



Real Estate Rental Office Audit

June 18, 2013

Introduction

The San Diego Unified School District's (district) Office of Internal Audit performed a scheduled audit of the Real Estate Rental Office. The review included interviews with district employees, review of computer system records, and review of documents from July 2011 to June 2012. Contact was made with the district's Director of Real Estate, Property Management Specialist, Rental office staff and Fiscal Control Department.

Background

The Real Estate Rental Office (Rental Office) is responsible for the processing of rental requests of district Property. California Education Code section 38130, also known as the Civic Center Act, guides the district in the public use of buildings, grounds, and equipment. The Civic Center Act defines every public school facility as a civic center and provides guidelines for the use of district facilities and grounds. District Administrative Procedure 9205 outlines the procedures for the use of district of buildings, grounds, and equipment. Use of district property is authorized by a Civic Center Rental Permit and is either free or rented using direct cost recovery, fair market value, or commercial rates. Civic Center Rental Permits are processed and approved by the Rental Office. The Rental Office advises management of the Civic Center Rental Permit process during annual principal and district management meetings. From July of 2011 through June of 2012, the Rental Office processed more than \$1,735,900 in fees from Civic Center Rental Permits. The Rental Office used the Rec Trac software system to issue Civic Center Rental Permits to organizations. Civic Center Rental Permits are maintained in the Rental Office and a system of record titled the, "Consolidated Reservation Report," is used to record all Civic Center Rental Permit documentation.

Audit Scope and Objectives

The scope of this review was from July 2011 to June 2012. The specific objectives of this investigation were:

- To determine that the processing of Rental Permits is performed in an efficient and effective manner.
- To determine that the processing of Rental Permits is in compliance with applicable district Administrative Procedures.
- To determine that proper internal controls are in place for the processing of Rental Permits.

Audit Findings Summary

1. More than \$40,000 in Civic Center Rental Permit fee income was uncollected for the 2011/2012 school year per the final Consolidated Reservation Report dated October of 2012.
2. Documentation that renters had insurance as required by the permit contract is not maintained in the Rental Permit file or in the Rental Office computer system for 51% of Rental Permits reviewed.
3. Civic Center Rental Permits were not signed by the Applicant/Permitee and/or Real Estate Rental Office employees for 23% of the Rental Permits reviewed.
4. The total Civic Center Rental Permit fee amounts collected for the 2011/2012 school year per the Consolidated Reservation Report do not match the total amount of fees collected for the 2011/2012 school year by the Fiscal Control cashier.
5. The amount of Civic Center Rental Permit fee income recorded as collected on the Consolidated Reservation Report does not match the fee payment amounts recorded by the Fiscal Control Department based on a sample of individual permits.
6. A periodic or annual reconciliation between the Consolidated Reservation Report and the payments made to the Fiscal Control cashier is not performed.
7. The Real Estate Rental Office does not have a process in place for recovering uncollected funds resulting from Civic Center Permit amounts that are unpaid.
8. The Civic Center Rental Permit Reservation Numbers are not always recorded by the Fiscal Control cashier when depositing rental fee payment amounts resulting in the inability to trace payments for specific Reservation Numbers.
9. Other minor inconsistencies were noted during the review of the Rental Office as follows:
 - Two Civic Center Rental Permits were signed by Real Estate Rental Office employees after the rental activity took place.
 - Civic Center Rental Permits were issued to organizations that historically did not pay or underpaid the previous rental fee amount.
 - The fee recorded on the Consolidated Reservation Report does not match the fee recorded on two Civic Center Rental Permits.


Conclusion

Based on the audit scope and analysis performed by Internal Audit, internal controls are deficient for the processing of Civic Center Rental Permits. More than \$40,000 in fees went uncollected for the 2011/2012 school year and a formal process for recovery of these funds is not in place. Civic Center Rental Permit documentation of insurance requirements was not maintained and original Civic Center Rental Permits were not signed by the Applicant/Permitee and/or Real Estate Rental Office employees. However, the process of issuing Civic Center Rental Permits and the payment of fees in Fiscal Control is appropriately segregated.

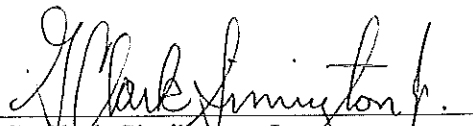
Numerous inaccuracies in the preparation and maintenance of the Consolidated Reservation Report result in the distortion of financial reporting for the Rental Office. A periodic reconciliation between the Consolidated Reservation Report and the amount of fees collected by Fiscal Control is not performed, but is a needed internal control.

