



S U R P R I S E

A R I Z O N A

Community and Recreation Services

Program Registration Audit

Internal Audit Report

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EXECUTIVE SUMMARY

Why We Did this Audit:

As part of the FY2019 Annual Audit Plan an audit of the CRS Recreation Programming Division was approved. CRS has an approved FY2019 operating budget of \$14.4 million and implemented a new registration and cashiering system in November 2017. The objectives of the audit were to determine whether:

- CRS had established adequate controls over programming registration revenue.
- Adequate IT controls were implemented over the new CivicRec cashiering system.

Recommendation Highlights:

1. CRS should develop a comprehensive revenue control and management policy that considers:
 - Timely reconciliation of subsystems to MUNIS financials
 - Establishing guidelines for writing off account balances and credits
 - Secondary review of transactions
2. Project management teams should include subject matter experts, such as Finance and Information Technology members, from the selection of the vendor through the completion of the go live date.

In August 2018, Internal Audit (IA) conducted the Community and Recreation Services (CRS) Program Registration audit as part of the FY2019 Annual Audit Plan. The audit assessed the effectiveness of internal controls over the completeness and accuracy of program registration revenue and the adequacy of information technology (IT) controls over the program registration system.

In November 2017, CRS replaced its legacy registration and cashiering system with a new cloud-based system. As of the end of FY2018, approximately \$75,287 was paid to the vendor toward the purchase, implementation, and migration of the new system. As per the contract, the vendor completed all implementation and data migration procedures. Per best practice and the contract terms, a test environment should have been developed, and this did not occur.

In preparation for the data migration, CRS and Finance staff met and agreed to write off all old debt viewed as uncollectable and to refund or send to the State of Arizona (the State) as Unclaimed Property any credits that were more than two years old. Actions taken in the CLASS legacy system included transferring credit and accounts receivable balances to the new system, writing off account balances, and refunding credit balances for a total of 1,450 accounts and a net balance of ~\$101,955. A review of the CRS write-off policy identified informal procedures which included verbal authorization to write off large balances.

Audit testing determined that CRS has established moderate internal controls over program registration. Best practices were not always in place for IT controls and reconciliation of general ledger accounts. The audit report provides recommendations to improve internal controls and reporting over general ledger account balancing, and IT controls.

BACKGROUND

The mission of CRS is to enrich and complement the lives of Surprise residents through stewardship of resources while providing responsive programs which promote and prioritize diversity, cultural, neighborhood, family, education, recreation, and wellness opportunities.

In FY2019, CRS and Sports and Tourism were split. For historical comparison their operating budgets should be combined. CRS and Sports and Tourism has an approved operating budget for FY2019 of \$16.9 million. CRS is responsible for recreational programming, recreational facility operations, and ground maintenance of city parks. Recreational programming includes youth recreation and competitive sports, adult sports, adaptive recreation, special interest classes, tournaments, summer and school holiday (e.g. Spring Break) camp, and teen programs. CRS includes 13 municipal parks, two outdoor swimming pools, two libraries, three recreation centers, one tennis and racquet complex, and the Surprise Recreation Campus. Yearly, CRS offers approximately 2,000 programs with approximately 170,000 participants. The following table summarizes program activity and revenue for the prior three fiscal years:

Performance Measure	FY2015 Actual	FY2016 Actual	FY2017 Actual
Number of Programs Offered	1,936	1,941	2,046
Number of Participants	178,186	159,625	163,580
Revenue – Rec Program	\$2,125,692	\$2,037,922	\$1,932,642
Revenue Recovery	68%	67%	62%

Source: CRS Annual Report July 2016- June 2017

The objective is to provide recreation programs at a revenue recovery rate of 50% of direct costs or greater. The Administration Division of CRS provides leadership and overall department oversight for CRS, including 60 full-time employees and 42 full-time equivalents (FTE) in part-time employee support, and one board and commission. FY2018, CRS, which included Sports and Tourism, had an operating expense budget of \$16.2 million and forecasted revenue of \$4.2 million.

CRS has received accreditation by the National Recreation and Parks Association. The Commission for Accreditation of Park and Recreation Agencies (CAPRA) has issued a five-year accreditation to CRS after they met more than 140 standards ranging from hiring practices to marketing techniques, and from park planning to program implementation.

OBJECTIVES, SCOPE, and STANDARDS

Objectives

As part of the approved annual FY2019 Annual Audit Plan, in August 2018 the Internal Auditor commenced with the CRS Program Registration Audit. The objective of the audit was to determine whether CRS has established adequate controls over program registration to protect and correctly record revenue. Also, the audit assessed the adequacy of access controls related to the newly implemented CivicRec cashiering system.

