SALT LAKE COUNTY AUDITOR'S OFFICE

JEFF HATCH
Auditor

December 31, 2007

Bruce Henderson
Parks and Recreation
2001 S. State Street, S4900
Salt Lake City, Utah 84190-2300

Re: Fairmont Aquatic Center and Liberty Park Pool Audit

Dear Bruce:

We recently completed an audit of the Fairmont Aquatic Center (Fairmont) and Liberty Park Pool (Liberty). Our audit included an examination of collections and depositing, the change funds and petty cash fund, capital and controlled assets, accounts receivable, and vending. We conducted an unannounced count of the change and petty cash funds as authorized through the Auditor's Office.

The lead auditor was Amy McCormick with assistance from Celestia Cragun. Larry Decker had administrative oversight of the audit.

For each area audited we addressed the effectiveness of internal controls and processes employed by Recreation personnel. Our objective was to determine whether operations relevant to areas of our examination were in compliance with Countywide policies examined. Our work was designed to provide reasonable, but not absolute, assurance that controls were adequate, records current and daily transactions valid.

We found that bank deposits were supported by daily cash balance sheets and summary reports of daily cash receipts. We reviewed internal controls relating to cash handling, such as separation of duties, and management oversight. Since our audit was limited to the above-mentioned areas, the reader should not assume that processes not discussed here were in compliance with Countywide policy.

CASH HANDLING

To review cash receipting and depositing, we obtained a statistically random sample of deposits during the time period December 1, 2006 to November 30, 2007. As part of our audit, we performed an unannounced cash count on the change funds and petty cash fund registered to the Fairmont and Liberty pools. Following are the findings for this portion of the audit.

- ***Funds collected at Fairmont and Liberty were not deposited in a timely manner.***

- ***Voided transactions were not handled according to policy.***

- ***The Over/Short log was not completed and did not contain a supervisor or cashier signature.***

- ***Cashiers opened their cash drawer up to 33 times during a shift for "no-sale" transactions.***

- ***An "Ask for Receipt" sign was not on display at Fairmont to help ensure that patrons were given a receipt.***

- ***The supervisor did not always sign the daily cash balance forms (MPF Form 3A) when preparing the deposit.***

- ***The safe combinations have not been changed within the last year.***

Funds collected at Fairmont and Liberty were not deposited in a timely manner. We examined 62 deposits for Fairmont during the time period December 1, 2006 and November 30, 2007. We found that 18 percent of the daily collections were not deposited within 3 days.

We also examined 27 deposits for Liberty for the time period June 1, 2007 to September 3, 2007. We found that 19 percent of the daily collections were not deposited within 3 days.

Countywide Policy #1062, "Management of Public Funds," Section 3.7.2, 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.*" The possibility of deposit errors occurring and funds being mishandled increases as the time between deposits increases.

RECOMMENDATION:

Collections should be deposited no later than three days after receipt.

Voided transactions were not handled according to policy. There were 106 voids completed on the days in our sample for Fairmont and Liberty. Of the 106 voids that occurred, 45 percent did not contain an explanation, 54 percent did not contain a cashier signature, 98 percent did not include a supervisor signature, and 58 percent were missing a void slip. The following table summarizes the breakdown of the voids by location.

Summary of Voids for Fairmont and Liberty Park Pools

	Fairmont Pool	Percent Of Fairmont Total	Liberty Park Pool	Percent Of Liberty Total	Total	Percent of Total Voids
# of Voids	83	100%	23	100%	106	100%
Missing Explanation	35	42%	13	57%	48	45%
Missing Cashier Signature	40	48%	17	74%	57	54%
Missing Supervisor Signature	81	98%	23	100%	104	98%
Missing Void Slip	39	47%	22	96%	61	58%

Table 1. *Voided transactions were not always well-documented and approved.*

The Parks and Recreation Division "Policy and Procedures for Cash Handling," Section 2.4.3-2.4.4, states, *"When a point of sale transaction error has occurred, a void slip must be completed including the reason for the void and the cashier's signature. The shift supervisor will sign off on the void slip, where feasible. All void slips will be signed off and reviewed by the Supervisor or alternate cashier and reconciled with the daily deposit."*

The improper handling of voids, including not obtaining the proper approval, creates a situation wherein funds could be diverted to personal use. The implementation by Parks and Recreation of a void slip ensures that each element required by policy is recorded for each transaction.

RECOMMENDATION:

Documentation for voided transactions should contain a void slip, explanation, and cashier and supervisor signatures.

