



## **SALT LAKE COUNTY AUDITOR'S OFFICE**

**SEAN THOMAS**

*Auditor*

September 9, 2004

Glen Lu, Director  
Parks and Recreation Division  
2001 South State Street, Suite S4400  
Salt Lake City, Utah 84190

RE: Redwood Multi-Purpose Center Audit

Dear Glen:

The Audit Division recently completed an audit of the Redwood Multi-Purpose Center, including the swimming pool operation. We reviewed the following areas:

- Cash receipting and depositing
- Petty cash and change funds
- Vending, Pool Concessions, and Pro-Shop operations
- Fixed/Controlled Assets and purchases
- Accounts receivable

For each of these areas, we addressed the effectiveness of internal controls and the processes employed by Center personnel, to determine compliance with Countywide policies. Our work was designed to provide reasonable, but not absolute, assurance that controls were adequate, records current and daily transactions valid.

We found deficient internal controls in various operational areas which create unreasonably high levels of opportunity for undetected theft of funds and loss of assets.

We have limited our comments to significant findings and recommendations. They are not all inclusive of the scope of work performed. Other areas of concern have been discussed with the Center Director in an exit conference. The reader, therefore, should not assume that processes not discussed here are in compliance with Countywide policy.

## **CASH RECEIPTING AND DEPOSITING**

During our review of cash receipting and depositing we observed the following:

- **There was no supervision or review of the bookkeeper's deposit preparation.**
- **Change funds were not counted, verified, and documented in a log to track possession of the fund.**
- **Cashiers were not preparing daily balance sheets using MPF Form 3 or a facsimile.**
- **Voids were not documented with an explanation and were not signed by the required parties.**
- **Sales tax was paid on some petty cash purchases contrary to County wide Policy.**
- **Cashiers at the front desk did not have a change fund to facilitate operations.**
- **None of the cashiers were recording their overs and shorts on the OVER/SHORT Log Form 11.**
- **Credit card transactions were not reconciled to the batch summary report and one credit card receipt was not adequately secured.**

### **There was no supervision or review of the bookkeeper's deposit preparation.**

The part-time bookkeeper who prepares the bank deposits performs her duties early in the morning or late at night, when none of the center management is present in the building. Thus no one is available to review her work. She prepares a deposit each day, Sunday through Thursday, and also performs this same task at the Copperview Community Center.

As part of the deposit preparation process she retrieves cashiers' collections from a floor safe and notes any differences between the Sportsman Z-tape and the actual count of collections. Swimming pool collections are rung through an off-line cash register that is not connected to the Sportsman system. Therefore, to maintain process uniformity, she re-enters the lump sum of these collections into Sportsman. She places the deposit in a sealed bag, with two copies of the deposit slip, and drops the bag in the floor safe.

The next business day, another employee retrieves the bag and takes it to the bank for deposit, but does not verify the accuracy or reliability of deposit documentation. This person has the pink and yellow copy of the deposit slip date stamped by the bank and returns them to the bookkeeper's desk.

Countywide Policy #1062, "Management of Public Funds," Purpose, states, "*The duties of individuals should be so divided as to maximize employee protection and minimize the potential for collusion, perpetration of inequities and falsification of accounts. The*

*objective is to provide the maximum safeguards practicable,...*” Section 3.1 states, “*All money collected by agencies will be received, where practicable, by the Agency Cashier. When it is necessary that collections be received by officials other than the Agency Cashier, the amounts received and accepted will be delivered to the Agency Cashier on the business day during which the collections are received. When circumstances make such action impractical, the delivery will be made no later than the business day following receipt.*” Policy does not mention that the ultimate responsibility of forwarding the funds to the Agency Cashier can be delegated.

The current deposit preparation process at the Redwood Multi-Purpose Center could lead to loss of funds or theft. The lack of supervisory oversight has been the focus of recent audits at other organizations, and has proven detrimental to the County and, in some cases, has disrupted the lives of County employees who have embezzled funds. It is the responsibility of the Agency to formulate financial control policies that will provide for adequate review and segregation of duties, so that the potential for theft and/or loss is minimized. Where a single individual is entrusted with the preparation of the deposit and no one else reviews her work, not only may the temptation to steal funds become greater, but any theft would also be more easily concealed.

