



**Parks and Recreation Day Care Operation
Follow – Up Audit
No. A2013-07**

Issued by the
Internal Audit Office
June 27, 2013

City of El Paso
Internal Audit Office
Parks and Recreation Day Care Operation Follow-Up Audit No. A2013-07

EXECUTIVE SUMMARY

The Internal Audit Office conducted a Follow-Up Audit on the Parks and Recreation Day Care Operation Audit dated April 6, 2011. The original Audit Report contained (5) five findings. Upon completion of our review, we have determined the status of the recommendation for each audit finding as outlined in the table below:

Finding No.	Description of Findings	Status
1	Based on a breakeven analysis completed by the Internal Audit Office, the Parks and Recreation Day Cares are not earning enough income to support operations.	Implemented
2	The City of El Paso Day Cares monthly rates are lower when compared to three other local Day Care facilities in El Paso.	Implemented
3	Veterans Day Care is not operating at full capacity in order to maximize revenues.	Implemented
4	The Parks Department Day Cares do not have adequate liability insurance per the State of Texas requirements, Chapter 42 Human Resources Code §42.049 <i>Liability Insurance Required</i> .	Implemented
5	Parks and Recreation Day Cares are not enforcing the established policy to deny admittance when payment is not received by the due date.	In Progress Management will assume the risk

For a detailed explanation and the current observations please refer to the appropriate finding contained in the body of this Audit Report.

**City of El Paso
Internal Audit Office
Parks and Recreation Day Care Operation Follow-Up Audit No. A2013-07**

BACKGROUND

The *Generally Accepted Government Auditing Standards* (Standard 4.05 and 6.36) and the *International Standards for the Professional Practice of Internal Auditing* (Standard 2500.A1) require a post audit follow-up on all audit recommendations made in order to ascertain that appropriate corrective action is taken to address reported audit findings. The Internal Audit Office has conducted a Follow-Up Audit of the Parks and Recreation Day Care Operation Audit Report dated April 6, 2011.

AUDIT OBJECTIVES

The audit objective was to ensure that corrective action was taken by management to address the recommendations detailed in the original Audit Report dated April 6, 2011.

AUDIT SCOPE

The Follow-Up Audit was limited to a review of the five (5) findings and recommendations detailed in the “*Parks and Recreation Day Care Operation Audit Report*” dated April 6, 2011. The audit period covered the operations of the Parks and Recreation Day Care Centers from September 1, 2011 to August 31, 2012.

AUDIT METHODOLOGY

To achieve our audit objectives we:

- Conducted interviews with the Parks and Recreation staff and Human Resources management.
- Identified the income and expenses for the Day Care Centers for Fiscal Year 2011-12.
- Conducted an analysis of the Day Care fees for Fiscal Year 2011-2012.
- Conducted an analysis of the Veterans Day Care enrollment and outreach to generate interest.
- Verified liability insurance documentation.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This audit was also conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors.

**City of El Paso
Internal Audit Office
Parks and Recreation Day Care Operation Follow-Up Audit No. A2013-07**

ORIGINAL FINDINGS, ORIGINAL RECOMMENDATIONS, MANAGEMENT’S RESPONSE TO ORIGINAL FINDINGS, CURRENT OBSERVATION, AND STATUS

Based on the results of follow-up test work, each original finding recommendation will be designated with one of the following four status categories:

<i>Implemented</i>	The finding has been addressed by implementing the original corrective action or an alternative corrective action.
<i>In Progress</i>	The corrective action has been initiated but is not complete.
<i>Not Applicable</i>	The recommendation is no longer applicable due to changes in procedures or changes in technology.
<i>Not Implemented</i>	The recommendation was ignored, there were changes in staffing levels, or management has decided to assume the risk.

