

I. EXECUTIVE SUMMARY

The Office of Public Integrity examined accountability of reported cash collections, the adequacy of internal control procedures, and compliance with City policies. We accounted for all cash receipts reported within the scope period. The results of the review identify various instances of weak internal control and non-compliance with policies.

- ◆ A substantial receivable balance is delinquent over 90 days. Market management should regularly analyze receivable balances to determine delinquent and uncollectible accounts, and pursue collection of these accounts.
- ◆ We noted an inadequate review of cash collection records by market management.
- ◆ Lease agreements are missing and incomplete for some vendors, discrepancies relating to due dates exist between the standard lease agreement and the schedule of fees, and we noted deviations in fees charged from the schedule of fees.
- ◆ Market personnel inconsistently charge late payment fees and do not properly document fee waivers.
- ◆ Market personnel allowed some vendors to pay the discounted stall rental rate although their rental payments were made after the agreed upon payment deadline.

II. BACKGROUND, OBJECTIVES AND SCOPE

A. Assignment

The Office of Public Integrity routinely reviews City operations, cash handling procedures, and accountability for revenue collections. Public Integrity selected the Public Market for this examination of cash handling activities.

B. Background

The Public Market is a unit within the Department of Recreation and Youth Services (DRYS), Bureau of Recreation. This activity operates and maintains the facilities at 280 North Union Street. Market personnel rent stall space to vendors, collect revenues, maintain buildings and grounds, and supervise operations on market days. Facilities at the Public Market include two open-air sheds, one heated and enclosed shed, four kiosks, and additional non-traditional open air spaces within the market grounds. Public Market personnel divide sheds into stalls and rent them to vendors on a daily, seasonal, or annual basis at rental rates established by the DRYS Commissioner. For fiscal year 2006-07, the Public Market reported cash collections of \$572,843.29.

The seasonal or annual rental of a stall requires a lease agreement between the vendor and the City. The following table summarizes the number of stalls and the 2006-07 seasonal and annual occupancy rates:

Public Market
Rental Summary
2006-07 Season

<u>Location</u>	<u>Available Stalls</u>	<u>Stalls Currently Rented</u>	<u>Seasonal/ Annual Leases</u>	<u>Occupancy Rate</u>
Shed A	124	124	105	100%
Shed C	68	68	54	100%
Winter shed	60	60	43	100%
Kiosks	4	4	4	100%
Non-traditional space	<u>20</u>	<u>20</u>	<u>7</u>	100%
Total	<u>276</u>	<u>276</u>	<u>213</u>	100%

C. Objectives And Scope

In this review, we assessed the adequacy and effectiveness of internal controls, determined accountability of reported cash collections, and ascertained compliance with City Cash Collection Policies. The Office of Public Integrity selected records applicable to all revenue reported for the period October 1, 2006 through March 31, 2007. For this period, the Public Market deposited \$23,445 applicable to daily rentals and \$199,002 applicable to seasonal/annual lease payments and miscellaneous revenue.

Management is responsible for establishing and maintaining a system of internal accounting and administrative control. Fulfilling this responsibility

requires estimates and judgments by management to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of accurate, informative reports that are fairly stated.

Because of inherent limitations in any system of internal accounting and administrative control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any system evaluation to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with procedures may deteriorate.

The recommendations presented in this report include the more significant areas of potential improvement that came to our attention during the course of the examination, but do not include all possible improvements that a more extensive review might develop.

III. RESULTS OF REVIEW

The results of our testing indicate that certain deficiencies exist that require management attention to improve internal accounting and administrative practices.

A. Delinquent Accounts Receivable Balances

To occupy the same stall space for an entire season at the Public Market, the City requires vendors to sign lease agreements. These agreements specify rental rates and payment terms. The lease agreements allow vendors the option of paying the full lease amount in advance or paying monthly installments throughout their season. The Market maintains receivable records for all accounts with outstanding balances due to the City.

Management should regularly analyze balances to determine delinquent and uncollectible accounts. This analysis is an important basis for the administration of ongoing credit and collection efforts and maintaining control over delinquently paying vendors. Audit analyzed the receivable balances of all current seasonal vendors with unpaid accounts and compiled

an aged listing of those balances as of April 30, 2007. The following table summarizes that analysis:

ROCHESTER PUBLIC MARKET
AGED LISTING OF ACCOUNTS RECEIVABLE
AS OF APRIL 30, 2007

Vendor	Total Amount Due	Current	31-60 Days	61-90 Days	Over 90 Days
Andy and Pam Baker	\$ 110.00	\$ 40.00	\$ 70.00	\$ 0.00	\$ 0.00
Coastal Fish	5,960.00	120.00	795.00	795.00	4,250.00
Ernesto Diaz	480.00*	0.00	0.00	0.00	480.00*
Erik Barrett	1,235.00	40.00	40.00	40.00	1,115.00
Diane Frassetto	4,490.00	240.00	1,600.00	1,600.00	1,050.00
Hieu Luong	780.00	80.00	530.00	170.00	0.00
Jeff Werner	1,020.00	120.00	120.00	120.00	660.00
Leah Sick	20.00	0.00	20.00	0.00	0.00
Lou Casaceli	1,590.00	40.00	265.00	265.00	1,020.00
Singer	230.00	0.00	0.00	0.00	230.00
Strachan	655.00*	0.00	40.00*	40.00*	575.00*
William Cannon	805.00	40.00	265.00	265.00	235.00
	<u>\$17,375.00</u>	<u>\$ 720.00</u>	<u>\$3,745.00</u>	<u>\$3,295.00</u>	<u>\$9,615.00</u>

