

Salt Lake County Auditor's Office

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Glen Lu, Director
Parks and Recreation Division
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Dear Glen:

We recently completed an unannounced count of the petty cash and change funds at the Central City Community Center. We also conducted a review of Central City's cash receipting and depositing, daycare collections, purchasing, and fixed and controlled assets. In addition, we performed a controlled payroll distribution at the center.

Parks and Recreation's administration asked us to perform this audit because of a \$720 theft that occurred in the summer of 1999. Parks and Recreation performed their own internal investigation of the theft and determined that it was a result of improper procedures used when cash receipts were placed in the drop safe. Parks and Recreation administration identified and addressed the problems associated with the theft.

During our audit, we found some areas where improvements are needed. The major findings and recommendations are discussed below. Other findings and recommendations were discussed verbally with Central City's director and are not presented in this letter.

CASH RECEIPTING AND DEPOSITING

During our review of the cash receipting and depositing process, we found several items that should be improved. The major findings in the cash receipting and depositing area are:

- **More than one cashier is allowed to work out of the same cash drawer.**
- **Central City is not keeping MPF Form 10 to record overages/shortages and to keep a current change fund balance.**

- **Deposits are not consistently made in a timely manner.**
- **A second party does not verify deposits.**

More than one cashier is allowed to work out of the same cash drawer. In our review we found that during an average day, multiple cashiers are using the cash register. These employees are all working out of the same cash drawer. When multiple employees share the same drawer, it is impossible to establish accountability for the money in the drawer. This practice is in violation of Countywide Policy 1062, Management of Public Funds, section 2.10.1 which states, *All Agent Cashiers, alternate Agent Cashiers, cashiers and sub cashiers will have their own cash drawers* .

Central City management should ensure that cashiers have their own drawers. Responsibility can be assigned to individuals if they have complete control over their own cash drawer during their shift. The cashier should count out the drawer at the end of the shift and sign for the amount of cash in the drawer. The change fund would be verified by the new cashier coming on duty. This procedure provides the necessary controls for assigning responsibility to the cashiers.

RECOMMENDATION:

We recommend that only one cashier work out of one cash drawer at a time and that the cashiers balance their own drawers.

Central City is not keeping MPF Form 10 to record overages/shortages and to keep a current change fund balance. When making daily deposits, Central City will take from or add to the change fund balance to cover any shortages or overages from the day's transactions. This keeps the daily deposit intact. When this method is used for deposits, Countywide Policy 1062 requires that cashiers keep MPF Form 10 to track their fund balance and daily overages and shortages. The form was kept in the past at Central City, but at present, the form is not being used. In addition, the center director has not been reviewing the form.

The cashiers need to fill out MPF Form 10 on a daily basis. Monthly, the center director should review the form and address any related concerns with the cashiers. This provides the center with a method to monitor cashier overages and shortages.

RECOMMENDATION:

We recommend that cashiers keep MPF Form 10 and that the center director review the form monthly.

Deposits are not consistently made in a timely manner. According to Countywide Policy 1062, *Receipts of \$250 or more (\$50 cash and \$200 in checks) will be deposited on a daily basis. Receipts of less than \$250 may be accumulated and deposited when the total reaches \$250; however, deposits will be made no less frequently than weekly regardless of the amount accumulated.* During our review, we examined the deposits of 47 days. Of these deposits, 17 percent were not made in a timely manner.

RECOMMENDATION:

We recommend that deposits be made timely in accordance with Countywide Policy 1062.

A second party does not verify deposits. Central City cashiers place their daily collections in a drop safe. One of these cashiers is assigned to prepare the deposit. However, the cashier prepares the deposit alone, without any verification by a second party. A second party should always verify the deposit for accuracy. This includes comparing the deposit amount to the McBee register. Both parties should sign the deposit transmittal as evidence of verification.

RECOMMENDATION:

We recommend that a second employee verify the accuracy of the deposit by counting cash and checks and comparing these to the McBee register.

DAYCARE RECEIVABLES

We also reviewed accounts receivables in Daycare. The only major finding in this area is:

- **Central City is not enforcing the Parks and Recreation policy on collecting past due amounts for daycare customers.**

Central City is not enforcing the Parks and Recreation policy on collecting past due amounts for daycare customers. Daycare payments are due on the first day of the month and are considered past due after the fifth working day of the month. Parks and Recreation's policy states that

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two weeks following the due date, if payment has not been received, a letter will be sent to the customer which gives them 48 hours to either pay in full or to sign an agreement for payment of the past due tuition.

