STAPLETON MASTER COMMUNITY ASSOCIATION

Cash Receipts Process

August 2009

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Executive Summary

Jefferson Wells was engaged to review and document the cash receipts process in place for the Stapleton Master Community Association (MCA) aquatics program. In addition, we provided related best practice internal control recommendations based on our observations.

Our review consisted of interviewing key personnel in the Main Office and employees across all three pools that are involved in the cash receipts process. We also observed certain processes as they were being performed to corroborate our understanding of individual tasks.

This report contains the results of our review and consists of three primary sections; Executive Summary, Internal Control Observations and Recommendations, and Cash Receipts Procedures. This report does not represent an opinion regarding MCA's compliance with any accounting, reporting or internal control standards.

Overview

1. As of the date of this report, the Stapleton project consists of multiple filings with mixed use of Residential and Commercial. There are currently about 4,000 units completed with the full build out of 12,500-15,000 units.

2. MCA is responsible for the management and maintenance of all public areas within the Stapleton project that the City of Denver is not responsible for managing.

3. The Independent Funding Development Agreement, issued by filing, defines the management responsibilities between the MCA and City of Denver.

4. Areas managed by MCA include public pools (three), several fore bays, and district and assessment properties totaling approximately 50 acres.

5. There are four Point of Sale (POS) terminals; one at the Front Desk at each pool and one at the front desk of the Main Office. In addition, there are three cash drawers; one at each pool.

6. Across the three pools there are six Pool Managers, four Front Desk employees, and nine Head Life Guards. All have access to the POS and cash drawers at their individual pool sites.

7. The pools will be open for 107 days during the 2009 season and it is anticipated that there will be roughly 90,000 visits.

8. There are currently 66 people on the MCA payroll, most working as life guards.

9. The MCA is located at 2823 Roslyn Street, Denver Colorado 80238 and the main telephone number is 303-388-0724.

10. The MCA is managed by Keven Burnett (Executive Director). The Main Office staff consists of:
    - Paula Deorio (Aquatics Director)
    - Jenifer Graham (Office Manager), and
    - Diane Deeter (Programs & Events Director)

11. For the seven months ended July 31, 2009 the cash receipt activity for aquatics related transactions totaled $122,567. Checks accounted for $8,999 (7%), cash $46,379 (38%), and credit card activity was $67,189 (55%). The activity is captured on the *Cash Distribution by Account Summary* report **(view document)**.

12. All activity is booked to the general ledger on a cash basis.

Database systems

13. The MCA uses ActiveNet software (version 9.02.048) to manage the cash activity processes at the three pools (Aviator, F15, and Puddle Jumper) and the Front Desk of the Main Office.

14. ActiveNet is a robust web-based product that allows for a wide variety of user defined inputs and flexibility. Stapleton residents also use ActiveNet to renew memberships, sign up for aquatics lessons, and make payments on account.

15. There are three Front Desk terminals with cash drawers that handle the input of data transactions, one at each pool.

16. All detail transactions are recorded into ActiveNet and the activity is summarized and entered into QuickBooks (version 2007) which is the financial accounting software used by MCA.

17. Member residents who subscribe are issued bar-coded ID cards with pictures that are used to allow access into the pool areas. Annual resident cards are $10 initially and renewals are $5. As of the date of this report, there are approximately 8,000 cards issued and outstanding.

18. ActiveNet system administrators include the: Executive Director, Aquatics Director, Programs & Events Director, and the Office Manager. **(Internal Control Observation 1)**

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Internal Control Observations and Recommendations

Internal Control Observation 1 – System Access

1. The Pool Manager profile had the ability to "Adjust Balance" on an account without creating an appropriate receipt or refund transaction.
2. We noted that Front Desk personnel have the ability to Open the Cash Drawer through the POS without creating a transaction.
3. ActiveNet allows users who are processing residents to enter the POS screen through the Front Desk screen, open multiple transactions at the same time, and then logout of ActiveNet with uncommitted transactions without a warning prompt. When the user logs back in, the uncommitted transactions do not re-appear resulting in the absence of an audit trail. This can facilitate an opportunity for theft and/or cause a cash-over situation at closing.
4. There is no proactive process to eliminate an employee's access after termination of employment from the MCA.

