

AUDITOR-CONTROLLER/ TREASURER/TAX COLLECTOR



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January 18, 2013

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**SUBJECT: AUDIT OF COUNTY SERVICE AREA 20-JOSHUA TREE PARK &
RECREATION DISTRICT'S SENIOR TRIP PROGRAM**

Introductory Remarks, Objectives, Scope and Methodology

In compliance with Article V, Section 6, of the San Bernardino County Charter, we have completed an audit of Joshua Tree Park and Recreation District's Senior Trip Program. Our audit was conducted in accordance with the International Standards for the Professional Practice of Internal Auditing by the Institute of Internal Auditors.

Our overall objective was to determine if CalCard charges for three senior trips, taken January 1, 2011 – April 30, 2011, were supported by proper documentation. Specific audit procedures performed during the audit included:

1. Interviewing employees regarding the purpose of CalCard charges.
2. Reviewing supporting documentation for each senior trip for reasonableness.
3. Verifying the adequacy of costs charged to each participant.
4. Sampling cash receipts and Release and Hold Harmless Agreements obtained from trip participants.

Conclusion

As a result of our analysis and tests performed, we concluded that the CalCard charges appeared reasonable. However, the District did not have adequate policies and procedures in place for administering the senior trip program, prices

were not equitable for all trip participants and the District did not always recover their costs for the trips.

We have listed our observations and recommendations for improvement in the Findings and Recommendations section of this report.

Findings and Recommendations

Finding 1: Prices were not equitable for all Senior Trip participants

Price discrimination is charging different prices to different people for the same item. Prices should be equitable for all senior trip participants regardless of affiliation to employees. Based on the initial trip estimates and pricing structure it appears that the District's intention was to recover all cost through the sale of tickets. However, only one of the three trips had a surplus. Another trip had a minimal loss of \$47.47, less than 3% of the total cost. The third trip had a loss of \$388.78, which was 39% of the total cost for the event. In two instances, relatives of District employees were allowed to participate in the events at a discount. Specifically, two relatives of an employee paid a discounted price of \$40.00 instead of \$60.00 for a senior trip and another relative of a different employee paid a discounted price of \$26.50 instead of \$50.00 for a different senior trip.

According to the District, ten is the minimum participation requirement needed for each trip to break even. If more participants were needed, discounted prices were offered to friends and family members of employees to minimize losses to the District. Discounted prices offered to participants who are affiliated with employees presents an image of favoritism. Actions by County employees are always subject to public scrutiny, so it is important to present an image of fairness. In addition, there was no contingency plan established to cover trip costs in excess of revenues collected.

Recommendation:

We recommend the District:

- charge equitable prices to all trip participants
- develop a call list to increase participation when necessary
- use alternate methods of transportation to reduce costs when attendance is lower than anticipated
- ensure the costs of the trips are not exceeding the revenues received

Management's Response:

Recommendation 1: Charge equitable prices to all trip participants:

As discussed in the attached Senior Excursion Policy of October 2012 under 'Fee Collection', all participants for any given trip will be charged the same fee

unless a reduced fee is established in advance for special participation i.e. youth, or student rates. The District is now following the Policy in this area.

Recommendation 2: Develop a call list to increase participation when necessary:
The 'Promotion' section of the Senior Excursion Policy explains that the program is promoted by its quarterly brochure, on its website, and through local media outlets. The district also maintains an email list of participants of previous trips and sends out updated information regarding planned trips.

Recommendation 3: Use alternative methods of transportation to reduce costs when attendance is lower than anticipated:

The district has implemented an Excursion Proposal Cost Estimate form that calculates the minimum number of participants for any given excursion and accounts for man-hours, cost of tickets, as well as cost of transportation. If the minimum number of participants is not met, the trip is cancelled. If a minimum number of participants for a second van is warranted, it will be leased on an as needed basis. These minimum numbers must be met to not only cover the expense of the vehicles, but additional personnel as well. The Excursion Proposal Cost Estimate calculates all of the cost factors into the equation. A smaller vehicle would not necessarily result in costs savings. Use of a smaller vehicle would result in fewer occupants, and potentially have higher per participant costs. However, if the number of participants is high enough, a bus is rented at times to cut costs.

