



Office of the City Auditor

**Report to the City Council
City of San José**

**SENIOR MEMBERSHIP FEE
REVENUE: THE CITY'S
POLICY SHOULD BE
CLARIFIED**

**Report 14-03
March 2014**

March 26, 2014

Honorable Mayor and Members
Of the City Council
200 East Santa Clara Street
San José, CA 95113

Senior Membership Fee Revenue: The City's Policy Should be Clarified

The Department of Parks, Recreation and Neighborhood Services (PRNS) operates community centers throughout the City of San José. All community center hubs and two re-use sites have senior programs. Those programs, open to persons aged 50 years and older, include classes, events, senior nutrition, legal assistance, and peer advocacy. Each of the centers also offers senior memberships. These memberships cost \$10, and offer a variety of benefits including discounts on City classes. In 2013, there were about 6,250 senior members at community centers across the City.

Seven of the twelve community centers with senior programs also have senior advisory councils. Senior advisory councils are groups of seniors that are active in the community center and members of the senior program. The purpose of senior advisory councils is to advise staff of special events, classes, and workshops to meet the recreational and social needs of the seniors in the community.

The recipient of the \$10 senior membership fee differs between centers, depending on whether there exists a senior advisory council. At those community centers that do not have senior advisory councils, the senior membership fee revenue is deposited into City accounts. At those centers that do have senior advisory councils, the City assists in collecting the revenue, but the senior advisory council is the recipient of the funds. The City is responsible for registering seniors in the City's software and issuing senior membership cards to eligible applicants, regardless of the presence of a senior advisory council.

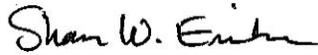
The objective of the audit was to review the senior membership program and associated revenue. The audit was requested by PRNS following a concern from Southside Community Center and the Southside senior advisory council regarding the handling of senior membership revenue.

Our audit found that current controls on the handling of senior membership fee revenue are inadequate to appropriately secure the funds. The finances of one senior advisory council indicate a discrepancy in the collection of senior membership fee revenue. Across the City, those centers that have alternate procedures to collect the senior membership fee (different from the procedures normally in place for other City fees) have inadequate cash handling policies. The City's role in the collection and handling of the senior membership fee revenue needs to be reformed. In addition to improper cash handling procedures for senior membership fee revenue, there is a lack of clarity regarding the City's role in the senior membership and oversight over revenue usage. We recommend that PRNS take full responsibility for standardizing the City's senior membership fee at all community centers, designating that the revenue from this City fee be used for senior services.

The Office of the City Auditor thanks the management and staff from the Department of Parks, Recreation and Neighborhood Services; the City Attorney's Office; the volunteers of Southside Community Center; and the senior advisory council presidents and treasurers.

This report includes 1 recommendation. We will present this report at the April 3, 2014 meeting of the Senior Citizens Commission and at the April 17, 2014 meeting of the Public Safety, Finance, and Strategic Support Committee. The Administration has reviewed this report and its response is shown on the yellow pages.

Respectfully submitted,



Sharon W. Erickson
City Auditor

finaltr
SE:lg

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This report is also available online at www.sanjoseca.gov/audits/

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Introduction

In accordance with the City Auditor’s Fiscal Year (FY) 2013-14 Work Plan, we have completed an audit of the senior membership program. 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. We limited our work to those areas specified in the “Audit Objective, Scope, and Methodology” section of this report.

The Office of the City Auditor thanks the management and staff from the Department of Parks, Recreation and Neighborhood Services; the City Attorney’s Office; the volunteers of Southside Community Center; and the senior advisory council presidents and treasurers.

Background

The Department of Parks, Recreation and Neighborhood Services (PRNS) operates community centers throughout the City of San José. All community center hubs and two re-use sites have senior (Active Adult) programs, open to persons aged 50 years and older. The senior programs at these centers include classes, events, senior nutrition, legal assistance, and peer advocates.¹

Senior Membership

The City’s senior program includes a membership component. All participating community centers offer senior membership cards to persons aged 50 years and older that provide certain member-only benefits. Such benefits include discounts on classes, events, and activities.

Membership requires registering with the City, including providing emergency contact information, and paying a \$10 membership fee. In 2013, there were about 6,250 members of senior programs across the City. Membership is specific to one location and does not provide City-wide membership. For one location, membership is free for any person aged 90 years or older.

The City offers discounts on City classes and events based on whether a registrant has a valid senior membership. The amount of the discount varies by class or event. Classes typically offer a discount of \$8 for senior members. For events, which are often less expensive than classes, the discount may be \$1 or \$2.

