

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 new County Ice Center in Murray. We also conducted a review of the center's cash receipting and depositing, accounts receivable, fixed and controlled assets, purchasing procedures, and pro shop, concessions, and vending machine inventory procedures.

Currently the center uses a combination of cash registers and the McBee manual receipting system to record patron payments. However, they are planning on receiving and implementing the on-line cash receipting and program registration program "Sportsman" sometime this year.

The center receipted nearly \$87,000 during their first 80 days of operations, an average of almost \$1,100 a day, and revenue is projected to increase as more people become aware of the center's existence and facilities. An on-line system such as "Sportsman" is warranted, given the center's level of collection. Section 2.3.4.8.3 of Countywide Policy 1062, Management of Public Funds, states that *if total cash receipts exceed \$1,000 per day, an on-line register...is recommended.*

While our audit addresses concerns with, and recommends improvements to, current center procedures, many of these concerns and recommendations will still apply directly once the "Sportsman" system is implemented. Other recommendations may have to be modified for use with "Sportsman", however, the underlying concepts related to the recommended controls will still be applicable and should be followed as the new system is brought on-line.

During our audit, we found several areas where improvements are needed. All findings and recommendations were discussed verbally with the ice center director. The findings and recommendations considered most significant are 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:

- **Control over patron admittance to the ice rink and the daily master schedule could be improved.**
- **No formal cash balancing procedures were performed for the first month-and-a-half that the center was open, and they are still not always accomplished.**
- **The cash/check composition on cash register tapes is inaccurate or unverifiable in many cases.**
- **Over/shorts are not properly accounted for or reviewed.**
- **Multiple cashiers often share the same cash drawer.**
- **Voided receipts are usually not retained and voided cash register transactions are not properly documented.**
- **Checks are not always restrictively endorsed as soon as possible after receipt.**

Control over patron admittance to the ice rink and the daily master schedule could be improved. These weaknesses present cashiers with opportunities to divert funds to personal use and could allow non-paying patrons to use the ice center without anyone else's knowledge. These issues are outlined as follows:

- During busy public skate sessions, a cashier receives admission fees and stamps patrons' hands as they pay. The hand stamp is checked as customers enter the ice. Given this current practice, the cashier could receive a payment, not enter it into the cash register, stamp the customer's hand, and divert the funds to personal use. Cashiers could also allow patrons to enter the ice without paying by simply stamping their hand.
- The master schedule does not document whether scheduled groups paid their fees and whether cancellations received supervisory review. The schedule sheets have no place for the cashier to enter the issued receipt number or amount of payment. Therefore, this information is only occasionally entered by the cashiers. We also noted that

cancellations of events on the schedule are made with no accompanying supervisor signature to indicate their validity.

All ice activities are listed on the daily master schedule. Times for regularly planned activities such as public skate sessions and contracted use of the ice are entered on the schedule by the center director. When a patron calls or comes in to request ice time for a group, the employee helping him checks the schedule for the day and time requested and, if the ice is available, enters the patron's name on the schedule. The same employee also often collects the customer's payment. Including the receipt number on the master schedule would verify that payment for the event had been properly received.

RECOMMENDATIONS:

- 1. We recommend that the employee posted at the ice rink entrance retrieve patrons' receipts as admission to the ice and stamp their hands as evidence of payment.*
- 2. We recommend that the daily master schedule sheets be modified to include a column for the customer's receipt number and payment amount and another column to document supervisory review of cancellations.*

No formal cash balancing procedures were performed for the first month-and-a-half that the center was open, and they are still not always accomplished. The center opened and began collecting payments in December, 1999. In most cases, cashiers did not use a cash balancing sheet during the first month-and-a-half of operations. In addition, no tracking or recording of cashier overages/shortages was done until February 1.

Completion of formal cash balancing was more consistent in February and March, though we still found that no cash balance sheets were completed for 9.3 percent of the collection periods we examined in those months. Balancing procedures should be performed using a county-approved balancing form and all over/shorts should be recorded on an appropriate over/short log. These forms help to establish individual accountability for collected monies and are required by Countywide Policy 1062, section 3.7.4, Balancing Procedures.

