

CITY AUDITOR'S REPORT



AUDIT OF SAFEKEY PROGRAM

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EXECUTIVE SUMMARY

We have completed an audit of the City's Safekey program administered by the Parks and Recreation Department. The main objective of this audit was to determine whether adequate controls were in place to ensure the program's financial viability.

This report identifies six audit issues and includes twenty recommendations to improve the operations of Safekey. Details of the issues, including audit findings, recommendations, and management's responses can be found in the respective sections of the report. The following is a summary of the audit issues.

The cost recovery rates of Safekey had decreased over the past several years. To ensure the program's long-term financial viability, we recommended management to develop a strategic plan to improve student attendance, increase revenues, and reduce costs.

On-site inspections of Safekey activities were not conducted as frequently as planned. Each Safekey site was scheduled to be inspected twice per week. However, our review indicated that the eighteen active sites were inspected on an average of once every two weeks. Also, the inspectors did not always properly complete their Site Evaluation Reports.

Student attendance records were critical information for revenue verification purposes. Our review indicated that there was a need to improve the accuracy and completeness of Safekey's attendance records.

Cash controls were deficient due to a lack of segregation of incompatible duties. Safekey instructors were allowed to process payment transactions as well as record student attendance. Furthermore, payment receipts were not always issued.

Information system security controls were also lacking to prevent unauthorized access to the CLASS system. Part-time instructors who did not have system access privileges were noted processing transactions using their lead instructor's login password. Furthermore, 53 former Safekey employees still had access to CLASS since their passwords had not been deactivated.

Financial subsidies for low-income families were not properly accounted for. Safekey management must establish appropriate controls to prevent further loss of subsidy revenues and accounting errors.

BACKGROUND

Safekey is a before-and-after-school program offered by several municipalities using Clark County School District's elementary school facilities. In addition to the daily activities, the program also organizes other activities during school breaks, including arts and crafts, games, sports, music, and summer day camps. Currently, there are eighteen active Safekey sites within the City of North Las Vegas.

The Recreation Division of the Parks and Recreation Department is responsible for administering the City's Safekey program. The program is staffed with 138 part-time instructors (36 Full-Time-Equivalents) and six administrative employees: one supervisor, one fiscal specialist, two recreation coordinators, and two recreation leaders.

The program's annual operating expenditures for fiscal year July 1, 2010 through June 30, 2011 are budgeted at approximately \$1.7 million, as shown in the following table.

Safekey Expenditures	FY2010-2011 Budget	Percentage
Part-time Instructors	\$1,122,856	65%
Administrative Staff	\$425,126	25%
Supplies and Services	\$168,650	10%
Annual Total	\$1,716,632	100%

The program generates its revenues mainly from user fees. There are two Safekey sessions per day during school. Each morning session costs \$4 and is from 7:00 a.m. to beginning of school. The afternoon session costs \$7 and it begins immediately after school until 6:00 p.m. Students can attend either the morning session or the afternoon session, or both. Parents are required to sign in when dropping off their children in the morning and sign out when picking them up. In addition to the sign-in sheets, instructors scan the students' ID cards for each session and the attendance records are kept in the CLASS information system.

Approximately 3% of Safekey's revenues come from EOB, a non-profit organization, as financial subsidies for low-income families.

AUDIT OBJECTIVES

The main objectives of this audit were to determine whether adequate controls were in place and operated effectively to ensure the Safekey program's financial viability.

SCOPE AND METHODOLOGY

This audit focused primarily on Safekey's financial controls related to the before-and-after-school activities over an eight-month period from August 2009 through March 2010. The audit was performed in accordance with generally accepted governmental auditing standards. Audit procedures included:

- Interviewing management and staff;
- Reviewing policies and procedures;
- Conducting field observations;
- Performing process walk-through;
- Surveying Safekey employees;
- Interviewing parents;
- Benchmarking with other Safekey programs; and
- Examining all relevant documents, including payment receipts, site evaluation reports, CLASS transaction reports, vendor invoices, and budget documents.

FINDINGS AND RECOMMENDATIONS

The City Auditor's Office would like to thank the staff of the Safekey program for their cooperation and assistance during the audit. This audit identified issues management should address to improve controls over the operations of Safekey. These issues are summarized in the following sections. While other issues were identified and discussed with management, they were deemed less significant for reporting purposes.

1. COST RECOVERY

Criteria

- As a fee-based program, Safekey is required to collect sufficient revenues to cover its expenditures. As such, management should closely monitor the program's cost recovery rates and periodically review its revenue trends, fee structures, and operating costs to ensure the program's long-term financial viability.

