April 8, 2005

Glen Lu, Director
Parks and Recreation Division
2001 South State Street, Suite S 4400
Salt Lake City, Utah 84190

RE: Central City Recreation Center Audit

Dear Glen:

The Internal Audit Division has completed an audit of the Central City Recreation Center (Center). We reviewed the following: cash receipting and depositing, fixed and controlled assets, and vending. We also conducted an unannounced count of all funds at the Center.

For each of these areas, we examined internal controls and processes employed by Center personnel, to determine compliance with Countywide policies pertaining to the areas of our examination. Our work at the Center, as in past audits of recreation facilities, was designed to provide reasonable, but not absolute, assurance that controls were adequate, records current and daily transactions valid.

We found that documentation for monetary transactions, such as Z-tapes and daily balance sheets, were filed in an orderly manner. Many internal controls were in place to help ensure the integrity and accuracy of transactions. These controls included separation of duties and dual review and verification of crucial steps in the cash handling process. Moreover, we observed management oversight in certain operational areas, such as daily balancing, to further provide assurance of system integrity.

We have limited our comments—which are not all-inclusive of the scope of the work performed—to major findings and recommendations. Other areas of concern have been discussed with management at the Center. The reader should not assume that processes not discussed here are in compliance with Countywide policy.

CASH RECEIPTING AND DEPOSITING

Our audit included examining cash handling procedures to determine whether Countywide Policy #1062, "Management of Public Funds," was being followed. We counted all funds on the premises, including cash receipts not yet deposited, the change fund, and petty cash fund. We also reviewed a sample of deposits from the past year, and reconciled these deposits to bank statements on file. During our examination we found the following:

- **The Center had a $40 change fund in place that was not authorized through the Auditor's Office.**

- **Cashiers were not recording overs and shorts on the MPF Form 11, "Cash Over/Short Log."**

- **Many collections were not deposited within the statutorily mandated time limit of three days.**

The Center had a $40 change fund in place that was not authorized through the Auditor's Office. Though the fund has existed for many years, it was not listed on the "Salt Lake County Petty Cash and Other Imprest Accounts" list, prepared and maintained by the Salt Lake County Auditor's Office.

The purpose paragraph of Countywide Policy #1203, "Petty Cash and Other Imprest Funds," states, "*Change funds are established to provide cash for the purpose of making change when processing over-the-counter cash receipts.*" Section 2.1, states, "*The requesting organization shall complete an MPF Form 2 request for…establishment of…imprest fund.*" Personnel could not remember when the fund was established, nor why it was not documented with the Auditor's Office at that time. However, failure to have the fund identified, and of record, creates inaccuracy in county financial records, and places the fund outside the purview of oversight authority.

Action Taken

An MPF Form 2 "Request for Change or Establishment of Petty Cash or Other Imprest Funds" has been completed and delivered to the Auditor's Office to comply with policy.

Cashiers were not recording overs and shorts on the MPF Form 11, "Cash Over/Short Log." Each cashier recorded his or her daily over/short amounts on the balance sheet, but not the "Cash Over/Short Log." Instead of using the form as outlined in Countywide policy, the Center used it to record variances in the change fund balance. Use of the form in this manner suggests that the change fund was not maintained at its authorized limit, creating an additional violation of Countywide policy. Policy #1062, Section 2.5.3, states, "*All overages and shortages, regardless of the amount must be recorded daily by the agency on MPF Form 11 Cash Over/Short Log.*" See attachment A for an example of MPF Form 11. Further, Policy #1062, Section 5.2, states, "*Shortages will be withheld from the deposit to maintain the change fund at the authorized level and will be reported on the MPF Form 11.*"

MPF Form 11 provides a standard method for each cashier to record overs and shorts. It requires that cashiers initial their daily entries, and that supervisors sign the form as evidence of their own review. Consistent use of the form increases the probability that cash outages will be reduced because of the daily reminder it provides to cashiers of their balancing record and the frequency with which overs and shorts have occurred.

Obviously, employees did not understand the proper function and use of the form. However, failure to use the form as intended, could lead to a lax attitude where cash outages become excessive or mundane. The form should be used as outlined in Countywide policy, and the change fund itself should always remain intact at its authorized limit.

RECOMMENDATIONS:

1. We recommend that the Center use MPF Form 11, "Cash Over/Short Log," for recording individual cashier daily over/shorts as required by policy.

2. We recommend that the change fund remain intact at its authorized limit, and that overs and shorts be reflected in the deposit, and not the change fund.

