COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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July 12, 2013

TO: Supervisor Mark Ridley-Thomas, Chairman
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **DEPARTMENT OF PARKS AND RECREATION – REVIEW OF TRUST FUNDS, SPECIAL FUNDS, COMMITMENTS, AND ACCOUNTS PAYABLE**

As part of our ongoing responsibility to ensure the County's resources are safeguarded and that departments comply with County fiscal policy and procedures, we are reviewing County departments' use of trust funds, special funds, commitment encumbrances (commitments), and accounts payable. Our reviews are intended to ensure departments are controlling and using trust funds, special funds, commitments, and accounts payable in compliance with the County Fiscal Manual (CFM) and other requirements.

We have completed a review of the Department of Parks and Recreation's (DPR or Department) trust funds, special funds, commitments, and accounts payable. Our review included interviewing DPR personnel, examining trust fund and special fund records and procedures, and analyzing commitment and accounts payable balances.

Summary of Findings

DPR generally uses trust funds for appropriate purposes. However, DPR management needs to strengthen its controls, and ensure the Department complies with County requirements for trust funds, special funds, commitments, and accounts payable. The following are examples of areas for improvement:

- **DPR needs to maintain detailed subsidiary ledgers for each trust fund, and reconcile to eCAPS monthly.** We noted that DPR did not have detailed subsidiary records for the two trust funds we reviewed, with total balances of $5.4 million, and the trust funds were not reconciled to the County's eCAPS accounting system as required, which could allow overages, shortages, and other errors to go undetected. DPR should maintain subsidiary ledgers independent of eCAPS, and reconcile those records to eCAPS monthly.

  DPR's attached response indicates that they now keep subsidiary records for all trust funds, and will implement a reconciliation process that will identify overages, shortages, and/or data input errors in the funds.

- **DPR should ensure that lessees submit required monthly and annual profit and loss statements.** County golf course leases require the lessees to submit monthly and annual profit and loss statements. However, the lessee for the one golf course we reviewed did not submit the required statements. Without profit and loss information, DPR cannot determine if lessees are paying the correct rent to the County.

  DPR's attached response indicates that, subsequent to our review, they have been receiving the required profit and loss statements from the majority of the lessees, and is working with the few remaining lessees that are not consistently submitting these statements. DPR plans to start using the profit and loss statements to verify that the lessees are accurately reporting their gross receipts.

- **DPR needs to transfer collections from trust funds to revenue timely.** Two (20%) of the ten collections reviewed, totaling $34,300, were transferred to revenue an average of 68 days after they were earned. Delays in transferring collections to revenue misstate DPR's revenue.

  DPR's attached response indicates that, since our review, staff has been transferring collections to revenue within 30 days of deposit.

- **DPR needs to file required gift and donation reports with the Board of Supervisors (Board).** CFM Section 2.4.2 requires departments to report gifts and donations to the Board quarterly, and report the donations to the Auditor-Controller (A-C) within 90 days of the end of each fiscal year. DPR did not file its quarterly reports with the Board or annual reports with the A-C, as required.

  DPR's attached response indicates that they now file quarterly donation reports with the Board, and will file the required annual report with the A-C by September 30, 2013.

- **DPR needs to document the source(s) and allowable use(s) for monies held in special funds.** In our March 2, 2001 fiscal review, we noted that DPR did not have documentation of the purpose and approved uses for its special revenue funds, and recommended that, to ensure special fund expenditures comply with the purpose of the fund, the Department develop policies on how these funds should be used, and share the policies with the Board. DPR has been developing the policies, but still needs to finalize the policies and share them with the Board.

  DPR's attached response indicates that the Department is working on finalizing its special fund policies, and will share the finalized policies with the Board.

- **DPR needs to comply with CFM requirements for establishing and canceling commitments.** Three (30%) of the ten commitments reviewed, totaling $139,000, should not have been established because the goods/services were never ordered, or were received and paid for before the end of the fiscal year. Although DPR has cancelled these commitments, the Department should ensure commitments are only established if needed.

  DPR's attached response indicates that they will develop work procedures to improve DPR's compliance with CFM requirements for commitments and accounts payable.

