

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



An Audit of the Key Controls of
Millcreek Activity Center

October 23, 2014

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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October 23, 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 Millcreek Activity Center

Dear Mayor McAdams:

We recently completed an analysis of the financial records of Millcreek Activity 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 Millcreek Activity Center and the cooperation from Carole Cronin and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to Millcreek Activity 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: Martin Jensen, Director of Parks and Recreation
Andrew Keddington, Associate Director
Cheryl Crook, Fiscal Manager
Carole Cronin, Facility Manager

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Objectives

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

In our audit of the Millcreek Activity Center we found two controlled assets that were not listed on the controlled asset list. Conversely, two controlled assets from the list could not be found on-site. Also, the "Controlled Assets Inventory - Employee" form was not used. We found a few voids that were not explained and documented with required signatures. Personnel did not use a cash balance sheet to record daily collection counts in the deposit process, and deposits were not timely. Finally, a monthly accounts receivable reconciliation was not performed. This was the first audit our office performed of the Millcreek Activity Center.

Findings and Recommendations

Finding # 1 - Some controlled assets were not found on the controlled asset list.

Risk Level: Low

Countywide Policy #1125, "Safeguarding Property/Assets," Sections 4.3 and 4.3.2 state:

"The Property Manager shall maintain records to manage controlled assets using the following forms ... 'Controlled Assets Inventory Form – Organization' is used for property not readily assignable to an individual employee or which is shared by more than one employee."

We reviewed five controlled assets on-site and found two that were not included on the controlled asset list. These assets comprised two desktop computers, one of which had the property tag of another recreation center attached.

Management stated that tagging and listing of computers transferred in from other County locations is occasionally overlooked.

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 Millcreek Activity Center records include all controlled assets on-site.

Finding # 2 - The "Controlled Assets Inventory Form - Employee" was not used.

Risk Level: Low

Countywide Policy #1125, "Safeguarding Property/Assets," Sections 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."

The "Controlled Assets Inventory Form-Employee" was not used to manage controlled assets that were assigned to employees.

Management stated that they were not aware of the requirement to complete and file this form.

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 the Millcreek Activity Center use the "Controlled Asset Inventory Form-Employee" to manage controlled assets readily assignable to an individual.

Finding # 3 - A monthly accounts receivable reconciliaton was not performed.

Risk Level: Low

Countywide Policy #1220, "Management of Accounts Receivable and Bad Debt Collection," Sections 5.3.2 and 5.3.4 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 payments. 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."

We found that in all 12 of the 12 months we reviewed, an accounts receivable reconciliation was not performed and signed by an independent party as evidence of review.

Management stated that they were not aware of policy requirements for this reconciliation. Moreover, they did not know how to perform one.

When accounts receivable are not reconciled and reviewed on a monthly basis, misappropriation and errors are more likely to occur and remain undetected.

Recommendation

We recommend that a monthly accounts receivable reconciliations be performed, documented, and signed by the independent employee who performed it.

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."

We reviewed 14 voids in a 30-day period and found that 2 were not documented with an explanation, were missing the signatures of either the cashier or supervisor, and the voided receipts were not attached to the daily cash balance sheet.

Management stated that office practice is to document and sign voids according to Countywide policy, but in the two cases stated above, this process was overlooked.

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 both the cashier and supervisor sign voided receipts as evidence of review.

We recommend that all voids include a documented explanation and that the voided receipt be attached to the daily cash balance sheet, where available.

Finding # 5 - Cash balance sheets were not used.

Risk Level: Low

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

"All County Agencies should balance collections to cash register totals and prepare a deposit, using MPF Form 3A, Cash Balance Sheet, or a similar form developed for and produced by the specific Agency."

Personnel were not using a cash balance sheet to balance daily collections and prepare the deposit. They printed system totals from Sportsman software but did not compare these totals to actual collections on a balance sheet.

Management stated that they were not aware of the cash balance sheet. They also stated that overages and shortages never occur because exact cash payment is required from patrons.

When a cash balance sheet is not used, overages or shortages could occur without being known.

Recommendation

We recommend that Millcreek Activity Center use MPF Form 3A, Cash Balance Sheet, or similar form, in its balancing process and attach this form to deposit documentation.

