



Internal Audit Report: Fitness Membership Charges, Receipts and Funds Handling

Department of Parks and Recreation

Report Date: May 15, 2024

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TRANSMITTAL LETTER



May 15, 2024

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Pursuant to the contract and related statement of work for Arlington County, Virginia ("the County"), we hereby present this internal audit report for the County's Department of Parks and Recreation ("DPR") Fitness Memberships and Funds Handling processes and procedures. Our report is organized in the following sections:

Executive Summary	This section includes a background summary of the function, the objectives and approach, and a description of the process improvement opportunity noted during this audit.
Background	This section provides an overview of the function and pertinent operational control points and related compliance requirements.
Objectives and Approach	The audit objectives and focus are expanded upon in this section as well as a review of the various phases of our approach.

As described in our objectives and approach outlined on pages 7 and 8 of this report, the observations noted are based on our analysis of the processes, documents, records, and information requested and provided to us by the County. This internal audit focused on evaluating the soundness of internal control policies over the Department of Parks and Recreation's charges for fitness memberships and funds handling processes to safeguard assets, and on reviewing compliance with County policies.

We would like to thank the staff and all those involved in assisting RSM US LLP with this internal audit.

Respectfully Submitted,

RSM US LLP

RSM US LLP

EXECUTIVE SUMMARY

Background

Funds handling involves those activities performed to process cash, checks and credit cards in the ordinary course of business. The County's funds handling process is decentralized with multiple collection points established across the County. While multiple collection points are necessary for the County to efficiently conduct business, it makes it inherently more challenging to control. A decentralized process with multiple collection points is typical for local governments. Internal controls are necessary to safeguard assets, prevent mishandling of funds, and to accurately record receipts to safeguard the reliability of financial reporting.

The County's Department of Management and Finance ("DMF") developed a county-wide *Funds Handling Policy* (effective November 1, 2017 and addendum added December 15, 2020). The purpose was to define and implement a standard policy and process for the administration of internal controls for funds collection necessary to prevent mishandling of County funds and to safeguard and protect the County and its employees. The policy established procedures for the collection, custody, reporting and deposit of funds for all departments in the County.

The Arlington County Department of Parks and Recreation ("DPR") provides certain revenue-generating services to the community, one of which is fitness memberships at nine (9) fitness centers across the County. County residents and non-residents can purchase daily, 3-month, 6-month or annual passes to these facilities, at specified youth through adult membership rates. Discounted memberships are available to senior members (55+ years old) and to those who qualify based on total household income and size relative to the current Department of Housing and Urban Development's Housing Choice Voucher income limits. DPR utilizes RecTrac software to manage membership services.

The scope of this audit focused on the \$2.39M in fitness membership funds received (handled) by DPR during the audit period July 1, 2022 through December 31, 2023. DPR also collects other funds related to its activities, such as classes, camps, after school programs, leagues / sports, etc.; however, the scope of this audit was limited to fitness membership revenue only.

Objective and Scope

The objective of this internal audit was to assess the system of internal controls over DPR's revenue generating activities related to fitness memberships at nine fitness center facilities, including whether the charges and funds handling processes were adequate and appropriate for ensuring the accuracy of charges, receipts, and the safeguarding of County assets. For clarity, the fitness memberships do not have any invoicing or accounts receivable activity, as memberships are paid for at the time the client receives access to the fitness facility.

As part of this internal audit, we conducted various walkthrough discussions with key personnel at DPR to gain an understanding of the function and assessed the design of internal controls over how DPR handles fitness membership charges, payments, and deposits. As part of our review, DPR provided cash journals and receipts that were used as samples in testing. We performed a detailed review of three sample months and four individual days during the audit period. The combined revenue across this detailed sample selection totaled \$359,738, \$34,088 (9.5%) of which were cash collections. No discrepancies were identified as part of the reconciliation testing.

We selected a sample of four fitness facilities and conducted onsite walkthroughs at each facility, covering the in-scope charges and funds handling transactions. We assessed the onsite fee charging process and procedures associated with the fitness memberships and collection of fees. We documented the various forms of collections (cash, checks and credit cards), and assessed the adequacy of the receipting, safeguarding, bank depositing, recordkeeping, and the appropriateness of segregation of duties.

The audit period was July 1, 2022 through December 31, 2023, and was limited to the fitness memberships revenue account for which DPR receives and handles customer payments for services. Fieldwork was performed February through April 2024.

Overall Summary / Highlights

No observations were identified during our assessment. One process improvement opportunity was identified related to security camera coverage in the facilities.