- **DPR needs to ensure staff establish accounts payable for goods or services received, but not paid for, before the end of the fiscal year.** DPR did not establish accounts payable for two (20%) of the ten invoices reviewed, totaling $484,000, where the goods were received, but not paid for, in the prior fiscal year.

  DPR's attached response indicates that the Department agrees and has already partially implemented our recommendation.

Review of Report

We discussed the results of our review with DPR management. The Department generally agreed with our findings and recommendations. DPR's attached response (Attachment II) describes actions they have taken or plan to take to implement the recommendations in our report.

We thank DPR management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Robert Smythe at (213) 253-0101.

WLW:RS:TK

Attachments

c: William T Fujioka, Chief Executive Officer
Russ Guiney, Director, Department of Parks and Recreation
Audit Committee
Public Information Office

DEPARTMENT OF PARKS AND RECREATION
REVIEW OF TRUST FUNDS, SPECIAL FUNDS, COMMITMENTS, AND ACCOUNTS PAYABLE

Background

The Department of Parks and Recreation's (DPR or Department) Administrative Services Agency oversees the Department's trust funds, special funds, commitment encumbrances (commitments), and accounts payable. As of June 30, 2012, DPR had $39.8 million in 56 trust funds, and $19.9 million in eight special funds. DPR also had $5.5 million in commitments to pay for goods and services that had been ordered or contracted for, but not received by the end of the fiscal year, and $613,000 in accounts payable for goods and services the Department had received, but had not paid for, by the end of the fiscal year.

Scope of Review

We reviewed DPR's compliance with the County Fiscal Manual (CFM) and the Department's requirements for trust funds, special funds, commitments, and accounts payable. Our review included interviews with DPR management and staff, and reviews of DPR records.

Trust Funds

As noted earlier, DPR had 56 trust funds, totaling approximately $39.8 million. Trust funds consist primarily of monies received and held by DPR as a trustee, custodian, or agent for other parties. As trustee, the Department is required to maintain accounting, reporting, and security over all funds held in trust. The Department also uses trust funds to deposit collections until the revenue source is identified, and the Department transfers the collections to revenue.

Reconciliations

CFM Section 2.3.0 requires departments to maintain detailed subsidiary records and a control account for each trust fund, and reconcile the control account to the County's official accounting records (eCAPS) monthly.

We reviewed reconciliations for two trust funds with balances totaling $5.4 million, and noted that DPR did not have accounting records for one of the funds. DPR's reconciliations were limited to comparing eCAPS reports to hard copy documents or logs of eCAPS transactions. This reconciliation may not identify overages, shortages, and/or data input errors. For the other trust fund, DPR had a database to track deposits and disbursements. However, DPR could not use the database to reconcile the trust fund because the database does not track the fund balance.

DPR needs to keep subsidiary accounting records, independent of eCAPS, for each trust fund.

We also noted that DPR only performed these limited reconciliations for one of the trust funds quarterly, instead of monthly as required, and the reconciliations for the other trust fund were prepared an average of 58 days after the end of the month.

Recommendations

DPR management:

1. **Maintain detailed subsidiary ledgers and a control account for all trust funds, and reconcile to eCAPS monthly.**

2. **Ensure staff complete trust fund reconciliations timely.**

Capital Improvement Trust Funds

The County has lease agreements with management companies to operate County-owned golf courses. The lessees pay DPR rent based on a percentage of gross receipts from sales of food and beverages, golf cart and equipment rentals, etc. Lessees also pay 10% of green fees to DPR, which are deposited into a trust fund for golf course capital improvements. As of June 30, 2012, DPR had 16 golf course capital improvement trust funds with a combined balance of $12.8 million.

We reviewed one capital improvement trust fund, and noted that the lessee did not submit the required monthly and annual profit and loss statements. Without profit and loss information, DPR cannot verify that lessees are accurately reporting their gross receipts, or that the County is receiving all the rent it is entitled to under the leases.

Recommendation

3. **DPR management ensure that golf course management companies submit monthly and annual profit and loss statements.**

Temporary Holding Account Trust Funds

DPR has three trust funds to temporarily hold collections, such as park vehicle entry and boat launch fees, Youth Soccer League participant registration fees, etc., until DPR's Accounting staff record the source of revenue, and transfer the collections to revenue or the appropriate trust fund. DPR also uses the trust funds to refund rent overpayments or deposits for use of County property.

