



CITY AUDITOR'S OFFICE

McCormick-Stillman Railroad Park Operations

October 9, 2015

AUDIT REPORT NO. 1607

CITY COUNCIL

Mayor W.J. "Jim" Lane
Suzanne Klapp
Virginia Korte
Kathy Littlefield
Linda Milhaven
Guy Phillips
Vice Mayor David N. Smith



October 9, 2015

Honorable Mayor and Members of the City Council:

Enclosed is the audit report for the *McCormick-Stillman Railroad Park Operations*, which was included on the Council-approved FY 2015/16 Audit Plan.

The Parks & Recreation Department operates the McCormick-Stillman Railroad Park, which offers authentic train and antique carousel rides along with many other amenities.

Although agreements with key third parties, such as the Scottsdale Railroad & Mechanical Society, were allowed to expire two to four years ago, these organizations continue to support the Park's operations. A cost and market rate analysis was not documented, and some rates and fees were not consistently charged. Further, certain asset and inventory management practices, billing and accounting practices, and information technology controls can be improved.

If you need additional information or have any questions, please contact me at (480) 312-7867.

Sincerely,

A handwritten signature in blue ink that reads "Sharron Walker".

Sharron E. Walker, CPA, CFE, CLEA
City Auditor

Audit Team:

Cathleen Davis, CIA - Senior Auditor
Dan Spencer, CIA - Senior Auditor

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AUDIT HIGHLIGHTS

McCormick-Stillman Railroad Park Operations

October 9, 2015

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WHY WE DID THIS AUDIT

This audit was included on the Council-approved FY 2015/16 Audit Plan to evaluate controls over and accountability for park operations.

McCormick-Stillman Railroad Park has a FY 2015/16 operating budget of \$2 million and 26.6 full-time equivalent employees.

BACKGROUND

The Parks & Recreation Department operates the McCormick-Stillman Railroad Park (Park), which offers authentic train and antique carousel rides, a historical railroad museum, scale model train exhibits, concession and souvenir sales, picnic areas and playgrounds.

In 1967, Anne and Fowler McCormick donated 100 acres of land to the City for a park. Subsequently, in 1971, Guy Stillman donated his 5/12 scale railroad and helped found the Scottsdale Railroad & Mechanical Society (Society) to raise funds for the park's creation.

The Society has since funded or helped to fund major Park amenities and Park events. As well, four model railroad clubs have constructed and maintain and operate model railroad exhibits at the Park.

As a City park, admission is free but tickets must be purchased for train or carousel rides and admission to the Railroad Museum.

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WHAT WE FOUND

- The Park's key third-party agreements were allowed to expire and other aspects of contract administration can be improved.**
The Park's key contract with the Society expired in June 2011, and the clubs' revocable license agreements were allowed to expire. The former Park contract administrator served on the Society's board, informal modifications to the Society's agreement occurred and City building access seems excessive. Contract administration files were not complete or organized.
- Improvements could be made in the Park's asset management.**
Society-donated assets totaling more than \$262,000 had not been recorded in the City's records and oversight of historically significant or higher risk items could be improved.
- Better rates and fees analysis and implementation, billing and accounting practices and inventory management can improve the Park's cost recovery results.**
A cost and market rate analysis was not documented, and rates and fees were not consistently applied. Also, cash handling practices for third-party monies were not effective, direct staffing costs were not recovered and inventory management could be improved.
- Certain controls over information technology can be strengthened.**
The Park's point-of-sale system and website are maintained through third-party support. IT support and controls were not effective.
- Operating procedures have not yet been documented.**
The Park does not have formal, written operating procedures. Although a previous Park supervisor started an operations manual, it has not yet been completed.

WHAT WE RECOMMEND

We recommend the Parks & Recreation Department:

- Ensure Contract Administrator duties are performed and documented.
- Inform the City Treasurer's Office of donated assets and maintain records of historically significant and high risk items.
- Perform a cost analysis and provide all rates and fees to Council. Also, ensure staffing costs are accurately calculated, require accountability for third-party monies and institute reliable inventory management practices and records.
- Evaluate the Park's point-of-sale system and ensure the system is properly maintained. Also, request approval for the third-party website.
- Complete the operations manual.

MANAGEMENT RESPONSE

The Department generally agreed with the audit recommendations and expects to have all recommendations implemented by the end of the current fiscal year.

BACKGROUND

The Parks & Recreation Department, within the Community Services Division, operates the McCormick-Stillman Railroad Park (Park) 363 days a year (weather permitting). The Park offers authentic train and antique carousel rides, a historic railroad museum, scale model train exhibits, concession and souvenir sales, picnic areas and playgrounds. The Park also has a Birthday Car and nine ramadas available for reservation.

In 1967, Anne and Fowler McCormick donated 100 acres to the City of Scottsdale with the stipulation that it be used for a park. In 1971, Guy Stillman donated his 5/12 scale Paradise & Pacific Railroad to the City and helped found the Scottsdale Railroad & Mechanical Society (Society) to raise funds for the park's creation. According to the Park's history webpage, the City and the federal government contributed \$100,000 each; the Society "raised over \$100,000" and the Marine Corps assisted with laying the railroad track. The McCormick-Stillman Railroad Park opened in October 1975.