¹ For more program information, see the PRNS Active Adults 50+ Program Website at: <http://www.sanjoseca.gov/index.aspx?nid=578>.

Senior Membership Fee Revenue

Class and event listings show both member and non-member prices. Once a member is registered in the City's software, the discount is automatically applied to all classes or events for which the member registers. The total dollar value of discounts offered for City-offered classes and activities exceeded \$100,000 in calendar year 2013.

Senior Advisory Councils

Seven of the twelve community centers with senior programs also have senior advisory councils. Senior advisory councils are groups of seniors that are active in the community center and members of the senior program. The purpose of senior advisory councils is to advise staff of special events, classes, and workshops to meet the recreational and social needs of the seniors in the community. The members of the senior advisory councils vote to elect officers to lead the council. PRNS staff at community centers works with the senior advisory councils to plan events and activities.

Currently, the community centers that have senior advisory councils are: Cypress, Southside, Berryessa, Alma, Seven Trees, Evergreen, and Almaden. The senior advisory council at Camden Community Center was recently dissolved, but the senior program remains. Gardner, Roosevelt, Mayfair, and Willow Glen have senior programs but do not have senior advisory councils.

Senior Membership Fee Revenue

The recipient of the \$10 membership fee differs between centers, depending on whether there exists a senior advisory council.

At those community centers that do not have senior advisory councils, such as Willow Glen, the senior membership fee revenue is deposited into City accounts. At those centers that do have senior advisory councils, the City assists in collecting the revenue, but the senior advisory council has been the recipient of the funds. Some senior advisory councils are registered 501(c)3 non-profits and some are not.

Exhibit I: Membership and Revenue Recipient by Community Center

Center	2013 Senior Members	Revenue from Membership (approx.)*	Recipient of Membership Revenue
Alma	170	\$1,700	SAC
Almaden	1,917	\$19,170	SAC
Berryessa	453	\$4,530	SAC
Camden	567	\$5,670	City (formerly SAC)
Cypress	670	\$6,700	SAC
Evergreen	446	\$4,460	SAC
Gardner**	0	\$0	City
Mayfair	184	\$1,840	City
Roosevelt	107	\$1,070	City
Seven Trees	330	\$3,300	SAC
Southside	706	\$7,060	SAC
Willow Glen	708	\$7,080	City
Total	6,258	\$62,580	

Source: RECs software and auditor calculations

*Approximate revenue is calculated using the assumption that each member pays the \$10 membership fee. At centers where the City is not the recipient of funds, actual revenue is not tracked using City databases. One center offers free membership to some seniors, based on age.

**Gardner did not sell 2013 senior memberships. Gardner began selling memberships late 2013 for 2014 memberships.

In 2013, the City generated approximately \$9,990 from the senior memberships at Mayfair, Roosevelt, and Willow Glen.² The remaining revenue went to senior advisory councils.

City Staff Is Involved in the Collection of Senior Membership Fee Revenue

The City is responsible for registering seniors in the City's software and issuing senior membership cards to eligible applicants, regardless of the presence of a senior advisory council.

At community centers that **do not** have senior advisory councils, the City staff handles the fees along with all other City fees, using City cash registers and City cash handling procedures, and depositing the revenue into City accounts. Revenue is tracked in the City's software and accounts, and is spent on the senior program at the center.

² Gardner did not issue any Active Adult memberships in 2012 or 2013. The senior advisory council at Camden dissolved in early 2014. 2013 Camden membership revenue went to the senior advisory council.

Senior Membership Fee Revenue

At community centers that **do** have senior advisory councils, City staff is involved in the handling and securing of senior membership fees. The procedures for collecting the senior membership fees differ from the procedures for collecting all other City fees to ensure that the senior membership fee revenue is kept separate from all other revenue. Staff puts (or instructs seniors to put) the senior membership fee revenue into a designated safe or lockbox until a representative of the senior advisory council collects and deposits it into the senior advisory council's account. The City staff still issues the membership card and registers the applicant in the City's software.

Comparison to Other Cities

There exists a variety of models for operating senior programs in different cities. In Oakland, the city offers a fee-based membership to specific senior centers (rather than a city-wide membership). Membership is not mandatory, but does offer benefits such as access to some trips or limited events. Senior advisory councils advise city staff on programming and fundraise to help support the senior programs.

In Los Angeles, there are numerous clubs in senior centers that are overseen by the city. City-run classes are open to the public. Clubs at the centers offer memberships for minimal fees that allow seniors to participate in the clubs' activities.

