

Inquiry into

Misuse of City “Sam’s Club Card” – Parks, Recreation, and Neighborhood Affairs

Report #0820

September 24, 2008

Summary

The purpose of this report is to communicate the results of our inquiry into misuse of a City Sam’s Club card by an employee of the Parks, Recreation, and Neighborhood Affairs Department (Department).

This inquiry was conducted at the request of City management after Department management determined that an employee (Wayne Funderburke) had inappropriately used a City Sam’s Club card for personal benefit. The results of our inquiry showed that the employee inappropriately made 89 personal purchases totaling \$5,213 during the period July 28, 2006 through July 21, 2008. Of those 89 personal purchases, 78 were for gasoline (totaling \$4,221) and 11 were for other items (totaling \$992). Those other items included, for example, a car battery, soft drinks, groceries, toiletries, light bulbs, shirts, and a ladder. Our analysis shows that the majority, if not all, of those purchases were charged to the City’s account. We found that the City did not pay for any of those inappropriate purchases. However, the employee had not paid for a significant portion of those purchases as of the date of his resignation, July 21, 2008. As of that date, the balance owed Sam’s Club on the City’s account for his personal purchases totaled \$2,981. In addition, whether intentional or not, some state sales taxes (i.e., \$29) were not paid on those personal purchases.

Upon determination of the amount still owed on the City’s account, the City paid Sam’s Club the \$2,981 balance on September 8, 2008 and closed the account. To obtain reimbursement from Mr. Funderburke, the City will withhold an equal amount from the funds owed Mr. Funderburke for his unused leave balances. Payment to Mr. Funderburke for the balance of any unused leave will not be made until completion of this inquiry and a determination by management that such

payment is warranted.

This misuse was not initially detected by the Department because the periodic account statements were not sent to and reviewed by a person other than the employee who inappropriately charged his personal purchases to that City account.

At the request of management, we also reviewed other functions performed by the applicable employee to ascertain if any City resources (e.g., cash and revenue collections and purchased items) relating to those functions were missing or otherwise unaccounted for within the City’s records. Our review of those other areas did not disclose additional instances of misuse that could be attributable to the applicable employee. However, issues were identified for which enhancements are needed to assist the Department in accurately and completely accounting for fees and activities.

We have made recommendations within this report to address all identified issues, including those pertaining to the misuses of the Sam’s Club account and the other functions performed by the applicable employee.

We would like to express our appreciation for the assistance and cooperation provided by Department staff and Sam’s Club staff during this inquiry.

Scope, Objectives, and Methodology

The Office of the City Auditor is an independent appraisal activity within the City organization for the review of operations as a service to the City Commission and to management. Accordingly, we periodically respond to requests from City management to independently review allegations of violations of established internal control policies or procedures, including misuse of City resources.

This inquiry was conducted at the request of City management after a determination was made that a Parks, Recreation, and Neighborhood Affairs Department (Department) employee had inappropriately used a City Sam's Club card for personal benefit. This inquiry was performed to determine the type and amount of inappropriate use. As part of this inquiry, we also reviewed other functions performed by the applicable employee to ascertain if any City resources (e.g., cash and revenue collections and purchased items) relating to those functions were missing or otherwise unaccounted for within the City's records. Those other functions/resources included:

- Registration fees for adult sports teams.
- Fees for rental of City fields to external entities.
- Concession stand sales at Messer and Tom Brown Parks.
- Purchases using a City Purchase Card (P-Card) assigned to the employee.

To make the necessary determinations, we conducted interviews of Department staff, Sam's Club staff, and selected individuals/organizations renting fields from the City. We reviewed activity and transaction records of both the City and Sam's Club. Applicable processes and procedures were also reviewed. Our inquiry focused on activity occurring during the most recent 2-year period (July 2006 through July 2008).

We conducted this inquiry in accordance with the International Standards for the Professional Practice of Internal Auditing and 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 inquiry audit objectives.

Background

On July 21, 2008, Wayne Funderburke, a supervisor in the Parks, Recreation, and Neighborhood Affairs Department's Athletic Division, resigned his employment with the City. The resignation occurred after Department management determined that he

had been inappropriately charging personal purchases at the local Sam's Club to the City's account. That determination was made upon research conducted by Department staff after the Department director received a phone call from Sam's Club concerning the delinquent balance owed on the account.

Initial research and review conducted by Department staff showed that Mr. Funderburke used the City's account to purchase items both for the Department and for his personal benefit. For items purchased for the Department, Mr. Funderburke turned in the related store receipts to Department administrative staff for review, processing, and payment by City check. Mr. Funderburke used his own funds to pay for his personal purchases charged to the City. Nonetheless, until he paid for those personal purchases, the purchases remained charged to the City, which represents an unauthorized use of the City's credit account. Prior to receipt of the noted phone call from Sam's Club, Department staff was unaware of those circumstances as the account statements were mailed directly to and retained by Mr. Funderburke.