Scope/Methodology

The scope of the audit was from July 1, 2017 to June 30, 2018. Procedures included:

- ✚ Discussion of CivicRec implementation process with CRS and IT Department staff
- ✚ Discussion with external third parties related to accounts receivable balance
- ✚ Interviews and discussions with City of Surprise (City) staff
- ✚ Review and analysis of documentation supporting various registration transactions, including discounts, subsidies, event registrations, refunds, credits, voids, and write-offs
- ✚ Review of Finance procurement policies and procedures
- ✚ Review of CivicRec user access and privileges
- ✚ Review of CivicRec contract

Data Reliability

IA assessed the reliability of the CivicRec data by (1) interviewing CRS and IT staff members, (2) reviewing the CivicRec contract, (3) reviewing existing information about the data migration process and system reconciliation procedures, and (4) comparing summary totals from the legacy system reports, CivicRec, staff revenue tracking Excel spreadsheets, and MUNIS financial reports. IA testing identified annual accounting practices which adjusted the general ledger balance to the legacy report totals, which do not align with generally accepted best practices. This process brought to question the true accounts receivable balance of the legacy system and the accuracy of data migrated to CivicRec. Implementation and migration reports were not available to verify what data was migrated to CivicRec and what test records/transactions/accounts were deleted from the production database by the vendor, without City staff authorization, after the go-live date. Staff confirmed an inconsistency in report totals generated from CivicRec. The data problems referenced are potentially significant and created limitations resulting in the IA belief that the data is not sufficiently reliable. The report identifies opportunities to improve on the database reliability moving forward.

Statement of Auditing Standards

The audit was conducted 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 findings 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 Opinion

Based on audit testing and interviews with staff, we believe that moderate controls are in place to materially ensure the accuracy and completeness of reporting registration program revenue. Through audit testing and interviews with staff, we determined that adequate information technology controls and best practices were not always initiated during the implementation and data migration phase of the new registration cashing system. Opportunities to enhance and establish a revenue policy and future system migration procedures are included in the Detail Observations section of this audit report.

Audit Observation Risk Rating

Audit observations have been assigned a qualitative assessment of the need for corrective action of high, moderate, or low priority:

High – Represents an observation requiring immediate action by management to mitigate risks associated with the process being audited. High-risk observations should be implemented to mitigate current gaps in areas with a significant impact or high likelihood of loss or fraud related to City assets.

Moderate – Represents an observation requiring timely action by management to mitigate risks associated with the process being audited. Moderate risk observations should be implemented to strengthen or increase efficiency in the internal control framework and mitigate the potential risk of loss to City assets.

Low – Represents an observation for consideration by management for correction or implementation associated the process being audited. Low-risk observations should be implemented to improve efficiency and effectiveness of operations.

DETAILED OBSERVATIONS

POLICY and PROCEDURES

1. **A Revenue Control Policy should be developed as a component of internal control over revenue to reduce the exposure of uncollectible accounts receivables. (Risk – High)**

Criteria

The Government Finance Officers Association (GFOA) Best Practice, Revenue Control Policy, recommends that governments "... should adopt a revenue control and management policy over revenues as an integral component of their overall financial policies..."

The policy should be customized for the size and resources of the government and should consider billing and collection practices, such as:

- ✚ Accounts receivable should be established for services provided in advance of payment and terms for collection should be established.
- ✚ Effort should be made to ensure that receivables are collected in a timely fashion.
- ✚ A policy should be established to provide for 'write-offs' of accounts receivable, including timeframe, dollar thresholds, and decision-making authority.
- ✚ Procedures for processing and collection of returned checks should be established.
- ✚ Collection procedures should maximize collection efforts.

Condition

As part of the conversion from CLASS to CivicRec, CRS and Finance staff met in the fall of 2017 to discuss how to handle account balances and credits reflected in CLASS. A verbal decision was made by staff to write-off old debt deemed uncollectible. Credits that were more than two years old were to be refunded to customers or forwarded to the State as unclaimed property. Accounts were reviewed by CRS staff to determine a course of action. Activities were summarized and managed by CRS staff in Excel spreadsheets. A review of the Excel spreadsheets provided reflected the following four largest categories of CLASS adjustments:

Action Taken	Total Amount	Total Number of Accounts
Wrote-off CLASS account balances	\$ 117,261	593
Transferred account balances from CLASS to CivicRec	\$ 13,401	77
Refunded CLASS account credits	\$ (8,008)	208
Transferred account credits from CLASS to CivicRec	\$ (20,699)	572
Net Total	\$ 101,955	1,450

A review of the CLASS write-off adjustments (\$117,261) identified camp programs as the largest category of CLASS write-offs with 15% (87 out of 593) of the total number of accounts written-off; which represented 55% (\$64,817 out of \$117,261) of the total dollar amount written-off in CLASS. A review of a sample of write-offs for camp programs identified the following:

- ✚ Four reimbursement accounts for the Arizona Department of Economic Security (DES) totaling \$19,524 for the period of August 4, 2015, to September 1, 2016 were written-off. Sufficient supporting documentation was not maintained by staff to support the reason why the DES accounts were deemed uncollectible.
- ✚ The camp program write-offs included two transactions (\$340 from 2013 and \$256 from 2007) for the same individual with different account addresses. A process was not in place to identify duplicate delinquent accounts with different addresses.

Returned checks represented the second largest category of CLASS write-offs with 6.7% (40 out of 593) of the total number of write-off accounts and representing 8.3% (\$9,736/\$117,261) of the total dollar amount written off. The origination dates for the transactions ranged from October 5, 2005, to August 16, 2017. A review of 15% (6 out of 40) of return check write-offs totaling \$5,380 identified the following:

- ✚ A decentralized citywide process is in place for managing the collection process for returned check items. Each City department is responsible for the collection efforts related to return checks received by the department.
- ✚ The City's current debt collection contract has an effective date of February 1, 2017 and serves as a collection option for City departments. CRS returned checks are not always sent to collections and processed through general billings to establish as an account receivable item.
- ✚ One of 6 (16.7%) of the returned check items reviewed did not have a copy of the required CRS collection notice on file. However, the CLASS comment screen was documented for all six reviewed items.
- ✚ Returned check items are not submitted to the County Attorney for criminal prosecution as noted in the language of the collection letter.

