



City of Chattanooga

INTERNAL AUDIT

City Hall

Chattanooga, Tennessee 37402

Stan Sewell
Director

Ron Littlefield
Mayor

August 7, 2012

Mayor and City Council
City of Chattanooga
Chattanooga, TN 37402

RE: Post Audit Review of Champion's Club Collections, Audit #11-08

Dear Mayor Littlefield and Council Members:

On December 28, 2011, the Internal Audit Division released an audit on Champion's Club Collections. We performed certain procedures, as enumerated below, with respect to activities of the Parks and Recreation Department and the City Attorney's Office in order to render a conclusion on the status of the recommendations made as a result of that audit.

This Post Audit Review consisted principally of inquiries of City personnel and examinations of various supporting documentation. It was substantially less in scope than an audit in accordance with generally accepted government auditing standards. The evidence obtained provided a reasonable basis for our conclusions; however, had an audit been performed, other matters might have come to our attention that would have been reported to you and our conclusions may have been modified.

Our audit identified a number of potential violations of the City's Code of Ethics policy. As the City's Ethics Officer, the City Attorney is tasked with investigating such violations. The City Attorney provided us with a status update indicating that no legal action is planned as the Manager is no longer engaging in any extracurricular activities utilizing City facilities.

Audit #11-08 concluded that 1) proper internal controls were not in place for collections at Champion's Club, and 2) collections that were submitted to Treasury were timely and, in general, contained adequate supporting documents; however, we noted several instances where fees were not appropriately collected.

The audit contained 13 recommendations that addressed the audit's findings. Based on the review performed, we concluded that nine (9) recommendations were implemented, two (2) recommendations were partially implemented, and two (2) recommendations were not

implemented.

Recommendations Implemented [1, 2, 3, 4, 6, 7, 8, 10, 13]

To address several findings, we recommended (Recommendations 1, 2, 4, and 6) Parks and Recreation Administration ensure employees do not exercise discretion over any work or contract for which they have a financial interest. We further recommended Parks and Recreation Administration ensure employees do not use City facilities, staff or resources for personal gain. These recommendations were suggested to remedy the following potential conflicts of interest:

- 1. Champion's Club Manager earned additional income from instructional activities as a City employee without approval by Council.*
- 2. Champion's Club Manager operates a pro shop on City property without the approval of City Council.*
- 3. Champion's Club Manager personally hosted three tournaments at the facility and retained the revenues.*
- 4. Champion's Club Manager approved the use of Champion's Club facilities and personnel for a tournament that benefited a private individual and appears to pose a conflict of interest for the Assistant Manager.*

The Recreation Director appears to have taken several steps to ensure employees do not use City facilities, staff, or resources for personal gain. Management has increased its oversight of staff. Employees are currently compensated by their City salary only, and all revenue is run through the cash register. All merchandise the Manager was selling in the pro shop has been removed from the facility.

Also, according to the Recreation Director, all contracts for events held at Champion's Club are now negotiated by the Manager and Recreation Division based on the fees established in City Code. We reviewed contracts for events held at the Champions Club from January – June 2012 and noted that contracts between event sponsors and the Champion's Club Manager were also signed by the Recreation Director or Assistant Director. The Manager also is required to copy, by email, the Community Tennis Association, Recreation Division, and the Sports Committee on all tournament bids and awards.

However, a draft memorandum of understanding with the Champion's Club Manager has been approved by the City Attorney's Office, but is not yet executed as parties are still determining whether such an agreement follows all state and local laws. According to the Recreation Director, the Manager is no longer hosting private lessons, clinics or camps at the facility and is fully aware of the limitations on actions he may take at the facility. The draft MOU would allow the "Tennis Professional" to exclusively host tennis lessons (private, group and camps) at the facility based on set rates as approved by the Administrator of Parks and Recreation and posted at the front desk of the facility. The Tennis Pro/ Manager would receive 90% of the charged fees on a monthly basis and 10% would be retained by the City. These activities may only be conducted during non-work hours and the Tennis Pro/Manager shall not charge fees for tennis

lessons or instructions provided while working for the facility. In addition, the Tennis Pro/Manager would not be entitled to any other outside employment from any source.

