



Review of the Fun and Fitness Program

June 2015

**City of Springfield
Office of Internal Audit**

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July 29, 2015

Re: Review of the Fun and Fitness Program

Honorable Members of the Audit Committee and Board of Park Commissioners,

At the request of T.J. Plante, CAFO, the Office of Internal Audit conducted a review of the Fun and Fitness program. The accompanying report details findings and recommendations for improvement. The results of the review have been discussed with City management who has taken numerous positive actions in response to these recommendations. City management's responses have been incorporated into the report.

This report is not intended to be an adverse reflection of the City or of its programs; rather it is intended to contribute to the improvement of the City's risk management, control, and governance processes.

We wish to personally acknowledge the support received throughout this process from the Parks, Buildings and Recreation Management Department management, their staff, and all others that helped to provide information during this review. We thank them for their cooperation and courtesies extended.

Respectfully submitted,

Yong Ju No
Director of Internal Audit

CC: Honorable Mayor Domenic J. Sarno
T.J. Plante, CAFO
Patrick Sullivan, Director of PBRM
Paula Thayer, Director of Recreation
Peter Krupczak, Asst. Director of PBRM

Springfield City Council
Edward Pikula, Esq, City Solicitor
Steve Lonergan, Treasurer
Sara Wheeler, President of Parents and Friends of Star, Inc.
Brian Shea, Esq, Law Office of Brian Shea
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(413) 886-5125 <http://www.springfield-ma.gov>*



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Office of Internal Audit

Highlights

Why We Did This Study

The Chief Administrative and Financial Officer requested a review of the Fun and Fitness program (“Program”) after he discovered that the Program had established its own bank account, contrary to the City’s Treasury Policy.

What We Recommend

We made the following recommendations:

- Establish written policies and procedures that are consistent with applicable laws and other guidelines and ensure they address the instances of noncompliance and internal control deficiencies discussed in this report.
- The City enter into a formal agreement with Parents and Friends of Star, Inc. defining roles and responsibilities of each party and other significant terms.
- Implement an accounting system to account for its activities, and retain and organize adequate documentation to support all revenue collected and expenses paid.
- Reconcile its bank accounts monthly with appropriate oversight.
- Continuously monitor the program’s activities to ensure activities and expenditures are consistent with applicable laws.

(Continued on page 2)

Review of the Fun and Fitness Program

Although we did not find any instances of theft/fraud, we noted that the Program lacked policies and procedures necessary to assure the proper conduct of accounting, the safeguarding of assets, and compliance with laws and regulations creating an environment that is ripe for theft and abuse.

Our findings as discussed in this report relate only to the Fun and Fitness program and should not be viewed as a negative reflection of the Parks and Recreation Department or any of its other programs.

Background

Fun and Fitness is a recreation program operated in conjunction with the Parents and Friends of Star, Inc. (“Star”) for adults 18-60 years of age with developmental delays.

Objectives and Scope

The objectives of this review were to verify compliance with the City’s policies and procedures specific to collection and procurement and to evaluate internal controls over operations.

Our review covered the period from January 1, 2012 through December 31, 2014.

What We Found

The Program circumvented the City’s Treasury Policy of not allowing the establishment of a separate bank account and Procurement Policy.

No agreement exists between the City and Star.

The Program had not established written policies and procedures to assure the proper conduct of accounting and program related functions and the safeguarding of assets.

Record keeping of program activities was inadequate.

Bank reconciliations were not performed.