We reviewed a sample of ten receipts, totaling $308,000, deposited into one of the trust funds, and five transfers/payments out of the fund, and noted the following:

- **Collections not transferred to revenue timely.** Two (20%) of the ten receipts, totaling $34,300, were not transferred to revenue until an average of 68 days after they were earned and deposited in the trust fund. DPR management indicated that the field offices did not submit documentation to DPR Accounting timely, which caused the delays. DPR management should ensure that field offices submit documentation supporting collections timely.

- **Records not updated timely.** DPR uses a database to track deposits into, and transfers or refunds out of, the Department's temporary holding trust funds, to ensure deposits are transferred to the appropriate account. We noted that DPR Accounting had not updated the database for five refunds, totaling $1,888, until an average of six months after the refunds were issued. Not updating records timely could result in unresolved overages or shortages in the trust fund.

Untimely transaction processing results in inaccurate accounting records and fund balances, delayed revenue and expense recognition, and increases the potential for errors. DPR should process transactions and update accounting records timely.

Recommendations

DPR management:

4. **Ensure that collections temporarily deposited into trust funds are transferred to revenue timely.**

5. **Ensure that subsidiary records are updated timely.**

Donation Trust Funds

As of June 30, 2012, DPR had approximately $2.1 million in four donation trust funds. Board of Supervisors (Board) policy requires departments to file quarterly reports listing all donations received, regardless of the amount, with the Executive Officer of the Board (EO). In addition, CFM Section 2.4.2 requires departments to file a "Statement of Donation Receipts and Expenditures" with the Auditor-Controller (A-C), within 90 days of the fiscal-year end.

DPR has not filed required reports with the Board or the A-C. Instead, the Department files an annual statement of donations with the EO. We also noted that DPR has not been using the money in three of the four donation trust funds, totaling $429,000, and does not have spending plans for the funds, as required by CFM Section 2.3.3. DPR management indicated that they need to work with field staff to identify projects for these funds.

Recommendations

DPR management:

6. **Ensure that the Department files quarterly donation reports with the EO for all donations received, regardless of the amount; and that "Statement of Donation Receipts and Expenditures" reports are filed with the A-C within 90 days of the fiscal-year end.**

7. **Develop spending plans for donation trust funds to ensure the funds are used as intended.**

Special Funds

Special funds are used to account for revenue that is legally restricted for specified purposes. DPR had eight special funds with a combined balance of approximately $19.9 million as of June 30, 2012. The revenue is primarily from developer, vehicle, admission, and program fees; and golf course and concession revenue. In our March 2, 2001 fiscal review, we noted that DPR did not have adequate documentation of the expenditures that could legally be made from the special funds. We previously recommended that DPR document the nature and purpose of each special fund, the sources of revenue, and allowable expenditures.

During this review, we noted the following:

- **DPR has not finalized its special fund policies.** For seven (88%) of the eight funds, DPR has created draft policies for the funds, sources of revenue, and allowable expenditures. However, the Department has not finalized the policies. DPR should work with the A-C and Chief Executive Office (CEO) to finalize its special fund policies, and share them with the Board.

- **Payment approvals not dated.** We reviewed ten payments from two of DPR's special funds, and noted that DPR Accounting staff did not date the approvals for two (20%) payments, totaling $22,000. As a result, we could not determine if Accounting staff approved the expenses in advance, as required by DPR's draft policy.

Recommendations

DPR management:

8. **Work with the A-C and CEO to finalize special revenue fund policies, and share the policies with the Board.**

9. **Ensure that staff date approvals for special fund expenditures.**

Landscaping and Lighting Act District Funds

DPR administers Landscaping and Lighting Act District (LLAD) funds, which are used to maintain road median landscaping, parkways, and other designated open space areas within each LLAD. LLAD revenue comes from assessments on properties within the Districts, and is used to pay for landscaping and utilities. DPR also allocates their costs for administering the LLADs, and periodically transfers funds from the LLAD to the County general fund to offset those costs. As of June 2012, DPR had approximately $29.8 million in 50 LLAD funds.

