

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



An Audit of
Holladay Lions Fitness and Recreation Center

July 31, 2014

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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July 31, 2014

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

Re: An Audit of Holladay Lions Fitness and Recreation Center

Dear Mayor McAdams:

We recently completed an analysis of Holladay Lions Fitness and Recreation Center pursuant to 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. A report of our findings and recommendations is attached.

Despite extensive efforts, we were unable to confirm that the financial records of this entity were complete and accurate. There may be additional inaccurate or incomplete financial records that were not selected for review. Further, there may also be instances of noncompliance in areas not examined.

The matters identified are serious. We have referred the matter to the District Attorney, who has authority and resources to determine whether a criminal investigation should be initiated. We suggest that the Mayor's office also review these issues closely to determine whether employee discipline or civil remedies should be pursued and whether policy or management practices should be changed.

Sincerely,

Gregory P. Hawkins
Salt Lake County Auditor

By Anita C. Kasal
Deputy Auditor

cc: Martin Jensen, Division Director
Kristin Riker, Recreation Associate Division Director
Andrew Keddington, Administrative Associate Director
Cheryl Crook, Fiscal Manager
Ben Hill, Facility Manager
Sim Gill, District Attorney



Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of Holladay Lions Fitness and Recreation Center (Holladay Lions). Our purpose was to determine whether non-compliance with internal controls related to cash receipting and depositing resulted in inaccurate or incomplete financial records during the period November 2009 to December 2012.

Conclusion

We completed a key control audit and risk assessment of Holladay Lions at the end of 2013. The key control audit resulted in audit findings that were noteworthy for their number and seriousness and the risk assessment suggested significant control weaknesses; in particular, it suggested that there was a lack of separation of duties between the deposit preparer and cashiers. We immediately scheduled the investigation that led to this report to determine whether internal controls had been violated and whether financial records were accurate and complete.

We reviewed selected financial records from the period between November 1, 2009 and December 31, 2012. We found that the deposit preparer altered financial records without proper approvals and without documentation. Because financial records were missing, it was impossible to reconstruct an accounting of what actually happened. During the period there was insufficient management involvement in cashiering and depositing. We found numerous questionable transactions that could not be explained by the employees involved. We recommend that the District Attorney determine whether a criminal investigation should be initiated.

Findings and Recommendations

Finding # 1 - A till was not closed at the end of the business day and remained open for over a year.

Risk Level: High

Salt Lake County Parks and Recreation Division, "Policies and Procedures for Cash Handling," Section 3.2.2 states:

"End of shift procedure for cashier Cashier closes the till on Sportsman".

A till was opened on April 22, 2011 and closed on August 31, 2012. The records for this till consisted of 76 pages of refund checks and adjustments.

Transactions and adjustments on unclosed tills will not be reflected in the deposit documentation. Incomplete deposit documentation may result in loss of revenue and creates opportunities to falsify records to conceal the theft of public funds.

Recommendation

We recommend that the District Attorney review this matter to determine whether a criminal investigation should be initiated.

We recommend that Parks and Recreation cashiers close their tills at the end of their shift.

Finding # 2 - Cashiers did not maintain a daily over/short log.

Risk Level: High

Countywide Policy #1062-3.8.2 and 5.3.1.3 states:

"Change funds should be counted, restored to the established imprest balance, and any daily shortages or overages recognized and recorded on MPF Form 3A, Cash Balance Sheet, and on MPF Form 11, Cash Over/Short Log. ... The MPF Form 11 [Cash Over/Short Log], for each Cashier, shall be signed by the Cashier's immediate supervisor."

Cashiers did not record their daily overages or shortages on an over/short log and supervisors did not review them.

When overages and shortages are not recorded on an over/short log, balancing trends may go unnoticed by management, and needed remediation may not occur.

Recommendation

We recommend that the District Attorney review this matter to determine whether a criminal investigation should be initiated.

We recommend that all daily overages or shortages be entered onto a monthly MPF Form 11, "Cash Over/Short Log," and the logs are reviewed regularly, and supervisors document their review with a signature.

Finding # 3 - The deposit preparer created voids and sales after tills were closed.

Risk Level: High

Human Resources Policy #3-300, "Standards of Conduct," Section II.A.6 states:

"Inappropriate and unprofessional behavior includes... Falsifying county records."

