

A REPORT
TO THE CITIZENS OF SALT LAKE COUNTY

BEN McADAMS, MAYOR



An Audit of the Key Controls of
Crestwood Outdoor Pool

October 16, 2013

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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October 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 Crestwood Outdoor Pool

Dear Mayor McAdams:

We recently completed an analysis of the financial records of Crestwood Outdoor 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 Crestwood Outdoor Pool and the cooperation from Chris Buckley and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Crestwood Outdoor 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 James Fire MBA/Acc
Deputy Auditor

cc: Michelle Nekota, Division Director
Paul Ross, Associate Division Director
LeeAnn Powell, Recreation Section Manager
Ben Hill, Program Manager

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Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of Crestwood Outdoor 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

Crestwood Outdoor Pool is managed by Holladay Lions Fitness Center and operates from Memorial Day to Labor Day. Most of the staff were new and needed to be trained on how to be compliant with Countywide policies. Our audit found deficiencies in certain internal controls over merchandise inventory, credit and debit card transactions, and depositing. The report of a prior audit of the Crestwood Outdoor Pool was released to the public in August 2004.

Findings, Recommendations, and Management Responses

Finding # 1 - There was not a key separation of duties used for merchandise inventory procedures.

Risk Level: Moderate

Countywide Policy #1062, "Management of Public Funds," states in the Purpose that:

"Effective internal controls provide reasonable assurance that daily transactions are executed in accordance with applicable statutes, ordinances, and policies and errors, irregularities, and omissions are effectively minimized or detected."

The ordering, payment, receiving, and recordkeeping of the merchandise inventory were performed by the same person.

Without a clear segregation of duties, the risk for concealment of merchandise inventory shrinkage, altered records, fictitious sales, or inventory padding is increased.

Recommendation

We recommend that duties associated with the ordering, payment, receiving, and recordkeeping of the outdoor pool's merchandise inventory be separated, or that compensating controls be implemented.

Finding # 2 - The supervisor signed as both cashier and reviewer on balance sheets.

Risk Level: Moderate

Salt Lake County Policy #1062, "Management of Public Funds," states in the Purpose that:

"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."

During the examination of deposits, two of five "Daily Cash Balance Sheets" were signed by the supervisor as the cashier and as the supervisor reviewing the collections. This same finding was included in the previous audit dated September 29, 2004.

Without a clear segregation of duties, public funds are at higher risk for misuse, loss, or theft.

Recommendation

We recommend that employees assigned cashiering duties sign the "Daily Cash Balance Sheet" as cashier, and the supervisor sign it as reviewer.

Finding # 3 - The merchandise inventory spreadsheet did not include values.

Risk Level: Low

Countywide Policy #1125, "Safeguarding Property/Assets," states in the Purpose that:

"Salt Lake County procures a variety of property and equipment necessary for government operations, which must be properly managed - meaning, controlled, inventoried and protected."

The spreadsheet used to track merchandise inventory activity did not include item costs or sale prices.

When merchandise inventory costs increase, profitability cannot be evaluated if the spreadsheet does not contain cost and sale price information.

Recommendation

We recommend that the merchandise inventory spreadsheet include cost and sale price information to determine profitability.

Finding # 4 - Signed and dated merchandise inventory count sheets were not kept on file.

Risk Level: Low

Countywide Policy #1125, "Safeguarding Property/Assets," states in the purpose that:

"Salt Lake County procures a variety of property and equipment necessary for government operations, which must be properly managed -- meaning, controlled, inventoried and protected."

Inventory count sheets were not on file that indicated who performed the counts and when they were completed.

When inventory counts are performed without signed and dated count sheets, it is impossible to verify who performed the count and when it was done.

Recommendation

We recommend that signed and dated count sheets be used and kept on file to verify merchandise inventory counts.

Finding # 5 - Point of sale system does not issue receipt numbering.