Original Finding 1

Breakeven Analysis

As required by the City of El Paso Fiscal Year 2011 Budget Resolution, Appendix, 39 and 44 and City of El Paso Fiscal Year 2011 Budget Book, Fiscal Overview, D. Setting Charges/Fees,

- Budget Resolution, Appendix 39: *“Monies that the City receives from licenses, fees, fines, and other charges for services shall be analyzed to determine if the City is recovering the cost of providing such services.”*
- Budget Resolution, Appendix 44: *“For any programs, activities, presentations, classes or services that have a fee range listed within Schedule C, the department head shall determine and charge a fee within the stated range for each particular activity, presentation, class service in the amount that will recover the City’s costs, as reviewed and approved by the City Manager or his/her designee.”*
- El Paso Fiscal Year 2011 Budget Book: *“Departments shall review on a biannual basis any fees associated with their department and recommend adjustments based on factors such as inflation, indirect cost adjustments, and any other related expenses that impact the cost of providing services to the public.”*
- El Paso Fiscal Year 2011 Budget Book: *“Fees should be established at a level that ensures the recovery of the full cost of the services provided.”*

A breakeven analysis of the Parks and Recreation Day Cares identified that for the period of September 1, 2009 to August 31, 2010 a loss of \$14,682.25 was incurred. The fees charged by the Parks and Recreation Department Day Cares are not adequate to support operations. Indirect costs, such as utilities, administrative costs, and rent are not taken into account.

*See Addendum to review Breakeven Analysis/Income Statement.

**City of El Paso
Internal Audit Office
Parks and Recreation Day Care Operation Follow-Up Audit No. A2013-07**

Recommendation

The Parks and Recreation should monitor direct and indirect expenses in order set appropriate fees and recover full costs of Day Care services. The Day Cares should be operating at a breakeven basis per Budget Resolutions.

Management's Response

Expenses and revenue are monitored on a monthly basis. The Department will adopt the indirect format provided in this audit report to monitor indirect expenses. Comment to Bullet #2: Day Care does not have a fee range; there are fixed rates that are approved by City Council each year during the budget adoption.

Responsible Party

Leonor Wilson, Business Manager

Implementation Date

May 1, 2011

Current Observation

The Parks and Recreation Department is monitoring direct and indirect expenses to ensure Day Cares are operating at a break even basis. Per our analysis we can provide reasonable assurance that the Day Cares are operating at a net profit.

- The income statement prepared by the Parks and Recreation Department for the Day Cares identified a net profit of \$11,056.79 for Fiscal Year 2011-2012.

We were unable to confirm the income amount reported by the Parks and Recreation Department with the income recorded in PeopleSoft Financials.

- It is undetermined if this was due to the PeopleSoft reimplementation.
- The current Administrative Services Manager was unable to determine the source of the income reported in the Parks and Recreation data.
- PeopleSoft Financials recorded income in the amount of \$434,043.00 and Parks and Recreation data reflected \$352,197.00. The income statement prepared by the Parks and Recreation Department is potentially understating income by \$81,846.00.

Status

Implemented – Management should perform a confirmation of data to determine the true net profit for the Parks and Recreation Day Cares for Fiscal Year 2011-2012.

**City of El Paso
Internal Audit Office
Parks and Recreation Day Care Operation Follow-Up Audit No. A2013-07**

Original Finding 2

Day Care Fee Comparisons

As required by the City of El Paso Fiscal Year 2011 Budget Resolution, Appendix, 39 and 44 and City of El Paso Fiscal Year 2011 Budget Book, Fiscal Overview, D. Setting Charges/Fees,

- Budget Resolution, Appendix 39: *“Monies that the City receives from licenses, fees, fines, and other charges for services shall be analyzed to determine if the City is recovering the cost of providing such services.”*
- Budget Resolution, Appendix 44: *“For any programs, activities, presentations, classes or services that have a fee range listed within Schedule C, the department head shall determine and charge a fee within the stated range for each particular activity, presentation, class service in the amount that will recover the City’s costs, as reviewed and approved by the City Manager or his/her designee.”*
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An analysis of three local Day Cares in the City of El Paso was conducted and it was determined that the City of El Paso monthly rates are lower when compared to three local Day Care Facilities in El Paso.