As part of the FY2017 financial year-end procedures, \$43,917 was written-off to bad debt expense for CLASS accounts receivable balances. This represented 349 accounts receivable balances for CLASS balances that were over 90+ days delinquent. A comparison by name, date, and amounts of 2.8% (10 out of 349) of the highest balances (\$595 to \$2,665) identified that 7 out of 10 (70%) of the accounts were reflected in the CRS CLASS spreadsheet write-off total for the \$117,261. The seven account totals were adjusted in CLASS in FY2018 and written-off in the general ledger in FY2017.

Limited documentation and system reports hindered IA's ability to verify and validate the total number and amount of adjustments processed in CLASS and transferred to CivicRec or written-off.

Account credits were adjusted to zero in CLASS, and a determination was made as to which credits to move to CivicRec. A manual process was developed to track and monitor credits in Excel.

Cause

Comprehensive revenue control and collection policies and procedures were not established to guide staff. As a result, delinquent accounts receivables were not consistently monitored, reviewed, or authorized for adjustments or write-offs in a prompt manner.

As part of the CivicRec migration, limited staffing resources, migration time limitation, limited accounts receivable collection documentation, and the number and aging of delinquent accounts made it cost prohibitive to research accounts with balances originating as far back as 2006.

Risk

- ✚ As accounts receivable age the ability to collect on outstanding balances decrease
- ✚ Uncollectible accounts receivable reduce City cash flow
- ✚ Inconsistency in the application of accounting policies and procedures may increase errors

Productivity and Efficiency

A formal documented revenue policy can facilitate proper control over all receipts and receivables and help to ensure sound financial management practices, as well as serve as an effective internal control.

Recommendation

CRS should:

- A. Develop and document a revenue control and management policy that includes billing and collection practices. The policy should include, but not limited to:
 - ✚ Establishing a collection time frame
 - ✚ Establishing dollar threshold for authorizing write-offs
 - ✚ Requiring documentation and written authorization to write-off accounts receivable
 - ✚ Adequately documenting and retaining support for adjustments, write-offs, and collection efforts
 - ✚ Using the City collection contract, when appropriate
 - ✚ Periodically reconciling subsystems to financial systems throughout the fiscal year
 - ✚ Ensuring all applicable transactions processed in subsystems are reflected in the City's financial system promptly
- B. Ensuring that all migration CLASS and CivicRec manual adjustments are reflected and reconciled to the MUNIS financial system.

Management Response

- A. Concur. CRS agrees that a formal revenue control and management policy for delinquent accounts should be developed as a component of the internal controls over revenue. CRS met with Finance on January 16, 2019 to discuss formalizing an uncollectable/delinquent account policy. Finance Department will work on a draft a policy by March 31, 2019 and CRS will write an SOP for the department by April 30, 2019. CRS staff will receive overview of the SOP by the end of May 2019. During implementation of the new software one of the items to discuss was credits and balances on accounts. CLASS software had been in use since mid-2005 and over the 12 years there were outstanding balances; both credits and debits. Reports from CLASS showing the outstanding credits and debits were sent to Finance at the end of each month. In 2016, Finance notified CRS concerning the Arizona Unclaimed Property statute and that credits more than four years old needed to be refunded or sent to unclaimed property. At that time, the CRS class cancellation policy was to primarily credit accounts rather than refund customers, so there was several years' worth of unused credits on accounts. CRS identified all impacted accounts and immediately addressed the issue. CRS staff have since followed the statute

provisions and completed an annual review. As far as the procedure for collecting outstanding balances; CRS staff would call the customer, send a letter and ultimately freeze accounts where the customer had failed to pay balance. There was no process or policy in place to send to collections; and CRS was not aware of a contract with a collection agency that became effective in February of 2017. Annually CRS brings in close to \$1.8M for recreation programming; and over a twelve year span there was approximately \$117,000 in balances still remaining on accounts. Prior to the migration, CRS met with Finance to discuss the best way to handle the credits and balances. It was determined that due to the amount of time that had passed; the best option was to write off anything more than two years old. Although a formal policy was not in place; since implementation of Civic Rec CRS has established the following process. There is a review of accounts at 30 days, 60 days and 90 days. At fiscal year-end, all outstanding balances will be written off and sent to collections.