Condition

- Prior to FY2007/2008, the two full-time Safekey employees were paid out of the City's general fund and the program had accumulated in excess of \$1 million in fund balance.

- During 2007, most of Safekey's surplus fund was transferred out to pay for several city capital projects unrelated to the program.
- Over the past several years, the program had experienced steep revenue declines, as shown in the following table.

Safekey Financials	FY2006/2007 (actual)	FY2007/2008 (actual)	FY2008/2009 (actual)	FY2009/2010 (projected)
Revenues	\$1,519,220	\$1,418,606 (-7%)	\$1,224,870 (-14%)	\$959,271 (-22%)
Expenditures	\$1,436,161	\$1,704,608 (+19%)	\$1,533,109 (-10%)	\$1,299,690 (-15%)
Surplus (Deficit)	\$83,059	(\$286,002)	(\$308,239)	(\$340,419)
Cost Recovery Rates	106%	83%	80%	74%

- While the program's annual expenditures had also decreased, the reductions did not fully offset the revenue declines, resulting in decreasing cost recovery rates.
- Starting in FY2007/2008, Safekey increased its full-time positions from two to four, which cost an average of approximately \$388,000 annually in the past three years.
- If all the full-time positions continued to be paid out of the City's general fund subsequent to FY2006/2007, the program's cost recovery rates would have remained relatively steady, as shown below:

Safekey Financials	FY2006/2007	FY2007/2008	FY2008/2009	FY2009/2010
Revenues	\$1,519,220	\$1,418,606	\$1,224,870	\$959,271
Expenditures (excluding costs of all Safekey's full-time staff)	\$1,436,161	\$1,337,943	\$1,135,006	\$900,573
Surplus	\$83,059	\$80,663	\$89,864	\$56,698
Cost Recovery Rates	106% (actual)	106% (estimated)	108% (estimated)	107% (estimated)

- A recent Safekey survey indicated the following:
 - Many families had no other alternatives but to depend on Safekey to ensure their children's safety before and/or after school while the parents were at work;
 - Being an on-site program at school, Safekey was considered more convenient than the off-site alternatives provided by other service providers;
 - Safekey's fees were considered very affordable in comparison with rates charged by other service providers;
 - Some parents could no longer send their child to Safekey since the program did not start until 7 a.m. and they requested earlier drop off times, such as 6:30 a.m.
 - Some parents stopped sending their children to Safekey because some employees were found to be very rude.
- The majority (65%) of Safekey's operating budget was for part-time instructors, the costs of which were directly proportional to numbers of students.
- Safekey had adopted a staffing ratio of one staff for every fifteen children, with a minimum of two staff on each site.

Cause

- Declining student attendance.

Effect

- The City had spent approximately \$300,000 annually to subsidize Safekey's operating deficits.

Recommendation

- 1.1 The Safekey supervisor should develop a long-term strategic plan to ensure the program's long-term financial viability.
- 1.2 The Safekey supervisor should improve the program's service quality and publicity to increase attendance and revenues.
- 1.3 The Safekey supervisor should consider adopting a staggering work schedule for the part-time instructors (e.g. two to start at 6:30 a.m. and one to start at 7:00 a.m.) to accommodate those parents who need to drop off their children earlier than 7:00 a.m.
- 1.4 The Safekey supervisor should evaluate the current fee structure and consider fee increments, without jeopardizing the attendance levels.
- 1.5 The Safekey supervisor should consider raising the current 15 students per staff ratio to reduce the program's operating costs.
- 1.6 The Safekey supervisor should establish proper controls to closely monitor the cost recovery rates of each Safekey site as well as the entire program.

Management's Response

1.1 Plan of Action

- *Strategy 1 – to allow all Fund Balance accumulations to stay within the budget. Over \$1M was built up in this fund balance that would have allowed this program to subsidize itself for three years until the economy could rebound.*
 - *Policy to be created for City Management to approve July 2010*
- *Strategy 2 – to work with City Management and City Council to determine the priority of this program for the City of North Las Vegas. Many programs are subsidized in the Parks and Recreation Department and there should be a prioritization of programs.*
 - *Direction to be provided by City Management*

1.2 Plan of Action

- *In the most recent survey that this audit responds to, the average respondent rated the program 5.9 out of 8. This indicates that the program is running very well. The program is run consistently within the Las Vegas Valley. We purposely try to run the program closely to the other agencies for consistency and the realization that people compare the programs.*
 - *Staff to look at program improvement methods – On-going*
- *Publicity would always help to get the word out to the parent. With additional publicity, comes additional expense. This would be something that we would need to look at how we could pay for this additional expenditure.*
 - *Staff to look at no cost publicity opportunities for FY 10/11.*

