



Parks and Recreation Day Care Operation Audit Report

Issued by the
Internal Audit Office
April 6, 2011

**City of El Paso
Internal Audit Office
Parks and Recreation Day Care Operation Audit**

EXECUTIVE SUMMARY

The Internal Audit Office has concluded its audit of the Parks and Recreation Day Care Operation. Based on the results of the audit, five (5) findings were identified. Three (3) of these findings are considered significant in nature, while two (2) are not significant and classified as “Other Findings.”

Listed below is a summary of the three (3) significant findings identified in this report.

1. Based on a breakeven analysis completed by the Internal Audit Office, the Parks and Recreation Day Cares are not earning enough income to support operations.
2. The City of El Paso Day Cares monthly rates are lower when compared to three other local Day Care facilities in El Paso.
3. Veterans Day Care is not operating at full capacity in order to maximize revenues.

Listed below are the two (2) “Other Findings.”

4. The Parks Department Day Cares do not have adequate liability insurance per the State of Texas requirements, Chapter 42 Human Resources Code §42.049 *Liability Insurance Required*.
5. Parks and Recreation Day Cares are not enforcing the established policy to deny admittance when payment is not received by the due date.

For a detailed explanation of each of the findings please refer to the appropriate finding contained in the body of this Audit Report.

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BACKGROUND

Currently the City of El Paso Parks and Recreation Department has two Day Care Programs at two separate Recreation Centers; Veterans Recreation Center and Galatzan Recreation Center. The mission of the Parks and Recreation Day Care Program is to provide instruction and activities in manipulative, dramatic, and imaginative play that will assist in developing the child's intellect, gross and fine motor skills, as well as aid in socialization for children 2-5 years of age. During the period of 2006-2008 three (3) City of El Paso Day Cares were closed; Pavo Real Day Care, Carolina Day Care, and Nolan Richardson Day Care.

The Internal Audit Office compared other cities in the State of Texas to determine if Day Care Services are provided by those cities. The following table identifies that the City of El Paso is the only city that provides Day Care services:

| City | Day Care Facility | # of Day Cares |
|--------------------|--------------------------|-----------------------|
| City of El Paso | Yes | 2 |
| City of Austin | No | 0 |
| City of Dallas | No | 0 |
| City of Fort Worth | No | 0 |
| City of Houston | No | 0 |

AUDIT OBJECTIVES

The audit objectives for the Parks and Recreation Day Care Operation Audit were to,

1. Obtain an understanding of the City of El Paso Parks and Recreation Department Day Care Program's fees and expenses.
2. Compare the City of El Paso Parks and Recreation Department Day Care Fees to other local Day Care fees of comparable daycare facilities.
3. Identify and determine if the City of El Paso Parks and Recreation Department Day Care have adequate insurance coverage.
4. Determine and verify the City of El Paso Parks and Recreation Department Day Cares direct, indirect, and variable costs for the audit period.
5. Determine and verify the City of El Paso Parks and Recreation Department Day Cares revenue for the audit period.
6. With the overall objective, determine if the City of El Paso Parks and Recreation Department Day Cares are breaking even for the audit period.

AUDIT SCOPE

The audit period covered the operations of Fiscal Year 2009 – 2010.

AUDIT METHODOLOGY

To achieve our audit objectives we:

- Conducted interviews with Parks and Recreation management and staff,
- Compared local El Paso Day Care fees to Parks and Recreation Day Care fees.
- Conducted an analysis of the Parks and Recreation Day Cares Revenues,
- Conducted an analysis of the Parks and Recreation Day Cares Costs,
- Conducted a breakeven analysis considering all costs and revenues.

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

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

**SIGNIFICANT FINDINGS, RECOMMENDATIONS,
AND MANAGEMENT’S RESPONSES**

The definition of a significant finding is one that has a material effect on the City of El Paso’s financial statements, identifies an internal control breakdown, a violation of a City procedure, or a violation of a law and/or regulation, which the City is required to follow. Any finding not meeting these criteria will be classified as an “Other Finding”.

Finding: 1

Breakeven Analysis

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

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

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

*See Addendum to review Breakeven Analysis/Income Statement.

Recommendation:

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

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Management's Response

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

Responsible Party

Leonor Wilson, Business Manager

Implementation Date

May 1, 2011

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Finding: 2

Day Care Fee Comparisons

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

- Budget Resolution, Appendix 39: *“Monies that the City receives from licenses, fees, fines, and other charges for services shall be analyzed to determine if the City is recovering the cost of providing such services.”*
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An analysis of three local Day Cares in the City of El Paso was conducted and it was determined that the City of El Paso monthly rates are lower when compared to three local Day Care Facilities in El Paso.

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

*Rates are charged weekly at these Day Care facilities.

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

Recommendation:

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

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Management's Response

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

Responsible Party

Leonor Wilson, Business Manager

Implementation Date

September 1, 2011

Finding: 3

Maximizing Revenue

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

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

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

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

Recommendation:

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

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Management's Response

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

Responsible Party

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

Implementation Date

May 1, 2011

***OTHER FINDINGS, RECOMMENDATIONS,
AND MANAGEMENT'S RESPONSES***

Finding: 4

Liability Insurance

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

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

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

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

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

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

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

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Recommendation:

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

Management's Response

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

Responsible Party

Leonor Wilson, Business Manager

Implementation Date

May 18, 2011

Finding: 5

Late Payments

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

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

Recommendation:

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

Management's Response

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

Responsible Party

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

Implementation Date

May 20, 2011

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INHERENT LIMITATIONS

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

CONCLUSION

We have concluded work on the audit objectives of the Parks and Recreation Day Care Operation Audit. In accordance with Generally Accepted Government Auditing Standards we are required to conclude on whether the City of El Paso Parks and Recreation Day Cares met the objectives of this audit. The following is our conclusion.

1. The City of El Paso Day Care Operation has met management's objectives in the following areas:
 - The City of El Paso Day Cares revenue was identified and accounted for the audit period.
 - The City of El Paso Day Cares direct costs are being properly allocated to the Day Cares Operations.
2. The City of El Paso Day Care Operation has not met management's objectives in the following areas:
 - The City of El Paso Day Cares when compared to other Day Cares in El Paso charge lower fees.
 - Adequate liability insurance is not maintained to comply with the State of Texas requirement.
 - The City of El Paso Day Cares indirect costs are not being allocated to the Day Cares Operations.
 - The City of El Paso Day Care's are not breaking even.

The Day Care services provided by the Parks and Recreation Department are a unique operation. The Parks and Recreation Day Cares should attempt to maximize revenues and consider all costs; direct and indirect. The Parks and Recreation Department should also continuously monitor a breakeven analysis in order to recover full costs of its Day Care Services.

We wish to thank the management and staff of the City of El Paso Parks and Recreation Department for their assistance and courtesies extended throughout this audit.

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

Signature on File
Kristina Aguilar
Auditor

Distribution:
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ADDENDUM

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

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

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

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

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

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

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

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

⁷ Total Indirect Expenses does not include Rent Expense.