(Continued on page 2)

What We Recommend (continued)

- Segregate the Program Director's duties. If segregation is not possible due to limited staff, then implement compensating controls, such as independent oversight and monitoring.
- Prepare budgets and monitor them regularly.
- Not hire relatives.
- Eliminate the use of debit cards. As an alternative consider whether credit cards should be used, and if so, establish and implement written policies and procedures governing the control and use of credit cards.
- The Program Director redeem credit card reward points for cash, reimburse the Program for the annual Costco membership, and deposit such funds with the Program.
- Perform evaluations of those individuals whom the Program classified as independent contractors using guidelines issued by the IRS. If it is determined that those individuals should have been classified as employees, then determine what corrective actions should be taken, if any, regarding unpaid payroll taxes, and contact the IRS for guidance, if necessary.
- Determine what corrective measures should be taken, if any, regarding unreported income for independent contractors and payroll taxes not withheld from employees and contact the IRS for guidance, if necessary.
- Implement those recommendations from the Department of Development Services and Disabled Persons Protection Commission regarding the safety of program participants.
- Comply with the City's Mobile Phone and Motor Vehicle Policies.
- Star comply with the Attorney General's registration and filing requirements.
- Star amend its 2012 and 2013 IRS Forms 990.

For more information, contact Yong No at (413) 784-4844 or yno@springfieldcityhall.com.

What We Found (continued)

There was inadequate monitoring of program activities.

The Program had not provided for an adequate separation of the Program Director's duties, or established adequate compensating controls, in all areas of its operations.

The Program did not prepare budgets.

The Program employed relatives.

Program activities involving gambling and expenditures on alcohol and lunches/dinners were inappropriate.

The Program's use of debit cards was not approved by the City and lacked controls.

The Program allowed the use of personal credit cards for program activities which was not approved by the City; and personal benefits were derived from such use.

The Program neither performed an evaluation to justify its staff classification as independent contractors nor report the independent contractors' income to the Internal Revenue Service.

The Program did not use the City's payroll system to pay its employees which contributed to the apparent overpayment to an employee totaling \$65, and failed to withhold payroll taxes.

The Department of Development Services and Disabled Persons Protection Commission cited the Program for abuse, which the Program Director denied and contested in court, and noted improvements are needed in the Program.

The Program failed to comply with the City's Mobile Phone and Motor Vehicle Policies.

Parents and Friends of Star, Inc. failed to comply with the Attorney General's registration and filing requirements.

The 2012 and 2013 IRS information returns of Parents and Friends of Star, Inc. warrant restatement.



BACKGROUND

Fun and Fitness is a recreation program in the City's Parks and Recreation Department operated in conjunction with the Parents and Friends of Star, Inc. for adults 18-60 years of age with developmental delays. The Program has existed since 1955 and consists of shows and sporting events, a weekly bowling league, social events such as movie/dinner nights, comedy shows, dinner/dancing nights, week long vacations, and a variety of day trips. The Program has nine part time staff and a Program Director. The Program has activities during three calendar seasons: fall, winter and spring/summer. The Program has a fee schedule per activity. The clientele are independent to semi-independent individuals who live with their parents, in group homes or shared living arrangements. Participants must be continent and be independent.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The objectives of this review were to:

- Verify compliance with City's policies and procedures specific to collection and procurement, and
- Evaluate internal controls over operations.

Scope

Our review of the Fun and Fitness program covered the period from January 1, 2012 through December 31, 2014.

Methodology

To achieve our objectives, we performed the following:

- Interviewed Program Director, Parks and Recreation Director, Program's bookkeeper (2014 only),
- Consulted City Solicitor and Director of Information Technology,
- Reviewed cash receipt support documentation, City's policies on cash handling/collections, procurement, mobile phone, and motor vehicles,
- Reviewed Massachusetts General Laws Chapter 30B and Section 3509 of the Internal Revenue Code,
- Reviewed Massachusetts Attorney General's Office registration and annual filing requirements for not for profit organizations,
- Reviewed bank, credit card, and mobile phone statements, and
- Reviewed purchasing methods and examined supporting documentation for specific purchases.



FINDINGS AND RECOMMENDATIONS

Finding 1 – The Program circumvented the City’s treasury and procurement policies.

