City of Los Angeles

OFFICE OF
CONTROLLER

LAURA N. CHICK
CONTROLLER

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November 10, 2005

The Honorable Antonio Villaraigosa, Mayor
The Honorable Rockard J. Delgadillo, City Attorney
The Honorable Members of the City Council
City Hall
Los Angeles, California 90012

Dear Mayor Villaraigosa, City Attorney Delgadillo, Members of the City Council:

Today I release a financial and compliance audit that evaluates important fiscal management issues of the Department of Recreation and Parks. To think of ourselves, much less actually be, a truly great City, Los Angeles must have safe, attractive and healthy parks and recreation facilities that provide programs that meet the needs of EVERY neighborhood in this City. By the end of this year, I will release two additional audits of Recreation and Parks, an analysis of facility maintenance, and a report on recreational services and programs.

My audit found the Department of Recreation and Parks is slow to change and unwilling or unable to address previously identified problems. In 2003, a complete outside review of financial operations was conducted that sits on a shelf without being fully implemented by management.

My audit found a woeful lack of oversight of Recreation and Parks' Municipal Recreation Fund. This account was created to collect fees from participants to cover the direct cost of providing programs. It appears that these monies are not always used for their intended purpose. Most puzzling is that $21.5 million has been accumulating over the last several years.

Further, program fees for the same recreational services vary dramatically among facilities throughout Los Angeles. Since fees are designed to recover direct costs, why should it cost more money to play baseball in one park instead of another? The Department has also failed to transfer over $2 million from the revenues of its Pershing Square parking operations to programs for youth who live in the downtown area. How can this happen? This is a population that needs more services not less!

In a City where park facilities are so scarce and inadequate, we cannot afford to turn a blind eye to their fiscal management. It is also important to note that core rules and regulations governing Recreation and Parks were written and adopted in the 1950's. Now is the time to revisit decisions that were made over fifty years ago to see if they make sense in the context of serving the needs of the people of Los Angeles in the 21st Century.

Sincerely,

Laura N. Chick

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City Controller

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November 10, 2005

Mr. Jon Kirk Mukri, General Manager
Department of Recreation and Parks
1200 West 7th Street, Suite 700
Los Angeles, CA 90017

Dear Mr. Mukri:

Enclosed is a report entitled, "Financial and Compliance Audit of the Department of Recreation and Parks (RAP)." A draft of this report was provided to your office on October 31, 2005. Comments provided by your Department at the November 8, 2005 exit conference meeting, as well as previous meetings with Department management, were evaluated and considered prior to finalizing this report.

Please review the final report and advise the Controller's Office by December 9, 2005 on actions taken to implement the recommendations. If you have any questions or comments, please contact me at (213) 978-7392.

Sincerely,

FARID SAFFAR, CPA
Director of Auditing

Enclosure

cc: Honorable Antonio R. Villaraigosa, Mayor
Honorable Members of the City Council
Honorable Rockard J. Delgadillo, City Attorney
Robin Kramer, Chief of Staff, Office of the Mayor
Jimmy Blackman, Deputy Chief of Staff
William T Fujioka, City Administrative Officer
Frank Martinez, City Clerk
Gerry F. Miller, Chief Legislative Analyst
Antoinette Christovale, Director of Finance
Christina Sanchez-Camino, President
    Recreation and Park Board of Commissioners
Independent City Auditors

[redacted]

City of Los Angeles
Office of the Controller

Financial and Compliance Audit of the Department of Recreation and Parks

November 10, 2005

Laura N. Chick
City Controller

V. Budgetary Control and Adherence to City Budget

In examining the Department's adherence to its Operating Fund Budget, we compared the Department's actual financial results to its adopted budget for Fiscal Years (FY) 2001-02, 2002-03 and 2003-04. The results are summarized below:

Budget and Actual Financial Results

Fiscal Year 2003-04

	Adopted Budget	**Actual**	**Positive or (Negative) Variance**
Expenditures	$ 134,216,006	$ 130,697,210	$ 3,518,796
Revenues	$ 134,216,006	$ 134,994,000	$ 777,994
Budget Surplus/ (Overrun)			$ 4,296,790

Fiscal Year 2002-03

	Adopted Budget	**Actual**	**Positive or (Negative) Variance**
Expenditures	$ 122,655,675	$ 127,460,173	$ (4,804,498)
Revenues	$ 122,655,675	$ 122,423,086	$ (232,589)
Budget Surplus/ (Overrun)			$ (5,037,087)

Fiscal Year 2001-02

	Adopted Budget	**Actual**	**Positive or (Negative) Variance**
Expenditures	$ 123,719,309	$ 126,286,819	$ (2,567,510)
Revenues	$ 123,719,221	$ 128,723,477	$ 5,004,256
Budget Surplus/ (Overrun)			$ 2,436,746

The Department had significant variances in its salary and expense accounts for all three years. During FY 2001/02, RAP exceeded it salary budget by approximately $5 million. As a result of the salary over expenditure and in order to help the Department control its salary budget, the City Council held back approximately $7.5 million of its FY 2002-03 budget in "unappropriated funds". This action required the Department to obtain approval from the City Council to spend the money. The Department was under budget by $4.1 million in its salary account in FY 2003-04. RAP attributed the surplus in the salary account in FY 2003-04 to the hiring freeze imposed by the City Council, which prevented the Department from filling its vacant positions.

