

A REPORT
TO THE CITIZENS OF SALT LAKE COUNTY

BEN McADAMS, MAYOR



An Audit of the Key Controls of
Marv Jenson Fitness and Recreation Center and Pool

April 16, 2013

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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April 16, 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 Marv Jenson Fitness and Recreation Center and Pool

Dear Mayor McAdams:

We recently completed an analysis of the financial records of Marv Jenson Fitness and Recreation Center and Pool 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 Marv Jenson Fitness and Recreation Center and Pool and the cooperation from Cheri Brown, Facility Coordinator, Shaun Perfili, Facility Manager, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Marv Jenson Fitness and Recreation Center and Pool 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

By Todd Livingston
Deputy Auditor

cc: Michele Nekota, Division Director
Paul Ross, Associate Division Director
Shaun Perfili, Facility Manager
Nancy Albiston, Fiscal Coordinator



Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of Marv Jenson Fitness and Recreation Center and Pool. 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

The Marv Jenson Recreation Center and Pool has put into place key controls for managing public funds. Several positive control attributes were noted, including strong controls over petty cash, minimal overages and shortages, having deposits made by a second, merit employee, and controls over payroll. In addition, staff demonstrated a conscientious attitude towards ensuring protection of taxpayer funds. Most risks identified were minor and are not expected to result in material loss. Deficiencies in certain internal controls over cash receipting, controlled assets, and purchasing card procedures have a higher likelihood of leading to a loss of County property.

Findings, Recommendations, and Management Responses

Finding # 1 - Receipts could be reprinted for prior transactions.

Risk Level: High

Standard business practice suggests that cashiers should not be able to reprint receipts from prior transactions.

During the course of our review, we found that receipts for prior transactions could be reprinted. The reprinted receipt was identical to the original receipt.

When receipts can be reprinted, the accuracy and completeness of transactions cannot be ensured. The risk of errors and misappropriation of funds is increased.

Recommendation

We recommend that the ability for cashiers to reprint an existing transaction be disabled.

Management Response

The Sportsman SQL system does not allow for this to be disabled. I talked Paul at Peak Software about this issue and they will look into it since this will need to be done for all Salt Lake County Recreation.

Finding # 2 - Retail inventory was not tracked properly.

Risk Level: Moderate

Standard business practice requires that inventory be tracked and reconciled. The actual count should equal the prior inventory count, plus purchases less the cost of items sold.

The Marv Jenson Recreation Center had not established a procedure for tracking retail inventory.

When the inventory procedure does not properly track merchandise, revenue and merchandise on hand are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that the Marv Jenson Recreation Center implement a retail inventory tracking procedure.

Management Response

We have established a retail inventory tracking procedure.

Finding # 3 - Sequential numbering of receipts was not maintained.

Risk Level: Moderate

Countywide Policy #1062 "Management of Public Funds," Section 3.5.6 states:

"The online cashiering system shall produce receipts in a sequentially numbered order."

The Marv Jenson Recreation Center's receipting system skipped receipt numbers.

Sportsman does not maintain a sequential numbering of receipts when transactions are aborted or otherwise not completed.

When receipt numbers are missing, County funds are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that the Marv Jenson Recreation Center not abort transactions, but rather complete the transaction and void receipts so sequential numbering is maintained.

Management Response

All transactions are sequentially numbered in Sportsman. However, when multiple tills are open, the receipting follows the time stamp of the transaction. Each till does not have its own set of sequential receipts; rather, the sequential receipting is for the whole facility.

Finding # 4 - Documentation of discounts, no-sale transactions, and adjustments was inadequate.

Risk Level: Moderate

Standard business practice requires supervisory review and monitoring of discounts, no-sale transactions, and other high-risk transactions.

During our review of deposit documentation, we noted that a review of discounts, no-sale transactions, and adjustments was not conducted.

Failure to monitor and review other discounts, adjustments, credits, and no-sale transactions increases the risk of misappropriation of County funds.

Recommendation

We recommend that the bookkeeper review other credits and discounts, document the reason for the discount or credit, and follow up with cashiers where necessary.

We recommend that the bookkeeper monitor no-sale transactions by cashier and follow up with cashiers that have a higher than expected number.

We recommend that all adjustments included on the monthly adjustment report be reviewed and signed off on by a supervisor at the center level.

Management Response

The Marv Jenson Recreation Center will follow the recommendations set forth.

Finding # 5 - An SAQ representing Parks and Recreation's compliance with PCI had not been completed and was not on file.

Risk Level: Moderate

Countywide Policy #1400-7 "Payment Card Industry Data Security Standard Policy," 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.”

An SAQ representing Parks and Recreation's compliance with PCI had not been completed and was not on file.

An agency that is not compliant with PCI-DSS is at an increased risk of cardholder data breaches, fines, and loss of the ability to accept credit cards as payments.

Recommendation

We recommend that Parks and Recreation management complete and sign an annual SAQ and that Marv Jensen keep a copy of the SAQ on file to show they are aware of and compliant with PCI requirements.

Management Response

See Appendix A.

Finding # 6 - Voids were not always handled in accordance with Countywide policy.

