

5.4

**DEPARTMENT OF PARKS
AND COMMUNITY SERVICES**

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April 18, 1990

APPROVED
BY THE CITY COUNCIL

APR 24 1990

OFFICE OF THE
CITY CLERK

DIVISIONS:
GOLF
CROCKER ART MUSEUM
HISTORY AND SCIENCE
METROPOLITAN ARTS
SACRAMENTO ZOO
PARKS AND RECREATION
• NORTH
• SOUTH
• CITY-WIDE

City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: Sacramento Science Center Status Report

SUMMARY

This report provides information relating to fiscal, organizational, and operating difficulties currently experienced at the Sacramento Science Center. Further, this report recommends that the City Council: 1) approve the allocation of \$23,150 as an emergency infusion of funds to the Center's FY 1989-90 operating budget, 2) approve an additional administrative staff position, 3) consider increasing the Science Center's annual operating budget in FY 1990-91 by \$38,346, 4) direct the Sacramento Science Center's nonprofit group to reform its fiscal policies and procedures, 5) approve the proposed change in public hours for the Science Center, 6) direct staff and the nonprofit board to clarify the existing City/County/Nonprofit agreement, and 7) direct staff to report back to Council with an action plan outlining reorganization and operational changes and provide an update on the Science Center's financial status and planning efforts.

JOINT COMMITTEE ACTION

The attached report was approved by the joint Budget and Finance/ Transportation and Community Development Committee at their meeting of April 17, 1990.

RECOMMENDATION

It is recommended that City Council, by resolution:

1. Approve the allocation of \$5,450 as an emergency infusion of funds to the Center's FY 1989-90 operating budget
2. Approve an additional administrative staff position and appropriate \$8,141 in FY 1989-90 and \$18,350 in FY 1990-91 toward the cost of that position,
3. Consider increasing the Science Center's annual operating budget in FY 1990-91 by \$38,346,
4. Direct the Sacramento Science Center's nonprofit to reform its fiscal policies and procedures,
5. Approve the proposed change in public hours for the Science Center (Exhibit B),
6. Direct staff and the nonprofit board to clarify the existing City/County/ Nonprofit agreement, and
7. Direct staff to report back to Council with an action plan outlining reorganization and operational changes and provide an update on the Science Center's financial status and planning efforts.

Respectfully submitted,

James E. Henley, Manager
History and Science Division

Recommendation Approved:

Approved:

Walter J. Slips
City Manager

Robert P. Thomas, Director
Parks and Community Services

RPT: ja

April 24, 1990
All Districts

7. Direct staff to report back to Council with an action plan outlining reorganization and operational changes and provide an update on the Science Center's financial status and planning efforts.

MAYOR

ATTEST:

CITY CLERK

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____

**DEPARTMENT OF
FINANCE**BETTY MASUOKA
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DIVISIONS:
ACCOUNTING
BUDGET
REVENUE
RISK MANAGEMENTNovember 28, 1989
FA:89173:GN:KMF**MEMORANDUM**

TO: ROBERT P. THOMAS, Director of Parks and Community Services

FROM: GREG NORTON, Internal Audit Administrator

RE: AUDIT OF SACRAMENTO SCIENCE CENTER

As requested, the City of Sacramento Internal Audit Section has completed an operational audit of the Sacramento Science Center, a non-profit with a portion of operations funded through the City and County of Sacramento. This report summarizes the audit findings and provides recommendations for improvement where considered necessary. Please review and discuss the report with the Science Center Board and management as is appropriate. I would like to request that, following this review, a written response to the findings and recommendations be received from both the Science Center Board and management as soon as possible. I will make myself available for any discussion of the report that may be necessary.

I would like to express my appreciation to the Science Center and City staffs for their cooperation and assistance throughout the course of the audit.

PURPOSE AND SCOPE

The scope of the audit included, but was not limited to, a review of the collection and disbursements cycles, accounts payable function, short and long-term obligations, use of restricted funds, management reports/information, cash flow, and other accounting/bookkeeping functions for the purpose of evaluating the adequacy and

effectiveness of internal controls and efficiencies of operations. Audit procedures performed included those steps considered necessary to evaluate the areas under review.

FINDINGS/CONCLUSION

The following pages include the reported findings and recommendations, provided for management consideration, to improve those areas where weaknesses were noted.