Many collections were not deposited within the statutorily mandated time limit of three days. The part-time bookkeeper who prepares the deposit was not aware of the three-day limit, and thought that deposits needed to be made only when collections accrued to at least $50. Because of this misunderstanding, deposits sometimes covered as many as four to five days of collection activity.

However, depositing more than three days after collections have been made is contrary to Policy #1062, Section 3.7.2, which states, *"As required by Section 51-4-2 Utah Code Annotated, all public funds shall be deposited daily whenever practicable but not later than three days after receipt."*

Failure to make timely deposits places funds at risk of being stolen and reduces interest earnings that could otherwise be accrued. Therefore, all money should be deposited no later than three days after receipt.

RECOMMENDATION:

We recommend that deposits be made not later than three days after collection in accordance with Countywide policy and State statute.

VENDING

Our objective in auditing vending machine operations was to ascertain whether internal controls were in place to protect and properly account for product inventory, and verify that receipts were processed according to best practices and Countywide policy. We found the following:

- **Some aspects of vending accounting and reporting functions were not performed according to accepted inventory control practices.**

Some aspects of vending accounting and reporting functions were not performed according to accepted inventory control practices. We found, as we have at most other recreation centers that the commonly accepted formula for inventory accounting was not in place. In other words, personnel were not determining expected ending inventory based on the equation of beginning inventory, less cost of goods sold, plus purchases. Though the Center has implemented an effective spreadsheet to record the count of vending machine items in stock, the count is not compared to expected ending inventory to determine whether any shrinkage occurred due to theft. Implementation of the spreadsheet was a good starting point in the inventory control process, but comparing the count to expected ending inventory is a necessary step in establishing whether all inventory changes were due to sales and purchases, as they should have been.

In addition to use of the inventory count spreadsheet, we noted other positive features in operational procedures. For example, inventory storage included a locked storage room and access to keys by only two employees. Moreover, we noted implementation of dual controls as two employees stocked the vending machine and counted collections.

Also, we commend the Center for performing monthly counts of vending inventory, a process started in April, 2004. The spreadsheet, in addition to recording the count of items on hand, provides for the count to be extended by both the cost and sales price. Thus management can determine the value of inventory changes since the last count was conducted.

Personnel did not compare inventory counts to expected ending inventory because they saw little risk of theft occurring in vending machines and, moreover, they were not entirely familiar with the inventory formula as stated. However, without comparing item counts to expected ending inventory, not only does any product theft likely remain undiscovered, but verification as to the accuracy of receipts deposited is not achieved.

Using the prescribed process also gives management greater flexibility and discretion when buying new product because sales activity is more precisely known. The process also provides greater accuracy when calculating profit margins. Therefore, personnel should calculate expected ending inventory, and perform this calculation based on the formula of beginning inventory, less cost of goods sold, plus purchases.

RECOMMENDATION:

We recommend that vending machine item counts be compared to expected ending inventory to determine if any theft of either cash or product has occurred.

FIXED AND CONTROLLED ASSETS

Our objective for this part of the audit was to evaluate the adequacy of internal controls over County fixed and controlled assets, including compliance with Countywide Policy #1125, "Safeguarding Property/Assets." A fixed asset is defined as an item of real or personal property owned by the County, meeting the criteria for capitalization, having an estimated life expectancy of more than one year, and a cost equal to or greater than the capitalization rate, currently $5,000.

A controlled asset is a personal property item, which is easily converted to personal use, having a cost of $100 or greater, but less than the current capitalization threshold. Personal communication equipment, such as cell phones, are considered controlled assets regardless of cost.

We obtained a list of fixed assets assigned to the Center and found two items listed, a copier and an exercise machine. We located and accounted for both pieces of equipment.

We also secured from the Center director a controlled asset list. The list, dated March 2004, was the latest record of controlled assets on hand. The director explained that a more recent list was lost due to a computer malfunction several months ago. We attempted to locate all controlled assets because only a few number of items were listed. Based on our work in this area we found the following:

- **Some recently purchased assets could not be traced to the controlled asset list, and agency tags were not affixed.**

- **The declassification of some items as fixed assets, due to increasing capitalization rates, was not reflected on Center records.**

- **The "Controlled Assets Inventory Form—Employee," had not been implemented as a means of assigning equipment based on employee usage and custody.**

Some recently purchased assets could not be traced to the controlled asset list, and agency tags were not affixed. We reviewed the Center's purchase requests for the past year and searched for corresponding items during our inventory count to determine if newly purchased controlled assets had been tagged and added to the controlled asset list. Though the Center, as a matter of ordinary operational procedure, tags all controlled assets, some recently purchased items had not been tagged or included on the list. These items included five Dell computers, with CPUs, monitors and key boards. In addition, the Sportsman system hardware, purchased May 1, 2004, and a tennis net with accessories, purchased April 16, 2004, had not been tagged or listed.

