

An Audit of Key Controls at Salt Lake County's Kearns Recreation Center

A Report to the
Citizens of Salt Lake County
The County Mayor and the
County Council

AUDIT REPORT



Kearns Recreation Center



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April 2018

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April 4, 2018

Martin Jensen, Director
Salt Lake County Parks and Recreation Division
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An Audit of Key Controls at the Kearns Recreation Center

Dear Martin,

We recently completed an audit of key controls at Salt Lake County's Kearns Recreation Center ("Kearns"). The purpose of the audit was to examine financial records and business processes at Kearns to determine if critical internal controls related to cash handling, cash receipts and deposits, capital and controlled asset management, accounts receivable, and other public funds were properly implemented and functioning as intended to help reduce the risk of loss, theft, or misuse of County assets.

Our work was designed to provide reasonable, but not absolute assurance, that the system of internal controls was adequate, records current, and daily transactions valid. Since our audit included only a sample of items from the period examined, there is a risk that we would not have discovered problems related to assets or transactions not specifically selected for review.

Audit criteria included Countywide policies such as *Countywide Policy 1203, Petty Cash and Other Imprest Funds, Countywide Policy 1062, Management of Public Funds, Countywide Policy 1125, Safeguarding Property/Assets, Countywide Policy 7035, Purchasing Card Authorization and Use*, and Parks and Recreation Division's own internal policies and procedures.

By its nature, this report focuses on issues, exceptions, findings, and recommendations for improvement. The focus should not be understood to mean that we did not find various strengths and accomplishments at Kearns. We truly appreciate the time and efforts of the employees of Kearns Recreation Center throughout the audit. Our work was made possible by their cooperation and prompt attention given to our requests.

Scope and Methodology

Our audit covered the period from January 1, 2017 to December 31, 2017. Our audit work included a formal examination of financial records and transactions related to the following operational areas:

- Petty Cash and Other Imprest Accounts
- Cash Handling and Daily Deposits

- Capital and Controlled Assets
- Purchasing Card Expenditures and Use
- Accounts Receivable

In addition to examining financial records, we observed business practices and tested the internal controls surrounding them. We examined daily cash deposits and monthly reconciliations, interviewed Kearns employees, physically examined capital and controlled assets, performed a surprise count of petty cash and change funds, examined purchasing card (“p-card”) expenditures and daily cash collections.

Audit Results

Petty Cash and Other Imprest Accounts

Audit Objectives

- Determine if the petty cash fund was intact and maintained at the authorized amount.
- Determine if petty cash purchases complied with Countywide Policy.
- Determine if the petty cash fund is properly safeguarded against loss, theft, or misuse.

We performed a surprise count on the \$1,000 petty cash fund at Kearns and found that it was intact and maintained at the authorized amount as recorded by the Mayor’s Office of Financial Administration (“Mayor’s Finance”). We also interviewed staff and observed the petty cash reconciliation procedures and physical security. We examined 31 petty cash vouchers and original receipts from petty cash purchases made since September 21, 2017; the most recent date the fund was reimbursed by Mayor’s Finance. We found that all petty cash purchases in our sample were for legitimate County business purposes, did not exceed the single-purchase limit of \$200, and were all reviewed and authorized by Kearns management. We also found that no sales tax was paid on any of the petty cash purchases within the sample.

We noted no significant findings in petty cash and other imprest accounts.

Cash Handling and Daily Deposits

Audit Objectives

- Determine if cash handling and daily deposit procedures comply with Countywide Policy.
- Determine if daily cash collections and deposits are properly safeguarded against loss, theft or misuse.

Our audit examined whether daily collections, cash handling, and depositing procedures at Kearns complied with *Countywide Policy 1062, Management of Public Funds*. Kearns receives payments from patrons for its childcare operations. Any payments received during the day are prepared for deposit by the Office Coordinator and reviewed by the Facility Manager. We examined a judgmental sample of daily deposits throughout 2017. We compared the amounts recorded in Sportsman point-of-sale system against individual cashier balance sheets, the daily aggregate master balance sheet, and amounts

deposited in the bank. We found that all amounts recorded in the point-of-sale system matched the balance sheets and bank deposits.

