

County of Ventura  
AUDITOR-CONTROLLER  
MEMORANDUM

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To: Paul S. Grossgold, Director, General Services Agency

Date: August 9, 2007

From: Christine L. Cohen

Subject: PERFORMANCE OF LIMITED PROCEDURES REGARDING THE EL RIO COMMUNITY GYM  
OUTSIDE BANK ACCOUNT

As requested by the General Services Agency (GSA), we have completed our limited procedures to review the El Rio Community Gym outside bank account. The results of our review are summarized below.

**BACKGROUND:**

On February 2, 2007, GSA management became aware that a Parks Department employee used an outside bank account to facilitate the day-to-day operations at the El Rio Community Gym (Gym). The account was opened in May 2003 without GSA management's knowledge. As a result, the account was operated without proper regard to fiscal oversight or internal controls. For example, although the employee maintained ledgers and receipt books to account for Gym activities, such documentation had not been subject to independent review. In addition other general fraud indicators were present; for example: the employee was the only authorized signer on the account; and the bank statements were mailed directly to the employee's home.

As a result of GSA management's discovery of the account, GSA ceased operations for the Gym until a full review of internal controls could be performed by GSA management. In addition, GSA requested the Auditor-Controller's assistance to perform a detailed analysis of the financial transactions for Gym activities.

**SCOPE:** Our procedures were limited to reviewing the following available documentation for the outside bank account and Gym activities: bank statements; cleared checks; revenue and expenditure receipt documents; and the hand-written revenue/expenditure ledger. Our review covered the period of February 25, 2003, through February 6, 2007, representing the commencement and discontinuation dates for Gym activities, respectively. Our limited procedures did not constitute an audit and were designed to provide GSA with an overview of financial transactions related to the outside bank account and Gym activities for GSA's determination of follow-up action.

**RESULTS:**

Overall, complete and accurate accountability could not be established for Gym revenues and expenditures, a condition which generally indicates that fraud could have occurred. However, because of missing documentation, irreconcilable balances, and general disregard for proper internal controls, additional investigation would need to be conducted to determine whether any wrongdoing occurred.

Following are the details of the results of our review of outside bank account transactions and Gym activities.

1. **Reconciliation of Financial Transactions.** Financial transactions relating to the outside bank account could not be clearly tied to Gym activities as illustrated below. Our analysis disclosed that not all revenues were deposited to the outside bank account, and a direct correlation could not be made between deposits and collections. In addition, not all expenditures were paid through transactions from the outside bank account; therefore, the majority of expenditures were likely paid from cash-on-hand that had not been deposited.

**Outside Bank Account Versus Gym Activity**

Outside Bank Account <sup>1</sup>		Gym Activity	
Deposits	\$ 47,258.81	Revenues/Donations	\$ 86,532.23
Charges (Checks and Fees) <sup>2</sup>	45,725.93	Expenditures	95,707.64
Deposits Exceed Charges	\$ 1,532.88	Expenditures Exceed Revenues	\$ 9,175.41

2. **Outside Bank Account Transactions.** The ending balance for the outside bank account was \$1,532.88 as of February 6, 2007. Information on account activity is provided below.
  - A. **Deposits.** Deposit activity totaling \$47,258.81 began on May 13, 2003, and ended on February 6, 2007, and an average of 4 deposits were made monthly, averaging \$247 for each deposit.
  - B. **Charges.** All bank charges of \$45,725.93 were from checks paid against the account and for account fees. No withdrawals or transfers appear to have occurred.<sup>2</sup>
    - i. **Checks.** At least 199 checks (check numbers 101 through 299) were available to be written from the account. However, only 163 checks totaling \$44,964.35 were charged against the account, and an additional 2 checks were voided. The disposition of the remaining 34 checks, whether written and outstanding, voided, or blank, could not be determined.