It appears an effect of the change in policy regarding the Manager's extra compensation has been a reduced schedule at Champion's Club. We noted an evident reduction in activities held at Champion's Club that had previously financially benefited the Club's Manager. In the 2012 Champion's Club schedule we noted the following activities held in both 2010 and 2011 were no longer offered: Champions Spring Junior Clinic, Champions Summer Camps (3), and Champions Junior Novice Tournaments (2).

*We recommended (**Recommendation 3**) Parks and Recreation Administration consider operating the pro shop at Champion's Club with City funds, as is the practice at City-owned golf courses.*

According to the Recreation Director, Parks and Recreation management does not believe it is beneficial for the City to run a pro shop at Champions' Club based on its review of the surrounding relevant market and City budgetary constraints. The Division is looking into providing tennis balls and racquet stringing services in the future after a point-of-sale system is installed at the facility. Management has not identified a sufficient benefit in selling tennis clothing or equipment.

*We recommended (**Recommendation 7**) Champion's Club comply with City Code 26-31 setting fees for Champion's Leagues. If waivers are determined to be necessary for routine operations, Parks and Recreation Administration should seek appropriate authorization from City Council and implement a process to clearly document the purpose of each waiver.*

Parks and Recreation management received approval from City Council via Ordinance #12569, effective February 2012, for all full and part-time staff of Champion's Club to participate in leagues free of charge.

*In accordance with Parks and Recreation policy, we recommended (**Recommendation 8**) Champion's Club institute 'pay before you play' procedures where players are required to pay the full amount of their anticipated fees for involvement in a league prior to participating in their first match. Refunds should be issued by the Finance and Administration Department, if required.*

We reviewed Champion's 2012 Spring League payments and noted no material variances in collections. According to the Assistant Director of Recreation, the Spring League had two players play prior to paying for their participation in the league. However, new written policies adopted by the Champion's Club for the Summer League require all players to pay by a predetermined date in advance of league play. Refunds will be given to players who requested leagues having an insufficient number of players sign up. No refunds will be allowed after the start date of the leagues, according to the new policies.

*We recommended (**Recommendation 10**) the Champion's Club update its fee schedule per Ordinance #12495, adjusting its cash register PLU codes and posted rates accordingly. Future*

contracts with special event tennis organizers should be approved by the Parks and Recreation Administrator.

In February 2012, City Council amended rates for use of the Champion's Club, as shown in **Exhibit 1** below.

Exhibit 1: Comparison of Provisions in City Code Sec. 26-31

Fee	Rates as of April 2011	Rates as of February 2012
Court Fees - Before 4:00 PM (per person, per hour)	\$3.00	\$2.00
Court Fees - After 4:00 PM (per person, per hour)	\$4.00	\$3.00
Court Fees - Seniors (per person per day)	\$3.00	\$2.00
Champions League Fees*	\$40.00	\$40.00
Special Event Fees (Community Leagues, Tournaments, School Matches) (per person)*	\$1.00-\$50.00	\$1.00-\$50.00
Private Lessons by Pro	Not Mentioned	Paid Directly to Pro

* Full and part-time employees of Champion's Club are allowed to participate in tennis leagues for free. (Effective Feb. 2012)

** With the advance written approval of the Administrator of Parks and Recreation Schools in Hamilton County may receive a 25% discount when reserving these facilities. Tournaments are subject to contract stipulations.

Source: City Ordinance #12495 and #12569

We reviewed collection reports from January – June 2012 and noted the Champion's Club implemented the new rates as of April 2012 and rates posted at the facility were accurate. We also reviewed contracts for events held at the Champions Club from January – June 2012 and noted that contracts between event sponsors and the Champion's Club Manager were signed by the Recreation Director or Assistant Director, not the Administrator of Parks and Recreation.