If the customer does not pay in full or sign an agreement to pay the past due tuition within the 48 hours, the center is to terminate daycare service. Central City does not send out the final notices after two weeks, they wait until the following month to send out these notices. This practice allows the customer to continue bringing their children for an additional 30 days. Central City has been reluctant to terminate services in order to fulfill their attendance goals. In our sample of past due accounts, 31 percent were 60 days past due, and 9 percent were 90 days past due.

RECOMMENDATION:

We recommend that Central City enforce the Parks and Recreation policy on collection of tuition payments and terminate services according to the time frame described in the policy.

PURCHASING

We reviewed purchasing and receiving practices at Central City. While all purchases we reviewed were appropriate, we did identify some discrepancies that point out internal control weaknesses in this area. The key purchasing findings are:

- **Purchases are not adequately scrutinized.**
- **Parks and Recreation needs to reduce the time it takes to process invoices for payment.**

Purchases are not adequately scrutinized. During our audit work in the purchasing area, we reviewed Parks and Recreation's Internal Purchasing Procedures. Section 6.4 of these procedures requires an employee initiating a purchase to *sign his/her own signature and then obtain the signature of a Budget Manager, District Director, or Section Manager* on a purchase request. In addition, section 6.4.1 states that *if a Budget Manager initiates a (purchase request), the second signature must be that of the District Director or Section Manager*. These steps ensure that items approved for purchase are appropriate and necessary.

However, once the purchase is made, procedures do not require any independent review of the items actually purchased to determine whether inappropriate purchases were made for personal use or

consumption. Even though the procedures require the purchasing employee to send an invoice, packing slip, or receipt from the purchase to the division administration office, no comparison of the items on this documentation to the items listed on the approved purchase request is required or completed. This allows an employee with an approved purchase request to buy any items available from the vendor without anyone else's knowledge.

As an example, we found that 10 percent of the completed 1999 Central City purchases we reviewed had different items actually purchased than those that were listed on the approved purchase request. While, as stated above, these particular purchases were reasonable and appropriate, this situation provides employees with an opportunity to make inappropriate and/or unnecessary purchases.

Ideally, all items purchased would be consistent with those listed on the corresponding purchase request. However, there may be circumstances in which the exact items listed on the request cannot be purchased and other items need to be substituted. In either case, an independent comparison of items actually purchased, according to the invoice, packing slip, or receipt, to items listed on the approved purchase request should be completed before purchases are approved for payment.

To facilitate a judgement as to whether purchased items are necessary and appropriate, the comparison should be accomplished by someone familiar with recreation center operational requirements. To further strengthen this control, purchases for more than some selected dollar amount threshold should be reviewed by personnel not directly involved in the operation of the center making the purchase.

RECOMMENDATION:

We recommend that Parks and Recreation update their internal purchasing procedures by requiring an independent comparison of items listed on the invoice, packing slip, or receipt to items listed on the approved purchase request to determine whether inappropriate purchases for personal use or consumption were made.

Parks and Recreation needs to reduce the time it takes to process invoices for payment. We analyzed the payment cycle related to our random sample of Central City purchases. A big delay in the cycle occurred in the Parks and Recreation division administration office where we found the average processing time to be 27.2 days. (This average time was calculated using the purchases that had both the date the invoice was received by administration and the date it was forwarded to the Auditor's Office indicated on the documentation.)

While a detailed review of this process was beyond the scope of our audit, we briefly discussed this problem with the primary administration purchasing coordinator who provided the following reasons for this delay:

- The coordinator's high workload volume.
- A lack of adequate training for the coordinator, who has only been performing this function for a few months.
- Delays in receiving the "approved for payment" copy of the purchase request, and its accompanying documentation, from the centers.

However, most of these issues relate to human factors that could be overcome through proper training and management.

RECOMMENDATION:

We recommend that Parks and Recreation reduce the time it takes to process invoices for payment.

FIXED AND CONTROLLED ASSETS

Our review of fixed and controlled assets resulted in the following findings:

- **Some items that were listed on fixed asset records as being at Central City were found at different recreation centers, and vice-versa.**
- **The Central City director does not have a list of the center's fixed assets or any record of their actual physical location.**
- **Several items that fit the definition of a controlled asset were not listed on the center's controlled asset inventory log.**
- **Several other items that could be considered controlled assets were not listed on the center's inventory log.**

Some items that were listed on fixed asset records as being at Central City were found at different recreation centers, and vice-versa. Out of seven Central City fixed assets listed on the fixed assets report, AFIN0801, we located only three at Central City. We checked at other County recreation centers and found the other four fixed assets, two at the Copperview Community Center, and one each at the Redwood and East Millcreek centers. In the meantime, we found two fixed assets

at Central City that should have been at other County recreation centers, according to location codes on the AFIN report.

