City of Austin

AUDIT REPORT

Cemetery Sales Administration and Management Audit

November 2014

A Report to the Austin City Council

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Lee Leffingwell

Mayor Pro Tem
Sheryl Cole

Council Members
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Office of the City Auditor

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REPORT SUMMARY

We found a general lack of oversight of sales and revenue collection by the Cemetery Operations Group. This resulted in errors and inaccuracies in the processing of burial space sales, in the recording of financial transactions, and improper cash handling practices. In addition, we identified a significant violation of the City's cash handling policy.

AUDIT NUMBER: AU14118

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GOVERNMENT AUDITING STANDARDS COMPLIANCE

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.

AUDIT TEAM

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November 2014

Cemetery Sales Administration and Management Audit

Audit Report Highlights

Why We Did This Audit

This audit was included on the Strategic Audit Plan due to risks observed through audits and investigations of cemetery operations, as well as concerns raised by citizens.

What We Recommend

PARD should provide an adequate monitoring and oversight structure of the Cemetery Operations Group to ensure sales and administrative responsibilities are successfully executed; also, PARD should conduct a review of cemetery records to ensure that all sales are accurately recorded and all deeds have been created and provided to the appropriate customer.

For more information on this or any of our reports, email oca_auditor@austintexas.gov

Mayor and Council,

I am pleased to present this audit of the cemetery sales administration and management.

BACKGROUND

The City of Austin owns and operates five municipal cemeteries and the Parks and Recreation Department (PARD) has been responsible for managing the operations of those cemeteries since 1987. In April 2013, the City created the PARD's Cemetery Operations Group to manage sales of cemetery plots, maintenance of cemetery grounds, and the contract for interment and burial services. In Fiscal Year (FY) 2014, the Cemetery Operation Group had a budget of approximately $2.5 million and a staff of 22 FTEs.

OBJECTIVE AND SCOPE

The objective of the audit was to conduct a review of cemetery revenue collection, accounting, and vendor payments as compared to applicable laws, City policies, and best practices. The scope included cemetery operations from April 2013 through FY 2014.

WHAT WE FOUND

We found a general lack of oversight of the Cemetery Operations Group, which resulted in several errors and inaccuracies in the administrative processes going undetected or un-remediated for long periods. We identified issues in the processing of burial space sales, in the recording of financial transactions, and improper cash handling practices. We also identified a significant violation of the City's cash handling policy. Specifically, we found:

- duplicate sales of burial spaces,
- unrecorded cemetery deeds,
- incomplete financial records,
- improper cash handling practices,
- significant violation of City's cash handling policy,
- insufficient review of vendor invoices, and
- burial re-fill not performed to contract specifications at one cemetery.

We appreciate the cooperation and assistance we received from PARD staff during this audit.

Kenneth J. Mory, City Auditor

BACKGROUND

The City of Austin owns and operates five municipal cemeteries and the Parks and Recreation Department (PARD) has been responsible for managing the operations of those cemeteries since 1987. Cemetery services are divided into the following three areas:

- sales administration and management,
- cemetery operations and maintenance, and
- interment and burial services.

Between 1990 and 2013, PARD contracted with a vendor to cover all cemetery management responsibilities. PARD began directly managing the sales, operations, and maintenance areas in April 2013. In June 2013, City Council approved a five-year contract, for $3.8 million, with a vendor for interment and burial services.

Since assuming responsibility for the sales, administration, and maintenance functions of the City's five cemeteries, PARD has worked to identify and address challenges that have been a concern to citizens and stakeholders over the course of the vendor's previous 23-year contract. PARD is undertaking initiatives to address these challenges, including developing a master plan for the cemeteries and developing and implementing a capital improvement plan.

Cemetery Master Plan

In 2014, the City contracted with AmaTerra Environmental to create a cemetery master plan. The project is planned to address the following areas:

- geospatial database,
- asset condition and assessment,
- site analysis and plan,
- preservation and conservation,
- policy and funding, and
- development and expansion.

According to the most recent timeline, a draft plan will be provided to PARD near the beginning of the 2015 calendar year. The plan will then be presented to relevant boards and commissions prior to being presented to the full City Council for approval and adoption.

Capital Improvement Projects

In addition to the master planning process, PARD has a capital improvement plan. The overall goal of the plan is the efficient and effective use of bond funds to act as a catalyst to leverage future funding and investment in cemetery maintenance. This plan, funded with $2 million from the City's 2012 Capital Improvement Municipal Bonds, has identified and prioritized 19 capital improvement projects. Projects include road resurfacing, fence improvements, and improvements to the Oakwood Cemetery Chapel Building.

