



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

April 2005

A Performance Audit of the

**South Towne Exposition
Center**

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A Performance Audit of the The South Towne Exposition Center

I. Executive Summary

Background

The Auditor's Office has recently completed a performance audit of the South Towne Exposition Center (South Towne). The facility is located in Sandy, Utah, and has 243,000 square feet of exhibit space, which can be configured into as many as five separate halls, in addition to 15,000 square feet of meeting hall space separable into three to nine rooms.

Construction on South Towne was completed in 2000. Its first full year of operation, 2001, yielded \$2,292,058 in revenue. Revenues for 2002 and 2003 were \$2,784,655 and \$2,835,022, respectively. Revenue in 2004 was \$2,746,032. South Towne is managed by SMG, a company based in Philadelphia, which also manages the Salt Palace under the same contract.

The scope of our work was an audit of operations at South Towne including cash receipting and depositing, accounts receivable and fixed and controlled assets management. We also reviewed the Utah Food Services vendor contract, rental rates, rental agreements, and payment schedules. In addition, we surveyed other exposition and convention centers in the western United States to gather benchmark data against which to measure South Towne's performance.

The audit did not result in any major findings, or issues that should cause serious concern to the County Mayor and Council. It appears that South Towne administrative and financial staff diligently work towards operational accuracy and integrity. However, as with most audits, transactions were reviewed on a sample basis, meaning that issues of concern might have occurred that did not come to our attention. The most serious finding in our report was the loss of a number of controlled assets.

Findings and Recommendations

The main findings of our audit are:

- *Controlled assets were missing, however, action was not taken to file the required reports with the County.*
- *Not all rents were received prior to the start of events, as required by the standard event contract.*

South Towne revenues for 2003 and 2004 were \$2.83 and \$2.75 million respectively.

- *Proof of liability insurance was not always provided prior to the event start date.*
- *Utah Food Services revenue was accurately reported and receipted.*
- *Funds were transferred between employees without documentation and daily balancing procedures were not followed.*
- *Accounts receivable were not managed in accordance with SMG policy.*

Controlled assets were missing, however, action was not taken to file the required reports with the County. South Towne has a system in place to document newly acquired assets and conduct annual inventories. However, four assets listed as lost or stolen on the current controlled assets list were not reported as required by Countywide Policy #1125, "Safeguarding Property/Assets," Section 2.4, and Countywide Policy #1304, "Discovery and Reporting of Thefts," Section 1.1. In addition, eight recently-purchased controlled assets had not been assigned a controlled asset number. We recommend that South Towne follow procedures set forth in Policy #1304 for notifying the Auditor's Office and, if necessary, the District Attorney's Office when controlled assets are stolen. In addition, we propose that South Towne tag controlled assets as they are received.

Forty-four events were not paid in full at least 30 days prior to the start date, as required by contract.

Not all rents were received prior to the start of events, as required by the standard event contract. The standard contract South Towne uses to book events calls for the entire exhibit hall or room space rental to be paid 30 days prior to the event start date. Other expenses such as telecommunications, security, cleaning, etc. are billed with the event settlement. We found several instances in which the rent was not received 30 days prior to the start date, and four events in which the rent was not paid in full by the day the event began. In none of these instances was the departure from policy noted in the client file. As a solution, we recommend that South Towne collect the contractually required rent in advance of the events, or note the justification for any departure from the contract terms in the client file.

Proof of liability insurance was not always provided prior to the event start date. The standard contract also calls for the client to provide South Towne with an affidavit of insurance indicating at least one million dollars of liability coverage naming South Towne, Salt Lake County and SMG as covered parties. We found nine events held in 2002 and 2003 for which there was no affidavit on file. South Towne will arrange insurance for a per-attendee fee, if the client wishes to provide coverage that way. We recommend that South Towne develop measures to ensure that clients have the required insurance before any event begins.

Utah Food Services revenue was accurately reported and receipted. Salt Lake County contracts with Utah Food Services to provide in-house catering

and concession services to South Towne and the Salt Palace. From the sample data we tested, we concluded that commissions paid by Utah Food Services to South Towne were accurately calculated and represented. In addition, we found that the rent relief South Towne granted to clients for food and beverage purchases was appropriate and accurately calculated.

Funds were transferred between employees without documentation and daily balancing procedures were not followed. We found that checks received in the mail were opened by only one person and then transferred between employees without being logged or otherwise documented. In addition, there were unnecessary delays in depositing. We recommend that South Towne implement a check log and custody form to document transfer of custody of funds between employees, particularly for funds received by mail.

Accounts receivable were not managed in accordance with SMG policy. The accounts receivable at South Towne are subject to SMG's accounts receivable policy. The policy is outdated and refers to steps using a computer system no longer in place. Most of South Towne's post-event billings were not collected within 30 days, per standard contract provisions. To improve accounts receivable management we propose that South Towne and SMG update their accounts receivable policy and improve collection times on post-event billings.

Please refer to Section IV of this report for more details about these and other findings and recommendations.

Twenty-six out of thirty six post-event invoices were not collected within 30 days of the event.