In 2012, the City’s Treasurer notified the Program Director that the Director was not in compliance with the City’s Treasury Policy regarding departments not being allowed to have separate bank accounts, under any circumstances. Any department that has a separate account must present a plan to close the account within two months. As such, the bank account at Fun and Fitness was frozen until the Director complied with the City’s policy. The Program Director then commenced to run the operations of Fun and Fitness through another bank account at Citizens Bank. This bank account was held under the name of Parents and Friends of Star, Inc. (“Star”) on which the Director was a signatory. The Program’s deposits and disbursements were made into/out of this account about which the Treasurer was unaware. According to the Director of Parks and Recreation, neither he nor the Program Director’s supervisor was aware of the Treasurer’s action and the existence of the other bank account at Citizens Bank held under Star.

The City’s Procurement Policy requires purchases be made in accordance with Massachusetts General Laws and that such purchases be made through a requisition process, approved, and accounted for in the City’s accounting system, MUNIS. We noted that the Program purchases were made outside of MUNIS; made with cash, checks, and the Program Director’s credit cards; and seemingly without limit. Also, these purchases were made from preferred vendors rather than from vendors approved for use by the City’s Office of Procurement.

The Program’s noncompliance with the City’s Treasury and Procurement Policies put the Program at risk for inappropriate transactions and misappropriation of assets.

Recommendation

We understand that the Program will continue to use Star’s cash account to operate the Program. As such, we recommend that Star establish policies and procedures for cash handling/receipts to ensure Program assets are properly safeguarded. We recommend that the cash handling/receipts policy include:

- Signatories on checks include only Star directors and/or employees,
- Provide receipts for customers after each transaction, and
- Provide customer statements monthly.



Additionally, we recommend Star establish procurement policies and procedures which comply with Massachusetts procurement laws as the Program will still be subject to 30B. We recommend that the procurement policy include the following:

- Periodically solicit for bids to obtain favorable prices,
- Vendors be vetted,
- Use of purchase orders,
- Approval of purchase orders and invoices by the Treasurer of the Board of Directors or his/her designee prior to payment.

Finding 2 – No agreement exists between the City and Parents and Friends of Star, Inc.

As mentioned in Finding 1, the bank account of Parents and Friends of Star, Inc. a 501(c) 3 organization is used to operate the Fun and Fitness program. The use of such an account by the City is without a documented agreement. A signed agreement between the City and Star defining the mutual understanding of both parties in operating the Fun and Fitness program would provide a formal approach to defining the expectations and responsibilities of both parties and reduce the risk exposure within the relationship.

Recommendation

We recommend that the City have a formal agreement with Fun and Fitness defining roles and responsibilities of each party and other significant terms.

Finding 3 – The Program lacked written policies and procedures.

Written policies and procedures, which clearly define the responsibilities of employees, are essential to provide both management and employees with guidelines regarding the effective, efficient, and consistent conduct of City business and the effective safeguarding of City assets. Additionally, written policies and procedures, if properly designed and communicated to employees, provide management assurance that City activities are conducted in accordance with applicable laws. Written policies and procedures also assist in the training of new employees. Our review of the Program's operations disclosed that the Program did not have written policies or procedures for its accounting and program-related functions. While we recognize that the Program is small in size and has limited resources, the establishment of comprehensive, written policies and procedures is necessary to help



prevent instances of noncompliance or inadequate internal controls, such as those discussed in subsequent findings.

Recommendation

The Program should develop and implement comprehensive, written policies and procedures that are consistent with applicable laws and other guidelines. In doing so, the Program should ensure that the written policies and procedures address the instances of noncompliance and internal control deficiencies discussed in this report.

Finding 4 – Record keeping of program activities was inadequate.