Risk Level: Low

Countywide Policy #1026 "Management of Public Funds," Section 3.5.6 states:

"The online cashiering system shall produce receipts in a sequentially numbered order, and the receipt number shall appear on the receipt issued to the customer."

The Legacy Sportsman point of sale (POS) software used does not produce receipt numbers or a receipt numbering option.

Without receipt numbers it is difficult to identify missing, or duplicated transactions, which are important control measures to detect manipulated transactions.

Recommendation

We recommend that a solution be explored to add receipt numbering to transactions.

Finding # 6 - An SAQ representing Parks and Recreation's compliance with PCI-DSS had not been completed and was not on file.

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-DSS had not been completed and was not on file.

Parks and Recreation management stated that they are aware of the PCI-DSS requirement and are 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 Crestwood Outdoor Pool keep a copy of the SAQ on file to show that they are aware of and compliant with PCI requirements.

Additional Information

Background

Crestwood Outdoor Pool is located at 1700 Siesta Drive in Cottonwood Heights. It is operated during summer months from Memorial Day to Labor Day. The pool is an integral part of the neighborhood and is adjacent to the popular Crestwood Park. The pool is 25 yards long, has six lanes, with an L-shaped diving alcove. Lap lanes are assigned on an as-needed basis, and swim lessons are available. Lap swimming and open plunge are offered afternoons seven days a week and evenings on weekdays.

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 June 20, 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 findings in this report, when received, will be attached as Appendix A.



Parks & Recreation Division Response to Summary of Findings & Recommendation

For Crestwood Outdoor Pool - Audit Dated: October 07, 2013

| No. | FINDING | RECOMMENDATION | RESPONSE / ACTION TAKEN |
|-----|---|--|--|
| 1. | <i>There was not a key separation of duties used for merchandise inventory.</i> | We recommend that duties associated with the ordering, payment, receiving, and recordkeeping of the outdoor pool's merchandise inventory be separated, or that compensating controls be implemented. | All merchandise will be purchased separately from Holladay Lions Recreation Center and will be inventoried for the exclusive use of the Crestwood Outdoor Pool. |
| 2. | The supervisor signed as both cashier and reviewer on balance sheets. | We recommend that employees assigned cashiering duties sign the "Daily Cash Balance Sheet" as cashier and the supervisor sign it as reviewer. | We will abide and follow this recommendation going forward. |
| 3. | The merchandise inventory spreadsheet did not include values. | We recommend that the merchandise inventory spreadsheet include cost and sale price information to determine profitability. | By following recommendation from No. 1 we will be able to keep accurate merchandise inventory spreadsheet with a cost and sale price information to determine profitability. |
| 4. | Signed and dated merchandise inventory count sheets were not kept on file. | We recommend that signed and dated count sheets are used and kept on file to verify merchandise inventory counts. | We will abide and follow this recommendation going forward. |
| 5. | Point of sale system does not issue receipt numbering. | We recommend that a solution be explored to add receipt numbering to transactions. | We will explore the ability of the old Sportsman software to add receipt numbering to transactions, once we renew our contract agreement in Spring 2014. If possible, we will have this in place for the 2014 outdoor pool season. Current receipts indicate date, time, and till number of transactions. |
| 6 | An SAQ representing Parks and Recreation's compliance with PCI-DSS had not | We recommend that Parks and Recreation management complete and sign an annual SAQ and that Crestwood Outdoor Pool keep a copy of the SAQ on file to show that they are aware of and compliant with PCI requirements. | 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 |

| No. | FINDING | RECOMMENDATION | RESPONSE / ACTION TAKEN |
|-----|-------------------------------------|----------------|--|
| | been completed and was not on file. | | <p>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.</p> <p>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.</p> |
| 7. | | | |
| 8. | | | |
| 9. | | | |
| 10. | | | |

NAME AND TITLE OF PERSON RESPONDING:

**Ben Hill
Facility Manager**

DATE PREPARED: 10-10-13