached timesheets and time cards prior to authorizing Accounts Payable to make payments.</i></p> <p><i>A manual time clock was purchased that provides the date and time for all time clock punches in and out. All temporary leased workers are required to punch in and out for their respective shifts. Time cards/time sheets and corresponding invoices are verified by the Management Assistant, reviewed and approved by the Superintendent, and forwarded to Accounts Payable for payment.</i></p>		

**City Management Recommendation:** The City Manager could increase the internal controls of the leased worker program by requiring purchase orders for leased workers. By issuing a purchase order, the department would have to report the number of positions to be filled, the length of time the position will be used, and the cost would be calculated based on the contracted rate. The purchase order would also encumber funds in advance.

Generally a recommendation would be made to recover the \$56,078 for the ghost employee; however, the agency is no longer in business, and employee #1 and #2 have begun making restitution.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>Constance Sanchez, Financial Services Director</i>	<i>COMPLETED November 2014</i>
<i>Action Plan: As of November 2014, departments stopped using PCards for leased workers. Instead of using the purchase orders process for leased workers, all invoices are reviewed by each department. Department staff check all hourly rates and confirm the employees, their hours worked and they match to the time cards. They then send to Accounts Payable in Finance for payment to leased worker companies.</i>		

**B. Procurement Card Purchases**

**Condition:** Employee #1 and #2 purchased items on the City procurement card for their personal use including: game cameras, range finders, deer feeders, building materials, gas and solar powered generators, portable air conditioners, food items, fishing supplies, and vehicle and boat parts..

They also purchased overly expensive items (that may have had a business use) such as two Yeti ice chests for \$1,080. Similarly-sized, less costly ice chests would have cost under \$300.

Also, multiple Parks and Recreation employees would frequently share their procurement cards with other employees. They also shared their username and password for the online procurement card portal.

**Causes:** The personal purchases made by employee #1 and #2 were not detected because the employees did not provide receipts for their questionable purchases prior to 2012. The cardholders’ approvers either did not question the missing receipts or the questioning was ignored.

After 2012, employee #1 and #2 were able to work in collusion because employee #2 was the designated approver for employee #1 (and two other Beach Operations’ employees). Employee #1 would make the fraudulent purchases, and employee #2 would approve the purchases in the online procurement card portal.

This is not to say that employee #2 was not also making inappropriate purchases. After 2012, he included some form of documentation for every transaction; however, this documentation was not always the original itemized receipt. He frequently provided photocopies of altered receipts or used the credit card settlement slip in lieu of the original itemized receipt. Also, questionable items were purchased alongside those items that did have a valid business use. Again, the approver for employee #2 either did not question the altered receipts or the questioning was ignored.

Further, inadequate administration of the procurement cards by former Parks and Recreation Department executive management allowed the fraudulent activity to continue. The former director did not follow the directives of City Procedure P-9 Procurement Card Program because he did not:

- Verify that all procurement card transactions were appropriate for the function performed by the department.
- Verify that the item or service is actually used for City business.
- Verify that the item or service was needed at the time the procurement card transaction occurred.
- Verify that all procurement card transactions were appropriated [with funds] available to pay for the procurement card transaction.
- Approve, by written signature, all procurement card transactions.

It should be noted that an audit conducted by the Procurement Division in 2012 cited the former director and assistant director for failing to perform their duties.

As the designated approver of employee #2, the assistant director did not:

- Review each procurement card transaction.
- Reconcile the procurement card transactions to original documentation.
- Maintain the procurement card documentation.
- Enforce the policy and procedures for the procurement card program.

The assistant director delegated the review portion of her approver duties to her management assistant(s); however, we found no documentation that the assistants attended the mandatory annual procurement card approver training.

In addition to the collusion factor, employee #1 and #2 were able to exploit gaps in other City policies that allowed them to make inappropriate purchases. These gaps will be presented as individual findings in this report in the following sections:

- C. Decentralized Purchasing Policy
- D. Vehicle Repair and Maintenance Policy
- E. Procurement Card Policy
- L. Contract Management (lack of policy)

**Criteria:** Per City Procedure P-9 Procurement Card Program, a cardholder is required to reconcile the bi-monthly procurement card statement to the original sales receipts (invoices). Additionally, the cardholder must log onto the online procurement card system to: 1) add a description of each transaction, 2) provide the appropriate accounting string (fund number, organization number, and general ledger object code number), and 3) perform an electronic sign-off certifying the accuracy of the statement.

Per policy, the approver should not be simply looking at the transaction descriptions input into the online portal. The actual hard copy of the receipt that supports the transaction should be reviewed, and questionable purchases should be brought to the attention of

the department director. The new guidelines (issued in November 2014) now require the approver to also notify the Procurement Division of any questionable transactions.

Also per policy, lending an assigned procurement card to another is prohibited and will result in mandatory termination on the first offense.

**Effect:** In total, we identified \$70,092 spent on questionable purchases in FY 2013 and FY 2014.

In November 2014, the City Manager approved new guidelines for the procurement card program to include stronger internal controls based on recommendations made by the Office of Strategic Management. He has lowered spending limits and restricted the types of payments that can be made with the card. Further, written management pre-approval is now required for all procurement card purchases. The guidelines were distributed via email; however, they have not yet been codified into City Procedure P-9 Procurement Card Program. Further the number of cardholders has been reduced by 24% since September 2014.

**Recommendation:** Parks and Recreation executive management can reduce the risk of questionable purchases being made on the procurement card by strictly enforcing the existing procurement card policy and the new procurement card guidelines. Limiting management override of internal controls will further strengthen the process.

Instead of delegating the review portion of the approver role, management could designate another trained person as the approver.

By attending the required training, approvers will know to carefully examine the original receipt provided at the point of sale and will refuse to accept the credit card settlement slip or other altered documentation in lieu of the original receipt. They will bring to the director's attention, and to the Procurement Division's attention, any transaction that seems questionable, overly expensive, or has a possible personal use.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>Reba George, Interim Beach Superintendent</i>	<i>COMPLETED November 2014</i>

*Action Plan: As of November 2014, new enterprise-wide PCard policies and procedures were implemented by the Department. Management does not delegate its duties. As mentioned in response to section A, a segregation of duties was implemented in the Beach Operations Division with addition of a Management Assistant and delegation of ordering, receiving, and payment duties amongst staff. In addition, the Administrative and Support Division conducts periodic audits of randomly chosen PCard statements. All approvers attended mandatory training with the PCard Administrator during October and November 2015. Current Department Management adheres to the new procurement card guidelines, respecting the internal controls found within those guidelines.*

**City Management Recommendation:** To further strengthen the procurement card program, the City Manager might consider codifying the procurement card guidelines issued in November 2014 into City Procedure P-9 Procurement Card Program.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	Constance Sanchez, Financial Services Director	January 2016
<i>Action Plan: All city Departments have been following the new procurement guidelines since Nov. 2014. The Finance Director will include the November 2014 procurement card guidelines into an updated document for City Policy P-9 Procurement Card program for the City Manager's review and approval. Once approved, the document will be distributed to all P-Card holders and Department Directors. We anticipate this to be completed by January 31, 2016.</i>		

**C. Decentralized Purchasing Policy**

**Condition:** The City's policy for decentralized purchasing also contributed to the fraudulent behavior discussed in Sections A and B. The policy left the oversight of purchasing to department directors, and it did not contain internal controls for periodic monitoring of departmental activity.

**Effect:** Without a monitoring function, former Parks and Recreation Department management was able to override the internal controls established for the effective operation of the decentralized purchasing system. For example, each department was required to issue and maintain its own purchase orders; however, the former Parks and Recreation Department executive management granted its superintendents the authority to make any purchase deemed necessary without prior approval. (Further exacerbating this issue is management's request to override the \$1,000 spending limit placed on procurement cards for employee #1 and #2 which was approved by an assistant city manager. They were given spending limits that exceeded \$5,000.)

The City Manager has since established stronger procurement guidelines which requires the use of centralized purchase orders for all but the smallest purchases.

**Recommendation:** If the Parks and Recreation Department executive management strictly enforces the procurement card policy, including the new purchasing guidelines, there will be less risk of inappropriate purchases.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
Agree	E. Jay Ellington, Parks & Recreation Director	COMPLETED

		<i>November 2014 and On-going monthly monitoring</i>
<p><i>Action Plan: In February 2015, all Department Cardholders were directed to attend a mandatory meeting to discuss PCard policy and purchasing guidelines with PCard Program Administrator. Cardholders who did not attend were issued a letter of counseling. Those cardholders were then given a follow-up training on PCard policy and purchasing guidelines. New enterprise-wide PCard policies and procedures have been implemented by the Parks Department. The Department works closely with PCard Program Administrator to address all questions and discrepancies. Since PCard Administrator monthly reviews began in May 2015, only 8 findings have occurred, and they have been addressed according to the policy.</i></p>		

**D. Vehicle Repair and Maintenance Policy**

**Condition:** Employee #1 and #2 used the City procurement card to pay for repairs/maintenance on their privately-owned vehicles, and the purchases were not detected by the approver.

**Cause:** We see two potential causes that allowed this to occur. First, the vehicle’s unit number (or vehicle identification number) was not always included on the support documentation for repair transactions paid with City procurement cards. Secondly, the department did not know they could coordinate vehicle repairs with the Fleet Services Department. Beach Operations used other repair shops closer to its remote location.

We judgmentally tested 60 procurement card transactions made by employees of the Beach Operations division in FY 2013 and FY 2014 related to vehicle repairs and maintenance to determine if the work was performed on a City vehicle. Results are shown in Exhibit 2.