II. Introduction

The South Towne Exposition Center (South Towne) is a Salt Lake County facility located in Sandy, Utah and managed by SMG, a company with headquarters in Philadelphia that manages numerous convention and event centers and arenas throughout the country, including the Salt Palace. South Towne has a total facility size of 280,000 square feet, including 243,000 square feet of exhibit space which can be configured into five separate halls, 15,000 square feet of meeting hall space which can be separated into as few as three rooms or as many as nine rooms, and a 22,000 square foot lobby.

Construction on South Towne was completed late in the year 2000. Its first full year of operation was 2001; revenues for that year were \$2,292,058. Table 1 below shows revenue trends since inception.

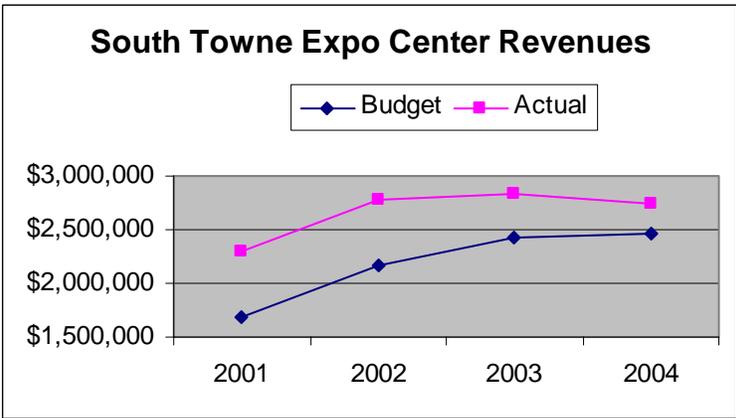


Table 1 South Towne revenues have increased since the center opened.

According to County financial records (AFIN), revenue for 2004 was \$2,746,032, or about 111% of the budgeted \$2,269,206. South Towne has reported its revenue somewhat unevenly throughout the year. For example, four months revenue was reported within two months, October and November 2004, because of untimely administrative review of journal vouchers in the Department of Community Services.

South Towne charges rent based on square feet of floor space used per event day. Move-in and move-out days are generally included in the rent rate, although longer-than-usual moving requirements may result in additional rent charges. There may also be charges for other services including installation of power or telephone lines, cleaning and security. South Towne also receives revenue from commissions paid by the caterer, and from display companies which configure exhibit space to exhibitor needs.

South Towne’s revenue, in 2004, was \$2.75 million, or about 111% of budgeted revenue.

III. Scope and Objectives

The scope of our audit included cash receiving, receipting and depositing, accounts receivable and fixed and controlled assets management. Also included in our audit was the Utah Food Services contract and selected provisions of the agreement between SMG and Salt Lake County, including guidelines for annual bonus awards to SMG. Moreover, we analyzed certain aspects of South Towne's performance compared to other medium-size convention centers. We gathered sufficient information in these areas to meet the following objectives:

- Understand the process for scheduling and use of South Towne, including rental agreements, payment schedules, catering and equipment usage.
- Determine whether event promoters and organizations paid for use of South Towne in accordance with established SMG policies and procedures.
- Determine rental rates at South Towne, including existence of a rent rate schedule, and whether rates were consistently applied to all groups, or whether discounts or special rates applied in certain circumstances.
- Examine SMG's accounts receivable management, policies and procedures in place to collect delinquent accounts, and whether the policies and procedures were adequately enforced.
- Examine Utah Food Services payments to SMG to ascertain compliance of these payments with contract terms, and the accuracy of reported Utah Food Services revenues on which these payments are based.
- Benchmark South Towne against other mid-size convention centers throughout the western United States to determine ways in which South Towne operations could be improved.
- Determine the accuracy of bonuses awarded to SMG in recent years based on contract terms and guidelines established by the Salt Lake County Department of Community Services.
- Compare the total of cash on hand to source documents detailing collections in order to determine the existence of overages or shortages, and the integrity of personnel handling these funds.
- Determine the accuracy of and compliance with countywide policies and procedures for cash receiving, receipting and depositing, and whether adequate controls are in place to ensure integrity in these areas.
- Conduct an inventory of all fixed and controlled assets to determine whether all listed items are accounted for whether all items examined are shown on inventory lists.

As with any audit, samples are examined to arrive at conclusions as to characteristics of the population as a whole. Therefore, reportable findings may have existed that would not have been found as a result of our audit. Moreover, the presence of auditors, or the knowledge that an audit is

occurring, may briefly alter the typical operation of an organization such that it inhibits the ability to make certain findings.

IV. Findings and Recommendations

Findings and analysis are divided into the following sections: Survey Results, Event Contracting, Cash Handling, Receipting and Depositing, Utah Food Services Contract, Fixed and Controlled Assets, Accounts Receivable, and Revenue Reporting.

1.0 Survey Results

As part of the audit we selected fifteen medium-sized convention and exposition centers in the western United States to survey and compare against South Towne for operational efficiency and profitability. Eight of the facilities we contacted responded to the survey and highlights of the results follow. It is important to note that none of these facilities can be considered direct competitors with South Towne. For regional events such as auto or boat shows, the potential clientele is limited to the local populace with few exceptions. The survey revealed the following:

- **South Towne rent per square foot is among the lowest in the survey.**
- **All but one of the government-owned centers require a subsidy.**

1.1 South Towne rent per square foot is among the lowest in the survey.

South Towne charges \$.09 per square foot per event day, the third lowest in the survey. The two centers with lower rent per-square-foot charge a flat rate for the entire facility, from which we derived the per-square-foot rate. Also, both of those centers charge for move-in/move-out days. Since there is minimal competition for certain events, the rent rate does not necessarily give one center a competitive advantage over another. Individual rent rates are shown in Table 2, on page 7.