We reviewed cashier reports and found 26 cash shortages and 25 cash overages. For 22 of the 26 shortages, the deposit preparer voided transactions after the till had been closed. The deposit preparer admitted that she voided transactions when there were till shortages and created fictitious sales when there were overages. She stated that she was instructed to do this by her supervisor. In addition, some of the daily Cash Balance Sheets were missing, making it impossible to determine actual amounts of cash collected by the cashiers.

Although the deposit preparer was released from Holladay Lions in March 2013, she retained employment as a deposit preparer at a different Parks and Recreation location.

When records are falsified it makes it impossible to determine whether the actual amount collected balanced with the amount deposited. Funds may have been diverted for personal use.

Recommendation

We recommend that the District Attorney review this matter to determine whether a criminal investigation should be initiated.

We recommend that Parks and Recreation enforce the separation of duties or implement compensating controls that would prevent falsification of records.

Finding # 4 - Records of vending sales were voided and records of new sales were created for lower amounts.

Risk Level: High

Salt Lake County Parks & Recreation Division, "Policies & Procedure for Cash Handling," Section 2.5 states:

"All vending funds shall be rung into the cash register till in the current open till or the agent cashier may open a new till for the vending monies."

Human Resources Policy #3-300, "Standards of Conduct," Section II.A.6 states:

"Inappropriate and unprofessional behavior includes... Falsifying county records."

In a review of 21 deposits for the period July 1, 2011 to December 31, 2012, there were 4 deposits that included vending revenue sales. In each case, the deposit preparer voided the original entry of the vending revenue transaction and created a new transaction for a lower amount. In two cases, the second transaction was also voided and another transaction entered at a lower amount. The 4 original entries totaled \$817, but the actual amounts deposited were \$746.

Although the deposit preparer was released from Holladay Lions in March 2013, she retained employment as a deposit preparer at a different Parks and Recreation location.

The voided transactions may have been used to conceal theft. When the deposit preparer has the ability to void sales, funds are at greater risk of being diverted for personal use.

Recommendation

We recommend that the District Attorney review this matter to determine whether a criminal investigation should be initiated.

We recommend that Parks and Recreation enforce the separation of duties or implement compensating controls that would prevent falsification of records.

Finding # 5 - Holladay Lions' staff with financial responsibility were unaware of Countywide cash handling policies and procedures.

Risk Level: High

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

"If not otherwise specified by Utah Statute, the management of public funds, the designation and duties of cashiers, the accountability for the receipt, deposit, transmittal, or disbursement of funds, including physical security over these activities, shall be regulated by County Ordinances and Countywide Policies and procedures adopted by the County Council (the Council)."

Countywide Policy #1062, "Management of Public Funds," Section 2.1.4 and 2.2.1 states:

"Newly appointed Cashiers, within a reasonable timeframe, shall read through this policy, attend the Cashier Orientation, and report completion to their Supervisor ... Cashier Supervisors are responsible for ensuring compliance this policy and related internal policies and procedures approved by the Fund Management Policy Committee."

Staff with financial responsibility at Holladay Lions stated they were unaware of the Countywide policy for managing public funds (Countywide Policy #1062). Staff stated that they were not aware of the cash handling procedures requiring documentation and review of voided transactions or the use of over/short logs to record outages. However, the Parks and Recreation Fiscal Coordinator stated that she had visited Holladay Lions multiple times to discuss concerns regarding cash handling procedures.

Deficiencies in certain internal controls over cash handling remained unaddressed, which increased the risk of misappropriation of funds.

Recommendation

We recommend that the District Attorney review this matter to determine whether a criminal investigation should be initiated.

We recommend that cashiers and supervisors attend the Cashier Orientation training and read through Countywide Policy #1062, "Management of Public Funds."

Finding # 6 - An employee who performed cashiering duties also prepared the deposit.

Risk Level: High

Generally Accepted Accounting Principles (GAAP) state:

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

The Purpose Statement of Countywide Policy #1062, “Management of Public Funds” 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 account 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. Supervisory oversight enforces the separation of duties, creates an atmosphere of employee accountability, and strengthens the control environment. . . . 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 deposit preparer had access rights to the point-of-sale application beyond what was necessary to do her job. She had custody of the funds collected as well as access to the point-of-sale records. Using her access rights, she performed the duties of a deposit preparer and a cashier on 8 out of 37 deposit days reviewed. As the cashier, she did not complete the Cash Balance Sheets. As the deposit preparer she voided transactions and made adjustments in the point-of-sale records, usually after the tills were closed, to eliminate shortages and to force the amounts shown in the point-of-sale records to match the funds that were deposited.