EXECUTIVE SUMMARY

Process Improvement Opportunity

1. Security Camera Coverage of All Cash Storage Locations

In our review of security over cash maintained at the 9 fitness facilities, we noted that 7 of the 9 facilities did not have security camera coverage over certain or all of the cash collection and/or storage locations, as summarized below:

Facility	Front Desk Camera(s)	Safe Room Camera(s)
Long Bridge	Yes	Yes
Thomas Jefferson	Yes	Yes
Arlington Mill	Yes	No
Lubber Run	N1	Yes
Barcroft	N2	No
Fairlington	No	No
Gunston	No	No
Langston-Brown	No	No
Madison	No	No

N1: The camera covers the hallway where the front desk is located, but not over the front desk itself.

N2: The camera covers the area outside near the front desk, but not the front desk itself.

While most collections for fitness memberships are via check or credit/debit card, these facilities also collect cash for other types of fees and events. We performed a detailed review of three sample months during the audit period, and noted the combined revenue for the three months totaled \$359,738, \$34,088 (9.5%) of which were cash collections. As such, the estimated annual cash handled across all facilities (for all services, not just fitness memberships) is approximately \$136,352. If funds are mishandled, whether by accident or intentionally, there would be no video record to reference for greater clarity in the cash handling collection or storage locations identified above.

Security cameras serve as both a preventative control, deterring impropriety as well as a detective control, enhancing management's ability to monitor cash collection and handling activities. Failure to enhance controls around the safeguarding of cash, may result in theft or loss of County funds.

We recommend that the County evaluate the cost and feasibility of installing security cameras to monitor additional areas where cash is collected and handled. Cameras should be able to capture the reception of cash, the deliverance of cash if change is given to the customer, and the deposit of cash in the register and in the safe. The following benefits of security cameras should be considered in this evaluation:

- Deterrence of theft, skimming, and / or misappropriation at the facilities; and
- Enhanced protection against outside theft.

EXECUTIVE SUMMARY

Process Improvement Opportunity (continued)

Management's Response: DPR routinely evaluates processes in order to respond to evolving operations, enhance internal controls, and foster continuous quality improvements. DPR will evaluate the cost and feasibility of installing security cameras to monitor additional areas where cash is collected and handled in addition to any added improvements we may come across through the research, on-going training, and industry best practices. DPR will review feasibility of security camera installation as part of the development of the FY26 Operating Budget.

Responsible Party: Athletic and Facilities Services Division

Target Date: April 2025

BACKGROUND, OBJECTIVES AND APPROACH

Background

Overview

Funds handling involves those activities performed to process cash, checks and credit cards in the ordinary course of business. The County's funds handling process is decentralized with multiple collection points established across the County. While multiple collection points are necessary for the County to efficiently conduct business, it makes it inherently more challenging to control. A decentralized process with multiple collection points is typical for local governments. Internal controls are necessary to safeguard assets, prevent mishandling of funds, and to accurately record receipts to safeguard the reliability of financial reporting.

The County's Department of Management and Finance ("DMF") developed a county-wide *Funds Handling Policy* (effective November 1, 2017, and addendum added December 15, 2020). The purpose was to define and implement a standard policy and process for the administration of internal controls for funds collection necessary to prevent mishandling of County funds and to safeguard and protect the County and its employees. The policy established procedures for the collection, custody, reporting and deposit of funds for all departments in the County.

The Arlington County Department of Parks and Recreation ("DPR") provides certain revenue-generating services to the community, one of which is fitness memberships at nine (9) fitness centers across the County. County residents and non-residents can purchase daily, 3-month, 6-month or annual passes to these facilities, at specified rates for youth through adult membership rates. Discounted memberships are available to senior members (55+ years old) and to those who qualify based on total household income and size relative to the current Department of Housing and Urban Development's Housing Choice Voucher income limits. DPR utilizes RecTrac software to manage membership services.

DPR collected \$2.39M in fitness membership revenue during the audit period July 1, 2022 through December 31, 2023. DPR also collects other funds related to its activities, such as classes, camps, after school programs, leagues / sports, etc.; however, the scope of this audit is limited to fitness membership revenue only.

Revenue in Cost Center 342008 (Fitness Memberships)

Period	Fitness Memberships
July 2022 - June 2023	\$1,480,056
July 2023 - December 2023	913,866
	<u>\$2,393,922</u>

DPR accepts cash, checks, and debit/credit cards for fitness memberships at each of the facilities. (Debit/credit transactions are automatically wired to the Treasury, and DPR personnel is responsible for reconciling those funds, but does not physically handle those related funds.) Collection points are established when a need is identified and are approved by the DMF. Once established, funds handling procedures are implemented and are monitored to make sure that receipts are properly recorded in the system of record and funds collected are properly safeguarded. Effective monitoring includes the following activities:

- Proper issuance of receipts to customer/entities and document retention by the cash collection point;
- Inspection of payment method for appropriateness and completeness, i.e., checking for counterfeits and validating a check is endorsed accurately;
- Entry of the payment in the system of record (RecTrac at DPR facilities), including appropriate segregation of duties in the funds handling process;
- Preparation of a daily reconciliation and submission of the deposit;
- Verification of the deposit posting to the bank;
- Verification of appropriate entry/posting of cash receipts into the general ledger, including verification of appropriate general ledger account and ensuring posting agrees to supporting documentation; and

BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Background (continued)

- Verification that proper documentation is maintained to support the process, in compliance with the document retention policy.