In addition, we reviewed cashier overages/shortages, voided transactions, and no-sale entries within the date range of our sample of deposits. We found no overages/shortages, one voided transaction that complied with Countywide policy, and no-sale entries that were appropriate for the volume of transactions occurring at the Center.

We noted no significant findings in cash handling and daily deposits.

Capital and Controlled Assets

Audit Objectives

- Determine if capital and controlled assets are identified accurately, physically present, and accounted for properly.
- Determine if capital and controlled assets are properly safeguarded against loss, theft, or misuse.

Our audit included an examination of key internal controls over the management of County capital and controlled assets at Kearns. *Countywide Policy 1125, Safeguarding Property/Assets*, establishes the policies and procedures for the proper management of County capital (fixed) and controlled assets, including procedures for accounting for, protecting, and disposing of those assets.

Countywide Policy 1125 defines a controlled asset as:

“An item of personal property having a cost of \$100 or greater, but less than the current capitalization rate.”

Due to their nature, controlled assets are more susceptible to theft, or conversion to personal use than capital assets. Therefore, controlled assets require additional procedures to ensure that they are properly safeguarded against loss, theft or misuse.

The property manager at each County organization is responsible for maintaining accurate controlled asset records and ensuring that controlled assets are accounted for and properly safeguarded against loss, theft or misappropriation. In addition, *Countywide Policy 1125*, defines an individual employee’s duties and responsibilities when capital (fixed) or controlled assets are specifically assigned to an employee or provided for their use.

We obtained a copy of the facility’s capital and controlled asset list. This list showed that an asset inventory had been performed on April 20, 2017. Kearns had one asset that met the criteria of a capital asset, and we found that it was tagged with the proper asset ID number, and we were able to locate and identify the asset on-site.

We selected a judgmental sample of 20 controlled assets from the controlled asset list, and verified that they could be accounted for, and that asset descriptions were accurate and complete. We found that all controlled assets were located on-site.

When County capital or controlled assets are transferred to another County agency, or sent to Surplus Property for sale or disposal, the property manager at the County agency that is disposing of the asset is required to complete a *Form PM-2 – Salt Lake County Personal Property Transfer/Disposal/Internal Sale Form* and keep a copy of the form for the agency's records. The form records a description of the capital or controlled asset that is being transferred or disposed of, its condition, how it was disposed of, and a signature from the agency's management. We examined a total of four PM-2 forms for assets that were listed as being disposed of on the controlled asset list. For each of the four assets, we found that the Property Manager at Kearns had completed the forms properly and that copies of the forms were kept by the Property Manager to document the disposal of each asset.

Finding 1 – Management at Kearns was not using the *Controlled Asset Inventory Form – Employee* to establish personal accountability for controlled assets that had been assigned to specific employees, as required by County policy.

During our review of controlled asset management practices at Kearns, we found that management was not using the *Controlled Asset Inventory Form – Employee* to assign personal accountability for assets that had been assigned to specific employees, as required by Countywide policy. Although the Facility Manager kept a master controlled asset inventory list that showed the location of controlled assets at Kearns, he had not implemented the use of the *Controlled Asset Inventory Form – Employee* to assign personal accountability for controlled assets that had been designated for use by specific Kearns employees.

Countywide Policy 1125, Safeguarding Property/Assets, Section 4.3, states:

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

Section 4.3.1., states:

"[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 Facility Manager stated he was unaware of the requirement in Countywide policy to use this form, and therefore, he had not implemented the use of the form at the facility. Incomplete or inaccurate controlled asset records increase the risk that those assets could be lost, stolen, or converted to personal use without being detected by the Property Manager at Kearns.

Recommendation

We recommend that the Property Manager at Kearns Recreation Center implement the use of the *Controlled Asset Inventory Form – Employee* to assign personal accountability for any controlled asset that has been assigned to a specific employee.

Purchasing Card Expenditures and Use

Audit Objectives

- Determine if purchasing and proprietary card procedures complied with Countywide policy and were for legitimate County business purposes.
- Determine if purchasing and proprietary cards are properly safeguarded.