The City requires that all of the City's activities be recorded in its accounting system, MUNIS, and that the Treasurer reconcile the bank statements monthly. This is to ensure that all activities of a department are recorded and can be monitored. We noted that the Program neither used the City's accounting system nor any other accounting system to record its activities and record the assets and liabilities of the Program as of a certain date. Rather a manual ledger was used to record the results of a particular program activity. This manual system was severely deficient. Checkbook registers were not used. Deposits and checks were never reconciled to bank statements. While reviewing the 2013 ledger, we discovered approximately \$700 in undeposited cash and travelers checks which we, with the Program Director's approval, remitted to the Treasurer for deposit. This extreme level of disorganization has the potential to cause serious irregularities such as fraud and defalcation, because there is no reliable system of detection; and these irregularities could continue to go undetected. This severe situation should be corrected as soon as possible with the establishment of an accounting system that contains adequate controls and related checks and balances.

Recommendation:

We understand that Parents and Friends of Star, Inc. will maintain custody of the Program's cash account. As such, we recommend that the Program implement an accounting system, such as Quick Books, to record its activities, and its assets and liabilities. The Program's financial statements should be reviewed regularly to identify issues. Additionally, the Program should retain and organize adequate documentation to support all revenue collected and expenses paid.

**Finding 5 – Bank reconciliations were not performed.**

As mentioned in Finding 4, the Program did not reconcile its bank accounts. Effective internal controls require that reconciliation of bank account balances to the accounting records be performed on a timely, routine basis. Such reconciliations are necessary to provide reasonable assurance that cash agrees with recorded amounts, permit prompt detection and correction of unrecorded, and improperly recorded cash transactions or bank errors.

Recommendation

The Program should ensure that bank reconciliations are timely and properly prepared, and that there is proper independent oversight of this activity.

Finding 6 – There was inadequate monitoring of program activities.

A key process within internal controls is continuous monitoring. Continuous monitoring is a process that falls under management's responsibility in which key process transactions and controls are constantly assessed. We noted that such monitoring activity at the Program was inadequate. As such, the Program's Director ran the Program as the Director sought fit, violating the City's policies and Massachusetts General laws and creating an environment that is ripe for theft and abuse.

Recommendation:

We recommend that the Program develop and implement a system of internal controls in which management oversight is exercised to ensure that there are proper safeguards around Program assets and compliance with City's policies and laws and regulations.

Finding 7 – There was a lack of segregation of the Program Director's duties.

Segregation of duties is critical to effective internal control. Adequate segregation of duties reduces the likelihood that errors, both intentional and unintentional, will remain undetected by providing for separate processing by different individuals at various stages of a transaction and for independent reviews of the work



performed. The underlying theme of segregation of duties is that no employee should be in a position both to perpetrate and to conceal errors or fraud in the normal course of their duties. Principal incompatible duties to be segregated include custody of assets, authorization or approval of related transactions affecting those assets, and recording or reporting of the transactions. We noted that the Program Director kept custody of the Program's check books, was the signatory, and recorded the activities of the Program. The Director performed these duties with no oversight.

Recommendation

The Program should implement procedures to ensure that conflicting duties are segregated among different individuals. If segregation of duties is not possible due to limited staff, then the Program should ensure that adequate compensating controls, such as independent oversight and monitoring, are implemented.

Finding 8 – The Program did not prepare budgets.

We noted that the Program did not prepare annual budgets for its activities. The use of budgets is an effective management tool in setting goals and monitoring finances.

Recommendation

We recommend that the Program prepare a budget annually and track actual results against its budget monthly. By doing so, the Program will effectively monitor its performance and make more informed business decisions.

Finding 9 - The Program employed relatives.

Massachusetts Conflict of Interest Law prohibits nepotism. The Massachusetts State Ethics Commission Advisory 86-02: *Nepotism* states that “A public official may not hire an immediate family member... the conflict law prohibits a public employee from participating in any particular matter in which a family member has a financial interest. The decision to hire is a particular matter in which an official is "personally and substantially" participating, and the family member has an obvious financial interest in the hiring decision.” During the period under review, the Program employed four family members of the Program Director. The family members included the following:



- The Program Director's spouse
- The Program Director's daughter
- The Program Director's two sons.