The rental request process was coordinated between school sites and the Rental Office and is functioning properly. The review of rental rates charged per Civic Center Rental Permits matches the published Civic Center schedule of fees.

A software system is not in place that interacts with the district's PeopleSoft Financial System. The Rental Office performs a query of payments processed by Fiscal Control and manually transfers the data to the Consolidated Reservation Report. This process results in manual entry errors and difficulty in matching specific payments to Civic Center Rental Permits. Rental Office management should explore the possibility of obtaining computer software that appropriately interacts with the district's PeopleSoft Financial system to minimize manual entry errors.



W. Stephen Carr
Director, Office of Internal Audit



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Operations Audit Manager

Explanation of Findings

- 1. More than \$40,000 in Civic Center Rental Permit fee income was uncollected for the 2011/2012 school year per the final Consolidated Reservation Report dated October of 2012.**

The Consolidated Reservation Report is the system of record for the rental activity of district property. The Consolidated Reservation Report maintained by the Rental Office indicated that more than \$40,000 in Civic Center Rental Permit fee income was uncollected for the 2011/2012 school year. For each Permit that indicated an uncollected fee amount, the fees were traced to the payments collected by the Fiscal Control Department. The review verified that more than \$40,000 in Civic Center Rental Permit fee income was uncollected for the 2011/2012 school year. The Consolidated Reservation Report for the 2011/2012 school year was provided to Internal Audit during October 2012 as a final report. Since the onset of the audit process, the Real Estate Rental Office has been working to recover these uncollected funds.

The Civic Center Rental Permit for use of school property requires payment before the rental event takes place. The loss of contracted fee income to the district has a negative financial outcome to the district and the schools that share in the fee income.

Recommendation

Internal Audit recommends that Rental Office management employs a method to ensure that rental fees are paid when the Civic Center Rental Permit is issued and prior to the date of the rental event.

- 2. Documentation that renters had insurance as required by the permit contract is not maintained in the Rental Permit file or in the Rental Office computer system for 51% of Rental Permits reviewed.**

The Rental Office computer system maintains a copy of insurance documentation provided by the applicant/permittee. Rental office employees delete previous insurance documentation from the computer system when updated documentation is received. A physical copy of insurance documentation is not maintained in the Rental Permit file.

A sample of Rental Permits was reviewed and tested for evidence of insurance. Of the 74 Permits reviewed, there were 38 Permits that lacked evidence of insurance for the rental period. There were 18 Permits without any evidence of insurance on file, 18 Permits with current evidence of insurance that did not cover any of the rental period, and 2 Permits with evidence of insurance that partially covered the rental period.

The Civic Center Rental Permit for use of school property requires property use insurance before the rental event takes place. The lack of property use insurance could result in liability to the district.

Recommendation

Internal Audit recommends that Rental Office management employs a method to ensure that insurance documentation is maintained. Insurance documentation should be maintained for the entire document retention period and a physical copy of insurance compliance should be maintained in the original Rental Permit file.

- 3. Civic Center Rental Permits were not signed by the Applicant/Permitee and/or Real Estate Rental Office employees for 23% of the Rental Permits reviewed.**

A sample of Civic Center Rental Permits was reviewed and tested for evidence of signatures. Of the 74 Permits reviewed, there were 17 Permits that lacked either the signature of the Applicant/Permitee and/or the signature of a Real Estate Rental Office employee. By signing the Civic Center Rental Permit, the Applicant/Permitee agrees that they, “have received a copy of, read, understand and will abide by the ‘Civic Center Use Rules and Regulations’ and certify or (declare) under penalty of perjury” that the information provided is true and correct.

The Civic Center Rental Permit for use of school property requires signatures from Applicant/Permitee and Rental Office staff. An unexecuted Civic Center Rental Permit could result in a possible liability to the School District.

Recommendation

Internal Audit recommends that Rental Office management employs a method to ensure that Rental Permits are signed by the Applicant/Permitee and Rental Office staff. All Rental Permits should be signed and complete prior to the date of the rental event.

- 4. The total Civic Center Rental Permit fee amounts collected for the 2011/2012 school year per the Consolidated Reservation Report do not match the total amount of fees collected for the 2011/2012 school year by the Fiscal Control cashier.**

A query of all funds posted by Fiscal Control to the Real Estate Rental Office budget account for property rentals was processed for the 2011/2012 school year. The total fees posted by Fiscal Control do not match the total of fees reported on the Consolidated Reservation Report prepared by the Real Estate Rental Office for the 2011/2012 school year. The discrepancies are as follows:

Fees Collected by Fiscal Control	\$1,735,974
Fees Reported by the Real Estate Rental Office	\$1,748,232
Difference	\$12,258

The Consolidated Reservation Report for the 2011/2012 school year was provided to Internal Audit during October 2012 as a final report. Since the onset of the audit process, the Real Estate Rental Office has been working to reconcile this difference.