Recommendations

1 & 2. We recommend that a full review of the access profiles be conducted to ensure that any access issues have been identified and corrected. Note: Subsequent to making this recommendation, but prior to the finalization of this report, the Executive Director changed the Pool Manager's profile eliminating that option.
3. We recommend contacting ActiveNet about programming a solution that would not allow users to log out with any uncommitted transactions. As a temporary measure until a programmatic fix is available we recommend that the MCA users are instructed to check the 'Resume Receipt" option under the Front Desk Menu and complete any partial transactions before logging out of ActiveNet.
4. We recommend an exit interview checklist be created and accompany the employee folder to confirm that the employee profile within ActiveNet has been marked as "Prevent Further Use" to disable access when an employee is terminated from MCA.

Internal Control Observation 2 – Accounts Receivable Aging

During our discussions with the Executive Director it was noted that the *Accounts Receivable Aging* report of ActiveNet is not used. The aging report **(view document)** is the only efficient way to monitor whether Pool Managers are collecting the remaining balance on any pool facility rentals.

As of August 7th the A/R Aging carries the following balances:

Current	1 - 30	31 - 60	61 - 90	90+	Total
$500	$1,237	$1,726	$852	$661	$4,976

The past due balances are from either an event that was subsequently cancelled after it was booked and the transaction was not removed from ActiveNet or represents an event that was held but the remaining balance was not collected.

Recommendation
We recommend that the current aging balances be reconciled and MCA management begin reviewing this report on a periodic basis to track and monitor outstanding receivable balances.

Internal Control Observation 3 – Credit on Account Report

During our discussions with the Executive Director it was noted that the *Credit on Account Report* **(view document)** within ActiveNet is not used. This report is intended to identify any open transactions that need to be reviewed and either collected or cleared.
During our review of this report it was noted that some (but not all) of the transactions appear to be reflected multiple times on the report. The Executive Director was able to confirm with ActiveNet that the duplication on the report was created by the last program version update. ActiveNet is currently working on a programming solution.

Recommendation
We recommend that after the programmatic solution is installed and the report is tested for accuracy by MCA staff, the *Credit on Account* report be reviewed periodically for any non $0 account balances to ensure open transactions are accounted for in a timely manner.

Internal Control Observation 4 – Pool Activities

During our interviews with key personnel across all three pools, we learned of the following issues:

1. Some employees will count the cash drawer up at the Front Desk if there are no patrons at the pool.
2. Not all cash is counted simultaneously with two people present at the same time.
   One employee does not have the count doubled checked unless there were at least two people handling the cash drawer during the day.
3. One pool counts the cash drawer during the middle of the day anytime there is a shift change on the cash drawer. The process is the same as the Pool Closing process at the end of the day; printing the *Daily Receipts Report*, double counting the cash drawer, etc.

4. Two of the three pools have cash drawers that are not integrated with the cash register. They are opened simply by using a key leaving no audit trail. The key is left inserted in the cash drawer all day. Aviator has the only integrated cash drawer.
5. We noted that the Front Desk personnel at Aviator could not access the integrated cash drawer without using the key, effectively bypassing the cash drawer audit trail transaction control.
6. The Money Bag is not always completely filled out or signed by the Pool Manager.
7. There is no process currently for the second counter (generally the Front Desk or Head Guard) to acknowledge their involvement with the closeout process.

Recommendations

1. All cash should be counted in the back room.
2. All cash should be counted simultaneously with 2 people present.
3. All cash drawers should be counted anytime there is a shift change.
4. The cash drawers at F15 and Puddle Jumper need to be fixed so they are integrated with the cash register. This would allow the Pool Managers to leave the key in the safe during the day and anytime the cash drawer was opened a transaction would be generated.
5. This was a simple fix handled onsite by the Executive Director by modifying the Front Desk user profile within ActiveNet.
6. The discipline to fill out the Money Bag completely needs to be enforced.
7. All persons involved in the count should initial and date the front of the Money Bag. Further, personnel should be instructed that their signature on the Money Bag is an acknowledgement that they not only performed the count process but witnessed the Money Bag being dropped in the safe.

<u>Internal Control Observation 5 – Safes and Video Cameras</u>

During our discussions with the Executive Director and review of the pool facilities it was noted that the safes at each location were fireproof, but not of the quality to be considered theft deterrent.

Also there are no video cameras installed in the Pool Office or Front Desk areas to provide a deterrent to theft.