*Balance remains outstanding as of September 30, 2007. All other accounts paid in full by June 23, 2007.

The total accounts receivable balance for all current seasonal vendors as of April 30, 2007 was \$17,375.00. Nine thousand six hundred fifteen dollars or 55% of the total was over 90 days delinquent. Most vendors listed on this aging also signed leases and vended with the commencement of the new market season on May 1, 2007 although they had not paid in full for the prior season. The analysis indicates that the outstanding and delinquent receivable balances for some vendors is excessive.

◆ Recommendation

DRYS should develop and enforce a policy to administer delinquent accounts receivable balances. Additionally, management should require and review a monthly aged receivable analysis to assist in the administration of the receivables.

DRYS should prohibit vendors from entering into new lease agreements until they pay all outstanding balances.

B. Inadequate Supervisory Audits

In a previous audit of Public Market operations, we noted that there was an inadequate separation of duties among the Public Market staff regarding cash handling. As a result, management agreed to institute a supervisory audit in which they would randomly review the day's deposits and document the results at least three times per month.

Our review of a six-month period of cash transactions and resulting records indicates only one documented occurrence of a supervisory review. In the absence of having the ability to institute an adequate separation of duties, this type of review ensures reporting accuracy and validity of corresponding documents. Employees who perceive a cursory, supervisory review of cash transactions and supporting documentation may attempt to take advantage of this situation.

City Cash Collection Policies and generally accepted cash control procedures require an adequate separation of cash collection from cash recording responsibilities. Management should not allow employees who collect cash the opportunity to exempt themselves from accountability by also recording the cash received. Due to the limited number of employees, an adequate separation of duties may be difficult to achieve. In this situation, management emphasis on review can provide assurance of compliance with prescribed policies and accuracy in reporting.

Currently, a Public Market employee can adjust reported cash transactions and corresponding records without the knowledge of a supervisor or another employee. This can potentially result in undetectable errors or diversion of cash receipts.

◆ Recommendation

DRYS should require a supervisor who does not collect or record cash to review each day's reported cash activity, compare it to daily deposit records, and record evidence of this review. In the absence of a daily supervisory review, management should require a documented, periodic review.

C. Weaknesses In Execution Of Lease Agreements

The City requires vendors to sign lease agreements to reserve the same stall space for an entire season, whether it is annual or seasonal. The lease agreements specify the rental rate, payment terms, and the location of each stall. Signing the contracts signifies agreement with the terms contained within them. For the 2006-07 season, the Market entered into 213 seasonal/annual lease agreements. The Office of Public Integrity examined all leases for all vendor types. We noted the following findings:

1. Two contracts were not properly executed. Neither a City representative nor the vendor signed these agreements.
2. Two vendors of the Public Market did not have written agreements on file for the season at the time of our review.
3. Four leases included terms less than the six-month minimum lease period allowed per the fee schedule.
4. The fee schedule and the lease agreement state different dates in which payments in full are due.

The requirement of signed, written leases that specify all terms of the agreements protects the City in the event of a dispute over the terms and liability. The fee schedule, approved by the DRYS Commissioner, states the terms and rental amounts that the City proposes to charge vendors. The fee schedule should be consistently applied to avoid the appearance of favoritism.

Without current, signed agreements, the City may have difficulty demonstrating that the vendors acknowledge and agree to the terms of the contracts. Consistent application of the terms included in the leases and those stated in the fee schedule is necessary to ensure that vendors are treated fairly and evenly. Uncertainty may arise when there are conflicting terms and rates between the leases and fee schedule.

◆ Recommendation

DRYS should require all seasonal/annual vendors to complete properly executed lease agreements. Market personnel should adhere to the rates and terms stated in the fee schedule and should consistently apply them in the terms of each vendor lease.

D. Inconsistent Late Fee Application

The Public Market fee schedule states that they will charge a late payment fee of \$40 for payments received from vendors after the second Saturday of the month in which they are due. The Office of Public Integrity examined for timeliness the population of 268 vendor payments received by the Public Market during the test period. The Market did not impose the authorized \$40 delinquent payment fee to 13 late payments representing 25 stalls, for a total of \$1,000. Also, management imposed and subsequently waived an additional \$1,325 in fees without any documentation justifying the fee waivers.

