

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



An Audit of the Key Controls of  
Fairmont Aquatics

June 28, 2013

**GREGORY P. HAWKINS**

SALT LAKE COUNTY AUDITOR

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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

June 28, 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 Fairmont Aquatics

Dear Mayor McAdams:

We recently completed an analysis of the financial records of Fairmont Aquatics 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 Fairmont Aquatics and the cooperation from Amelia Watts, Facility Manager, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Fairmont Aquatics 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 James Fire MBA/Acc  
Deputy Auditor

cc: Michele Nekota, Division Director  
Paul Ross, Associate Division Director  
Thora Bell, Assistant Fiscal Manager





## Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of Fairmont Aquatics. 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 Fairmont Aquatics Center Key Control Audit examined specific areas to identify risks that could result in loss of County assets. These included: change funds, imprest accounts, receipting and depositing, credit cards, accounts receivables, financial software, capital and controlled assets, County purchasing cards, payroll, merchandise inventories, and fraud. Of the risks examined, there were findings related to deficiencies in PCI-DSS compliance, merchandise inventory, the petty cash fund, accounts receivable, receipting and depositing, and merchandise inventories.

Fairmont Aquatic Center hired a new Facility Manager in April 2012. Since then, efforts have been made to improve internal controls at the center. Management and staff were aware of the deficiencies and were in the process of addressing them.

## Findings, Recommendations, and Management Responses

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***Finding # 1 - A monthly reconciliation of accounts receivable was not performed.***

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### Risk Level: **Moderate**

Countywide Policy #1220 "Management of Accounts Receivable and Bad Debt Collection," Section 5.3.2 states:

"The ledger of accounts receivable shall be reconciled to invoices and payments at least monthly, and the reconciliation shall be documented and signed by the employee who performed this step."

A monthly accounts receivable reconciliation had not been performed since accounts receivable was assigned to the merit supervisor.

The merit supervisor in charge of accounts receivable stated that he was unaware of procedures required by Countywide policy.

Without a monthly reconciliation of accounts receivable, management cannot gauge the success of offering goods or services prior to receipt of payment.

***Recommendation***

We recommend that a monthly accounts receivable reconciliation be performed according to Countywide policy.

***Management Response***

The county policy has been read and reviewed. The process has been started to create the required aging reports on accounts receivable and will be maintained monthly along with the monthly reconciliation reports. Rob Bridge currently manages the accounts receivable.

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***Finding # 2 - A method to track changes of merchandise inventory was not in place.***

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**Risk Level: Moderate**

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

A method to track the movement and value of merchandise inventory was not in place. However, count sheets to record the inventory balances were on file.

According to management, when the merchandise inventory was assigned to a merit supervisor, there was not a method in place to track month-to-month changes.

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.

***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 merchandise inventory reports.

***Management Response***

We have established an accurate starting inventory and have a system in place to document the changes. We will also conduct a physical count once per month to verify accuracy of our inventory. The Coordinator and Manager will review and sign the merchandise inventory reports monthly starting July 1st. Amber Milne currently oversees the merchandise inventory.

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***Finding # 3 - The vending machine inventory report was not current.***

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**Risk Level: Low**

Standard business practices requires all changes in vending machine inventories, both in quantity and value, be recorded and accounted for at least monthly.

The most recent vending machine inventory report was four months old, dated December 31, 2012.

Management stated that the merit supervisor assigned the vending machine inventory was not provided training nor a system to track the inventory.

Without a current inventory report, management is unable to effectively measure the quantity of items sold or profitability.

***Recommendation***

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

***Management Response***

We have established an accurate beginning vending machine inventory. This is stocked every Monday and Friday and changes will be documented and entered into a spreadsheet that will be updated at least monthly. A system was in place to track the vending machine inventory, but was not maintained on a regular basis. This will be updated monthly if not weekly to maintain accuracy. Amber Milne currently oversees the merchandise inventory.

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***Finding # 4 - An SAQ representing Parks and Recreation's compliance with PCI DSS had not been completed and was not on file.***

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**Risk Level: Low**

Countywide Policy 1400-7, "Information Technology Security - 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 management's compliance with PCI had not been completed and was not on file.