Surveyed Facility	Facility Size		Rental Rates			
	Exhibit Hall	Meeting Rooms	Per Square Foot/ Per Day	Includes Move-In/ Out	If no, charge for MI/MO	Charge for parking?
Ogden Eccles Convention Center	50,000	40,000	\$0.04*	No	50%	No
Tucson Convention Center	143,860	32,340	\$.072 to \$.092*	No	50%	Yes
South Towne Expo Center	243,000	15,000	\$0.09	Yes		No
Fresno Convention Center	57,084	43,000	\$0.11*	Yes		Yes
Boise Center on the Grove	40,000		\$0.14*	No	25% to 75%	No
Sacramento Convention Center	134,000	47,000	\$0.21	Yes		Yes
Long Beach Convention & Entertainment Center	224,000		\$0.25	Yes		Yes
Davis Conference Center		32,000	\$0.25	No	\$.25/sq ft	No
Sands Expo & Convention Center	935,000	31,000	\$0.30	No	\$.15/sq ft	Yes

* Calculated from flat rate per-day pricing.

Table 2: South Towne has the third lowest per square foot rent rate of the centers surveyed.

Six out of seven government-owned facilities surveyed required a subsidy.

1.2 All but one of the government-owned centers require a subsidy.

Seven of the eight survey respondents were government-owned facilities. All but one of the government-owned facilities require a subsidy. Only Long Beach Convention and Entertainment Center reported revenues in excess of operating expenses. This facility has a theater and an arena in addition to an exhibit hall and meeting rooms. Also, their event calendar includes professional hockey, opera and concerts in addition to conventions and meetings. The Sands Expo and Convention Center in Las Vegas, is privately owned.

2.0 Event Contracting

South Towne rents space to promoters, organizations, churches, civic groups, businesses and other groups. Rent is based on the square footage used, multiplied by the rate and the number of days the event is held. The

process begins with the sales manager and the potential client determining the needs of the client and the availability of the facility. Key terms are added to a standard contract and the client makes a deposit toward the full rent. Some contracts are in place 24 months prior to the actual event.

All facility rental contracts call for signatures of the client representative, the facility director or general manager, and the receipt of the entire rent payment at least 30 days prior to the event. Proof of client liability insurance naming South Towne, Salt Lake County, SMG and related parties as additionally insured parties is also required. As part of our audit, we reviewed a statistically valid sample of the contracts for the 495 events held during 2002 and 2003. During this review we found that:

- **A signed contract was in place for each event.**
- **Rent was not always received thirty days prior to the event as required by the rental agreement.**
- **Proof of liability insurance was not provided for all events.**

2.1 A signed contract was in place for each event.

A signed contract provides reasonable certainty that the event will be held and sets the space requirements. It gives the event planners a starting point from which to coordinate with the clients and plan for such things as move-in and move-out, power grids, audio-visual needs and a variety of other issues. Each contract in our test sample was signed by the appropriate parties. However, some of the contracts were signed less than thirty days prior to the event, and some on the day the event began. Contracts signed less than 30 days before the event had changes that superseded previously signed contracts.

2.2 Rent was not always received thirty days prior to the event as required by the rental agreement.

South Towne's rental contracts call for full payment of exhibition space rent at least 30 days prior to the start of the event. When the deposit is not collected, South Towne is not protected in case of last minute cancellation. Cancellation is more likely if the client has not pre-paid the rent as called for in the contract. Moreover, South Towne assumes the risk should there be a catastrophic event.

Of the 213 clients in our sample, 44 did not pay full rent 30 days before the start of the event, and 7 out of the 44 had not paid in full when the event commenced. Of these seven, three were large regional consumer shows and had a history of box office sales that exceeded the amount still owing.

A signed contract provides reasonable certainty that the event will be held and sets the space requirements.

Cancellation is more likely if the client has not pre-paid the rent as called for in the contract.

Therefore, it was anticipated that box office receipts would cover the remaining rent due. Regardless of the anticipated box office receipts, the contract terms call for payment 30 days in advance. One of these three had not signed a final contract until two days prior to the event, while the other two had contracts signed at least three weeks prior to the start of the event, ample time to prepare and deliver a check for the entire contractually-required deposit.

Among the other four that were not paid on the day of the event, two organizations had multiple events scheduled at South Towne and had sufficient pre-paid rent installments on future events to make up for the rent short-fall. In both cases, the rent deposit shortages were taken into account and billed as part of the final settlement statement. In the third case, a local bridal sales promoter held four events at South Towne in 2002 and 2003, but was only paid in full prior to two events, partially paid for one event, and had not pre-paid any rent for the final event. Even on the events with rent paid in full, the funds were received only one or two days prior to the start date. In the fourth case, a collectibles sales and exhibition promoter had only partially paid at the start of one event, and paid in full on the other, but only nine days prior to the start date.