Recommendations

1. We recommend that new theft deterrent safes be acquired which incorporate a drop box feature allowing the Money Bag to be put in the safe without having to open the safe.

Note: Subsequent to making this recommendation, but prior to the finalization of this report, new safes were installed at all three pools which incorporate a drop box into a key locked compartment above a second compartment secured by a combination safe. Once the Money Bag is dropped into the drop box, only the

Executive Director and the Aquatics Director will be able to retrieve the Money Bag.

2. We recommend installing 2 video cameras at each pool to cover the Front Desk and Pool Office where the safe is located. The cameras could be connected to a digital video recorder (DVR) located at the MCA Main Office and programmed to capture the previous X days of activity. A single DVR can have the capability of recording multiple cameras. If budget constraints preclude purchasing a DVR initially, the cameras could be installed, providing a visible deterrent to thieves, and the pool employees told that the video was being recorded.

<u>Internal Control Observation 6 – Lockboxes & Safe Combinations</u>

During our discussions with the Executive Director we learned that each pool had a lockbox with the key to the Pool Office where the safes are located and all three safes had the same combination. Subsequently, the Pool Managers have been issued individual keys to their respective offices and the safe combinations have been changed so they are unique to each pool.

Recommendation

We recommend a policy of changing the safe combinations periodically.

<u>Internal Control Observation 7 – ActiveNet Credit Card Transaction Fees</u>

During our review of the *Agency Payment Distribution Report* **(<u>view document</u>)** it was noted that the ActiveNet Transaction Fee ranged from 1.51% for Aquatic Programs to 12.68% for Facility Rentals.

Recommendation

We recommend that the Transaction Fees incurred be compared to the ActiveNet contract terms for propriety and reasonableness.

<u>Internal Control Observation 8 – Bank Deposits</u>

During our discussions with the Executive Director it was noted that there is no policy for the frequency of preparing and making bank deposits. These tasks are performed generally 2-3 times a week when the Executive Director and the Aquatics Director can coordinate their schedules.

Recommendation

While daily deposits would be optimal, we recommend that a schedule of at least Monday, Wednesday, and Friday be adopted to minimize the amount of cash in the Main Office safe at any one time.

Internal Control Observation 9 – Cash Over & Short

Any excess cash is held in the Main Office safe, currently about $80. This cash was going to be held until the end of the season when an entry for the net over/short would be prepared along with a bank deposit if necessary.

Recommendation

We recommend that the cash over/short activity be journalized with the deposit from the day of the difference and any excess funds be deposited. These actions will provide a sound audit trail and assist in identifying where additional employee training related to transaction processing may be required.

Internal Control Observation 10 – Refund Report

During our discussions with the Executive Director it was noted that credit card refund activity, which accounts for most of the refund activity, was not reviewed above the Executive Director and the Refunding Report was not being used. During our review of this report it was noted that some (but not all) of the transactions appear to be reflected multiple times on the report. The Executive Director was able to confirm with ActiveNet that the duplication on the report was created by the last program version update. ActiveNet is currently working on a programming solution.

Recommendation

We recommend that after the programmatic solution is installed and the report is tested for accuracy by MCA staff, the *Refunding Report* **(view document)** be reviewed periodically by the Executive Director and Treasurer. This provides the detail behind all refunds and could be used to review the appropriateness of credit card refunds.

Internal Control Observation 11 – Void Report

During our testing of the ActiveNet system it was noted that Pool Managers have the ability to 'Void' a transaction after it has been entered into ActiveNet. MCA management does not employ a proactive review of voided transactions.

Recommendation

Transactions that are subsequently voided are identified as '** *Voided* **' under the Payment Detail column of the detail portion of the Cash Receipts Report. We recommend that MCA management create a policy where the Pool Manager is responsible for explaining the reason for any voided transaction on the Cash Receipts Report as part of the nightly Pool Closing process. In addition, the cash receipts detail should be reviewed by the Aquatics Director and Executive Director for voided transactions for propriety when preparing the deposit slip.

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Cash Receipts Policy and Procedures

Cash Receipts Process

1. All allowable transactions are identified and pre-priced by individual boxes on a touch-screen making the activity input very easy through the POS.

2. Along with the pool entrance fee, customers can purchase swim lessons, pool related merchandise, and rent the pool facility. Residents can also purchase replacement access cards.