Parks and Recreation management is aware of the PCI-DSS requirement and is in the process of completing the SAQ.

Not completing this self-evaluating questionnaire for PCI-DSS increases the risk of fines and an inability of accepting credit cards as payment.

***Recommendation***

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

***Management Response***

Please see the Division Administration's response for this recommendation in Appendix A.

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***Finding # 5 - A monthly accounts receivable aging report was not produced.***

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**Risk Level: Low**

Countywide Policy #1220 "Management of Accounts Receivable and Bad Debt Collection," Section 5.5 states:

"Aging information must be collected, maintained, reported, and acted upon in a standardized and consistent manner. An aged analysis of accounts receivable ledger balances (aging schedule) shall be prepared each month. The aging schedule shall be maintained in a manner that provides information as to which amounts are 30 days old or less at the beginning of a month, which are 31 to 60 days old, 61 to 90 days old, 91 to 120 days old, and over 120 days old. The aging will be based on the date of the invoice. Depending on the adaptability of the software being used, individual accounts shall be listed on the aging schedule. Column and rows shall be totaled."

A monthly aging report had not been produced for management review since accounts receivable was assigned to a merit supervisor.

The merit supervisor in charge of accounts receivable stated that he was unaware of procedures required by Countywide policy.

Without an up-to-date aging report of accounts receivable, management is unaware of outstanding balances and could lose revenues due to uncollected accounts.

***Recommendation***

We recommend that monthly aging reports be produced according to Countywide policy.

### ***Management Response***

The policy has been read and reviewed in June. We will perform monthly reconciliations of the accounts receivable according to Countywide policy starting July 1st. Rob Bridge currently manages the accounts receivable.

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### ***Finding # 6 - The petty cash fund balance exceeded the amount needed for operational expenditures.***

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#### **Risk Level: Low**

Countywide Policy #1203, "Petty Cash and Other Imprest Funds," Section 3.1.4 states:

"The requested imprest amount should be sufficient to provide adequate operating funds for 2 months."

The petty cash fund was counted fully intact at its authorized amount of \$500.00 on April 28, 2013. The fund has not been used in over 4 months since the last reimbursement on December 17, 2012.

Management stated that over-the-counter purchases were paid with County purchasing cards instead of petty cash.

When replenishment requests are submitted on an infrequent basis, there is an increased risk of inappropriate use without timely detection. In addition, interest is lost on excess funds kept in the account and cash on hand is at risk of theft.

### ***Recommendation***

We recommend that Fairmont Aquatics reduce their petty cash fund to an amount commensurate with Countywide policy.

### ***Management Response***

The Fairmont Aquatics Center will reduce the petty cash amount at the end of the year and start with a new amount for the new budget year 2014. This amount is still not determined, but will be in line with the needs of the Center.

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### ***Finding # 7 - Voids were not always handled in accordance with Countywide policy.***

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#### **Risk Level: Low**

Countywide Policy #1062, "Management of Public Funds," Section 3.7.3 states:

"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."

During the examination of March 2013 deposits, three of seven void slips were missing the required supervisor's signature.

Management stated that supervisors were often involved with teaching classes or assisting patrons in other parts of the facility and may not have been readily available to approve the void.

Without evidence of review and explanations for voids in deposit documentation, transaction reversals could easily be made as a way to conceal theft.

***Recommendation***

We recommend that all voids be reviewed for cashier's and supervisor's signatures according to Countywide policy.

***Management Response***

All voids are currently reviewed and signed by a merit supervisor if not at time of void then done when transmittal is reviewed and processed.

## **Additional Information**

### **Background**

Fairmont Aquatics Center was completed in 2002 and features 36,500 square feet for both leisure and competitive use. The center has an array of features that include: a leisure pool, waterslide, vortex, current channel, water spray features, a competition pool, and the lap pool is also designed for water polo play and equipped with a lift and stairs for accessibility for all patrons.

The center received design awards in 2003 for 'Facilities of Merit' from Athletic Business magazine, and 'Innovative Architecture & Design' from Recreation Management magazine.

### **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 April 26, 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.