Ice center personnel told us that they were under tight time constraints and felt rushed to be even minimally ready for business by December. Because of this rush, being prepared to perform cash balancing procedures was not a priority compared to other tasks involved in opening the facility. However, collecting money without accomplishing these procedures places County funds at risk and is contrary to County policy.

RECOMMENDATION:

We recommend that all persons receipting money balance their collections by completing the Parks and Recreation Division Cash Balance Sheet.

The cash/check composition on cash register tapes is inaccurate or unverifiable in many cases. Up to four handwritten McBee receipts are filled out for daily cash register collections corresponding to public skate sessions, skate rental, concessions sales, and spectator events where admission is charged. This duplicate receipting procedure is Parks and Recreation's method of tracking revenue by category. For a random sample of collection days, we compared collections according to cash register Z-tapes to corresponding McBee receipted amounts and, when they were completed, to corresponding cash balance sheets.

We found that there were either errors in the cash/check composition or we were unable to verify the composition on 16.8 percent of the cash register collection shifts we examined. Errors in the cash/check composition could indicate an attempted diversion of funds through the exchanging of checks for cash. This makes it important for cashiers to consistently enter the correct method of payment.

In cases where cash/check composition could not be verified, the cashier had not retained the Z-tape, or the Z-tape was not readable. We therefore could not verify that the amount receipted on the McBee agreed with the amount of funds actually collected and the amount of any over/short.

RECOMMENDATIONS:

- 1. We recommend that cashiers consistently enter the correct composition of payment, whether cash or checks.***
- 2. We recommend that cashiers always run and retain cash register Z-tapes.***

Over/shorts are not properly accounted for or reviewed. The bookkeeper transfers the cashiers' balance sheet over/short entries onto an over/short sheet for the area where the money was receipted. (for example, the front desk, pro shop, concessions, etc.) The center reflects over/shorts in the change fund. Net overages are accumulated in a zipbag and deposited at the end of each month.

The bookkeeper's recording of over/shorts did not match actual over/shorts reported by cashiers in three of eight cases (two overs and one short) encountered in our test months of February and March. The bookkeeper stated this was a simple oversight. However, it resulted in less funds

being deposited for overages than what should have been deposited.

Problems such as this can go undetected because no review of the over/short sheets or log is conducted. MPF Forms 10 and 11, the over/short logs prescribed for use by Countywide Policy 1062, both require the log preparer to attest to its accuracy by signing. They also require a supervisor to review the log for propriety and sign to certify that this review was completed. None of the over/short forms used by the ice center contained a place for these reviews to be documented.

In addition, since the bookkeeper entered only the monthly over/short total on a Parks and Recreation over/short log, a daily running balance of the change fund, including the amount over/short was not maintained. Section 5.3.1.2.1 of Countywide Policy 1062 states *a running balance of the change fund will be maintained using MPF Form 10*. Ice center personnel stated that they have already taken steps to improve the documentation and review of over/shorts. The stated steps include the implementation of MPF Form 10 as a replacement for the Parks and Recreation over/short log, and the use of this form to document the daily running balance of the change fund.

RECOMMENDATIONS:

- 1. We recommend that a supervisor review the daily over/short sheets and initial the sheets to indicate completion of the review.*
- 2. We recommend that a supervisor review the MPF Form 10 each month and sign the form to indicate completion of the review.*

Multiple cashiers often share the same cash drawer. We noted that more than one cashier receipted money on 26 percent of the McBee collection periods that occurred during our random sample of days in February and March. This indicates that the same cash drawer was shared by two or more cashiers during those periods. Since it is impossible to identify all individual cashiers that actually use a cash register during each shift, the exact occurrence and frequency of sharing the same drawer for cash register collections is unknown. However, the bookkeeper told us that this occasionally occurs when the center is busy.

When multiple employees share the same drawer, it is impossible to establish accountability for funds collected. This practice is contrary to Countywide Policy 1062, section 2.10.1 which states, *All Agent Cashiers, alternate Agent Cashiers, cashiers and sub cashiers will have their own cash drawers.*

RECOMMENDATION:

We recommend that only one cashier at a time work out of the same cash drawer.

Voided receipts are usually not retained and voided cash register transactions are not properly documented. When a McBee receipt is voided, cashiers complete a “Salt Lake County Parks & Recreation Void” slip. This form allows the cashier to document the reason for the void and obtain a supervisor’s approval. These steps are in line with Section 3.13.1 of Countywide Policy 1062 which requires cashiers who initiate a void to *document...the reason it was voided* and requires supervisors to *review and sign the voided receipt*.