2.3 RECOMMENDATION:

2.3.1 *We recommend that South Towne collect contractually required rent on time or note in the client file any departures from contract terms.*

2.4 Proof of liability insurance was not in place on all events.

There was no proof of liability insurance coverage in 9 out of 213 events examined.

South Towne's standard rental contract calls for the client to provide a certificate of liability insurance, in the amount of \$1,000,000, with SMG and Salt Lake County named as additional insured. For a per-attendee fee of 40 to 50 cents, with a \$100.00 minimum total per event, SMG will arrange insurance for clients and include the charge on the event settlement invoice to the client. Approximately ten percent of clients utilize this service to provide the required insurance coverage.

Of 213 events examined, we found 9 for which there was no proof of liability insurance coverage. This is an unacceptable lapse because the potential liability is considerable. Management indicated that they believed in each case that proof of insurance had been provided, scanned into the computer client file, and then later somehow deleted.

Proof of insurance should be in place before any event is allowed to begin.

2.5 RECOMMENDATION:

2.5.1 *We recommend that SMG develop measures to ensure that clients have a certificate of liability insurance naming SMG and Salt Lake County as additional insured on file before any event begins.*

3.0 Utah Foods Contract

Salt Lake County has a contract with Utah Food Services (Utah Foods) to provide in-house catering and concession services to South Towne and the Salt Palace. While the contract allows for Utah Foods operations to be conducted outside South Towne or the Salt Palace, priority must be given to South Towne or Salt Palace events.

The County contract with Utah Food Services, Section V. Paragraph 1, states, *“In return for the food catering and concession hereby granted, the CATERER agrees to pay the County a monthly payment of 25% of its gross receipts from catering operations conducted in the Salt Palace or South Towne Exposition Center and 16 ½% of its monthly gross receipts from catering and concession operations conducted elsewhere when the Salt Palace or South Towne Exposition Center is used for food preparation. In addition, the caterer agrees to make a monthly payment of 40% of its gross receipts from concession operations conducted in the Salt Palace or South Towne Exposition Center except concession services specified in paragraph (3)(a)-(e) below which are subject to a 25% payment.”* The concession services as cited in paragraph (3) (a) – (e), refer to non-show sales such as move-in and move-out days, exhibitor lounge sales, exhibitor dispensed food/beverage and vending machine sales. Based on our examination of Utah Foods, we report the following findings:

- **Revenues from Utah Food Services were accurately calculated and represented.**
- **Rent relief granted for food and beverage purchases was appropriate and accurately calculated.**

3.1 Revenues from Utah Food Services were accurately calculated and represented.

As part of the audit, we reviewed a statistically valid sample of events in 2003 which had catered services. Our test sample was 32 events with 58 invoices. For each event, we reviewed the sales invoice provided to the client and compared the invoice amounts to the monthly summary provided to South Towne by Utah Foods.

Utah Foods monthly summaries, commission calculations, and rent relief for food and beverage purchases were calculated correctly.

Utah Foods utilizes a software package called “Cater-ease” to generate invoices for its clients. Each meal or snack period results in a uniquely numbered invoice to the client. Thus, a client with a mid-morning snack service and a luncheon event would have two invoices. Utah Foods invoices and collects from each client directly.

At the end of each month, Utah Foods summarizes its revenues in a report to the Salt Palace, applies the corresponding commission rate, and sends the Salt Palace a check for payment of commission that also includes the amount due to South Towne. A copy of the monthly summary is also provided to the South Towne accountant who reviews the summary and makes changes if necessary. The portion due to South Towne is transferred to their revenue account via journal voucher.

We did not find any exceptions or inaccuracies in our review of this process. Invoice amounts were accurately transferred to the monthly summaries and the calculation of the commissions was accurate.

3.2 Rent relief granted for food and beverage purchases was appropriate and accurately calculated.

South Towne may grant rent relief for banquets or other events which utilize catering services. The rent relief is capped at 25 percent of the food and beverage purchase (net of service fee and tax), and may be a lesser percentage. Banquet events generally have the entire rental amount waived, while meetings with catered meals only have the rent waived for the room in which the meal is served. Details of any rent relief, and the expected minimum food and beverage purchase were clearly stated in the standard rental contract.

Utilizing the sample from Section 3.1, we reviewed the South Towne rental contract for each event and noted any rent relief given the client as a result of Food and Beverage services purchased. We also determined if the minimum food and beverage purchase requirements were met in order to receive the rent relief.

The rent relief granted for food and beverage purchases was appropriate and accurately calculated. In those cases in which the minimum amount of food and beverage service was not purchased by the client, the rent relief was recalculated per the contract terms. Again, this calculation was accurate in each of the samples in our population.

4.0 Cash Handling and Depositing

South Towne collects revenue from a variety of sources. The largest revenue source is rental of space for events. Other sources include: commissions paid by Utah Foods and display companies, equipment rentals

and telecommunications fees, wheelchair and stroller rentals, and photocopy reimbursements.