Nepotism may conflict with hiring and promoting the most qualified candidate for a job. It also creates the appearance of impropriety. Hiring someone based on familial relationships rather than credentials and experience could lead to inferior service.

Recommendation

The Program should establish and implement policies and procedures to ensure that all employees adhere to the Massachusetts Conflict of Interest Law regarding nepotism.

Finding 10 – Certain program activities and expenditures were inappropriate/illegal.

Massachusetts laws generally criminalize gambling conducted within the state. We noted the following activities which involved gambling:

- Saratoga Race Tracks, NY in 2012 during which time \$36 were expended on racing tickets, and
- Mohegan Sun, CT in 2013 and 2012 during which time \$488 and \$319 were dispersed to Program participants to spend on gaming activities, respectively.

Since gambling is illegal in Massachusetts, expenditures on such activities are deemed inappropriate.

Massachusetts General Laws prohibit the use of public funds on alcohol and expenditures which do not serve the public's interest. We noted that expenditures for alcoholic beverages were made at two separate program activities as follows:

- Lake Placid vacation - Firehouse Steak House in Lake Placid, NY in 2012 during which time three Seagram's 7 drinks were purchased for \$6.25 each, and
- Disney vacation - Walgreens in Kissimmee, Florida in 2013 during which time two 18 packs of Budweiser beer were purchased, totaling \$23.98.



In addition, in the period under review, we noted that Program funds were used to pay for numerous office lunches and dinners at various local restaurants from Bueno Y Sano to Panera Bread with bills ranging from \$28 to \$50. Lunches and dinners are deemed personal and do not serve a public purpose.

Recommendation

The Program should develop and implement policies and procedures to ensure expenditures comply with Massachusetts General Laws.

Finding 11 - The Program's use of debit cards violated City's policies and lacked controls.

The City did not approve the issuance of debit cards or other charge accounts such as credit cards, adopt policies, procedures, or other guidance as to the use of debit and charge accounts. City goods and services are procured in accordance with established procurement policies and procedures and Massachusetts General Laws. We noted that the Program Director provided staff with debit cards linked to the Program's bank account to use for program activities. ATM withdrawals were made by staff members at specific program events. Their use did not require approval, authorization or review, and were not always supported by proper documentation. For example, on February 6, 2012, \$1,075 was withdrawn from ATMs at Mohegan Sun. The Program Director indicated that these withdrawals were made for program activities such as dinners, room tips, and gaming activities. However, there were no receipts to support use of these ATM withdrawals. Debit cards carry a higher level of risk of loss as funds are withdrawn immediately from bank accounts; and unauthorized charges could wipe out entire account balances.

Recommendation

We recommend that the Program eliminate the use of debit cards. As an alternative, the Program may want to consider the use of credit cards (see recommendation to Finding 12).



Finding 12 – Personal credits cards were used in program activities from which personal benefits were derived.

As mentioned in Finding 11, the City did not approve the issuance of credit cards or adopt policies, procedures, or other guidance as to the use of credit cards. In addition, Massachusetts General Law Chapter 268A, Section 17 states that, "...no municipal employee shall, otherwise than as provided by law for the proper discharge of official duties, directly or indirectly receive or request compensation from anyone other than the City or town or municipal agency in relation to any particular matter in which the same city or town is a party or has a direct and substantial interest." We noted that the Program Director's personal credit cards, which consisted of Capital One Costco, Chase Sapphire, and TD Bank Visa (2014 only) credit cards and were shared among staff, were used not only for Program Director's personal purposes (for which the Director reimbursed the Program), but also used to procure goods and services for the Program from which personal benefits were derived. For example, in the period under review, the Program Director's annual Costco membership of \$110 was paid for by the Program with no reimbursements from the Program Director for the Director's portion. Also, we noted that the Program charged thousands of dollars to a Chase Sapphire credit card which generated rewards points for the Program Director. We noted that Chase Sapphire rewards points was 81,601 as of January 1, 2012 and had accumulated to 250,727 as of December 31, 2014 which equates to approximately \$3,100 for travel according to Chase Credit Card.

