

Salt Lake County Auditor's Office

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July 28, 2003

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Dear Glen:

We recently completed an audit of the Parks Operations department. Our audit included an examination of the Petty Cash Fund, the change fund, collections and depositing, and fixed and controlled assets.

Cash Handling

During our examination of the Petty Cash and Change Funds, we found several significant issues:

- **County assets have been diverted to personal use.**
- **Deposits were not made timely.**
- **Physical security over the change fund was lacking.**
- **Checks were not restrictively endorsed when received.**

County assets have been diverted to personal use. When we counted the petty cash fund we found an unmarked envelope with \$675 in bills, and a zip-lock bag with over \$100 in cash and coins, and several receipts (totaling \$455.92) from a local recycling center. The total cash and coin was \$808.36.

Upon inquiry, we were told that the receipts were for used fencing material turned in as scrap metal. When the assets were sold the proceeds were turned over to the Petty Cash Fund custodian for safekeeping. The money was kept in the petty cash box at Parks Operations headquarters on 300 East. All of the receipts were dated 2003. We were also told that the proceeds were used for purchasing hams for the parks operations employees at the holiday season. Purchase receipts for 59 hams, at a cost of \$897.51 from a local

club warehouse store were in the petty cash box. The purchase receipts were dated December, 2002.

This activity raises two issues: First, the sale of county assets to the recycle center had not been authorized through existing policy; and second, the cash realized from the sale of the asset was not returned to the county.

Countywide Policy #1100 "Surplus Property Disposition/Transfer/Internal Sale," Section 4.2, states that "*In order for any item to be disposed of as scrap, the Purchasing Agent or designee, Auditor, and responsible County organization must unanimously agree that it meets the definition, prior to disposal.*" No request for this designation was made. The concept that the material was destined for the landfill may make the action seem more palatable. The reality is that per Policy #1100, no material should be sent to the landfill without authorization. No authorization was sought nor given.

County Ordinance and Policy #1100 (in Section 7.13) state that "*...sales proceeds will generally be deposited to the general fund, or other funds as required by State statute or other governing regulations.*" The proceeds from the sale of county assets (the used fencing) clearly should have been returned to the county. Instead, the money was held aside and used for perquisites not available to other county employees.

This practice has apparently been going on for several years. Follow-up investigation by the District Attorney's investigator indicated that the current parks operations manager "inherited" the practice.

The result of this practice is that County assets, converted to cash which otherwise would go into the general fund, were diverted to another use. While the activity did not profit any one individual, it is still a diversion of public funds. We referred this matter to the District Attorney for further investigation. Personnel issues, if any, should be dealt with by Parks and Recreation management.

RECOMMENDATIONS:

- 1. We recommend that the sale of scrap metal for employee perquisites be discontinued.***
- 2. We recommend that all money accrued be deposited and that future disposal of used fencing or any other asset be completed in accordance with Policy #1100.***

Comment: During the audit, shortly after we brought this matter to the attention of the supervisor, we received a letter from the Department Director and the Division Director (dated May 1, 2003). Per that letter, this practice was stopped immediately. However, in reading the investigators report, it was indicated that the material in question

was now being taken to the landfill. This is still contrary to Policy #1100. We believe that the scrap metal or other similar material should be approved for salvage, per the policy, sold as scrap, and the proceeds deposited to the general fund.

Deposits were not made timely. In our review of deposits we found that deposits were generally made weekly and on the last day of the month. Receipts for park reservations are substantially greater in the first half of the year as the demand is greater. However, the deposit routine remained weekly during this busy time and slackened to ten days to two weeks in the final months of the year. In addition, we found that a daily reconciliation was not completed. That is, there was no daily summation of cash receipts, only the reconciliation prepared at the time of the deposit, usually weekly. Finally we found that 26 percent of the deposits in our sample were received at the bank two or more days after the deposit was prepared.

Countywide Policy #1062, "Management of Public Funds," Section 3.7.2 states, "*All public funds shall be deposited daily whenever practicable but not later than three days after receipt.*" Section 2.4.3 states, "*The Agency Cashier and each cashier will verify accountability for their cash advance daily. This will enable the cashiers to quickly detect and identify any discrepancies and promotes appropriate attention to control over and accountability for county funds.*" Section 3.7.3.1 states, "*Each day, all county agencies should balance collections to register (or receipt log) totals and prepare a deposit.*"

Failure to deposit timely (and holding the deposit once it is prepared) delays the opportunity for the revenue to be put to use and, as the funds accrue, increases the potential loss should a theft or other untoward event occur. Internal controls, such as the requirement to balance daily, exist to prevent and detect any discrepancies that occur in the daily transactions. By not reconciling daily, the opportunity for detection is delayed until a reconciliation is completed, in this case as much as a week could go by.

The cause of these delays is a lack of awareness of pertinent policies on the part of the person responsible for preparing and depositing the receipts. The result of the delays is the opportunity cost of not banking the revenue timely and greater potential loss in the event of a theft or other calamity.