Cemetery Management Record Keeping Software

PARD is in the process of planning the implementation of a comprehensive data management and mapping software that will be functional for PARD personnel and customers. There will be three phases to the project; phase one is scheduled to be implemented over the next three fiscal years.

OBJECTIVE, SCOPE, AND METHODOLOGY

The Cemetery Management Audit was conducted as part of the Office of the City Auditor's (OCA) Fiscal Year (FY) 2014 Strategic Audit Plan, as presented to the City Council Audit and Finance Committee. This audit was included on the Strategic Audit Plan due to risks observed through audits and investigations of cemetery operations, as well as concerns raised by citizens.

PARD's master planning process and capital improvement projects are set to address risks related to operating, maintaining, and successfully sustaining the City cemeteries. This audit focused on the risks associated with inheriting a sales and revenue collection operation, which were not covered by the master planning efforts.

Objective
The objective of the audit was to conduct a review of cemetery revenue collection, accounting, and vendor payments as compared to applicable laws, City policies, and best practices.

Scope
The audit scope included cemetery operations from April 2013 through FY 2014.

Methodology
To accomplish our audit objectives, we performed the following steps:

- conducted interviews with PARD employees across numerous divisions with responsibilities related to cemetery operations;
- reviewed applicable laws, policies, and procedures associated with cemetery operations;
- reviewed and evaluated the processing of collections and applicable supporting documentation;
- selected 10 sales orders and traced documentation of revenue collection and deposit;
- selected 10 cemetery deeds and traced documentation to validate proper revenue collection and deposit;
- accounted for all sales order numbers (1,423) and payment receipt numbers (1,626) included in the cemetery financial system;
- selected 30 completed space sale transactions to determine if a corresponding deed was created;
- accounted for issued deposit tickets;
- selected 30 vendor charges for congruency with the approved contract; and
- visually inspected vendor work for additional 28 charges for monument resetting.

AUDIT RESULTS

In April 2013, the City created the PARD's Cemetery Operations Group to manage sales of cemetery plots, maintenance of cemetery grounds, and the contract for interment and burial services. In FY 2014, the Cemetery Operations Group had a budget of $2.5 million and a staff of 22 FTEs. As mentioned in the background section of this report, since assuming direct responsibility for all sales, administration, and maintenance functions of the City's five cemeteries, PARD has worked to identify and address challenges that have been a concern to citizens and stakeholders over the course of the 23-year vendor contract. We acknowledge the complexity of cemetery operations, and recognize that PARD's master planning process and capital improvement projects are set to address long-term challenges associated with successfully operating, maintaining, and sustaining the City cemeteries. As a result, through our planning of this audit engagement we identified the daily administrative duties that surround the collection of approximately $1.7 million as the area where we could add most value, since it was not going to be covered by the master planning efforts.

During our audit, we found a general lack of oversight of sales and revenue collection by the Cemetery Operations Group. This resulted in several errors and inaccuracies in the processing of burial space sales, in the recording of financial transactions, and improper cash handling practices. In addition, we identified a significant violation of the City's cash handling policy.

Finding: Inadequate supervision of the cemetery operations resulted in duplicate sales of burial spaces, unrecorded deeds, incomplete financial records, and improper cash handling practices.

Basic management responsibilities include establishing monitoring activities over the internal control system, evaluating the results, and promptly remediating any deficiencies. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other types of verifications. In our review, we noted issues in many of the tasks performed by the Cemetery Operations Group, including inaccuracies in the processing of sales and recording of deeds. In each instance, a lack of adequate supervision resulted in mistakes and irregularities going undetected or un-remediated for long periods.

<u>Supervision Within the Cemetery Operations Group</u>
Cemetery management did not perform routine reconciliations of sales to confirm that sales had been processed through completion and paperwork had been forwarded to the City office responsible for obtaining a cemetery deed from the County Clerk.

Similarly, cemetery management performed limited monitoring of the revenue and collection accounting function. During both a review performed by PARD finance in July 2014 and a review performed by our office in October 2014, the cemetery manager was unable to extract needed information from the cemetery accounting system; also, we were unable to find evidence of supervisory activities, such as periodic reconciliations or spot checks.