Recommendation

The Program should determine whether credit cards should be used and, if so, establish and implement written policies and procedures governing the control and use of credit cards. Such polies and procedures should require all employees utilizing credit cards to sign a written agreement evidencing their understanding of, and agreement with, the Program's credit card policy. Additionally, the Program procedures should require the retention of detailed billing statements and receipts for all charges incurred on Program issued credit cards and approval of credit card transactions incurred prior to payment.

Lastly, we recommend that the Program Director redeem any credit card reward points for cash, reimburse the Program for the Costco annual membership from 2012 through 2015, and deposit such funds with the Program.



Finding 13 – The Program neither performed an evaluation to justify its staff classification as independent contractors nor report the independent contractors’ income to the Internal Revenue Service.

Under common laws, anyone who performs services for an organization is that organization’s employee if that organization can control what will be done and how it will be done. As an aid to determining whether an individual is an employee under the common law rules, the Internal Revenue Service (“IRS”) issued IRS Revenue Ruling 87-14 which identified twenty factors or elements as indicating whether sufficient control is present to establish an employer-employee relationship. Certain laws apply when an individual serves in the role of an employee rather than an independent contractor. For example, compensation to independent contractors is not subject to withholding for employment taxes, whereas compensation to employees is subject to withholding for employment taxes, such as Federal Insurance Contributions Act (“FICA”) and Medicare employment taxes. The IRS regulations require employers to make a determination of whether a worker is an employee or independent contractor for income tax reporting purposes. Also, the IRS requires an organization which makes payments in excess of \$600 annually to an independent contractor who is not incorporated to report them on a Form 1099-MISC to the independent contractor and IRS.

The Program classified its staff members as independent contractors prior to 2014. We noted that these individuals were not on the City’s approved vendor list and that no evaluations were performed to determine if these individuals were properly classified as independent contractors. Also, we noted that the Program did not report the income earned by these individuals on Form 1099 MISC. The misclassification of employees as independent contractors could result in imposition of fines, penalties, and back taxes for which the employer is generally liable. In addition, failure to file the required Form 1099 MISC could result in penalties as well.

Recommendation

The Program should work with the Payroll department to perform evaluations of those individuals whom it classified as independent contractors using guides issued by the IRS. If it is determined that those individuals are employees, then the Program should work with the Payroll department to determine what corrective actions should be taken regarding unpaid payroll taxes and contact the IRS for guidance, if necessary.

In addition, the Program should work with the Payroll department to determine what corrective measures should be taken regarding unreported income to the IRS.



Finding 14 – The Program did not use City’s payroll system to pay employees and failed to withhold payroll taxes.

The City requires all employees be paid through its payroll system. In 2014, we noted that the Program’s staff were classified as employees and were paid through the City’s payroll system. According to the Director of Parks and Recreation, when the Parks and Recreation Department discovered that Fun and Fitness staff were driving City vehicles, the Parks and Recreation Department placed these individuals on the City’s payroll, making them employees, to protect the City. However, we noted that the Program continued to pay wages of \$7,932 outside of the City’s payroll system with no payroll taxes collected. As a result, the Program made double payments to a staff member for work during the same time period totaling \$65 in 2014. Federal and Massachusetts Laws require that payroll taxes be withheld from wages. By not complying, the Program could be subject to fines and penalties.

Recommendation

The Program should comply with the City’s payroll policy and pay its employees through the City’s payroll system to ensure the appropriate payroll taxes are withheld and mitigate the risk of double payments to employees. The Program should work with the Payroll department to determine what corrective actions should be taken regarding unpaid payroll taxes, and contact the IRS for guidance, if necessary.

Finding 15 – The Department of Developmental Services and Disabled Persons Protection Commission cited the Program for Abuse Per Se and noted improvements are needed.