**Exhibit 2**

<b>Beach Operations Vehicle Repair and Maintenance Receipt Testing</b>			
<b>Vehicles Being Repaired</b>	<b>Count</b>	<b>Amount</b>	<b>Amount as %</b>
City vehicles	18	\$ 6,776.21	22%
Indeterminate	29	17,240.70	55%
Privately-owned vehicles	13	7,330.68	23%
<b>Total</b>	<b>60</b>	<b>\$ 31,347.59</b>	

We could positively identify that 18 of 60 repair transactions were for City vehicles, and 13 transactions were made for the privately-owned vehicles of employee #1 and #2 because of the documented vehicle identification numbers, fleet unit numbers, license plate number, or the year/make/model of the vehicle. We could not make a determination for the remaining 29 transactions because of the lack of identifying information, missing receipts, or altered receipts.

**Criteria:** City Procedure P-9 Procurement Card Policy requires a work order or description of the repair to contain vehicle information for any purchase of auto parts or repair.

Although departments are not required to use the Fleet Services Department for City vehicle repairs, by coordinating repairs through the Fleet Services Department, current service records can be maintained for City vehicles. City Procedure P-10 Procurement Repair of Commercial Vehicles states that if the Fleet Services Department cannot perform the repairs timely or is not equipped to perform the needed repairs, it can issue work orders to outsource the repair to a pre-approved repair shop. Plus, the Fleet Services Department is charged for the repair instead of the department. If the City vehicle is included on the Fleet Services Department centralized inventory<sup>6</sup>, the department is already paying for maintenance and repair by way of the monthly allocation of the Fleet Services Department expenses to the department's budget.

**Effect:** Over \$7,330 was identified as repairs on personally owned vehicles. This amount (plus other purchases discovered after testwork was performed) was included in the chart in Exhibit 1. Over \$17,240 in repairs could not be identified as a valid business expense.

After a new interim superintendent was put in place, Beach Operations saw a 72% reduction in vehicle repair expenses in FY 2015.<sup>7</sup> In total, Beach Operations spent \$37,644 for vehicle repairs and parts in FY 2014; it spent \$9,151 in FY 2015.

**Recommendation:** The Parks and Recreation Department executive management could prevent an employee from having repairs made to his privately-owned vehicle by requiring all vehicle repair and maintenance to be coordinated through the Fleet Services Department. Further, by working together, the Fleet Services Department will be able to maintain complete service records for all City vehicles.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>Reba George, Interim Beach Superintendent</i>	<i>COMPLETED July 2015</i>

<sup>6</sup> Per the Fleet Services Department, there is no policy requiring City vehicles to be reported for inclusion on the Fleet Services Department centralized inventory. See Issue J.

<sup>7</sup> FY 2014 contained 14 months of expenses due to a change in fiscal year end. Normalizing the FY 2014 vehicle and repair expenses to a 12 month period [(\$37,644/14 months) x 12 months] results in a 12 month annualized cost of \$32,267.

*Action Plan: Due to the distance to and from the Gulf Beach it has been necessary to use outside vendors to perform both scheduled and unscheduled maintenance. The Fleet Operations Manager indicated that, as long as a vendor meets City vendor policy and City purchasing guidelines are followed, departments could use outside vendors for these services. Fleet Services is notified of all repairs and warranty items are confirmed. A complete vehicle and machinery inventory has been updated and approved by both the Budget Office and Fleet Services for the entire Parks and Recreation Department. Vehicle preventive maintenance services continue to be conducted by outside vendors, however, the Beach Operations team reports them to Fleet Services on a monthly basis. Vehicle Unit numbers are required on all invoices for vehicle repairs and services.*

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree, with caveats</i>	<i>Jim Davis, Director of General Services</i>	<i>COMPLETED March 1, 2015</i>
<i>Action Plan: Fleet Services concurs that all vehicle repair and maintenance OF CENTRALIZED FLEET vehicles need to be coordinated with Fleet Services. Vehicles in centralized fleet include sedans, refuse trucks, large trailers, and most of the City's rolling stock; however, there are exceptions. While we maintain complete service records for all vehicles in centralized fleet, we do not maintain service records for vehicles that are not in the centralized fleet. These include vehicles such as riding mowers and small trailers in the Parks Department. Fleet and Parks work closely together on these issues.</i>		

**City Management Recommendation:** The City Manager could further strengthen internal controls over procurement card purchases by requiring all departments (without an in-house repair shop) to coordinate vehicle repairs and maintenance through the Fleet Services Department.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>Ron Olson, City Manager Assistant City Managers Department Directors</i>	<i>November 2014 and Continuous</i>
<i>Action Plan: The City Manager does require all departments to coordinate vehicle repairs through Fleet Services. This one Division – Beach Operations - was violating that policy. As of November 2014, Beach Operations staff understands their responsibility to coordinate with Fleet Services. The City Manager will remind Departments of their responsibility to coordinate vehicle repairs with and through the Fleet Services Department. Outlying areas will be able to use vendors closer to their operations, to get vehicles and equipment back in service as soon as possible.</i>		

**E. Procurement Card Policy**

**Condition:** There are no minimum performance measures for cardholder or approver compliance with procurement card procedures. When non-compliance with policy is detected, the department director is given a great deal of say in allowing an employee to maintain his/her procurement card privileges.

Cardholder compliance with purchasing procedure: In addition to investigating personal purchases made by employees, we obtained the bi-monthly procurement card statement reconciliation packets of employee #1 and #2 over an eight month period, and we tested all transactions for compliance with three basic attributes:

1. Was an itemized receipt provided?
2. Was the purchased item correctly described (e.g. Garmin GPS)?
3. Was the correct accounting string provided (i.e. fund, organization, and object code)?

In addition to employee #1 and #2, we judgmentally selected four other Parks and Recreation Department employees based on their association with employee #1 and #2. We tested all transactions of employee #3 - #6 in FY 2014. See Exhibit 3.

**Exhibit 3**

<b>Procurement Card Transaction Testing</b>					
<b>Employee</b>	<b>PCard Transactions Oct 2013 to May 2014</b>		<b>Meets all three attributes</b>		
	<b>Count</b>	<b>Amount</b>	<b>Count</b>	<b>%</b>	
#1	313	\$ 121,348	115	37%	
#2	372	\$ 266,416	274	74%	

<b>Employee</b>	<b>PCard Transactions FY 2014</b>		<b>Meets all three attributes</b>		
	<b>Count</b>	<b>Amount</b>	<b>Count</b>	<b>%</b>	
#3	332	\$ 44,624	116	35%	
#4	121	\$ 21,479	45	37%	
#5	453	\$ 193,461	256	57%	
#6	112	\$ 31,187	65	58%	

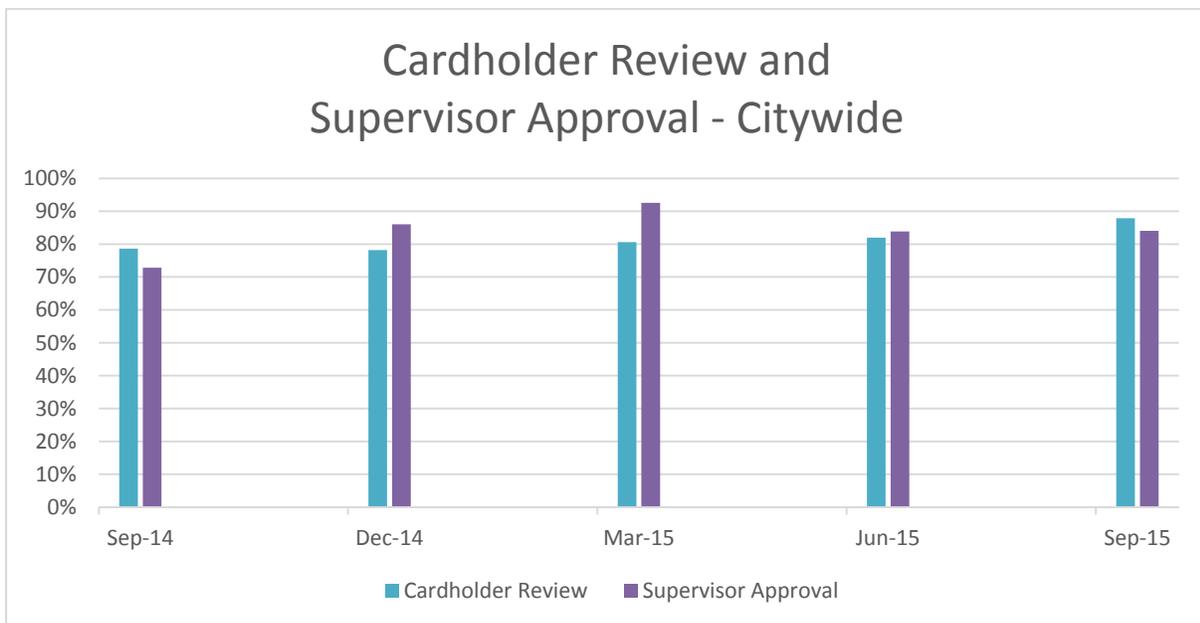
Two cardholders, #2 and #5 are the designated approvers for the other employees in this test (with the exception of #3). None of their employees had a pass rate over 58%.

Review and approval compliance: We tested the rates of cardholder review and supervisor approval for the Parks and Recreation Department for a five month period (February 16, 2014 to July 15, 2014) and found that 29 cardholders had performed the online review for 214 of 262 procurement card statements (82%). Supervisors in the

Parks and Recreation Department had conducted the online approval for 195 of 262 procurement card statements (74%).

To determine how the review and approval rates for Parks and Recreation Department employees/supervisors compared with the rest of City departments we tested the City as a whole. In September 2014, 79% of all (206) procurement card statements had been reviewed online by the cardholder, while 73% of the statements had been approved by the cardholder's supervisor. One year later, after the City Manager initiated more stringent guidelines and reduced the number of cardholders, rates increased to 88% and 84% for cardholder review and supervisor approval of the (157) procurement card statements, respectively. See Exhibit 4.