3. The POS transactions are summarized on the *Cash Distribution by Account Summary* **(view document)** report within ActiveNet as:
   - Aquatic Programs
   - Camp
   - Concessions
   - Customer Account
   - Facility Rental
   - Non-resident Fees
   - Resident Fees

4. As customers enter the pools they are routed through a single entryway.

5. Residents who visit the pool may show their resident ID card. The personnel at the Front Desk verify the picture on the card with the individual, either scan the barcode or enter the resident's ID card number to capture the headcount (the terminal will display a picture of the appropriate card), and the resident may enter.

6. Residents wishing to purchase items and non-resident visitors are processed through the Front Desk. Based on what activity is requested the appropriate boxes on the POS terminal are selected and the system calculates the total charge.

7. The Front Desk personnel selects the type of transaction (cash, check, or credit card), provides change as necessary and completes the transaction.

8. ActiveNet handles all credit card processing activity (see ***Credit Card Receipts***).

9. Pool facility rentals are handled with an initial deposit and the Pool Managers are responsible for collecting the remaining balance prior to the event. Both residents and non-residents are able to reserve MCA pool facilities. A billing account shell is setup in ActiveNet for any non-resident reserving a facility.

10. On Monday and Friday of each week the Pool Managers are given a *Reservation Master Report* **(view document)** which identifies the upcoming events and the appropriate remaining balance to collect.

(Internal Control Observation 2)
(Internal Control Observation 3)

11. All Pool Managers, Front Desk employees, and Head Life Guards have the ability to access and operate the POS terminals and cash drawers, as needed.

Pool Opening Process

12. Each morning the Pool Manager opens the safe, removes the "bank" bag, recounts the $200 starting bank balance, and puts the cash in the cash drawer.

Front Desk Process

13. The Front Desk at the Main Office does not utilize a cash drawer due to the small number of daily transactions.

14. The Front Desk employee will create a transaction in ActiveNet and print out a receipt. The cash or check is attached to the receipt which is given to the Office Manager or the Aquatics Director if the Office Manager is unavailable.

15. The Aquatics Director has a $400 "bank" to provide change for each pool location.

16. The Office Manager or Aquatics Director will place all Main Office transactions in a white envelope and drop the envelope into the secured safe located in the locked storage room in the Main Office.

17. The Executive Director, Aquatics Director, Office Manager, and Programs & Events Director are the only employees with access to the lockable storage room in the Main Office.

Cash Collection Process

18. Each morning (Monday through Friday) the Executive Director and/or the Aquatics Director will collect the Money Bag dropped in the safe the previous night. Friday, Saturday and Sunday receipts are picked up on Monday.

19. The collected Money Bags are dropped into the safe in the storage room located at the Main Office.

Credit Card Receipts

20. Once a transaction is identified and processed as a credit card transaction all further processing of the transaction is managed through ActiveNet.

21. Twice a month the Executive Director receives a credit card remittance package from ActiveNet. The package contains an *Agency Payment Report Summary* **(view document)** detailing the total daily credit card activity and a check for the amount owed MCA, less the appropriate transaction fees.

(Internal Control Observation 7)

22. The Executive Director performs the following processes on credit card remittances:
    - confirms the total of the report agrees with the amount of the check,
    - prints an *Agency Payment Distribution Report Summary* **(view document)** for the time period reflected on the remittance and confirms the Total Payment Amount from the report agrees with the check remitted,
    - creates an invoice within ActiveNet to acknowledge/post the cash receipt,
    - posts the receipt in Quick Books,
    - creates a deposit slip, and
    - deposits the check in the bank

Pool Closing Process

23. During our interviews with Pool Managers, Front Desk employees and Head Life Guards we learned that while there were differences between the locations and with personnel within the same location, the closing process employed the following process.
    Several specific control issues and recommendations related to pool activities are summarized in **(Internal Control Observation 4)**.

24. Fifteen to Thirty- minutes prior to closing time, depending on the activity at the location, the closing process begins.

25. Either the Pool Manager or the Front Desk personnel will print the *Cash Receipts Report* **(view document)** for their specific location. The report provides both transaction level detail and a summary of the cash drawer activity for the day: by cash, check, and credit card dollars.

26. The Pool Manager and the Front Desk employee will count the cash drawer either simultaneously together or the Front Desk employee will verify the Pool Manager's count in a separate count observed by the Pool Manager.