Figure 1. McCormick-Stillman Railroad Park Map

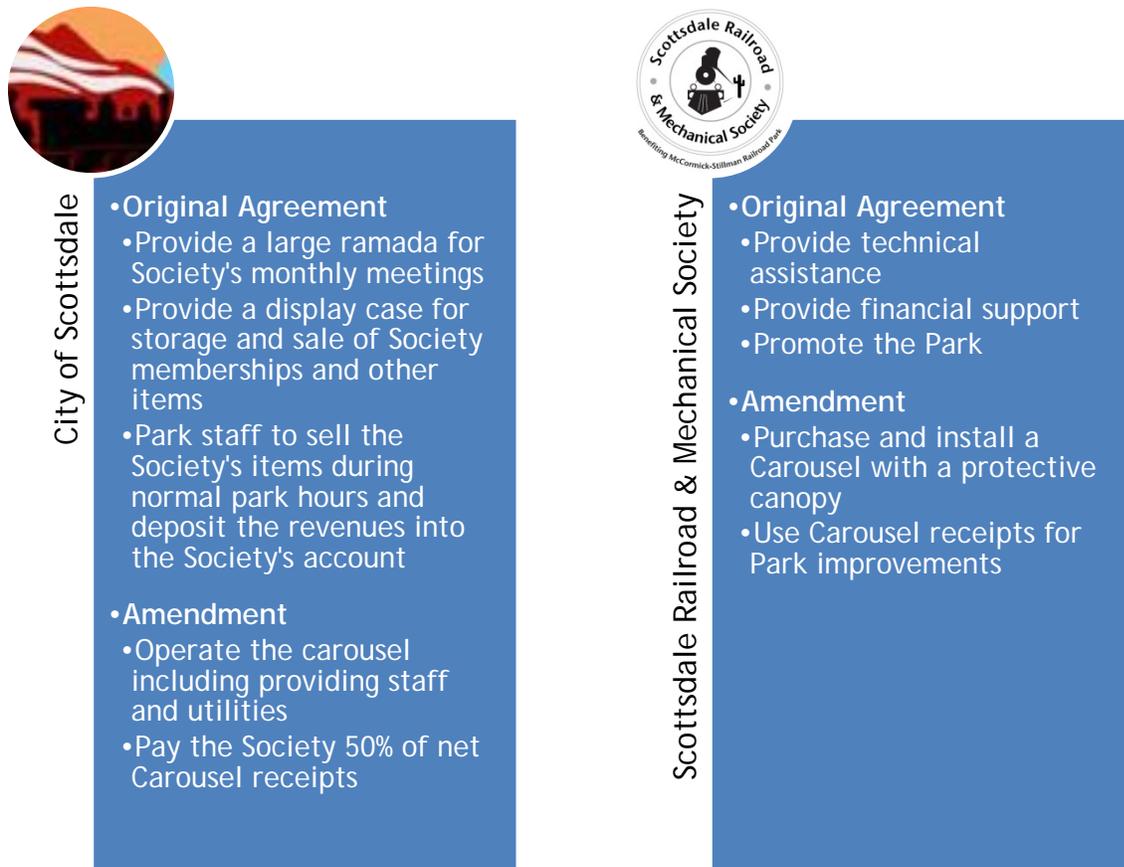


SOURCE: McCormick-Stillman Railroad Park website, retrieved September 18, 2015.

Subsequently, in 1980, the City and the Society formalized their relationship in a written agreement as summarized in Figure 2. A subsequent 1996 contract amendment allowed an

antique carousel purchased by the Society and the Scottsdale Charros, a local service group, to be placed and operated within the Park.

Figure 2. City's Past Agreements with the Scottsdale Railroad & Mechanical Society



SOURCE: Auditor analysis of the City's 1980 agreement and 1996 amendment with the Scottsdale Railroad & Mechanical Society.

The Society has funded or helped to fund major Park amenities, such as the Snackstop Caboose, Hartley's General Store, the Roald Amundsen Pullman Car, the Birthday Car, and many others. The Society contributed approximately \$1,250,000 to the Model Railroad Building, which showcases four railroad clubs' displays and artifacts. The Paradise and Pacific Railroad Inc., Scottsdale Model Railroad and Historical Society, and Sun N Sand Model Railroad Club have constructed and maintain and operate model railroad exhibits inside the building, and the Scottsdale Live Steamers provided a miniature scale railroad which provides rides through the arboretum outside.

Key Attractions



The Paradise & Pacific Railroad, an exact 5/12 scale reproduction of a Colorado narrow gauge railroad, features two steam locomotives, two diesel engines, and several scale model cars, carries passengers throughout the park on a one mile track. The railroad also includes a turntable, water tank, trestles, and a train shed for protection from the elements. The train shed also houses a complete machine shop for building and maintaining the railroad.

Installed at the Park in 1998, the Scottsdale Charros Carousel has 30 horses and 2 wheelchair chariots. This antique carousel built in 1950 is registered in the National Carousel Association's census of classic metal carousels.



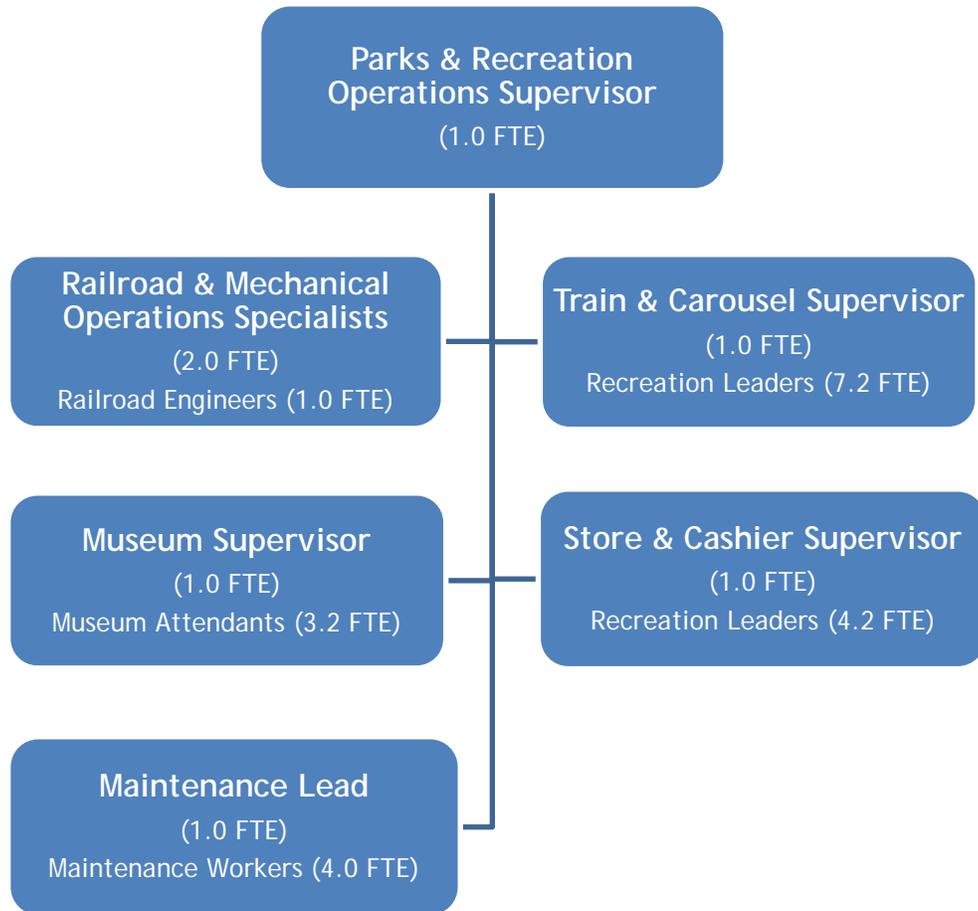
Operations

Because it is a City park, admission is free, but tickets must be purchased for train or carousel rides and admission to the Railroad Museum. The Park hosts several special events each year, including Exclusively Little, a one-day miniature railroad event in March; a Summer Concert Series; Railfair in October; and Holiday Lights during December and early January.

With a FY 2015/16 operating budget of \$2,003,000, the Park was authorized 26.6 full-time equivalent employees; as of September 2015, this includes 11 full-time and 43 part-time staff. Figure 3 on page 6 presents the Park's organizational chart delineating its major operational areas.

(Continued on next page.)

Figure 3. McCormick-Stillman Railroad Park Organizational Chart



SOURCE: Auditor analysis of FY 2015/16 budget and September 2015 payroll reports.

Table 1 on page 7 summarizes the Park's FY 2014/15 revenues and expenses, including the Society's contributions. Most of its donations are in the form of assets or services, but the Society also reimburses amounts billed for Model Railroad Building staffing.