As a matter of procedure, the program manager, or other designated employee, should review the deposit that the bookkeeper prepares each day. This review should include a comparison of Z-tape totals to the amount on the deposit slip. The deposit transmittal should be signed as evidence of this review.

### **Recommendation:**

***We recommend that the program manager or other designated employee review the Z- tape and deposit slip total, and sign the deposit transmittal as evidence of this review.***

**Change funds were not counted, verified, and documented in a log to track possession of the fund.** There is a \$50 change fund at the Center for use at the swimming pool. The fund is kept in a locked (combination) cash box in an unlocked cabinet. We observed a pool cashier take the box from the cabinet, open the cash box, take the change fund and return the box to the cabinet. At no time while this took place was another employee present. She did not sign any transfer form, or count the fund, nor did any one else witness the process.

Policy #1062, 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 discrepancies and promotes appropriate attention to control over and accountability for County funds.*”

At other recreation centers we have noted a log attached to a clip board that has been used effectively to document the name of the employee who has retrieved the change fund for use in daily operations. The first cashier will sign the log, receive and count the change fund. When that person’s shift ends, he and the next cashier together count the change fund, as well as collections, and sign the log.

The current practice of allowing employees to take possession of change funds without signing for them lacks the accountability and documentation necessary to assign responsibility for these funds should they become lost or stolen. Verifying and signing for the change fund is also a preventative measure in reducing any inclination an individual might have to embezzle funds.

## **RECOMMENDATIONS:**

- 1. We recommend that each time a cashier receives or returns the change fund, the fund be counted to verify the amount.*
- 2. We recommend that a log be maintained where the employee signs for the change fund each time it is taken from the cash box and subsequently returned to the box*

**Cashiers were not preparing daily balance sheets using MPF Form 3 or a facsimile.** Cashiers, with the exception of the pool cashiers, were not preparing daily balance sheets, using either MPF Form 3 or a reasonable facsimile. The balance sheet is used to document the count of coins, currency and checks in the cash drawer, and to compare this count to Z-tape summary totals, thereby determining if the cashier balanced, or was over or short in his daily collections.

Even though the center does produce a Z-tape from the Sportsman system, we found that these reports were not being signed by the cashier and a supervisor. Of the 149 Z-tape summary reports we reviewed, 100 had been signed, and 49, or 33 percent, had not been signed.

Policy #1062 Section 3.7.3.1, states, “*Each day, all county agencies should balance collections to register (or receipt log) totals and prepare a deposit, using MPF Form 3 or a facsimile developed for the specific agency.*” While the Z-tape summary report is one step in the cash handling process, it does not provide evidence that a physical count of coins, currency and checks in the drawer has been made and compared to summary totals to reveal any overs or shorts and discrepancies in cash/check composition.

## **RECOMMENDATION:**

*We recommend that cashiers balance collections in their drawer every day using County approved MPF Form 3 or a similar form.*

**VOIDS WERE NOT DOCUMENTED WITH AN EXPLANATION AND WERE NOT SIGNED BY THE REQUIRED PARTIES.** We found that voids were taking place at the Redwood Multi-purpose Center using a Sportsman-generated void form containing the amount of the void and the cashier’s name. The form was not signed by the cashier or supervisor. In addition to the Sportsman form, we also found use of pre-printed County void slips that were often not signed by the cashier, the supervisor, or both individuals. For the 38 days that we reviewed financial transactions, we found the occurrence of 19 voids. Four of these contained no explanation, and no signature, while fourteen of the voids had only one signature.

Policy #1062 Section 3.5.2.2, states, *“When it is necessary to void a receipt, all copies will be marked “Void”,...The cashier who initiated the void will document on the front of voided receipt the cause of the voided transaction and its resolution. A supervisor not involved with the transaction will review and sign the voided receipt along with the cashier who initiated the void. The voided receipts will be filed in the proper numerical sequence and kept for audit purposes.”*

The problem with not documenting the cause, and failure to have the form reviewed and signed by a supervisor, is that a void could be produced to cover up a theft of funds committed by the employee. Therefore, an explanation should be written on the void, and then it should be signed by the cashier who initiated it, and signed again by a supervisor, as evidence of her review and approval.