In Sunnyvale, there are two levels of senior membership, one which offers basic membership and discounts on classes, and another that grants further access to on-site and off-site senior facilities. Membership is voluntary, and access to the senior center is open to non-members for a daily fee. The city has established an advisory committee that consists of a representative from each of the senior programs; committee members are appointed by the city for a 2-year term.

Audit Objective, Scope, and Methodology

The objective of the audit was to review the senior membership program and associated revenue. The audit was requested by Department of Parks, Recreation and Neighborhood Services following a concern from Southside Community Center and the Southside senior advisory council regarding the handling of senior membership revenue. To achieve our audit objectives, we:

- Reviewed senior program revenue, senior membership, and fees;
- Reviewed cash handling procedures during site visits to Almaden Community Center, Cypress Community Center, Seven Trees Community Center, Southside Community Center, and Willow Glen Community Center;

- Interviewed community center, PRNS, and City Attorney's Office staff;
- Reviewed the Finance Department's Administrative Manual Section 4.0 – General Guidelines for Cash Handling Procedures; and
- Reviewed financial reports and interviewed senior advisory council members at Southside Community Center.

We limited our review to the senior membership program at community centers; this did not include an audit of all senior advisory council funds.

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Finding I The City's Policy Regarding Senior Memberships Should be Clarified

Current controls on the handling of senior membership fee revenue are inadequate to appropriately secure the funds. The finances of one senior advisory council indicate a discrepancy in the collection of senior membership fee revenue. Across the City, those centers that have alternate procedures to collect the senior membership fee (different from the procedures normally in place for other City fees) have inadequate cash handling policies. The City's role in the collection and handling of the senior membership fee revenue needs to be reformed. In addition to improper cash handling procedures for senior membership fee revenue, there is a lack of clarity regarding the City's role in the senior membership and oversight over revenue usage. We recommend that PRNS take full responsibility for standardizing the City's senior membership fee at all community centers, designating that the revenue from this City fee be used for senior services.

Controls on Cash Handling of Senior Membership Fee Revenue Were Inadequate

Discrepancy in Senior Membership Funds

This audit was requested after concerns were raised regarding an apparent discrepancy in senior membership funds. During an annual review of the senior advisory council's income and expenditures at Southside Community Center, a team of seniors reported that they could not account for approximately \$1,600 in missing funds.

Upon review, there were inadequate cash handling controls for collecting the senior membership fees and insufficient accounting to properly track income and expenditures.

At Southside, City staff is minimally involved in the collection or handling of senior membership revenue. City staff registers the seniors in the City's database, and seniors are responsible for placing their \$10 fee in an envelope and putting it into a lockbox on the center's front desk. City staff generally tries to ensure that seniors put their cash in the envelope and into the lockbox, but staff is not responsible for ensuring that this takes place. There is no further verification by City staff that the seniors are actually paying the membership fee.

Senior advisory council members transfer the money from the lockbox to a safe and log the amount. Between June 2011 and July 2012, the period for which the \$1,600 was reportedly missing, logs of entries into the safe do not match an estimate of the revenue that should have been generated based on the City's

Senior Membership Fee Revenue

records of members that registered. For the 17 bank account deposits between July 2011 and June 2012, none reconciled with an estimate of the revenue generated based on the City's registration records. Thirteen deposits reflected shortages, ranging from \$10 to over \$600. For some deposits, the recorded membership revenue was not a multiple of ten, though every membership costs \$10.

Poor record keeping makes it difficult to determine the cause of the discrepancy. It is possible that cash was being spent before being logged into the safe, but receipts were not turned in to reflect those payments. Various officers of the senior advisory council handled the money before it was deposited into the bank. Monthly reports from the senior advisory council's volunteer treasurer do not explain the discrepancy in membership revenue. The reports contain inaccuracies in deposit information, making the tracing of revenue difficult.

Cash Handling Controls

Other community centers have not reported discrepancies in their senior membership fees. However, due to a lack of clarity regarding how the membership fee revenue should be treated, several community centers are not following City cash handling procedures with the senior membership fee revenue. This has resulted in inadequate controls on the collection and handling of senior membership fee revenue at those centers in which the procedures for collecting the senior membership fees differ from other City fees.