GREG NORTON
INTERNAL AUDIT ADMINISTRATOR

REVIEWED BY:


BETTY MASUOKA
DIRECTOR OF FINANCE

c.c. Walt Slipe, City Manager
Jim Henley, Manager Museum & History, PCS
Dave Stuart, Science Center Administrator, PCS
Mike McGrane, Sr. Management Analyst, Finance

SACRAMENTO SCIENCE CENTER

I. LIABILITIES/ACCOUNTS PAYABLE/DISBURSEMENTS:

1. Outstanding obligations appear to be far in excess of the resources available for payment. Resources which have been available in the past, such as the endowment fund and grant monies, have been used to meet routine operating expenditures. Further, it does not appear that current day-to-day operating expenditure needs can be met under the current conditions. Debt payments are coming due in the very near future while routine obligations such as payroll, payroll taxes, and accounts payable cannot be met monthly. Following is a listing of some of the outstanding obligations with approximate amounts owed:

	Est. Owed
Bank Loan	\$20,300
Loans from individuals	4,000
City of Sacramento	17,700
Museum & History	7,000
Endowment Fund	?
Grant	24,000
Bank Loan	13,000
Grant	4,000

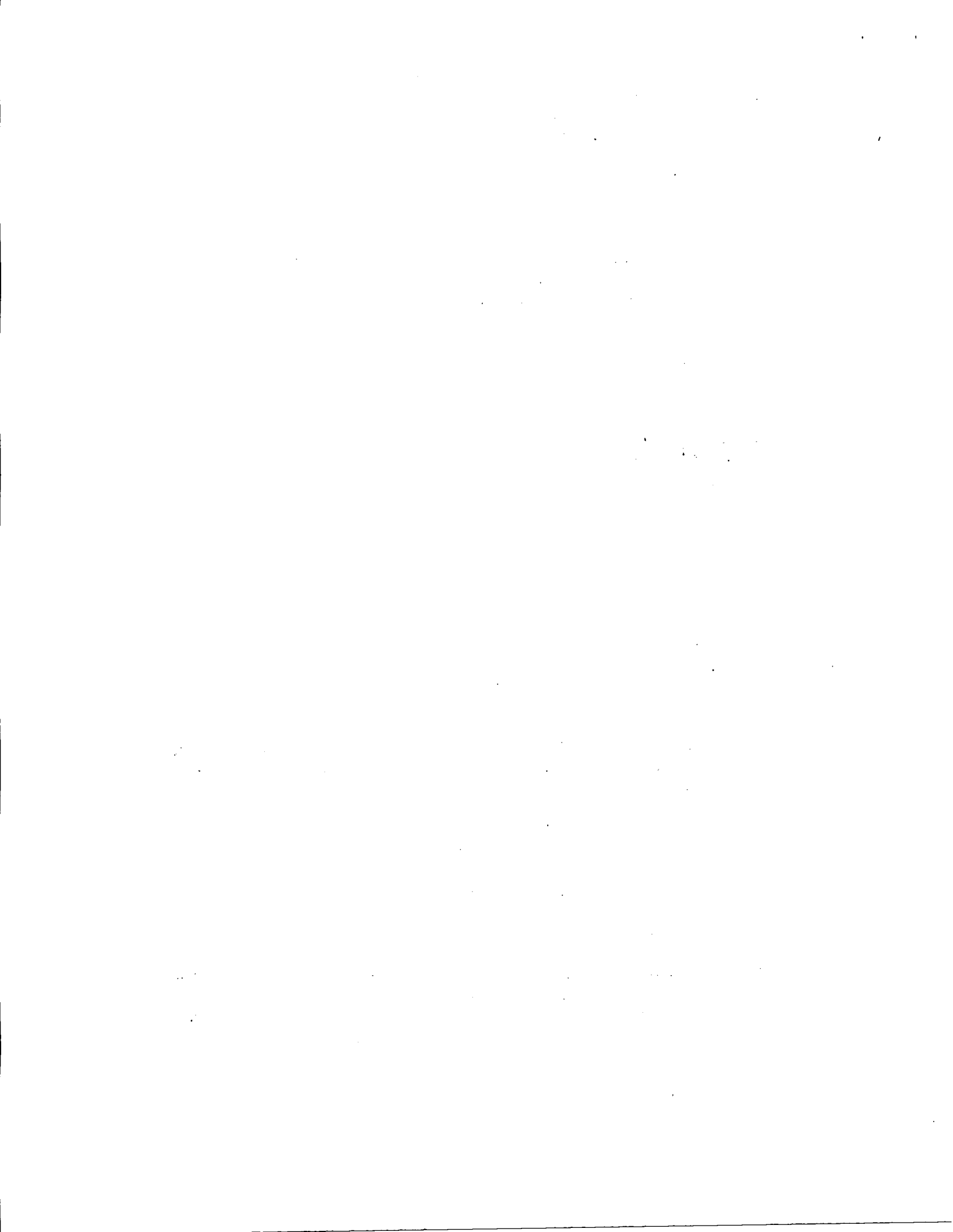
This listing of obligations does not include the routine obligations for accounts payable, payroll taxes payable, amount owed for dinosaur exhibit, sales tax payable on store sales, penalties accrued for late filing of the Information Returns, etc.

RECOMMENDATION 1

Steps must be taken immediately to address the financial needs of the Science Center. Decisions must be made to address the process by which outstanding debt obligations are to be met. Additionally, the operating budget must be reevaluated to ensure that it is realistic and steps taken to ensure that daily operating costs can be met since there are no other resources available to cover any deficit.