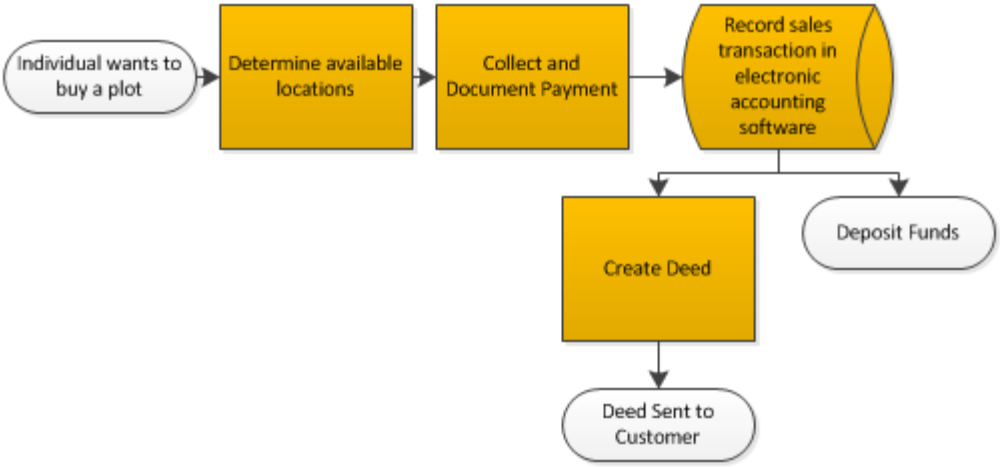
<u>Supervision Over the Cemetery Operations Group</u>
In addition to limited oversight from the cemetery manager over the day-to-day operations of the cemeteries, we observed that the placement of all cemetery functions under the facilities services division within the PARD organizational structure did not lend itself to adequate oversight of

revenue collection and accounting functions, since the Division Manager's area of expertise is related to the maintenance aspect of cemetery operations. Furthermore, although the cash audit performed by PARD Finance in July 2014 identified potential issues related to cash handling procedures at the cemetery, there was no follow-up to ensure that identified issues were corrected.

As a result of a general lack of supervision, we could not determine whether the cemetery accurately recorded all sales from April 2013 through July 2014. Without that information, we cannot provide assurance that all funds were deposited in accordance with City policies, or that customers who have completed payments for a cemetery space have a deed of sale recorded with the County.

Exhibit 1 highlights the areas in which we identified issues, as detailed below.

Exhibit 1
Summary of Cemetery Operation Group's Key Tasks



SOURCE: OCA analysis of cemetery sales administration and management processes, October 2014

Duplicate Sales of Burial Spaces

City Code[1] requires that the cemetery administrator maintain a cemetery record book showing the name of the owner of a burial space or the name of the person buried there. The cemetery manager has the responsibility for final review and approval of deeds. We reviewed cemetery records for sales performed between April 2013 and July 2014 and identified five instances where the Cemetery Operations Group sold the same burial space to two different people. The cemetery manager indicated that in these instances, staff had not completed the internal recording process that would have indicated the spaces were unavailable for sale. However, we noted one instance in which the cemetery manager signed two deeds on the same day, which conveyed ownership of the same burial space to two separate individuals.

[1] Section 10-1-2(C)

In at least one instance, a duplicate sale resulted in the City having to disinter a body and relocate it to another burial space at a different cemetery. In addition to negatively impacting customers, these errors increase legal and financial risks to the City.

Unrecorded Deeds

City Code[2] requires the cemetery administrator to convey ownership of a burial space to customers by recording a deed with the County Clerk's Office. During the scope period, the Cemetery Operations Group recorded approximately 500 burial space sales. A review of 35 completed sales identified 5 instances in which the Cemetery Operations Group had not recorded a deed. Without a deed, customers who purchased a burial space are not registered as the legal owners of that space.

Incomplete Financial Records

According to City policies[3], department financial management should ensure that sufficient documentation is kept to support financial accounting. These policies also dictate that sequentially pre-numbered documents should be used for cash receipt purposes and strict control over these documents should be maintained.

Although sequentially pre-numbered documents are used by the Cemetery Operations Group, we were unable to account for all sales and payment transactions in the cemetery financial system. Transactions missing or entered incorrectly in the financial system from April 2013 through July 2014 include:

- 159 sales orders, and
- 48 payment receipts.

In addition, based on our review of hard copy documentation for sales and payments transactions, we could not account for 15 sales order forms and 12 payment receipts.

Periodic reconciliation and spot checks of the financial system and cash receipt documents were not conducted by the cemetery manager. Such supervisory review would allow mistakes to be identified and corrected in a timely manner.

Improper Cash Handling Practices

City policy[4] states that the cash handling and accounts receivable functions should be separated, with controls in place to ensure that no single person handles a transaction from beginning to end. If possible, the following four basic functional categories should be performed by different people within a cash handling operation:

- authorization or approval of transactions,
- recording of transactions,
- custody of funds, and
- monitoring to ensure compliance with control procedures.