- B. Concur. The vendor was not able to migrate the balances from CLASS to Civic Rec. Although not ideal, the migration of data for debits and credits from CLASS to Civic Rec was a manual process completed by staff. In addition, CRS only wanted to migrate patrons who utilized services within the past two years to the new software in an attempt to clean-up patron information that was incorrect and outdated. Many of the old balances/credits in CLASS were for patrons who weren't going to be migrated anyway, so therefore, the manual process was essential. The analysis of the 1,500 accounts with balances and credits in CLASS required a significant amount of time to determine if the amount should be transferred, written off or refunded. A record of all the activity for both balances and credits, along with other adjustments in CLASS due to cancellations, refunds, etc. were tracked on a spreadsheet. For balances and credits that were transferred to Civic Rec, the impacted account was documented in both systems concerning the transfer. For transactions older than two years, the patron's record in CLASS was documented and the information was either included on the documentation for Finance for a debt write-off or included on the annual credit refund project. Due to the length of time to manually migrate the data, along with the fact that both systems were still being activity used (CLASS for activities, memberships and rentals in process and Civic Rec for all new transactions), it was not feasible to have a date in time where the total balance and credit transfers could be reconciled with both databases. However, staff have provided all back-up documentation of the manual migration process and completed a random sampling of transactions to back up the validity of the data. Based on the data captured in the manual form, CRS will work with Finance for a final reconciliation. However, with the implementation of Civic Rec, all Asset and Liability accounts have been reconciled each month with Munis, so any future software implementations should have a significantly easier transition in

regards to the financial data. Moving forward Civic Rec balance is current and reconciled with MUNIS.

2. Arizona Department of Economic Security contract terms should be complied with to prevent termination of the agreement and potential loss in child care subsidy funding for lower-income families. (Risk – High)

Criteria

The Arizona Department of Economic Security (DES) Child Care Provider Registration Agreement provides guideline and responsibilities for entities participating in child care subsidies for low-income families. The agreement includes section:

“3.19 SUPPORTING DOCUMENTS AND INFORMATION

In addition to any documents, reports, or information required by any other Section of this Agreement, you shall furnish the Department with any further documents and information deemed necessary by the Department.”

Condition

Effective July 1, 2016, CRS renewed a Child Care Provider Registration Agreement with DES and agreed to comply with all agreement terms and conditions. As part of the CivicRec implementation process, \$19,524 in DES accounts receivable billings from 2015 were written off by CRS in FY2018. Direct communication with DES by IA regarding the unpaid billings determined that DES recorded no reimbursement submittals from the City for 2015. As per DES policy, providers have 180 days from the report date to submit billing documentation for payment. DES has no records of receipt of the \$19,524 billings, and the billings are no longer eligible for payment. In addition to the payments in question, DES canceled the City’s contract on June 8, 2018, due to CRS not responding to a failure to comply notice. A new contract was initiated by DES on June 28, 2018, after receipt of the requested information.

Cause

A change in staffing occurred without procedures in place to ensure that all current tasks were communicated and transferred to the successor staff member effectively.

Risk

- ✚ Potential negative impact on low-income families if DES cancels City contract
- ✚ Loss in revenue and decrease in City cash flow

Productivity and Efficiency

The decrease in DES uncollectible accounts receivable and uninterrupted reimbursement of subsidies for low-income families.

Recommendation

CRS should:

- A. Ensure staff review requirements of DES contract and comply with all contract terms and DES inquiries promptly. A succession plan should be established to ensure smooth and uninterrupted communication is in place with DES and the City.

Management Responses:

- A. Concur. CRS staff intends to comply with Arizona Department of Economic Security contract. Staff understands that there is a benefit to those families that need assistance paying for childcare. The City of Surprise CRS Dept. offers several programs that are licensed daycare programs with the Department of Health Services. Participants that qualify may receive subsidy for the daycare through a child care provider agreement with Department of Economic Security. Over the years, CRS staff has had challenges communicating and receiving timely payments from DES. There is frequent turnover in contact staff at DES and therefore it's been difficult to follow up on outstanding issues. The contract expiration in June 2018 was a separate issue from receiving payments. DES mailed notification directly to Countryside Recreation Center and therefore; staff never received the notification. Once CRS staff became aware of the issue; they immediately resolved the issue and the contract was renewed. In the future; Recreation Manager is prepared to escalate communication if needed. Additionally, as of December 31, 2018 CRS promoted internal staff to a part time administrative specialist dedicated to payment plans and collection of DES revenue. Additionally, multiple staff will now be trained in DES billing so that if there is staff turnover; the division will be prepared to take over the duties if needed. To date; CRS has received all DES payments for summer camp attendees. Fall and winter break camps are still outstanding as it is a lengthy process to receive payments from DES.

3. Reconciliation of key ledger accounts should occur more frequently throughout the fiscal year to timely identify and correct accounting discrepancies. *(Risk – Moderate)*

Criteria

GFOA Revenue Control Policy recommends that governments establish a revenue control and management policy customized for the size and resources of the government. The policy should consider:

- ✚ Internal controls - Management should establish controls, and ensure they are documented and followed. All aspects of cash receipting and accounts receivables should be subject to proper internal controls including the timely reconciliation to applicable ledgers.
- ✚ Accounting practices - All receipts and receivables should be recorded in accordance with generally accepted accounting principles (GAAP).

Condition

From November 6, 2017, to June 30, 2018, over \$4.5 million in revenue was processed through CivicRec. A review of the MUNIS CRS general ledger revenue accounts and the associated liability (Credit on Accounts) and asset (Accounts Receivable) accounts identified the following:

- ✚ The Accounts Receivable general ledger account balance incorrectly reflected a credit balance.
- ✚ The Credit on Accounts general ledger account balance incorrectly reflected a debit balance.
- ✚ The difference in how CLASS and CivicRec recorded earned and deferred revenue resulted in revenue for FY2018 initially recorded as income and then adjusted at year-end by Finance for prepaid revenue.
- ✚ Before the system implementation, the CLASS system totals were not successfully reconciled to the general ledger accounts receivable account. The general ledger was adjusted to agree with CLASS report totals by \$52,740 in FY2017.
- ✚ CLASS and CivicRec combined report revenue totals did not agree with the CRS Excel revenue spreadsheet by approximately \$700.

