

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



An Audit of the Key Controls of
Northwest Recreation Center

April 21, 2014

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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April 21, 2014

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 Northwest Recreation Center

Dear Mayor McAdams:

We recently completed an analysis of the financial records of Northwest Recreation Center 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 Northwest Recreation Center and the cooperation from Will Kocher, Wendy Rendon, Grayson Reynolds, Kathy LeClaire, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Northwest Recreation Center 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 Larry Decker CPA, CIA
Sr. Deputy Auditor

cc: Andrew Keddington, Associate Director Parks & Recreation
Will Kocher, Facility Manager

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Objectives

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

At Northwest Recreation Center we found isolated instances of voided transactions not being documented according to County policy. Over/short logs were not signed by a cashier supervisor, and reconciliations of accounts receivable were not signed by the employee who performed them. We found a few cases of inaccurate balancing where a zero difference was shown on the balance sheet when, in fact, there were either overages or shortages. The Controlled Assets Inventory - Employee form was not used, and we could not locate a chair and several tables in our search for controlled assets. Finally, remittance notices that accompanied commission checks from the vending machine contractor were not consistently retained on file, thus obscuring the audit trail. Our previous audit was dated April 16, 2013. At that time we noted deficiency in documentation for voided transactions, lack of signatures on the over/short log, and inattention to use of the Controlled Assets Inventory - Employee form. These findings are repeated in the current audit.

Findings and Recommendations

Finding # 1 - Over/short logs were not signed by a supervisor as evidence of review.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 5.3.1.3 states:

"The MPF Form 11 [Cash Over/Short Log], for each Cashier, shall be signed by the Cashier's immediate supervisor."

A previous audit conducted in April 2013 found that none of the individual cashier over/short logs had been signed by the supervisor as evidence of review. A retest showed that the individual over/short logs had still not been signed by a supervisor.

Although this was reported in a prior report, management stated that they were unaware of the requirement for a supervisor signature on the over/short log.

When over/short logs are not signed by a supervisor as evidence of review, overages and shortages may go unnoticed and needed remediation may not occur.

Recommendation

We recommend that the cashier's supervisor review and sign the over/short log each month.

Action Taken:

Since initiating our audit, the cashier supervisor at Northwest Recreation Center has signed the over/short logs.

Finding # 2 - Accountability for some controlled assets was not properly established.

Risk Level: Low

Countywide Policy #1125, "Safeguarding Property/Assets," Section 2.2.3 states that property managers are required to:

"Maintain records as to current physical location of all fixed assets and controlled assets within the organization's operational and/or physical custody."

Out of 86 controlled assets we reviewed, 6 could not be located. Five of the controlled assets were tables with folding legs. The other controlled asset was a chair assigned to a manager's office.

Management stated that perhaps the tables were misplaced during events where any number of groups rented the building. Groups occasionally contract for services with a display company. Perhaps the display company mistook the tables as their own. Regarding the chair, management thought it was located in an office, but could not find it there.

When accountability for assets is not fully established, assets are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that all controlled assets be tracked for existence and location at Northwest Recreation and Community Center.

Finding # 3 - Cashiers occasionally did not accurately sum their balance sheets to report overages and shortages.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 3.8.1.4 states:

"An 'over/short' or 'no-difference' amount between the cash count and recorded receipt totals shall be ... manually entered on the designated line of the MPF Form 3A (Balance Sheet)."

We reviewed 310 cashier balance sheets from March 2013 through February 2014 and found 5 where overages or shortages had occurred but were not reported on the balance sheet. Instead, cashiers reported perfect balancing, or a "0" difference. The largest occurrences were a \$10 overage and a \$6 shortage.

Management stated that they had overlooked these addition errors on the balance sheets when they reviewed them.

When overages and shortages are not entered on the balance sheet, deposit errors are more likely to occur, indicating the possibility of theft.

Recommendation

We recommend that balance sheets be correctly summed to reflect any overages or shortages.

Finding # 4 - Voids were not always handled in accordance with Countywide policy.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Sections 3.7.2 and 3.7.3 state:

"...The cashier initiating the voided transaction will document, on the front of the voided receipt, the cause of the voided transaction and its resolution...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."

A previous audit conducted in April 2013 found that voids were not handled according to Countywide policy. In our current audit, we reviewed a sample of 30 deposits from March 2013 through February 2014. During our review we found 28 voids recorded in daily batch reports. Of this 28, 3 voids did not have documented explanations and were not signed by the cashier and supervisor as evidence of review.

Although this was reported in a prior report, management stated that the cases noted were oversights. The bookkeeper, who normally verifies that voided transactions are documented, may not have been working on the days in question.

When voided transactions are not processed according to Countywide policy, funds are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that a void slip be completed for all voided transactions and signed by both the cashier who initiated the void, and a supervisor who was not involved in the transaction.

Finding # 5 - Contractor remittance statements were not on file to support payments from them to the County.

Risk Level: Low

Generally Accepted Accounting Principles (GAAP) states:

"To be useful, financial information must be relevant, reliable, and prepared in a consistent manner ... Reliable information is verifiable and objective."

Documentation from the contractor that manages on-site soft drink vending machines was insufficient to support payments received from them. The contractor ordinarily sends the County remittance statements with its checks. We found a remittance statement to support 1 out of 15 payments received in the past year. Others were either not sent or were discarded by Parks and Recreation administration.