Recommendation 4: Ensure the costs of the trips are not exceeding the revenues received:

CSA 20 Joshua Tree Park and Recreation District receives a proportional share of property taxes to provided park and recreational services to the residents of the area. This is used to offset staff salary costs not recovered by the fee rate. By using the newly implemented Excursion Proposal Form a maximum of one-half of staff salary costs may be recovered by use of property taxes while all other costs will be covered by the fee rate set for a trip. If after using this method, costs still exceed expected revenues, the trip is cancelled. These supplemented costs will be tracked on a continuous basis by the District.

The attachments included with Management's response can be found online on the Auditor-Controller/Treasurer/Tax Collector's website.

Auditor's Response:

The Department has developed policies that if followed will correct the deficiencies noted in the finding.

Finding 2: Lack of Policies and Procedures for Managing Senior Trips

The Committee of Sponsoring Organizations of the Treadway Commission's (COSO) *Internal Control - Integrated Framework* defines Internal Control as a process effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

1. Effectiveness and efficiency of operations
2. Reliability of financial reporting
3. Compliance with applicable laws and regulations

Responsibility for establishing and maintaining internal control resides with Management. Establishing policies and procedures are methods of ensuring actions are taken to address risks to the achievement of the District's objectives.

The District does not currently have policies and procedures in place to manage senior trips. The process for administering the senior trips is inconsistent. Standard trip prices are based on estimates that do not always include all known expenditures such as gas cost, van rental expense and the complete cost of providing chaperones. Also, adequate documentation was not maintained for each trip including missing liability forms, class attendance/registration forms that do not tie to actual participants, and no record of receipt of all trip fees.

According to the District, the program had only been in place for two years as of the date of the audit and the administration of the process is still being defined. By not establishing policies and procedures to manage the senior trips, losses may be incurred due to missing liability release forms and revenue may be lost due to incorrect cost estimation and non-receipt of trip fees. In addition, the overall effectiveness and efficiency of administering the process may be compromised.

Recommendation:

We recommend the District immediately implement policies and procedures for administering the Senior Trip Program. The policies should include, but not be limited to, the following:

1. A consistent policy and methodology for determining trip estimates
2. An equitable trip price granted to all trip participants and/or a discount policy
3. Participant payment guidelines, including deadlines for payment receipt
4. Minimum documentation requirements for each trip, including any required liability release forms

Management's Response:

Recommendation 1: A consistent policy and methodology for determining trip estimates:

As shown in the Excursion Proposal Cost Estimate Form, calculations are made for costs, including event admission, transportation, and staffing costs, Expected revenues are also calculated for any given number of participants. Upon closer examination, the worksheet can determine the minimum number of participants that would be required for a break even situation.

Recommendation 2: An equitable trip price granted to all trip participants and/or a discount policy:

As discussed in the attached Senior Excursion Policy of October 2012 under 'Fee Collection' all participants for any given trip will be charged the same fee unless a reduced fee is established in advance for special participation i.e. youth, or student rates. In addition, the section 'District Employee/Family Member Participation of Excursions' clearly stipulates that District employees and/or family members will receive no discounts and will pay the same fee rate as the general public.

Recommendation 3: Participant payment guidelines, including deadlines for payment receipt:

As specified in the Senior Excursion Policy under Participant Documentation, before embarking on a District sponsored trip, all participants are required to pay the established rate fee. Also, as stated in under the Fee Collection section of the Senior Excursion Policy, in order to receive reservations on a first-come, first-served basis, and unless a trip is cancelled, participants must pay at least three (3) days in advance. Patrons have the option of paying cash, checks, or with a Visa or Master Card. All established County of San Bernardino Internal Controls and Cash Manual policies are maintained during all transactions as are the District specific Credit Card policies approved by the County Treasurer.

Recommendation 4: Minimum documentation requirements for each trip, including any required liability release forms:

As evidenced by the Excursion Proposal Cost Estimate Form, all costs and estimated revenues are calculated for all trips. Further documentation recorded on the Release and Hold Harmless Agreement approved by County Risk Management and County Counsel, Registration Forms, Activity Recap Sheet that summarizes actual expenses and revenues, Activity Roster, Receipts, including CalCard purchases, and End of Trip Checklist that ensures all documentation has been completed and archived.

The attachments included with Management's response can be found online on the Auditor-Controller/Treasurer/Tax Collector's website.

Auditor's Response:

The Department has implemented actions that will correct the deficiencies noted in the finding.