Cause

As part of the annual financial closing procedures, annual adjustments were made to the CRS general ledger accounts receivable, bad debt expense, and allowance for bad debt expense to balance CLASS accounts receivable balance to the general ledger. Effective communication was not in place between CRS and Finance to ensure the correct treatment of credit balances occurred in the general ledger and tied back to CRS handling of credits. The FY2018 reconciliation process between CivicRec and MUNIS financials was still in process at the close of the audit.

A representative from the Finance Department did not participate in the testing of the system during the implementation and data migration phases.

A formalized Revenue Control Policy was not available as a resource and guidance for staff.

Risk

- ✚ Additional staff hours required to research accounting variances and balances
- ✚ Operational reports may not be based on the most current and accurate information
- ✚ Potential inconsistency in how accounting transactions are processed

Productivity and Efficiency

A decrease in staff hours required to complete year-end reconciliations and research discrepancies.

Recommendation

CRS should:

- A. Work with the Finance Department to ensure that asset and liability accounts associated with the registration system are reconciled more frequently than annually.
- B. Develop and document a Revenue Control Policy that includes, but is not limited to:
 - ✚ Timely reconciliation to applicable general ledgers
 - ✚ Recording all receipts and receivables in accordance with GAAP

Management Responses:

- A. Concur. CRS will establish an SOP to ensure revenue balances on a monthly basis. SOP will be completed by May 30, 2019

- B. Concur. CRS agrees that a formal revenue control and management policy for delinquent accounts should be developed as a component of the internal controls over revenue. CRS met with Finance on January 16, 2019 to discuss formalizing an uncollectable/delinquent account policy. Finance Department will work on a draft a policy by the end of March 2019 and CRS will write an SOP for the department by April 30, 2019. CRS staff will receive overview of the SOP by the end of May 2019.

- 4. For manual subsidy tracking procedures outside CivicRec, CRS management should perform a secondary review to identify and correct any errors.
(Risk – Moderate)**

Criteria

Community and Recreation Standard Operating Procedures; Section 6.1 Youth Subsidy Program states: If approved [for an income-based youth subsidy], each child will receive up to two registrations, for an annual maximum award of \$75 to be used between July 1st and June 30th.

The CRS contract with DES states that: DES will reimburse you according to your established ADES Reimbursement Rates for child care services you provide to clients... [for] the number of units of service actually delivered. DES will not pay you for either original or supplemental billing claims received by DES more than 180 days after the report date pre-printed on the billing form.

Condition

Youth subsidies and DES reimbursements are programs CRS offers to reduce cost of participating in City services for low-income residents of the City based on state income guidelines.

For two participants, youth subsidies were applied to more than two program registrations which do not align with CRS policy capping the number of discounted registrations at two annually. The subsidies did not exceed the maximum dollar amount allowed of \$75.

For two of four DES subsidy participants tested, the DES Billing Form did not agree to the original attendance records maintained. The billing form only requested four days of reimbursement, though per attendance records, the child attended five days of camp resulting in a cumulative underpayment of \$46.80 from DES.

Cause

For youth subsidies, CivicRec is not able to cap the number of registrations with applied subsidies, requiring manual tracking of the number of registrations.

Additionally, the DES invoice for subsidy reimbursement is prepared manually and not reviewed by a secondary individual to identify errors or discrepancies.

Risk

- ✚ Subsidies may be inappropriately applied not in accordance with CRS procedures
- ✚ Reimbursement requested from DES may not be complete and accurate

Productivity and Efficiency

Youth subsidies will be consistently applied according to CRS procedures for all participants.

Reimbursement from DES will agree to units of service provided resulting in accurate and complete payment from DES.

Recommendation

CRS should:

- A. Perform a secondary review on manual tracking procedures to identify errors and discrepancies including, but not limited to:
 - ✚ Review of each DES invoice before distribution to DES
 - ✚ Quarterly review of a number of youth subsidy registrations applied to each household account

Management Responses:

- A. Concur. The Recreation Manager will provide a secondary review of DES invoice before distribution to DES. The Youth Subsidy policy has been updated to remove the limit of two registrations. There is already a control in place in the software that will not allow a participant to exceed the maximum dollar amount of \$75. Fiscal Support Specialist will review youth subsidy registration quarterly. CRS management will update the Standard Operating Procedures (SOP) on both of these processes by April 30, 2019 to include reviews.

5. CRS management should ensure that employee discounts on recreation programs align with program intent, policies, and procedures. (Risk – Moderate)

Criteria

CRS Operating Procedures; Section 4.13 Employee Discount Program states: All full-time regular employees and their household members claimed as dependents on their tax return are eligible to receive 50% off of the resident rate on selected Community & Recreation Services programs and activities.

Condition

Employee discounts are authorized through the City intranet and issued by front-line employees when participants register. The reduced fee is reimbursed to CRS by the City of Surprise Human Resources Department.