### **RECOMMENDATION:**

***We recommend that the reason for voided transactions be written on the void itself, and that both the cashier and supervisor sign the void as evidence of adequate review and approval.***

**Sales tax was paid on some petty cash purchases contrary to County wide policy.** A few of the petty cash vouchers showed reimbursement to employees covering a portion of the sales tax paid, although the amounts were small. Countywide Policy #1203, “Petty Cash and Other Imprest Funds,” Section 3.12, states, *“The County is exempt from sales tax as a government entity. In order to avoid sales tax, the custodians shall use or provide to employees as needed Utah State Tax Commission Form TC-721 “EXEMPTION Certificate”. This form is to be presented to the vendor as evidence of tax-exemption. If employees do not follow this procedure, they shall pay the sales tax themselves.”*

We conducted an unannounced count of the cash funds at the Center, which included the \$50 change fund for use at the pool, and the \$1000 petty cash fund. We found the swimming pool change fund to be at its authorized level of \$50, but the petty cash fund was short by \$2.49.

At the time of the petty cash fund count, vouchers in the box amounted to \$772.61, and the cash count was \$224.90 for a total of \$997.51, making the fund short by \$2.49. One of the program managers determined that a \$2.58 receipt found in the box was for a purchase she had made. Therefore, a voucher was completed for this amount which brought the fund into balance.

Attention to detail as to financial matters helps to prevent loss, has the effect of showing that an organization is well-run, and safeguards County assets. Manager’s actions have the effect of instilling that confidence and organizational attitude among all the employees. Accountability over the petty cash fund should be maintained, and sales tax on purchases should not be paid.

**RECOMMENDATION:**

*We recommend that sales tax not be paid on purchases made from petty cash.*

**Cashiers at the front desk did not have a change fund to facilitate operations.**

There is no change fund for front desk operations at the Center. We were told that the prior Director did not want a fund for security reasons. We observed several patrons paying in cash or wanting to pay in cash for services that they did not have the exact change for, and the cashiers had to send them away. Best business practices suggest even a small fund would be appropriate. Although this would create some risk, there is already cash at the front desk in the form of collections received during the day and the change fund at the pool during the summer. A small change fund would be beneficial to the operation.

**RECOMMENDATION:**

*We recommend that a change fund be established for the Center cashiers at the front desk.*

**None of the cashiers were recording their overs and shorts on the OVER/SHORT Log Form 11.** Neither the form nor any substitute was in use at the Center by any of the cashiers. Policy #1062, Section 2.5.3, states, “All overages and shortages, regardless of the amount, must be recorded and reported daily by the agency on MPF Form 11 CASH OVER/SHORT LOG... Section 3.7.3.2, states, “Change funds should be counted...and shorts and overs recognized and recorded on ...Form 11 CASH OVER/SHORT LOG.” Section 5.2 states, “MPF Form 11 must be maintained and copy signed by the immediate supervisor.”

The form provides that for each month a daily listing of overs/shorts be noted and initialed by a cashier and approved at the end of the month by the agent cashier and reviewed by an agency supervisor. Failure to use the log deprives the agency of its ability to monitor any cashing deficiencies, system failures, or theft.

**RECOMMENDATION:**

*We recommend that each cashier maintain an MPF Form 11 CASH OVER/SHORT LOG as required by County wide policy.*

**Credit card transactions were not reconciled to the batch summary report and one credit card receipt was not adequately secured.** Credit card receipts were not retained with the other financial records, were not kept in a secured location, and individual credit card receipts were not reconciled to a daily summary report. As a result, daily summary reports of the day’s individual credit card transactions were not attached to the daily balance sheets.

Policy #1062, Sections 3.14.4 through 3.14.4.1.3, state, “At the end of the day the cashier preparing the deposit will balance credit card receipts against the daily summary report of electronically transmitted activity and against the register tender total for credit card activity. Attach the daily report to the cashier’s daily balance sheet MPF Form 3. The

*daily report is printed in duplicate. Copy one (white) will be attached to the daily balance sheet. Copy two (yellow) will be supplied to the fiscal officer for monthly reconciliation with the merchant's monthly statement."*

Also we found a credit card receipt on top of the bookkeeper's desk that included both the customer's copy and the merchant's copy which contains the credit card number and expiration date. From the time printed on the receipt, it appeared that the transaction took place late in the previous day and that it was placed near the computer for the bookkeeper to find the next time she came in.