The Consolidated Reservation Report is a manually prepared spreadsheet that is prone to input or calculation error resulting in inaccurate financial reporting. The payment amounts recorded by Fiscal Control are not automatically populated to the Consolidated Reservation Report. The Rental Office uses a query to determine the payment amount for each Civic Center Rental Permit and manually enters that amount into the Consolidated Reservation Report. Timing differences, calculation errors and entry errors result in Consolidated Reservation Report inaccuracies.

Recommendation

Internal Audit recommends that Rental Office management employ a periodic reconciliation between the fee information recorded on Consolidated Reservation Report and the payments made to the Fiscal Control cashier. Internal Audit also recommends that Rental Office management explores the possibility of obtaining computer software that appropriately interacts with the district's PeopleSoft Financial system to minimize manual entry errors.

5. **The amount of Civic Center Rental Permit fee income recorded as collected on the Consolidated Reservation Report does not match the fee payment amounts recorded by the Fiscal Control Department based on a sample of individual permits.**

A sample of Rental Permits was reviewed and tested to verify that the amount of Civic Center Rental Permit fees recorded on the Consolidated Reservation Report was accurate. Of the 74 Permits reviewed, the amount of fee income recorded on the Consolidated Reservation Report did not match the fee income collected by the Fiscal Control Department cashier for 8 Rental Permits. The result of these discrepancies was that 6 Rental Permits had less fees collected, totaling \$6,951 than reported and 2 Rental Permits had more fees collected, totaling \$501 more than reported.

In addition, a sample of 111 Rental Permits that indicated a balance due amount was reviewed to determine if the balance due amounts were accurate. For this sample, the payment amount recorded as paid on the Consolidated Reservation Report was less than the Rental Permit fee amount resulting in a balance due amount. From the sample of 111 Rental Permits there were an additional 30 discrepancies identified between the fee income recorded on the Consolidated Reservation Report and fee income collected by the Fiscal Control Department cashier. The result of these discrepancies was that 19 Rental Permits had less fees collected, totaling \$23,750 than reported and 11 Rental Permits had more fees collected, totaling \$21,427 more than reported.

The combined discrepancies result in less fee amounts collected by Fiscal Control than reported on the Consolidated Reservation Report. The amount of uncollected funds recorded on the Consolidated Reservation Report does not match the amounts actually deposited by the Fiscal Control cashier resulting in distortion of the amount of uncollected funds as follows:

Total amount of sampled item uncollected fees that were recorded on the Consolidated Reservation Report. These fee amounts were shown as uncollected on the Consolidated Reservation Report.	\$40,217.36		
Total amount of sampled item additional uncollected fees that were less than the amount recorded on the Consolidated Reservation Report.		\$30,701.48	
Total amount of sampled item uncollected fees that were more than the amount recorded as collected on the Consolidated Reservation Report.			\$(21,928.50)
Actual total amount of uncollected fees based on amounts collected by Fiscal Control.	\$48,990.34		

The Consolidated Reservation Report is a manually prepared spreadsheet that is prone to input or calculation error resulting in inaccurate financial reporting. The payment amounts recorded by Fiscal Control are not automatically populated to the Consolidated Reservation Report. The Rental Office uses a query to determine the payment amount for each Civic Center Rental Permit and manually enters that amount into the Consolidated Reservation Report. Timing differences, calculation errors and entry errors result in Consolidated Reservation Report inaccuracies.

Recommendation

Internal Audit recommends that Rental Office management explores the possibility of obtaining computer software that appropriately interacts with the district’s PeopleSoft Financial system to minimize manual entry errors. A computer system that automatically populates payments amounts and Civic Center Rental Permit Reservation Numbers posted by Fiscal Control to the Consolidated Reservation Report would eliminate these errors.

6. A periodic or annual reconciliation between the Consolidated Reservation Report and the payments made to the Fiscal Control cashier is not performed.

Information from Civic Center Rental Permits and deposit amounts from payments made to the Fiscal Control cashier are entered into the Consolidated Reservation Report. The information entered on the Consolidated Reservation Report and the actual fee amounts collected by Fiscal control is never reconciled to ensure accuracy of reported fee amounts collected. A periodic reconciliation is not performed to correct any discrepancies in the recorded fee amounts.