In order to help RAP better manage its Operating Fund budget, the Department's Accounting Section developed various monitoring reports. The reports provide actual versus budgeted data and are available to staff on the Department's intranet. The Department also uses its internally developed Contract Purchase Order system (CPO) to specifically monitor other expense budget items. The expense budgeted amounts are loaded into the CPO at the beginning of the year. RAP staff are required to access the CPO to ensure that there are enough funds available before placing orders for purchases.

In addition to its internal reports, RAP now completes a monthly financial summary in accordance with the City Administrative Officer's (CAO) instructions to all Council controlled departments (as directed by the City Council). The reports include financial analyses and explanation of variances in expenditures, revenue, employment levels, sources of funding and any other issue that may impact the budget.

Finding #19: Facility directors do not utilize available reports to help them ensure they operate within their budget.

While the CAO mandated reports have been very useful to management in monitoring the variances at a high level, we noted that facility directors do not utilize various monitoring reports developed by RAP's Accounting Section to help ensure that they operate within their budgets. Some field locations do not even have intranet capability to access the reports. Additionally, based on our interviews, most facility directors could benefit from training on proper budgeting and the available monitoring tools. RAP management indicated that they are working on resolving the access issue.

Recommendations

RAP management:

25. Train facility directors on budgeting principles and monitoring tools. Once training is provided, hold managers accountable for operating within budgets.

26. Continue its efforts to make all monitoring reports accessible to the field locations.

VI. Internal Control Certification Program (ICCP) Administration

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Finding #20: The Department has not corrected several weaknesses identified in its FY 2003-04 ICCP.

The maintenance of good internal accounting and administrative controls is the responsibility of departmental management. The Controller's Office developed the ICCP to assist City departments in fulfilling this responsibility and to improve overall departmental internal controls, thereby reducing the risk of errors, fraud, and other improper activities. The ICCP program is intended for departments to assess their own internal controls and take corrective actions to ensure compliance with City policies and standards.

In its FY 2003-04 ICCP certification, RAP identified eight weaknesses, mainly in its cash and revenue controls. The Department submitted action plans to correct all weaknesses by September 2004. However, we found that only three of the eight weaknesses have been corrected.

Recommendation

27. **The Department require its managers to submit periodic status reports to show the progress in correcting remaining weaknesses identified in its FY 2003-04 ICCP.**

Respectfully submitted,

Sunday Adeoye

Sunday Adeoye
Internal Auditor II

Ma. Melani F. Rejuso

Melani Rejuso
Internal Auditor II

Rahoof Oyewole

Rahoof Oyewole, CPA, CIA, CISA
Internal Auditor III

Ricky a Deguchi

Ricky Deguchi, CPA, CIA, CISA
Chief Internal Auditor

Farid Saffar, CPA
Director of Auditing

August 31, 2005

ATTACHMENT I
OFFICE OF THE CONTROLLER
FINANCIAL AND COMPLIANCE AUDIT OF THE DEPARTMENT OF RECREATION AND PARKS (RAP)
Ranking of Recommendations

Finding Number	Description of Finding	Ranking Code	Recommendations
1.	RAP does not operate the MRP Fund in accordance with either the intent of the 1954 Board resolution or the intent of recovering program costs.	U	We recommend that RAP management: 1. Resolve issues related to its MRP Special Revenue Fund by: a) Determine how much of the $21.5 million in the MRP Special Revenue Fund relates to recent collections that are anticipated to be used for direct costs associated with these MRP programs. b) Working with the City Administrative Office, City Attorney, and the Office of the Controller to determine the legality of transferring the excess funds ($21.5 million less the amount determined in a) above) to the City's General Fund.

			c) Working with the City Administrative Office, City Attorney, and the Office of the Controller to determine the appropriate disposition for the excess funds, if it is determined that it cannot be legally transferred to the City's General Fund. d) Eliminating use of the MRP fund. All collections, except for restricted donations, should be deposited to the Operating Fund. e) Consulting with the Office of the Controller on how accounts can be set-up in its Operating Fund to account for revenues and expenditures related to recreation programs.