1.3 Plan of Action

- *The auditor was explained to why this is not an option. There have been a handful of requests to have the program open earlier, and by the same token same open later. When we receive requests like this, staff looks into the option and we poll the parents at the site. If the minimum (15 children) is willing to come at the earlier or later time, we would have no problem opening earlier or staying later.*
 - *Staff has considered this option and found to not be viable.*

1.4 Plan of Action

- *In 2009 the fees were changed from the fee structure that allowed discounts for weekly sign-ups and multiple children in a family. There were close 80 different options for a participant to pay. With the registration software instituted at the sites, it was difficult to handle that many fees in the system. We changed the fee structure to a daily fee for the mornings and afternoons, which resulted in a 25% fee increase. Consequently, the other valley agencies are looking to implement our fee structure into their program.*

- *Staff to provide Recreation Manager a fee structure that makes the program 100% self supporting along with the pros and cons associated with the implementation of the fee structure. - September 2010*

1.5 Plan of Action

- *This will be looked at and most likely be raised to 1 instructor to 20 children. – August 2010 (to begin with the new school year)*

1.6 Plan of Action

- *Controls are in place and recover the costs per site. The issue is that all the sites combined do not cover the overhead of fulltime staff and administrative staff needed to coordinate the program. This is demonstrated by the chart that shows the program costs exceed 100%, however when the fulltime staff costs are added, the cost recovery falls to 74% - 80%.*
 - *Handled with #1.4 listed above*

2. ON-SITE INSPECTIONS

Criteria

- Visiting Safekey sites periodically to observe performance and inspect records are essential management controls for monitoring compliance and quality assurance purposes.

Condition

- Safekey required all sites to be inspected two times per week by the administrative staff.
- After each site visit, the inspector was required to complete a standardized Site Evaluation Report, which included information such as: date of inspection, names of on-site staff, number of students in attendance, and performance issues.
- Our review of 193 completed evaluation reports indicated that each of the eighteen active Safekey sites was inspected on an average of once every two weeks.
- Furthermore, a review of the 193 site visit reports indicated the following deficiencies:
 - 73 reports did not record the total number of on-site staff and their names; and
 - 50 reports were either missing the number of children in attendance or showed a vague number such as 20+, or 50 to 60.

Cause

- Safekey management did not closely monitor the site inspections to ensure all Safekey sites were regularly inspected as scheduled and all Site Evaluation Reports were properly completed.

Effect

- There were no assurance that all Safekey sites were operating in accordance with the established policies and procedures.

Recommendation

- 2.1 The Safekey supervisor should establish a formal plan for on-site inspections.
- 2.2 The Safekey supervisor should review all Site Evaluation Reports for completeness and quality assurance.
- 2.3 The Safekey supervisor should establish proper controls to optimize the staffing levels of on-site instructors based on student attendance, for cost containment purposes.

Management's Response

2.1 Plan of Action

- *This was a new program that was developed in 2009. This program will be looked at to establish a formal plan as indicated.*
 - *August 2010*

2.2 Plan of Action

- *No issues with this recommendation, other than the appropriate staff will review the Site Evaluation Reports.*
 - *August 2010*

2.3 Plan of Action

- *Each site has a program budget and is not allowed to run unless the minimum number of participants enroll in the program.*
 - *August 2010*

3. STUDENT ATTENDANCE RECORDS

Criteria

- Accurate, complete, and timely Safekey student attendance records are necessary information to reconcile with the corresponding Safekey revenues.

Condition

- Safekey maintained two sets of student attendance records: (1) manual daily sign-in sheets and (2) electronic scanned attendance records.
- First, Safekey required parents to initial the daily sign-in sheet when dropping off their children in the morning.
- For those parents who failed to sign-in their children, some Safekey staff chose to initial on behalf of the parents instead of strictly enforcing the sign-in policy.
- Second, Safekey staff issued each child a bar-coded student ID card upon successful registration into the program.
- The student ID cards were kept on-site for use by Safekey staff to scan the cards of those students who attended each session.
- The scanned attendance records were electronically input to the CLASS system.
- Our review indicated that there were inadequate controls to ensure accuracy and completeness of both sets of attendance records.
- We selected a sample of six students who were signed in daily during September and October of 2009 to trace their attendance into the CLASS system.
- We found these students were often not scanned to reflect their daily attendance. For instance, during the first week in September of 2009:
 - Student #1 was scanned three times on Wednesday and one time each on Thursday and Friday, for a total of five scans;
 - Student #2 was not scanned for the entire week;
 - Student #3 was scanned two times on Wednesday and one time on Thursday, for a total of three scans;
 - Student #4 was scanned two times on Friday, for a total of two scans;
 - Students #5 was scanned one time on Friday, for a total of one scan; and
 - Student #6 was scanned two times on Friday, for a total of two scans.
- As such, the CLASS system recorded 13 attendance scans, fewer than half of the 30 sign-in attendance counts.