Because of the lack of separation of duties, inappropriate adjustments, and absence of documentation, these transactions may have been used to conceal theft. Additionally, there is an increased risk that errors and irregularities may occur without detection, thus the reliability of the financial records cannot be ensured.

Recommendation

We recommend that the District Attorney review this matter to determine whether a criminal investigation should be initiated.

We recommend that employees who have the ability to maintain or modify the point-of-sale records not obtain custody of the funds collected. Therefore, the employee responsible for preparing the deposit should not have access to modify the point-of-sale records, or compensating controls should be implemented.

Finding # 7 - The independent reviews of the deposits were inadequate.

Risk Level: High

Countywide Policy #1062, Management of Public Funds,” Section 3.8.1 states:

"All County Agencies should balance collections to cash register (or receipt log) totals and prepare a deposit, using MPF Form 3A, Cash Balance Sheet, or a similar form... Either a manual or an automated balancing procedure shall be performed as a step in the preparation of each deposit."

Section 3.8.1.2 states:

“A ‘master’ balance sheet may be prepared to accumulate totals of individual cash balance sheets from each cash register. With any balancing procedure, the cash count total, including the breakdown by cash and check composition, should match the deposit slip total.”

Section 4.2.2 states:

“The ‘master’ balance sheet shall be reviewed and reconciled... and signed by another employee designated by Agency Management; and if possible, by an individual with equal or higher authority than the individual who prepared the deposit.”

Each cashier balanced collections with a Cash Till Balance Report (cash register log) and recorded the reconciliation on a manually prepared daily Cash Balance Sheet. The deposit preparer prepared a Cash Register Deposit Batch Report (master balance sheet) for the cumulative totals of the individual Cash Till Balance Reports. Because the deposit preparer was altering transactions before printing the master balance sheet, cash count totals did not match between individual reports and batch reports. The independent supervisory review of the deposit documentation did not include reconciling the individual Cash Till Balance Reports with the Cash Register Deposit Batch Report.

When Cash Till Balance Reports are not reconciled to the Cash Register Deposit Batch Report, voids and adjustments made in the financial records may go undetected, placing funds at an increased risk for theft.

Recommendation

We recommend that the District Attorney review this matter to determine whether a criminal investigation should be initiated.

We recommend that the independent supervisory review of the deposit be documented and include reconciling the Cash Till Balance Report with the daily Cash Balance Sheets and reconciling these cashier reports with the Cash Register Deposit Batch Report.

We recommend that the independent supervisory review be performed by a supervisor with equal or higher authority than the deposit preparer who is not involved in the cash handling process.

Finding # 8 - Employees had inappropriate access levels to point-of-sale records.

Risk Level: High

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".

Countywide Internal Practices and Procedures applicable to Parks and Recreation under PCI-DSS states:

"Access rights are restricted to the least privilege necessary to perform job responsibilities. Privileges are assigned to employees based on job classification and function."

There were no default point-of-sale application settings based on job functions. In addition, there were no policies that defined the access rights that should be granted for each position. Holladay Lions employees were granted more access rights than their job functions required. For example, using her access rights, the deposit preparer voided transactions and created new sales after tills were closed. This enabled her to misrepresent the sales and cash received and possibly divert funds for personal use. A similar risk exists in all other Parks and Recreation locations.

Allowing employees to access the point-of-sale records beyond those required for their job function exposes the County to financial loss. It creates opportunities to falsify records to conceal the theft of public funds.

Recommendation

We recommend that the District Attorney review this matter to determine whether a criminal investigation should be initiated.

We recommend that Parks and Recreation management establish a policy for user access to the point-of-sale application, which establishes the maximum rights that each job function should be granted.

We recommend that Parks and Recreation management regularly monitor the user rights in the point-of-sale application for all Parks and Recreation locations, to ensure they are properly established and maintained.

Finding # 9 - Records for daily cash deposits were not properly retained.

Risk Level: High

Countywide Policy #2005, "Salt Lake County Records Management Program," Section 1.3.2 and the Retention Schedules state:

"Each agency shall manage all records responsibly, shall maintain the security of records and shall ensure the preservation of vital and historically valuable records. ... Deposit Records (Daily Cash Records) ... provide a record of cash balance sheets, receipts, deposit slip copies, deposit bag tabs, calculator tapes, and other supporting documents ... [and have a retention of] 3 years."

Between March 1, 2011 and March 1, 2013, cashier, deposit preparer, and transmittal records were missing for 160 tills. Because these records were missing, we were unable to reconstruct what was collected by each cashier. The auditor sent an email to management dated May 7, 2014, requesting these records; however, these records were never provided.