The Over/Short log was not completed and did not contain a supervisor or cashier signature. During the time period we examined, a monthly Over/Short log was on file for Fairmont. However, the log had no over/short amounts recorded on it and no supervisor or cashier signatures.

In addition to over/short logs being required by Policy #1062, the Parks and Recreation Division "Policy and Procedures for Cash Handling," Section 3.3, states, *"Agent cashier will record the overage/[shortage] on the cashiers MPF form 11, 'Over/Short Fund Log'… A daily overage and shortage log will be … reviewed monthly by the agent cashier… The agent cashier and the employee shall sign the monthly log …"*

MPF Form 11 provides a standard method for each cashier to record their over/shorts, initial their entries daily, and submit the form monthly for review by a manager. The benefit of consistent use is that the cashier is reminded daily of any over/short problems, and problems are reviewed by a supervisor.

We found outages on only 3 of 575 daily cash balance sheets examined. Therefore, the significance of this problem is not great. Nevertheless, forms should be completed and signed as required.

RECOMMENDATION:

A monthly over/short log should be completed for each cashier and the supervisor and the employee should sign the log verifying the review.

Cashiers opened their cash drawer up to 33 times during a shift for "no-sale" transactions. During June 2007 a new feature was added to the Sportsman software program that records when a cashier opens the cash drawer without processing a transaction. The software records this as a "no-sale" transaction. We examined 39 cash register detail reports between July 27, 2007 and August 28, 2007. We found an average of nine "no-sale" transactions per shift. On one particular shift a cashier had 33 "no-sale" transactions.

We were unable to determine a definite reason for the cash drawer being opened for "no-sale" transactions. However, one cashier mentioned that the cash drawer occasionally does not open properly after a transaction is entered into Sportsman. If a cashier opens the cash drawer for reasons other than processing a transaction the risk that funds may be mishandled increases.

RECOMMENDATION:

Management should closely monitor "no-sale" transactions and require cashiers to account for these transactions on a daily basis.

An "Ask for Receipt" sign was not on display at Fairmont to help ensure that patrons were given a receipt. The front counter at Fairmont did not have an "Ask for

Receipt" sign posted. We were unable to observe whether Liberty Park Pool had a sign posted because the pool is closed for the winter.

The Parks and Recreation Division "Policy and Procedures for Cash Handling," Section 2.1.2, states, *"A sign must be visible to facility patrons stating, 'It is our policy that a transaction is not complete until a receipt is given to the patron.' "*

Patrons are informed that they should receive a receipt for each transaction when an "Ask for Receipt" sign is displayed. In addition, the risk that funds may be mishandled decreases.

ACTION TAKEN:

In response to our audit observations, an "Ask for Receipt" sign is now on display at Fairmont.

The supervisor did not always sign the daily cash balance forms (MPF Form 3A) when preparing the deposit. During the audit we examined approximately 575 daily cash balance forms for Fairmont and Liberty. Of the 575 daily cash balance forms, only 26 percent were signed by the supervisor who prepared the deposit.

The Parks and Recreation Division "Policy and Procedures for Cash Handling," Section 4.3, states, *"[Agent Cashier or Designee should] Verify the accuracy and sign the MPF Form 3A [daily cash balance form]."*

The Director, who is also the supervisor, explained that he reviewed each daily cash balance form when the deposit was prepared. However, he did not sign each form to indicate the review had been performed. The supervisor's signature on the cash balance form indicates that voids, over/short amounts, no-sale activity and other transaction detail have been reviewed for appropriateness and that proper documentation is on file. If this review does not occur, or the review is not indicated by a signature, the risk of funds being mishandled increases.

RECOMMENDATION:

The Director should sign each daily cash balance form to indicate review.

The safe combinations have not been changed within the last year. Fairmont has two safes and Liberty has one safe. The Director stated that the safe combinations were changed in about 2001 and one time since then, but not in the past year.

Policy #1062, Section 2.3.3, states, "*The combination to a safe will be changed…at least once a year…*"

Due to turnover of staff at both locations, it is important to have the safe combinations changed at least once a year as policy requires. The risk of funds being mishandled or stolen increases when the safe combination is not changed on an annual basis.

RECOMMENDATION:

The safe combinations should be changed on an annual basis.