RECOMMENDATIONS:

- 1. We recommend that a daily reconciliation of receipts be completed.*
- 2. We recommend that deposits be made at least every three days in accordance with Policy #1062.*
- 3. We recommend that deposits be made on the day they are prepared.*

Physical security over the change fund was lacking. At the time of our audit we found that the change fund was kept in an unlocked box in a drawer at the reception desk. The desk drawer was not locked. More than one employee has occasion to be in the change fund during the course of the day. Also, there are occasions when the cashier is absent from the desk in this public access area. This provides the opportunity for the public, or a non-cashier employee, to pilfer the cash from the box. We also found that checks held for security deposits were held in an accordion folder on a shelf behind the front desk. In addition, it has been over a year since the combination to the safe has been changed. In that time, several employees who knew the combination have come and gone.

Policy #1062, in Section 2.3.1 requires both a locking cashbox and a locked desk drawer. The situation in the lobby of the Parks Operations offices is such that both are needed to secure the change fund. Policy #1062, also in Section 2.3.3 states *“The combination to a safe or cashbox will be changed..... at least once a year and any time there is a change if incumbents in the positions of agency cashier or cashier.”*

The cause of the physical security issues seems to be a relaxation of adherence to policy over time. For instance, when the lock on the cash box failed, the cash box was not replaced but kept in use. The locking desk drawer was also a casualty of this relaxation.

Since the beginning of the audit work, Parks Operations management has replaced the cash box with a locking model, obtained a lockbox for the security deposits and ensured that the front desk has a lockable drawer.

The issue of the security deposit checks being kept at the front desk warrants further discussion. Parks Operations management, in consultation with the division director, should review the policy and procedures for security deposits. Some consideration should be given to depositing patron checks and then issuing a warrant through the Auditor's Office for any refund due. An alternative solution might be the establishment of a trust account similar to the justice courts handling of bail monies received and refunded.

RECOMMENDATIONS:

- 1. We recommend that Parks Operations continue the use of the newly acquired lockbox.*
- 2. We recommend that the combination of the safe be changed at least annually and more often as needed per Policy #1062.*
- 3. We recommend that Parks Operations consider a change to the security deposit policy that includes the deposit of patrons' checks.*

Checks were not restrictively endorsed when received. Parks Operations receives checks, both over the counter and through the mail, for parks reservation fees. On the day we completed the cash count, twenty-seven checks had been received. None of them had been restrictively endorsed.

Policy #1062, Section 3.6.1, states, “*All checks and other negotiable instruments received by the Agency Cashier should be restrictively endorsed immediately upon receipt using the agency’s approved endorsement stamp.*”

Restrictively endorsing the checks immediately provides a large measure of certainty that the check(s) are not being diverted to personal use. Further, should a theft occur, a restrictive endorsement renders the check nearly useless to the thief.

This again, appears to be a training issue. Immediately upon being made aware of the policy, the head cashier implemented the immediate endorsement practice.

RECOMMENDATION:

We recommend that Parks Operations implement (or continue) the practice of immediate endorsement of checks as they are received.

Fixed and Controlled Assets

We also reviewed the practices regarding fixed and controlled assets. A fixed asset is an item costing \$5,000 or more with a useful life of two years or greater. Controlled assets cost between \$100 and \$5,000 and are easily converted to personal use. Communication equipment such as radios or cell phones are included as controlled assets. During the audit we found that the practices regarding fixed and controlled assets are generally sound. Specifically, we noted that:

- **Annual inventories are completed.**
- **Controlled assets are listed and policies and procedures are being followed.**
- **Assets not located or sent to surplus are not being removed from the list in a timely manner.**

Annual inventories were completed. We found that Parks Operations uses the down-time in the winter months to complete the inventories of both fixed and controlled assets. The assets are centrally located at this time, making for an easier process than it would be if the assets were disbursed as they are in the summer.

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Controlled assets were listed and policies and procedures are being followed. Parks Operations has numerous controlled assets, including blowers, trimmers, edgers, lawn mowers, spreaders, etc. We found a system in place to tag and enter into the system each asset as it is purchased. The tag numbers are unique and, on equipment where the tags are likely to be damaged through use, the number is etched onto the equipment. As indicated above, an annual inventory is completed.

Assets not located or sent to surplus were not being removed from the list in a timely manner. During the audit we selected a random sample of fixed assets to locate and verify. One of the assets, number 92278, an Everex Pentium 90 Server originally purchased in 1994, could not be located. The asset manager could not recall ever having seen the computer equipment in question. No doubt, the server was obsolete in the late 1990's and either surplussed or cannibalized for parts. However, no Property Disposal/Transfer/Internal Sale Form PM-2 was completed to remove the asset from the Fixed Asset List.

In closing, we appreciate the prompt manner with which the staff at Parks Operations responded to our inquiries during the audit. We are confident that our work will be of benefit to you and help strengthen internal controls in Parks Operations. If we can be of further assistance to you in this regard, please contact us.

Sincerely,

James B. Wightman, CPA
Director, Internal Audit Division

cc: Paul Ross
Pam Boyles
Wayne Johnson