**Exhibit 4**



Source: Wells Fargo Commercial Electronic Office Portal

The increase in cardholder review and supervisor approval is positive; however, the flip side of the 84% approval rating must also be considered which is this: the purchasing transactions of 25 of the 157 (16%) cardholder statements in September 2015 were not approved prior to payment.

**Criteria:** Procurement card policy allows for suspension or termination of privileges, but it does not provide for mandatory loss of privileges if minimum standards are not met.

**Effect:** Former executive management of the Parks and Recreation Department had been previously notified of the cardholder abuses of these six employees in a 27 page audit report conducted by the Procurement Division of the Financial Services Department

in September 2012. The report states that employee #1 was missing 76 original receipts (in a three month period) with 14 other violations. Employee #2 was missing 44 receipts with 23 other violations. The director interceded on behalf of the two employees, and the only repercussion was a two month suspension of procurement card privileges for employee #2. Because there were no documented performance measures, termination of procurement card privileges was not mandatory for employee #1 and #2 in 2012, and they continued making questionable purchases.

**City Management Recommendation:** The City Manager could further strengthen the procurement card policy by establishing minimum performance measures for cardholders and approvers with mandatory termination of privileges if the minimum standards are not met.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>E. Jay Ellington, Parks &amp; Recreation Director</i>	<i>COMPLETED April 2015</i>
<i>Action Plan: Under the new Director, the Parks and Recreation Department implemented changes to the PCard policy. This includes receipts for all purchases, approver reviews, and approvals, and not allowing PCard use for gasoline. The Parks and Recreation Department has had very few infractions, which they address appropriately.</i>		

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>Constance Sanchez, Financial Services Director</i>	<i>COMPLETED November 2014 February 2016 for performance measures and mandatory discipline for non-compliance</i>
<i>Action Plan: All departments are operating under the guidelines established in November 2014. In addition, in February 2016, the Finance Department will develop performance criteria that with by all cardholders and approvers must meet. Included with the performance standards, Finance Department will have the authority to suspend or terminate P-Card privileges for those who do not meet minimum compliance standards. These will be included in Policy P-9.</i>		

## **F. Budget Policy**

**Condition:** While there is no policy requirement for management to maintain its budget at the object code level (general ledger line item account level), doing so may have allowed management to detect the spending improprieties of its employees sooner. For

example, Beach Operations overspent its clothing object code budget by \$12,330 or 557% in FY 2014.<sup>8</sup>

**Cause and Criteria:** City Policy F-8.0 Transfer Policy allows budgetary control at the activity level rather than object code level.<sup>9</sup> Activity levels are grouped by personnel costs, operating costs, and allocation costs. Insufficient appropriation notices are only sent if the activity level expenditures exceeds its appropriation. The policy emphasizes the importance of bottom-line budget management.

**Effect:** Had former management questioned the causes of overspending at the object code level, it might have discovered the fraudulent behavior of its employees and the gaps in its own procedures.

For example, we questioned the large amount of purchases posted to the clothing object code, and we requested the department’s uniform policy. Former management could not immediately provide documentation of its policy. At a later date management was able to locate the Gulf Beach Lifeguard Manual which did contain a uniform policy; however, the policy did not support the quantities and types of purchases made for “uniforms.”

Beach Operations was not the only division to overspend in this category. The Parks and Recreation Department is comprised of over 40 financial divisions (known as organizations). We judgmentally tested 14 of these organizations<sup>10</sup> in the Parks and Recreation Department to determine if they had also exceeded their clothing budget in FY 2014. Ten of 14 organizations tested exceeded the amounts appropriated for clothing as shown in Exhibit 5.

**Exhibit 5**

Parks and Recreation Department FY 2014 Clothing Budgets (520040) by Organization				
Source: Appropriation Expenditure Report			Audit	
Organization	Amended Budget	Total Expenditures	Unencumbered Balance	Expenditures as % of Amended Budget
Aquatics	\$ 3,000	\$ 8,182	\$ (5,182)	273%
Aquatics Instruction	\$ 1,000	\$ 398	\$ 603	40%
Aquatics Maintenance	\$ -	\$ 1,862	\$ (1,862)	n/a
Bayfront	\$ 1,000	\$ 3,601	\$ (2,601)	360%
Beach Code Compliance	\$ 600	\$ 1,306	\$ (706)	218%

<sup>8</sup> A department is allowed to overspend at the object code level (i.e. clothing or vehicle repairs) as long as it does not overspend at the activity level.

<sup>9</sup> Appropriations may not be exceeded for certain object code accounts such as salary and travel which have tighter budgetary controls.

<sup>10</sup> An organization is a financial tool used to segregate department expenses and revenues by distinct function (e.g. tourist division or beach operations).

Beach Operations	\$ 2,700	\$ 15,030	\$ (12,330)	557%
Beach Parking	\$ 1,000	\$ -	\$ 1,000	0%
Director	\$ 250	\$ -	\$ 250	0%
Oso Bay Learning Center	\$ -	\$ 2,011	\$ (2,011)	n/a
Oso Recreation Area	\$ 300	\$ 378	\$ (78)	126%
Packery Patrol	\$ 3,500	\$ 6,370	\$ (2,870)	182%
Park Construction	\$ 1,500	\$ 3,649	\$ (2,149)	243%
Parks Operations	\$ 15,000	\$ 13,860	\$ 1,140	92%
Tourist	\$ 1,700	\$ 13,810	\$ (12,110)	812%
	\$ 31,550	\$ 70,456	\$ (38,906)	

In FY 2014, Beach Operations spent \$15,030 on clothing, and in FY 2015 it spent \$2,798 which is a 78% cost reduction.<sup>11</sup>

**Recommendation:** Even though it is not a requirement, Parks and Recreation Department executive management might benefit by questioning significant overspending at the object code (line item) level of its budget.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>E. Jay Ellington, Parks &amp; Rec Director Assistant Parks &amp; Rec Directors All Department Superintendents</i>	<i>COMPLETED Conduct Monthly Review of budget vs. actual expenditures</i>
<i>Action Plan: The Parks and Recreation Department currently has forty-nine (49) operational 'orgs' across seven (7) funds. Thirty-seven (37) of the Department's orgs fall into the General Fund. The other twelve (12) orgs fall into one of the following funds: Hotel Occupancy Tax, State Hotel Occupancy Tax, Visitor's Facility, Crime Control District, Golf, Stormwater, or Packery Channel TIRZ #2. Each org represents an operational unit – based on location, facility, or program areas. The org's budget includes personnel, operating (i.e. supplies and services), allocations, and capital accounts.</i>		
<i>Under the new Director, the Department monitors line item spending on a monthly basis, and manages operations within fiscal year appropriations.</i>		

**City Management Recommendation:** The City Manager could strengthen budgetary controls by requiring departments to manage their budgets at the object code level instead of the activity level; however, doing so would require additional resources in the Budget Department to keep up with the increased workload caused by additional budget transfers at the object code level.

<sup>11</sup> Normalizing the FY 2014 expenses to a 12 month period [(\$15,030/14 months) x 12 months] results in a 12 month annualized cost of \$12,883.

Agree/Disagree	Responsible Party, Title	Completion Date
Agree	Assistant City Managers Department Directors Budget Office	COMPLETED, ongoing
<p><i>Action Plan: The City Manager expects all department directors to monitor their budgets and to hold their staff accountable for proper expenditures and fiscal constraints. Departments are expected to monitor and analyze expenditures at the line item (object code) level and to make adjustments if needed. The analysis of actual expenditures helps the department to submit a fiscal year budget for the following year with appropriate line item amounts.</i></p> <p><i>Requiring all departments to request a transfer of funds from one object code (line item) to another for any over/under expenditure would use all of the Budget Office's time processing minor transfers that have no impact on the bottom line. It would bog down the financial and budget system and increase opportunities for error.</i></p> <p><i>Budget Policy continues to require expenditure controls at the agency/department level, allowing management flexibility to service the citizens' needs. This budgetary control level should remain at the department bottom line level, but Departments are expected to manage their budgets at the line item level.</i></p>		

**G. Fuel Purchases on City Procurement Cards**

**Condition:** Employees are using the City procurement cards to make fuel purchases in addition to using fuel cards issued by the Fleet Services Department.

**Cause and Criteria:** Currently, there is no prohibition against purchasing fuel on the City procurement card. The Fleet Services Department has provided fuel procurement cards to certain departments that would not be able to utilize the City's fueling site (i.e. police department and others in remote locations). The fuel cards require the vehicle number, the odometer reading, and the employee identification number for tracking purposes. A fuel purchase cannot be made without this data. The City procurement card does not have these controls; therefore, there is nothing to prevent an employee from fueling his privately-owned vehicle.

**Effect:** From January 2014 to July 2014, the four employees in question spent approximately \$4,800 fueling City vehicles using the fuel procurement cards. Additionally, they spent approximately \$6,800 on fuel for unidentified vehicles using City procurement cards. Further, employees are paying the full retail price when using the City procurement card for fuel. Per the Fleet Services Department, the Parks and Recreation Department could cut its fuel costs by fueling at the City fueling site or using the fuel procurement card.

In FY 2014, Beach Operations spent \$95,610 on fuel. In FY 2015, it spent \$47,469 which is a cost reduction of 42%.<sup>12</sup>

**Recommendation:** The Parks and Recreation Department executive management could prevent (or drastically reduce) employees from fueling their privately-owned vehicles by requiring its employees in remote locations to use the fuel procurement card for all fuel purchases.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>Reba George, Interim Beach Superintendent</i>	<i>COMPLETED October 2014, August 2015</i>
<i>Action Plan: Beginning in October 2014, the Department added internal controls to ensure that fuel would only be purchased using fuel cards, not PCards. Diesel for the heavy equipment used on the Gulf Beach is delivered on site by an approved vendor under supply agreement. Beginning in August 2015, Gulf Beach Operations started collecting and reconciling receipts to the fuel charge information that Fleet sends out on a monthly basis. The employee name, ID, unit number and odometer reading is written on the receipt and turned in to the Management Assistant who performs the reconciliation.</i>		

**City Management Recommendation:** The City Manager could further strengthen controls of the procurement card program by prohibiting the purchase of fuel on the City procurement cards.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>Constance Sanchez, Financial Services Director</i>	<i>COMPLETED November 2014</i>
<i>Action Plan: Action Plan: All departments are operating under the guidelines established in November 2014 including prohibiting fuel purchases on PCards. Fuel cannot be purchased with a PCard.</i>		

#### **H. Mileage Reimbursement Requests**

**Condition:** Employee #1 through #4 (mentioned previously) submitted mileage reimbursement requests for mileage on their privately-owned vehicles while at the same time purchasing fuel for their City-assigned vehicles.