When the cashier and deposit documentation are not properly retained, funds are at a greater risk of being lost, stolen, or diverted for personal use. When documents are missing, the accuracy and completeness of financial records cannot be verified.

Recommendation

We recommend that the District Attorney review this matter to determine whether a criminal investigation should be initiated.

We recommend that point-of-sale records be accurately completed and retained in accordance with Countywide retention policies and schedules.

Finding # 10 - Unique user names and passwords were not used to grant administrative access.

Risk Level: High

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."

Countywide Internal Practices and Procedures applicable to Parks and Recreation PCI-DSS states:

"Unique ID's are to be used for each person with computer access".

Pursuant to Parks and Recreation policy, office managers at each recreation location all used the same highest-level administrator ID to access the point-of-sale application (Sportsman). This user account provided full access to the point-of-sale application. The shared account was used to grant and revoke user access, change and reset passwords, and manage user access rights in the point-of-sale application.

Parks and Recreation management stated that the same administrative login and password was used because the point-of-sale software did not allow multiple users to have administrative rights.

Because all recreation locations used the same administrative account, it was impossible to track when changes were made to user accounts. The ability to modify a user account and post fictitious transactions was created by allowing the same administrative access login to each office manager.

Recommendation

We recommend that Parks and Recreation create separate accounts with unique passwords for all users of the point-of-sale application.

We recommend that Parks and Recreation regularly monitor the administrator activity in the point-of-sale application.

Finding # 11 - Voids were not always handled in accordance with Countywide policy.

Risk Level: Moderate

Countywide Policy #1062, "Management of Public Funds," Sections 3.7.2 & 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."

We reviewed 41 cash voids. The voids were completed by the deposit preparer a day or more after the cashiers closed their tills. The deposit preparer did not complete the required documentation or obtain proper approvals. Fourteen voids corresponded with till shortages, 6 lowered cash receipts on vending sales, 2 were done to change tender types, and no reasons could be ascertained for the remaining 19 voids.

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 voided transactions be completed and documented by a cashier, and reviewed and approved by a supervisor.

Additional Information

Background

Holladay Lions Fitness and Recreation Center is a part of the Salt Lake County Parks and Recreation Division and is located at 1661 East Murray-Holladay Road (4800 South), in Holladay. Salt Lake County Parks and Recreation was formed and came into existence on May 11, 1946. Ten days later the organization dedicated its first park. Today 104 parks and over 20 recreation facilities are in operation.

Scope

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

- Cash Receipting
- Cash Depositing

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 Holladay Lions Fitness & Recreation Center - Audit Dated: 7/16/2014

No.	FINDING	RECOMMENDATION	RESPONSE / ACTION TAKEN
1.	A till was not closed at the end of the business day and remained open for over a year.	We recommend that Parks and Recreation cashiers close their tills at the end of their shift	The only tills that went unclosed are backend management tills that have no cash sales. Backend management tills are used for correcting errors in activity participation, credits, refunds, etc... Since August 31, 2012, when this yearlong till was closed, Holladay Lions has placed procedures to ensure that all tills get closed regularly. In 2014, it was discovered that our cash register software can perform nightly automatic till closures. Any unclosed till now gets closed nightly, automatically at midnight.
2.	Cashiers did not maintain a daily over/short log.	We recommend that all daily overages or shortages be entered onto a monthly MPF Form 11, "Cash Over/Short Log," and the logs are reviewed regularly, and supervisors document their review with a signature.	Maintaining a "Cash Over/Short Log" for each cashier and ensuring that the log is reviewed and signed by a supervisor was corrected previously, during the Facility's 2013 Audit. Since the 2013 Audit, we have been following the specified recommendations.
3.	The deposit preparer created voids and sales after tills were closed.	We recommend that Parks and Recreation enforce the separation of duties or implement compensating controls that would prevent falsification of records.	In the Fall of 2012, the deposit preparer was disciplined for actions similar to these findings. In March of 2013, the deposit preparer was disciplined again and immediately released of her duties. It would never be the practice of a Salt Lake County supervisor to instruct a deposit preparer to create voids and/or sales to correct overages. Since the Fall of 2012, when the deposit preparer was originally disciplined, we have been enforcing the separation of duties and not allowing the deposit preparer to create voids and/or sales.
4.	Records of Vending Sales were voided and records of new sales were created for lower amounts.	We recommend that Parks and Recreation enforce the separation of duties or implement compensation controls that would prevent falsification of records.	In the Fall of 2012, the deposit preparer was disciplined for actions similar to these findings. In March of 2013, the deposit preparer was disciplined again and immediately released of her duties. Since the Fall of 2012, when the deposit preparer was originally disciplined, we have been enforcing the separation of duties and not allowing the deposit preparer to create voids and/or sales.
5.	Holladay Lions' staff with financial responsibility were unaware of Countywide cash handling policies and procedures.	We recommend that cashiers and supervisors attend the Cashier Orientation training and read through Countywide Policy #1062, "Management of Public Funds."	All newly appointed cashiers, within a reasonable timeframe, read through the Countywide Policy #1062, "Management of Public Fund," and are trained by the Facility's Office Coordinator. The Facility's Office Coordinator, who has taken the Cashier Orientation training, trains the newly appointed cashier in all cash handling procedures and policies. Each time a newly appointed cashier reads through the policy and is trained, it is recorded on the Division's shared drive. The Facility's Office Coordinator, also reviews the policy and the training in her monthly, cashiers staff meetings.

