


Office of the City Manager

March 13, 2014

To: Honorable Mayor and Members of the City Council

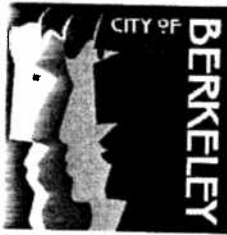
From: Christine Daniel, City Manager 

Subject: Audit Report on Parks, Recreation and Waterfront Department

Attached please find a report that will be included on the Information Calendar for the April 1, 2014 City Council Agenda. This report provides additional information in response to an audit report from the City Auditor on that same City Council Agenda. The audit report is being released in the Agenda Committee packet today for the Agenda Committee meeting on Monday March 17th. Given the nature of that report, we thought it important for the City Council to have this additional information at the same time as you are reading the audit report. Please let me know if you have any questions.

Attachment

cc: William Rogers, Deputy City Manager
Ann-Marie Hogan, City Auditor
Mark Numainville, City Clerk
Matthai Chakko, Assistant to the City Manager



Office of the City Manager

INFORMATION CALENDAR

April 1, 2014

To: Honorable Mayor and Members of the City Council
From: Christine Daniel, City Manager
Subject: Supplemental Information: Parks, Recreation, and Waterfront
Department Cash Handling Audit

INTRODUCTION & SUMMARY

A report from the City Auditor on the April 1, 2014 agenda presents an audit of cash handling in the Department of Parks, Recreation, and Waterfront (PRW). The purpose of this report is to provide additional information that does not fit within the structure of the audit response. It is also intended to underscore the fact that City employees at all levels of the organization treat stewardship of public resources very seriously and are committed to responding appropriately when issues arise, including promptly investigating anomalies in financial reports, reporting those anomalies to supervisory staff and conducting investigations as appropriate to determine if improper activity is occurring.

In February 2011, a City employee reported a suspicious anomaly she found while reviewing PRW financials. As a result, the PRW Director reported a potential theft to the Berkeley Police Department and the City Auditor, and requested a cash-handling audit. Further investigation determined that a (now former) employee had stolen \$52,000; of which \$47,000 was reimbursed by insurance. The City Auditor has issued a report with nineteen recommendations to help improve internal controls.

SUPPLEMENTAL INFORMATION

A. Departments have agreed to all audit recommendations without contradiction; some recommendations have already been implemented.

The City Manager and Department Directors agree that proper, and properly supervised, cash handling is critical to the health of the City and staff's stewardship of public funds. Some audit recommendations have already been implemented. For example, a comprehensive review of Citywide cash-handling policies is underway and City Manager directives have been issued to all departments reinforcing the need to re-examine practices, policies, and regulations with all affected staff. In addition, the Department of Finance reinstated a centralized approach to cash-handling training eighteen months ago and the City Manager has agreed to request that Labor Unions meet & confer regarding background checks for current employees who have not previously undergone such examinations.

B. No other theft identified; additional investigations conducted for assurance.

The audit concluded that no other employee was involved in the 2011 incident and did not identify any other instances of theft. However, it includes language that could be read to imply theft is continuing. Regarding the marina launch ramp, the audit states, "there is evidence that someone else may have been and may continue to be stealing" and "evidence strongly suggests that the Marina has been losing launch ramp revenue to theft since 2007." Additionally, the audit states that small thefts "are a sign of a much more pervasive problem," citing losses of \$45 and \$55 in 2012 at the Community Centers and problems with a deposit at Echo Lake Camp. Given the nature of such statements, the City Manager directed that investigations of both the marina and the camp be undertaken. Details of the investigators' findings cannot be legally disclosed in this report because they involve personnel matters. However, the results can be disclosed: neither investigation revealed any criminal activity.

C. Additional Information Regarding Marina Revenues

The Audit uses "straight-line analysis" of budgeted versus actual revenues that triples base revenue from 2008, assumes consistent patronage, and concludes that (because revenues did not meet projections) theft likely occurred. The analysis did not include other factors that could have negatively impacted revenues, such as items 1-4 below. It is important to acknowledge that this information was not subjected to Governmental Auditing Standards; however, it is offered here for additional context.

As part of the audit, the City's Harbormaster was interviewed regarding cash handling, but the Waterfront Manager responsible for revenue monitoring was not. The Waterfront Manager has provided the following information regarding statements made in the audit:

1. *\$0 collected in August 2007:* In spring 2007 the launch ramp ticket machine (initially installed in 1999) started to malfunction. It often jammed and became inoperable. The launch ramp ticket machine finally failed on July 16, 2007 and was taken out of service until a replacement could be installed. A new machine was installed on September 14, 2007. Thus, there was no ticket activity in August.
2. *\$0 collected in January 2008:* Historically January is the lowest revenue month for the launch ramp due to poor winter fishing conditions such as water turbidity due to winter runoff, frequent storms, and rough water in the Bay. In January 2008, rainfall totaled 189% of normal and there was measurable rain on 20 days during the month.
3. *\$19,600 less collected in total for 2007 compared to 2008:* As noted above, frequent breakdowns in the launch ramp ticket machine occurred in 2007, leading to its ultimate failure in July 2007. Revenues were affected both during times of intermittent operation, as well as during the time it was totally out of service.
4. *Ramp activity should remain constant regardless of the fee increase:* Launch ramp fees increased from \$5 to \$10 in January 2009, then to \$15 in July 2009. The launch ramp at Emeryville Marina (3 miles away) is **free**. It is not

unreasonable to conclude that some boaters became more likely to choose a nearby free option, rather than paying \$15.

In addition, a long-time bait merchant on K dock explained that during the past two years, his main bait (anchovies) has been less plentiful and available for shorter periods of time than in prior years. As a result, the live bait season has decreased from five to three months per year. If live bait is not available at the Berkeley Marina, fishermen may be more likely to launch from Emeryville to access the Bay free of charge, rather than pay up to \$15 to launch from Berkeley (see item #4 above).

D. Additional Information Regarding Camp Revenues

The camp investigation confirmed that management had not properly trained the involved employee in cash handling and thus the individual did not follow proper procedures. Audit staff did not interview this individual for the audit. However, in the eighteen months since the incident described in the audit, the required training has occurred and no further instances of inappropriate cash handling have been identified.

E. Additional Information Regarding Marina Cash Handling

PRW staff have developed detailed descriptions and improved controls for cash handling at the Marina (for example how lock boxes are emptied, how cash is transported, where cash is handled, where safes are located, and who has access). For security reasons, those detailed descriptions are not provided here. Nevertheless, it is important that the Council and the community know that staff takes these obligations seriously and has detailed practices for handling public funds.

CONCLUSION

The City Manager and Department Directors appreciate the Auditor's assistance in helping to improve cash-handling and internal controls. As noted above, all involved departments have agreed to implement the audit recommendations as written. In addition, it is important to note that immediate improvements have already been implemented and continuous improvement regarding cash-handling is a Citywide priority.

ENVIRONMENTAL SUSTAINABILITY

There are no identifiable environmental effects or opportunities associated with the subject of this report.

CONTACT PERSON

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