As part of our audit, we reviewed purchasing card expenditures made by cardholders at Kearns. *Countywide Policy 7035, Purchasing Cards – Authorization and Use*, establishes policy and procedures that govern p-card transactions. We inquired of management which individuals had a p-card. We observed that the employees kept the cards on their person or in a secure area. We compared their names against a list of cardholders provided by Contracts and Procurement to determine if the cardholders had gone through training on the appropriate use of p-cards. We found that all cardholders had received the p-card training.

We examined a statistical random sample of 158 p-card purchases made during 2017. We found that all purchases were for a legitimate business purpose, were within authorized amounts, were reviewed by management, and matched original purchase receipts.

We noted no significant findings in purchasing card expenditures and use.

Accounts Receivable

Audit Objectives

- Determine if credit is granted to County customers and patrons as defined in Countywide Policy 1220, *Management of Accounts Receivable and Bad Debt Collection*.
- Determine if the management of accounts receivable complies with Countywide Policy.
- Determine if payments received for accounts receivable are properly recorded, safeguarded, and deposited in compliance with Countywide Policy.
- Determine if collection activities on all past due accounts comply with Countywide Policy.

Our audit included an examination of customer accounts receivable (“A/R”) records and A/R account management procedures at Kearns. *Countywide Policy 1220, Management of Accounts Receivable and Bad Debt Collection*, establishes the policies and procedures for the proper management of customer accounts receivable, including monitoring aging, debt collection policies, and accounting practices. Accounts receivable are amounts not yet paid for services already received and owed by customers or patrons to Kearns.

Kearns records deposits and receivables for their childcare programs. Generally, parents pay for childcare in advance monthly. However, some parents are unable to pay in advance and Kearns creates a customer credit account for those patrons. If their child still receives care at the facility, a receivable will be accrued on their account.

Account balances are managed by the Office Coordinator in an Excel spreadsheet. We examined the outstanding balance of every A/R account at the facility. We noted a net accounts receivable balance of \$3,628.

We selected a sample of 20 customer credit account holders and reviewed all the payments made on those accounts throughout 2017. We compared receipt numbers and amounts from a total of 184 transactions listed on the receivable spreadsheet, or listing of amounts owed, against a receipt ID number and transaction total listed in the Sportsman point-of-sale system. We found that all amounts recorded in the point-of-sale system matched the spreadsheet and had a unique identifier.

We examined an aging schedule as of the date of our fieldwork. We found there were \$4,710 of outstanding balances exceeding 90 days. We documented the process for handling delinquent accounts. The Office Coordinator stated that they would work with patrons as much as they could to pay off their debt. If the patrons refused to work with Kearns or follow the agreed upon payment terms, the delinquent account would be turned over to the District Attorney's Office ("DA") for further collection efforts, as required in County policy. In our review, we identified eight accounts with balances totaling \$7,088 that had been sent to the DA for collection during 2017.

Finally, we reviewed job duties associated with the accounts receivables function and determined if they were there were proper segregation of duties among employees. We found that some duties that should be separated were consolidated with a single individual, which increased the risk that customer account balances could be manipulated, or that County funds could be stolen or misappropriated. Although not ideal, management was able to provide evidence that the Facility Manager at Kearns was conducting an independent review of the monthly A/R reconciliation as required by County policy when staffing levels are limited and prevent proper segregation of duties.

We noted no significant findings in accounts receivable.

Martin Jensen, Director

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Conclusion

We appreciate the time spent by the staff at Kearns Recreation Center answering our questions, gathering the necessary documentation and records, and allowing us access to the center during our audit. The staff were friendly, courteous, and very helpful throughout the audit process. We trust that implementation of these recommendations will provide for more efficient operations and better safeguarding of County assets. Please feel free to contact our office if you have any further questions.

Sincerely,



Scott Tingley, CIA, CFP

Salt Lake County Auditor

Cc: Andrew Keddington, Associate Division Director – Fiscal Operations
David Young, Facility Manager

Attachment A: Agency Response

Attachment A: Agency Response

Agency Response Kearns Recreation Center			
Finding 1 – The Controlled-Asset Employee Form was not used to assign personal accountability over controlled assets.			
RECOMMENDATION(S)	AGREE/ DISAGREE	ACTION PLAN	TARGET DATE
<i>We recommend the “Controlled Asset-Employee” form be used to assign personal accountability to any employee that has custody of controlled assets.</i>	Agree	We will begin using the suggested form.	04/2018