Management stated that the vendor was new, and remittance advices had not been as frequent or were not as accurate as they should have been.

Without the vendor remittance advice, an audit trail is lacking, and payments cannot be verified as to their compliance with contract terms.

Recommendation

We recommend that vending machine contractor remittance statements be asked for and retained on file for auditing purposes.

Finding # 6 - The "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 and 4.31 state:

"The Property Manager shall maintain records to manage controlled assets using the following forms (or forms that contain substantially the same information) and procedures. ... [the] '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."

A previous audit conducted in April 2013 found that the "Controlled Assets Inventory Form - Employee" was not being used. A retest shows this form is still not being used.

Although this was reported in the previous audit report, management stated that they were unaware of the "Controlled Assets Inventory Form - Employee" until we mentioned it to them.

When accountability for assets is not fully established, assets are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that Northwest Recreation Center use the "Controlled Asset Inventory Form-Employee" to manage controlled assets readily assignable to an individual.

Finding # 7 - Accounts receivable reconciliations were not signed by the employee who performed them or by an independent party.

Risk Level: Low

Countywide Policy #1220, "Management of Accounts Receivable and Bad Debt Collection," Sections 5.3.2 and 5.4 state:

"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 ... The employee who maintains the accounts receivable ledger shall be separate from the employee who prepares invoices and the employee who collects payment. In the event that staffing levels prevent such a segregation of duties, a supervisor, or second responsible employee, shall review and sign the monthly reconciliation, as a control on the process."

Accounts receivable reconciliations were not signed by the employee who performed them. Also, management did not sign them as evidence of review. Accounts receivable arise when daycare patrons do not pay required fees as expected.

Management stated that they were unaware of requirements for the signature of the employee who performs the reconciliation, and for a supervisor's signature.

When accounts receivable are not reconciled and reviewed on a monthly basis, including the employee's and management's signatures, misappropriation and error are more likely to occur and remain undetected.

Recommendation

We recommend that monthly accounts receivable reconciliations be documented and signed by the employee who performed them, and an independent party.

Additional Information

Background

The current Northwest Recreation Center opened in June 2010. The Center features fitness equipment, a swimming pool, and an indoor walking track. Various fitness and swimming classes are offered, and many popular youth programs are featured, including Junior Jazz basketball, and Snowbird ski lessons. With its location on the banks of the Jordan River, Northwest offers a yearly "Riverfest" with food, games, crafts, music, and boat rides. The building that formerly housed the recreation center for over 40 years is located on the same campus, and currently houses the child daycare center. Employees between the two facilities number 120, in addition to 10 merit staff members.

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
- Accounts Receivable
- Accounts Payable
- Third Party Contracts

Our examination period covered up to twelve months ending February 28, 2014. 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. Retesting of prior audit findings was also performed, where applicable.

Management response to findings in this report, when received, will be attached as Appendix A.



2014 Summary of Audit of Key Control

Findings and Recommendations

Northwest Recreation Center Dated: April 16, 2014

	FINDING	RECOMMENDATION	RESPONSE / ACTION TAKEN
1.	Finding # 1 - Over/short logs were not signed by a supervisor as evidence of review.	We recommend that the cashier's supervisor review and sign the over/short log each month.	Since the audit, the cashier supervisor at Northwest Recreation Center has signed the over/short logs.
2.	Finding # 2 - Accountability for some controlled assets was not properly established.	We recommend that all controlled assets be tracked for existence and location at Northwest Recreation and Community Center.	We will make sure that our controlled asset list is more regularly updated to reflect lost or stolen items.
3.	Finding # 3 - Cashiers occasionally did not accurately sum their balance sheets to report overages and shortages.	We recommend that balance sheets be correctly summed to reflect any overages or shortages.	Additional training will be given to our cashiers to make sure that they are correctly completing the balance sheets. The Northwest Office Coordinator will pay closer attention to this and conduct additional individual training for those staff members in need.
4.	Finding # 4 - Voids were not always handled in accordance with Countywide policy.	We recommend that a void slip be completed for all voided transactions and signed by both the cashier who initiated the void, and a supervisor who was not involved in the transaction.	We will immediately follow recommendation as provided.
5.	Finding # 5 - Contractor remittance statements were not on file to support payments from them to the County.	We recommend that vending machine contractor remittance statements be asked for and retained on file for auditing purposes.	This issue has been discussed with division administration who has requested that the vendor provide remittance statements that satisfy this recommendation.

6.	Finding # 6 - The "Controlled Assets Inventory Form - Employee" was not used for assets that were individually assigned.	We recommend that Northwest Recreation Center use the "Controlled Asset Inventory Form-Employee" to manage controlled assets readily assignable to an individual.	The recommended form will be put in use and a request was made to the auditor to e-mail a copy of said form during the pre-exit conference.
7.	Finding # 7 - Accounts receivable reconciliations were not signed by the employee who performed them or by an independent party.	We recommend that monthly accounts receivable reconciliations be documented and signed by the employee who performed them, and an independent party.	We will make sure that these reconciliations are signed as requested.

NAME AND TITLE OF PERSON RESPONDING: Will Kocher, Facility Manager

DATE PREPARED: 04/16/14