For two employee discount users since the implementation of CivicRec in November 2017, the recreation participant was neither an active employee nor in an active employee's household. The total financial impact of these discounts was \$86.25. For four users/transactions, the registered participant was a member of the employee's extended family (parents, niece, spouse), not a dependent as claimed on their tax return, as required by CRS procedures. The impact of the extended family instances noted by IA totals \$69 from November 2017 through June 2018.

Cause

Dependency status on tax forms has very specific requirements and excludes spouses except for in very unusual circumstances. In discussion with CRS management, the current policy as written may not capture the intent of the program, which was likely intended to include spouses. Per discussion with CRS management, when registering participants at the front desk, it can be intrusive to front-line staff to ask personal family questions, so reliance on the household employee discount flag in CivicRec is utilized.

These were errors made when registering the participants at the CRS front desk locations. To mark an employee's account with an employee discount flag, validation of their employee status (secure intranet form) and dependents is required, so validation is not required at the time of registration. CivicRec does not require the employee

discount flag on the account to apply the employee discount which allows for erroneous applications of the discount.

Risk

- ✦ Inaccurate / incomplete revenue collection and recognition for community recreation programs
- ✦ Inappropriate discounts offered by staff to non-employee personnel
- ✦ Lack of monitoring procedures and frequent seasonal staff turnover provides an unnecessary risk for fraud
- ✦ Inappropriate reimbursement by the Human Resources Department for programs not attended by employees or dependents

Productivity and Efficiency

Increased revenue from program registrations due to the elimination of inappropriately discounted registrations.

Reduction of uncertainty and inconsistency for front desk personnel.

Recommendation

CRS should:

- A. Coordinate with the Human Resources Department to define and clarify the intent of the employee discount program and outline eligibility of employee family members including spouses, parents, or extended family (e.g., nieces, grandchildren). CRS management should formally define and document updated procedures, if applicable, to include, but not be limited to the following:
 - ✦ Defining eligible household members
 - ✦ Detailing procedures for front desk personnel to register employee household members
- B. Enhance new hire employee training and refresh all existing employees on procedures and eligibility requirements for employee discounts. Communication should include, but is not limited to:

- ✚ Employees should not apply employee discounts to accounts without the employee discount flag, as no eligibility verification is required at the time of registration.
 - ✚ Only current (not prior) employees and eligible household members (not extended family) are eligible for discount registration
- C. Consider the feasibility of utilizing systematic controls within CivicRec to assist in accurately applying employee discount including:
- ✚ Continue with vendor request for system enhancements to only allow employee discounts posted to accounts with the employee discount household flag.
 - ✚ Consider applying employee discount flags to each eligible individual in the household account instead of the overall household account.
- D. Implement quarterly review and monitoring procedures around employee discounts to ensure that:
- ✚ Terminated employees have employee discount flag removed from their household account timely.
 - ✚ Employee discounts are not provided to any non-employee households.

Management Responses:

- A. Concur. CRS staff met with the Human Resources Department on January 23, 2019 to define and clarify the intent of the employee discount program and outline eligibility of employee family members. HR confirmed that the intent of the program is to include spouses. CRS will formally define and document procedures in an SOP to define eligible household members and detail procedures for front desk personnel to register employee household members by April 30, 2019. Language will be added to be able to address dynamic family situations. Staff will also update information and frequently asked questions and update on city intranet by April 30th as well.
- B. Concur. CRS will update SOP and include in new employee orientation and provide a refresher to current staff by May 31, 2019.
- C. Concur. CRS has requested this enhancement to CivicRec on August 28, 2018.
- D. Concur. CRS will update SOP to include quarterly review and monitoring procedures by February 28, 2019.

TECHNOLOGY – CHANGE MANAGEMENT

6. A test environment should be used during implementation and data migration to reduce potential errors in the production database. (*Risk – High*)

Criteria

City of Surprise RFP 317000122, Section 7, Appendix A-A9, System Administration/General, requires the vendor to provide the City with a sandbox (test environment) account for use in training and testing.

City of Surprise IT System Security General Controls Version 2.0, Section 3.4., Change Testing, require all network or system changes to be tested on a small subgroup before introducing changes into the production network or systems.

Best practice recommends requiring prior authorization from decision makers before modifying databases.

Condition

In April 2017, the City entered into a CRS agreement for software and professional services utilizing CivicRec software. The selected software provided CRS with an integrated, web-based and hosted application registration management system. As part of the agreement, implementation and data migration procedures were completed by the vendor. The City's IT Department provided a liaison to assist, as needed. CRS staff and other application users assisted with testing system functionalities, the accuracy of migrated data, and provided feedback to the vendor. Direct access to the cloud-based database is restricted to the vendor.

During the implementation process, a sandbox was not developed and used as a testing environment to isolate untested codes or programs. All implementation and data migration activities were processed directly in the production database. After the go-live date, staff continued to use the production database to test upgrades or new releases issued by the vendor. Staff did not escalate the vendor's failure to create a sandbox up the City chain of command for assistance with getting the vendor to comply with the terms of the agreement. Any bugs or glitches that are identified in the upgrades or new releases are "hotfixed" into production by the vendor and are not part of the standard monthly or quarterly update releases.