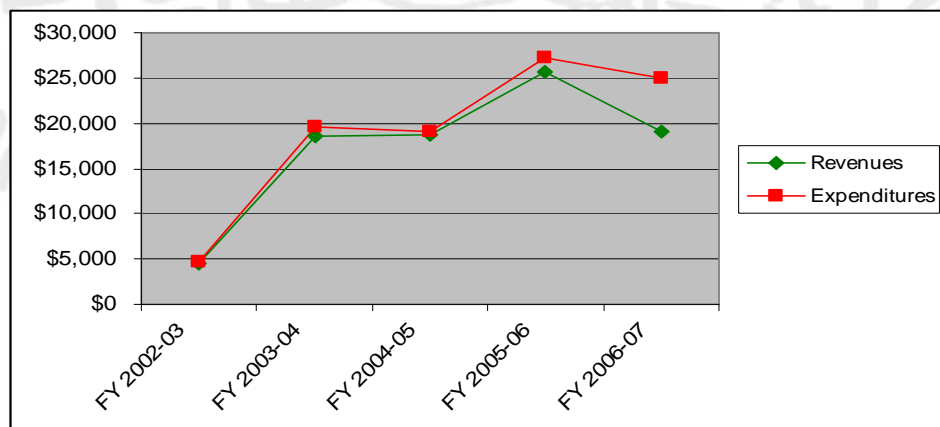
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<sup>1</sup> On July 15, 2005, the bank statement reported a \$40,848.91 credit and an offsetting debit in the same amount on July 22, 2005. These transactions did not appear to be deposits/withdrawals because: a reference number was not associated with the credit; the reversing debit was posted with the description "Debit to Reverse Previously Posted Credit;" and collections not yet deposited totaled only \$18,973 through August 11, 2005. Therefore, we did not include the \$40,848.91 in the total deposit or charge amounts for outside bank account activity.

<sup>2</sup> The monthly bank statement ending January 9, 2004, was missing; however, bank debits appeared to exceed credits for that month by \$395.98 based the prior month's ending balance and the subsequent month's beginning balance. Therefore, for purposes of our report, we added the net debit amount for that month to total charges.

- ii. **Account Fees.** An average of \$8.92 was incurred each month in account fees, for a total charge over nearly 4 years of \$365.60.
3. **Gym Activities.** Our analysis of available documentation disclosed that \$86,532.23 in revenues/donations were recorded, and at least \$95,707.64 in expenditures were incurred from February 25, 2003, through February 6, 2007. Because documented expenditures for Gym activities exceeded revenues by \$9,175.41, all collections may not have been recorded. GSA did not locate any cash-on-hand at the Gym to account for the variance. Following are details of Gym activities.
  - A. **Revenue/Expenditure Ledger.** The hand-written revenue/expenditure ledger was not a complete or accurate accounting of Gym financial transactions. Specifically, the ledger did not account for 37 cash receipts, which amounted to \$1,120.00 in revenues. In addition, expenditures of \$10,772.43 were not posted to the ledger. Further, calculated line-item balances on the ledger were frequently not correct, affecting the ending balance. As a result, the \$1,205.27 ending ledger balance was overstated by \$10,380.68, and should have reported expenditures in excess of revenues (i.e., a negative balance) of \$9,175.41.
  - B. **Revenue and Expenditure Trends.** Expenditures consistently exceeded recorded revenues during each fiscal year (FY) as illustrated below. Generally, the variance was less than 6 percent, except for the final year of operations, when expenditures exceeded revenues by 32 percent.

**Revenue and Expenditure Trends**



- C. **Revenue Purpose.** Revenue was collected mainly for Gym programs; however, monies were also received from fundraisers, donations, and reimbursements from the Ventura County Parks Foundation. Following is a breakdown of programs/purposes for which funds were received:

**Programs/Purpose for Revenue Recorded**

Revenue Category	Amount Recorded	% of Total Amount Recorded
Youth Basketball	\$ 43,041.75	50%
Adult Basketball	17,529.00	20%
Fundraisers	8,315.67	10%
Reimbursements from Ventura County Parks Foundation	6,406.81	7%
Donations	6,008.00	7%
Gym Use	4,160.00	5%
Volleyball	841.00	1%
Unknown	230.00	-----
<b>Total Revenue</b>	<b>\$ 86,532.23</b>	<b>100%</b>