(Continued on next page.)

Table 1. McCormick-Stillman Railroad Park Financial Activity, FY 2014/15

FY 2014/15 (amounts rounded)	Park*	Society*	Total
Revenues			
Train, Carousel & Museum Ticket Sales	\$752,700	\$168,600 ^a	\$921,300
Food Sales	299,800		299,800
Merchandise Sales	132,900	3,700 ^b	136,600
Ramada Reservations	54,600		54,600
Society Memberships	-	74,700 ^b	74,700
Birthday Car Reservations	33,600		33,600
Donations	5,000	16,400 ^b	21,400
Total Revenues	\$1,278,600	\$263,400	\$1,542,000
Expenditures			
Personnel Services	\$1,169,200 ^c	37,900 ^d	\$1,207,100
Contractual Services			
Property Rental	8,600		8,600
Professional Services	70,100		70,100
Other Contractual Services	146,400	45,300 ^e	191,700
Commodities			
Inventory Purchased for Resale	252,200		252,200
Other Commodities	103,800		103,800
Buildings & Equipment		209,200 ^f	209,200
Total Expenditures	\$1,750,300	\$292,400	\$2,042,700
Operating Net	(\$471,700)	(29,000)	(\$500,700)

* The Park column is adjusted for revenues and expenses that are received from or paid to the Society. The Society column represents only the transactions between the Park and the Society; it does not represent the Society's total financial activity.

a - This amount represents the Society's share of Carousel ticket sales. However, after its related staffing reimbursement of \$6,300, the Society's net share was \$162,300.

b - These amounts represent receipts collected by Park staff on behalf of the Society.

c - This amount is net of a \$47,700 deduction that represents the estimated Park staffing used to maintain neighborhood parks in the area.

d - The Society's share of Carousel staffing was \$6,300 and its reimbursement for Model Railroad Building staffing was \$31,600.

e - This "other contractual services" represents amounts the Society spent for the Park, providing fireworks, sponsorships, repairs and maintenance, and other services.

f - This amount represents the Society's donations to the Park of a storage building, shade structure, Holiday Lights equipment, wayfinding signs and other assets.

SOURCE: Auditor analysis of the Park's revenue and expenditures in SmartStream and the Society's financial reports.

OBJECTIVES, SCOPE, AND METHODOLOGY

An audit of the *McCormick-Stillman Railroad Park Operations* was included on the City Council-approved fiscal year (FY) 2015/16 Audit Plan. The audit objective was to evaluate controls over and accountability for park operations.

To gain an understanding of McCormick-Stillman Railroad Park (Park) operations, we interviewed Parks & Recreation personnel assigned to manage and supervise the Park operations. In addition, we interviewed City Attorney's Office, Community Services and Risk Management staff and Scottsdale Railroad & Mechanical Society representatives.

We reviewed related audit reports issued by this office including *Cash Handling Controls and Accountability, Fiscal Year 2013/14* - Audit Report No. 1404 issued in March 2014, along with others relating to staffing and inventory. In addition, we reviewed related audit reports recently completed by other auditors.

To gain an understanding of existing controls and practices, we reviewed the following authoritative policies and related documentation:

- Arizona Revised Statutes (ARS), including relevant sections within ARS Title 44 Article 22 - Amusement Ride Safety and ARS Title 23 Article 11 - Safety Conditions for Boilers and Lined Hot Water Storage Heaters
- Scottsdale Revised Code, including relevant sections within Chapter 20 - Parks, Recreation and Cultural Affairs
- Scottsdale's Comprehensive Financial Policies and Governing Guidance
- Council-approved Rates and Fees schedules for FYs 2014/15 and 2015/16
- Administrative Regulations (AR) including AR 136 *Network and Computer Security*, AR 215 *Contract Administration*, AR 226 *Capital Assets: Acquisition, Inventory and Disposal*, and AR 268 *Cash Handling*, among others
- The draft McCormick-Stillman Railroad Park Operations Manual

To gain an understanding of the Park's relationships with third parties operating onsite, we reviewed the agreement with the Scottsdale Railroad & Mechanical Society (contract no. 960109), including the amendments and associated council action reports. We also reviewed the revocable license agreements with the Paradise and Pacific Railroad, Inc., the Scottsdale Model Railroad Historical Society, the Sun N Sand Model Railroad Club and the Scottsdale Live Steamers.

To evaluate controls over and accountability for the Park's operations, we:

- Evaluated the Park's rates and fees, including a comparison to direct costs and market rates, and the use of resident, non-resident and commercial and discounted rental rates for ramadas.
- Compared Council-approved Park-related rates and fees to the Park's website and point-of-sale system for accuracy and completeness.

- Evaluated the effectiveness of the Park's point-of-sale system, including information technology controls and inventory management for food and souvenirs.
- Reviewed the Park's inventory management processes for its food and souvenir inventory.
- Evaluated the Park's cash handling controls and accountability over third-party monies that are collected and remitted.
- Evaluated the Park's staffing costs in comparison to attendance, which was estimated using ticket, food and souvenir sales and ramada reservations.
- Reviewed the direct payroll-related costs of staffing the Model Railroad Building and verified the Scottsdale Railroad & Mechanical Society's related reimbursements.
- Evaluated the processes used for identifying ownership and safeguarding the Park's capital assets, including the loaned assets owned by third-parties. Verified on a sample basis whether the City-owned assets were recorded in the City's capital asset inventory.
- Assessed whether the Contract Administrator maintained appropriate documentation, including the signed contract and license agreements, required bonds and insurance certificates, issue resolution notes, and related invoices and payment/receipt documents.
- Reviewed the structure of the relationship between the Park's staff and the Scottsdale Railroad & Mechanical Society.
- Reviewed maintenance schedules, safety inspections and related documentation for the Park's trains and carousel to determine if schedules exist and maintenance and safety inspections are conducted timely.
- Assessed the status of previous audit findings related to the Park's cash handling and ticket reconciliations. We found that the Park has taken action to implement these previous recommendations.

Our audit found that the Park's key third party agreements were allowed to expire and other aspects of contract administration can be improved. Further, rates and fees are not consistently charged and do not ensure City costs are recovered. Also, improvements can be made to the Park's asset management, information technology controls and operating procedure documentation.

We conducted this audit in accordance with generally accepted government auditing standards as required by Article III, Scottsdale Revised Code §2-117 et seq. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Audit work took place from July to September 2015.

FINDINGS AND ANALYSIS

1. The Park's key third-party agreements were allowed to expire and other aspects of contract administration can be improved.

McCormick-Stillman Railroad Park's (Park) key contract with the Scottsdale Railroad & Mechanical Society (Society) and its revocable license agreements with the model railroad clubs operating onsite were allowed to expire. Better organized contract administration files and familiarity with contract terms would assist in monitoring the third-parties' and the City's contract compliance.

A. A former Contract Administrator allowed the written agreements with key third-parties to expire. Although these agreements had expired, all parties continued working together as if the agreements were still in effect.