In our review of the cemetery operations, we found that the cemetery accountant was responsible for approving and recording transactions, accepting and maintaining custody of funds, and

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[2] Section 10-1-6(A)

[3] These requirements are detailed in the City of Austin Administrative Bulletins: *Roles and Responsibilities for Financial Management* and *Cash Handling Policy*

[4] City of Austin Administrative Bulletin: *Cash Handling Policy*

monitoring control procedures. In addition, the cemetery manager also had responsibility associated with those functions on an operational level.

Delaying Deposit of a Check and Post-Dating Payment Records

The Cemetery Operations Group's procedures state that any funds received from a customer must be acknowledged by providing a customer receipt and signatures from two employees on a payment log. The cemetery accountant uses this information to populate the cemetery financial system, which the PARD finance division uses to document accounts receivable. Additionally, City policy requires a daily deposit if accumulated funds exceed $500.

During an audit of all un-deposited collections on October 1, 2014, we found a $55,000 check dated September 22, 2014 in the safe with no corresponding receipt or entry in the payment log. We noted the payment log and the payment receipt were later postdated and signed by the cemetery manager as received on October 1, 2014. However, the cemetery manager asserted the check was received on September 29, 2014 and stated he instructed staff to deposit the check in the next fiscal year, because he had met his sales targets for FY 2014 and wanted a large deposit to begin FY 2015. He also later provided statements in writing that contradicted his initial assertions.

Asserting contradictory explanations for the situation, instructing subordinates to deposit a check at a later date, and post-dating payment records call into question the ethical tone the cemetery manager is fostering in the Cemetery Operations Group.

Issues with Review and Approval of Vendor Charges

City policy[5] requires that deliverables from a vendor should be inspected or reviewed for compliance with the contract. The City contracts with a vendor for interment, burial, and the setting and re-setting of monuments at City cemeteries. We found that the Cemetery Operations Group process to approve and pay vendor invoices is inadequate to ensure that services billed to the City were satisfactorily provided by the vendor.

Cemetery maintenance staff document interment services by taking a photo of the burial space prior to interment and after interment. However, no photos are taken to document other vendor services. In addition, the cemetery accountant and manager review vendor invoices for approval. However, both asserted that they review the financial system, not the work order system or maintenance photos, to approve payment.

We also reviewed 30 vendor charges paid by the City to the vendor and identified four with a discrepancy between the amount charged to the City and the amount listed in contract. The cemetery manager asserted that at Evergreen Cemetery the vendor did not have an area to stage the material[6] required to refill burial spaces. As a result, the vendor used the original dirt to refill the spaces and charged the City less than what the contract fee scheduled outlined.

However, although the City received a discount for this reduced service, Evergreen Cemetery customers paid the standard fees outlined on the customer fee schedule but did not receive the same services that customers at other City cemeteries received. We found no documentation supporting this decision and are unclear who within PARD approved the decision.

[5] Purchasing Office Contract Monitoring Guide
[6] This material reduces the risk of adverse grave settlement.

RECOMMENDATIONS

The recommendations listed below are a result of our audit effort and subject to the limitation of our scope of work. We believe that these recommendations provide reasonable approaches to help resolve the issues identified. We also believe that operational management is in a unique position to best understand their operations and may be able to identify more efficient and effective approaches and we encourage them to do so when providing their response to our recommendations. As such, we strongly recommend the following:

1. **PARD should provide an adequate monitoring and oversight structure for the Cemetery Operations Group to ensure sales and administrative responsibilities are successfully executed.**

MANAGEMENT RESPONSE: **CONCUR.** Refer to Appendix A for management response and action plan.

2. **PARD should conduct and document a review of the cemetery accounting system and ensure that all sales are documented accurately and that all deeds have been created and distributed to the appropriate customer.**

MANAGEMENT RESPONSE: **CONCUR.** Refer to Appendix A for management response and action plan.

APPENDIX A

MEMORANDUM

TO: Kenneth J. Mory, City Auditor
Office of the City Auditor

FROM: Sara L. Hensley, CPRP, Director
Parks and Recreation Department

DATE: November 17, 2014

SUBJECT: PARD Response to Cemetery Management Audit

Attached please find the Parks and Recreation Department's (PARD) response to the Cemetery Management Audit draft report dated November 2014.

I have reviewed the draft Cemetery Management Audit report and concur with your recommendations. PARD is committed to implementing each of the actions described in the attached plan, including instituting proactive monitoring and oversight of all cemetery operations, with emphasis on ensuring that all sales and administrative responsibilities are properly executed. In addition, PARD will conduct a review of the cemetery accounting system to ensure that all sales transactions and plot deeds are accurately processed, recorded and distributed to the appropriate customers.