Countywide Policy #2005 "Salt Lake County Records Management Program" Section 1.3 states, "*Each agency shall manage all records responsibly, shall maintain the security of records and shall ensure the preservation of vital and historically valuable records.*" Best practices require credit card records be safeguarded in a locked drawer or cabinet, to prevent identity theft.

## **RECOMMENDATIONS:**

- 1. We recommend that all signed credit card receipts be kept in a locked drawer or filing cabinet.***
- 2. We recommend that credit card receipts be reconciled to the daily batch report and to cash register totals of credit card transactions.***

## **FIXED AND CONTROLLED ASSETS**

Our objective for this part of the audit was to evaluate the adequacy of internal controls over County fixed and controlled assets, including compliance with Countywide Policy #1125, "Safeguarding Property/Assets." A fixed asset is an item of real or personal property owned by the County, meeting the criteria for capitalization, having an estimated life expectancy of more than one year and a cost equal to or greater than \$5,000. A controlled asset is a property item, which is sensitive to conversion to personal use, having a cost of \$100 or greater, but less than the current capitalization rate. Because of the small number of controlled assets at the Redwood Multi-purpose Center, we performed a complete audit of controlled assets. We found the following:

- Eleven controlled assets assigned to the Redwood Multi-purpose Center were not located.**
- Twenty-Seven items found at the facility were not on the controlled assets list.**
- Cellular phones were not accounted for as controlled assets, nor controlled as individually assigned assets, as required by Countywide Policy.**

**Eleven controlled assets assigned to the Redwood Multi-purpose Center were not located.** We conducted a complete inventory of controlled assets and were unable to locate 11 of the 121 assets on the list. The Center Director stated that many of the assets had

been sent to surplus or were no longer usable. Section 2.2.6, of Policy #1125, states that Property Managers are responsible to “*prepare PM-2 form for fixed asset property no longer needed by the organization prior to removing it to the surplus warehouse.*”

Those items no longer useful or transferred to other centers should be removed from the controlled assets list and a PM-2 completed to recognize the transfer. At the time of the audit the Center Director stated that he would complete the paperwork to remove these items from the list. Listed below are the assets controlled that were not found during our inventory. If these items were stolen, a letter needs to be prepared and addressed to the mayor explaining the circumstances. Otherwise, they should be accounted for as having been sent to surplus or transferred to another organization.

<i>Tag No.</i>	<i>Property</i>	<i>Make</i>	<i>Model</i>	<i>Serial Number</i>
2	Printer	Hewlett Packard	LaserJet 4 Plus	HPCH 147020
9	Printer	Hewlett Packard	DeskJet	C5876A
13	Television	Panasonic	MA	12600331
14	Computer		Univ-V12	95017922
16	Computer	Micron	Millenia	YA009902131554
28	Printer	Hewlett Packard		89316
35	Computer	Micron	89364	9208-2959
36	Scoreboard	NEVCO		C51612
40	Television	Sharp		390889
41	VCR	Panasonic		J51AZ0253
69	Stationary bike	Rose	Future	

## **RECOMMENDATION:**

***We recommend that the Property Manager account for missing controlled assets as either sent to surplus, transferred to another organization or stolen, and if they are stolen, that a letter be addressed to the Mayor explaining the circumstances.***

**Twenty-seven items found at the facility were not on the controlled assets list.** These items included assets transferred to the Redwood Multi-purpose Center from other centers but without an accompanying PM-2 to record the transfer. Also included are purchases made in the past two years.

Policy #1125, Section 2.2, states, “*Property Managers assigned by their administrators are responsible for... accounting for all controlled assets within the organization’s operational and/or physical custody.*” Items transferred in can also be converted to personal use if they are not accounted for and listed on the controlled assets list when received.

Policy #1125, Section 2.2.8, states that the Property Manager should “*Coordinate with the organization’s Purchasing Clerk to ensure all newly acquired property is identified and accountability is appropriately established.*” Controlled assets, including newly purchased assets, are sensitive to conversion to personal use if they are not closely tracked by management and included on the controlled assets list. These items should be added to the controlled assets list upon receipt. Listed below are assets found but not appearing on the controlled assets list.