- The Scottsdale Railroad & Mechanical Society's agreement expired on June 30, 2011 and, more than 5 years later, has not yet been renewed or updated. The Society has supported the Park's operations since its inception, providing park amenities and financial support. The expired agreement addressed many important aspects of this relationship, such as revenue sharing for the carousel rides and expense sharing for asset maintenance.
- The four railroad clubs operating onsite at the Park provide public services including the Model Railroad Building exhibits and a smaller scale train ride in the arboretum. These licenses include important terms, such as building access and insurance requirements.
 - Scottsdale Live Steamers' agreement expired on August 31, 2011; a new agreement became effective on July 1, 2015
 - Scottsdale Model Railroad Club's agreement expired on August 31, 2011; a new agreement became effective January 1, 2015
 - Paradise and Pacific Railroad Club's agreement expired on December 31, 2013; a new agreement became effective January 1, 2015
 - Sun N Sand Model Railroad Club's agreement expired on December 31, 2013; a new agreement became effective January 1, 2015

B. A former Park staff was on the Society's Board of Directors Executive Committee. During much or all of this time, this staff also served as Contract Administrator for the Society's contract. Administrative Regulation (AR) 215 *Contract Administration* states Contract Administrators represent the City and its interests and must not have any conflicts of interest, apparent or perceived, with assigned contractors. Additionally, the Society Board's meeting minutes show that two other former Park staff have been listed on the Executive Committee rosters in the past.

- According to March 2012 Society Board minutes, the former Park supervisor noted that the Council-approved contract between the City and the Society had expired but no further discussion is noted in later minutes.

- City staff maintains and stores the Society records at the Park. A Park staff maintains the Society's membership records for more than 1,700 members. A Park staff also attends the Society's Executive Committee meetings to take meeting notes and prepare the minutes.
 - Rates used to calculate the City's carousel staffing costs that the Society reimburses have not been updated since at least 1998 (17 years). Based on the expired agreement, the City's carousel staffing expense is deducted from Carousel revenues to calculate the "net receipts" that are then shared 50-50, described in finding 3 starting on page 16.
- C. More than 180 railroad club members have been issued key cards that provide access to the Park's Model Railroad Building on a 24/7 basis as of August 2015. The City's revocable license agreements with each of the clubs state that the City will provide key card access to the Model Railroad Building, but the club is responsible for determining who will need access.

Because the Park is staffed on 363 days a year, generally for 7 to 12 hours per day, the number of key cards providing unlimited access to the City's building seems excessive.

- D. The current Contract Administrator had some difficulty producing records of correspondence, and other data pertinent to the agreements. Further, it appears some modifications to the written agreement have taken place over the last few years.
- The Society, through its own arrangement with a banking organization, provides an ATM at the Park for public use. Any ATM fee revenues are paid directly to the Society. This arrangement was not specified in the City's expired agreement and no other records were located documenting the City's approval.
 - In 2011, the Society agreed to reimburse the Park's costs for staffing the Model Railroad Building so that it could be available to the public free of an admission charge. This arrangement has not been formalized into a written agreement.

Former Contract Administrators did not maintain complete and organized files, which has affected the current Contract Administrator's ability to monitor contract terms and conditions. AR 215 *Contract Administration* requires Contract Administrators to maintain signed contracts, required bonds and insurance certificates, documents pertaining to requests for/receipt of payments, and other applicable documents concerning contract-related activity, such as facilitating issue resolution.

Recommendations:

Parks & Recreation Department management should:

- A. Ensure that the Contract Administrator monitors extension and renewal timelines to ensure that agreements remain current and are meeting the needs of the City.

- B. Require that Contract Administrators not participate directly in the management of the third-parties whose agreements they are administering, in accordance with AR 215 *Contract Administration*.
- C. Limit the number of key cards provided to third-party organizations to control access to the City building to those organization members with a need to access the building. Further, consider setting a maximum number of key cards per third-party organization in the next agreement.
- D. Ensure the Contract Administrator maintains organized, complete contract administration files including records of all correspondence and other activities pertinent to the agreements.

2. Improvements could be made in the Park’s asset management.

Assets donated by the Scottsdale Railroad & Mechanical Society have not been recorded in the City’s capital asset records and oversight of high-value or historically-significant items could be improved.

- A. During calendar years 2013 and 2014, the Scottsdale Railroad & Mechanical Society donated the following assets valued at more than \$10,000 each. However, as of July 2015, these items are not listed in the City’s capital asset records.

Year	Donated Asset	Stated Value
2014	Keane Memorial Shade Structure	\$139,175
	Storage Building	38,002
	Wayfinding	18,100
2013	Dining Car remodel	51,992
	Holiday Lights Snow Village	15,000
Total		\$262,269

SOURCE: Scottsdale Railroad & Mechanical Society’s calendar years 2013 and 2014 donation statements.

AR 226 *Capital Assets: Acquisition, Inventory, and Disposal* states the City’s policy is to record land, buildings and improvements with an initial individual cost of over \$10,000. Further, capital asset additions should be recorded at either at the time of acquisition or at fiscal year end. The City Treasurer’s Accounting staff is responsible for maintaining the City’s capital asset records. However, the Park staff did not notify Accounting of the donated assets.

- B. Park management has not maintained a listing of historically significant or high risk items located at the Park or performed periodic physical inventories to determine if any items are missing. For example, the Park museums house numerous railroad related artifacts such as china and sleeping car blankets original to the Roald Amundsen Pullman car. Also, the Society donated “iPads and TV for Conference Room” in 2013. AR 226 encourages staff to track items that would not otherwise be recorded based on value but are considered “high risk.” Factors to consider in determining if assets are “high risk” include portability, chance for misuse, ability of the asset to be converted for personal use, criticality to operations, and

susceptibility to theft or fraud. During the audit, the Park & Recreation Operations Supervisor indicated that he has assigned one of the Park's recreation leaders the responsibility to develop a comprehensive inventory system based on AR 226.

Recommendations:

Parks & Recreation Department management should:

- A. Ensure the City Treasurer's Office is informed on a timely basis of capital assets donated to the McCormick-Stillman Railroad Park so that they can be recorded in the City's capital asset records.
- B. Ensure Park staff develops and maintains a listing of historically significant or high risk items located at the Park, including identifying whether the item is owned by the City or loaned by a third party. Also, ensure staff performs periodic physical inventories to ensure the accuracy of the listing and to identify any losses.

3. Better rates and fees analysis and implementation, billing and accounting practices and inventory management could improve the Park's cost recovery results.

A comprehensive cost analysis has not been recently conducted for the Park, and rates and fees are not consistently applied. Also, good cash handling practices are not always maintained over third-party monies, invoices are not calculated to recover direct staffing costs and inventory management practices could be improved.

- A. The current rates and fees for the Park do not appear to have been set based on a cost recovery strategy or market survey. The FY 2015/16 adopted Comprehensive Financial Policies & Governing Guidance from the City Treasurer's Office state that "user fees and charges will be examined periodically to determine the direct and indirect cost of service recovery rate." Further, the acceptable recovery rates are to be approved by City Council. However, this type of detail was not provided to Council during the rates and fees approval process last fiscal year when changes were proposed.

