

A REPORT
TO THE CITIZENS OF SALT LAKE COUNTY
BEN McADAMS, MAYOR



An Audit of the Key Controls of
Dimple Dell Fitness and Recreation Center and Pools

April 04, 2013

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

Audit reports are available at
<http://auditor.slco.org/cfml/IntAudit/IntAuditPubs.cfm>



April 04, 2013

Ben McAdams, Mayor
Salt Lake County
2001 S State St #N2100
Salt Lake City, UT 84114-4575

Re: An Audit of the Key Controls of Dimple Dell Fitness and Recreation Center and Pools

Dear Mayor McAdams:

We recently completed an analysis of the financial records of Dimple Dell Fitness and Recreation Center and Pools in compliance with Utah Code Ann. § 17-19a-204. Our purpose was to verify the accuracy and completeness of selected financial records and to assess compliance with certain internal controls that we have identified as key to good financial management. We also sought to identify areas of material risk to determine whether we should commit more of our limited resources in further auditing or investigation. A report of our findings and recommendations is attached.

Our work was designed to provide reasonable but not absolute assurance that records were accurate and complete and that the system of internal controls was adequate. There may be inaccurate or incomplete financial records that were not selected for review. Further, there may also be instances of noncompliance in areas not examined.

We appreciate the time spent by the staff at Dimple Dell Fitness and Recreation Center and Pools and the cooperation from Marlynn Shaffer, Office Coordinator, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Dimple Dell Fitness and Recreation Center and Pools during our audit. The staff was friendly, courteous, and very helpful. We trust that the implementation of the recommendations will provide for more efficient operations and better safeguarded County assets. Please feel free to contact me with any questions.

Sincerely,

Gregory P. Hawkins
Salt Lake County Auditor

A handwritten signature in blue ink that reads "James Fire".

By James Fire MBA/Acc
Deputy Auditor

cc: Paul Ross, Associate Division Director
Thora Bell, Assistant Fiscal Manager
Larry McKinney, Center Director

GREGORY P. HAWKINS
Salt Lake County Auditor

LONN LITCHFIELD, JD, LLM
Chief Deputy Auditor

2001 South State Street, N3300
PO Box 144575
Salt Lake City, UT 84114-4575

(385) 468-7200
(385) 468-7201 / fax
GHawkins@slco.org



Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of Dimple Dell Fitness and Recreation Center and Pools. Our purpose was to verify the accuracy and completeness of selected financial records and to assess compliance with certain internal controls that are key to good financial management. We also sought to identify areas of material risk.

Conclusion

We found several areas in which established internal controls were not effectively maintained.

Findings, Recommendations, and Management Responses

Finding # 1 - Complete cardholder account numbers were printed on the settlement statement.

Risk Level: High

Countywide Policy #1400-7 Section 3.0 states:

"Any County agency that accepts, processes, transmits or stores cardholder data using any County IT Resource or system shall comply with the Payment Card Industry Data Security Standard (PCI-DSS) in its entirety. No activity may be conducted nor any technology employed that might obstruct compliance with any portion of the PCI-DSS. County agencies that accept, process, transmit or store cardholder data shall develop internal practices and procedure to ensure compliance with the PCI-DSS."

Section 3.1.4 continues,

"Maintain county records relating to PCI-DSS compliance and supporting documentation pursuant to GRAMA, County Ordinance 2.82 (2001), and approved county records retention schedules."

The settlement statement from the Pin Entry Device (PED), printed the complete 16-digit cardholder account numbers.

The PED configuration and/or firmware was out of date, allowing the complete 16-digit cardholder account number to be printed on the settlement statement.

Complete 16-digit cardholder account numbers printed on the settlement statement places additional requirements on the entity to protect cardholder information and could compromise the merchant agreement if not met.

Recommendation

We recommend the PED configuration and/or firmware be updated to the latest version to truncate all instances of cardholder account numbers to the last 4 digits.

Management Response

See Appendix A

Finding # 2 - Deposit transactions could not be reconstructed.

Risk Level: Moderate

Countywide Policy #1062 Section 4.3.1 states:

"Each deposit should include an original and duplicate copy of the bank deposit slip. Agencies should prepare or make additional copies of bank deposit slips to accommodate Agency record keeping and establish audit trails for reconstructing transactions."

Deposit packets examined did not include copies of internet credit card sales.

The internet credit card sales tills were sent to the agency's fiscal manager without making copies for the deposit packet.

Without supporting deposit documentation, reconstruction of transactions to the balance sheets was not possible.

Recommendation

We recommend that deposit documentation be reviewed for completeness according to Countywide policy.

Management Response

See Appendix A

Finding # 3 - Physical merchandise counts did not match inventory record totals.

Risk Level: Moderate

Standard business practices requires all changes in merchandise inventories, both in quantity and value, be recorded and accounted for.

After correcting calculation errors in the inventory tracking spreadsheet and comparing the monthly merchandise count sheet for January 2013, the physical inventory counts were short of the ending inventory records.

The spreadsheet calculation errors resulted in incorrect ending inventory balances being reported.