As part of the data migration, sufficient documentary evidence was not available to validate the completeness and accuracy of the data loaded into the new system from the legacy CLASS system. In August 2018, while this audit was being performed, staff was unable to confirm the type or quantity of any potential test data remaining in the production database after the go-live date. Staff worked with the vendor during the audit to identify and delete any test data included in the live production database. As part of the August 2018 data review process, per CRS staff, the vendor did not obtain prior authorization from CRS to delete records from the production database. Staff could not identify what records, accounts, or transactions were deleted by the vendor during the first database review process in August 2018. The vendor did obtain prior authorization from CRS to delete the second group of test records.

Cause

CRS advertised a public go-live date for the new system. To ensure completion by the advertised go-live date, the vendor worked with CRS to configure and test in the production environment to complete the implementation as quickly as possible.

Risk

- ✚ Failure to escalate migration concerns timely may delay correcting issues promptly, jeopardize the success of the implementation process, or negatively impact customer service
- ✚ Production database may not be complete, accurate, and reasonably free of errors

Productivity and Efficiency

A test environment provides a place where staff can learn new software functionality without potentially impacting the live production database.

Recommendation

CRS should:

- A. Work with the IT Department to ensure that best practices are used when implementing system changes. This should include, but not limited to:
 - ✚ Designing and executing tests to confirm the completeness and accuracy of data migration from legacy systems to new systems

- ✚ Maintaining adequate documentation of migration test results as part of the project records
- ✚ Implementing the use of a sandbox environment, when best practice dictates the need
- ✚ Ensuring that test data is not included in the live production database after the go-live date
- ✚ Prohibiting a vendor from deleting data from the production database without prior review and approval of staff
- ✚ Developing a process for escalating IT issues promptly

- B. Ensure that the vendor develops a sandbox to allow staff testing of application upgrades and system functionalities.
- C. Ensure all test data is deleted from the live production database. Documentation of deleted data should be developed and maintained as part of the project records.

IT should:

- D. Update policies and procedures to provide departments with additional guidance for managing cloud computing contracts and change management activities not processed by the IT Department.

Management Responses:

- A. Concur. CRS will continue to work closely with IT on implementing any future system changes.
- B. Concur. CRS will continue to work closely with IT on future migration to ensure vendor develops a test atmosphere.
- C. Concur. Ideally, the test will occur in a test atmosphere, and there will be no need to delete data from live production. Agree that documentation of deleted data should be developed and maintained in project record.
- D. Concur. IT Management will update IT SOP 201 as necessary to provide specific guidelines regarding SaaS solution requirements and will make those requirements available on InsideSurprise in the Information Technology Department website by June 30, 2018.

7. CRS management should ensure user access to CivicRec is restricted to employees based on the necessity to perform job responsibilities. (Risk – Moderate)

Criteria

The City of Surprise Information Security Policies and Procedures section 4.5.1 – User Authentication states:

Host computer and network system access controls are required to ensure that only authorized persons are using the system resources and information necessary to perform their job duties.

Each user's access privileges must be: authorized according to business needs, restricted to least privileges necessary to perform job responsibilities, and assigned based on job classification and function.

Condition

CivicRec is utilized by front-line staff and management / administrative staff in the CRS and Human Services and Community Vitality (HSCV) departments at a number of locations throughout the City including, but not limited to the Surprise Recreation Campus, the senior center, and community pools.

Based on best practices and discussion with CRS staff, IA identified that for 8 of 101 (7.9%) users tested, have access to one or more user groups in CivicRec that is in excess of what is needed for normal job responsibilities. These include:

- ✚ Five front desk staff members with access to all basic front desk tasks as well as additional access to adjust account balances.
- ✚ Two senior management members (Department Director and Assistant Director) with extensive access in CivicRec (access to refund transactions, adjust credits on account, refund/withhold deposits, adjust balances, edit prices, or void transactions) who are also responsible for ongoing monitoring and review, creating a segregation of duties issue.
- ✚ One user at the senior center serving in a backup role with access to create new accounts, refund transactions, transfer participants, and void transactions who is also the department's financial analyst responsible for reporting and reviewing financial information from the system.

Cause

A comprehensive user access review of CivicRec has not been performed since system implementation in November 2017.

Risk

- ✚ Overlapping or conflicting user role assignments in CivicRec may result in segregation of duties, conflicts, and transactions without appropriate authorization
- ✚ The potential for fraud or error resulting from access beyond the necessity for job duties

Productivity and Efficiency

Reduced risk of fraud or error due to conflicting user role assignments.

Recommendation

CRS should:

- A. At least annually, perform a user access review of all user and role combinations in CivicRec to identify and remove any conflicting access roles, terminated or transferred employees, or unnecessary access.

Management Responses:

- A. Concur. CRS immediately corrected conflicting access roles for senior management levels. During system implementation, additional access was added to staff until system functionality and permissions were established. This has been since updated and the SOP will be revised by April 30, 2019. Due to limitations of the software, additional access was added for five front desk staff members specific for camp registration. CRS has requested an enhancement to CivicRec to improve this functionality. An enhancement has already been added so that once an employee resigns or separates service, when IT turns off access to the network, the employee no longer has access to CivicRec.