In 2010, the Department of Developmental Services and Disabled Persons Protection Commission (“DPPC”) investigated a complaint against the Fun and Fitness program. Their investigation centered on a trip to Atlantic City in August 2010 where a disabled individual was injured. The DPPC issued its investigative report in November 2010 which found the Program under the supervision of the Program Director had committed “Abuse Per Se.” As defined by Massachusetts General Laws c. 19C, § 1 Abuse Per Se are the acts or omissions of a caretaker that includes or results in the serious physical or emotional injury. The DPPC’s report indicated that the Program Director failed to exercise due care of a disabled individual under the Director’s care. As a result, a



Program participant was severely sunburned at a beach in Atlantic City on August 7, 2010 which required medical attention. The DPPC recommended the following:

- The Springfield Parks & Recreation department insure that practices/procedures are in place and effective to insure those participants with intellectual disabilities and others remain safe and free from harm,
- Consider developing a means for obtaining information specific to individual's pertinent and unique needs, and
- Consider that staff receive training and certification in basic first aid.

The Program Director denied the allegations and with the assistance of the City's Legal Department contested the DPPC findings in court. Also, according to the Parks and Recreation Director, he was unaware of such report from the DPPC.

Recommendation

We echo those recommendations from the DPPC. Also, we recommend that there be better communications from the Program Director to the Parks and Recreation Director involving matters affecting the Parks and Recreation Department such as the investigative report from the DPPC.

Finding 16 – The Program did not comply with the City's Mobile Phone Policy

The City's mobile phone policy requires that all mobile phones used in City activities be issued by the City's Information Technology ("IT") Department with the respective department head's approval and that the IT Department monitor all City phone usage. We noted that the Program paid for the Program Director's mobile phone bills directly; and we saw no evidence of the Director of Parks and Recreation's approval for the Program Director's mobile phone use. We also noted that the Program's Director's mobile plan included two lines of which one was used by the Director's spouse since February 2010. The Director's spouse is not an employee of the Springfield Parks and Recreation Department. Total mobile phone charges from February 2010 to May 2015 amounted to \$5,472 of which the Program Director appeared to reimburse the Program \$2,773 or approximately 51% for the Director's spouse's portion of the phone bill. By not complying with the City's Mobile Phone Policy, there was no mechanism to identify personal use and ensure reimbursement for such use which could result in inappropriate charges.



Recommendation

We recommend that the Program comply with the City's Mobile Phone Policy.

Finding 17 – The Program did not comply with the City's Motor Vehicle Policy

The City's Motor Vehicle Policy, section 1.10 states that "An employee cannot transport members of his/her family, personal friend, or non-city employees in a City vehicle without specific permission from the department head." In addition, the City's Motor Vehicle Policy, Section 1.16 states that "employees who are planning on taking a City vehicle on official business out-of-state must be aware that out-of-state travel in any City vehicle will only be permitted with prior approval of the respective department head and DPW's Fleet Manager." We noted that City vehicles are routinely used to transport program participants to out of state activities. In the period under review, out of state activities included trips to various towns/cities in Connecticut and New York. There was no evidence of approval from the Director of Parks and Recreation and DPW Fleet Manager for use of City vehicles to transport non-City employees and for out of state trips.

Recommendation

We recommend that the Program comply with the City's Motor Vehicle Policy.

Finding 18 – Parents and Friends of Star, Inc. did not comply with the Attorney General's registration and filing requirements.

The Attorney General of Massachusetts requires all public charities, 501(c) 3 organizations, operating in Massachusetts to register with their office. Additionally, they require annually a Form PC to be filed within four and half months from a not-for-profit's fiscal year end and attach audited financial statements if its annual gross receipts are greater than \$500,000 or reviewed financial statements if its annual gross receipts are less than \$500,000 but greater than \$200,000. Only an independent certified public accountant can perform the audit or review. We noted that Parents and Friends of Star, Inc. neither registered with the Attorney General in Massachusetts nor made any annual filings with the Attorney General's Office. By not complying with the Attorney General's registration and filing requirements, Parents and Friends of Star, Inc. could be subject to fines and penalties.