27. A $200 "bank" for the following day is counted out, removed from the cash drawer, and placed in a zippered bank bag at the bottom of the safe.

28. The remaining cash and checks are counted and reconciled back to the *Cash Receipts Report*. The total cash and total checks are noted separately on the front of the Money Bag. Any cash over/short reconciling items are noted on either the *Cash Receipts Report* and/or the front of the Money Bag.

29. The Pool Manager or the Head Life Guard will sign and date the Money Bag and drop the bag in the safe. Generally, placing the Money Bag in the safe is witnessed by a second person.
    (Internal Control Observation 5)
    (Internal Control Observation 6)

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Bank Deposits

30. Bank deposits are created periodically.
    (Internal Control Observation 8)

31. Money Bags from each pool and Main Office transactions are stored in the Main Office safe in white envelopes identifying the date of the receipts. Each day is stored in a separate white envelope.

32. The Aquatics Director will pull the white envelopes from the safe and each envelope and receipt day is reconciled individually.

33. The cash and checks from each Money Bag are reconciled to the Cash Drawer Totals summary section of the *Cash Receipts Report* **(view document)**. This process is acknowledged by the Aquatics Director's initials and date the reconciliation was performed.

34. All checks are restrictively endorsed as part of the reconciliation process.

35. Any cash shortage is acknowledged on the Cash Receipts Report by the Aquatics Director.

36. Any cash overage is acknowledged by the Aquatics Director and delivered to the Executive Director separate from the funds that match the day's activity.

37. After reconciling the activity for each location for a single day, the funds, and the *Cash Receipts Report* are delivered to the Executive Director.

38. The Executive Director verifies the count of the funds and the reconciliation of any cash over/short.

39. Any cash over is retained in the security safe in the locked storage room in the Main Office segregated from the daily deposits.
    (Internal Control Observation 9)

40. The Executive Director will print a Cash Distribution by Account Summary **(view document)** which breaks the cash, checks, and credit card activity for the day into Aquatic Programs, Concessions, Resident Fees etc. This report becomes the source document for the Deposit Summary journal entry which the Executive Director books into Quick Books.

41. The Executive Director compiles all cash and checks then physically delivers the deposit to the bank. The MCA deposits the funds into the Main Operating Account #1015.

42. The deposit slip is attached to the entire cash receipt package.

Bank Reconciliations

43. The Executive Director performs monthly bank reconciliations around mid-month following the bank statement ending date.

44. All bank statement reconciliations are reviewed during the annual audit.

Refunds & Credits

45. All refunds are initiated at the Front Desk of the Main Office, generally through the Office Manager or the Aquatics Director or Programs & Events Director if the Office Manager is unavailable, and processed through the Executive Director.

46. A copy of the receipt is printed to provide support for the check request.

47. A QuickBooks check request form is prepared by the refund originator and forwarded to the Executive Director.

48. All checks require dual signatures. The Executive Director creates and signs the refund check which is then forwarded with the receipt to the Treasurer or President. Once the check is countersigned the refund package is returned to the Executive Director and the refund check is mailed.

49. Credit card refunds can only be initiated at the Main Office and are processed within ActiveNet. Generally the Office Manager initiates the credit card refund and provides the Executive Director with a copy of the original receipt. The refund transaction is reviewed and processed by the Executive Director. **(Internal Control Observation 10)**

Voids & Cancellations

50. All personnel with cash drawer access have the ability to cancel a transaction before it is committed in ActiveNet. Voids subsequent to a committed transaction are only allowed under the Pool Manager profile. **(Internal Control Observation 11)**

Document Retention

51. Daily Cash Receipt documentation consists of:
    - Individual Cash Receipts Summary Reports from the four input sources - ActiveNet
    - Cash Distribution by Account Summary stratifying the cash receipts by account number - ActiveNet
    - Agency Payment Summary Report detailing the daily credit card activity – ActiveNet
    - Agency Payment Distribution Report summarizing the total credit card activity by account number - ActiveNet

- Invoice summarizing the credit card activity, by account, generated within ActiveNet
- Check stub remittance from ActiveNet
- Deposit Summary – Quick Books
- Bank Deposit Slip
- Bank Reconciliation for the month

52. All Cash Receipts documentation is filed, individually by day of receipt, in the bank detail folders maintained in the Executive Director's office.

53. Prior year activity is stored in the locked storage room in the SMCA Main Office.