Because of the identified unauthorized use, City management asked the City Auditor to review the related circumstances and control issues, and to review other functions performed by Mr. Funderburke to ascertain if any other misuses occurred. This inquiry report discloses the results of our review.

Inquiry into Sam's Club Purchases

Overview: The Department's primary purpose for opening an account with Sam's Club was to allow the efficient acquisition of goods sold to the public at concession stands operated at Messer and Tom Brown Parks during City sponsored athletic events (e.g., adult softball and youth football games). Typical items purchased from Sam's Club to be sold at the concession stands included candy, chips, hot dogs, hamburgers, popcorn, soft drinks and similar beverages, napkins, paper towels, cups, and similar items. When beneficial (e.g., best available prices), the Department also authorized Mr. Funderburke to acquire other items for Department use, such as tables, chairs, cash registers (i.e., for the concession stands), and cleaning supplies.

Sam's Club indicated that the City of Tallahassee Parks and Recreation account was opened in

February 2002. For each Sam's Club business type account, a primary cardholder is designated. The primary cardholder for the Parks and Recreation account was Wayne Funderburke. As primary cardholder, Mr. Funderburke was provided a Sam's Club identification card that allowed him to access the store, make purchases, and charge those purchases to the City's account. A secondary card was also assigned to a temporary Department employee working under Mr. Funderburke's supervision. The temporary employee could use the assigned card to also enter the store, make purchases, and charge the purchases to the City's account. Periodic statements showing charges and unpaid balances were generated by Sam's Club and sent directly to Mr. Funderburke. Mr. Funderburke did not share those statements with other Department staff.

During the period July 1, 2006 through July 21, 2008 (date of Mr. Funderburke's resignation), City records show that the Parks, Recreation, and Neighborhood Affairs Department paid Sam's Club \$30,649 for approximately 150 purchases made by Mr. Funderburke or the temporary employee and charged to the City's account. We reviewed a sample of 48 of those purchases and determined they were documented as authorized, reasonable, and for appropriate purposes.

ISSUE #1 – Notwithstanding the validity and propriety of the “City-paid” purchases documented in City records and addressed in the previous paragraph, our analysis of Sam's Club records showed that Mr. Funderburke also made 89 personal purchases totaling \$5,213 during the period July 28, 2006 through July 21, 2008. Of those 89 personal purchases, 78 were for gasoline (totaling \$4,221) and 11 were for other items (totaling \$992). Those other items included, for example, a car battery, soft drinks, groceries, toiletries, light bulbs, shirts, and a ladder. Our analysis shows that the majority, if not all, of those purchases were charged to the City's account. Furthermore, Mr. Funderburke had not paid for a significant portion of those purchases as of the date of his resignation, July 21, 2008. As of that date, the balance owed Sam's Club on the City's account for Mr. Funderburke's personal purchases totaled \$2,981.

Upon determination of the amount still owed on the City's account, the City paid Sam's Club the \$2,981 balance on September 8, 2008 and closed the account. To obtain reimbursement from Mr.

Funderburke, the City will withhold an equal amount from the funds owed Mr. Funderburke for his unused leave balances. Payment to Mr. Funderburke for the balance of any unused leave will not be made until completion of this inquiry and a determination by City management that such payment is warranted.

These circumstances occurred without timely detection by City staff because of an inadequate segregation of employee duties. Specifically, as a cardholder, Mr. Funderburke should not have received and maintained sole custody of the periodic statements. The periodic statements should have been sent to and reviewed by an employee other than the two cardholders that made and charged purchases to the account. A proper control structure provides that such statements should be provided to and reviewed by a supervisory employee to ensure the propriety and validity of charges to the City's account. This is the same basic control concept applicable to bank accounts (i.e., independent reconciliation of the periodic bank statements) and City P-Card accounts (i.e., independent review and approval of monthly cardholder statements by someone other than the cardholder).

ISSUE #2 – As a government entity, the City of Tallahassee is exempt from state sales taxes on purchases made from Sam's Club. Accordingly, Mr. Funderburke was in the position to circumvent state sales taxes on personal purchases charged to the City's account. As noted in the previous issue, Mr. Funderburke made 89 personal purchases using the City Sam's Club card assigned him as the primary cardholder. While state sales taxes were properly charged and paid for most of those purchases, we identified eight personal purchases in which sales taxes of \$29 were not paid. It was not possible to determine if those instances of not paying taxes was intentional. However, this issue demonstrates that a risk of maintaining a City account at Sam's Club allows for the possibility of sales tax circumvention by individuals using that account to make personal purchases. (NOTE: It is our understanding that, upon being made aware of this issue, Mr. Funderburke intends on reimbursing the appropriate entity for the State sales taxes not paid.)