Day Care	Operating Hours	Ages	Monthly Fee	Registration/ Enrollment Fee	Breakfast, lunch, and snacks provided?	Parents are required to provide their own supplies
City of El Paso: Galatzan & Veterans Day Care	M-F: 7:00 am to 6:00 pm	2-5 Years	\$300.00	\$60/\$15	No	Yes
Day Care #1	M-F: 5:30 am to 12:00 am & Sat: 6:00 am to 6:00 pm	25 months-3 Years	\$348.00 *	\$35.00	Yes *	No
		3-5 Years	\$340.00 *			
Day Care #2	M-F: 6:30 am to 6:30 pm	2 Years	\$596.00 *	\$75.00	Yes *	No
		3 Years	\$572.00 *			
		4 & 5 Years	\$564.00 *			
Day Care #3	M-F: 6:30 am to 6:30 pm	2 & 3 Years	\$500.00 *	\$45.00	Yes *	Daycare charges \$45.00 supply fee
		4 & 5 Years	\$465.00 *			

*Rates are charged weekly at these Day Care facilities.

*These Day Care facilities do not offer a discount for not providing meals.

**City of El Paso
Internal Audit Office
Parks and Recreation Day Care Operation Follow-Up Audit No. A2013-07**

Recommendation

Management should consider setting higher fees to help recover operating costs.

Management's Response

An increased fee will be proposed for Council consideration as part of FY12 budget submittal, to be effective September 1, 2011 if approved. Comment to Bullet #2: Day Care does not have a fee range; there are fixed rates that are approved by City Council each year during the budget adoption.

Responsible Party

Leonor Wilson, Business Manager

Implementation Date

September 1, 2011

Current Observation

The Parks and Recreation Management have increased fees to help recover operating costs.

- The monthly day care fees for Full Day Care and Half Day Care for Residents increased by 5% from \$300 to \$315 and \$200 to \$210 respectively.
- The monthly day care fee for the Preschool Program for Residents increased by 3.13% from \$160 to \$165.
- The monthly day care fee for Full Day Care for Non-Residents increased by 5.33% from \$375 to \$395.
- The monthly day care fee for Half Day Care increased for Non-Residents by 6% from \$250 to \$265.
- The monthly day care fee for the Preschool Program for Non-Residents increased by 2.50% from \$200 to \$205.

Status

Implemented

**City of El Paso
Internal Audit Office
Parks and Recreation Day Care Operation Follow-Up Audit No. A2013-07**

Original Finding 3

Maximizing Revenue

Per the Texas State Licensing Standards for Day Care Centers, the number of children allowed per the State based on child/staff ratio at Veterans Day Care is 92:

Veterans Day Care	Provider/Child Ratio Per Texas State Requirements		
# of Day Care Instructors	Age Range	Child/Staff Ratio	Child/Staff Maximum
2	2 Years	11:1	22
2	3 Years	15:1	30
1	4 Years	18:1	18
1	5 Years	22:1	22
<u>6</u>			<u>92</u>

Veterans Day Care is not operating at full capacity in order to maximize revenues.

- The maximum facility capacity is 85 children.
- Total number of children registered is 64.
- The number of children allowed per the State based on child/staff ratio is 92. This number cannot be reached due to the facility's capacity limit of 85.
- Based on the facility's capacity limit and State required child/staff ratios, there is room for another 21 children at the Day Care with potential revenue ranging from \$3,360.00 to \$6,300.00.

Recommendation

Parks and Recreation Veterans Day Care should develop a plan try to operate at full capacity in order to maximize revenues by outreach or advertising.

**City of El Paso
Internal Audit Office
Parks and Recreation Day Care Operation Follow-Up Audit No. A2013-07**

Management's Response

Staff initiated a feature article that was published in the El Paso Times on 5/2/11 to generate interest and advise the public of available service. A tri-fold brochure to use with outreach is also in development.