Finding # 6 - Deposits were not always made in a timely manner.

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 no later than three days after receipt."

We found that 22 out of 30 deposits examined were deposited more than three days after receipt of collections.

Management stated that lack of personnel led to deposits not being made in a timely manner.

When funds are not deposited on a timely basis, they are more susceptible to loss or theft. In addition, interest is lost that would otherwise be accrued.

Recommendation

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

Finding # 7 - 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."

Of the 25 controlled assets we reviewed, 2 could not be found on-site at the Millcreek Activity Center. One of these assets was a digital camera and the other was a desktop computer.

Management stated that they did not know the whereabouts of the digital camera. They thought the computer might have been sent to surplus, though no Form PM-2 for it was on file.

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 Millcreek Activity Center administration properly account for all controlled assets.

Additional Information

Background

The Millcreek Activity Center, located at 4405 South 1025 East, provides before and after-school care and activities, and summer camp for children. Kindergarten and pre-school programs, for children under age 5, are also provided. A State licensed operation, the center provides children with classes in arts and crafts, cooking, and science. The center also operates a gymnastics and martial arts program. In addition, games and sports, socialization, and field trips to different venues, including the zoo and swimming pools, round out the complement of activities. Parents pay a fee, or tuition, to enroll their children in any of these programs. As an example, the pre-school program costs \$400 per month. Many parents receive State assistance in the form of funds loaded onto a "horizon" card, which parents then use to pay for services. The Millcreek Activity Center began in 2009 in the Millcreek Recreation Center. Operations for both organizations moved to 4405 South 1025 East during construction of the new recreation center. Upon completion of construction, the activity center remained at its current location, achieving its own identity. The activity center is housed in what remains of a discontinued and partially demolished elementary school building.

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 August 15, 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

No.	FINDING	RECOMMENDATION	RESPONSE / ACTION TAKEN
1.	Some controlled assets were not found on list	Recommend that the MAC records include all controlled assets on-site	A list was compiled of all controlled assets on site. They are now tagged and noted by classroom. Staff will conduct monthly inventory of all assets. Log will be kept in a folder in director's office. PM2 forms will be completed for any items sent to surplus or transferred.
2.	The controlled assets Inventory form – Employees was not used	Recommend that the MAC use the controlled asset Inventory Form- Employee to manage controlled assets readily assignable to an individual	A controlled asset form will be assigned to each merit employee and will be reviewed quarterly and annually to monitor the assets.
3.	A monthly accounts receivable reconciliation was not performed	Recommend that a monthly accounts receivable reconciliation be performed, documented and signed by the independent employee who performed it	The accounts receivable ledgers will be reconciled against invoices and payments monthly, by the employee responsible and will be documented and signed by a different Merit staff monthly for verification.
4.	Voids were not always handled in accordance with the Countywide policy	Recommend both the cashier and supervisor sign voided receipts as evidence of review. Recommend that all voids include a documented explanation and that voided receipts be attached to the daily cash balance sheets	The cashiers and supervisors have met so that both are educated about the protocol of handling voids. Effective immediately, both cashier and supervisor, will sign all voided receipts and attach a detailed explanation of the void to the daily cash balance sheet
5.	Cash balance sheets were not used	Recommend that the MAC use the MPF Form 3A, Cash Balance Sheet or similar form, in its balancing process and attach for deposit documentation.	Effective immediately, the staff will use the Cash Balance Sheet MPF form 3A. Training will be held for the front desk staff. The form will be signed by the cashier and reviewed by a second staff member.
6.	Deposits were not always made in a timely manner	Recommend funds be deposited on the same day, whenever practicable, but no later than 3 days after receipt	Bookkeeper will be required to follow the recommendation of daily deposits, and will ensure that deposits are done within the three days of receipt.
7.	Accountability for some controlled assets was not properly established	Recommend that MAC Administration properly account for all controlled assets	We have implemented a quarterly inventory procedure. All assets will be inventoried, properly labelled and monitored. PM2s will be used each time an asset is transferred or surplus.
8.			
9.			
10.			

NAME AND TITLE OF PERSON RESPONDING: Carole Cronin, Millcreek Activity Center, Facility Manager

DATE PREPARED: 10/20/14