The Park recovered about 73% to 76% of its direct costs in FY 2013/14 and 2014/15.

In addition to cost recovery analysis, there are other parks in the Valley that similarly provide train and carousel rides for children and families.

- *Desert Breeze Railroad*, located at Desert Breeze Park in Chandler, offers train and carousel rides along with coin-operated rides and concessions.
- *Freestone Railroad*, located at Freestone Park in Gilbert, offers train, carousel and mini-Ferris wheel rides along with coin-operated rides and concessions.
- *Enchanted Island Amusement Park*, located at Encanto Park in Phoenix, offers train, carousel and bumper boats along with other rides, pedal boats and concessions.

Currently, the Park's train and carousel ride fees are 20% to 60% lower than similar rides in the area, as shown in Table 2.

Table 2. Pricing Comparison to Area Parks with Trains and Carousels

Park Location	Train Ride		Carousel Ride	
	Fee	% Less Than Comparison Park Price	Fee	% Less Than Comparison Park Price
McCormick-Stillman Railroad Park	\$2.00	-	\$2.00	-
Desert Breeze Railroad	3.75	47%	2.50	20%
Freestone Railroad	3.75	47%	2.50	20%
Enchanted Island Amusement Park	5.00	60%	3.75	47%

SOURCE: Auditor analysis of pricing listed on the Valley parks' websites in July 2015.

- B. Park staff does not consistently follow City policies related to rates and fees. More specifically, some rates have not been submitted for City Council approval, approved rates are not consistently applied and some rates are not displayed on the Park's website and onsite.
1. The Park offers school group discounts that have not been submitted along with other rates and fees for Council approval. The 40% school group discount rate, which is applied when a public school group makes a weekday reservation in advance, was not included in the two most recent years' submitted rates and fees schedules. The current Park staff does not know for how many years this discount has been given or how the discount rate was determined.
 2. The FY 2014/15 and 2015/16 Council-approved rates and fees set the Park's commercial-rate for a medium ramada rental at \$300. However, during these two fiscal years, the Park's point-of-sale system remained programmed to charge \$200 for this classification and size. Park staff indicated there was an error in the rates and fees report and \$200 was the intended rate.
 3. The commercial-rate for ramada reservations is inconsistently applied and not well defined. The applicable rates and fees schedule defines rate classifications as follows:
 - Resident - lives or owns property in the City of Scottsdale and pays property taxes to the City of Scottsdale.
 - Non-Resident - does not live or own property in the City of Scottsdale and does not pay property taxes to the City of Scottsdale.
 - Commercial - individual, organization or business using a City facility for commercial activity whether or not income is realized at the time of use.¹

The Park's reservation data shows inconsistent application of the higher commercial-rate classification. While Parks & Recreation Department staff uses

¹ Commercial activity is defined, in part, in the Community Services Division's Schedule of Program Charges, Rental Fees and Fines as "use by an individual, group, organization or business whose objective is to conduct business, or an undertaking intended for economic profit or private gain, whether or not income is realized, directly or indirectly."

address information to determine if a customer is a Scottsdale resident or non-resident, determining if the commercial rate should be charged is more difficult. The Department's internal user fee guidance conflicts with the definition provided in the rates and fees schedule. We found numerous instances where the reservation description indicated the activity was commercial but the customer was assessed the lower resident or non-resident rate instead. Some examples during FY 2014/15 include:

- A private school assessed the resident rate for a large ramada; undercharged by \$225
- A professional organization assessed the resident rate for a medium ramada; undercharged by \$150
- A for-profit business assessed the resident rate for a small ramada; undercharged by \$112

We also noted a few instances where customers were charged the wrong seasonal rates for ramada rentals. Having the rental rates on display would help prevent these errors.

4. Council-approved rates and fees are not fully disclosed on the City's Park website, on the Park's separate website or onsite at the Park. AR 268 *Cash Handling* states that prices, rates, or amounts charged for products and services must be clearly displayed for employees and customers, where appropriate.

The Park's webpage on the City's website does not provide any rate information. Instead, it provides a link to the Park's "official" website that is managed by the Society. Although many of Park's rates and fees are displayed at the Park and on the separate Park website, some are not. Specifically, the Park's ticket station signage lists ticket and wristband prices but does not list ramada rental prices or the Society membership prices although these are sold at the Park. Prior to our audit, the separate Park website instructed customers to call the Park for the commercial rate for ramada reservations although these rates are set at the same time other Park rates are. As well, the website did not disclose the summer discounted ramada reservation rates. During the audit, the Park website was updated to disclose all ramada rates, including the summer rates.

- C. During the past three fiscal years, Park staff has underestimated carousel staffing costs by more than \$130,000. When calculating the Society's portion of carousel revenues, not including the full costs of staffing the carousel resulted in overpaying the Society about \$65,000 since July 2012.

(Continued on next page.)

Table 3. Carousel Staff-Related Expenses

	Invoice Staff Hours ¹	Estimated Actual Hours ²	Invoice Staff Cost ¹	Estimated Actual Cost ²	Unrecovered Staff Cost
Carousel Operator					
FY 2012/13	1,253	1,800	\$10,784	\$20,500	\$9,716
FY 2013/14	1,486	1,800	\$12,790	\$20,500	\$7,710
FY 2014/15	1,398	1,800	\$12,038	\$20,500	\$8,462
Total					\$25,888
Carousel Mechanical & Maintenance Support					
FY 2012/13	24	800	\$546	\$35,300	\$34,754
FY 2013/14	24	800	\$546	\$35,300	\$34,754
FY 2014/15	24	800	\$546	\$35,300	\$34,754
Total					\$104,262
Total					\$130,150

1 - Staffing hours and costs included in invoice calculation of net carousel revenues.

2 - Auditor estimated staff hours based on staffing assignments and cost based on payroll reports.

SOURCE: Auditor analysis of the Park’s carousel payment calculations, the Park’s operating hours and payroll data.

The following factors caused the Park’s calculation to not recover the City’s cost:

1. The Park calculated the carousel operator hours based on 7 minutes per carousel ride. However, particularly during busy periods, such as weekends and special events, a staff member is constantly assigned to carousel operations. During the slower weekdays, one staff alternates between the carousel and the train every 15 minutes. Also, hours used to calculate the carousel mechanical and maintenance support has been set at 2 hours per month. But the Park’s Railroad & Mechanical Operations Specialists estimated that approximately 20% of their time is spent maintaining the carousel. Therefore, about 69 mechanical and maintenance support hours should have been used in the monthly calculation.
 2. The staffing cost rates have not updated in at least 17 years. A December 1998 report in the Park’s files showed the same pay rates that are currently used in the calculation. These rates are 18% and 31% less than current actual rates. Further, fringe benefit costs, which range from 7.71% for part-time non-benefited staff to 33.25% for full-time staff, were not included.
- D. Park staff collect and process onsite Society receipts but do not have good cash handling practices and controls in place for these third-party monies. As shown in Table 4 on page 18, during the last two fiscal years, City staff collected from \$86,000 to \$95,000 on the Society’s behalf, including:
- *Scottsdale Railroad and Mechanical Society memberships*—An individual membership costs \$75 with an additional \$25 for each added family member. Replacement membership cards are \$10. These Society

memberships provide unlimited rides on the Park’s train and carousel and free admission to the Park’s Railroad Museum. In FY 2013/14, 553 memberships provided free rides and admission for 1,524 members, and in FY 2014/15, 628 memberships covered 1,712 members.