Inconsistent application of Market policy may lead to abuse of the policy by vendors, may create potential problems for future legal enforcement, and may create disgruntled vendors if they believe the market has unfairly treated them due to the inconsistent application of late fees.

◆ Recommendation

DRYS should consistently apply late fees to all vendors at the Public Market. Market management should carefully consider waived fees and, if deemed necessary, should properly document the justification and approval of each waived fee.

E. Inconsistent Discounted Rental Rates Charged

The Public Market offers reduced rental payment rates to any vendor who leases a stall and pays the entire amount due for the lease agreement by the fourth Saturday of the first month of the lease term. Those vendors who do not choose this option make monthly installment lease payments that result in a greater overall payment.

For the 2006-07 Public Market season, Market personnel administered 213 leases for the 276 available stalls. The Office of Public Integrity noted that Market personnel did not charge the higher installment rate to 10 vendors leasing 22 stalls who opted for the discounted lump sum payment rate, however, paid after the fourth Saturday of the first month of their lease. The discounted amount extended to these vendors is \$1,120. The result is a loss of potential revenue to the City. Inconsistent application of stall rental pricing can potentially cause problems with other vendors.

◆ Recommendation

DRYS should require Market personnel to apply the fee schedule that allows discounted rental rates, or installment rates, consistently to all vendors.

IV. DEPARTMENTAL RESPONSE

The response of the Department of Recreation and Youth Services to this report begins on the next page.



Inter-Departmental Correspondence

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CITY OF ROCHESTER
OFFICE OF PUBLIC INTEGRITY

To: Dan Markese, Office of Public Integrity

From: Charles Reaves, Commissioner Recreation and Youth Services

Date: December 4, 2007

Subject: Public Market Audit Response

Charles Reaves

We have reviewed the findings and recommendations of the Draft audit performed by the Office of Public Integrity. This response addresses and clarifies the issues presented and suggests procedural changes that will insure full compliance in the future. Many of the issues raised are the result of inadequate documentation of existing protocol and procedures. Historically, a Recreation staff person conducted a mini-audit quarterly of Market operations. This helped to identify and correct any lapses in procedures. Over the last two years due to retirements and position reductions, this function has not been continued. Management staff will reconfigure staffing to insure this is once again taking place.

Delinquent Accounts Receivable Balances:

Although, it was not presented affirmably to audit staff; there is a monthly aging of receivables which is generated from the Market's accounting system. This is reviewed by the Supervisor of Markets and Jim Farr. Leaseholders with delinquent balances over 60 days are issued a no-vend letter which requires them to satisfy 50% of the outstanding balance by an agreed upon date or vending privileges will be rescinded. We will take steps to make sure this process is documented and enforced.

Furthermore, because the vending locations at the Market are in high demand, and there is very little turnover, the actual risk of loss is substantially lower than may at first be apparent. As the audit notes only two of the accounts actually remained open as of June 23. (One vendor died and the other is incarcerated). Therefore, the actual uncollectible receivables are \$1,055 or about .18% of the total revenue.

Over the last two seasons, vendors who had an outstanding balance from a previous season have on a case-by-case basis, been allowed to continue vending past the expiration date of their lease, on a daily basis and paying a daily fee (which is considerably higher than the lease rate), for a preset and agreed to period until their prior year balance has been paid. This money is not credited towards their new lease. In the future, management staff will review each lease individually and initial to ensure that stated policies and procedures related to lease renewal are followed.



Inadequate Supervisory Audits:

Either the Assistant Director or Director of Recreation is at the Market almost every active Market day. We have a system in place which documents vendor placements and payments. This is reviewed on a regular basis; however, the proper audit documentation has not been completed on a regular basis. This will be corrected.

Weaknesses in the Execution of Leases:

Although there were only 4 leases out of 213 that were either missing or improperly executed, there still is room for improvement. Staff will be reminded of the importance of having properly executed leases for all vendors. The lease and fee schedule language will be reviewed and modified to ensure they are consistent.

Inconsistent Late Fee Application:

In the majority of instances noted, management staff had made a determination to waive late fees after consultation with Market staff and the effected vendors; however, although noted on the account card, specific reasons for the waivers were not properly documented. A late fee waiver form, indicating the circumstances and conditions of the waiver and signed by a management has been developed. This will be utilized for all authorized waivers. Additionally, staff has been reminded of the importance of consistently and accurately applying late charges. This will be monitored and documented on a monthly basis by management staff.

Inconsistent Discounted Rental Rates Charged:

Further review of these inconsistencies indicates that in all but two cases the entire balances were paid within several days of the last Saturday deadline. Vendors had asked for, and been granted, an extension for a variety of reasons but this was not documented. In the future, staff has been instructed to abide strictly by the stated deadlines. Any extensions will require written approval from management.

In summary; although there is significant improvement from the last audit, we realize that there is still some oversight and documentation weaknesses that need to be addressed. The procedural changes outlined in this response should ensure full compliance in the future.