MANAGEMENT RESPONSE

The Board of Directors is now focused upon addressing these obligations. The Capitol Bank loan has been extended to allow proper financial planning for its retirement. Loans from individuals, all payroll taxes, and all but current accounts payable have been paid. The stipulations of the larger of the two grants listed in the staff report have been met. The Board has agreed to "write off" the unrestricted borrowed endowment funds. (The remaining restricted amount to be paid back to the endowment fund was set as \$13,500.) In addition, staff has prepared revised operating budget projections for the



remainder of FY 1989-90 to re-evaluate budgeting assumptions and ensure the budget contains reasonable expectations. In addition the Board is exploring various sources to discount a note receivable obtained from the Franklin property sale, to provide additional immediate cash flow.

2. The current method used for the monitoring and payment of Accounts Payable, A/P, is inadequate. It is not currently possible to determine the total outstanding A/P balance. Currently, other than for a few routine monthly payments and occasional notification from staff, A/P is determined only by the receipt of vendor billings. Costs are incurred and purchases made without any indication of the expense incurred or other means of appropriating funds or planning for the payment of these expenses. As a result, there are often occasions when there are not sufficient funds available for payment and occasions when billings received are a "surprise" and cannot be paid timely.

This method of purchasing and handling of A/P creates a lack of control over spending, difficulty in the monitoring and planning of payments, and can result in priority payments not being made on time.

RECOMMENDATION 2

Management should ensure that a formal A/P system be implemented. Such a system should include a method for appropriating funds as the debts are incurred. This will require preapproval of purchases with formal notification of the debt incurred and payment due date to the bookkeeper to allow for the proper allocation of resources for payment.

MANAGEMENT RESPONSE

A revised accounts payable system has been implemented (12-15-90). All purchase orders are now logged by the bookkeeper after approval by the Executive Director but prior to the purchase. Disbursements (other than regular payments, e.g., insurance premiums) are now made on the 10th and 25th of each month.

3. Currently, operating management does not have any tools available to monitor the cash balance and/or cash flow status for the purpose of determining funds available for expenditure and the establishment of payment priorities. Checks are written, signed and held until funds are available, in the checking account, for their distribution. Not monitoring cash flow, in addition to not planning through a formal A/P process, creates a day-to-day environment and does not provide for the proper planning of operating expenditures and payments. This can result in the expense of funds for low priority items and leave insufficient funds available for the payment of obligations which must be met timely, i.e., payroll.

RECOMMENDATION 3

Operating management should be provided a comprehensive cash flow status report at the beginning of each week with supplemental information provided as significant events occur subsequent to receipt of the report. The status report should include information such as the following:

- Current checking account balance
- Undeposited collections on hand
- Current fund account balances for all funds, restricted and unrestricted.
- Estimated routine collections for the upcoming week
- Other revenues expected to be received, i.e., note payment, committed grants, donations, fund transfers, etc., with expected date of receipt and indication of the level of assurance of collection. Information should include revenues expected for the next week and month.
- Known debt payments due during the upcoming week and month.
- Total A/P broken down into ranges of days to payment. Including those paid through the SSC checking account and the City budget.
- Estimated payroll and payroll taxes due for the month including due dates.
- Planned program expenditures over the next month.
- Significant expected revenues and expenditures to occur over the next 6-12 months.

This information should be utilized to plan and establish payment priorities and in the decision making process of whether funds will be available to cover upcoming incurred expenditures and those submitted for approval. Consideration might be given to alternating the payroll and accounts payable payment weeks to avoid the highs and lows in the bank balance and provide a more consistent outflow of funds for planning purposes.

MANAGEMENT RESPONSE

A simplified version of the recommended cash flow status report has been initiated (12-15-89). The SSC bookkeeper will each week manually compile a report for the Executive Director. The report will include cash on deposit, cash to be deposited, expected revenue, and anticipated accounts payable and payroll.

The SSC does not currently have the computational capabilities or bookkeeper/accountant staff resources to provide the more comprehensive cash flow status report recommended.

Accounts payable and payroll disbursements have been scheduled to be dispersed on alternate weeks (see No. 2 above).

4. Several disbursements are made without any vendor documentation supporting the expense. In many instances the only support is an internal document without any vendor receipt or invoice supporting the expenditure. This practice creates a lack of control over the disbursements function. Without proper supporting documentation there is no assurance that the payment is valid, the proper vendor is being paid, or that the payment amount is correct, and it is difficult to determine the proper account classification.

RECOMMENDATION 4

Management should require that all disbursements, except for those which are routine month-to-month disbursements, i.e., rents, contract and loan payments, etc. include the original source document from which the payment is to be made. Routine month-to-month payment documents should include reference to the applicable document, i.e., agreement, contract, etc. Requiring supporting documentation will improve controls over disbursements by providing the individual responsible for processing payments the information necessary to help ensure that the payment to be made is valid, is in agreement with the expenditure that was approved, determine the amount and vendor are correct and determine the proper account classification.