CHANGE FUNDS AND PETTY CASH

We conducted an unannounced count of the $400 change fund and $1,000 petty cash account assigned to Fairmont. We also conducted an unannounced count of the Liberty $50 change fund under custody of the Director at Fairmont. During the count, we found the following:

- **Part of the change fund assigned to Fairmont was moved to Liberty but the Auditor's Office was not notified of the change.**

- **Some Petty Cash vouchers did not have two signatures as required by Countywide Policy #1203.**

Part of the change fund assigned to Fairmont was moved to Liberty but the Auditor's Office was not notified of the change. As mentioned above, Fairmont has a $400 change fund and Liberty Pool has a $50 change fund. The count of the Fairmont change fund initially was short $60. The Director told us that he had moved $30 from the Fairmont change fund to the Liberty change fund last summer when it was determined that $50 was not adequate for the change fund needs at Liberty.

The Auditor's Office was not notified of the adjustment because the Director believed he was responsible for the change funds at both pools and therefore did not need to differentiate between the two. When we counted the change fund for Liberty, we found $80, which accounted for the $30 transferred to it from the Fairmont fund.

The remaining $30 shortage in the Fairmont fund was reportedly placed into the vending machine as a start-up change fund when Fairmont opened in 2002. Personnel in charge of vending machine operations have not tracked or verified the amount of change in the machine. When the machine has been refilled and collections removed for deposit, standard practice has been to leave a random amount as a change fund and then to deposit the remainder. When we traced vending collections to the deposit report, we found that the amount of the vending machine change fund was not identified. This random way of accounting for vending machine collections places funds at risk and increases the likelihood of theft occurring.

RECOMMENDATIONS:

1. The change in the vending machine should be counted and maintained at $30 to ensure balancing of the change fund to its authorized limit.

2. The Auditor's Office should be notified of the $30 increase in the change fund at Liberty and the corresponding $30 decrease at Fairmont.

Some Petty Cash vouchers did not have two signatures as required by Countywide Policy #1203. Countywide Policy #1203, Petty Cash and Other Imprest Funds, Section 3.11.1, states *"[Vouchers] shall be signed by the payee and approved by the custodian."*

The vouchers lacked a second signature due to money being disbursed to the Director, who is also the custodian. The Director understood that he could not sign as both the recipient and the custodian but was unsure how to document the transfer of funds. The proper procedure in this situation is for the Director to request a staff member to review and sign the petty cash voucher to ensure independent review of the transaction.

RECOMMENDATION:

All petty cash disbursements to the fund custodian should be reviewed and signed by an individual independent of the transaction.

CAPITAL AND CONTROLLED ASSETS

Our objective for this part of the audit was to evaluate the adequacy of internal controls over County capital and controlled assets, including compliance with Countywide Policy #1125, "Safeguarding Property/Assets." Capital assets are items whose purchase price is greater than the current capitalization rate of $5,000. The Auditor's Office, in addition to maintaining the capital assets list and distributing a copy of it to County agencies, also prints and distributes tags for newly acquired capital assets.

Management for controlled assets is assigned to the individual agencies where these items are located. Countywide Policy #1125, "Safeguarding Property/Assets," Section 1.2

defines a controlled asset as "*personal property items having a cost of $100 or greater, but less than the current capitalization rate…*"

We were pleased to find a controlled assets list on file at Fairmont, maintained by a property manager, and ready for our review upon request. We selected a statistically significant sample of 59 controlled assets from the 286 items on the list and found all but two items in our sample. The items not found were a laptop computer and a computer registered to the front desk manager. The laptop was reportedly replaced by two new laptops, which we located at Fairmont. The desk computer was also replaced by a newer computer, which we found and traced to the controlled asset list.

Included on the Fairmont inventory list were assets assigned to Liberty. These controlled assets are designated to administrative authority at Fairmont. We completed a full inventory on the 14 assets assigned to Liberty and found 13. The one asset we did not find was a monitor that had been replaced but not removed from the controlled assets list. Based on our work in this area we found the following:

- **Assets removed from Fairmont inventory were still included on the controlled assets list.**

Assets removed from Fairmont inventory were still included on the controlled assets list. As computers become obsolete, they are replaced with new equipment. Several computers and monitors were added to the inventory list in the summer of 2005, and we found those items included in our sample. However, the computers and monitors that they replaced had not been removed from the inventory list. Inventory should be removed from the controlled assets list at the time they are replaced to avoid tracking assets no longer on site.

Additionally, we found seven spinning bikes with two asset tags affixed to each bike, one from Fairmont and one from the previous facility at which they were located. The spinning bikes were correctly given Fairmont tags and added to the inventory list but the previous tags also remained on the list. Having the same asset listed twice on the inventory list under two different numbers may lead to confusion in tracking assets.

ACTION TAKEN:

The Fairmont director sent us a copy of an up-dated controlled assets list showing the disposition of the assets removed from the center.