Charges for fitness memberships follows a set charge plan that includes different rates for County residents and non-residents, seniors, children, and adults, as well as discounted rates for those who qualify under income-driven subsidy programs. Guests to the fitness facilities can elect to pay for an individual day pass once they arrive at a facility, purchase a punch-pass with a set number of visits, three-month or six-month membership, or annual pass.

Members wishing to apply for a discounted rate based on income and/or family-size, must provide proof of eligibility by submitting relevant documentation of income or program participation to DPR administrative personnel. Once documentation is provided, the discount is applied directly to the member's RecTrac account. Age-based discounts are automatically applied in RecTrac based on the member's proof of age (i.e. driver's license). As part of our walkthroughs, we observed the processing of discount applications at the Fairlington facility to verify DPR was collecting and administering fee reductions in accordance with the current policy. If physical copies of relevant documentation are provided, they are scanned and uploaded to a secure document repository and then shredded so as to avoid exposure of sensitive personal information.

Regardless of the type of pass, all payments and member activities are handled through the RecTrac management software tool. This software provides a comprehensive solution to member charges and account management and is a key part of the daily and monthly reconciliation process. As part of our audit of fitness membership revenue, we reviewed RecTrac reports to track and reconcile revenue.

Cash and Check Handling Processes by Facility

DPR manages nine fitness facilities for the County (listed below). As part of our walkthroughs, we visited four facilities of varying sizes and cash-handling volumes to observe how cash and checks collected at the front desk are treated differently. Due to the difference in volume of cash and checks handled, some facilities possess more advanced cash storage methods. In facilities with especially high cash volumes, a Loomis safe is utilized. This type of safe includes automatic cash deposit and receipting functions, which aids in the nightly reconciliation via recorded history of deposits. Further, cash collection and transportation to the bank is handled by the Loomis company on a weekly basis. At facilities with smaller cash volumes, a standard safe was present. Four of the nine sites had a check scanner onsite.

Facility Name	Loomis safe onsite	Physical safe onsite	Check scanner onsite
Arlington Mill Community Center	x		x
Barcroft Sports & Fitness Center		x	
Fairlington Community Center		x	
Gunston Community Center		x	
Langston-Brown Community Center		x	
Lubber Run Community Center	x		x
Madison Community Center		x	
Thomas Jefferson Community Center	x		x
Long Bridge Aquatic and Fitness Center	x		x

We conducted onsite visits at four of the nine facilities (Barcroft, Fairlington, Long Bridge and Lubber Run). At the two larger facilities, any cash received is placed into locked drawers until the end of shift reconciliation process. However, facility personnel explained that there are exceptions to this process when significant

cash volumes are received; large cash intakes are put directly into the onsite Loomis safe without waiting for the end of shift. Both the front desk staff and managers on duty have keys to the cash drawers. At the end of shift, employees query, print and sign their cash journal report and deposit their funds, along with

BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Background (continued)

the cash journal report, in the Loomis safe. Each employee has their own code to identify who is depositing funds into the safe. Once the funds are inserted in the Loomis safe, a receipt is printed documenting who deposited the funds, when they were deposited, and the amount deposited. The receipt is put into a bag. A cumulative end of day receipt is printed, scanned, and sent to the DPR finance team. The next day, the cumulative cash journal for the previous day is pulled and reconciled.

Cash handling operations at the smaller facilities differ somewhat to the above procedures. At one of the facilities, no cash is kept at the front desk due to a lack of locking drawers. Instead, any cash received is receipted and then immediately deposited into a standard safe in the management office. Only the manager has access to the main deposit safe, while the front desk employees only have access to the petty cash safe so that they can make change. The receipts and cash journals at this location are saved both as a hard copy and as a digital one, which are then reviewed and reconciled each day. Cash is then brought to the bank on a weekly basis, if received. The other smaller facility we visited differs slightly in its procedures. Again, there are no locked drawers at the front desk, so instead a petty cash safe is kept up front. The receipting and reconciliation processes are the same, except that cash deposits to the bank are conducted daily. At both these facilities, there are generally only two staff present, one at the front desk and one manager on duty. Both these staff members are present for the funds reconciliation and transfer as per the County's Funds Handling Process, with appropriate documentation in the form of signed cash journal receipts accompanying the process.