*We recommended (**Recommendation 13**) that, where possible, the Champion's Club implement segregation of duties. Due to the currently limited staffing at Champion's Club, full segregation of duties may not be possible. We recommended that Parks and Recreation Administration periodically perform an independent review of Champion's Club daily collections and for a selection of events held there (including Champion's Leagues).*

Since the audit, the Assistant Director receives all league documentation and tournament contracts and payment documents. He also receives collection summaries for Champion's Club. After a tournament, he reviews the roster and reconciles the check to the number of players on the roster and the contracted per player fee. For leagues, he ensures that the number of players on the roster for the leagues, league fee amount, and the income reported on payment documents reconcile. Periodically, to ensure payments are collected, an additional step should be taken to ensure amounts collected match payment documents.

Recommendations Partially Implemented [11, 12]

*We recommended (**Recommendation 11**) Champion's Club comply with City collection policies. In addition, we recommended (**Recommendation 12**) Parks and Recreation Administration enforce its policies and procedures for cash handling at Champion's Club.*

We identified a number of limitations to cash handling controls at Champion's Club. Identified weaknesses in the audit are bulleted with the current status noted below:

- *Cashiers share cash drawers – (Not Implemented)* With no transfer log between cashiers, passwords, or a separate cash drawer, the Champion's Club staff continue to share cash drawers against requirements in the *Internal Control and Compliance Manual for TN Municipalities* (Section 5-14-6).
- *Not preparing a daily balance sheet – (Not Implemented)* Daily reports are not always present in Champion's Club collection reports. As noted in the audit, while the Daily Journal is present, it may cover collections for multiple days. A daily balance sheet is required by the *Internal Control and Compliance Manual for TN Municipalities* (Section 5-14-6) and two signatures must be present on the daily balance sheet per Parks and Recreation policy.
- *Not all collections are received through the cash register and receipts are not issued – (Implemented)* According to Recreation management, all collections are currently received through the cash register and employees are compensated by their City salary only.
- *Checks are written to Champion's Club – (Implemented)* Our review of collection reports submitted since the audit report did not find checks written to Champion's Club. All checks were written to City of Chattanooga.
- *Access control to collections not adequately restricted – (Not Implemented)* According to the Champion's Club Manager, locks on all cabinets were changed and funds left at the facility are stored in a locked drop safe within the locked cabinet. Parks and Recreation management provided the Club with a drop safe that can be used at shift closing without having to have key access to the funds. However, Champion's Club management continues to allow all four of its current cashiers to know where the key to the safe is kept.

According to the Assistant Director, Parks and Recreation management will continue educational efforts about internal controls with staff at Champion's Club to address the outstanding weaknesses.

Recommendations Not Implemented [5, 9]

We recommended (Recommendation 5) Parks and Recreation Administration present contracts with tennis partners for use of City facilities to City Council in accordance with the Internal Control and Compliance Manual for TN Municipalities. Prior to approval from Council, Parks and Recreation Administration should enforce City Code Section 26-31 and require Administrator-approved rates for use of the Champion's Club.

Since the audit, Parks and Recreation management has formalized agreements with McCallie School and the University of Tennessee at Chattanooga. McCallie has no events on the 2012 Champion's Club calendar, but UTC has five events scheduled free of charge at Champion's Club (the maximum allowed by the arrangement). The agreements have not been approved by Council.

While no partnership agreement is in place with USTA, events scheduled to be held at Champion's Club this fall have contracts with designated per player rates. Such contracts were signed by the Assistant Director of Recreation.

We recommended (Recommendation 9) the Champion's Club Manager reconcile league payments to City collections at the completion of each league. Per Parks and Recreation policies, missing collections should be immediately reported to the Recreation Director, Parks and Recreation Administrator, and the Chattanooga Police Department.

According to the Champion's Club Manager, he did not reconcile all league payments for the 2012 Spring League to collections. As noted above, we found no material variances when we performed reconciliations.

We thank the personnel in the Department of Parks and Recreation and the City Attorney's Office for their assistance in conducting this review. We will consider this report to be final unless directed to continue our review.

Sincerely,



Stan Sewell, CPA, CGFM
Director of Internal Audit

cc: Dan Johnson, Chief of Staff
Larry Zehnder, Parks and Recreation Administrator
Michael McMahan, City Attorney
Audit Committee