Risk Level: Moderate

Countywide Policy #1062, "Management of Public Funds," Section 3.7 states:

"Voided Receipts 3.7.1 Cashiers making errors on manually prepared or electronically generated receipts shall not make corrections such as strikeouts, erasures, or alterations of any kind. The erroneous receipt shall be voided by writing "VOID" across the front of the receipt, and a new receipt reflecting the correct information will be issued. 3.7.2 All copies will be marked "VOID," including the customer copy, if available. The cashier initiating the voided transaction will document, on the front of the voided receipt, the cause of the voided transaction and its resolution. 3.7.3 A supervisor who was not involved with the transaction will review and sign one copy of the voided receipt, along with the cashier who initiated the void. All voided receipts will be attached to the daily cash balance sheet for audit purposes."

Voided transactions were generally not signed by a supervisor, the original receipt was not always retained, and the cause of the voided transaction was not always documented.

When voids are not handled in accordance with Countywide policy, there is a greater risk of misappropriation of funds.

Recommendation

We recommend that both the voided receipt and original customer receipt (if available) be retained, the customer copy be marked "VOID", the cause of the void be documented, and the cashier sign the voided transaction.

We recommend that a supervisor review and sign all voided transactions.

Management Response

The Marv Jenson Recreation Center will follow the recommendations set forth. The Marv Jenson Recreation Center will have all cashiers fill out a void slip that the receipts can be attached to. The void slip will have a name and signature line for a supervisor to document that the void has been reviewed.

Finding # 7 - Refunds were issued without patrons signing a refund form.

Risk Level: Low

Standard business practice requires the patron sign a refund form, which is retained and included in deposit documentation.

The refund forms provided by the Marv Jenson Recreation Center were not signed by patrons.

When refund receipts are not signed by the patron, funds are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that the Marv Jenson Recreation Center have patrons sign a refund form to be retained with the deposit documentation.

Management Response

The Marv Jenson Recreation Center will add a signature line to our current refund form.

Finding # 8 - Controlled Assets Inventory Form - Employee was not used for assets that were individually assigned.

Risk Level: Low

Countywide Policy #1125, Safeguarding Property/Assets, Section 4.3 states:

“The Property Manager shall maintain records to manage controlled assets using the following forms (or forms that contain substantially the same information) and procedures...‘Controlled Assets Inventory Form – Employee’ is used for those assets that due to their nature, are used by and therefore readily assignable to an individual.”

Controlled Assets Inventory Form – Employee was not used for assets that were individually assigned, such as computers and other items in merit staff offices.

Failure to track which employee is responsible for assets that are individually assigned increases the risk of asset misappropriation and loss.

Recommendation

We recommend the property manager implement use of the “Controlled Asset Inventory Form – Employee,” which can be found attached to Countywide Policy #1125.

Management Response

The Marv Jenson Recreation Center will follow the recommendation set forth.

Finding # 9 - Controls over checks received in the mail were not adequate.

Risk Level: Low

Countywide Policy #1062, Management of Public Funds, Section 3.1.5 states:

"Agency Management and Fiscal Managers shall establish internal control procedures tailored to their operational requirements. These controls should be designed to prevent payments by check through the mail from being lost, stolen, or diverted to personal use."

Section 3.1.6 goes on to state:

"The duties of opening the mail and summarizing the daily receipt of checks should be separated from the duty of posting payments in the cash receipts journal unless Agency Management determines that doing so is operationally burdensome. If operationally burdensome, Agencies shall adopt compensating internal controls to insure that the posting of payments to accounts is consistently overseen and reviewed by Agency Management or Fiscal Managers."

The Marv Jenson Recreation Center occasionally received checks in the mail. The checks received by the bookkeeper were opened alone, then taken to a cashier for entry into Sportsman. The bookkeeper also had responsibilities involving financial transactions, creating a poor separation of duties.

When separation of duties and documentation of amounts received is not adequate, the risk of theft and undetected errors is increased.

Recommendation

We recommend that the duties of invoicing, receipting of mail, and posting of payments be assigned to separate individuals.

We recommend that checks received in the mail be opened, documented, and signed off on in the presence of two employees.

Management Response

The Marv Jenson Recreation Center will follow the recommendations set forth.

Finding # 10 - No comprehensive software inventory was on file.

Risk Level: Low

Countywide Policy #1400-3 "Information Technology Security Policy: Software Licensing Policy," Section 3.5 states:

"County agency management shall maintain a current software inventory which includes at least the following: number of authorized and actual installations, license agreement, and proof of purchase. County agency management shall conduct an annual review of their software inventory. Software inventories shall be updated whenever new software is acquired and/or installed or software is uninstalled, or the IT resource and/or system is transferred, decommissioned or sent to surplus."

The Parks and Recreation Department did not maintain a current software inventory.

Failure to keep a software inventory increases the risk of unlicensed software on Parks and Recreation computers, which could result in fines and penalties. In addition, available software licenses may not be fully utilized.

Recommendation

We recommend that the Parks and Recreation Department maintain a current software inventory.