While each facility had different processes to accommodate the available secure storage, each met the County requirements that "two staff persons should be present when funds are counted and/or transferred from one staff person to another and both should sign a document indicating the amount of funds counted and/or transferred. For situations when only one staff person is at the site where funds are handled, safeguards such as a drop safe and controls applicable to the operations must be in place and appropriate documentation and sign-off must be completed to ensure accountability." Each site has procedures to require two people present during the reconciliation, and the cash journals/receipts are signed by both the front desk staff and manager.

Bimonthly Reconciliation

Outside of these daily or weekly cash reconciliations, the DPR finance team performs a bimonthly reconciliation of all revenue in partnership with the Treasurer. All daily transactions are reported to the appropriate natural account code on the GL, which is then compared to a report generated from the RecTrac system, as verified by RSM. Cash, check (including e-check), and web payments are reported individually and reconciled to the GL. There is also a Household Credits (HHC) report that is reconciled to account for program refunds. In these cases, the credit is applied to the member's RecTrac account and re-classed from its original account code on the GL.

Facility Camera Coverage

During our walkthroughs, we noted that several locations do not have complete security camera footage of the facility's cash storage points. Although we only visited four of the nine facilities during our walkthroughs, the Facility Manager provided us with the camera coverage details for the remaining facilities. The risks associated with a lack of camera coverage are outlined above in the Process Improvement Opportunity section.

BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Objectives and Approach

Objectives

The objective of this internal audit was to assess whether the system of internal controls over the Department of Parks and Recreation's revenue generating activities related only to fitness memberships at nine DPR fitness center facilities, including whether the charges and funds handling processes are adequate and appropriate for ensuring the accuracy of charges, receipts and safeguarding of County assets.

Fitness Facilities

- Arlington Mill Community Center
- Barcroft Sports & Fitness Center
- Fairlington Community Center
- Gunston Community Center
- Langston-Brown Community Center
- Long Bridge Aquatic and Fitness Center
- Lubber Run Community Center
- Madison Community Center
- Thomas Jefferson Community Center

The review did not include a review of any revenues generated by third party service providers, grant income, or revenues collected through the Treasurer's Office. Our approach consisted of the following phases:

Understanding and Documentation of the Process

The first phase of this audit consisted primarily of inquiry and walkthroughs, to obtain an understanding of the key personnel, risks, processes, and controls relevant to the objectives outlined above. This phase reviewed current-day processes and procedures and documented recent changes (within the last 3 months) to the department's processes, if applicable and necessary for the review. The following was performed as a part of this phase:

- Conducted interviews with the appropriate representatives to discuss the scope and objectives of the audit work, obtain preliminary data, and establish working arrangements;
- Conducted interviews with key personnel to obtain a detailed understanding of the in-scope process(es);
- Reviewed the applicable policies and procedures and agreements related to the function under review;
- Performed walkthroughs to gain an understanding of the function and assess the design of internal controls; and
- Developed a risk-based work plan for the evaluation of the design and operating effectiveness of processes and controls, based on the information obtained through our review, inquiry, and walkthrough procedures.

BACKGROUND, OBJECTIVES AND APPROACH (CONTINUED)

Objectives and Approach (continued)

Evaluation of the Design and Effectiveness of Process and Controls

The purpose of this phase was to test compliance and internal controls. Our fieldwork testing was conducted utilizing sampling and other auditing techniques to meet our audit objectives outlined above. We reviewed general ledger transaction data for FY 2022 to determine sample selections. We selected a sample of 53 transactions (from a population of approximately 1,700) covering the in-scope revenue accounts and obtained the supporting documentation for the invoice, cash receipt, and deposit, to determine whether each transaction was processed in accordance with County policy. The following procedures were included, but were not limited to the following:

Charging for Services


- Assessed the service charging process and procedures associated with the applicable fitness memberships/services and fees (including how facilities verify and track member eligibility with reduced fees and/or discounts).
- Assessed the collections and reconciliation process, including how revenue is classified, tracked and monitored, as appropriate;

Funds handling

- Determined and documented the various forms used to collect revenues (e.g.: cash, checks, credit cards, EFT, etc.) at each DPR facility that receives fitness membership funds;
- Assessed adequacy of the receipting process;
- Assessed adequacy of the bank deposit process, including testing of the accuracy of bank account postings, if applicable;
- Assessed adequacy of recordkeeping and recording of revenue to the system of record, if applicable, and general ledger;
- Assessed safeguarding of cash/checks;
- Assessed adequacy of program credits/reimbursements;
- Assessed appropriateness of segregation of duties;
- Assessed compliance with County and Department (if applicable) funds handling policies and procedures, including funds handling training requirements; and
- Reviewed records of overages/shortages and monitoring, as applicable.

Reporting

At the conclusion of this audit, we vetted the facts of this internal audit with DPR. The draft report was submitted to DPR for review. An exit meeting was held with DPR and DMF to formally review and discuss the draft report and modify accordingly.



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