The Consolidated Reservation Report is a manually prepared spreadsheet that is prone to input or Rental Office staff calculation error resulting in inaccurate financial reporting. The payment amounts recorded by Fiscal Control are not automatically populated to the Consolidated Reservation Report. The Rental Office uses a query to determine the payment amount for each Civic Center Rental Permit and manually enters that amount into the Consolidated Reservation Report. Timing differences, calculation errors and entry errors

result in Consolidated Reservation Report inaccuracies.

Recommendation

Internal Audit recommends that Rental Office management performs a monthly reconciliation between the fee information recorded on Consolidated Reservation Report and the payments made to the Fiscal Control cashier. Reconciliation is an important internal control to ensure that recorded activity is correct.

- 7. The Real Estate Rental Office does not have a process in place for recovering uncollected funds resulting from Civic Center Permit amounts that are unpaid.**

Rental Office staff work to collect fees for each Rental Permit prior to the date of the rental. When these fees remain unpaid, there is not a formal process for the collection of the unpaid fees.

The Civic Center Rental Permit for use of school property requires payment before the rental event takes place. The loss of contracted fee income to the district has a negative financial outcome to the district and the schools that share in the fee income.

Recommendation

Internal Audit recommends that Rental Office management employs a method to ensure that rental fees are paid when the Civic Center Rental Permit is issued and prior to the date of the rental event. When fees are uncollected a formal step by step process should be defined and employed to ensure that every effort was made for collection. When possible, a permit should not be issued when payment has not been received.

- 8. The Civic Center Rental Permit Reservation Numbers are not always recorded by the Fiscal Control cashier when depositing rental fee payment amounts resulting in the inability to trace payments for specific Reservation Numbers.**

The Fiscal Control cashier processes payments for Civic Center Rental Permits. When the payment is made, the Permit Reservation Number is manually recorded in the "line description" section of the payment information. The Civic Center Rental Permit fee payment amounts recorded by the Fiscal Control Department, only ties to specific Reservation Numbers by use of this manually entered Line Description of the Reservation Number. The Civic Center Rental Permit Reservation Numbers are not always recorded by the Fiscal Control cashier resulting in the inability to trace payments for specific Reservation Numbers.

The Consolidated Reservation Report is a manually prepared spreadsheet using fee payment information provided by the Fiscal Control Department. Incomplete information generated by Fiscal Control could result in inaccurate financial reporting of fee payments.

Recommendation

Internal Audit recommends that Rental Office management employ a periodic reconciliation between the fee information recorded on Consolidated Reservation Report and the payments made to the Fiscal Control cashier. Internal Audit also recommends that Rental Office management explores the possibility of obtaining computer software that appropriately interacts with the district's PeopleSoft Financial system to minimize manual entry errors. A computer system that automatically populates payments amounts and Civic Center Rental Permit Reservation Numbers posted by Fiscal Control to the Consolidated Reservation Report would eliminate these errors.

9. Other minor inconsistencies were noted during the review of the Rental Office as follows:

- **Two Civic Center Rental Permits were signed by Real Estate Rental Office employees after the rental activity took place.**

A sample of Rental Permits was reviewed and tested to verify that the signatures were affixed to Civic Center Rental Permits. Of the 74 Permits reviewed, 2 Rental Permits had signatures dated after the rental activity occurred.

The Civic Center Rental Permit for use of school property requires signatures from Rental Office staff. An unexecuted Civic Center Rental Permit could result in a possible liability to the School District.

- **Civic Center Rental Permits were issued to organizations that historically did not pay or underpaid the previous rental fee amount.**

A sample of 111 Rental Permits that indicated a balance due amount was reviewed to determine if the balance due amounts were accurate. It was noted during this review that the Real Estate Rental Office rented facilities to organizations that continued to have amounts due to the district.

The Civic Center Rental Permit for use of school property requires payment before the rental event takes place. The loss of contracted fee income to the district has a negative financial outcome to the district and the schools that share in the fee income.

- **The fee recorded on the Consolidated Reservation Report does not match the fee recorded on two Civic Center Rental Permits.**

A sample of Rental Permits was reviewed and tested to verify that the amount of Civic Center Rental Permit fees recorded on the Consolidated Reservation Report was accurate. Of the 74 Permits reviewed, 2 Civic Center Rental Permits had a different fee amount than the amount recorded on the Consolidated Reservation Report. These errors were a result of a change of the fee amount after the original entry on the Consolidated Reservation Report.

The Consolidated Reservation Report is a manually prepared spreadsheet that under the current process is prone to input or Rental Office staff calculation error resulting in inaccurate financial reporting since no cross-check of the initial input is performed.

Recommendation

Internal Audit recommends that Rental Office management employs a method to ensure Rental Permits are signed by the Applicant/Permitee and Rental Office staff prior to the rental event date, that rental fees are paid when the Civic Center Rental Permit is issued, and that fee amounts are correctly recorded.