That section of the policy also requires that all copies of voided receipts be retained. However, we noted that 73 percent of voided ice center receipts that occurred on days in our random sample were not retained. Cashiers could divert funds to personal use from voided transactions that are not acknowledged by retention of the voided receipt.

To void a cash register transaction, cashiers must have a supervisor insert a key into the register and turn it to the void position. Void keys are secured in the center’s safe and are not accessible to the cashiers. Even though these transactions are voided with the key, the voids are not supported by any written documentation.

RECOMMENDATIONS:

1. *We recommend that all voided McBee receipts be retained and attached to the accompanying void slip.*
2. *We recommend that “Salt Lake County Parks & Recreation Void” slips be properly completed and retained for all cash register voids.*

Checks are not always restrictively endorsed as soon as possible after receipt. On various days during our field work, we randomly reviewed checks in the cash drawers that had been received. Fifty percent of the checks that we reviewed had not yet been restrictively endorsed. Section 3.6.1 of Countywide Policy 1062 states: *As a rule, all checks and other negotiable instruments received by the...Cashier will be made nonnegotiable as soon as possible after receipt*. Checks that are not made nonnegotiable immediately could be diverted to personal or unauthorized use.

RECOMMENDATION:

We recommend that all checks be restrictively endorsed as soon as possible after receipt.

ACCOUNTS RECEIVABLE

The ice center has several clients that sign contracts to use the ice on a recurring basis over the period of several months. These clients are billed on a monthly basis, thereby creating accounts receivable. This contracted use of ice time will be one of the center's main revenue generators.

As of March 23, \$30,936 was due from contracted patrons. Of this amount, over \$14,000 was more than 30 days past due. Balances such as these after only slightly more than three months of operations highlight the importance of properly managing the center's accounts receivable.

Our major findings related to accounts receivable are:

- **There are no written policies and procedures covering accounts receivable.**
- **The duties of receipting account payments are not properly separated from those of maintaining account records.**
- **Adjustments to account balances are not properly authorized.**

There are no written policies and procedures covering accounts receivable. Written policies and procedures help ensure adequate management of accounts receivable. Center management told us that provisions for handling their receivables were listed in the "conditions" section of the contracts that patrons sign. The contracts do state that monthly billings will be sent out and that a 2% per month service charge may be added to past due accounts.

In addition to a statement of assessable finance charges, an effective accounts receivable policy should also include:

- S a requirement that a monthly aging schedule be prepared and reviewed by management.
- S the number of days past due at which time further collection action will be taken.
- S the specific actions that will be taken at those times, including turning accounts over to

the District Attorney's Office.

As indicated by the more than \$14,000 that is already more than 30 days past due, failure to consistently collect balances owed by contracted ice users could result in losses to the County from interest earnings otherwise gained from short-term investments and from uncollectibility.

RECOMMENDATION:

We recommend that ice center management develop and implement comprehensive written policies and procedures to govern accounts receivable.

The duties of receipting account payments are not properly separated from those of maintaining account records. The center bookkeeper opens most mail containing account payments, receipts those payments, and updates/maintains the client invoices and account records. Under these conditions, the bookkeeper could divert funds to personal use by receiving payments but not filling out a receipt and posting the client's account as paid.

Having two employees handle and open all mail and ensuring that someone other than the bookkeeper receipts payments received through the mail is the best way to minimize this risk. The bookkeeper should also avoid receipting any walk-in payments that are made.

RECOMMENDATIONS:

- 1. We recommend that proper segregation of duties be established by precluding the bookkeeper from collecting cash or checks.*
- 2. We recommend that two people handle and open the mail together to verify receipt of any payments.*

Adjustments to account balances are not properly authorized. We reviewed clients' accounts receivable ledgers and noted three adjustments that had been entered, one each to three different accounts. These adjustments reduced the account balances by a total of \$289.80. All were entered by the bookkeeper and none of them were initialed by a supervisor to indicate authorization for the reductions. Not requiring account adjustments to be approved by a supervisor creates an opportunity for organizational miscommunication.