Policy #1125, Sections 2.2 and 2.2.8, state, *"Property Manager's duties-Property Managers assigned by their Administrators are responsible for the following…Coordinate with the organization's Purchasing Clerk to ensure all newly acquired property is identified and accountability is appropriately established…"*

Commitments in other areas of managing the Center distracted responsible personnel attention from the need to record these newly acquired controlled assets. However, newly purchased items are easily targeted for theft if they are not listed on the controlled assets list and closely tracked by management. Moreover, the inventory control number and purchase invoice should be cross referenced so that a determination can be made of whether all newly acquired controlled assets have been entered into inventory.

RECOMMENDATIONS:

1. We recommend that all newly acquired controlled assets be added to the controlled asst list and affixed with a tag.

2. We recommend that the controlled asset number be recorded on the invoice corresponding to the purchase of an asset as a means of determining whether all newly purchased controlled assets have been entered into inventory.

The declassification of some items as fixed assets, due to increasing capitalization rates, was not reflected on Center records. Several items formerly classified as fixed assets are now controlled assets due to increases in the fixed asset capitalization rate. This declassification occurred with three assets, a duplicator, floor safe and kiln (used to fire sculpture). Their acquisition cost ultimately fell below the threshold for fixed asset designation when the capitalization rate increased in 2000. Despite this change in status, the items still had their fixed asset tag affixed, and the Center had not placed them on their own controlled asset list.

Center personnel were not aware of the increase in capitalization rates and the resulting reclassification of this equipment to controlled asset status. Thus, categorization changes were not made. However, controlled assets that lack organizational control and oversight are more susceptible to theft. Therefore, the Center now has the responsibility to tag formerly designated fixed assets as controlled assets, and add them to the controlled asset list.

RECOMMENDATION:

We recommend that all former fixed assets now considered controlled assets be affixed with the Center's tags and added to their controlled asset list.

The "Controlled Assets Inventory Form—Employee," had not been implemented as a means of assigning equipment based on employee usage and custody. Two cell phones assigned to Center personnel were not documented using the "Controlled Assets Inventory Form—Employee." Policy #1125, Section 2.3.4, states, *"…at least annually, employees assigned fixed or controlled assets shall review the list of assigned assets and provide verification by his/her signature to the Property Manager as to the accuracy and completeness of the list."* Such verification should be in the form as provided by Section 4.3.1, Exhibit 3 of the policy, or a form that requires substantially the same information. Failure to assign equipment to employees who use these items places assets at risk of improper use and/or loss. See Attachment B for an example of the "Controlled Assets Inventory Form—Employee."

Moreover, cell phones, though typically costing less than $100 in today's market, are nonetheless classified as controlled assets. Policy #1125, Section 1.2, states, *"Due to the difficulty associated with centralized control of personal communications equipment… this category of property is considered to be controlled assets' regardless of the cost of the individual items, and is therefore subject to the controlled assets procedures…"*

"Controlled Assets Inventory Form—Employee" has not been used because of the small number of items to which it would apply. However, without the form, assignment of responsibility for any loss or theft of cell phones could not definitively be made. Therefore, employees who exercise the greatest control and most frequent use of certain controlled assets should have these assets assigned to them through completion of a "Controlled Assets Inventory Form—Employee."

RECOMMENDATION:

We recommend that management complete, and review annually, the "Controlled Assets Inventory Form—Employee," for any employees within whose possession controlled assets are maintained.

STAFFING AND RELATED ISSUES

Currently, the Central City director supervises 19 part-time employees, comprised mostly of students. In addition she supervises a full-time program manager and custodian at the Central City Center, and a full-time program manager at the Kiwanis Felt Center. At the time of our audit, the program manager was in the hospital for an extended stay, creating added responsibility for the director, who, in addition to her many other responsibilities, told us that she spends at least 50 percent of her day "micro managing" part-time employees. We found the following relating to management deficiencies:

- **Excessive duties and responsibilities were placed on the Center Director alone, preventing adequate management of the two recreation centers assigned to her.**

Excessive duties and responsibilities were placed on the Center Director alone, preventing adequate management of the two recreation centers assigned to her. In addition to her duties at the Central City Center, she and the part-time bookkeeper go to the Kiwanis Center each day to prepare Kiwanis' bank deposit. Problems with personnel have also added to her pressures, and restricted her time and efforts that otherwise could be devoted to marketing and promotion. Recently she had to fire three part-time janitors for misconduct.