MANAGEMENT RESPONSE

All non-routine disbursements must have proper documentation prior to the bookkeeper disbursing funds. Purchase orders must include vendor invoice and/or receipt and check request before payment will be made. This has been communicated to all staff (12-15-89).

5. Several disbursements are made without any indication of approval on the payment document. Most disbursement checks are signed by the individual responsible for approval, however, this is approval after the expense has already been incurred and does not provide opportunity to control the expenditures which are being incurred. Not requiring the proper approval for all expenditures can result in unauthorized expenditures and uncontrolled use of available resources.

RECOMMENDATION 5

Management should require that all expenditures have the proper approval prior to the expense being incurred. Indication of the approval should be included on the expense or payment document, i.e., invoice, payment voucher, P.O., etc. The individual responsible for preparing the disbursements should be instructed to only process payments which include indication of the proper approval. Disbursement requests without proper indication of approval should

be brought to the attention of the individual with responsibility for approval. Consideration might be given to formally delegating responsibility for approval to others based on established dollar amounts and/or transaction types. Approval authority should be documented in an internal Policy or Procedure.

MANAGEMENT RESPONSE

All payment documents must be properly authorized prior to payment. This has been communicated to all staff (12-15-89). (See Nos. 2 and 4 above.)

Although we agree that the approval authority and process should be specifically addressed in a policies and procedures manual, the non-profit corporation does not currently have the staff resources or expertise to prepare such a document.

6. Payroll taxes are not accrued or planned for as the obligation is incurred with the twice a month payroll. As a result, funds are not designated for payment when the deposit becomes due and, in the past, has resulted in penalties for late deposits.

RECOMMENDATION 6

Each pay period, funds equal to the amount of payroll taxes required for deposit should be earmarked and designated for this purpose. Steps should be taken, through utilization of the information available (Rec. #3), to ensure that the funds designated for payment of the payroll tax deposit are not expended for other obligations. Additionally, a tickler file should be maintained and monitored by an individual designated the responsibility to ensure that these deposits are made on a timely basis. Implementing these steps for designating funds and monitoring due dates will help ensure that funds are available for deposit and that deposits are planned for and made on a timely basis.

MANAGEMENT RESPONSE

Payroll taxes are now up-to-date and are being disbursed with each payroll.

7. The 4% of Store gross sales has not been fully paid to the City for the 12 months ended June 30, 1989. Additionally the \$150 annual rent owed the City by the SSC has not been remitted for the same period. These payments are due to the City per the contract agreement between the SSC and the City. Per the June 30, 1989 Trial Balance, the gross sales of the Store were \$20,317, which equates to \$813 due to the City while only \$113 of this amount has been paid. These amounts, which are additional obligations of the SSC, are not being monitored or accounted for on the SSC books.

RECOMMENDATION 7

Procedures should be established to ensure the timely calculation and remittance of the 4% of Store gross sales due the City as is appropriate. The annual rent amount should be added to a tickler file of scheduled payments to avoid missing payment in the future. Management should make arrangements with the City for the proper disposition of the current amounts owed as with other obligations. These amounts should be monitored and become part of the routine payment process of the SSC to ensure that all obligations are met on a timely basis.

MANAGEMENT RESPONSE

Store percentage payments are now (12-15-89) up-to-date and are included in the month-end closing procedures. They will be paid monthly. The fiscal year 1990-91 budget will include the annual rent.

8. Expenditures by use of the postage meter appear to be significant while no monitoring of this expense is performed. A review of the A/P files revealed that the majority of the large (bulk) mailings, i.e., newsletters, membership mailings, etc., are paid with one-time bulk mailing payments. However, the total disbursements noted for postage through the postage meter for the 12 month period of July, 1988 to June, 1989 was \$6,100, or an average of over 2,000 documents, of .25 each, per month exclusive of the newsletters and membership mailings. It was indicated that a log of the postage meter usage is not maintained. Therefore, high volume mailings of other items cannot currently be determined for the purpose of deciding whether the less expensive means of bulk mailings should be utilized.

RECOMMENDATION 8

Management should establish the use of a postage meter utilization log. The log should include the date of use, number of documents ran through the meter, purpose and type of document, and the individual using the postage meter. This information can then be tabulated and utilized to determine whether bulk mailing would be a more feasible and cost effective alternative for some of the mailings. The use of the log will also create a means of accountability for use of the postage meter.

MANAGEMENT RESPONSE

The Science Center's clerk-typist will develop a postage meter use log by 1-31-90. All staff will be instructed to log use and to utilize bulk mailing whenever feasible.