No.	FINDING	RECOMMENDATION	RESPONSE / ACTION TAKEN
6	An employee who performed cashiering duties also prepared the deposit.	We recommend that employees who have the ability to maintain or modify the point-of-sale records not obtain custody of the funds collected. Therefore, the employee responsible for preparing the deposit should not have access to modify the point-of-sale records, or compensation controls should be implemented.	Since the deposit preparer was disciplined and released of her duties in March of 2013, no employee has performed cashiering duties and prepared the deposit. The current deposit preparer does not have the access to modify the point-of-sales records.
7.	The independent reviews of the deposits were inadequate.	<p>We recommend that the independent supervisory review of the deposit be documented and include reconciling the Cash Till Balance Report with the daily Cash Balance Sheets and reconciling these cashier reports with the Cash Register Deposit Batch Report.</p> <p>We recommend that the independent supervisory review be performed by a supervisor with equal or higher authority than the deposit preparer who is not involved in the cash handling process.</p>	Similar finding were found and corrected in the Facility's 2013 Audit. We are currently following the specified recommendations.
8.	Employees had inappropriate access levels to point-of-sale records.	<p>We recommend that Parks and Recreation management establish a policy for user access to the point-of-sale application, which establishes the maximum rights that each job function should be granted.</p> <p>We recommend that Parks and Recreation management regularly monitor the user rights in the point-of-sale application for all Parks and Recreation locations, to ensure they are properly established and maintained.</p>	<p>Parks and Recreation management has been made aware of this Finding and Recommendation, as it applies to the entire Division.</p> <p>Holladay Lions' Office Coordinator currently monitors the user rights in the point-of-sale application for our location. She only gives minimal access rights to each employee based on that employees job functions.</p>
9.	Records for daily cash deposits were not properly retained.	We recommend that point-of-sale records be accurately completed and retained in accordance with Countywide retention policies and schedules.	<p>Since the deposit preparer was disciplined and released of her duties in March of 2013, all point-of sale records have been accurately completed and retained in accordance with Countywide retention policies and schedules.</p> <p>During the audit, Holladay Lions' management was not aware, that the auditor could not find some point-of-sale records. Had we been made aware of what tills, the point-of-sales were missing from, we may have been able to locate them.</p>
10.	Unique user names and passwords were not	We recommend that Parks and Recreation create separate accounts with unique passwords for all	As stated in the Findings, this is a point-of-sale software (Sportsman) issue. Sportsman only allows there to be one highest-level administrator ID. The highest-level administrator ID is the only login that allows you to add new users and set user rights.

No.	FINDING	RECOMMENDATION	RESPONSE / ACTION TAKEN
	used to grant administrative access.	users of the point-of-sale application. We recommend that Parks and Recreation regularly monitor the administrator activity in the point-of-sale application.	Each new user is given a separate account with a unique password. The Holladay Lions users are regularly monitored, by the Office Coordinator to ensure minimal access rights to each employee based on that employees job functions. Parks and Recreation management has been made aware of this Finding and Recommendation, as it applies to the entire Division.
11.	Voids were not always handled in accordance with Countywide policy.	We recommend that voided transactions be completed and documented by a cashier, and reviewed and approved by a supervisor.	This Finding was corrected in the Facility's 2013 Audit and we are currently following specified Recommendations.

**Ben Hill – Facility Manager (12-16-12 – Current)
Holladay Lions Fitness and Recreation Center**

DATE PREPARED: 07/28/2014