- *Scottsdale Railroad and Mechanical Society souvenirs* including a commemorative print available for purchase in the Park’s station, a penny press machine located at Hartley’s General Store and half of the revenue from the sale of a children’s book.
- *Donations* that are designated as being for the Society.

Table 4. Scottsdale Railroad and Mechanical Society Revenues Received by City Staff

Type	FY 2013/14	FY 2014/15
Memberships	\$66,000	\$74,700
Donations	16,000	16,400
Souvenirs	4,200	3,700
Total	\$86,200	\$94,800

SOURCE: Auditor analysis of RPOWER™ reports and receipts.

1. The now-expired agreement provided that City staff would collect monies received at the Park for the Society, with these revenues to “be deposited into the Society account which has been established to provide financial support for McCormick Railroad Park.” However, the Park staff record and process these receipts through the Park’s point-of-sale system and they are deposited into the City’s bank account. Quarterly, the Park staff requests the City Treasurer’s Accounting staff to process a check remitting these monies to the Society.
2. The Park maintains a log of Society membership sales, including the card number, member name, number of members, date, tender type and staff initials. However, entries are often blank or whited-out. Also, a log is not kept of the unissued Society membership cards on hand.

In a 4-month period since May 2015, 13 membership cards were missing. Records indicated that one of the 13 had been voided and one other card appeared to be voided though “void” was not expressly written. Park staff stated that they do not retain voided cards nor do they destroy them in dual custody and document the destruction.

For 11 of the 13 missing cards, the required membership information was either blank or had been whited-out. The log of membership cards issued is not reconciled to the point-of-sale system’s membership receipts; therefore, missing cards or receipts are not detected. Further, the unissued membership cards are not always secured although they are valued at a minimum of \$75 each.

3. Park staff does not ensure certain Society donations are collected and counted in dual custody. Since there is no other record of these cash donations, dual custody is critical to ensuring proper accountability.

Additional information regarding physical controls has been provided separately to management to facilitate corrective action.

- E. When the Model Railroad Building opened to the public in January 2011, the Society did not want admission fees to be charged so its Executive Board voted to pay for the City’s staffing costs at the building. However, the Park staff does not accurately calculate the billing amount nor bill timely.

1. Park staff only includes the building staff’s hourly wages without the associated fringe benefits. For part-time staff this amounts to an additional 7.71% cost. As shown in Table 5, the billings should have recovered an additional \$9,800 since 2011.

Table 5. Model Railroad Building Staffing Reimbursement Invoices

Fiscal Year	2010/11	2011/12	2012/13	2013/14	2014/15	Total
Staffing Cost Billed	\$10,611	\$26,999	\$27,975	\$29,914	\$31,583	\$127,082
Estimated Fringe ¹	\$ 818	\$ 2,082	\$ 2,157	\$ 2,306	\$ 2,435	\$ 9,798

¹ Calculated at 7.71% of the amount billed.

SOURCE: Auditor analysis of the Park’s related payroll costs for assigned staff and the Park’s billing invoices.

2. Five of the 18 quarterly invoices, or 28%, were prepared from 1 to 3 months after the end of the quarter. AR 269 *Miscellaneous Accounts Receivable* provides that reasonable efforts should be made to ensure all monies due to the City are collected timely.

3. Park staff invoicing these receivables are also collecting the Society’s payments. AR 269 requires all billings for receivables to be made through the City Treasurer’s Office and specifies that segregation of duties will be put into place for establishing and maintaining receivables, cashiering and collecting receivables. Further, the invoices state the payment should be made to the McCormick-Stillman Railroad Park rather than stating the City of Scottsdale, as required by Accounting’s *General Cash Handling Guidelines*, and the McCormick-Stillman Railroad Park logo, rather than the City logo, is used on the invoice. These practices do not properly separate incompatible functions and increase the risk of errors or undetected fraud.

- F. The inventory management functions included in the Park’s point-of-sale system are not properly implemented, and Park staff has not regularly conducted physical inventories of food and souvenirs.

1. The Park’s point-of-sale system has the capability to track inventory changes in addition to its cashiering functions, but the system has not been properly set

up and maintained. As a result, the Park's point-of-sale inventory records are unreliable.

Several problems appear to occur regularly:

- Inventory menu items appear to be set up incorrectly because sales transactions do not reduce on-hand inventory and record cost of goods sold for some items.
- Sales menu items were sometimes not associated with the right inventory items, so those sales transactions do not properly record cost of goods sold and reduce the correct inventory levels.
- Inventory invoices were not always entered, were sometimes entered incorrectly and were rarely entered timely. Therefore, inventory counts were not properly increased causing the information to be unreliable.
- Inventory counts were not performed regularly to compare to the recorded on-hand inventory levels for follow up on discrepancies.

Due to the unreliable data, inventory management analysis could not be performed effectively through the point-of-sale system, such as reviewing inventory on-hand, cost of goods sold, vendor price history and product mix reports.

Although Park staff have stated that one of the primary reasons for obtaining RPOWER™ was for its inventory management capabilities, it is currently only used as a cashiering system. The Park staff that is responsible for maintaining the point-of-sale system has not received adequate training, and they are not proficient enough to fully implement the inventory management functions. Further, the consultant that the Society paid to implement the system is no longer available.

2. Park staff did not perform a physical inventory of food and merchandise items for the last two years. After the physical inventory in August 2015, the first since July or August in 2013, count variances were adjusted. If inventory records are being maintained, periodic physical inventory counts help to identify errors, loss or theft and address them in a timely manner. A physical inventory can also assist in identifying excess or slow moving inventory items.

Recommendations:

Parks & Recreation Department management should:

- A. Prepare a comprehensive cost analysis, including direct and indirect costs to determine the total cost to operate the Park. Additionally, rates and fees should be set based on a cost recovery strategy or at the market-acceptable rate to ensure the City receives reasonable compensation for the services it provides.
- B. Ensure all rates and fees are provided to Council for review and approval and then implement Council-approved rates and fees at the Park. Specifically, Parks & Recreation Department management should:
 - Determine if the 40% school group discount rate is appropriate and then submit to Council for approval as part of the annual rates and fees process.