II. ACCOUNTING:

1. There is a lack of separation of duties over most of the accounting functions. One individual has primary responsibility for the disbursements and payroll processes

from the point that a payment request/payroll transaction is initiated, to recording the transaction on the books, posting journal entries, printing of the checks, forwarding checks for signature and receiving them back for distribution, and reconciliation of the operating account. The lack of separation is accentuated due to the lack of compensating controls, i.e., lack of complete documentation and approvals, and a lack of management involvement in the accounting review process through review of reports, reconciliations, etc. Further, much of the accounting function is performed, and records maintained, off of the SSC premises limiting access to this information should there become a need. A lack of such controls creates an uncontrolled environment which can result in a lack of accountability and inaccurate and/or improper transactions.

RECOMMENDATION 9

Management should take steps to implement the procedures necessary to provide controls over the full disbursements cycle. It is understood that the limited staff size creates a limit on the amount of separation and controls that can occur. The implementation of recommendations 4, 5, & 15 will provide some compensating controls over the disbursements process. However, additional controls such as performance of the bank reconciliations and distribution of signed checks by an individual separate of the collection and disbursements processes should be considered. Additionally, management should review the reconciliations, financial activity reports and supporting documentation upon the signing of checks on a routine basis. The addition of these steps will enhance the controls over these processes and help provide assurance that the disbursement transactions are accurate, appropriate, and properly accounted for, while establishing accountability over the transactions processed.

MANAGEMENT RESPONSE

All SSC records are now (12-15-89) on-site, although--except for a few documents kept in a bank safety deposit box--no records are stored in fire-resistant enclosures. Thus, SSC records remain at risk to fire or other natural exposures.

At this time, the non-profit corporation does not have the staff resources or computational capabilities to initiate additional controls other than those noted above (see Nos. 2,3,4,5).

RECOMMENDATION 10

Management should provide the facilities and environment necessary to allow for the bookkeeping functions to be performed and the records to be maintained on sight or in a location more conducive to access and control. This will allow for more timely access to needed documents and processing of transactions outside of the routine

processing cycles and make this function more accessible to management in the event of the responsible individuals absence.

MANAGEMENT RESPONSE

Although the SSC does provide the bookkeeper with a desk and file cabinets, the existing computer (an XT clone with floppy disc) is inefficient or incapable of performing the necessary tasks. It is also heavily utilized by all other SSC staff (e.g., for membership records and mailing lists). Thus, the bookkeeper has had to use her personal computational equipment to provide the required services. A computer with a hard disk and adequate software should be dedicated to financial reporting. Funds are not currently available for these resources.

2. There is a lack of accountability over the collection and deposit process. Mail collections are handled separately by two individuals, two times each, prior to being deposited. The mail collections are; 1) opened by the cashier; 2) turned over to another individual for overnight storage; 3) returned to the cashier for recording in the mail receipts log; and 4) returned to the other individual to complete the deposit. Multiple transfers and handling of funds creates inefficiencies, a lack of accountability and control, and increases the possibility of loss or misplacement of collections.

RECOMMENDATION 11

Management should establish a method of processing mail collections which does not require separate handling of the funds by more than one individual. Ideally, mail collections should be opened and processed for deposit in the presence of two individuals. However, due to staff limitations, consideration might be given to requiring the cashier to open the mail, record the collections, prepare the deposit, and store the collections in a locked bank bag prior to handing the collections over for deposit pick-up. A copy of the deposit slip and additional deposit information required, i.e., collection type, could then be provided to the bookkeeper for recording of the deposit information and maintained for comparison to the bank statement, upon receipt, to verify the reported amount was deposited intact. Such a process would establish accountability for the collections processed, eliminate the excessive handling of collections, and help decrease the possibility of lost or misplaced collections.

MANAGEMENT RESPONSE

To reduce the multiple handling of mail collections while maintaining some separation of duties, the SSC clerk-typist will (1-29-90) distribute incoming mail, receipt and post checks, and prepare deposit. Prior to deposit pick-up the collections will be kept in a locked drawer or, if space allows, in the safe. Current staff limitations will not allow the

presence of two individuals when mail is opened. Moreover, the typist is the only clerical support staff at the museum and her other workload may regularly preclude the daily processing of incoming mail collections.

3. Daily collections are not always deposited on a timely basis. Per a review of deposit records and discussion with staff, deposits are routinely made only on a weekly basis, every Tuesday via armored pick-up. Not depositing funds on a timely basis creates a security risk in that excessive funds may be stored on the premises and, especially considering the current cash flow shortages, may result in the untimely availability of needed funds in the checking account to meet current obligations.

RECOMMENDATION 12

Management should require that collections be deposited on a timely basis. Consideration should be given to requiring daily deposit when collections on hand exceed an established amount. Timely depositing collections will help ensure that excessive funds are not stored on the premises and put needed funds into the proper accounts where they can then be utilized.