We selected a random sample of 48 events booked and held at South Towne between January and December 2003 to review their pre-paid rent. We reviewed whether post-event billings were collected and deposited. Related findings are discussed under the Accounts Receivable section. Pre-paid rental deposits for the events in our sample totaled \$141,659. All events required a deposit prior to the event and some events had a series of deposits due before the event date, thus more than 48 deposits were examined. Additionally, credit card deposits that fell on a day already being examined were selected for review. In all, 60 deposits containing approximately \$594,000 were reviewed in detail. Our findings in the area of cash handling and depositing include:

- **Funds were transferred between employees without documentation and daily balancing procedures were not followed.**
- **Checks were not restrictively endorsed upon receipt.**
- **Two people were not present when the mail was opened.**
- **Funds were not always deposited within three days of receipt.**
- **Cash transactions were not always documented with a receipt.**
- **Exhibitors were billed for telecommunications services by the same employee who prepared deposits.**
- **Credit card transactions were not always documented with a signed credit card authorization form.**

4.1 Funds were transferred between employees without documentation and daily balancing procedures were not followed.

According to procedure, each day South Towne's receptionist opened the mail which included checks from a variety of sources. Checks from event promoters were immediately handed over to the sales manager without being logged or otherwise documented to indicate the dollar amount or number of checks transferred.

After the sales manager reviewed the checks, they were returned to the receptionist and scanned into a database. These checks, along with funds received by the receptionist from the security office and other miscellaneous receipts, were logged into the computer and taken to the office manager for account entry and deposit. This log was used to document the amount of the final transfer, but the format used could be improved to include signature lines for individuals to acknowledge their custody of the funds and review in the transfer process. The lack of a clear chain of custody of the funds as they were passed between South Towne employees resulted in poor assignment of accountability and increased the opportunity for an undetected diversion of funds.

Funds received in the mail were immediately transferred to the sales manager without being logged or otherwise documented.

The South Towne security office collects fees for stroller and wheelchair rentals as well as fines for parking violations. Fees collected ranged from \$5.00 for stroller rentals to \$10.00 for wheelchair rentals and parking violation fines. Funds collected by the security office were transferred for deposit using a "South Towne Equipment Rental Cash Transactions" form. The form contained lines for a date, the amount received, the source, and four lines for individuals to acknowledge the transfer of funds. Five of the nine deposits in our sample containing security collections, however, did not have this transfer form attached and one was signed solely by a member of the Security Office. Three out of the nine deposits did not have receipts attached as documentation, and the form itself does not reference receipt numbers. In addition, in reviewing security office collections, gaps in the receipt number sequence were noted. Receipt number sequences should be recorded and gaps monitored to ensure that all receipts are remitted for deposit. Voided receipts should be kept intact, documented and signed by the cashier and supervisor.

Deposit documentation should also contain a reconciliation of the amount deposited to the source documents, a daily balance sheet. This comparison is accomplished by use of the MPF Form 3, "Daily Cash Balance," although agencies may create a form which best meets their needs. For an example of MPF Form 3 see Appendix A. Countywide Policy #1062, "Management of Public Funds," Section 3.7.3.1, states, "Each day, all county agencies should balance collections to register (or receipt log) totals and prepare a deposit, using MPF Form 3 or a facsimile developed for the specific agency."

A noteworthy procedure in effect at South Towne is the routine scanning of each check received. We commend South Towne personnel for taking this effective measure in tracking funds that provides an additional step towards assuring that all funds received are deposited.

4.2 RECOMMENDATIONS:

4.2.1 We recommend that new forms be implemented, or current forms be modified, to document any transfer of funds, including a space for acknowledging signatures.

4.2.2 We recommend that deposit documentation include a reconciliation to source documentation and reviewing signature.

4.3 Two people were not present when the mail was opened.

Internal control best practices suggest that two persons be present when mail is opened, and that a mail log be prepared at that time. The log should be reviewed by a manager. This protects the employee and provides an audit trail for identifying the persons involved at each step of cash handling.

Mail received by South Towne was opened by one individual. The introduction to Policy #1062 states, “*Internal control is a system designed to prevent a single employee from exclusively controlling a monetary transaction...The duties of individuals should be so divided as to maximize employee protection and minimize the potential for collusion, perpetration of inequities and falsification of accounts. The objective is to provide the maximum safeguards practicable...*”

4.4 RECOMMENDATION:

4.4.1 We recommend that two individuals jointly open the mail and prepare a log noting the receipt of any checks or money.

4.5 Checks were not restrictively endorsed upon receipt.

As mentioned, upon receipt checks were handed over by the receptionist to the sales manager. The checks were not date stamped, endorsed or logged prior to the transfer. The sales manager verified that checks were made for the correct amount, could be matched to a signed contract, and applied to the correct account when the issuing organization’s name may not have been readily recognizable as being tied to a specific event. The review was performed prior to check endorsement because the act of check acceptance could create an implied agreement in the absence of a standard written contract.

Unendorsed checks are easier to divert to an unauthorized account.

Nevertheless, unendorsed checks are easier to divert to an unauthorized account. Policy #1062, Section 3.6.1, states, "*All checks and other negotiable instruments received by the Agency Cashier should be restrictively endorsed immediately upon receipt using the agency's approved endorsement stamp.*"

It may be that the sales manager and receptionist could jointly review, endorse and log checks as they are received. However, if this and other arrangements are not practical, the special situation at South Towne, requiring that checks be adequately reviewed before being endorsed, could be addressed as a request to the County Steering Committee for a modification of policy to meet these special circumstances.