Further, the reimbursements requests were inaccurate and incomplete, but they were approved by the former director. Specifically, we noted missing employee signatures,

<sup>12</sup> Normalizing the FY 2014 fuel expenses to a 12 month period [(\$95,610/14 months) x 12 months] results in a 12 month annualized cost of \$81,951.

missing supervisor signatures, irregular odometer readings, and irregular report of roundtrip mileage between the Beach Operations location and City Hall (between 49 and 65 miles).

The cumulative total of fuel purchases made on the City procurement card, plus the amount of mileage reimbursement requests for Employee #1 and #2 are shown in the charts in Exhibit 6 below.

We expanded test work to include all Parks and Recreation Department employees receiving mileage reimbursements in January 2014, and we found no other issues.

**Cause:** It is unknown why the former director approved mileage reimbursement requests from employees with assigned City vehicles. We expect that he relied on employee #2 (in his role as supervisor) to have thoroughly reviewed the mileage requests before submitting them for director approval; however, employee #2 encouraged his employees to submit questionable reimbursement requests. Had the former director periodically monitored the work conducted by employee #2 (e.g. occasionally examined the requests for reimbursements), he may have detected this issue.

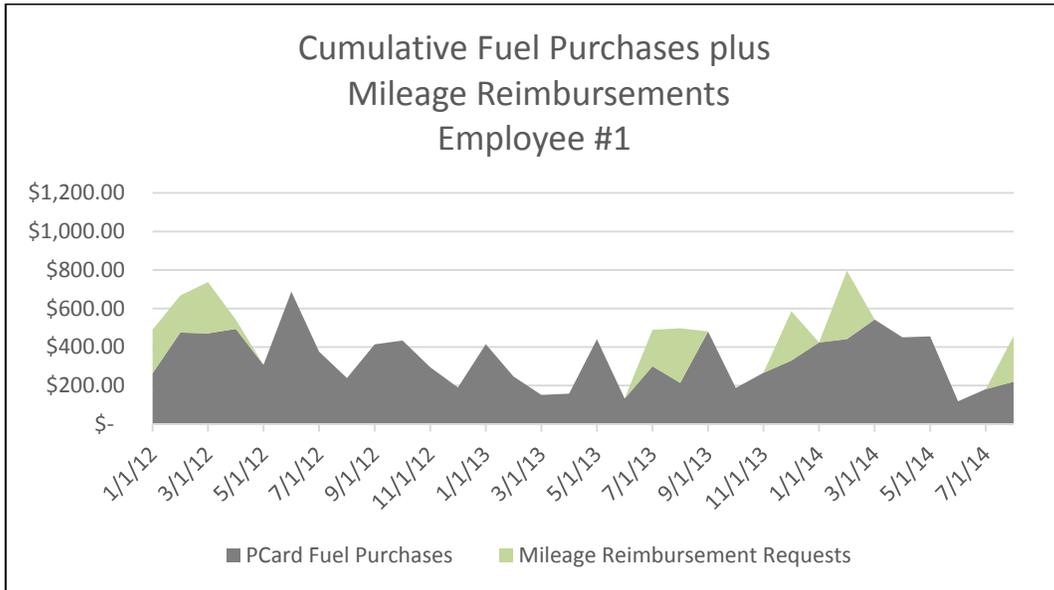
**Criteria:** City Procedure F-14.0 In-Town Mileage Reimbursement allows for reimbursement of mileage for employees using their privately-owned vehicle; however, employees are expected to document clear, concise, and honest information. The employee, the supervisor, and the director are required to sign the reimbursement form.

**Effect:** In FY 2014, Beach Operations spent \$7,127 on mileage reimbursement requests. In 2015, it spent \$225 which resulted in a cost reduction of 96%.<sup>13</sup>

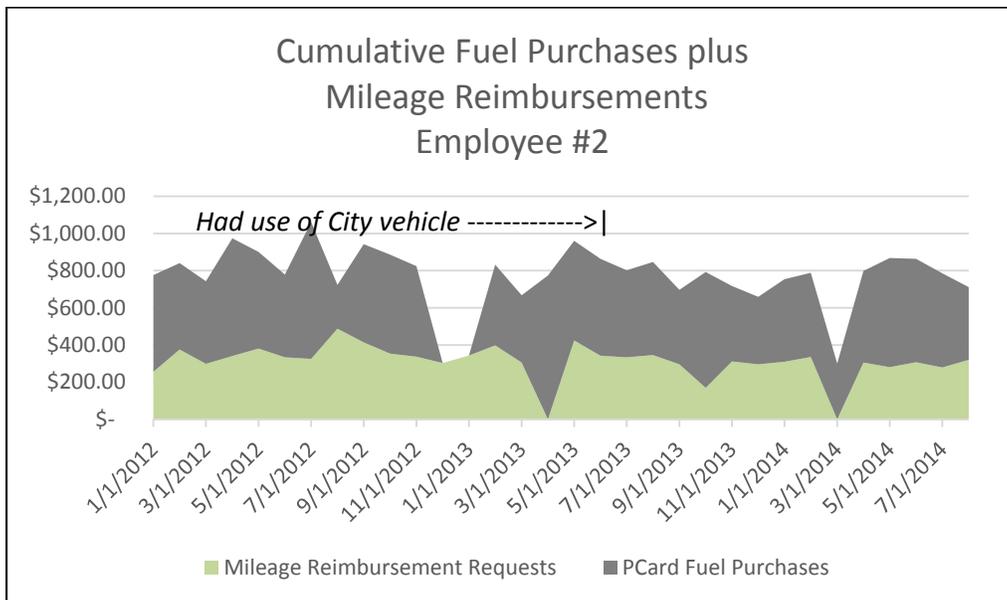
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<sup>13</sup> FY 2014 contained 14 months of expenses due to a change in fiscal year end. Normalizing the FY 2014 expenses to a 12 month period [(\$7,127/14 months) x 12 months] results in a 12 month annualized cost of \$6,109.

**Exhibit 6**



Employee #1 had a City issued vehicle, and he spent an average of \$340 per month on fuel using the City procurement card. He occasionally requested mileage reimbursement for using his privately-owned vehicle for City business which averaged another \$230 on the months he submitted requests.



Employee #2 spent an average of \$490 per month on fuel using the City procurement card; additionally, he routinely requested mileage reimbursements averaging \$330 per month. He had access to a City vehicle until he was moved to City Hall in the summer of 2013. His fueling patterns did not change when he no longer had access to a City vehicle.

**Recommendation:** The Parks and Recreation Department executive management can enforce existing internal controls by requiring periodic monitoring of the work product of all employees, supervisors, and managers. In this instance, periodic monitoring would include questioning the mileage reimbursement requests from employees who have been provided a City vehicle, verification of signatures, and a check for mathematical accuracy. Management is also encouraged to employ professional skepticism by adopting an attitude of “trust, but verify.”

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>E. Jay Ellington, Director, Stacie Talbert Anaya, Assistant Director and Becky Perrin, Assistant Director</i>	<i>COMPLETED September 2015</i>
<i>Action Plan: Review of mileage reimbursement submissions became more thorough and consistent since termination of employees #1 and #2 and with Interim Superintendent oversight. Mileage reimbursement submissions are reconciled by Executive Assistant, reviewed by Superintendent and Assistant Director, and approved by Director prior to submittal to Purchasing/Payroll. This improved, stronger checks and balances system has been implemented. Mileage distance to and from facilities has been standardized and is checked monthly.</i>		

**I. Personal Use of City Vehicles**

**Condition:** Beach Operations employees were routinely taking City vehicles home without the appropriate authorization. Auditors observed the vehicles at the residences of staff and driving around town after hours.

**Cause:** The remote location of the Beach Operations division possibly allowed this issue to go undetected by former management. Further, employee #2 provided misinformation to management about who was taking City vehicles home and why.

**Criteria:** City Procedure F-12.0 Employer Provided Vehicles allows for the use of take-home vehicles; however, it must be authorized by the department director and the Assistant City Manager, with notification to the Human Resources Department and the Financial Services Department. The Financial Services Department reports to the Internal Revenue Service the value of the vehicle use as income to the employee.

**Effect:** Driving City vehicles for personal use adds wear and tear on the vehicles and increases the likelihood of accidents which could create liability for the City. Further, by not reporting the usage, it violates IRS rules as there are tax implications to the employee based on the value of vehicle usage.

**Recommendation:** If Parks and Recreation Department executive management determines there is a valid business need for employees to drive City vehicles home, it

must abide by the approval and notification requirements of City Procedure F-12.0 Employer Provided Vehicles. If there is no need for employees to take City vehicles home, enforcement of the procedure could be attained by periodically monitoring its remote locations to verify that City vehicles are parked at City locations after hours.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>E. Jay Ellington, Director</i>	<i>COMPLETED November 2014</i>
<i>Action Plan: As of November 2014, take home vehicles are not allowed in the department. In the future, supervisors on call may be allowed to take home vehicles, as determined by the Department Director and in accordance with City policy.</i>		

### **J. Asset Management**

**Conditions:** We conducted an inventory of pick-up trucks, boats, jet skis, and ATVs assigned to the Beach Operations division. All trucks, boats, and jet skis were located; however, two ATVs were missing. During the criminal investigation, employee #2 returned the ATVs to the Parks and Recreation Department.