The records from Central City's December 1998 inventory verified their possession of the same three fixed assets that we found there during our inventory. In conjunction with their inventory, Central City informed the division property manager that they did not have three other assets that were shown on their master list. These three, all treadmills, were among the four that we found at other recreation centers. (The other mislocated assets were all newly acquired in 1999.)

Proper maintenance of fixed asset location codes is an important internal control. Section 5.4 of Accounting and Operations Division's Accounting Policies and Procedures specifically states that *It is the responsibility of the Property Manager to ensure accurate location codes are maintained in (AFIN)*. As indicated above, the division property manager had information that identified the described asset location problems as early as December of 1998, but, as of the end of our field work, had not resolved the problems.

RECOMMENDATIONS:

- 1. We recommend that the division property manager correct the fixed asset location problems described above by either updating the AFIN location codes or by having the assets moved to the appropriate locations.*
- 2. We recommend that, after receipt of inventory information, the division property manager reconcile the inventory results to the division's AFIN0801 report, resolve discrepancies, investigate any potentially missing assets, and update fixed asset location codes as necessary.*

The Central City director does not have a list of the center's fixed assets or any record of their actual physical location. Parks and Recreation Policy 120, Safeguarding Controlled and Fixed Assets, designates center directors as assistant property managers and delegates many asset-related responsibilities to them. One of these responsibilities is that of *maintaining records as to the physical location of all controlled and fixed assets within the operational unit's assigned area*. At Central City, we found that the center director did not have a list of the fixed assets assigned to the center or any type of record that indicated the actual location of the assets.

Without their own list of assets, assistant property managers are less likely to be aware of the items under their control. This increases the probability of assets being used inappropriately or being removed without detection.

RECOMMENDATION:

We recommend that the center director retain a copy of the center's annual fixed asset inventory that shows the physical location of each asset.

Several items that fit the definition of a controlled asset were not listed on the center's controlled asset inventory log. Countywide Policy 1125, Safeguarding Property/Assets, defines controlled assets as *personal property items having a cost of \$100 or greater, but less than the current capitalization rate, and which are sensitive to conversion to personal use.* The policy also contains a list of specific types of assets that are to be controlled under the policy.

We found the following 15 items, 10 from our sampled items of 1999 purchases, and 5 from general observation, that are among the specific types listed in the policy. These items all should have been included on the center's controlled asset log, but were not.

- two computer training tables
- two HP laser printers
- two back-up power sources
- one computer keypad
- one computer zip drive
- one Paradox software package
- two Micron computers
- one NMC computer
- one computer monitor
- one Selectric typewriter
- one Word Perfect software package

Section 1.3.6 of Parks and Recreation Policy 120 states that part of an assistant property manager's responsibility is *Coordinating with the Division Property Manager to ensure all newly acquired property is identified and accountability is appropriately established.* If controlled assets are not added to the log in a timely manner, the log quickly becomes out of date and incomplete. This causes the organization to be out of compliance with Countywide Policy 1125 and Parks and Recreation Policy 120 which both require that records be maintained that show the physical location of all fixed and controlled assets.

RECOMMENDATIONS:

1. *We recommend that the fifteen items listed above be added to the controlled asset log.*
2. *We recommend that the center director ensure that all newly acquired controlled assets are added to the controlled asset log in a timely manner.*

Several other items that could be considered controlled assets were not listed on the

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center's inventory log. In addition to the list of specific items that are to be controlled, Countywide Policy 1125 states that *other property not specifically listed here may be tracked as controlled assets at the organization's discretion as deemed appropriate under the intent of this policy.* At Central City, we found the following 11 items that are not of the types specifically listed but that could be considered controlled assets, which were not listed on the controlled asset log. Six of these items were previously fixed assets but were de-categorized as such due to the increases in the dollar value threshold for the capitalization rate. Serious consideration should be given to adding these items to the center's list of controlled assets.

Items that were previously fixed assets

- two payroll time card clocks
- one microwave
- one freezer
- one vending machine
- one refrigerator

Other items

- one ceramic kiln
- one refrigerator
- one cash register
- one payroll time card clock
- one scoreboard

RECOMMENDATION:

We recommend that the center director consider these 11 items and add those that are deemed to be appropriately tracked as controlled assets to the center's controlled asset log.

In closing, I would like to express appreciation to the Central City staff for the cooperation and timely assistance they gave to our auditors. I trust that our work will be of benefit to you as you endeavor to make changes that will strengthen internal controls at Central City and throughout the Parks and Recreation division. If we can be of further assistance to you in this regard, please give me a call.

Sincerely,

David L. Beck
Chief Deputy

cc: Paul Ross
Maggie Aloia