Part-time employees perform much of the work at the Center. Center staff is comprised of three full-time employees, one of whom is the custodian. The other 19 employees have part-time, non-merit status. Most of the part-time employees earn $6.92 per hour, and they do not receive benefits. Therefore, they may not be concerned about their job performance or the amount of effort expended in fulfilling their assigned duties. Patrons are aware of this lax attitude, a type of behavior that creates an unwelcome atmosphere and environment that stifles the retention of regular customers and inhibits the marketing of new customers. Nevertheless, we noted that some part-time employees showed greater energy and initiative than others because they had worked there longer and were seeking full-time employment.

The director oversees promotion and implementation at both Kiwanis and Central City Centers of at least nine or more programs for youth and adults. In addition, she also supervises basketball court activities and scheduling at Central City. Programs in place at the Central City Center include cooking, art classes, dancing, aerobics, exercise facilities, and a computer lab. As a result of this heavy schedule, and the relatively few number of full-time merit employees on staff, concern for fiscal and asset management policies is a low priority.

Staffing issues, which ultimately are budgetary issues, have also affected marketing and promotion. During a period of several months, the Center opened early in the morning to accommodate customers who worked during the day. Patronage was heavy at this time because customers could use the facility before going to work. However, a purported reduction in funding caused the Center to eliminate this schedule that so conveniently served patron needs. Its discontinuance, however, was a poor marketing decision that needed closer scrutiny. Management should determine whether the cost of opening the Center early could be covered by additional revenue received from increased customer traffic due to early morning opening.

Moreover, personnel problems, both in performance of job duties and pressures from excessive work assignments need to be addressed. Our discussions in prior reports have cautioned that saving money by favoring the hiring of part-time over full-time staff will, in the long run, damage the Center's ability to provide services. It also sets the stage for deterioration of facilities and, ultimately, the loss of diligent, hard- working employees who care about the service they provide. The Center's reduced ability to function and service customer needs will ultimately cost the County more than the temporary savings now deemed achieved through hiring part-time workers. Also, the Center itself, built in the 1960s, needs retrofitting and revamping of operations to meet the tastes and demands of contemporary society.

RECOMMENDATIONS:

1. We recommend that Parks and Recreation management examine the mission of the Central City Recreation Center, its benefit to the community, and the hours it is open to the public, and that necessary adjustments be made to increase revenue and augment the return on investment.

2. We recommend that management evaluate the cost/benefit relationship in hiring more full-time employees at the Center, as opposed to so many part-time employees, with the expectation that additional full-time employees will increase service levels and patron satisfaction.

We appreciate the cooperation and assistance received from Central City Recreation Center personnel during our audit, and hope that the information presented here will benefit the Center to help them more fully comply with countywide policy. If we can be of further assistance to you please contact us.

Sincerely,

James B. Wightman CPA
Director, Internal Audit Division

cc: Margaret Aloia
Paul Ross
Thora Bell
Debra L. Butler

CASH OVER/SHORT LOG

MPF Form 11

DIVISION ______________________________

MONTH/YEAR __________________________   EMPLOYEE _________________________

DAY	AMOUNT OVER/SHORT	INITIALS OF CASHIER
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		
26		
27		
28		
29		
30		
31		
	ACCUMULATIVE OVER/(SHORT)	$ -

Approved by Agent Cashier_________________________

I have reviewed the above log for propriety and certify that anyt differences between cash receipted and deposited are listed above.

Supervisor's Signature ____________________________   Title __________________

ATTACHMENT A

FIXED & CONTROLLED ASSETS INVENTORY FORM
EMPLOYEE

ORGANIZATION NAME ______________________ ORGANIZATION # ______________

PROPERTY ASSIGNED TO ______________________ DATE LAST INVENTORIED & BY WHOM (Property Mgr) ______________________

PROPERTY DESCRIPTION	MAKE	MODEL	SERIAL #	PHYSICAL LOCATION	BOUGHT ON PO #	PO DATE	VENDOR	COST	COUNTY ASSET #	CHANGE IN STATUS & DATE

CERTIFICATION:
I have reviewed this list of equipment and agree that it is an accurate and complete list of equipment assigned to me. I understand I am accountable for the equipment and responsible for it in accordance with applicable County policies. I understand that I may be required to repay the County for negligent loss of an asset, or unaccountability of an asset upon my transfer to another position, or termination from County employment.

Employee's Signature:____ Date:______________________

ATTACHMENT B