8. System implementation teams should include appropriate subject matter experts from the initial selection of a vendor through the completion of the go-live date. (Risk – Low)

Criteria

Characteristics of reliable data include completeness, accuracy, and the data must be unaltered. The U.S. Government Accountability Office (GAO) categorize data as not sufficiently reliable when:

- ✚ Significant errors or incompleteness in some of or all the key data elements and
- ✚ Using the data would probably lead to an incorrect or unintentional message

Condition

In assessing the new database reliability as it relates to sufficiency, completeness, and accuracy for the purpose and context of performing audit fieldwork and testing, IA has determined the CRS database data in CivicRec is not sufficiently reliable for the following reasons:

- ✚ All implementation, data migration, and testing were processed in the production database.
- ✚ Staff continued to use the production database for testing after the go-live date.
- ✚ Documentation was not available to demonstrate that the migrated data from the legacy system to the new production database was complete and accurate.
- ✚ Inconsistency in data reflected in the available system reports.
- ✚ Insufficient documentation is available to support what data was deleted by the vendor, (without prior City approval) from the production database in August 2018.
- ✚ Prior legacy database totals were not periodically reconciled to the general ledger. Annual adjusting entries were made to balance the general ledger to the legacy system total. This may have impacted the validity of the beginning balance transferred to the new system.
- ✚ Bad debt expense, allowance for bad debt did not agree with the Excel spreadsheet for the legacy system migration adjustments. Audit testing identified examples of accounts written off in MUNIS financials as bad debt in FY2017 and included in the CRS Excel spreadsheet as part of the FY2018 adjustments for the legacy CLASS system.
- ✚ Staff reconciliation between the legacy CLASS system and the new system did not agree in total with the revenue reflected on the CRS Excel tracking

spreadsheet. Although the variance calculated by staff appeared to be immaterial (approximately \$700), the variance may potentially represent an offset of a combination of potentially larger entries.

Cause

The vendor handled the system implementation and data migration project. The vendor maintained sole access to the database, and therefore the IT Department had minimal involvement. This resulted in the project not always complying with best practice change management policies and procedures established by the IT Department.

As issues and concerns were identified, they were not escalated promptly. As it is common to go live with outstanding issues that require attention, it is not best practice to go-live with test data remaining in the production database.

Financial liaisons from the City's Finance Department were not part of the project data migration and testing.

Risk

- ✚ Production database may not be complete, accurate, and reasonably free of errors
- ✚ Unreliable data may lead to incorrect reporting of financial data

Productivity and Efficiency

Including subject matter experts from the conception to the end of a project would minimize surprises, provide objective analysis, help to identify and appropriately address issues and concerns.

Sufficiently reliable computer processed data increases the confidence level in financial reports and operational procedures.

Decrease in the time required to research issues and concerns after the go-live date.

Recommendation

CRS should:

- A. Ensure that all future projects include the appropriate subject matter experts from the initial selection of a vendor, implementation, data migration, testing, and for a brief period after the go-live date. Subject matter experts should review and sign off on areas related to their specific area of expertise to ensure best practices are imitated throughout the project.

Management Responses:

- A. Concur. CRS staff concurs that subject matter experts sign off on areas related to their specific area of expertise to ensure best practices are imitated throughout the project. Subject matter experts in IT, Finance (Accounting, Procurement), Human Services and Community Vitality (HSCV) and Community and Recreation Services (CRS) were involved in developing the RFP, interviewing and selecting a qualified software company, Finance and IT were involved in Pre-implementation providing guidance on security of financial information, testing of credit card payments and setting up security levels for users. Finance was not involved in the data migration as it required a manual transfer of the data by CRS staff. However, upon completion of the data migration of balances and credits, Finance was sent a final list of all adjustments made. After the go-live date, CRS worked with Finance to reconcile the applicable CRS accounts receivable ledger accounts as part of the annual general ledger reconciliation process. Communications and webmaster were also involved in release of information to public and ensuring smooth transition onto the city website. IT representative attended all meetings with Civic Rec including planning and system training/entry of information and post implementation. Finance was included in system training as well. CRS had been notified in 2014 that the CLASS “end of life” would be approaching soon. CRS requested funding for the software replacement during the FY15 budget process; however the package wasn’t funded that year. The package was requested again for the FY16 budget process and again wasn’t funded. However savings were realized in the FY17 budget for the Tyler implementation, so CRS was finally able to move forward with the RFP process. In November 2017, CRS replaced its recreation registration system (CLASS) with a cloud based system (Civic Rec). CLASS was implemented in 2005 and had reached end of life and would no longer be supported by Active Net. It was critical to select a company with software that met the requirements for financial accounting and PCI compliance as well as functional for CRS and HSCV to be able to accept registrations for activities, classes, leagues, facility rentals, point of sale

items both in person and online for customers. This had to be complete prior to mid November 2017. In preparation to select a new vendor CRS began working on language and scope for the RFP process mid-2016. This scope was reviewed multiple times by multiple staff in IT, HSCV and Finance to develop a clear scope and requirements for the new software. The RFP went out early 2017 and a panel of staff including Finance, CRS, HSCV and IT ranked the various companies that responded to the RFP. In April 2017, two companies were selected to demo and the selection panel of staff that included IT, Finance, HSCV and CRS. Once a selection was made; CRS, HSCV, IT and Finance attended planning meetings with Civic Rec to go over pre implementation requirements. CRS communicated and involved multiple departments in the selection and implementation process.