4.6 RECOMMENDATION:

4.6.1 We recommend that South Towne explore ways to ensure compliance with Policy #1062 by restrictively endorsing checks immediately upon receipt or that South Towne apply for an exception to the policy.

4.7 Funds were not always deposited within three days of receipt.

Twenty-four checks in our sample were dated between 10 and 74 days prior to the deposited date.

Policy #1062, 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.*" Checks kept on premises for any length of time, are more susceptible to loss. After excluding re-deposited insufficient funds checks, and checks from fees charged by the security office (discussed separately) we found 6 out of 177 checks (3.4 percent) that were deposited more than three business days after being date-stamped received. Checks were typically date-stamped "received" on the same day that they were deposited. However, we noted 24 checks that were dated between 10 and 74 days prior to being stamped "received." Either the organization preparing the check sent it significantly after the check was prepared, or the date stamp did not accurately indicate the date the check was received by South Towne.

The receptionist indicated that she date-stamped checks the day they were received, after the sales manager completed her review. We also noted several date stamps applied to the photocopy of the check, included with deposits, indicating the original may not have been date stamped. Several deposits had more than one check with an issue date much earlier than the deposit date. For instance, the April 14, 2003 deposit had four checks dated five, seven, eleven, twelve and thirteen days earlier. Each of these checks had been date-stamped "received" on April 14, 2003. The cause of this delay could not be determined.

The following are other deposits where a potentially significant delay existed between the check date and the deposit date:

- May 23, 2003— two out of four checks were dated ten and eleven days prior.
- September 4, 2003— two out of five checks were dated fifteen and nineteen days prior. Another two checks were dated eight days prior.
- September 29, 2003— two out of four checks were dated ten and eleven days prior.
- October 24, 2003— three out of five checks were dated between eight and sixteen days prior.

A possible explanation for the delay in depositing checks may be that checks were related to events for which no signed contract was on file prior to receipt. According to the receptionist, however, this occurs rarely—about once every three months. In addition, the controller for South Towne indicated that event promoters have requested that a check not be cashed immediately, but such requests are infrequent.

Nine of the 60 deposits examined in our sample contained security office receipts for wheelchair and stroller rentals. These nine deposits were made up of 55 individual receipts. Forty-seven out of the 55 receipts examined were dated more than three days prior to when they were deposited. Days to deposit ranged from zero to 101 days and averaged 23 days. Because of the relatively small dollar amount and low volume of these transactions, the security office may have felt safe allowing funds to accumulate prior to deposit. For example, the February 17, 2003 deposit included 24 receipts for stroller or wheel chair rentals. The receipts had been issued from November 2002 through February 2003 and ranged from \$2 to \$10. Regardless of the amounts involved, funds that remain onsite are susceptible to misuse and theft. In addition, as quoted above, Policy #1062, Section 3.7.2, requires that funds be deposited within three days of receipt.

Forty-seven out of 55 security receipts examined were deposited more than three days after receipt—averaging 23 days to deposit.

4.8 RECOMMENDATIONS:

4.8.1 We recommend that all checks be date-stamped upon receipt.

4.8.2 We recommend that checks be deposited daily whenever practical, but no later than three days after receipt.

4.8.1 We recommend that the security office remit all funds to the receptionist the same day the funds are collected.

4.9 Cash transactions were not always documented with a receipt.

Policy #1062, Section 3.1.4, states, *"Except as otherwise provided in statute or by policy, all persons remitting monies to Salt Lake County will receive verification of their payment with a receipt."* Deposits examined contained \$3,391 in cash. The largest cash transaction was an advance rental payment of \$2,200. This transaction and other miscellaneous cash receipts (photocopies, employee phone reimbursements, fax revenue, etc.) were typically documented by a photocopy of the cash and change that included a hand-written notation regarding the source.

Because no receipt is issued or retained to document collections, any diversion of the amount collected is not likely to be detected. There is no way for individuals performing oversight to review amounts deposited and determine if the entire amount collected was remitted in the deposit.

Receipts were issued by the security office for wheelchair and stroller rentals and other fees. However, three of the nine deposits containing security revenues did not have receipts attached as documentation.

4.10 RECOMMENDATIONS:

4.10.1 *We recommend that all cash transactions be documented with a pre-numbered receipt, properly completed.*

4.10.2 *We recommend that individuals preparing and reviewing deposits reconcile the total amount remitted to the total of receipts issued.*

4.11 Billing to exhibitors for telecommunications services was performed by the same employee who prepared deposits.

Policy #1062 states in the introduction, *"Internal control is a system designed to prevent a single employee from exclusively controlling a monetary transaction. The policy provides suggested internal controls for the segregation of duties in such a way that persons who are responsible for the custody of funds and performance of cashiering duties have no part in the keeping of, nor access to, those records which establish accounting control over the funds and operations (and vice versa). The duties of individuals should be so divided as to maximize employee protection and minimize the potential for collusion, perpetration of inequities and falsification of accounts."*

Client's who lease space for promotional events at South Towne book individual exhibitors to display goods and services. Non-governmental exhibitors pre-pay by credit card for telecommunication capabilities provided by South Towne. However, government exhibitors that require telecommunication capability are billed as they cannot pre-pay due to purchase order requirements. The office manager is responsible for creating these invoices, applying payments to individual accounts and preparing deposits—creating a lack of segregation of duties.