The Finance Department's Administrative Manual Section 4.0 – General Guidelines for Cash Handling Procedures provides the City policy regarding appropriate controls that should be in place when handling cash. Examples of instances in which the handling of senior membership revenue did not meet City standards, leading to inadequate controls, include:

- At several centers, City staff keeps membership fee revenue in unlocked drawers or unsecured cashboxes before depositing into the senior advisory council safe or lockbox.
- City staff at some centers is not regularly issuing receipts for senior membership issued when the recipient of funds is the senior advisory council. When receipts are issued, they indicate \$0 was paid regardless of the fact that seniors pay \$10 for senior membership, because in such cases money is not going into City accounts.
- Centers lack procedures regarding cash handling for senior membership revenue when revenue is not kept by the City.
- Collection reports are not always created to indicate the revenue received when money goes to senior advisory councils.

- Money is not always reconciled to reports or receipts either by City staff or by the senior advisory council when the senior advisory council receives the funds.

Proper controls on cash handling and reconciliation help to ensure that no money is lost or stolen. Centers without appropriate cash handling procedures in place have greater risk that money will go missing. There is also a concern that City staff has been routinely handling senior membership fees and issuing membership cards in City facilities while on City time, even though the City is not always the recipient of the fee revenue.

At those centers in which the senior membership fee is collected in the same way as all other City fees (i.e. when no senior advisory council is present at the center), proper cash handling procedures appear to be in place.

The City's Current Involvement With the Collection and Use of Senior Membership Fee Revenue Needs to be Reformed

In addition to improper cash handling procedures, there is a lack of clarity regarding the City's role in the senior membership and oversight over revenue usage.

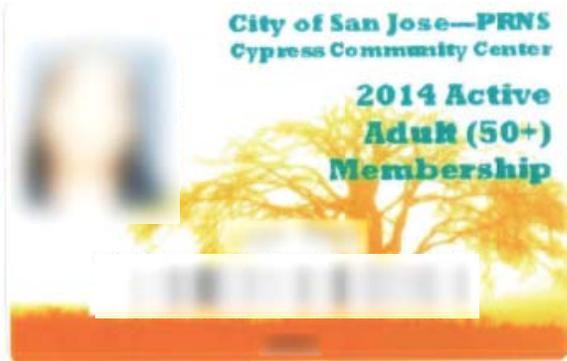
Senior Membership

As mentioned in the Background, senior membership is available at centers. At those centers without senior advisory councils, the senior membership clearly provides membership to the community center. However, at those centers with senior advisory councils, it is unclear that the membership is to the community center rather than a membership to the senior advisory council.

Staff and seniors at different centers interpret the membership differently, even among those centers with senior advisory councils. At some centers, the registration form for the senior membership indicates that the membership is for the senior advisory council. At others, the registration form is the same as the registration form for any other City class or membership.

The senior (Active Adult) membership cards appear to be similar between centers, regardless of whether or not there is a senior advisory council. All cards are issued by the City, and visually indicate membership to the community center. Exhibit 2 below shows the cards issued at Cypress Community Center, which does have a senior advisory council, and Willow Glen Community Center, which does not have a senior advisory council.

Exhibit 2: 2014 Senior (Active Adult) Membership Cards



Source: Membership cards provided by PRNS center staff

Senior Membership Fee Revenue

The City has historically charged a senior membership fee through its fee for activity program. However, the recipient of the fee revenue is inconsistent across centers. As described in the Background, the City is receiving the revenue from the senior membership fee at those centers **without** senior advisory councils. At those centers **with** senior advisory councils, the councils receive the membership revenue even though the members register with the City and City staff issues the membership cards.

Discounts from Senior Membership

With the senior membership comes a variety of discounts on City classes and events. As stated in the Background section, the total dollar value of the discounts offered in calendar year 2013 exceeded \$100,000. These discounts are offered regardless of whether or not the recipient of the membership fee revenue is the City or the senior advisory council. In effect, the City is offering a lower price for classes but not recouping any of its cost at those centers that have senior advisory councils.

For the centers at which the City is the recipient of fee revenue, the revenue does not appear to always be used to offset the costs of the classes for which the discount is offered. Rather, at one center, membership revenue is used separately to put on events.