MANAGEMENT RESPONSE

Given the variable amount of incoming revenues and the SSC's staffing limitations, this is a difficult area. Weekly or bi-weekly armored-car pick-up seems justified and security could be increased by installing an adequate safe at the SSC facility and by developing procedures for additional hand-carried deposits when cash on hand exceeds a specified limit (e.g., \$1,000). Currently the SSC does not have the staff resources to initiate these procedures.

4. A significant lack of control exists over two small checking accounts which exist for activities outside of routine operations. Separate accounts, set up similar to personal checking accounts, exist for Store and Junior Curators activity, including deposits and disbursements. Although activity in the accounts is limited, the accounts are in the custody and under the complete control of separate individuals for all transactions, are not accounted for on the SSC books, as of July 1, 1989 for the Store, and do not have review and/or approval procedures performed by any individual other than the custodian. This practice of establishing separate checking accounts to separate cost centers/funds creates a lack of separation of duties, lack of control over the transactions processed, and inconsistency in Science Center documentation and accounting. Further, not accounting for these activities on the SSC books causes incomplete reporting and disclosure of activity and a lack of information for making informed decisions.

RECOMMENDATION 13

Management should give consideration to discontinuing these separate accounts and including the processing and accounting for these

transactions in the same processing cycles as all other SSC activity. The programs' activities can still be separately accounted for through the establishment of separate cost centers/funds. Taking such steps will help ensure control over these activities, consistency in the processing of transactions, efficiencies by decreasing the number of accounts, reconciliations, etc., and more complete disclosure of SSC activity and the overall financial picture.

MANAGEMENT RESPONSE

The separate checking accounts will be discontinued in January 1990. These funds will be assigned separate account codes, but will be included in the SSC operating budget, management reports, etc.

5. An excessive number of bank accounts have been utilized over the past few years. From the period of July, 1986 to September, 1989, there have been 16 different accounts utilized with as many as 8 accounts active at any one time. The multiple number of accounts have been utilized to account for activity in the various funds. Utilizing multiple accounts to separate accounting records can create a lack of control since funds are handled differently, inefficiencies with the need for additional bank reconciliations, unavailability of information regarding the resources on hand, and a lack of consistency in documentation. One account, a separate payroll account which was utilized for bankcard deposits and payroll taxes, had been inactive since November, 1988 but was not closed until March, 1989 during which time it incurred \$139.40 in service charges until it went into overdraft.

RECOMMENDATION 14

Management should consider combining all funds' banking accounts into the minimum number of accounts required to operate and maintain appropriate accounting records. Consideration might be given to assigning all fund types their own Cost Center Code and appropriately posting the fund activity. Such accounting should still allow for the accurate separation of activity and accounts as well as improve controls with all activity consistently processed and documented through a central location and efficiencies in the monitoring and reconciling of the accounts in use.

MANAGEMENT RESPONSE

The SSC is consolidating its banking accounts (12-15-89). Weaknesses in the accounting software (ACCPAK) now being used makes this somewhat complicated, but not infeasible.

6. Cash disbursements records are incomplete. There are several gaps in the numerical sequence of checks listed in the disbursements log, ranging in number from 1 to 34 checks, without any indication of their final disposition, i.e., voided, used as a manual check, etc. Without complete records of the final disposition of all checks, it may not be possible to determine whether blank checks are unaccounted for or have been

written and are outstanding. Further, it was indicated that blank check stock is in the custody of two individuals, the bulk for routine payment processing and a lesser amount separately maintained for emergency payments. However, there is no indication and/or record available indicating the numerical sequence of check stock separately maintained for the emergency payments. A lack of such records creates a lack of accountability over the blank check stock.

RECOMMENDATION 15

The Cash Disbursements Log should include indication of the final disposition of all checks. The log printed by the system should be supplemented by a log of all voided and manual checks to account for all checks in the numerical sequence. Additionally, blank check stock removed from the main stock should be recorded and monitored to ensure that all check stock is accounted for and secured. Establishing and maintaining accountability of the final disposition of all checks will help ensure that the check stock is accounted for and provide for a timely placing of stop payments in the event a check(s) is unaccounted for and not located.

MANAGEMENT RESPONSE

This recommendation has been implemented (12-15-89) and will be maintained by the bookkeeper.

7. Much of the accounting records and information appear to be inaccurate and incomplete. Following are brief descriptions of areas where incomplete and/or inaccurate records exist:
- Several unusual and/or unknown account balances exist on the June 30, 1989 Trial Balance. These accounts include accounts receivable and fund balance accounts that no longer exist. It appears that some of these accounts and balances exist as a result of prior audit adjusting journal entries and other activity not being posted.
 - Per discussion with staff, information related to the sale and gain on the sale of the Franklin property has not been located. The prior audit management letter, dated March 31, 1988, addresses the issue of the basis of the property and the gain on the sale of the property.
 - There is not a current fixed asset valuation/depreciation schedule. The audit for the years ended September 30, 1986 & 1987 includes asset value and depreciation amounts. The schedules, however, have not been updated since that time.
 - There is not a current chart of accounts, other than the trial balance, to be used for the coding of transactions. Without a complete chart of accounts for all account codes and cost centers coding may be inconsistent and account balance accuracy may be compromised.
 - Collection and disbursement records are not organized in a manner conducive to researching activity or following the audit trail.