This risk is mitigated because the majority of exhibitor charges were applied to credit cards, where the deposit is made electronically. Government entities were invoiced infrequently. According to the office manager, creating a receivable for a non-governmental entity for telecommunications services would require the approval of the facility director. We did note one invoice for \$175, to a non-government entity, 90 days outstanding on the August 2004 aging report, which the controller indicated was a telecommunications billing. Despite the infrequency of the billings, the person who prepares the invoice should not also post payments in financial records and prepare the deposit.

4.12 RECOMMENDATION:

4.12.1 We recommend that the duties of billing telecommunication services be separated from posting payments and preparing deposits.

4.13 Credit card transactions were not always documented with a signed credit card authorization form.

The majority of the credit card transactions examined during our review of deposits related to services provided to exhibitors. Occasionally, a credit card charge is made for a room rental or insurance coverage. An order form, with spaces for the exhibitor's credit card number, expiration date and signature, is used for services provided by South Towne and is typically faxed to South Towne from the exhibitor. Six out of 33 credit card transactions we reviewed (18 percent) were not accompanied with a completed form that shows the credit card number and cardholder's signature. This lack of documentation creates a risk should cardholders claim the charge was unauthorized.

4.14 RECOMMENDATION:

4.14.1 We recommend that credit card authorization forms be completed in full, including an authorizing signature, prior to acceptance.

No cardholder signature was obtained for 6 out of 33 credit card transactions examined.

5.0 Petty Cash

South Towne has a petty cash fund in the amount of \$1,000. Twenty dollars from the fund was permanently retained by the security office and was used to provide change to customers who rent wheelchairs or strollers. We examined the fund as of April 2004 and found it to balance. Purchases made were appropriate and descriptions were generally adequate. In addition, with just a few exceptions noted below, petty cash vouchers had been filled out in full, properly authorized, and were accompanied by appropriate documentation. Our findings in the area of petty cash are that:

- **Sales tax was paid on most purchases.**
- **Refreshments were purchased for a training meeting without the completion of a meals form.**
- **An invoice was paid using petty cash.**

5.1 Sales tax was paid on petty cash.

Sales tax in the amount of \$54.95 was paid by SMG employees of South Towne for all petty cash purchases made during July 2003 to April 2004. Countywide Policy #1203, "Petty Cash and Other Imprest Funds," Section 3.12, states, "*The County is exempt from sales tax as a governmental entity. In order to avoid sales tax, the custodians shall use or provide to employees as needed Utah State Tax Commission Form TC-721 'Exemption Certificate.'* This form is to be presented to the vendor as evidence of tax-exemption. If employees do not follow this procedure, they shall pay the sales tax themselves. This form may be obtained from Contracts & Procurement."

South Towne paid \$54.95 in sales tax through petty cash during the period examined.

Sales tax was paid due to confusion regarding the tax exempt qualification of SMG as a for-profit company. However, in making purchases for South Towne, SMG acts as an agent for the County, which is a non-profit entity. The County's contract with SMG to manage the Salt Palace and South Towne states, "*State Sales Tax. The CONTRACTOR acts as an agent for the COUNTY, with the CENTER'S General Manager and Director of Finance officially designated by resolution and this Agreement as COUNTY purchasing agents for the CENTER with authority to purchase on behalf of the COUNTY. The above purchasing agents shall maintain state sales tax exempt status by complying with the Utah State Tax Commission's ruling R865-19S-91, effective October 17, 1996.*"

5.2 RECOMMENDATION:

5.2.1 *We recommend that sales tax not be paid on expenditures made by South Towne on behalf of the County.*

5.2.2 *We recommend that, where practicable, employees of SMG who did not follow proper procedure reimburse the County in the amount of sales tax paid.*

5.3 Refreshments were purchased for a training meeting without the completion of a meals form.

On January 23, 2004, bagels costing \$47.30 were purchased for a training meeting. No "Meals Reimbursement Form" was attached to the petty cash voucher. Countywide Policy #1020, "County Meals," Section 6.1, states, "*All requests for payment (including reimbursements from petty cash accounts) shall be submitted with the attached [Meals Reimbursement] form which contains: the date of the meeting; the location of the meeting; the type of meeting, whether a breakfast, lunch, or dinner; certification of the purpose of the meeting and the group attending in relation to county business; the total number of attendees, with employees separated from other attendees; the total payment amount requested; the signature of the person submitting the request; the date the request was signed; the signature of the Division or Department Director or Elected Official approving the request; the date approved by the official; and a copy of the bill or receipt.*" For an example of a Meals Reimbursement Form see Appendix B.

5.4 RECOMMENDATION:

5.4.1 *We recommend that a Meals Reimbursement Form be completed whenever refreshments are purchased.*

5.5 An invoice was paid using petty cash.

On September 4, 2003 petty cash was used to pay an invoice dated August 18, 2003 in the amount of \$12.96 from Intermountain Lock. Policy #1203 states in Section 3.5, "*Disbursements from petty cash and other imprest accounts are for the purpose of covering over-the-counter, cash purchases under the specified limit (see Section 6.0). For these types of transactions the items purchased shall be paid for at the time of the transaction. Any purchases 'charged' with a vendor under the county's credit are to be processed under established accounts payable procedures, and not subsequently paid from a petty cash or other imprest account. To do otherwise is in conflict with the purpose of this policy and is considered to be not cost effective.*"

Allowing invoices to be paid out of petty cash, as well as through the purchasing system, creates the risk of paying an invoice twice. Administrative time processing invoices and tracking duplicate payments may also be increased.

