

BOARD OF COUNTY COMMISSIONERS
PARKS & RECREATION DEPARTMENT
RECREATION DIVISION
UNAUTHORIZED EMPLOYEE DISCOUNTS
July 29, 2003

HERNANDO COUNTY CLERK OF CIRCUIT COURT
Audit Services
MEMORANDUM

TO: Richard "Dick" Radacky, County Administrator
Charles "Pat" Fagan, Parks & Recreation Director
Harry Johnson, Recreation Manager

VIA: Karen Nicolai, CPA, Clerk of Circuit Court

FROM: Peggy Prentice, CIA, CISA, Audit Services Manager

SUBJECT: Unauthorized Employee Discounts

DATE: July 29, 2003

The Audit Services Department's (ASD) audit schedule included a management consulting project of the Recreation Division's cash transaction cycle. While working on this project, it came to the auditor's attention that, contrary to having a policy, certain employees, their families, and significant others paid reduced or no fees to attend Recreation courses. Based on becoming aware of this practice, the scope of work was expanded to address this concern. This report is enclosed. The management consulting project is ongoing and not complete.

Although ASD exercised due professional care in the performance of this review and the Parks and Recreation Director and the Recreation Manager agree that the estimate of the employee abuse is materially accurate, potentially additional waived or reduced fees may not have been identified during testing.

The Division utilizes CLASS software to record and report Recreation course activities, however, this data is not reliable which complicated testing. Using the cost/benefit approach, once an acceptable level of material accuracy was reached, Audit Services discontinued testing. Therefore, although testing is complete, it should not be construed to mean that other unreported noncompliance or irregularities do not exist. The deterrence of employee abuse is the responsibility of management. Audit procedures alone, even when carried out with professional care, do not guarantee that employee abuse/fraud will be fully detected.

The purpose of this report is to furnish management independent, objective analyses, recommendations, counsel, and information concerning the activities reviewed. The report is a tool to help management discern and implement specific improvements. The report is not an appraisal or rating of management.

A copy of the report has been forwarded via Dick Radacky to the Board of County Commissioners as an agenda "correspondence to note" item.

If you have any questions, concerns, or need additional information in regard to the above or the attached report, please do not hesitate to contact me at (352)540-6235, or just stop by my office.

ATTACHMENT

copy: CLERK OF CIRCUIT COURT:

Amy Gillis, CPA, Finance Director

BOARD OF COUNTY COMMISSION:

Commissioner Mary Aiken

Commissioner Hannah M. "Nancy" Robinson

Commissioner Diane Rowden

Commissioner Robert C. Schenck

Commissioner Mary Whitehouse

George Roussos, P.E., Deputy County Administrator

George Zoettlein, Office of Management and Budget Director

Garth Coller, County Attorney

Barbara Dupré, Human Resources Director

OTHER:

Chip Jones, KPMG

Hernando Today

St. Petersburg Times - Hernando Edition

WWJB Radio Station

Hernando County Public Library

UNAUTHORIZED EMPLOYEE DISCOUNTS REPORT

PURPOSE & SCOPE OF WORK, DISCUSSION POINT, AND RECOMMENDATION

PURPOSE & SCOPE OF WORK

The purpose of this investigation was to address whether certain employees, their families, and significant others paid the appropriate Recreation course rate fees.

The scope of work was limited to reviewing the Recreation Division's course records created during the 18 month period ending June 22, 2003.

DISCUSSION POINT

ASD identified several employees, their families, and significant others who, during the 18 month period ending June 22, 2003, may not have paid the appropriate course rates. An estimated \$3,386 of unpaid fees were identified.

There is no Board approved policy for allowing employees discounted or free course rates. This practice was not authorized by the appropriate level of management. ASD addressed whether this potentially illegal practice of misappropriating County assets was fraudulent. ASD did not identify intent; therefore, this practice is considered employee abuse.