We also note that the Fleet Services Department inventory list does not agree with the Financial Services Department capital asset list, and both lists were incomplete. A total of 12 ATVs, one boat/motor/trailer combination, and a \$10,000 boat motor were not included on the two lists. It is understandable that the lists would not be in agreement for older assets which have been fully depreciated, but the two should be in agreement for newly purchased vehicles and equipment.

Finally, a City-wide annual inventory of capital assets is not conducted.

**Causes:** Employee #2 purchased the two missing ATVs using his procurement card. The items were not included in the FY 2012 budgeted capital improvement plan, and he did not notify the Fleet Service, Budget, Procurement, or Financial Services Departments of the purchases. Further, he described the two purchases as “extended warranties” and “ATV repairs” in the online procurement card system.

The Financial Services Department was made aware of the purchases when it performed its annual sweep of purchases over \$5,000 (looking for purchases of capital assets); however, it was misled by the inaccurate descriptions.

**Criteria:** City Procedure F-15.0 Capital Asset Procedures holds department directors responsible for safeguarding capital assets. Per policy, directors provide notification to the Financial Services Department when a capital asset is purchased, and they periodically certify the accuracy of the capital asset list provided by the Financial Services Department.

Per the director of the Fleet Services Department, it is the practice of City departments to include vehicles on the Fleet Services Department centralized inventory and to include other (wheeled) equipment on the non-centralized list; however, there is no policy requiring departments to do so. The director confirmed that the fleet software system could be used to maintain a complete inventory of City vehicles and other wheeled equipment (ATV's, trailers, etc.).

**Effect:** The Parks and Recreation Department executive management did not know of the existence or the theft of the two ATVs which cost the City \$11,573.

By not including vehicles and other wheeled equipment on the Fleet Services Department inventory the asset will not be assigned a unit number, and the asset will not have markings to identify it as City property. Further, the Fleet Services Department will not be able to perform preventative maintenance services or maintain current service records for these vehicles and equipment.

As stated, the City Manager has already corrected the procurement card and decentralized purchasing issues.

**City Management Recommendation:** The City Manager could strengthen the capital asset procedure by requiring:

- All City departments to conduct an annual inventory of its capital assets.
- All vehicle and equipment purchases to be included in the Fleet Services Department inventory.
- An annual reconciliation of the Fleet Services Department inventory (capital items) to the Financial Services Department capital asset list.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>Ron Olson, City Manager</i> <i>E. Jay Ellington, Parks &amp; Recreation Director</i> <i>Jim Davis, Fleet Services Director</i>	<i>January 2015</i> <i>February 2016</i>
<i>Action Plan: Most of the Parks Department's divisions have provided annual inventories and verify with Finance and Fleet. In July 2015, the new Director of Parks and Recreation implemented an annual business inventory of items over \$250.00 in all divisions.</i>		
<i>In February 2016, City Management will send a memo to Directors reminding them of their responsibility to (1) ensure their employees coordinate all vehicle repairs with and through the Fleet Services Department, (2) provide Fleet with a roster of all their department rolling stock that is not in the Centralized Fleet, such as mowers and trailers, and (3) conduct an annual inventory of capital assets in their departments. The City Manager will task the Fleet Director and Financial Services Director to annually reconcile the new vehicles/heavy equipment on the Finance capital asset list to the Fleet list.</i>		

**K. Time Keeping**

**Condition:** Employees at Beach Operations were not required to clock-in and out. Further, they were allowed to leave before the end of shift when they finished their work, but they were paid for the full shift. Employee #1 and #2 did not record sick leave or personal leave when they took time off from work. Lastly, employee #2 granted a week of paid holiday leave for a temporary leased worker.

**Cause:** The former director was allowed to override the existing internal controls related to clocking-in and out for employees of the Beach Operations, Oso Bay, and Aquatics divisions. Per Finance, this override was approved by an assistant city manager. Further, the remote location of the Beach Operations office made it easy for employees to leave work early and difficult for management to perform periodic monitoring.

**Criteria:** The Human Resources Policy Manual states that all employees (except executives) are required to clock-in using their City issued badge. If a time clock is not available, employees may clock in via telephone using the “tele-time” system. Employees are not allowed to clock in for another employee. Part-time and temporary employees are not compensated for holidays, except for time actually worked. There is no provision for holiday pay for leased workers.

**Effect:** The dollar value of these violations cannot be determined.

Per Parks and Recreation Department executive management all employees are now required to clock-in.

**Recommendation:** Parks and Recreation Department executive management can ensure accurate payroll records by requiring all employees (and leased workers) to clock-in when they arrive to work and all non-exempt employees to clock-out when they leave work.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>Reba George, Interim Beach Superintendent</i>	<i>COMPLETED November 2014</i>
<i>Action Plan: All city employees use the Kronos system to clock in. In November 2014, a manual time clock was purchased for leased workers to use. All temporary leased workers are required to punch in and out for their shifts. Time cards/time sheets and corresponding invoices are verified by the Gulf Beach Management Assistant and forwarded to the Superintendent. The Superintendent reviews the information and sends authorization for payment to Accounts Payable in Finance, along with copies of the timecards/time sheets, in accordance with the new centralized process for payment.</i>		

**L. Contract Management**

**Condition:** Beach Operations management did not ensure that vendors were charging contracted rates, and the Parks and Recreation Department does not maintain copies of its vendor contracts.

1. The temporary agency billed for leased workers at Beach Operations at rates in excess of those allowed by the contract, overcharging the City by \$17,460 (over a 19-month period). See Exhibit 7. This does not include the amount charged for the ghost employee. This overcharge cannot be recovered because the agency has gone out of business.

**Exhibit 7**

Temporary Agency Rates				
Position	Contracted Rates	Rates Charged	Overcharge as %	
Lifeguard	\$ 12.45	\$ 15.56	25%	
Packery Patrol Boat Operator	\$ 12.45	\$ 15.56	25%	
Packery Patrol Boat Operator II	\$ 13.82	\$ 17.61	27%	
<b>Total Overcharged (7/18/12 to 1/5/14)</b>	<b>\$ 17,460</b>			

2. The vendor of heavy machinery overcharged the City by \$54,074 for the contract period February 2012 to September 2014. While the company invoiced the correct, contracted rental rates for the equipment, it additionally charged the City for ad valorem taxes, environmental fees, and transportation fees which were not included in the contract.
3. The rates charged for portable restrooms in FY 2014 did not agree with the contracted rates. The vendor incorrectly charged Beach Operations by the number of portable restrooms instead of by the number of trips made to service the restrooms. At this point in time there is no way to determine the actual amount that should have been charged; however, the total amount charged in FY 2014 was reasonably close to the annual amount estimated on the Procurement Division bid tabulation sheet.<sup>14</sup>
4. Former management could not provide a contract for the annual boat slip rental (for the Packery Patrol boat) for the years 2012 through 2014 as shown in Exhibit 8. We do not suspect wrongdoing on the part of the vendor; however, the variance in amounts paid over the years, plus the lack of itemized receipts causes us to question if other items were purchased when the annual rent was paid with the City

<sup>14</sup> The Procurement Division calculates an estimated annual cost based on the responding bidders. We compared the amount charged to Beach Operations to the estimated annual cost.

procurement card. In 2015, the vendor charged, and the City paid, according to the contract for annual rent.

**Exhibit 8**

Marina Boat Slip Rental			
Year	Amount Paid	Payment Method	Contract Provided
2012	\$ 3,000	PCard	No
2013	\$ 3,025	PCard	No
2014	\$ 2,200	PCard	No
2015	\$ 2,500	Invoice	Yes

- The City did not have a contract with the vendor that provided waste disposal services at Beach Operations. Exhibit 9 shows the total amount paid by Beach Operations for disposal services since 2012. The amount paid in FY 2014 was substantially higher than prior years, possibly due to the large quantity sargassum (seaweed) that washed up on the beaches in 2014.

**Exhibit 9**

Waste Disposal Services	
Year	Annual Cost
2012	\$ 0
2013	\$ 4,050
2014	\$ 19,911
2015	\$ 1,170

The 94% decrease in expense from FY 2014 to FY 2015, can be partially attributed to the interim superintendent’s decision to arrange for disposal services with the City’s Solid Waste Department. The Parks and Recreation Department management should be commended for this cost-saving decision.

**Cause:** The City does not have a formalized contract management policy, and it has not established procedures to ensure adequate contract management. It should be noted that employee #2 either paid these invoices or approved them for payment.

**Criteria:** Good business practices would be to maintain a copy of all contracts and to compare vendor invoices against the contracted rates prior to authorizing the invoices for payment. City charter requires all contracts to be reviewed and approved by the City Attorney’s Office.

**Effects:** The City was overcharged a cumulative amount of \$71,534 (\$17,460 + \$54,074) for the temporary services contract and the contract for heavy machinery.