ACCOUNTS RECEIVABLE

High school swim teams, daycare groups, and other organizations are billed by Fairmont and Liberty for use of the pools. The Program Coordinator uses QuickBooks to create invoices and manage accounts receivable. Fairmont did not have any written policy or procedures for managing accounts receivable. However, the Program Coordinator stated that invoices are prepared around the 15th of the month and collection letters are sent to patrons who do not pay within 60 days. During our examination of accounts receivable we found the following:

- **Thirty-one percent of outstanding invoices were greater than 120 days past due.**

- **A non-profit agency that brought a group of children to Liberty was not billed in a timely manner.**

Thirty-one percent of outstanding invoices were greater than 120 days past due. We reviewed the outstanding invoices for Fairmont and found all outstanding invoices were greater than 30 days past due. Table 2 summarizes the outstanding invoices as of December 17, 2007.

Fairmont Accounts Receivable Aging Schedule			
# of Invoices	**% of Invoices**	**# of Days Outstanding**	**Amount**
5	31.25%	> 120	$1,074
5	31.25%	91 – 120	$554
0	0%	61 – 90	$0
6	37.50%	30 – 60	$662
0	0%	< 30 days	$0
16	**100%**	**Total**	**$2,290**

Table 2. *Invoices totaling $1,074 were more than 120 days past due.*

In December 2006, the Salt Lake County Council adopted a new Countywide Policy #1220, "Management of Accounts Receivable and Bad Debt Collection." One provision of the new policy is the mailing of collection letters. Section 4.5 states, "*When an account becomes past due, the debtor shall be mailed a Dunning Letter … ten days following the account becoming past due…*" Policy #1220 goes into detail regarding collection activity for accounts receivable and includes an example of collection letters, a credit application, an invoice, a statement of account, an aging schedule, and a phone call log. As accounts age, the risk of not collecting the debt increases. Therefore, every effort should be made to collect balances in a timely manner.

RECOMMENDATION:

A collection letter should be mailed when an account becomes ten days past due.

A non-profit agency that brought a group of children to Liberty was not billed in a timely manner. During our examination of daily deposit documentation for Liberty, we found a form titled "Group Billing Information." The form was dated August 15, 2007 and recorded that a non-profit organization brought 40 children and 5 adults to the pool to swim. Normally, at the end of the shift this form was given to the Program Coordinator, who then billed the agency. However, when we obtained copies of the billed invoices from the Program Coordinator, we found this organization had not been billed as of December 17, 2007. The Program Coordinator explained that the form had not been submitted to him so he was unaware of the situation until we brought it to his attention.

Policy #1220, Section 3.5, states, "*County departments and agencies must provide accurate and timely billings to patrons…*" After we brought this matter to the Program Coordinator's attention, he billed the non-profit organization on December 21, 2007. In the future, the Program Coordinator should be made aware of any groups to be billed prior to their admittance to the pool. This will ensure that the information required by Policy #1220 is collected and that the billing will be processed in a timely manner.

RECOMMENDATIONS:

1. ***A procedure should be implemented to ensure that the Program Coordinator is aware of groups that use the pool on account.***

2. ***A timely billing should be processed for all organizations that use the pool.***

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 that personnel did not determine expected ending inventory based on the equation of beginning inventory, less cost of goods sold, plus purchases. The count was not compared to expected ending inventory to determine whether any shrinkage occurred due to theft. Without comparing item counts to expected ending inventory, not only does any product theft likely remain undiscovered, but the accuracy of receipts deposited is not verified. Comparing the count to expected ending inventory is a necessary step to establish whether all inventory changes are due to valid sales and purchases.

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

RECOMMENDATION:

Vending machine item counts should be compared to expected ending inventory to determine if any theft of either cash or product has occurred.

Notwithstanding the findings and recommendations outlined in this report, we otherwise found Fairmont and Liberty operations to be in compliance with Countywide policy, and procedures. Moreover, management demonstrated an attitude of concern for these controls, and an eagerness to correct any deficiencies that we brought to their attention.

In closing, we express appreciation to the Fairmont staff for their cooperation and assistance during our audit. They were most helpful and prompt in responding to all our requests. We are confident our work will be beneficial to you as you endeavor to make changes to strengthen internal controls. If we can be of assistance to you in the future, please let us know.

Sincerely,

James B. Wightman, C.P.A.
Direct of Internal Audit

cc: Erin Litvack
Lori Okino
Paul Ross
Sue Kocher
Gene McIntyre