Recommendation

We recommend that the Parents and Friends of Star, Inc. comply with the registration and filing requirements of the Attorney General's Office.

Finding 19 – The 2012 and 2013 IRS Information Returns of Parents and Friend of Star, Inc. warrant restatement.

According to Federal laws, it is a criminal offense to knowingly submit false information on tax returns, which includes IRS Form 990, to the Internal Revenue Service. We noted that a bank account of Fun and Fitness is held under the name of Parents and Friends of Star, Inc. since 2012. We also noted that this bank account was not included in the 2012 and 2013 financial statements in the Forms 990 of Parents and Friends of Star Inc. The bank balance of Fun and Fitness as of June 30, 2012 and 2013 was \$18,122 and \$38,241, respectively. The net assets of Parents and Friends of Star, Inc. were \$221,923 and \$194,242, as of June 30, 2012 and 2013, respectively. Based on the net assets of Parents and Friends of Star, Inc., we believe that the unreported bank balances are material to the financial statements of Parents and Friends of Star, Inc. as of June 30, 2012 and 2013 and warrant the Program to restate the IRS Form 990s for these years to prevent them from being misleading. By not amending the Forms 990, the Parents and Friends of Star, Inc. could be subject to fines and penalties.

Recommendation:

We recommend that Parents and Friends of Star, Inc. amend their 2012 and 2013 Forms 990.

PARKS AND RECREATION DEPARTMENT'S RESPONSE:

We agree with these findings and will implement the following corrective measures:

- **The Recreation Division is currently working with the 501 (c) 3's lawyer, the City Law Department and the Office of Internal Audit to finalize two separate agreements as follows: (Camp Star) and (Fun and Fitness).**
- **The Recreation Division is currently working with the 501 (c) 3, its lawyer, and the City Law Department to establish written policies and procedures and to finalize an agreement with the Parents groups and the City to assure proper conduct of accounting and program related functions and the safeguarding of assets. The Executive Director of DPRM has offered to have an employee**



of DPRM serve as bookkeeper for the parents group to insure monthly bank statements are reconciled and is investigating hiring an independent external auditor to conduct yearly audits.

- **Record Keeping will be handled internally by an employee of DPRM not the Therapeutic Recreation Director.**
- **Monthly bank reconciliations will be prepared by an existing DPRM employee.**
- **Program Director's duties will be segregated and many will be carried out by the parents group and existing DPRM employees.**
- **Annual budgets will be prepared and monitored regularly.**
- **No relatives will be hired.**
- **Debit cards will be eliminated and the parents group's attorney is working with Citizens Bank to open credit cards with approval by the Parents and Friends of Star, Inc. board. Issuance of the credit cards will be determined by the board. The board will implement policies and procedures for control and use of the credit cards.**
- **The former Program Director is in the process of providing proof of redemption of credit card points. Reimbursement to the City for the Costco membership has already been completed.**
- **The board's attorney will work with the Personnel Department and the IRS to determine if there are any unpaid payroll taxes and make reparations.**
- **The recommendations of the Dept. of Development Services and Disabled Person Protection Commission have been implemented and the Park Department has requested that the Law Department contact the Executive Director immediately if any complaints are received in the future.**
- **The former Program Director has reimbursed the parents group for his wife's phone usage and now that the Department is aware of the City's Motor Vehicle Policy it will be in compliance.**
- **The parents group and its attorney are preparing to meet in the near future. The attorney has already prepared draft by-laws for their review and vote. The board will be reconstituted in compliance with the state regulations.**
- **The board will work with its attorney to insure compliance with the Attorney General's registration and filing requirements and amend its 2012 and 2013 IRS Forms 990.**