**Recommendation:** To ensure that vendors are charging according to contracted rates, Parks and Recreation Department staff will need a courtesy copy of all City contracts they purchase from, and they will need to be familiar with contract terms. Staff should bring any questionable charges to the attention of executive management. All contracts initiated at the department level should be reviewed by the City Attorney’s Office. Parks and Recreation Department executive management may be able to recover the overbilled amount of \$54,074 by coordinating efforts with the City Attorney’s Office.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>Reba George, Interim Beach Superintendent</i>	<i>COMPLETED September 2014</i>

*Action Plan: All payments for contracts (supply agreements) are made by purchase order – ensuring pricing is based on supply agreements in Infor. Contracts and Supply Agreements have been made available to department staff who oversees purchases. Contract amounts and invoices are reviewed prior to requisition approval in Infor. All other contracts (interlocal agreements, leases of property, contract for professional services) are reviewed and signed ‘approved as to form’ by the Assistant City Attorney, and if applicable, placed on the City Council agenda for approval. The Superintendent of Support Services serves as contract administrator for the Parks Department.*

- Beach Operations’ waste disposal needs were not included in the citywide supply agreement for dumpster service, which required Parks to find their own vendor. In FY 2015 the Solid Waste department began supplying dumpster services.*
- The citywide supply agreement for portable toilets is being used to review invoices as of September 2014. Management Assistant reviews invoices for correct pricing.*
- Boat slip rental agreement for the Packery Patrol boat is reviewed and renewed annually.*
- Contracts for leased workers are addressed elsewhere in this response.*
- Heavy equipment lease payments are paid according to the lease agreement as of October 2015. The Department Director met with the Assistant City Attorney in November 2015 to draft a demand letter to recover the overbilled amount of \$54,074.*

**City Management Recommendation:** The City Manager could improve the performance of departments by developing a contract management policy with procedures that require departments to maintain a copy of all contracts it uses. The policy could require departments to name a contract administrator for each of its contracts. The contract administrator would then verify all invoiced amounts against the contracted rates prior to approving an invoice for payment. If a new policy is developed, we recommend that it be maintained on the City website, that it be communicated to all employees, and training be provided for employees named as contract administrators.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>Ron Olson, City Manager All Department Directors</i>	<i>January 2016</i>
<i>Action Plan: In January 2016, the City Manager will formally direct departments to designate a contract administrator and designate them to review all invoices for proper contract amounts prior to invoices being approved for payment.</i>		

**M. Nepotism**

**Condition:** Former Parks and Recreation Department executive management allowed employee #1 to act as a direct supervisor over a sibling who works in a senior lifeguard position. When questioned about the violation of City policy, the organization chart was revised to show the sibling reporting to employee #2.

**Cause:** It is unknown why the former Parks and Recreation Department executive management would allow this violation to occur.

**Criteria:** The Human Resources Policy Manual states that no employee is allowed to serve as the immediate supervisor of any of relative within the 2nd degree of affinity.

**Effect:** Having an employee directly supervising a relative can create or give the perception of favoritism, discrimination, or disharmony, and it can bring discredit to the City. Further, an employee is less inclined to report wrong-doing on the part of a family member.

**Recommendation:** By strictly enforcing the City policy regarding nepotism, Parks and Recreation Department executive management could avoid the perception of favoritism, discrimination, or disharmony which could bring discredit to the City.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>E. Jay Ellington, Director</i>	<i>COMPLETED July 2015</i>
<i>Action Plan: The firing of employee #1 and employee #2 in September 2014 eliminated the potential for nepotism in the Division. The Department complies with the Citywide requirement to get written City Manager approval for hiring any employee who is related to any current employee anywhere in the department. The new Department Director is committed to strict compliance with the City's anti-nepotism policy.</i>		

**N. Cash Count**

**Condition:** Funds were found to be intact during a cash count of the change fund held by the Beach Parking Division of Beach Operations; however, two issues were noted. There was a slight overage in the funds which should be credited to the cash over/short object code (540255). Also, staff does not reduce the amount of the change fund during the off-season.

**Cause:** New staff at Beach Operations was unfamiliar with City policy.

**Criteria:** City Procedure F-4.0 Petty Cash Funds requires the cash custodian to monitor the fund to assure that it is neither too large nor too small.

**Recommendation:** Parks and Recreation Department executive management could reduce the risk of loss or theft of cash by seasonally adjusting the amount of cash maintained by Beach Parking staff during its busy season and its off-season. Assistance in returning funds can be obtained by contacting the Treasury Division of Financial Services. Cash overages/shortages are to be reported in the daily cash balancing report (object code number 540255) and included with the daily deposit.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>Reba George, Interim Beach Superintendent</i>	<i>COMPLETED October 2015</i>
<i>Action Plan: It is the department's prerogative to set the amount of change funds at each site. The change fund amount has been reduced to \$300 during non-peak Beach Parking Permit sales' months. The change fund will be increased during the peak months of March to September. All cash count overages and shortages are included in the daily revenue report and daily deposit. We have requested additional cash handling training from Finance.</i>		

## Appendix A – Audit Scope and Methodology

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The audit scope for testwork purposes was originally FY 2014; however, we modified the scope period to accommodate different testing situations. We identify the scope period used in each section. We began investigation of allegations in June 2014. This audit was conducted from September 2014 to October 2015.

Our methodology included inquiry, observation, data analysis, tests of purchase transactions, and vehicle inventory to complete the objectives of this audit.

We conducted interviews with staff and management of the Parks and Recreation Department. Additionally, we consulted with the following departments: Human Resources, Fleet Services, Financial Services, Budget, Strategic Management, City Secretary, and City Attorney.

Audit steps were developed to evaluate and test compliance with established policies and procedures and to test related internal controls.

We obtained temporary personnel agency invoices for Beach Operations (July 18, 2012 to December 30, 2013). We compared the names of leased workers to lifeguard schedules and other documentation. We relied on employee interviews conducted by CCPD to determine if the ghost employee ever worked at Beach Operations. We tested the hourly rates of pay against the City contract. We compared support documentation provided by Beach Operations to documentation provided by other division of the Parks and Recreation Department, and five other haphazardly sampled<sup>15</sup> City departments.

We tested procurement card statement reconciliations of employee #1 and #2 from August 2013 through May 2014 to determine if an original, unaltered receipt had been provided for each transaction, if the transaction was coded to the appropriate general ledger object code, and if the transaction description provided by the cardholder agreed to the invoice. We expanded this testwork to include four other Parks and Recreation Department employees for the period August 2013 through September 2014.

We conducted similar testwork for procurement card transactions occurring between January 1, 2015 and January 15, 2015, for all Parks and Recreation Department cardholders to determine if they were in compliance with the new procurement card guidelines. Results were immediately discussed with management.

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<sup>15</sup> Haphazard sampling is a non-probability sampling technique which does not use a systematic methodology.

We judgmentally selected 60 procurement card transactions made at repair shops and obtained copies of invoices from vendors to compare to the altered or missing invoices provided in the cardholder statement reconciliations.

We assisted CCPD by conducting online research for many of the items purchased. We reviewed procurement card transaction data as far back as 2011. We reviewed, but did not audit, files and miscellaneous receipts which had been confiscated by CCPD from the office of employee #2. We reviewed emails of various Parks and Recreation Department employees to assist in the investigation.

We used the Wells Fargo Commercial Card Reporting web portal to determine if timely cardholder reviews and supervisor approval had been conducted by Parks and Recreation Department staff over a five month period (February 16, 2014 to July 15, 2014). We expanded the testwork to include all City staff for the first statement period of the month for five months: September 2014, December 2014, March 2015, June 2015, and September 2015.

We conducted an inventory of pick-up trucks, boats, jet skis, and ATVs assigned to Beach Operations using Financial Services' capital asset list and Fleet Services vehicle and equipment inventory list. We photographed City vehicles which had been driven home by Beach Operations employees.

We reviewed mileage reimbursement requests of Beach Operations' employees for accuracy. We compared mileage reimbursement requests of cardholders to fuel purchases made on the City procurement card and the Fleet Services fuel card.

We conducted a cash count of the Beach Parking Permit change fund in September 2015.

We performed invoice testing of judgmentally selected vendors to determine if charges were in agreement with contracted rates.

We reviewed budget data of Beach Operations and other divisions of the Parks and Recreation Department, and we performed testwork on the Kronos timekeeping reports of four judgmentally selected employees.

We relied on data from the City's legacy financial system, PeopleSoft, and the current financial system, Infor. We did not perform general or application control tests on the financial system; instead, we performed direct tests on the financial data. We do not believe our lack of testing system controls affected the outcomes of this report.

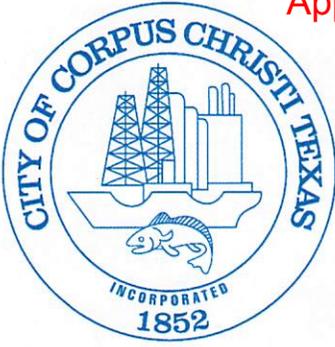
## **Statutory Authority and Municipal Guidelines**

In conducting our audit, we relied on the following City and departmental policies, procedures, and guidelines to serve as criteria for the audit:

- Human Resources Policy Manual
- F-4.0 Petty Cash Funds
- F-8.0 Transfer Policy
- F-12.0 Employer Provided Vehicles
- F-14.0 In-Town Mileage Reimbursements
- F-15.0 Capital Asset Procedures
- P-6 Procurement Methods
- P-7 Decentralized Purchase Orders
- P-9 Procurement Card Program
- Procurement Card Guidelines
- P-10 Procurement of Repairs Commercial Vehicles
- HR-40 Ethical Business Conduct Policy
- GFOA Budget at the Activity Level

We believe this testwork provides sufficient and appropriate evidence for our audit conclusions and findings.

Appendix B Management Response



December 29, 2015

Arlena Sones, CPA, CIA, CGAP  
City Auditor  
Corpus Christi, Texas

Re: AU14-010 Parks and Recreation Department, Beach Operations Audit

We have carefully reviewed the issues presented in the audit report referenced above, and our plans to correct the issues are described on the following pages.

We are committed to correcting the issues in the audit report by implementing the action plans in a timely fashion.

Susan Thorpe  
ASSISTANT  
CITY MANAGER  
Safety Health Neighborhoods

PO Box 9277  
Corpus Christi  
Texas 78469-9277  
Phone 361-826-3845  
SThorpe@ectexas.com  
www.ectexas.com

Sincerely,

  
\_\_\_\_\_  
E. Jay Ellington  
Director

12/31/15  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Susan Thorpe  
Assistant City Manager

12/29/15  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Ron Olson  
City Manager

4 Jan 2016  
\_\_\_\_\_  
Date

## Appendix B Management Response

### Management Response to Audit and Action Plans

#### A. Temporary Agency Leased Worker Contracts

**Recommendation:** It is essential that adequate segregation of duties be established by Parks and Recreation executive management. This can be accomplished by identifying the critical functions of the department and splitting duties among several employees so that no single employee performs all aspects of a function (i.e. ordering, receiving, and paying for services or goods).