RECOMMENDATIONS. If future accounts of this nature are to be maintained by the City, a citywide procedure or policy should be established that requires on-going, independent supervisory review of related purchases and activity. Those

independent reviews should address the propriety and validity of all purchases, including review of the periodic account statements. In addition, a policy should be established that precludes use of the accounts to make personal purchases. Cardholder employees wishing to make personal purchases should be required to establish their own personal (non-City) accounts with Sam's Club (or similar vendor). (NOTE: The Parks, Recreation, and Neighborhood Affairs Department has subsequently opened a new account with Sam's Club with a different supervisory employee as the primary cardholder. That employee is aware that all purchases must be for City purposes.)

CONCLUSION. Because of inadequate controls and procedures, a Department employee was able to misuse the Department's Sam's Club account without timely detection. The misuse included charging personal purchases (89 totaling \$5,213) to that account and not paying for those purchases in a timely manner, resulting in a delinquent balance of \$2,981 on that account. In addition, some state sales taxes were not paid on personal purchases. Recommendations have been provided to assist the City in precluding future similar instances.

Inquiry into Adult Sports Registration Fees

One of the areas under the responsibility of Mr. Funderburke was the registration of adult sports teams and collection of related fees. Teams participating in the various sports generally registered and paid the fees to one of several Department employees, including Mr. Funderburke. Collected fees were turned into Mr. Funderburke, who prepared the applicable collection reports and then turned those reports and related collections into Department administrative staff. Department administrative staff used those reports in preparation of summary reports and bank deposits. Registration fees were paid by check, credit card, and sometimes cash.

The adult sport that generates the most collections is adult softball. For fiscal year (FY) 2007, Department reports show that, of adult sports registration fees totaling \$182,038, an amount of \$139,611 was for softball.

To determine if registration fees were properly accounted for, we requested Department administrative staff to compare and reconcile the

amounts collected for adult softball in the fall of 2007 (\$49,270) and the spring of 2008 (\$91,400) to the respective amounts that should have been collected based on individual team registration records. The purpose of this task was to determine whether records demonstrate that all registration fees that should have been collected were documented as collected and turned in by Mr. Funderburke for deposit. We reviewed those comparisons and reconciliations prepared by Department staff.

ISSUE #3 – The reconciliation for adult fall 2007 softball showed the correct amount was reported and turned in by Mr. Funderburke for deposit. However, for adult spring 2008 softball, the reconciliation shows that an amount of \$91,400 should have been collected and turned in based on registration records, but only \$88,763 was reported and turned in by Mr. Funderburke, or a difference of \$2,637. Notwithstanding that the \$2,637 has not been accounted for by the Department, we determined that it is not possible to attribute the unaccounted for funds solely to Mr. Funderburke, as several employees processed team registrations and collected fees prior to remittance to Mr. Funderburke. Additionally, it is possible that other events occurred that would explain that difference (e.g., refunds, waivers, etc.) but those events are not documented in the Department's records.

RECOMMENDATIONS. Department staff perform comparisons and reconciliations in the nature described above on an on-going basis. Those comparisons and reconciliations are performed to ensure that cash and revenue collections are properly processed and deposited into the City's bank account. We commend the Department for this process. Due to the unaccounted for funds as noted above, we recommend that the Department consider strengthening its controls to allow determination of responsibility in the event funds are found to be unaccounted for during these periodic comparisons/reconciliations and to otherwise improve accountability for registration fees. Specifically:

- Each completed team registration form should document the employee collecting the related fees and the amount of the collected fee.
- The transfer of collected fees between employees should be documented, including the transfers by the employee initially collecting the fees to the employee preparing collection

reports. Documentation of those transfers should be retained in Department records.

- All events (e.g., refunds, waivers, etc.) impacting registration fees due the Department should be adequately and completely documented in the Department's records.

Such additional controls will enhance the ability of the Department to ascertain individuals responsible for any unaccounted for fees and to document the correctness of the fee amounts collected and submitted for deposit.

CONCLUSION. Registration fees of \$2,637 are not accounted for in the Department's records. However, a final determination cannot be made as to reasons for those unaccounted for funds. Additional controls have been recommended to enhance the Department's ability to account for future registration fees.