Sam Diego Unified School District
Real Estate Department
Audit Response – Rentals
July 22, 2013

Education Code Section 31830, also known as the Civic Center Act, states the governing board of any school district may grant the use of school facilities or grounds upon terms and conditions the board deems proper, subject to the limitations, requirements and restrictions set forth in the Civic Center article.

In the last four years, the Real Estate Department (“R/E”) has had four changes in the leadership overseeing the department. Currently, three of the five department staff members are in temporary-out-of-class positions, and two vacated positions are not being filled. There are two full time rental staff members; another staff member contributes 25% of her time to assist with the more complicated permits.

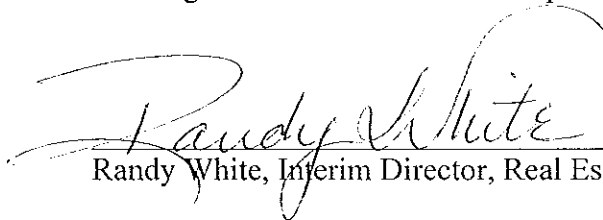
The Office of Internal Audit presented R/E with a comprehensive review of the Rentals section for the year 2012. While R/E takes the audit findings seriously, it is important to note that the audit occurred mid-school year, and many permits and their finances are not one-time events/activities. R/E acknowledges the nine areas of concerns cited in the audit, and will continue to hone the rental reconciliation and permitting process.

R/E staff prides itself on working with clients to comply with the Civic Center Act and the district rental process.

- 1) Currently, RecTrac is the software system utilized by R/E to create, track and report on rental permits. RecTrac does not interface well with PeopleSoft. R/E staff has contacted other school districts to discuss their software programs and found RecTrac to be the most comprehensive system for daily transactions. R/E has purchased the web-based version; however, even this upgrade will not address the concerns of both the R/E staff and those mentioned in the audit.
- 2) R/E staff has reviewed and changed the process for obtaining and tracking Insurance Certificates. All certificates are matched to the user group and permit, stored electronically with the user group and are audited on a recurring basis. Each user group has an identifying number so if the insurance certificate is not current, R/E staff will know immediately. R/E staff contacts any user groups without current Insurance Certificates on file and if R/E staff does not receive insurance prior to the event/activity, the event may be cancelled.
- 3) The unpaid balance noted in the audit has been reduced from \$40K to \$11K since the time of the report and staff continues to contact delinquent account holders to bring their accounts up to date. R/E staff is in discussion with the Interim CFO regarding taking future delinquent user groups to a collection agency. Permit fees for ongoing events (i.e., adult baseball season) may change, oftentimes throughout the season, depending on additional/cancelled dates or changes in start/end times. Revenue for the permits is collected throughout the life of the permit and not on a standard monthly payment schedule. This makes journal entry reconciliation difficult. Since RecTrac and PeopleSoft do not interface well, staff will review and discuss with finance staff other possible solutions to reconcile the Rental account.

- 4) The Board directed staff to work with the schools to bring the rental process, schools and user groups into compliance with the Education Code and to make the community aware of this public resource. The increase in the number of permits made and increased revenue generated prove the staff is accomplishing that goal. Over the last three years, R/E staff has updated the rental permit process from being a mainly manual process for collecting customer requests and signatures along with site approvals and authorizations, to a more automated system. Staff is being more cognizant of complying with signatures prior to the event; however, in some instances, the rental staff is not made aware of the event/activity until after the fact. Staff still makes the permit and process the permit as necessary.
- 5) The Rentals staff permits the use of the district's 200+ sites, including charter schools. In the 2012-13 school year, there were approximately 1,884 permits made for use of district facilities, an impressive increase of 1,120 permits in just three years (the 2009-10 school year). The approximately \$2.4M in revenue generated in 2012-13 is an increase of more than \$1.2M from that which was generated in 2009-10. Rentals staff has continually evaluated and fine-tuned the process; some of those adjustments were prompted by changes in staff, the increasing number of permits created, and general oversights found in the process.

R/E staff thanks you for the unbiased review of the district's rental process. The audit report findings will be used to improve, modernize and tighten up the rental process. The department will continue to look for ways to effectively communicate with the public, the schools and the finance department staff. RecTrac is a complex system, and staff will contact RecTrac representatives to inquire about any unused or updated sections of the program that might assist us in better serving the clients and in executing the many facets of the rental process. The R/E administrator will advocate for an increase in staff and will investigate other software systems that might better interface with PeopleSoft.


Randy White, Interim Director, Real Estate

July 31, 2013
Date