<i>Property Description<sup>4</sup></i>	<i>Make</i>	<i>Model</i>	<i>Serial Number</i>
2 portable basketball standards		model 600	
Amplifier	Poll Sound		
Bar code slot reader	Peak Software		
Cash drawer			
Cell phone	AT&T		
Cell phone	Motorola		
Computer	Compaq		3872C782
Computer	Micron	Millenia	YA00850126167
CPU	Micron	Millenia	S022-1399696-0014
CPU	IBM		23653GL
Fax machine	Panasonic	KX-FHD331	3ACJA836591
Fitness equipment	Precor	Elliptical	DCA31P0051
Power rack			
Printer	Hewlett-Packard	LaserJet 1300	CNBB283419
Printer	Hewlett-Packard	LaserJet4	USBC070878
Printer	Hewlett-Packard	LaserJet4	USBC070874
Printer	Hewlett-Packard	LaserJet4100	USJNH14273
Printer	Hewlett-Packard	Laserjet1300	CNBB283412
Printer	Hewlett-Packard	InkJet1100	SG38N310FH
Printer	Hewlett-Packard	LaserJet4	USFB199558
Printer	Hewlett-Packard	LaserJet4L	USCC489807
Printer	Hewlett-Packard	LaserJet 4	JPGH089344
Printer	Apple	Laser writer	CAL38RBZ701
Refrigerator	JCPenney		22902801
Scanner	HP 6300	C7670A	SG97M1602B
Soccer goals	Universal		
Softball safety bases	Universal		

**RECOMMENDATION:**

*We recommend that the Center Director ensure that all property acquired by transfer or purchase be identified, tagged, and added to the controlled asset list.*

**Cellular phones were not accounted for as controlled assets, nor controlled as individually assigned assets, as required by Countywide Policy.** The Redwood Multi-purpose Center had two cellular phones qualifying as controlled assets and assigned to individuals. This equipment was not listed on the agency controlled assets lists as required.

Section 1.2, of Policy #1125, states, “*Due to the difficulty associated with centralized control of personal communication equipment ... this category of property is considered to be ‘controlled assets’ regardless of the cost of the individual items, and is therefore subject to the controlled asset procedures...*” Section 2.3.4, states, “*...at least annually, employees assigned fixed or controlled assets shall review the list of assigned assets and provide verification by his/her signature to the Property Manager as to the accuracy and completeness of the list.*” Such verification should be in the form as provided by Section 4.3.1, Exhibit 3 of the policy, or a form that contains substantially the same information.

## **RECOMMENDATIONS:**

- 1. We recommend that the cellular phones be added to the controlled assets list.*
- 2. We recommend that all employees having individually assigned assets complete the appropriate forms and review them at least annually as required by Countywide Policy.*

## **ACCOUNTS RECEIVABLE**

For the most part, each participant pays for the program, in which he desires to participate, at the time of registration. There are, however, a few cases, where a participant will make a down payment and pay the rest of the fee at a later date. The staff makes every attempt to see that the full fee is paid. Participants do not get their awards at the end of the season if their fee is not paid. The Center Director sends out a letter to the person with the delinquent account to attempt collection. If this effort does not result in a response, the account is turned over to the District Attorney's office.

The Center does not turn away any child wanting to participate. Some children are given scholarships to participate but must present financial information verifying need. Every participant is required to pay at least a minimum of \$5.00 to participate. The Center Director is sensitive to the needs of the population in the Redwood Multi-purpose Center area and wants as many of the children as possible to participate, so every accommodation is made to make that viable. The main finding regarding accounts payable is:

- **Redwood Multi-purpose Center does not have a written accounts receivable policy.**

**Redwood Multi-purpose Center does not have a written accounts receivable policy.** Written policies and procedures help ensure adequate management of accounts receivable. Management at the Center has not written a policy on accounts receivable but has a practice in place to collect as many of the delinquent accounts as possible.

## **RECOMMENDATION:**

*We recommend that Redwood Multi-purpose Center management develop and implement written policies and procedures to govern accounts receivable.*

We appreciate the cooperation and assistance received from the Redwood Multi-purpose Center staff during our audit. We are confident our work will be of benefit to you as you endeavor to make changes to strengthen internal controls at the Center. If we can be of further assistance to you, please contact us.

Glen Lu, Director  
September 9, 2004  
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Sincerely,

James B. Wightman CPA  
Director, Internal Audit Division

cc: Paul Ross  
Thora Bell  
Jeremy Hart