Finding 3: District scheduled and completed a senior trip in which the costs were 39% higher than revenue received

As stated earlier, the District's policy is for each trip to break even so that the revenues received cover the expenses incurred. The District was required by a trip vendor to have a minimum of 25 participants for one trip. When the final count for the event was due to the vendor, 11 days prior to the event, there were only 9 paid participants. However, the trip was not cancelled. This resulted in the District paying unreimbursed expenses of almost \$400.

Recommendation:

The governing board (Board) should adopt a policy regarding subsidizing Senior Trips.

Establish management policies and procedures to

- account for each dollar expended, including the event entry fee, chaperone, fuel, vehicle, and other event related costs
- determine what level of participation is necessary to break even
- ensure adequate participation exists to cover the cost of each trip
- document compliance with the Board policy regarding subsidizing Senior Trips or cancel trips when there is inadequate participation

Management's Response:

*Recommendation 1: Account for each dollar expended, including the event entry fee, chaperone, fuel, vehicle, and other event related costs:*As evidenced by the Excursion Proposal Cost Estimate Form, all estimated costs and revenues are calculated, including event admission costs (if any), staff costs, vehicle and fuel costs. Receipts are kept and total actual costs and revenues are calculated and recorded on the Activity Recap Sheet.

Recommendation 2: Determine what level of participation is necessary to break even:

An Excursion Cost Estimate Form will be completed for each trip. This form will provide the estimated costs for the trip as well as the anticipated revenue from the set minimum number of participants. CSA 20 Joshua Tree Park and Recreation District receives a proportional share of property taxes to provided park and recreational services to the residents of the area. This is used to offset staff salary costs not recovered by the fee rate. By using the newly implemented

Excursion Proposal Form a maximum of one-half of staff salary costs will be recovered by use of property taxes while all other costs will be covered by the fee rate set for a trip.

Recommendation 3: Ensure adequate participation exists to cover the cost of each trip:

As stated above, an Excursion Cost Estimate Form that delineates all costs will be completed. If revenue for the level of participation does meet the criteria of recovery of direct costs as well as one-half of staff costs, the trip will be cancelled.

Recommendation 4: Document compliance with the Board policy regarding subsidizing Senior Trips or cancel trips when there is inadequate participation: As evidenced by the annual Board of Supervisors approved budget, posted on the County website at <http://www.sbcounty.gov/recommendedSpecialDistricts1213/budget/specialdistricts.htm>, the following excerpt from page 66 shows that per parcel property taxes are collected to fund part and recreation activities:

CSA 20 Joshua Tree was established by an act of the County of San Bernardino Board of Supervisors (Board) on June 1, 1964, Resolution 1993-22 consolidating the services of streetlighting, park and recreation. The CSA provides funding for four parks, three ball fields, one recreation center building, a water playground, a skateboard park, and a 12,000 square foot community center to the community of Joshua Tree. Additionally, the operation and maintenance for approximately 298 streetlights is provided. Services are funded by property taxes and a per parcel service charge. The 2012-13 recommended service charge is \$30 per improved parcel and \$10 per unimproved parcel. The 2012-13 parcel count is approximately 4,479 improved and 5,673 unimproved parcels. The CSA serves a population of approximately 11,000 and is supported by a Board appointed Municipal Advisory Council (MAC).

Furthermore, the Board, in the CSA 20 District formation documents approved on June 1, 1964 as referenced in the above excerpt, has delegated the management, administration, and operations of all Community Service Areas (CSA), including CSA 20 to the Director of Special Districts Department. While it could be argued that district funding could technically be used to cover all excursion expenses, the Department has set a policy as stated in the Joshua Tree Park and Recreation Senior Excursion Policy under the Section 'Fee Establishment', that property taxes will only be used to cover a maximum of ½ of staff salary costs, otherwise the trip will be cancelled. The amount to supplement

such trips will be included in the annual Board approved budget under object code 2135, Special Department Expense.

The attachments included with Management's response can be found online on the Auditor-Controller/Treasurer/Tax Collector's website.

Auditor's Response:

The Department has implemented actions that will correct the deficiencies noted in the finding.

Thank you very much for the cooperation extended by your staff during the course of this audit.

Respectfully submitted,

Larry Walker
Auditor-Controller/Treasurer/Tax Collector

By: _____
Mark Cousineau, CPA, CIA, CFE, CGAP, CITP, CGFM, CRMA
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