RECOMMENDATION

Consideration should be given to immediately rectifying this concern. To ensure against potential liability, the Legal Department, the Human Resources Department and/or the Finance Department, as appropriate, should be requested to consult on any corrective action Recreation chooses to take. For example,

1. If reimbursement is pursued, the Legal Department and the Finance Department should be involved to provide legal, financial and/or tax advice.
2. If a waiver of reimbursement is pursued, the employee benefit (day care) may be subject to tax. The Finance Department should be involved to provide financial and/or tax advice. The appropriate chain of command to waive reimbursement is to gain approval from the Parks and Recreation Director then the County Administrator and finally from the Board in a public forum.
3. If a Board personnel policy change is sought, the employee discount policy must be a County, as opposed to a departmental, policy. The policy must be applied consistently to all employees. The Human Resources and the Legal Departments should be involved to address personnel and legal issues. The Finance Department should be consulted to address potential tax issues. The appropriate chain of command to adopt a County policy is to gain approval from the Parks and Recreation Director, then the County Administrator, and finally from the Board in a public forum.

UNAUTHORIZED EMPLOYEE DISCOUNTS REPORT

MANAGEMENT RESPONSE

In view of the findings provided by Audit Services regarding the Recreation Division, I (Harry Johnson, Recreation Manager) offer the following input and corrective measures being taken by the Parks and Recreation Department.

1. In taking over management of the Recreation Division in November 2001, I continued a practice that was in effect upon my arrival. This practice allowed the children of Recreation staff to participate in summer recreation programs at free or reduced prices.

As the same policy was in place from my previous employment of 18 years, which allowed free and reduced fees for programs to staff, I never thought to question this practice which had apparently been in place for years. At the time, I did not realize that I should have confirmed this policy with the Department Director, Pat Fagan. Mr. Fagan was not aware of this practice and had not authorized it.

2. Immediately upon Audit's findings, the following corrective actions were implemented, as of June 2, 2003:

- a. Free and reduced fees for programs were stopped and all staff members were required to pay full price for all County programs offered now and in the future. As summer camp programs started on June 2, all fees for 2003 have been paid.
- b. Staff met with the Legal, Finance and Human Resource Departments to address the legal, financial and personnel issues involved to determine how best to proceed with the recommendations for corrective actions provided in the Audit Report. Legally, requiring reimbursement from employees was not considered an option because it would not be enforceable. There was no ill intent involved, as the employees were told upon being hired that their children could attend summer recreation programs at no charge.

All involved agree with the audit findings and the practice was stopped immediately when it was brought to the Department Director's attention. There will be no consideration given to changing personnel policies.

- c. The decision was made to look into the hiring of a financial/computer programming position. In the course of meetings with the Audit Services, Finance and Budget Departments, it has been determined that a Finance Specialist position, pay grade 115, would better suit the needs of the Division. This will be reviewed by the Board of County Commissioners during the budget workshops for FY 2003/2004.

As the County Parks and Recreation Department continues to grow, offering more facilities and programs to our residents, the decision was made to purchase a new software program in FY 2001/2002 for better tracking and reporting of recreation programs and facilities. The tremendous increase in volume of reservations, programs offered, and income generated by the Division now warrants a staff position that is very knowledgeable of county policies and procedures regarding financial matters, as well as a computer background to oversee administration of the Class software program.

UNAUTHORIZED EMPLOYEE DISCOUNTS REPORT

MANAGEMENT RESPONSE

The Recreation Division looks forward to continuing the consulting project with the Audit Services Department. During the consulting process, I have become much more aware of our Division's need to set higher standards and put stronger safeguards in place with our financial tracking and processing procedures. Along with Audit Services and the Finance Department, I look forward to implementing this process. As a result of this experience, I know I have become a better manager and have become more conscious not to assume that what was done in the past is necessarily correct, and I will be in closer communication with Mr. Pat Fagan, the Department Director, regarding any areas of concern.

This management response was provided by:

Harry Johnson, Recreation Manager,

and was reviewed and authorized by:

Pat Fagan, Parks & Recreation Director, and
Dick Radacky, County Administrator.

UNAUTHORIZED EMPLOYEE DISCOUNTS REPORT

ACKNOWLEDGMENT

Other minor findings, not included in this report, have been communicated to management and/or corrected during the audit process. I thank the management and staff for their cooperation throughout the audit.

Fieldwork was performed by:

Peggy Prentice, CIA, CISA, Audit Services Manager, and
Raquel Lao, Audit Services Student Clerk

This audit report was reviewed and authorized by Karen Nicolai, CPA, Clerk of Circuit Court, on July 23, 2003.

Karen Nicolai, CPA, Clerk Circuit Court

Peggy Prentice, CIA, CISA, Audit Services Manager