Responsible Party

Joe Rodriguez, Recreation Manager; Julie Belcher, Recreation/Sports Coordinator; and Wayne Thornton, Public Relations Coordinator

Implementation Date

May 1, 2011

Current Observation

- Total number of children registered has increased from 64 to 71 at the Veterans Day Care.
- The number of children allowed per the state based on child:staff ratio is 95. This number cannot be reached due to the facilities capacity limit of 85.
- Based on the facility's capacity limit and state licensing standards, there is room for another 14 children at the day care with potential revenue ranging from \$2,310.00 to \$4,410.00.
- The Parks and Recreation Day Care is performing outreach through a flyer promoting the day care services and summer camp.
- The Veterans Day Care Center should continue conducting outreach in order to generate interest and increase enrollment.

Status

Implemented

**City of El Paso
Internal Audit Office
Parks and Recreation Day Care Operation Follow-Up Audit No. A2013-07**

Original Finding 4

Liability Insurance

As per the State of Texas, Chapter 42 Human Resources Code §42.049 Liability Insurance Required:

“(a) A license holder shall maintain liability insurance coverage in the amount of \$300,000 for each occurrence of negligence. An insurance policy or contract required under this section must cover injury to a child that occurs while the child is on the premises of the license holder or in the care of the license holder.”

According to the State of Texas Child Care Licensing Division, one of the following can be provided as proof of insurance:

1. Documentation that the “self-insurance” provides at least \$300,000 per occurrence at each center and the procedures for claims; effective dates; documentation of parents being informed of the amount and claim procedures.
2. Documentation of liability insurance for \$300,000 showing the effective dates, policy holder, insurance company information.
3. Documentation stating why the centers cannot obtain liability insurance and how parents will be notified of this; this documentation will be reviewed for approval.

The Parks Department Day Cares do not have adequate liability insurance per the State of Texas requirement, Chapter 42 Human Resources Code §42.049 *Liability Insurance Required*.

- The City of El Paso provides the Department of Family and Protective Services with a letter stating that the City of El Paso operates under a policy of self-insurance. After confirming with the State Agency, the “self-insurance” documentation provided does not meet the requirements for Licensed Child Care Centers.

The Risk Manager in conjunction with the Day Cares is obtaining a quote for liability insurance from Wells Fargo Insurance Services. However to obtain the quote it may take between 30 to 45 days.

Recommendation

The City of El Paso Day Cares should ensure compliance with the State of Texas, Chapter 42 Human Resources Code §42.049 *Liability Insurance Required* and provide adequate documentation supporting compliance.

Management’s Response

Risk Management secured a policy costing \$2,440 per year for insurance and the Department will absorb the cost in the Day Care operating expense.

Responsible Party

Leonor Wilson, Business Manager

Implementation Date

May 18, 2011

**City of El Paso
Internal Audit Office
Parks and Recreation Day Care Operation Follow-Up Audit No. A2013-07**

Current Observation

- The City of El Paso Parks and Recreation Day Care Centers have obtained adequate liability insurance and are in compliance with the State of Texas, Human Resources Code Chapter §42.049 *Liability Insurance Required* and have provided documentation to support compliance.
- The City of El Paso Parks and Recreation Day Care Centers obtained a liability insurance policy that will cover up to \$1,000,000 for each occurrence for FY' 12.

Status

Implemented

**City of El Paso
Internal Audit Office
Parks and Recreation Day Care Operation Follow-Up Audit No. A2013-07**

Original Finding 5

Late Payments

As required by the Parks and Recreation Pre-School/Day Care Parent Handbook, Non-Payment of Fee: *“Fees are due in full no later than three business days after the first business day of the month. Late payment will result in the child/children’s admittance to be declined. Reinstatement is subject to availability of space and full payment of fees.”*

Parks and Recreation Day Cares are not enforcing the established “requirement to deny admittance” policy when payment is not received by the due date.

Recommendation

The Parks and Recreation Day Cares should enforce the established policy to deny admittance when payments are late.

Management’s Response

Letters of counseling will be administered to the two Day Care Coordinators addressing this requirement. Management will continue to spot check and monitor.