Inquiry into Field Rental Fees

Another area under the responsibility of Mr. Funderburke was the execution of rental agreements with external parties for the use of City fields for private events (e.g., softball tournaments, camps, clinics, etc.). Related rental fees were also collected by Mr. Funderburke for transfer to Department administrative staff for deposit. Based on the Department's internal reports, those rental fees totaled \$37,192 in FY 2007.

To determine if rental fees were properly accounted for, we obtained available Department records of FY 2008 field rental events (e.g., rental agreements and rental application forms) as of the date of our fieldwork in August 2008. We also reviewed e-mails submitted to and by Mr. Funderburke. Our review identified 16 rental events. For each of those events, we identified the applicable fee and traced to evidence of receipt by the Department administrative staff, or determined that (1) the event had been cancelled (with no fee collected), (2) the fee was waived, or (3) the fee had not yet been collected. Those determinations were made based on interviews of the respective renting entities and knowledgeable Department staff and review of Department records. Our review did not show any missing or unaccounted for fees. However, the following issue was identified.

ISSUE #4 – Improved documentation should be prepared to demonstrate approved rentals of City fields, as rental records were sometimes incomplete and/or inadequate. Such improved documentation is necessary to enable Department management to ensure timely collection of applicable fees. Examples of inadequate documentation included the following:

- For one rental event (private school rental of fields for softball practice), the only documentation available evidencing the event was an e-mail request submitted by the renting party to Mr. Funderburke. There was no rental application or rental agreement available for the event. Our interview of the renting entity disclosed that the fields were used. In that interview, the renting entity indicated that they were informed that a fee would be assessed, but to date no fee had been paid as no one had informed them of the amount that was due. As of the date of the interview, six months had elapsed since the rental event.
- For another rental event (flag football tournament), the only documentation evidencing the event was a rental information form that was completed on the day of the event, after the event had occurred. There was no rental application or rental agreement available for the event. Our interview of the renting entity disclosed that the fields were used. In that interview, the renting entity indicated that no fee had been paid as no one had informed them of the fee that was due. The available rental information form indicates that the rental fee would be \$440. As of the date of the interview, four months had elapsed since the rental event.
- For an additional event (private school rental of softball fields), the only records documenting the events were e-mail requests from the renting party and e-mails from Mr. Funderburke approving that rental. Mr. Funderburke's e-mail approving the rental indicated that fees would be assessed. There was no rental application or rental agreement available for the event. Our interview of the renting entity disclosed that the fields were used. However, we were not able to contact appropriate individuals to determine if a fee for that usage was paid to the Department or to Mr. Funderburke.

- For three additional rental events, the only evidence of the rental events was an invoice of the rental fee or a rental information form completed on the day of the event, after the events had been held. There was no rental applications or rental agreements available for these events. We determined that fees were collected and deposited for one event and fees were invoiced but not collected for another event. Based on our discussions with the entity using the applicable field and knowledgeable City staff, the fees were waived for the third event.
- For a last event (softball tournament and batting contest), a signed rental application was on file to document the event. However, we found no evidence that a fee was paid or waived. Discussions with the renting party indicated that the event was held but were inconclusive as to whether any fee was due or paid to the Department.

The lack of complete and adequate rental agreements makes it difficult for the Department to properly document rental events and the related fees (or waiver of those fees). The lack of such documentation also makes it difficult for the Department to ensure that all fees that are due for those rentals are timely collected and deposited.

RECOMMENDATIONS. Management should enforce the requirement that standard rental applications and agreements be completed for each rental of Department fields. Those applications/agreements should be completed prior to the date of the applicable event. When determinable in advance, the related fees should be documented on those executed agreements. Additionally, management should require the payment of those fees in a timely manner. To ensure compliance once such procedures are established, Department management should also require annual reconciliations of all rental applications/agreements to evidence of deposit of related fee collections. Those annual reconciliations should be performed by independent supervisory staff (i.e., employees other than the employees approving and executing the rental agreements).

Furthermore, for the instances described above where rental events have been held but no fee collected, the Department should follow up and collect appropriate amounts due the City.

CONCLUSION. Our review did not show any missing or unaccounted for fees. However, a determination was made that improved documentation is needed to enhance the Department's ability to account for fees due for rental of City fields to external entities. Efforts should also be enhanced to ensure timely collection of those fees. Recommendations were made accordingly.

Inquiry into Concession Stand Sales

An additional area under the responsibility of Mr. Funderburke was concession stand sales. Concession stands were operated at Messer and Tom Brown Parks. Generally, those stands were operating by temporary employees under the supervision of Mr. Funderburke. During FY 2007, concession stand revenues totaled \$38,153.