We reviewed five disbursements, totaling $331,095, from one LLAD fund, and noted the disbursements appeared appropriate and were sufficiently documented. We also reviewed transfers from the LLAD to the County general fund, and noted that DPR did not transfer funds or recognize revenue until June of the fiscal year reviewed, even though DPR incurred the costs throughout the year. DPR should recognize revenue throughout the year as costs are incurred.

Recommendation

10. DPR management ensure that LLAD fund monies are transferred to revenue to offset the Department's administrative costs as the costs are incurred.

Commitments and Accounts Payable

Departments establish commitments to reserve budgeted funds when goods and services are ordered, but are not received, before the end of the fiscal year. Departments also establish accounts payable for goods and services that are received, but not paid for, by the end of the fiscal year. While accounts payable are automatically cancelled at the end of the subsequent year, commitments are carried forward to future years. Departments are supposed to review their commitments and accounts payable to ensure they are accurate, and cancel any commitments and accounts payable that are no longer needed. Outstanding commitments and accounts payable reduce the County's available fund balance.

Commitments

As noted earlier, DPR had $5.5 million in commitments on July 1, 2012.

We reviewed ten commitments, and noted that two (20%), totaling $66,000, should not have been established because the goods/services were never ordered. An additional $73,000 commitment should not have been established, because the invoices were paid in full before the end of the fiscal year. Finally, one $19,000 commitment was not cancelled until one year after the last payment had been made.

We also reviewed ten payments charged against other commitments, and noted that one $30,000 payment was for services that DPR had received in May of the prior year. DPR should have established an account payable, not a commitment, for these services. Inappropriately recording commitments, instead of accounts payable, understates prior year expenditures and overstates subsequent year expenditures.

In addition, for eight payments, totaling $459,000, DPR could not provide documentation showing when the goods were ordered. DPR management indicated they encumbered the funds based on the date of the purchase order, not based on the date the goods were actually ordered from the vendor. This practice can result in budgeted funds from one fiscal year being used to purchase items in subsequent years. DPR should document when goods are actually ordered, and only record commitments for goods that have been ordered, but not received, by the end of the fiscal year.

Accounts Payable

DPR reported accounts payable totaling $613,000 at the end of Fiscal Year 2011-12. We reviewed ten payments charged to accounts payable, totaling $151,000, to ensure the goods or services had been received the prior year. We also reviewed ten payments, totaling $1.5 million, that were charged as current-year expenditures, to verify that they were for goods or services received in the current year. We noted the following:

- Two (20%) of the ten payments charged as current-year expenditures, totaling $484,000, were for goods or services that were received in the prior fiscal year, and should have had accounts payable established. DPR indicated that they had not received the invoices for the purchases before the end of the fiscal year. However, DPR should have established accounts payable based on the estimated amounts.

- Documentation for seven (35%) of the 20 payments, totaling $126,000, did not clearly indicate when the goods or services were received, or had conflicting dates. Therefore, we could not determine if the payments were charged to the appropriate fiscal year. For one of the payments, it appears the goods were received in the current year, but staff changed the receiving date so that the expenditure would be recorded in the prior fiscal year.

We also noted that DPR cancelled an average of 53% of their accounts payable for two consecutive fiscal years. This is an indication that accounts payable were not established only for goods and services that were received before fiscal year end, as required.

Recommendations

DPR management:

11. **Ensure staff establish and cancel commitments and accounts payable as required by the CFM, and monitor for compliance.**

12. **Require staff to document the date goods or services are ordered, and only record commitments for goods that have been ordered, but not yet received, as of year end.**

13. **Ensure that staff clearly and accurately record the date goods/services are received on receiving reports.**

County Internal Control Certification Program

The A-C developed the Internal Control Certification Program (ICCP) to assist County departments in evaluating and improving controls over their fiscal operations. Departments must review and evaluate controls in key fiscal areas annually, and certify that proper controls are in place, or that action is being taken to correct any deficiencies or weaknesses noted.

Some of the issues we noted in DPR's trust fund, commitment, and accounts payable operations should have been identified when DPR completed their ICCP. However, the Department's ICCP did not report the weaknesses or deficiencies we noted. DPR management should ensure that the ICCP questionnaires are completed accurately, all internal control weaknesses are identified, and an improvement plan is developed to address each weakness.