- Ensure rates and fee changes are accurately presented for Council approval and implemented in the point-of-sale system.
 - Work with Park staff to clarify how to apply the Commercial rate criteria.
 - Direct Park staff to clearly display all rates and fees on the Park's website and at the Park.
- C. Ensure Park staff includes all carousel-related staff hours and payroll costs in calculating the carousel staffing cost deduction.
- D. Require proper accountability over transactions handled on the Society's behalf. Monies received on behalf of the Society should be recorded separately from City monies and deposited into the Society's account, rather than the City's account. The number of Society membership cards issued should be reconciled to the related cash receipts. Voids or corrections should be documented and the cards retained, a witness should be present for any card destructions and cash donations should always be handled in dual custody.
- E. Ensure that Park staff includes the associated payroll fringe costs in the Model Railroad Building staffing reimbursement calculations and prepares the reimbursement information timely. Further, Park staff should work with the City's Accounting staff to establish a receivables account for the Society's staffing reimbursements, including requesting that the payments be made payable to the City of Scottsdale and directed to the City's Remittance Processing address.
- F. Evaluate how Park staff can maintain reliable perpetual inventory records, whether that is through obtaining trained support for the current system or using another method. In addition, require Park staff to periodically perform physical inventory counts so that variances can be investigated and resolved.

4. Certain controls over information technology can be strengthened.

The Park's accounting system, which processed more than \$1.4 million in receipts during FY 2014/15, and website are maintained through third-party support. Sound information system management practices have not been implemented to safeguard these systems and to ensure proper record retention.

- A. The Park uses RPOWER™, a hospitality/restaurant-related point-of-sale system as its cashiering system. RPOWER™ is not connected to CLASS®, the cashiering system used by all other Community Services areas. So the Park staff runs daily reports from RPOWER™ and manually enters the receipt category totals into CLASS®, which is connected to the City's accounting system.
1. The RPOWER™ database and associated backup, which contain all the accounting records for the Park, reside on servers located at the Park. The system is not connected to the City's network, and the Park's accounting records are not regularly backed-up to the City's network or other off-site location. Although the Community Services Division's Essential Records Listing indicates the RPOWER™ database is backed up off-site on an ongoing basis, the Division's information technology staff confirmed that the only back-up server is located at the Park.

State-mandated record retention schedules require that certain accounting records be maintained for at least 3 years. Absence of off-site backup of the City's original accounting records, increases risk of loss which would lessen accountability and could obscure the audit trail.

2. This hardware, software and data are not supported by the City's information technology staff. Instead, a third-party is contracted to provide any maintenance and upgrades. As described in finding 3 on page 20, the third-party support has not been adequate for the Park staff to effectively use some system functions.
3. Access controls and change management can be improved:
 - Requests for Park staff to be granted access to RPOWER™ are not formally documented, nor are the user accounts reviewed on a regular basis and revoked if appropriate. Also, during the audit, we noted some authorized users had more system access than needed for their job duties. During our audit, Park staff acted to limit 3 users' access and reduce this risk exposure.
 - Changes such as additions, deletions, and menu item set-ups in RPOWER™ are not documented, tested, or monitored. When errors occur, they are not discovered and corrected, and cumulatively affect the transaction history. Strong change management controls require written procedures, testing plans and sufficient documentation.
- B. The McCormick-Stillman Railroad Park website is not City-owned or managed. The Park's webpage on the City's website (<http://www.scottsdaleaz.gov>) directs users to a separate "official" website (<http://therailroadpark.com/>). The Society pays a third-party web developer to maintain this website and authorizes any changes to it. This "official" website does not indicate that the Park is owned and operated by the City of Scottsdale or contain any links back to the City's primary website. City staff does not have log-in credentials or the authorization to ensure website content complies with the City's standards.

Although a City IT policy, *Alternative Web Domain*, requires the Information Technology Department and the Office of Communications to concur with any third-party web-based services, this concurrence was not obtained.

Recommendations:

Parks & Recreation Department management should:

- A. Require Park staff to work with the Community Services Division information technology staff and the City's IT Department to properly maintain the current point-of-sale system, including regular off-site backups of the Park's accounting records and hardware and software support, documented system access policies and procedures, and change management policies and procedures.
- B. Request concurrence from the Information Technology Department and the Office of Communications if third-party website services are to be continued. Further, if concurrence is granted, City staff should ensure the website identifies the Park as City-owned and operated and that other content complies with City web standards.

5. Operating procedures have not yet been documented.

Given the unique nature of the Park's operations, formal written operating procedures can help ensure staff understands policies and procedures and their job duties. An operations manual can also ease transition during staffing changes.

Rather than a comprehensive operations manual, there are a number of informal documents in various areas of the Park's shared network. The documents are not organized or dated, and they do not indicate who approved the policy or practice. Therefore, staff may not be able to find the information needed or know if it is current or approved.

For example, written guidance for Park maintenance inspections could not be located. Regular maintenance inspections can help ensure the Park is safe for staff and visitors and equipment is in good working order.

Also, during their shifts, staff scheduled to work at the Park receive a 20% discount on food and beverage purchases. These discounts only totaled approximately \$640 during FY 2014/15. However, there is no indication this discount has been formally approved by department, division or City management.

The current Park supervisor, who started at the Park in May 2015, stated that each area in the Parks & Recreation Department was to develop a site-specific operations manual as part of the FY 2014/15 performance goals plan. While it appears that the previous Park supervisor started developing the operations manual, it was not completed by the end of the fiscal year.

Recommendation:

Parks & Recreation Department management should ensure Park staff completes the operations manual, including written procedures for Park maintenance inspections and documented management approval for staff discounts.

MANAGEMENT ACTION PLAN

1. The Park's key third-party agreements were allowed to expire and other aspects of contract administration can be improved.

Recommendations:

Parks & Recreation Department management should:

- A. Ensure that the Contract Administrator monitors extension and renewal timelines to ensure that agreements remain current and are meeting the needs of the City.
- B. Require that Contract Administrators not participate directly in the management of the third-parties whose agreements they are administering, in accordance with AR 215 *Contract Administration*.
- C. Limit the number of key cards provided to third-party organizations to control access to the City building to those organization members with a need to access the building. Further, consider setting a maximum number of key cards per third-party organization in the next agreement.
- D. Ensure the Contract Administrator maintains organized, complete contract administration files including records of all correspondence and other activities pertinent to the agreements.

MANAGEMENT RESPONSE: Partially Agree

PROPOSED RESOLUTION:

- A. Contract administration will continue to be a priority for the new Operations Supervisor and the current park's management staff has already completed and renewed key license agreements and will monitor extension and renewal timelines with our city's legal department. Currently a working draft agreement has been started between the Scottsdale Railroad & Mechanical Society and city, with completion date in next several months. Community service staff is exploring opportunities to convert current license agreements with longer terms to avoid lapse in renewals.
- B. Contract administrators are no longer participating directly on the Scottsdale Railroad & Mechanical Society board of directors and have not since 2013.
- C. Community Services staff will analyze the number of key cards provided to the clubs to access the Model Railroad Building and their frequency of use in the past year to determine the access for each club. The new model rail road building was intended to provide open access to club members to work on their models with the understanding the building would be open during park's operating hours. Staff will consider all options, including safety, when developing a plan with each model rail road club.
- D. Park staff and the park Contract Administrator will maintain organized and complete contract administration files on site.