2.	RAP does not budget for the MRP Fund.	U	We recommend that RAP management: 2. Budget for MRP activities.
3.	RAP uses MRP funds for other than their intended purpose.	N	We recommend that RAP management: 3. Eliminate sub-accounts within its Action Information Management System (AIMS) that do not directly relate to recreation programs. 4. Work with the Board to revise the 2002 policy memorandum. The revised policy should specify that MRP funds be used only for direct program expenses. The policy should also provide examples of allowable and non-allowable expenses. 5. Establish controls, such as periodic reviews of sample transactions, to ensure MRP funds are used only for items specified in the revised 2002 policy memorandum.
4.	RAP does not reconcile the balance in its MRP sub-accounts with FMIS.	U	We recommend that RAP management: 6. Investigate the discrepancy between its Action Information System, and the City's Financial Management Information System, and establish

			procedures to reconcile the balances from the two systems on a regular basis. 7. Determine the disposition of any excess funds identified by the reconciliation.
5.	Since the collections from the Pershing Square Parking Garage are received not from program participants, the collections should be deposited to RAP's Operating Fund.	N	We recommend that RAP management: 8. Work with Board to modify the Pershing Square Parking Garage resolution to require that all collections from garage operations be deposited into RAP's Operating Fund.
6.	The Department has not operated the Pershing Square Parking Garage sub-account in accordance with the 2000 Board resolution.	N	We recommend that RAP: 9. Ensure that allocations of net revenues from garage operations are based on an assessment of Departmental needs, allocations are made in accordance with the needs assessment, and that allocations are periodically reviewed to determine if they need to be adjusted.
7.	The Board approved resolution does not indicate how allocations/designations should be adjusted based on actual net revenue from garage operations.	N	We recommend that RAP management: 10. Seek clarification from the Board on how the allocations/designations should be adjusted based on actual net

			revenue from the parking garage operations.
8.	RAP does not submit required financial statements for garage operations to the Board.	U	We recommend that RAP management: 11. Ensure monthly financial statements for the garage are prepared timely and that required annual status reports are submitted to the Board.
9.	Facilities do not have required signs posted at cashiering windows.	U	We recommend that RAP management: 12. Ensure that facilities post required signs at cashiering windows.
10.	RAP does not have an effective method to detect facilities that fail to make timely bank deposits.	U	We recommend that RAP management: 13. Remind facilities of its deposit policy requiring that deposits be made at least weekly or when accumulated collections exceed $300. 14. Require Revenue Accounting to generate the transmittal exception report weekly and follow-up with the district managers to inquire as to why specific facilities have not made deposits within the past week.
11.	RAP should continue to explore ways to	D	We recommend that RAP management:

	minimize the amount of cash on-hand at its facilities.		15. Continue to explore ways to reduce the amount of cash on-hand at its facilities
12.	RAP needs to ensure that facilities deposit collections to correct accounts.	U	We recommend that RAP management: 16. Establish procedures to ensure that collections are deposited into the correct account. 17. Establish separate accounts for each program/class.

13.	RAP does not have adequate controls over the receipts issued to facilities.	U	We recommend that RAP management: 18. Require Revenue Accounting to periodically review receipts to ensure they have been used sequentially and that the total of the receipts equals the deposited amount.
14.	Facilities issue signed blank Payment Vouchers to the Department of Transportation (DOT) for bus services not yet received.	U	We recommend that RAP management: 19. Instruct facilities to submit a Payment Voucher only for services already received.

15.	Facilities do not forward Payment Vouchers in a timely manner to the MRP Accounting Section.	N	We recommend that RAP management: 20. Remind facilities of the City's 30-day requirement for paying vendors and periodically monitor to ensure compliance.
16.	Facility directors do not comply with the written approval requirements of the MRP Manual.	U	We recommend that RAP management: 21. Re-instruct facilities to obtain proper approvals before making purchases.
17.	Program fees set by MRP managers often vary dramatically amongst facilities.	N	We recommend that RAP management: 22. Require facility directors to track the direct costs of operating each program and set program fees to recover these costs (plus up to 15% for administrative expenses). 23. Convene the Program Fee Committee to conduct regular surveys and reviews of program fees throughout the City to ensure consistency, fairness, and compliance with Departmental policy.
18.	Facilities do not always comply with Departmental program fee policies.	N	We recommend that RAP management: 24. Ensure facilities comply with

			Departmental policies with respect to approval of program fees, maintaining program materials, and approving discounts.
19.	Facility directors do not utilize available reports to help ensure they operate within their budgets.	D	We recommend that RAP management: 25. Train facility directors on budgeting principles and monitoring tools. Once training is provided, hold its managers accountable for operating within budgets. 26. Continue its efforts to make all monitoring reports accessible to the field locations.
20.	The Department has not corrected several weaknesses identified in its FY 2003-04 ICCP.	U	We recommend that RAP the Department: 27. Require its managers to submit periodic status reports to show the progress in correcting remaining weaknesses identified in its FY 2003-04 ICCP.

Description of Recommendation Ranking Codes

U- Urgent- The recommendation pertains to a serious or materially significant audit finding or control weakness. Due to the seriousness or significance of the matter, immediate management attention and appropriate corrective action is warranted.

N- Necessary- The recommendation pertains to a moderately significant or potentially serious audit finding or control weakness. Reasonably prompt corrective action should be taken by management to address the matter. The recommendation should be implemented within six months.

D- Desirable- The recommendation pertains to an audit finding or control weakness of relatively minor significance or concern. The timing of any corrective action is left to management's discretion.