Recommendation

14. **DPR management ensure the ICCP is completed accurately, all internal control weaknesses are identified, and an improvement plan is developed to address each weakness.**

COUNTY OF LOS ANGELES
DEPARTMENT OF PARKS AND RECREATION
"Parks Make Life Better!"
Russ Guiney, Director John Wicker, Chief Deputy Director

June 19, 2013

TO: Wendy L. Watanabe
Auditor-Controller

FROM: Russ Guiney
Director

SUBJECT: **DEPARTMENT OF PARKS AND RECREATION – REVIEW OF TRUST FUNDS, SPECIAL FUNDS, COMMITMENTS AND ACCOUNTS PAYABLE**

Attached is the Department of Parks and Recreation's (DPR) response to the recommendations contained in the Auditor-Controller's (A-C) draft report on the review of DPR's Trust Funds, Special Funds, Commitments and Accounts Payable. We concur with the findings and have initiated corrective actions (see attached report) to address each of the A-C's recommendations.

Please let me know if you have any questions or require additional information. You may also have your staff contact Bob Maycumber, Administrative Deputy at (213) 368-5823 or Malou Rubio, Departmental Finance Manager II at (213) 738-3015.

RG:JW:RM:MR:cm

Attachment

c: Parks and Recreation (R. Maycumber, M. Rubio)

Attachment 2

DEPARTMENT OF PARKS AND RECREATION

RESPONSE TO AUDITOR-CONTROLLER'S REVIEW OF TRUST FUNDS, SPECIAL FUNDS, COMMITMENTS AND ACCOUNTS PAYABLE

Trust Funds Reconciliations

Recommendation 1: Maintain detailed subsidiary ledgers and a control account for all trust funds, and reconcile to eCAPS monthly.

DPR Response to Recommendation 1: Agree and partially implemented.

Since the Auditor-Controller's (A-C) review, the Department of Parks and Recreation (DPR) ensured that a subsidiary ledger exist for all trust funds.

The Division Chief of Budget and Fiscal Services, in conjunction with the Accounting Section Head, will enhance DPR's subsidiary ledgers for trust funds, and implement a comprehensive reconciliation process that effectively identifies overages, shortages and/or data input errors. DPR identified a target completion date of June 30, 2014.

Recommendation 2: Ensure staff complete trust fund reconciliations timely.

DPR Response to Recommendation 2: Agree and implemented.

Since the A-C's review, Accounting Section staff completes trust fund reconciliations on a monthly basis.

Capital Improvement Trust Funds

Recommendation 3: Ensure that staff golf course management companies submit monthly and annual profit and loss statements.

DPR Response to Recommendation 3: Agree and partially implemented.

Since the A-C's review, DPR receives monthly and annual profit and loss statements from the majority of its golf course management companies (lessees). DPR is currently working with the few remaining lessees that are not consistently submitting the required profit and loss statements.

Attachment 2

The Accounting Section Head, in conjunction with the Golf Section Head, will incorporate the use of the profit and loss statements to verify gross receipts. DPR identified a target completion date of June 30, 2014.

Temporary Holding Account Trust Funds

Recommendation 4: Ensure that collections temporarily deposited into trust funds are transferred to revenue timely.

DPR Response to Recommendation 4: Agree and implemented.

Since the A-C's review, Accounting Section staff transfers collections to revenue within 30 days from the date of deposit into temporary holding account trust funds, except during year-end closing periods. As part of DPR's annual cash handling training, field employees are reminded that documents supporting collections must be submitted within five business days to the Accounting Section.

Recommendation 5: Ensure that subsidiary records are updated timely.

DPR Response to Recommendation 5: Agree and not implemented.

DPR will develop a replacement database that tracks temporary holding trust fund activities. As soon as the database is in place, the Accounting Section Head will implement a work procedure that requires the updating of records within 30 days from the date of trust fund transaction. DPR identified a target completion date of June 30, 2014.

Donation Trust Funds

Recommendation 6: Ensure that the Department files quarterly donation reports with the Board Executive Officer for all donations received, regardless of the amount; and that "Statement of Donation Receipts and Expenditures" reports are filed with the Auditor-Controller within 90 days of the fiscal-year end.