Uses of Fee Revenue

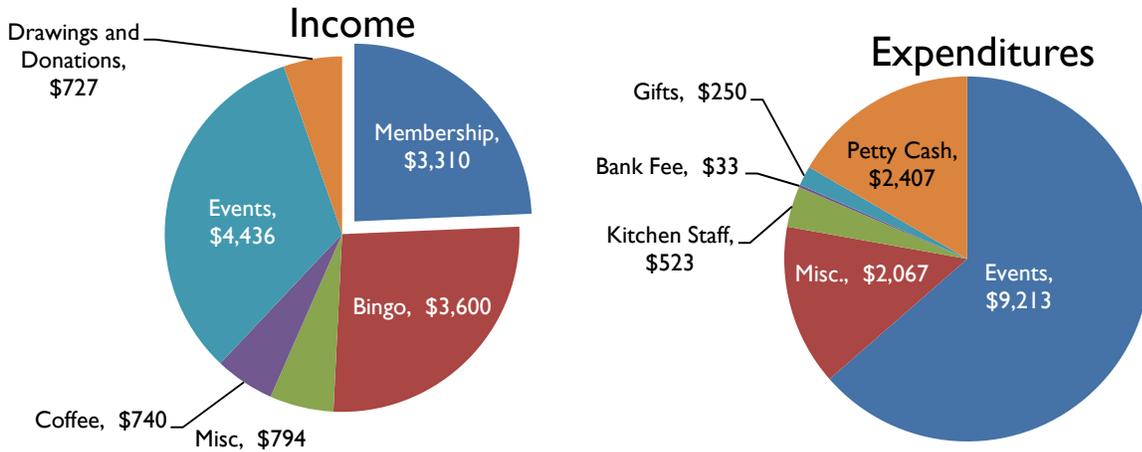
Centers and senior advisory councils use the fee revenue differently. There does not appear to be a standard way in which the revenue is used to support senior programs. For the last two years, examples of revenue usage included:

- Member and non-member events: Most senior advisory councils used the fee revenue to put on events and activities at the center, open to members and non-members.
- Members-only events: At one center in which the City is the recipient of the senior membership fee revenue, all fee revenue was spent on events only for senior members. At several other centers with senior advisory councils, the fee revenue was used on activities that benefit members and non-members.
- Equipment and supplies: For at least two senior advisory councils, membership revenue was used to pay for equipment and supplies at the community center, including chairs, a stage, and paper supplies.
- Support for City-run events: In one case, the senior advisory council split some of the fee revenue with City staff to enable the staff to put on events.
- Gifts, coffee, and food: Some senior advisory councils used the revenue to buy gifts, and provide coffee and food.
- Miscellaneous and petty cash: For one senior advisory council, about one-third of the funds were spent on senior advisory council miscellaneous expenses and a petty cash fund.
- Subsidize classes or membership: Some senior advisory councils chose to use funds to subsidize class registration fees or membership fees for interested persons who would not otherwise be able to afford the programs.

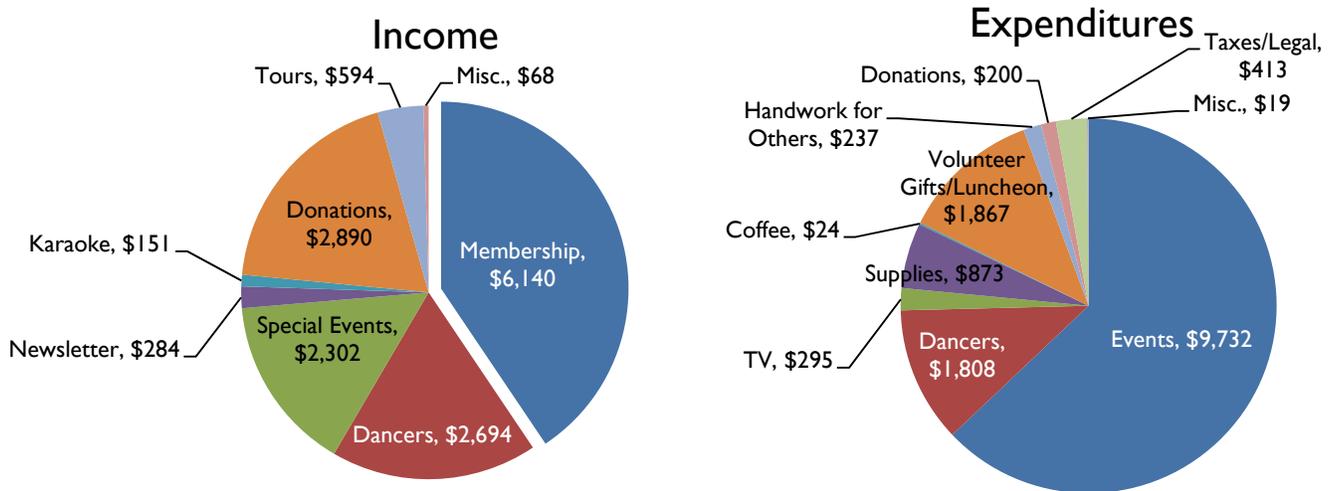
Sources and uses of revenue also vary by center and senior advisory council. The following exhibit illustrates the differences in income and expenditures at two different community centers for 2013.