RESPONSIBLE PARTY: Nick Molinari, Parks & Recreation Operations Supervisor, McCormick-Stillman Railroad Park

COMPLETED BY: 04/29/2016

2. Improvements could be made in the Park's asset management.

Recommendations:

Parks & Recreation Department management should:

- A. Ensure the City Treasurer's Office is informed on a timely basis of capital assets donated to the McCormick-Stillman Railroad Park so that they can be recorded in the City's capital asset records.
- B. Ensure Park staff develops and maintains a listing of historically significant or high risk items located at the Park, including identifying whether the item is owned by the City or loaned by a third party. Also, ensure staff performs periodic physical inventories to ensure the accuracy of the listing and to identify any losses.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION:

- A. All capital assets donated to the park will be recorded with the City Treasurer's Office. We have already scheduled a meeting with Cindy Ensign from Financial Services to begin this process and ensure any donations meet the required criteria and are recorded with the City Treasurer's Office.
- B. A member of the park's management team has been assigned the task of developing an inventory of historically significant items that are located throughout the park as a Smart Goal for fiscal year 15-16 and the inventory will be conducted within the framework of AR226.

RESPONSIBLE PARTY: Nick Molinari, Parks & Recreation Operations Supervisor, McCormick-Stillman Railroad Park

COMPLETED BY: 04/29/2016

3. Better rates and fees analysis and implementation, billing and accounting practices and inventory management could improve the Park's cost recovery results.

Recommendations:

Parks & Recreation Department management should:

- A. Prepare a comprehensive cost analysis, including direct and indirect costs to determine the total cost to operate the Park. Additionally, rates and fees should be set based on a cost recovery strategy or at the market-acceptable rate to ensure the City receives reasonable compensation for the services it provides.
- B. Ensure all rates and fees are provided to Council for review and approval and then implement Council-approved rates and fees at the Park. Specifically, Parks & Recreation Department management should:

1. Determine if the 40% school group discount rate is appropriate and then submit to Council for approval as part of the annual rates and fees process.
 2. Ensure rates and fee changes are accurately presented for Council approval and implemented in the point-of-sale system.
 3. Work with Park staff to clarify how to apply the Commercial rate criteria.
 4. Direct Park staff to clearly display all rates and fees on the Park's website and at the Park.
- C. Ensure Park staff includes all carousel-related staff hours and payroll costs in calculating the carousel staffing cost deduction.
- D. Require proper accountability over transactions handled on the Society's behalf. Monies received on behalf of the Society should be recorded separately from City monies and deposited into the Society's account, rather than the City's account. The number of Society membership cards issued should be reconciled to the related cash receipts. Voids or corrections should be documented and the cards retained, a witness should be present for any card destructions and cash donations should always be handled in dual custody.
- E. Ensure that Park staff includes the associated payroll fringe costs in the Model Railroad Building staffing reimbursement calculations and prepares the reimbursement information timely. Further, Park staff should work with the City's Accounting staff to establish a receivables account for the Society's staffing reimbursements, including requesting that the payments be made payable to the City of Scottsdale and directed to the City's Remittance Processing address.
- F. Evaluate how Park staff can maintain reliable perpetual inventory records, whether that is through obtaining trained support for the current system or using another method. In addition, require Park staff to periodically perform physical inventory counts so that variances can be investigated and resolved.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION:

- A. Park staff will work with our Budget Liaison to prepare a comprehensive cost analysis for the park's operations. Our staff are already presenting the rates and fees for our attractions to the City Council annually through the Rates & Fees process during the budget process.
- B. Park staff will add the 40% school group discount rate to the fee schedule for fiscal year 2016/2017 as an administrative item and present to the City Council for approval. We will ensure all of our rates and fees are implemented into our park's point-of-sale system. Additionally, we will work with park reservation staff through ongoing training to eliminate inconsistencies with applying the commercial rate for outdoor rentals. Staff has already updated the rates and fees on the Park's website.
- C. We do not believe the two Railroad & Mechanical Operations Specialists spend 20% of their worktime on carousel-related tasks. The park experienced a major carousel maintenance issue last year January 2015, which required these two employees to spend more time on carousel-related maintenance. In our new

agreement with the Scottsdale Railroad & Mechanical Society, we will clearly outline the staff related costs required for the maintenance of the carousel.

- D. Community Services staff, in partnership with the Accounting Department, will research options to address depositing Mechanical Society monies separately by exploring the viability and operational possibilities of processing money collected at the park into an account that is not connected to the City of Scottsdale.
- E. Community Services staff will specifically identify payroll costs and reimbursement calculations through a new operating agreement with the Scottsdale Railroad & Mechanical Society. We will establish a receivables account for any reimbursements or invoicing to the Scottsdale Railroad & Mechanical Society to be processed through the City's Remittance Processing address.
- F. Park staff, in partnership with the Community Services IT team, Financial Services Department and the City's Information Technology Department, is currently exploring options for a new point-of-sale system that will help staff manage inventory more effectively. Additionally, park staff will conduct on-site physical inventory at least three times per year.

RESPONSIBLE PARTY: Nick Molinari, Parks & Recreation Operations Supervisor, McCormick-Stillman Railroad Park

COMPLETED BY: 04/29/2016

4. Certain controls over information technology can be strengthened.

Recommendations:

Parks & Recreation Department management should:

- A. Require Park staff to work with the Community Services Division information technology staff and the City's IT Department to properly maintain the current point-of-sale system, including regular off-site backups of the Park's accounting records and hardware and software support, documented system access policies and procedures, and change management policies and procedures.
- B. Request concurrence from the Information Technology Department and the Office of Communications if third-party website services are to be continued. Further, if concurrence is granted, City staff should ensure the website identifies the Park as City-owned and operated and that other content complies with City web standards.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION:

- A. Park staff is currently looking to upgrade the park's point-of-sale system. We will work with the Community Services Technology Team, the Information Technology Department and Financial Services to ensure a new or upgraded system provides off-site backups, hardware and software support.
- B. The Office of Communications has already provided concurrence for the park's

third-party website. We are in the process of redesigning our site with a new provider and will work with the Scottsdale Railroad & Mechanical Society to ensure city staff access to the park's website.

RESPONSIBLE PARTY: Nick Molinari, Parks & Recreation Operations Supervisor, McCormick-Stillman Railroad Park

COMPLETED BY: 04/30/2016

5. Operating procedures have not yet been documented.

Recommendation:

Parks & Recreation Department management should ensure Park staff completes the operations manual, including written procedures for Park maintenance inspections and documented management approval for staff discounts.

MANAGEMENT RESPONSE: Agree

PROPOSED RESOLUTION: Park staff is working to complete a comprehensive operations manual by the end of the current 15-16 fiscal year.

RESPONSIBLE PARTY: Nick Molinari, Parks & Recreation Operations Supervisor, McCormick-Stillman Railroad Park

COMPLETED BY: 06/30/2016

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