Differences between physical counts of merchandise inventory and the ending inventory of record could be used to mask other issues including improper recordkeeping, inaccurate counts, sales recording practices, or shrinkage of inventory (incentives given away, damaged or returned items, or stolen items).

Recommendation

We recommend that a physical inventory count be performed and an approximate (or actual if available) cost applied to each line item, to establish a beginning merchandise inventory. After the beginning inventory is established, all changes should be recorded and periodic reviews conducted to verify the accuracy of the inventory.

Management Response

See Appendix A

Finding # 4 - Deposits were not always posted within three days of receipt.

Risk Level: Moderate

Countywide Policy #1062 Management of Public Funds, Section 4.1.2, states:

"As required by 51-4-2, Utah Code Annotated, all public funds shall be deposited daily whenever practicable but not later than three days after receipt."

Of 15 days of collections that were reviewed, 10 (67%) were deposited more than three days after receipt.

Daily collections for several days were stored in the safe and later prepared together as one deposit.

Funds that are not deposited within the state mandated three days are susceptible to loss or theft, interest that might have otherwise accrued is lost, and funds are unavailable for use.

Recommendation

We recommend that funds collected be deposited the same day whenever practicable, but no later than three days after receipt.

Management Response

See Appendix A

Finding # 5 - The spreadsheet used to track merchandise inventory had calculation errors.

Risk Level: Moderate

Standard business practices call for accurately accounting for all changes to merchandise inventory.

The merchandise inventory spreadsheet used to track and calculate merchandise inventory contained several formula errors. Also, the spreadsheet did not apply any costs to value the inventory.

The spreadsheet formulas were not checked to see if they correctly calculated merchandise inventory balances.

Formula errors in the merchandise inventory spreadsheet reported incorrect balances. Incorrect balances affects management's inventory decisions such as re-ordering or price setting.

Recommendation

We recommend that the spreadsheet errors be corrected or an alternate method chosen to accurately track and value the merchandise inventory.

Management Response

See Appendix A

Finding # 6 - Form PM2 was not processed.

Risk Level: Low

Countywide Policy #1100 "Surplus" Sections 6.3.1 and 6.3.2 regarding the disposition of personal property already transferred, sold, or destroyed but remaining on organizations' fixed asset records state:

"Sometimes personal property remains on the organization's fixed asset records even though the particular assets have already been transferred, sold, or destroyed, or the PM2's may have been prepared or not processed...a completed PM-2 form, listing items to be written off from the fixed assets records, is to be submitted for approval to the Mayor."

We were unable to verify that PM2 #26703 dated October 17, 2011 had been processed. Neither the property manager nor personnel in the Mayor's Financial Administration Capital Assets was able to locate the completed form.

Management stated that the PM2 was prepared and given to personnel in surplus, however, a signed copy was not returned.

Inaccurate records can negatively impact decisions regarding capital and controlled assets.

Recommendation

We recommend that the steps outlined in Countywide Policy #1100 Section 6.3.2 be followed to account for the items listed on the unprocessed PM2.

Management Response

See Appendix A

Finding # 7 - Disposed items were listed on the capital asset report.

Risk Level: Low

Countywide Policy #1100 "Surplus Property", Section 6.3.1 states:

"Sometimes personal property remains on the organization's fixed asset records even though the particular assets have already been transferred, sold, or destroyed, or the PM2's may have been prepared but not processed, or the personal property may have been destroyed, or it cannot be located after thorough research and inventorying have been performed."

Section 6.3.2 continues,

"In the above kinds of situations, a completed PM-2 form, listing items to be written off from the fixed asset records, is to be submitted for approval to the Mayor. A description of the circumstances explaining why the personal property is to be written off, and a description of the steps taken to locate the missing property should be attached..."

We selected a sample of 4 out of 11 items listed on the AFIN0806 "Capital Asset Inventory by Organization/Location" report for verification. Of the 4 items selected, 3 were not located. They had been transferred to surplus for disposal in 2011.

The office coordinator provided copies of PM2 form #'s 21358 and 26703, which listed the items as consigned to surplus for transfer, disposal, or sale.

Disposed assets listed on the AFIN reports overstate quantities and values for the recreation center. This could negatively impact decisions regarding rotation, transfers, replacements, or disposals of assets.

Recommendation

We recommend that steps outlined in Countywide Policy #1100, Section 6.3.2 are followed to have the items removed from the AFIN reports.

Management Response

See Appendix A

Finding # 8 - Pre-numbered tags from tamper-proof bags were not included with deposit documentation.

Risk Level: Low

Countywide Policy #1062, Section 4.3.1 states:

"...Agencies will submit their daily deposits in a sealed, plastic, tamper-proof deposit bag."

Section 4.5.1 continues,

"County records, including the deposit records discussed in this policy, will be retained for the time periods established in the Government Records Access and Management Act, §63G-2-101 et seq., Utah Code Annotated, and in compliance with County Ordinance §2.82, Records Management. Therefore, balance sheets, deposit slip copies, plastic pre-numbered tabs removed from the deposit bag, and any other supporting documents or materials, shall be retained for 7 years from the date of the deposit, either on-site or at the County Records' storage warehouse."