Responsible Party

Joe Rodriguez, Recreation Manager and Julie Belcher, Recreation/Sports Coordinator

Implementation Date

May 20, 2011

Current Observation

According to the Parks and Recreation Department’s Recreation Services Manager, the Day Cares are enforcing the established “requirement to deny admittance” policy when payment is not received by the due date. Documentation supporting the enforcement of policy could not be provided.

Status

In Progress – Management will assume the responsibility of ensuring the policy is enforced. The Internal Audit Office will not conduct any additional work in their area due to the cost/benefit of assigning an auditor.

**City of El Paso
Internal Audit Office
Parks and Recreation Day Care Operation Follow-Up Audit No. A2013-07**

INHERENT LIMITATIONS

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may deteriorate.

CONCLUSION

We have concluded our audit work on the objectives of the Follow-Up Audit – Parks and Recreation Day Care Operation Audit. Based on the results of the review, we have determined that four (4) of the original findings have been implemented and one (1) is still in progress of being fully implemented. Management will assume the risk of not enforcing the policy in Finding #5. The Internal Audit Office will not be scheduling a second Follow-Up Audit due to the cost/benefit of conducting another follow-up on one finding.

We wish to thank the Parks and Recreation Management and Staff for their assistance and courtesies extended during the completion of this Follow-Up Audit.

Signature on File
Edmundo S. Calderón, CIA, CGAP, CRMA, MBA
Chief Internal Auditor

Signature on File
Laura Prine
Auditor

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**City of El Paso
Internal Audit Office
Parks and Recreation Day Care Operation Follow-Up Audit No. A2013-07**

ADDENDUM TO ORIGINAL REPORT

**Income Statement
Parks and Recreation Day Cares
September 1, 2009 to August 31, 2010**

<u>Income:</u>		<u>%</u>
Fees	\$ 292,484.41 ¹	100%
Total Income <u>\$ 292,484.41</u>		<u>100%</u>
 <u>Expenses:</u>		
Direct Expenses		
Salaries and Wages	\$ 238,578.17 ¹	78%
Contractual Services	\$ 24,733.13 ²	8%
Supplies and Materials	\$ 6,711.62 ³	2%
Operating Expenses	\$ 486.00 ⁴	0%
Total Direct Expenses <u>\$ 270,508.92</u>		<u>88%</u>
 Net Profit Before Indirect Expenses <u>\$ 21,975.49</u>		
 Indirect Expenses		
Utilities at Galatzan Day Care	\$ 5,222.82 ⁵	2%
Utilities at Veterans Day Care	\$ 7,577.10 ⁵	2%
Administrative Expenses	\$ 23,857.82 ⁶	8%
Total Indirect Expenses <u>\$ 36,657.74</u>		<u>12%</u>
 Total Expenses <u>\$ 307,166.66</u>		 <u>100%</u>
 Net Profit/(Loss) <u>\$ (14,682.25)</u>		

¹ Total Fees and Salaries and Wages obtained from PeopleSoft Financials.

² Total Contractual Services is per PeopleSoft Financials. Contractual Services includes: Maint. Svcs Contract - Janitorial, Security Contracts, Training/Instruction Contracts, Outside Contracts, Linen and Industrial Contracts, and Office Equipment - Leases.

³ Total Supplies and Materials are per PeopleSoft Financials. Supplies and Materials includes: Office Supplies, Photography/Film/Video Supply, Cleaning Supplies, Clinical/Medical Supplies, Food and Beverage Supplies, Recreational Supplies, and Uniforms and Apparel Supplies.

⁴ Total Operating Expenses is per PeopleSoft Financials. Operating Expenses includes: Seminars/Continuing Education and Professional Licenses and Memberships.

⁵ Utilities include Water, Electricity, Gas, and Phone Expenses. Water, Electricity and Gas expenses for the entire facility were determined and allocated to only the Day Care by Square footage.

⁶ Indirect Administrative Expenses based on 10% of Salaries and Wages (\$238,578.17*.10)

⁷ Total Indirect Expenses does not include Rent Expense.