Management Response

Most computers for the Recreation Section are purchased from the Recreation Equipment Replacement Fund at the Division level. The inventory for the initial software setup of computers purchased from that fund will be maintained at the division level in compliance with Countywide Policy #1400-3. All other software inventory will be maintained at the facility level in compliance with the same policy. Implementation for this inventory control will be not later than November 1, 2013.

Finding # 11 - Deposits were not always made within three days of receipt.

Risk Level: Low

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."

During our deposit review, we noted multiple deposits that were made more than 3 days after payment was received.

The bookkeeper at the Marv Jenson Recreation Center prepares the bank deposit. When the bookkeeper is on vacation, the bank deposit is not prepared until she returns.

Funds that are not deposited on a timely basis are more susceptible to loss or theft, and interest that might otherwise have accrued is lost.

Recommendation

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

Management Response

The Marv Jenson Recreation Center will follow the recommendation set forth and will cross-train all Merit employees on the practice of reconciling, transmittals, and deposits.

Finding # 12 - The bookkeeper occasionally worked as a cashier.

Risk Level: Low

Countywide Policy #1062, Management of Public Funds, introduction states:

"In managing public funds, basic internal controls require a clear segregation of duties between persons having custody of funds and/or performing cashiering duties, and those having access to and maintaining accounting records related to those public funds. Segregating these functions protects the employees involved and mitigates the risk of theft, embezzlement, or misuse of public funds through fraudulent record keeping."

On multiple occasions, the bookkeeper, or backup bookkeeper, acted as a cashier and prepared the daily deposit.

The bookkeeper occasionally worked as a cashier in the mornings when the regularly scheduled cashiers were unavailable. On those days, she prepared and signed off on her own Cash Balance Sheet in addition to preparing the daily deposit.

When separation of duties is not adequate, the risk of theft and undetected errors is increased.

Recommendation

We recommend that, whenever possible, another member of the merit staff or other employee, not the bookkeeper, work as a cashier, or that another merit staff sign off on the bookkeeper's Cash Balance Sheet and prepare the daily deposit.

Management Response

The Marv Jenson Recreation Center will follow the recommendation set forth.

Finding # 13 - There was no separation of duties over purchasing, receiving, and entering inventory on the inventory listing.

Risk Level: Low

Standard Business practice requires a separation of duties when managing inventory. The duties of individuals should be so divided as to maximize employee protection and minimize the potential for diversion of funds and/or falsification of accounts.

The Marv Jenson Recreation Center bookkeeper that made the purchases for merchandise goods for resale also received and entered inventory on the inventory listing.

When separation of duties is not adequate, the risk of theft and undetected errors is increased.

Recommendation

We recommend that the Marv Jenson Recreation Center separate the duties of purchasing, receiving, and entering inventory on the inventory listing.

Management Response

The Marv Jenson Recreation Center as a checks and balances will have two merit individuals sign off on all inventory received for resale. This will add another individual to verify all inventory received.

Additional Information

Background

The Marv Jenson Recreation Center and Pool, located in South Jordan, opened as a Salt Lake County Parks and Recreation facility in 1997. It features a swimming pool, basketball court, fitness area, and racquetball courts. Additionally, Marv Jenson offers a variety of youth sports, classes, aquatics programs, and activities.

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 December 31, 2012. 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.

Parks & Recreation Agency Response to Audit Finding – An SAQ representing Parks and Recreation’s compliance with PCI has not been completed and is not on file.

The Payment Card Industry’s Data Security Standard (PCI-DSS) was established approximately thirteen years ago, and the Parks and Recreation Division began practices at that time to safeguard data as information became available. As information was obtained from the Payment Card Industry throughout the years practices were changed to accommodate securing cardholder data as much as possible within the division. In early 2010 - 2011, the Auditor’s Office began looking at this standard for the entire county as much of these standards that had been identified were beyond the knowledge of the county’s departments and division’s on determining merchant levels and completing the SAQ’s. Committees were set up, audits were conducted at each location, and the County was proceeding smoothly in determining policy and procedures, Information Services responsibilities, along with what each division’s SAQ status would be. It was determined at that time that Attestation of Compliance needed to be signed off by the County as a whole once a letter was received by the Mayor from Chase Paymentech regarding our responsibilities to complete the SAQ’s and completing the Attestation of Compliance, along with scans of the systems (A company has one year to complete the SAQ and Attestation of compliance from the date the letter is received). The Auditors were pulled from this development of policy and procedures for data security so each department/division was thrust into working on this again individually. The Parks and Recreation Division has continued working with Information Services in trying to establish what type of SAQ to complete, update and reinforce our firewall system, and make every effort to strengthen our compliance with the industry’s standards as the majority of questions are to be determined/completed by Information Services. In 2011 it was determined that the division would complete the SAQ –D form, however, making changes to cardholder data not being stored on the computer system has moved the division from a D to a possible C or C-Virtual.

In 2012, the golf courses were moved to a new accounting program and service provider with the expectation that the SAQ C and Attestation of Compliance will be completed, signed, and submitted by the end of April 2013. What is being done with the golf courses will become the standard for all other departments and division within the county. The recreation centers will be next for Information Services and the division to work together to complete SAQ’s and establish more practices and procedures to provide complete and ongoing compliance for the division.