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>Reba George, Interim Beach Superintendent</i>	<i>COMPLETED December 2014</i>
<p><i>Action Plan: A segregation of duties was implemented in December 2014 in the Beach Operations Division. Shortly after termination of employees #1 and #2, the division's vacant Administrative Assistant position was upgraded to a Management Assistant position to ensure segregation of duties. The Beach Operations Superintendent places orders for temporary leased workers; the Management Assistant verifies time worked and rates to be paid. The Superintendent reviews invoices with the attached timesheets and time cards prior to authorizing Accounts Payable to make payments.</i></p> <p><i>A manual time clock was purchased that provides the date and time for all time clock punches in and out. All temporary leased workers are required to punch in and out for their respective shifts. Time cards/time sheets and corresponding invoices are verified by the Management Assistant, reviewed and approved by the Superintendent, and forwarded to Accounts Payable for payment.</i></p>		

**City Management Recommendation:** The City Manager could increase the internal controls of the leased worker program by requiring purchase orders for leased workers by issuing a purchase order. The department would have to report the number of positions to be filled, the length of time the position will be used, and the cost would be calculated based on the contracted rate. The purchase order would also encumber funds in advance.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>Constance Sanchez, Financial Services Director</i>	<i>COMPLETED November 2014</i>
<p><i>Action Plan: As of November 2014, departments stopped using PCards for leased workers. Instead of using the purchase orders process for leased workers, all invoices are reviewed by each department. Department staff check all hourly rates and confirm the employees, their hours worked and they match to the time cards. They then send to Accounts Payable in Finance for payment to leased worker companies.</i></p>		

## Appendix B Management Response

### **B. Procurement Card Purchases**

**Recommendation:** Parks and Recreation executive management can reduce the risk of questionable purchases being made on the procurement card by strictly enforcing the existing procurement card policy and the new procurement card guidelines. Limiting management override of internal controls will further strengthen the process.

Instead of delegating the review portion of the approver role, management could designate another trained person as the approver.

By attending the required training, approvers will know to: carefully examine the original receipt provided at the point of sale and will refuse to accept the credit card settlement slip or other altered documentation in lieu of the original receipt. They will bring to the director's attention, and to the Procurement Division's attention any transaction that seems questionable, overly expensive, or has a possible personal use.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>Reba George, Interim Beach Superintendent</i>	<i>COMPLETED November 2014</i>
<i>Action Plan: As of November 2014, new enterprise-wide PCard policies and procedures were implemented by the Department. Management does not delegate its duties. As mentioned in response to section A, a segregation of duties was implemented in the Beach Operations Division with addition of a Management Assistant and delegation of ordering, receiving, and payment duties amongst staff. In addition, the Administrative and Support Division conducts periodic audits of randomly chosen PCard statements. All approvers attended mandatory training with the PCard Administrator during October and November 2015. Current Department Management adheres to the new procurement card guidelines, respecting the internal controls found within those guidelines.</i>		

**City Management Recommendation:** To further strengthen the procurement card program, the City Manager might consider codifying the procurement card guidelines issued in November 2014 into City Policy P-9 Procurement Card Program.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>Constance Sanchez, Financial Services Director</i>	<i>January 2016</i>
<i>Action Plan: All city Departments have been following the new procurement guidelines since Nov. 2014. The Finance Director will include the November 2014 procurement card guidelines into an updated document for City Policy P-9 Procurement Card program for the City Manager's review and approval. Once approved, the document will be distributed to all P-Card holders and Department Directors. We anticipate this to be completed by January 31, 2016.</i>		

## Appendix B Management Response

### C. Decentralized Purchasing Policy

**Recommendation:** If Parks and Recreation Department executive management strictly enforces the procurement card policy, including the new purchasing guidelines, there will be less risk of inappropriate purchases.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>E. Jay Ellington, Parks &amp; Recreation Director</i>	<i>COMPLETED November 2014 and On-going monthly monitoring</i>
<i>Action Plan: In February 2015, all Department Cardholders were directed to attend a mandatory meeting to discuss PCard policy and purchasing guidelines with PCard Program Administrator. Cardholders who did not attend were issued a letter of counseling. Those cardholders were then given a follow-up training on PCard policy and purchasing guidelines. New enterprise-wide PCard policies and procedures have been implemented by the Parks Department. The Department works closely with PCard Program Administrator to address all questions and discrepancies. Since PCard Administrator monthly reviews began in May 2015, only 8 findings have occurred, and they have been addressed according to the policy.</i>		

### D. Vehicle Repair and Maintenance Policy

**Recommendation:** Parks and Recreation executive management could prevent an employee from having repairs made to his privately owned vehicle by requiring all vehicle repair and maintenance to be coordinated through Fleet Services. Further, by working together, Fleet Services will be able to maintain complete service records for all City vehicles.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>Reba George, Interim Beach Superintendent</i>	<i>COMPLETED July 2015</i>
<i>Action Plan: Due to the distance to and from the Gulf Beach it has been necessary to use outside vendors to perform both scheduled and unscheduled maintenance. The Fleet Operations Manager indicated that, as long as a vendor meets City vendor policy and City purchasing guidelines are followed, departments could use outside vendors for these services. Fleet Services is notified of all repairs and warranty items are confirmed. A complete vehicle and machinery inventory has been updated and approved by both the Budget Office and Fleet Services for the entire Parks and Recreation Department. Vehicle preventive maintenance services continue to be conducted by outside vendors, however, the Beach Operations team reports them to Fleet Services on a monthly basis. Vehicle Unit numbers are required on all invoices for vehicle repairs and services.</i>		
<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree, with caveats</i>	<i>Jim Davis, Director of General Services</i>	<i>COMPLETED March 1, 2015</i>

## Appendix B Management Response

*Action Plan: Fleet Services concurs that all vehicle repair and maintenance OF CENTRALIZED FLEET vehicles need to be coordinated with Fleet Services. Vehicles in centralized fleet include sedans, refuse trucks, large trailers, and most of the City’s rolling stock; however, there are exceptions. While we maintain complete service records for all vehicles in centralized fleet, we do not maintain service records for vehicles that are not in the centralized fleet. These include vehicles such as riding mowers and small trailers in the Parks Department. Fleet and Parks work closely together on these issues.*

**City Management Recommendation:** The City Manager could further strengthen internal controls over procurement card purchases by requiring all departments (without an in-house repair shop) to coordinate vehicle repairs through Fleet Services.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>Ron Olson, City Manager Assistant City Managers Department Directors</i>	<i>November 2014 and Continuous</i>

*Action Plan: The City Manager does require all departments to coordinate vehicle repairs through Fleet Services. This one Division – Beach Operations - was violating that policy. As of November 2014, Beach Operations staff understands their responsibility to coordinate with Fleet Services. The City Manager will remind Departments of their responsibility to coordinate vehicle repairs with and through the Fleet Services Department. Outlying areas will be able to use vendors closer to their operations, to get vehicles and equipment back in service as soon as possible.*

### **E. Procurement Card Policy**

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>E. Jay Ellington, Parks &amp; Recreation Director</i>	<i>COMPLETED April 2015</i>

*Action Plan: Under the new Director, the Parks and Recreation Department implemented changes to the PCard policy. This includes receipts for all purchases, approver reviews, and approvals, and not allowing PCard use for gasoline. The Parks and Recreation Department has had very few infractions, which they address appropriately.*

**City Management Recommendation:** The City Manager could further strengthen the procurement card policy by establishing minimum performance measures for cardholders and approvers with mandatory termination of privileges if the minimum standards are not met.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>Constance Sanchez, Financial Services Director</i>	<i>COMPLETED November 2014</i>

## Appendix B Management Response

		<i>February 2016 for performance measures and mandatory discipline for non-compliance</i>
<i>Action Plan: All departments are operating under the guidelines established in November 2014. In addition, in February 2016, the Finance Department will develop performance criteria that with by all cardholders and approvers must meet. Included with the performance standards, Finance Department will have the authority to suspend or terminate P-Card privileges for those who do not meet minimum compliance standards. These will be included in Policy P-9.</i>		

### **F. Budget Policy**

**Recommendation** Even though it is not a requirement, Parks and Recreation Department executive management might benefit by questioning significant overspending at the object code (line item) level of its budget.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>E. Jay Ellington, Parks &amp; Rec Director Assistant Parks &amp; Rec Directors All Department Superintendents</i>	<i>COMPLETED Conduct Monthly Review of budget vs. actual expenditures</i>
<i>Action Plan: The Parks and Recreation Department currently has forty-nine (49) operational 'orgs' across seven (7) funds. Thirty-seven (37) of the Department's orgs fall into the General Fund. The other twelve (12) orgs fall into one of the following funds: Hotel Occupancy Tax, State Hotel Occupancy Tax, Visitor's Facility, Crime Control District, Golf, Stormwater, or Packery Channel TIRZ #2. Each org represents an operational unit – based on location, facility, or program areas. The org's budget includes personnel, operating (i.e. supplies and services), allocations, and capital accounts. Under the new Director, the Department monitors line item spending on a monthly basis, and manages operations within fiscal year appropriations.</i>		

**City Management Recommendation:** The City Manager could strengthen budgetary controls by requiring department to manage their budgets at the object code level instead of the activity level; however, doing so would require additional resources in the Budget Department to keep up with the increased workload caused by additional budget transfers at the object code level.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>Assistant City Managers Department Directors Budget Office</i>	<i>COMPLETED, ongoing</i>

## Appendix B Management Response

*Action Plan: The City Manager expects all department directors to monitor their budgets and to hold their staff accountable for proper expenditures and fiscal constraints. Departments are expected to monitor and analyze expenditures at the line item (object code) level and to make adjustments if needed. The analysis of actual expenditures helps the department to submit a fiscal year budget for the following year with appropriate line item amounts.*