Staff operating the concession stands were required to prepare periodic (generally daily) cash collection reports. Those reports were transferred to the Department administrative division for review, summary report preparation, and deposit. Temporary staff operating the concession stands generally transferred the cash collection reports and related collections to the Department's administrative division. However, Mr. Funderburke also occasionally made those transfers.

To ensure that funds were properly transferred for deposit, Department staff performed analytical procedures at our request. We reviewed the procedures and results. Those analytical procedures did not show or indicate missing or unaccounted for concession stand funds. Notwithstanding, the Department implemented an additional control as the result of that analysis. That control consists of tracking receipt of daily cash collection reports for each day that a concession stand is open for business. That control should help the Department ensure that cash collection reports are prepared daily and that cash collections are transferred for deposit. We commend the Department for the implementation of that control.

CONCLUSION. Analytical procedures did not show or indicate missing or unaccounted for concession stand funds. Nonetheless, the Department implemented a new control to enhance its ability to ensure proper transfer of concession stand sales for deposit into the City's account.

Inquiry into Employee P-Card Purchases

The last area that we reviewed for possibility of additional misuse by Mr. Funderburke was his City P-Card purchases. We reviewed his charges and activity during the 20-month period November 2006 through June 2008. Our review showed each purchase during that period was reasonable in nature and independently reviewed and approved by appropriate supervisory staff. No evidence of misuse was identified.

CONCLUSION. Our review showed that Mr. Funderburke's P-Card purchases were documented as independently reviewed and reasonable in nature. No evidence of misuse was noted.

Inquiry into Other City Sam's Club Accounts

During this inquiry, we became aware of several other City Sam's Club accounts maintained by other City departments. Because of the inherent risks associated with those accounts, we plan on reviewing activity for those accounts and the related control processes. As necessary, the results of those additional inquiries will be provided to City management in a memorandum separate from this inquiry report.

Overall Conclusion

This inquiry was conducted based on a request by City management to ascertain the amount and type of misuse of City funds/resources by a Parks,

Recreation, and Neighborhood Affairs employee. That employee recently resigned his employment with the City after Department management determined that he had inappropriately used a City Sam's Club card for personal benefit.

In this inquiry, we determined the amount of that employee's inappropriate use of the City's account with Sam's Club. Additionally, with the assistance of Parks and Recreation administrative division staff, we reviewed other activities performed by the applicable employee to determine if any other misuses of City funds/resources occurred or likely occurred.

Sam's Club Account. The results of our inquiry showed that the employee made 89 personal purchases totaling \$5,213 during the period July 28, 2006 through July 21, 2008, and inappropriately charged (at least the majority of) those to the City's Sam's Club account. We found that the City did not pay for any of those inappropriate purchases. However, the employee had not paid for a significant portion of those purchases as of the date of his resignation, July 21, 2008. As of that date, the balance owed Sam's Club on the City's account for his personal purchases totaled \$2,981. In addition, some state sales taxes (i.e., \$29) were not paid on those personal purchases. (NOTE: It is our understanding that, upon being made aware of this issue, Mr. Funderburke intends on reimbursing the appropriate entity for the State sales taxes not paid.)

Other Areas. In regard to other areas for which the applicable employee participated in or was responsible, we found no misuses of City funds/resources that could be attributable solely to the employee. We did determine that registration fees of \$2,637 for adult sports could not be accounted for or otherwise explained. Department records and processes were not sufficient to enable a determination of what employee was responsible for those funds or to otherwise explain the disposition of those fees (e.g., waived).

Recommendations. For the above issues, as well as other issues identified by this inquiry and explained in previous sections of this report, we made recommendations to enhance controls that should enhance the Department's ability to ensure City resources are properly accounted for and used.

We would like to express our appreciation for the assistance and cooperation provided by Department staff and Sam's Club staff during this inquiry.

Appointed Official's Response

City Manager Response:

We appreciate the thorough and timely job the City Auditor's staff did in examining the misuse of a City Sam's Club card by an employee of the Parks, Recreation, and Neighborhood Affairs Department and the steps the department has already taken to successfully rectify identified deficiencies. We recognize and appreciate the importance of good internal controls and are confident that continued active monitoring of the controls implemented as a result of this audit will continue to improve operations and performance and prevent a similar situation from occurring in the future.

Copies of this Inquiry (Report #0820) may be obtained at the City Auditor's web site (<http://www.talgov.com/auditing/index.cfm>) or via request by telephone (850 / 891-8397), by FAX (850 / 891-0912), by mail or in person (City Auditor, 300 South Adams Street, Mail Box A-22, Tallahassee, FL 32301-1731), or by e-mail (auditors@talgov.com).

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