RECOMMENDATION 16

SSC Management should take the steps necessary to put the books and records of the SSC in order and bring them up-to-date. Consideration can be given to accomplishing this process by various means, i.e., utilization of accounting temporaries, hiring of additional staff, utilization of a CPA firm, etc. The related cost and benefit of these and other potential resources should be evaluated. This process must take place in order to get the SSC records and financial information in the condition necessary to allow for complete and accurate records and financial information and the completion of a financial audit.

MANAGEMENT RESPONSE

The corporation's Board of Directors is now working with the bookkeeper to document the Franklin property transactions. The bookkeeper is also revising the fixed asset schedule and has worked additional hours to properly organize records prior to an audit (see No. 17 below).

A chart of accounts was created during the budget preparation process and was distributed to all SSC staff in July 1989.

8. The Federal, Form 990, and State Exempt Organization Information Return have not been filed for the reporting periods ending September 30, 1988 and 1989. Penalties have been paid for not timely filing prior Information Returns. The 990 for the period ending September 30, 1988 was due February 15, 1989. A penalty of \$10 per day is assessed for each day late following the due date, therefore, as of November 15, 1989 the penalty for late filing has accumulated to \$2,730. The 990 for the period ended September 30, 1989 will be due on February 15, 1990. Complete and accurate financial information is needed to file these returns.

RECOMMENDATION 17

Management should immediately initiate the steps necessary to ensure the performance and completion of a financial audit for the reporting years ended September 30, 1988 and 1989. Once completed the Federal and State information returns should be filed. For future years, plans should be made for the timely scheduling of the annual audit and filing of the proper returns. Maintaining the performance of these steps on a timely basis will help ensure the timely filing of the required returns and avoid unnecessary penalties and will provide assurance that the financial statements properly reflect the financial condition of the Science Center.

MANAGEMENT RESPONSE

Peat Marwick Main and Company will audit the years in question; the audit commenced December 26 and is nearing completion. Based on the information generated by the audit, Federal and State information returns will be prepared and filed.

9. The City/County contribution and related expenditures through the City payment process are not included on the SSC books. Additionally, the City portion of admissions, which is deposited directly to the City, is not accounted for by the SSC as a revenue and expense. Not including this information, which is a significant portion of the SSC operating budget, in the SSC books results in incomplete reporting and disclosure of financial activity. Further, all of the information necessary for making informed decisions by responsible parties is not provided.

RECOMMENDATION 18

Management should require that all of the financial activity, including the City/County contributions and related expenses and the receipt and disbursement of admissions collections be recorded in the SSC books and reported with all other financial activity. This will provide for more complete disclosure of financial activity and provide the financial information necessary for informed decisions by responsible parties.

MANAGEMENT RESPONSE

Early in 1990, the bookkeeper will manually add a summary of City/County expenditures to the Board's monthly financial reports. With a more-sophisticated computer and related software this integration could be more complete and understandable.

10. Formal written procedures do not exist for any of the accounting functions or routine operating procedures. Not formally documenting the procedures desired by management for performance of the accounting and operating functions can result in a lack of compliance with management's directions and inconsistencies in the performance of these functions. Additionally, not having written procedures available for reference and direction can result in difficulties accomplishing the objectives of the organization in the event an individual with responsibility in any of these areas leaves and these responsibilities are assumed by an individual not familiar with the procedures etc.

RECOMMENDATION 19

Management should require that written procedures be developed, formalized, and approved for all accounting functions and routine operations. Formalizing the procedures and putting them in writing will help ensure the functions performed are in agreement with

management's directions, are consistent, and will provide a reference tool for individuals assuming new responsibilities.

MANAGEMENT RESPONSE

Although management and the Board recognize the importance of written procedures, the SSC does not have the necessary expertise and staff resources to develop written accounting/fiscal management policies and procedures.

III. USE OF RESTRICTED FUNDS AND MANAGEMENT REPORTS:

1. Specifically restricted and/or designated funds have been used to cover operating expenditures. Following are examples of such usage:
 - A significant portion of a grant in excess of \$50,000, which was restricted for the purpose of a specific exhibit, was used for operations. Additionally, a Certificate of Deposit which consisted of this grant's funds was used as collateral and then to pay off a loan which was taken out to help meet operating costs.
 - The Endowment fund, for which indications are, is designated to remain intact and the interest utilized, has been spent on operations down to near a zero balance. From July, 1986 to December, 1988, transfers from the Endowment Account to the Operating Account totalled over \$73,600 while transfers back to the Endowment Account totalled roughly \$14,600 with other undetermined activity in the Endowment Account of \$2,062 in withdrawals and \$38,243 in one deposit. Further, discussions with staff indicate that for portions of 1986 and 1987, Endowment receipts were not specifically accounted for on the SSC books.
 - A smaller \$4,000 grant restricted for use in specific programs has been used to help meet payroll.