The pre-numbered tear-off tags from the tamper-proof deposit bags were not retained with the deposit documentation.

Management stated that the tags were thrown away because the staff was unaware of the policy requirement to retain them.

Inclusion of the pre-numbered tags with deposit documentation serves as proof that the deposit was sealed in a tamper-proof bag.

Recommendation

We recommend that the tamper-proof bag's pre-numbered tear-off tag be retained with deposit documentation in accordance with Countywide policy.

Management Response

See Appendix A

Additional Information

Background

The mission of Salt Lake County Parks & Recreation Division is to enhance the quality of life of County residents, by providing them with many diverse leisure-time opportunities through its parks facilities and recreation programs.

Dimple Dell Fitness and Recreation Center was constructed in 1998. It is centrally located in Sandy City, whose population has grown to more than 250,000 residents. The center offers a variety of venues for patrons to choose from. It has a combination leisure and lap pool that is used by local school swim teams for practice and competition meets. The general public uses it for lap swimming and the leisure pool is popular for its flume slide and large interactive water play structure. The center also has an indoor 35-foot state of the art climbing wall, a fitness center with cardiovascular, Life Fitness weight machines and free weights. The basketball gymnasium is surrounded by a running track located above it. Childcare is available, various youth and adult sports are offered along with camps, classes, and clinics.

In a 2005 study, it was determined that the center was operating at maximum capacity. The uniqueness and location of the center attracts patrons at all times throughout the year.

Scope

Our work included a formal examination of financial records related to the following key internal controls, to the degree applicable:

- Change fund
- Petty Cash and Imprest Accounts
- Cash Receipting
- Cash Depositing
- Credit / Debit Card
- Capital and Controlled Assets and Software Inventory
- Financial Computer Controls
- Purchasing Card Use
- Payroll Practices

Our examination period covered up to twelve months ending March 05, 2013. In addition to reviewing financial records, we reviewed and examined current practices through observation. Sampling of daily cash deposits, where applicable, was performed to assess compliance with Countywide policy and standard business and internal control practices.

Management Response to Dimple Dell Key Control Audit Findings

Finding: Complete cardholder account numbers were printed on the settlement statement.

Response/Action Taken: The entire credit card numbers were not being printed on the daily batch settlements; they were being printed on the audit reports, which is a “by request only” report that is rarely used in our day-to-day operations. While our audit was still ongoing, Marlynn Shaffer contacted Merchant Services and requested an update to our software to alleviate this problem. It took them (Merchant Services) three attempts before it was corrected, but as of March 19, 2013, all credit card numbers on the audit report are truncated.

Finding: Deposit transactions could not be reconstructed.

Response/Action Taken: All Internet cash tills are included in our daily deposits. The documentation sent to the “fiscal manager” (Nancy Albiston) is the Authorize.net Report. This report is not included as part of the daily deposit because the information on this report (Internet sales) is already included in our daily deposits. The Authorize.net report is duplicated information; it extracts Internet sales from our daily deposits only, so it can be reported (to Nancy) separately.

Finding: Physical merchandise counts did not match inventory record totals.

Response/Action Taken: We have re-established an accurate starting inventory and we will conduct a physical count once per month to verify accuracy of our inventory. This new starting inventory was established on March 11, 2013. Marlynn Shaffer oversees the merchandise inventory.

Finding: Deposits were not always posted within three days of receipt.

Response/Action Taken: We have been meeting this requirement since the conclusion of the audit by revising the schedule of the seasonal employee who compiles deposits. On days that she is not available, Marlynn Shaffer has assumed the duty of compiling and completing bank deposits.

Finding: The spreadsheet used to track merchandise inventory had calculation errors.

Response/Action Taken: Since March 11, 2013, we have been using a new spreadsheet to track our inventory, and this new form has no formula errors on it. Marlynn Shaffer oversees the merchandise inventory and inventory report.

Finding: Form PM2 was not processed.

Response/Action Taken: With the audit item in question, we did fill out the PM2 Form and attached it to the equipment being removed, as we have always done. We also pulled and sent via courier a copy to Contracts & Procurement, which we do with all equipment. Over the years, we have sometimes received follow-up documentation from both C&P and Surplus, but mostly we

do not. The Parks & Recreation Division recently implemented a new requirement to have all PM2 Forms be signature approved by someone from the Administration Office prior to disposing of any controlled assets. This step should ensure that an adequate paper trail be established to track the movement and disposition of all assets.

Finding: Disposed items were listed on the capital asset report.

Response/Action Taken: Recreation centers do not generate the AFIN report for controlled assets. The aforementioned signature requirement listed in Item 6 above should allow the Recreation Administrative function to ensure that disposed items are removed from the AFIN reports.

Finding: Pre-numbered tags from the tamper-proof bags were not included with deposit documentation.

Response/Action Taken: We are currently using the tamper-proof bags for all deposits; in the past, these particular bags were only used for night or after-hours deposits. Marlynn Shaffer oversees the bank deposits for Dimple Dell.