DPR Response to Recommendation 6: Agree and partially implemented.

Since the A-C's review, DPR's Executive Office staff has filed the required quarterly donation reports with the Board Executive Officer.

The Accounting Section Head, in conjunction with DPR's Executive Office, Budget Section and field agency staff, will file the Fiscal Year 2012-13 Statement of Donation Receipts and Expenditures Report with the Auditor-Controller by September 30, 2013.

Recommendation 7: Develop spending plans for donation trust funds to ensure the funds are used as intended.

DPR Response to Recommendation 7: Agree and partially implemented.

Since the A-C's review, DPR has developed a spending plan for UR2-Schabarum Park Ume Donation Trust Fund.

The Division Chief of Budget and Fiscal Services, in conjunction with field agency staff, will develop spending plans for the remaining two donation trust accounts (SB6-Donation Trust Account and TT1-Whittier Narrows Nature Center Fund). DPR identified a target completion date of June 30, 2013.

Special Funds

Recommendation 8: Work with the Auditor-Controller and Chief Executive Office (CEO) to finalize special revenue fund policies and share the policies with the Board of Supervisors.

DPR Response to Recommendation 8: Agree and partially implemented.

Since the A-C's review, DPR has been working with A-C and CEO to finalize the policies for seven special revenue funds.

DPR will share the finalized special revenue fund policies with the Board of Supervisors through the Park Deputies. DPR identified a target completion date of June 30, 2014.

Recommendation 9: Ensure that staff date approvals for special fund expenditures.

DPR Response to Recommendation 9: Agree and implemented.

Special fund expenditures have always been jointly reviewed and approved by field agency managers and Accounting Section staff. Since the A-C's review, the Accounting Section regularly reminds all approvers to date approval documents. In addition, eCAPS Procurement automatically puts an approval date on documents.

Attachment 2

Landscaping and Lighting Act District Funds

Recommendation 10: Ensure that LLAD fund monies are transferred to revenue to offset the Department's administrative costs as the costs are incurred.

DPR Response to Recommendation 10: Agree and implemented.

Since the A-C's review, LLAD fund monies are transferred on a quarterly basis to revenue to offset the Department's administrative costs.

Commitments and Accounts Payable

Recommendation 11: Ensure staff establish and cancel commitments and accounts payable as required by the County Fiscal Manual and monitor for compliance.

DPR Response to Recommendation 11: Agree and partially implemented.

Since the A-C's review, several DPR managers met with A-C to discuss DPR's practices on establishing and cancelling commitments and accounts payable.

The Division Chief of Budget and Fiscal Services will meet with A-C and CEO to discuss possible solutions and requirements to improve DPR's compliance with the County Fiscal Manual on establishing and cancelling commitments and accounts payable. DPR will implement solutions, as agreed with A-C and CEO. DPR identified a target completion date of June 30, 2014.

Recommendation 12: Require staff to document the date goods or services are ordered and only record commitments for goods that have been ordered but not yet received, as of year end.

DPR Response to Recommendation 12: Agree and partially implemented.

Since the A-C's review, the Division Chief of Budget and Fiscal Services met with the Procurement Section Head to develop work procedures that will require DPR staff to document the date the goods or services are ordered. DPR identified a target completion date of June 30, 2013.

Attachment 2

Recommendation 13: Ensure that staff clearly and accurately record the date goods/services are received on receiving reports.

DPR Response to Recommendation 13: Agree and partially implemented.

In order to ensure that staff clearly and accurately records the date goods and services are received, the Division Chief of Budget and Fiscal Services will include specific instructions on receiving reports, as part of DPR's year-end book closing instructions for Fiscal Year 2012-13. DPR identified a target completion date of June 30, 2013.

County Internal Control Certification Program

Recommendation 14: DPR management ensure the ICCP is completed accurately, all internal control weaknesses are identified and an improvement plan are developed to address each weakness.

DPR Response to Recommendation 14: Agree and partially implemented.

The Division Chief of Budget and Fiscal Services will increase its level of review of DPR's ICCP on accounting and procurement operations.