The use of restricted funds is not only out of compliance with the grant conditions or designated purposes of the fund, but also creates a debt which must be paid back out of operating funds.

RECOMMENDATION 20

The use of restricted funds for undesignated purposes should be discontinued as a routine practice. Procedures should be implemented to ensure that restricted funds are used only for the purpose for which they were designated. This can be accomplished by separately monitoring and accounting for each of these funds through the accounting process. The debt incurred by the use of these resources should be addressed as noted in Recommendation 1. Any exception to the guidelines established over the use of these funds should be specifically documented and include the approval of the Board along with a designated means of repayment. Taking these steps will help

ensure that restricted/designated funds are used in compliance with and for the purpose for which they were granted/donated.

MANAGEMENT RESPONSE

We concur and have discontinued using restricted funds for undesignated purposes. The improvements in our fiscal year 1989-90 budgeting and fiscal reporting should ensure that the Board of Directors will in the future make informed decisions regarding the use of restricted funds.

2. Multiple transfers of funds have occurred among various accounts with many of the transfers not having any documentation prepared to record the transfers and/or indication of transfer authorization. Several of these transfers have included lump sum transfers from designated fund accounts without the establishment and/or recording of these transactions in "Due To" and "Due From" accounts. There is no means of tracking the transfer activity other than by reviewing the various accounts' monthly statements. Not requiring documentation and indication of approval of these transactions creates a lack of control over the transfer of funds. A word-of-mouth method for transfers does not provide an adequate audit trail and provides no documentation to ensure that instructions for transfers are properly followed, that the amounts transferred are authorized, nor any record of the prior decisions made. Additionally, there are no records available to determine the amount of designated funds transferred and used for operations.

RECOMMENDATION 21

Management should require that a Fund Transfer document be developed for the documentation of fund transfers. The document should include transfer instructions and indication of authorization. Additionally, all transfers between funds should be properly recorded in "Due To" and "Due From" accounts. Properly accounting for these transactions will help ensure that they are properly processed, that only authorized transfers occur, and will accurately reflect the transfer activity.

MANAGEMENT RESPONSE

The bookkeeper has initiated such documentation for fund transfers (12-15-89). The Board and/or Executive Committee will be informed by management of any proposed fund transfers prior to recording the transaction.

3. Information contained in management reports are not complete. As previously discussed in the report, City/County contributions, receipt and remittance of admissions, records of transfers occurring, small separate accounts, and other activity have not been included on the books. As a result, for some time management has not been provided the full financial picture of SSC operations. Without all of the

information reported it is difficult to make informed decisions and to understand the true financial condition of an organization.

RECOMMENDATION 22

Management should require that all financial activity be recorded on the SSC books and that this activity be properly submitted for review and use in the making of decisions. Such information should be reviewed by management and the Board on a routine basis to assist with the understanding of the financial condition of the SSC. This information may need to be in detail for operating management and in summary form for the Board and should be presented in a manner conducive to gaining and maintaining an understanding of the full financial picture of the SSC.

MANAGEMENT RESPONSE

Management reports--which were developed initially in July 1989--have been continually revised and improved to meet the needs of both the Board of Directors and SSC management staff. Because the fiscal year 1989-90 budget was the first itemized cash budget developed by the corporation, a considerable amount of "fine-tuning" is planned during the mid-year review (early 1990).

The Board has requested more extensive monthly financial reports including complete reporting of City/County transactions, endowment fund transactions, store fund and revised budget to actual classifications. Further improvements, as recommended, are not now feasible given the lack of staff resources and computational capabilities.

IV. OTHER

In addition to the information included in this report, many of the above issues and others were addressed in the Management Letter to the Board from Peat Marwick Main & Co., dated March 31, 1988. This letter should be reviewed in conjunction with this report in making the determination of the steps that need to be taken to address the issues reported.

EXHIBIT B

	<u>Current Public Hours</u>	<u>Proposed Public Hours</u>
Monday	12 pm - 5 pm	Closed to the public
Tuesday	12 pm - 5 pm	Closed to the public
Wednesday	12 pm - 5 pm	12 pm - 5 pm
Thursday	12 pm - 5 pm	12 pm - 5 pm
Friday	12 pm - 5 pm	12 pm - 8:30 pm
Saturday	12 pm - 5 pm	10 am - 5 pm
Sunday	12 pm - 5 pm	10 am - 5 pm
Holidays	9:30 am - 5 pm	10 am - 5 pm