RECOMMENDATION:

We recommend that a supervisor indicate approval or authorization of all adjustments to client accounts by initialing next to the adjusting entry in the client's account ledger.

FIXED/CONTROLLED ASSETS AND INVENTORIES

In general, we found that the center has not yet accomplished most of the essential activities necessary to maintain strong controls over their assets and merchandise. Our specific findings related to fixed and controlled assets and pro shop, concessions, and vending machine inventories are:

- **The center director does not have a list of the center's fixed assets and has not attached fixed asset stickers to the corresponding items.**
- **The center's controlled assets have not yet been inventoried and listed on controlled asset logs.**
- **Concession and vending machine inventories have not been conducted and inventory methodology could be improved.**

The center director does not have a list of the center's fixed assets and has not attached fixed asset stickers to the corresponding items. 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 the ice center, 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.

We also noted that none of the fixed assets at the center had County fixed asset tags attached to them. We asked the center director about this and he stated that he had received three of the stickers but had not yet attached them. Section 5.5 of Accounting and Operations Division's Accounting Policies and Procedures requires that tags be placed on assets, and that the accompanying transmittal form be filled out and returned to the Auditor's Office, within two weeks.

RECOMMENDATIONS:

1. ***We recommend that the ice center keep a log of its fixed assets on a Parks and Recreation Division Controlled/Fixed Asset Inventory Log.***
2. ***We recommend that all fixed assets be tagged with the designated county fixed asset stickers.***

The center's controlled assets have not yet been inventoried and listed on controlled asset logs. Controlled assets are personal property items that cost greater than \$100 but less than the

current capitalization rate of \$3,000 and that are sensitive to conversion to personal use. These items are not tracked centrally by the Auditor's Office as fixed assets are, but are solely the responsibility of the organization possessing them.

Both Countywide Policy 1125, Safeguarding Property/Assets, and Parks and Recreation Policy 120 require organizations to maintain a list of their controlled assets. As stated in the previous section, the Parks and Recreation policy specifically requires that assistant property managers maintain these records for their area of responsibility. The center director told us that these items have not yet been inventoried at the ice center, therefore no such records have been generated.

Without a list, the assistant property manager is essentially unaware of the controlled assets at the center. This increases the probability of assets being used inappropriately or removed without detection.

RECOMMENDATION:

We recommend that all controlled assets be inventoried and listed on Parks and Recreation Division Controlled/Fixed Assets Inventory Logs .

Concession and vending machine inventories have not been conducted and inventory methodology could be improved. The program coordinator in charge of these areas told us that she has not had time to complete these inventories since the center opened. Parks and Recreation management requires a monthly inventory of these items. An accompanying analysis should also be conducted that compares concessions and vending machine revenue to the amounts that should have been collected based on the inventory results.

Pro shop inventories and a computation of the average markup and profit margin based on pro shop sales and inventory results are being completed. However, these computations are not detailed enough to identify possible shrinkage of the inventory due to theft or the diversion of funds received for sold merchandise.

Total sales that should have occurred, based on beginning and ending inventories and purchases, should be compared to actual sales from the McBee receipts. (See enclosure 1 for an example of how this could be accomplished.) The sales price applied to total inventory shrinkage should be compared to actual sales. The concessions and vending machine analyses should be conducted in a similar fashion.

RECOMMENDATIONS:

- 1. We recommend that concession and vending items be inventoried as frequently as Parks and Recreation management mandates.*

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2. ***We recommend that the amount of revenue that should have been collected, based on inventory results, be compared to actual sales to determine whether goods were properly transacted.***

In closing, I would like to express appreciation to the ice center 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 the ice center 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
John Barenbrugge

Example pro shop reconciliation of inventory to sales

Pro shop item	Beginning inventory (a)	Purchases made during the period (b)	Ending inventory (c)	Total shrinkage (a + b - c) = (d)	Number sold to employees (e)*, times discount price = (f)	Remaining shrinkage (d-e), times regular price = (g)	Inventory shrinkage value (f+g)
Hockey Sticks	20	5	13	12	3 X \$10 = \$30	9 X \$15 = \$135	\$165
Shirts	100	50	90	60	20 X \$3 = \$60	40 X \$6 = \$240	\$300
Total							\$465**

* Number of items sold to employees is known.

** Compare to total sales for the period according to the McBee ledger.