*Requiring all departments to request a transfer of funds from one object code (line item) to another for any over/under expenditure would use all of the Budget Office's time processing minor transfers that have no impact on the bottom line. It would bog down the financial and budget system and increase opportunities for error.*

*Budget Policy continues to require expenditure controls at the agency/department level, allowing management flexibility to service the citizens' needs. This budgetary control level should remain at the department bottom line level, but Departments are expected to manage their budgets at the line item level.*

### **G. Fuel Purchases on City Procurement Cards**

**Recommendation:** Parks and Recreation Department executive management could prevent (or drastically reduce) employees from fueling their privately owned vehicles by requiring his employees in remote locations to use the fuel procurement card for all fuel purchases.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>Reba George, Interim Beach Superintendent</i>	<i>COMPLETED October 2014, August 2015</i>
<i>Action Plan: Beginning in October 2014, the Department added internal controls to ensure that fuel would only be purchased using fuel cards, not PCards. Diesel for the heavy equipment used on the Gulf Beach is delivered on site by an approved vendor under supply agreement. Beginning in August 2015, Gulf Beach Operations started collecting and reconciling receipts to the fuel charge information that Fleet sends out on a monthly basis. The employee name, ID, unit number and odometer reading is written on the receipt and turned in to the Management Assistant who performs the reconciliation.</i>		

**City Management Recommendation:** The City Manager could further strengthen controls of the procurement card program by prohibiting the purchase of fuel on the City procurement cards.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>Constance Sanchez, Financial Services Director</i>	<i>COMPLETED November 2014</i>
<i>Action Plan: Action Plan: All departments are operating under the guidelines established in November 2014 including prohibiting fuel purchases on PCards. Fuel cannot be purchased with a PCard.</i>		

**H. Mileage Reimbursement Requests**

**Recommendation:** Parks and Recreation Department executive management can enforce existing internal controls by requiring periodic monitoring of the work product of all employees, supervisors, managers. In this instance, periodic monitoring would include questioning the mileage reimbursement requests from employees who have been provided a City vehicle, verification of signatures, and a check for mathematical accuracy. Management is encouraged to employ professional skepticism by adopting an attitude of “trust, but verify.”

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>E. Jay Ellington, Director, Stacie Talbert Anaya, Assistant Director and Becky Perrin, Assistant Director</i>	<i>COMPLETED September 2015</i>
<i>Action Plan: Review of mileage reimbursement submissions became more thorough and consistent since termination of employees #1 and #2 and with Interim Superintendent oversight. Mileage reimbursement submissions are reconciled by Executive Assistant, reviewed by Superintendent and Assistant Director, and approved by Director prior to submittal to Purchasing/Payroll. This improved, stronger checks and balances system has been implemented. Mileage distance to and from facilities has been standardized and is checked monthly.</i>		

**I. Personal Use of City Vehicles**

**Recommendation:** If Parks and Recreation Department executive management determines there is a valid business need for employees to drive City vehicles home, it must abide by the approval and notification requirements of City Procedure F-12 Employer Provided Vehicles. If there is no need for employees to take City vehicles home, enforcement of the procedure could be attained by periodically monitoring its remote locations to verify that City vehicles are parked at City locations after hours.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>E. Jay Ellington, Director</i>	<i>COMPLETED November 2014</i>
<i>Action Plan: As of November 2014, take home vehicles are not allowed in the department. In the future, supervisors on call may be allowed to take home vehicles, as determined by the Department Director and in accordance with City policy.</i>		

**J. Asset Management**

**City Management Recommendation:** The City Manager could strengthen the capital asset procedure by requiring:

- All City departments to conduct an annual inventory of their capital assets.
- All vehicle and equipment purchases to be included in the Fleet Services inventory.

## Appendix B Management Response

- An annual reconciliation of the Fleet Services inventory (capital items) to the Financial Services capital asset list.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>Ron Olson, City Manager E. Jay Ellington, Parks &amp; Recreation Director Jim Davis, Fleet Services Director</i>	<i>January 2015 February 2016</i>
<p><i>Action Plan: Most of the Parks Department's divisions have provided annual inventories and verify with Finance and Fleet. In July 2015, the new Director of Parks and Recreation implemented an annual business inventory of items over \$250.00 in all divisions.</i></p> <p><i>In February 2016, City Management will send a memo to Directors reminding them of their responsibility to (1) ensure their employees coordinate all vehicle repairs with and through the Fleet Services Department, (2) provide Fleet with a roster of all their department rolling stock that is not in the Centralized Fleet, such as mowers and trailers, and (3) conduct an annual inventory of capital assets in their departments. The City Manager will task the Fleet Director and Financial Services Director to annually reconcile the new vehicles/heavy equipment on the Finance capital asset list to the Fleet list.</i></p>		

### **K. Time Keeping**

**Recommendation:** Parks and Recreation Department executive management can ensure accurate payroll records by requiring all employees (and leased workers) to clock-in when they arrive to work and all non-exempt employees to clock-out when they leave work.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>Reba George, Interim Beach Superintendent</i>	<i>COMPLETED November 2014</i>
<p><i>Action Plan: All city employees use the Kronos system to clock in. In November 2014, a manual time clock was purchased for leased workers to use. All temporary leased workers are required to punch in and out for their shifts. Time cards/time sheets and corresponding invoices are verified by the Gulf Beach Management Assistant and forwarded to the Superintendent. The Superintendent reviews the information and sends authorization for payment to Accounts Payable in Finance, along with copies of the timecards/time sheets, in accordance with the new centralized process for payment.</i></p>		

### **L. Contract Management**

**Recommendation:** To ensure that vendors are charging according to contracted rates, Parks and Recreation Department staff will need a courtesy copy of all City contracts they purchase from, and they will need to be familiar with contract terms. Staff should bring any questionable charges to the attention of executive management. All contracts initiated at the department level should be reviewed by the City Attorney's Office. Parks

## Appendix B Management Response

and Recreation Department executive management may be able to recover the overbilled amount of \$54,074 by coordinating efforts with the City Attorney's Office.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>Reba George, Interim Beach Superintendent</i>	<i>COMPLETED September 2014</i>
<p><i>Action Plan: All payments for contracts (supply agreements) are made by purchase order – ensuring pricing is based on supply agreements in Infor. Contracts and Supply Agreements have been made available to department staff who oversees purchases. Contract amounts and invoices are reviewed prior to requisition approval in Infor. All other contracts (interlocal agreements, leases of property, contract for professional services) are reviewed and signed ‘approved as to form’ by the Assistant City Attorney, and if applicable, placed on the City Council agenda for approval. The Superintendent of Support Services serves as contract administrator for the Parks Department.</i></p> <ul style="list-style-type: none"> <li>• <i>Beach Operations’ waste disposal needs were not included in the citywide supply agreement for dumpster service, which required Parks to find their own vendor. In FY 2015 the Solid Waste department began supplying dumpster services.</i></li> <li>• <i>The citywide supply agreement for portable toilets is being used to review invoices as of September 2014. Management Assistant reviews invoices for correct pricing.</i></li> <li>• <i>Boat slip rental agreement for the Packery Patrol boat is reviewed and renewed annually.</i></li> <li>• <i>Contracts for leased workers are addressed elsewhere in this response.</i></li> <li>• <i>Heavy equipment lease payments are paid according to the lease agreement as of October 2015. The Department Director met with the Assistant City Attorney in November 2015 to draft a demand letter to recover the overbilled amount of \$54,074.</i></li> </ul>		

**City Management Recommendation:** The City Manager could improve the performance of departments by developing a contract management policy with procedures that require departments to maintain a copy of all contracts it uses. The policy could require departments to name a contract administrator for each of its contracts. The contract administrator would then verify all invoiced amounts against the contracted rates prior to approving an invoice for payment. If a new policy is developed, we recommend that it be maintained on the City website, that it be communicated to all employees, and training be provided for employees named as contract administrators.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>Ron Olson, City Manager All Department Directors</i>	<i>January 2016</i>
<p><i>Action Plan: In January 2016, the City Manager will formally direct departments to designate a contract administrator and designate them to review all invoices for proper contract amounts prior to invoices being approved for payment.</i></p>		

## Appendix B Management Response

### M. Nepotism

**Recommendation:** By strictly enforcing the City policy regarding nepotism, Parks and Recreation Department executive management could avoid the perception of favoritism, discrimination, or disharmony which could bring discredit to the City.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>E. Jay Ellington, Director</i>	<i>COMPLETED July 2015</i>
<i>Action Plan: The firing of employee #1 and employee #2 in September 2014 eliminated the potential for nepotism in the Division. The Department complies with the Citywide requirement to get written City Manager approval for hiring any employee who is related to any current employee anywhere in the department. The new Department Director is committed to strict compliance with the City's anti-nepotism policy.</i>		

### N. Cash Count

**Recommendation:** Parks and Recreation Department executive management could reduce the risk of loss or theft of cash by seasonally adjusting the amount of cash maintained by Beach Parking staff during its busy season and its off-season. Assistance in returning funds can be obtained by contacting the Treasury Division of Financial Services. Cash overages/shortages are to be reported in the daily cash balancing report (object code number 540255) and included with the daily deposit.

<i>Agree/Disagree</i>	<i>Responsible Party, Title</i>	<i>Completion Date</i>
<i>Agree</i>	<i>Reba George, Interim Beach Superintendent</i>	<i>COMPLETED October 2015</i>
<i>Action Plan: It is the department's prerogative to set the amount of change funds at each site. The change fund amount has been reduced to \$300 during non-peak Beach Parking Permit sales' months. The change fund will be increased during the peak months of March to September. All cash count overages and shortages are included in the daily revenue report and daily deposit. We have requested additional cash handling training from Finance.</i>		