Cause

- There was a lack of controls to reconcile Safekey's student attendance records with the user fees collected.

Effect

- Potential loss of Safekey revenues.

Recommendation

- 3.1 The Safekey supervisor should establish proper controls to ensure all parents are required to sign-in their children daily and the on-site Safekey staff are required to correctly scan all the students in attendance daily. All exceptions should be noted and addressed in a timely manner.
- 3.2 The Safekey supervisor should establish proper controls to ensure student attendance records are reconciled with the user fees collected. Significant revenue discrepancies should be noted and investigated in a timely manner.

Management's Response

3.1 Plan of Action

- *Procedures and policies are in place that require parents to sign in and sign out their children. If staff is not performing the functions properly, we will take the disciplinary actions up to and including terminations for that site. There is the possibility that the site may need to close down until we can hire replacements for that site.*
 - *Enforcement – August 2010*

3.2 Plan of Action

- *Staff will look at better processes to review that revenue coincides with attendance. Due to the cash control recommendation listed below, timely may be an issue if the deposits are made directly to the bank without reconciling first. We will need to wait for the deposit information from the bank to match up the reports 1 to 2 weeks after the initial deposit.*
 - *August 2010*

4. CASH CONTROLS

Criteria

- Since cash is highly susceptible to theft, adequate controls should be in place to ensure all cash payments are properly accounted for and deposited in a timely manner.

Condition

- All Safekey sites accepted payments by cash, checks, or credit cards.
- Our review indicated that 97.4% of all Safekey payments were paid on-site and only 2.6% of all Safekey transactions were made via the Internet.
- In comparison, an average of 66% of the parents who paid for various other Parks and Recreation children programs in the City made their payments over the Internet.
- The on-site Safekey staff, especially the lead instructors, spent a significant amount of their time every morning processing payment transactions.
- Our review indicated the following control deficiencies:
 - The on-site Safekey employees were allowed to perform two incompatible duties: collect payments and record student attendance.
 - Safekey staff did not always issue payment receipts.
- Our review also indicated that there was a lack of controls to ensure cash payments collected at all Safekey sites were always deposited in a timely manner.
- The Safekey sites were required to bring their collected fees daily to the central Safekey office for re-count and bank deposit.
- However, nobody was assigned to verify whether all sites had brought in their collected fees daily.
- Furthermore, fees collected from all the sites were combined before re-count. Only one bank deposit was made daily, instead of separate deposits by individual Safekey sites.
- As such, it was impossible to track the daily deposit amounts for each Safekey site and to investigate any cash shortages.

Cause

- Parents were not encouraged to pay their Safekey fees on-line.
- Inadequate cash controls.

Effect

- Potential loss of revenues due to potential fraudulent activities.
- Potential loss of interest income.

Recommendation

- 4.1 The Safekey supervisor should consider adopting a new Safekey policy to encourage on-line payments and discourage on-site cash payments.
- 4.2 The Safekey supervisor should establish proper controls to ensure separation of incompatible duties for the Safekey staff between processing Safekey fees and recording student attendance.
- 4.3 The Safekey supervisor should establish proper controls to ensure all Safekey fees collected by all Safekey sites are deposited daily.
- 4.4 The practice of combining Safekey deposits should be discontinued.

Management's Response

4.1 Plan of Action

- *As was discussed with the auditor, current changes to go cashless/ checkless at each site has gone into place May 3, 2010. Safekey cash and check payments can only be done at the Recreation Centers. This was modeled after the City of Las Vegas safekey program which went to this process in 2009.*
 - *Completed*

4.2 Plan of Action

- *This item will be looked at, however, we need to make sure that we have staff watching the children when they are dropped off at the site. Currently, 1 staff person takes payment and has the parent sign in. This recommendation implies that there should be 1 person taking payments, while another staff person records student attendance. This leaves less staff to watch the children. In order to accomplish this recommendation, additional staff will need to be hired.*
 - *August 2010*

4.3 Plan of Action

- *The current cash handling policy will deposit the bags directly to the bank without staff reconciling the money in the bag against the report. Once we receive a deposit notice from the bank, we will go back and look to see if the money that was deposited matches the report. This may take up to 2 weeks to find any discrepancy in the deposit. For information purposes – 30 sites with a morning and afternoon session is 60 daily deposits. 5 days per week equates to 300 deposits weekly.*
 - *August 2010*

4.4 Plan of Action

- *Based on the current cash handling policy, this will be discontinued.*
 - *August 2010*

5. INFORMATION SYSTEM SECURITY CONTROLS

Criteria

- Proper information system security controls are necessary to protect the integrity of the operational and financial data.