Exhibit 3: 2013 Income and Expenditures of Sample Senior Advisory Councils

Seven Trees Community Center Iola Williams Senior Program:



Cypress Community Center:



Source: Senior advisory council treasury reports

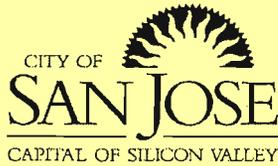
Although the City charges the membership fee, in many cases, the City does not appear to have control over how the revenue from the membership fee is spent. At one center, City staff was not even able to readily obtain information regarding how membership fee revenue was spent from the senior advisory council.

The degree to which City staff lack control and oversight over the spending of membership revenue is concerning considering the memberships are issued by City staff and programs are coordinated with the help of City staff at a City facility.

Recommendation #1: The Department of Parks, Recreation and Neighborhood Services should:

- a) Take full responsibility for standardizing the City's senior membership fee at all community centers with senior programs, designating that the revenue from this City fee be used for senior services;
- b) Ensure City staff follow the City's cash handling policy when handling senior membership fees (that is, secure cash, issue receipts, deposit funds into City accounts like any other PRNS fee);
- c) Establish staff guidelines regarding what types of programs and expenditures the membership revenue should support; and
- d) For those centers with senior advisory councils, collaborate with senior advisory councils regarding what events and activities the senior community would like the City to organize with senior membership fee revenue.

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Memorandum

TO: SHARON WINSLOW ERICKSON
CITY AUDITOR

FROM: Julie Edmonds-Mares

SUBJECT: SEE BELOW

DATE: 3-24-14

Approved:

Date:

3/25/14

SUBJECT: ADMINISTRATION'S RESPONSE TO THE SENIOR MEMBERSHIP FEE REVENUE

The Administration has reviewed the final draft report on the Audit of Senior Membership Revenue and agrees with the recommendation made by the City Auditor's Office.

PRNS would like to acknowledge the continued importance of the role the senior advisory councils (SAC) play at our community center senior programs. For those community centers that have SAC, their involvement and support of special events has played a vital role in our senior programs. SAC members have spent countless volunteer hours working to improve the lives of the seniors at their centers through their recommendations to staff, organizing, working and funding special events, providing hospitality through the purchasing of coffee and food, assisting in the office, and lending support to center-held special events.

PRNS would like to thank the City Auditor for bringing to its attention the cash handling protocols of the senior membership fee at those centers in which the procedures for collecting the membership fee differ from other City fee-handling and processing. PRNS will collaborate closely with SAC, the Senior Advisory Leadership Team, and the Senior Commission to clarify and standardize the existing senior membership program at all community centers with senior programs. PRNS staff, the Senior Advisory Leadership Team and SAC will work together in establishing a standardized set of guidelines for senior membership. In addition, the City Manager's Office will include budgetary cleanup actions to ensure continued senior programs and services at community centers during this time of transition. The implementation timeline is attached.

PRNS will continue to work closely and collaboratively with all our SAC and the Senior Advisory Leadership Team in building stronger and more dynamic programs and activities for the growing senior population. It is through working together that we can best serve the needs of our very diverse senior population in San Jose.

Julie Edmonds-Mares
Director of Parks, Recreation and
Neighborhood Services

For questions, please contact Suzanne Wolf, Deputy Director, at 408-535-3576.

Attachment: Senior Membership Audit Implementation Timeline

Senior Membership Audit Implementation Timeline

Action	Target Date 2014
Senior Membership Audit is Released	March 24
Audit Presentation@ Meeting of the Senior Advisory Leadership Team	April 3
Audit Presentation@ Senior Citizen Commission Meeting	April 3
Meeting with all 12 Senior Programs and Senior Advisory Councils to Discuss Memberships	May, June, July
Membership Plan Developed	July-August
Membership Planned Shared/Feedback@ Meeting of Senior Advisory Leadership Team	August
Membership Planned Shared/Feedback@ Meeting of Senior Citizen Commission Retreat	August
Finalized Senior Membership Version Presented@ Meeting of the Senior Advisory Leadership Team	September 4
Finalized Senior Membership Version to Senior Citizen Commission	September 11
2015 Membership Rolled Out	October 1