Background Information

Following Council approval in February 2013, PARD assumed cemetery operations in April utilizing temporary staff. Several program start-up protocols and procedures were created and expedited to ensure continuity of complex cemetery services, provide necessary operational oversight, and improve quality of work performed. By October 2013, the Department was fully funded for cemetery operations. Permanent staff was hired on an expedited timeline, and soon after, an RFP was launched and a vendor selected to provide a comprehensive program database, Cemetery Information Management System (CIMS). Once fully implemented, CIMS will automate cemetery sales, accounts receivable, and deed document preparation and production. With a goal of continuous improvement of cemetery operations, a comprehensive master planning process for all 5 cemeteries is now underway.

The City of Austin is committed to compliance with the Americans with Disabilities Act.
Reasonable modifications and equal access to communications will be provided upon request.

APPENDIX A

To highlight a few major accomplishments achieved within the first 19 months of operation, staff executed over 600 space sales, authorized approximately 800 interments and coordinated well over 1,300 cemetery related work order requests. Patron safety was improved by resetting over 20 monuments, removing over 100 dead trees and installing new curbing and protective drive areas at Evergreen Cemetery. Austin Memorial Park road and curb repairs are scheduled for this fall.

In closing, PARD is striving to deliver best practice cemetery services to the public and will continue our efforts by incorporating necessary improvements to achieve that end.

cc: Marc A. Ott, City Manager
Bert Lumbreras, Assistant City Manager
Cora D. Wright, Assistant Director, Parks and Recreation
Kimberly McNeeley, Assistant Director, Parks and Recreation

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Reasonable modifications and equal access to communications will be provided upon request.

APPENDIX A

ACTION PLAN

Cemetery Management Audit

Rec #	Recommendation	Concurrence and Proposed Strategies for Implementation	Status of Strategies	Proposed Implementation Date
01	PARD should provide an adequate monitoring and oversight structure of the Cemetery Operations Group to ensure sales and administrative responsibilities are successfully executed.	**Concur.** - a) Revise Cemetery Manager and staff Success Strategy Performance Review (SSPR) plans to ensure sufficient management oversight and to clearly delineate staff roles, responsibilities and duties as assigned for all aspects of the cemetery operations	Planned	a) Dec 31, 2014
		b) Create a Cemetery Management Standard Operation and Procedures Manual that delineates procedures for sales and administrative functions of the unit. The SOP shall establish required tools and minimum standards for the Cemetery Manager to ensure: • accurate and timely sales transactions, and • effective and efficient administrative functions	Planned	b) Mar 30, 2015
		c) Cemetery Forms Revisions to minimize administrative errors thereby improving the Manager's ability to monitor and track all cemetery transactions: • Eliminate the multi-purpose Sales Order Form • Create new transactional forms that align with intended purpose (i.e, distinct forms for sales, work order, vendor payments, etc.)	Planned	c) Dec 31, 2014
		d) Conduct pre- and post- monument setting/resetting inspections to ensure the City receives consistent quality services in compliance with contract, as a condition for vendor payment.	Planned	d)Nov 14, 2014

APPENDIX A

Rec #	Recommendation	Concurrence and Proposed Strategies for Implementation	Status of Strategies	Proposed Implementation Date
02	PARD should conduct and document a review of the cemetery accounting system and ensure that all sales are documented accurately and that all deeds have been created and distributed to the appropriate customer.	**Concur.** a) Reassign the Accountant currently reporting to the Cemetery Manager to report to the PARD Accounting Manager to ensure the accounting activities are in compliance with COA accounting standards and procedures.	Implemented	Nov 12, 2014
		b) Reclassify cemetery FTE(s) to create a dedicated Cemetery Sales Coordinator position whose responsibilities will be to coordinate and perform all sales transactions in compliance with City and program policies and procedures.	Planned	Feb 15 2015
		c) Conduct reconciliation of all Sales Orders (estimated 1880) generated beginning October 1, 2013 to determine status; correct any inaccuracies that may be discovered, and ensure all sales transactions and any related work is scheduled or completed.	Underway	Feb 1, 2015
		d) Conduct an audit of all Space Sales to verify that each burial space sold has been accurately recorded in the Cemetery Lot Book.	Underway	Feb 1, 2015
		e) Conduct an audit of all deeds generated against all the sales orders and Cemetery Lot Book to ensure the deeds have been accurately prepared, recorded and distributed to the appropriate customer.	Underway	Feb 1, 2015
		f) Implement Cemetery Information Management System (CIMS) as a point of sale system. The initial phase of this recently purchased system will automate cemetery sales, accounts receivable, and deed document preparation and production.	Underway	Mar 1, 2015