Condition

- Safekey employees were required to attend the CLASS information system user training and to obtain their own login password to access the system.
- Upon completion of their CLASS training, the instructors were granted regular access to the system while the leader instructors were granted a high level access, with additional privileges such as processing payment transactions.
- Our review indicated that some Safekey employees did not attend the CLASS training so they were not assigned their login passwords.
- However, they were able to access the CLASS system using other Safekey staff's password.
- During a visit to the Antonello Safekey site by Audit, it was noted that the three instructors on duty had not attended CLASS training. However, they were using the lead instructor's login password to enter data into the CLASS system.
- Furthermore, the CLASS Administrator was not always immediately notified to deactivate the system access privileges when Safekey employees left their employment.
- Our review indicated that, as of March 27, 2010, 26 former Safekey employees still had high level access and 27 former Safekey employees still had regular access to the CLASS system.

Cause

- Safekey management failed to establish and enforce information system security controls for the CLASS system.

Effect

- Unauthorized access to the CLASS information system, compromising the integrity of financial and operational information.
- Violation of the City's Login/Password policy.

Recommendation

- 5.1 The Safekey supervisor should establish controls to ensure all Safekey employees must attend their CLASS information system training to obtain their own login password.
- 5.2 The Safekey supervisor should remind all Safekey employees to comply with the City's Login/Password policy, including not sharing passwords.
- 5.3 The Safekey supervisor should establish proper controls to ensure the CLASS Administrator will be immediately notified upon termination of any Safekey employees.

Management's Response

5.1 Plan of Action

- *Controls are in place that all employees attend training and obtain their own login password. Enforcement that employees do not share their passwords will be monitored.*
 - *Enforcement - Immediate*

5.2 Plan of Action

- *Same as listed above. Enforcement of Policies and Procedures.*
 - *Immediate*

5.3 Plan of Action

- *Same as listed above. Enforcement of Policies and Procedures.*
 - *Immediate*

6. FINANCIAL SUBSIDIES

Criteria

- All financial subsidies must be properly accounted for and collected in a timely manner.

Condition

- Eligible low-income families could apply for financial subsidies from EOB and pay reduced Safekey fees.
- To receive subsidy reimbursements from EOB, Safekey was required to submit student attendance sheets with parents' signatures confirming their children's attendance.
- Our review indicated that the required parent signatures were not always included in the attendance sheets submitted for reimbursements.
- As such, Safekey had not been able to receive 100% of its financial subsidies from EOB.
- Nevertheless, Safekey staff did not require the parents to pay for the unreimbursed amounts for their accounts.
- Our review also indicated the following control deficiencies related to the financial subsidy accounts:
 - The Fiscal Specialist did not calculate the reimbursement amounts when submitting the reimbursement requests to EOB;
 - The Fiscal Specialist was unable to provide supporting documentation to account for over \$9,000 of balances owed by EOB to Safekey, making it difficult to collect the outstanding receivables.
- Furthermore, when the Fiscal Specialist received financial subsidy payment checks from EOB, she posted the revenues to student accounts in alphabetical order instead of matching to the correct accounts. Consequently, the subsidies were often not credited to the low-income families while other families were receiving extra credits.

Cause

- Controls were not in place to properly account for the financial subsidies.

Effect

- Potential loss of revenues.
- Incorrect account balances.

Recommendation

- 6.1 The Safekey supervisor should establish proper controls to ensure the financial subsidies will be accounted for accurately.
- 6.2 The Safekey supervisor should establish a policy to hold parents responsible for signing their children's attendance sheets. If they failed to sign-in their children, the parents should be required to pay their financial subsidies not reimbursed by EOB.

Management's Response

6.1 Plan of Action

- *EOB office has already started sending information back that shows the amount of money to be credited back to the participant.*
 - *August 2010*

6.2 Plan of Action

- *Each participant signs a promissory note with the EOB office and they are responsible for the additional fee not covered by the EOB office.*
 - *Enforcement - Immediate*