- D. **Revenue Receipt Documentation.** During the period under review, 2,275 manual cash receipt forms were used, accounting for \$83,144.93 in revenues. An additional 59 line item entries accounting for \$3,387.30 were identified in the hand-written ledger for which matching cash receipt forms could not be located. The review of receipt forms disclosed that the majority of revenues (at least 43%) were from cash payments by patrons. An additional 526 payments may also have been received as cash; however, the payment method was not documented on the receipt form. We also noted that 28 receipts were missing and the amount of these receipts could not be determined. Following is a breakdown of the types of payments received from patrons:

**Payment Types for Revenue Receipts**

Payment Type	Number of Receipts	Amount Recorded	% of Total Amount Recorded
Cash	1,402	\$ 37,030.12	43%
Check	259	23,601.31	27%
Unknown	526	17,263.00	20%
Cash/Check	41	5,120.50	6%
Money Order	2	130.00	-----
Missing	28	-----	-----
Blank	17	-----	-----
Ledger Entry Only	59	3,387.30	4%
<b>Total</b>	<b>2,334</b>	<b>\$ 86,532.23</b>	<b>100%</b>

- E. **Patron Copy of Receipt.** Receipts were not always provided to patrons when revenue/donations were received. Specifically, both the white and yellow copies of the duplicate receipt forms remained intact in the receipt books for 1,003 receipts (44%), representing \$44,458.43 in collections, of the total 2,275 receipts written. In addition, 619 (62%) of the 1,003 receipts not provided to patrons, representing \$18,036.62, were for cash payments.
- F. **Expenditure Transactions.** We identified 1,000 expenditure transactions that were supported with receipt documentation, accounting for \$44,864.66. We also identified an additional 497 transactions totaling \$50,842.98 for which a corresponding receipt could not be located. Without receipt documentation, we could not verify that descriptions and payees listed on the ledger were accurate. A summary of expenditures that could be traced to supporting receipts is provided below.

**Expenditures Supported with Receipts**

Expenditure Category	Amount Expended	% of Total Amount Expended
Arts & Crafts	\$ 423.90	0.94%
Bank Fees	145.22	0.32%
Film Processing	925.88	2.06%
First Aid Supplies	489.08	1.09%
Gasoline	305.87	0.68%
Gift Certificates	75.00	0.17%
Holiday Decorations	109.91	0.24%
Hotel	1,772.43	3.95%
Kitchen Supplies	112.51	0.25%
Office Equipment	247.92	0.55%
Office Supplies	2,056.37	4.58%
Officials	13,535.00	30.17%
Recreation Activity (tournaments, etc.)	2,457.60	5.48%
Recreation Equipment	2,380.95	5.31%
Refund	10.00	0.02%
Salaries (office help, gym staff)	728.03	1.62%
Snacks	1,341.32	2.99%
Toys/Board Games/Video Games	447.56	1.00%
Trophies	9,944.37	22.17%
Uniforms	5,177.90	11.54%
Unknown	2,177.84	4.85%
<b>Total</b>	<b>\$ 44,864.66</b>	<b>100%</b>

- G. **Payments to Program Coordinator.** Payments were made to the program coordinator totaling \$8,361.03 from Gym funds. On 26 occasions the program coordinator wrote reimbursement checks from the outside bank account totaling \$7,126.03, and on 8 other occasions the reimbursements were in cash for \$1,235.00. Only \$433.03 (5%) of the total was supported with receipts.

**Payments to Program Coordinator**

Purpose*	Total Amount
Auction Fundraiser	\$ 204.00
Christmas Party Supplies	300.00
Indio Tournament	360.00
Kmart	193.03
Krispy Kreme Cards	300.00
Las Vegas Tournament	1,850.00
Officials	2,420.00
Officials and Awards	500.00
Reimbursement	939.00
Work Hours for Tournaments:	
5 Hours @ \$10/Hour (October 2003)	50.00
35 Hours @ \$15/Hour (April-May 2004)	525.00
Unknown	720.00
<b>Total</b>	<b>\$ 8,361.03</b>

\* No other explanation was provided except as noted above.

We appreciated the opportunity to be of assistance to GSA.

cc: Honorable Linda Parks, Chair, Board of Supervisors  
Honorable Steve Bennett, Board of Supervisors  
Honorable Kathy Long, Board of Supervisors  
Honorable Peter Foy, Board of Supervisors  
Honorable John K. Flynn, Board of Supervisors  
John F. Johnston, County Executive Officer