5.6 RECOMMENDATION:

5.6.1 We recommend that invoices be paid through normal purchasing procedures, not petty cash.

6.0 Fixed and Controlled Assets

South Towne's controlled asset list contained 344 assets that cost over \$410,000, in total.

We evaluated the adequacy of internal controls over the County's fixed and controlled assets, including compliance with Countywide Policy #1125, "Safeguarding Property/Assets." A fixed asset is an item of real or personal property owned by the County, meeting the criteria for capitalization, i.e., having an estimated life expectancy of more than one year, and a cost equal to or greater than \$5,000. A controlled asset is a personal property item, which is sensitive to conversion to personal use, having a cost of \$100 or greater, but less than the current capitalization criteria.

The County's fixed asset report listed seven fixed assets located at South Towne that were valued, after accumulated depreciation, at \$36,697.

Moreover, South Towne's controlled asset list, as of September 7, 2004, contained 344 controlled assets with a cumulative original cost of over \$410,000. These assets ranged in value from \$50 to \$4,887, with an average cost of \$1,246. From the list of 344 controlled assets, we selected a random sample of 60 for review.

South Towne records assets using a program called Smart Maintenance. Although not required by County policy, South Towne has a policy of numbering and tagging controlled assets for greater control. As assets are acquired, they are assigned a controlled asset number and entered into the Smart Maintenance program. The list of controlled assets provided by South Towne included the tag number, a descriptive name, the make and model number, the location (i.e. Engineering, Communications, Housekeeping, Administration, Security), and the cost of the item. The data also included an old inventory number field, which sometimes contained a model or serial number.

With the exception of the findings discussed below, we found assets to be well managed, clearly labeled and readily located within the area in which they were listed. In addition, an annual inventory had been performed and the employee responsible for each major area had signed and dated the applicable section of the controlled asset report.

- **Four controlled assets were missing and listed as lost or stolen without proper reporting to the County.**
- **Some controlled assets did not contain a controlled asset tag.**
- **Eight of 38 recent controlled asset purchases had not been assigned a controlled asset number.**
- **A Form PM-3 “Salt Lake County Fixed Asset Loan Form” had not been filled out for an asset loaned to the Salt Palace.**

6.1 Four controlled assets were missing and listed as lost or stolen without proper reporting to the County.

During South Towne’s most recent internal inventory, forty assets were crossed off or marked “gone.” Assets missing included radios, two air compressors, two drills, and other items.

According to the property manager, SMG staff at South Towne performed an internal controlled asset audit between November, 2003 and May, 2004. At the outset of our audit, April 30, 2004, South Towne provided a copy of the inventory they had performed, which contained 287 controlled assets. Forty assets had been crossed through or marked “gone.” These forty assets included: a “Valusweep Dust Mop Tool,” 25 radios assigned to housekeeping, two air compressors, a cordless drill, a pistol grip drill, a “Mastar Maintenance Outfit,” two “Manual Automatic Sum” by Little Giant, a vacuum drum and two blowers, stairs, seating riser rail, and two seating riser supports. The value of these assets was not indicated.

A more recent list of assets, provided to audit staff on September 7, 2004, contained 344 controlled assets with a value of over \$410,000 (for 14 assets, a value was not entered, making total actual value higher). On this controlled asset listing, four radios (three at \$60 and one at \$500) were listed as lost/stolen.

Countywide Policy #1125, “Safeguarding Property/Assets,” Section 2.4, states, “*Thefts- Employees who discover a loss or possible theft of an asset should follow the procedures outlined in Countywide Policy #1304...[emphasis added].*” Policy #1304, “Discovery and Reporting of Thefts,” Section 1.1, states, “*Any employee having knowledge or reasonable suspicion of the loss of property, funds, or services through criminal activity shall take the following steps as quickly as possible... the employee’s division administrator or designee should be notified ...The division administrator notified by the employee shall then notify the appropriate law*

enforcement jurisdiction, Attorney's Office and the Auditor's Office." Policy #1304 continues in Section 3.3, "Department directors or elected officials who investigate complaints of wrongdoing shall prepare a brief written report including findings of facts, recommendations, disciplinary action taken, if any, and criminal action taken, if any, and forward the report to the Mayor."

Depending on the circumstances, it may be impractical to alert law enforcement each time a controlled asset cannot be located. However, the use of the word "stolen" on the controlled asset report for the four radios discussed above indicates a level of certainty of misappropriation that should have been reported through the appropriate channels. Some organizations use a Form PM-2 "Salt Lake County Personal Property Transfer/Disposal/Internal Sale Form" with a cover letter indicating the circumstances of the disappearance to document the loss/theft of controlled assets, and to communicate the loss to the appropriate agencies, such as the Auditor's Office. See Appendix C for an example of a Form PM-2.

Policy #1125 also states in Section 2.2.12, *"To ensure adequate accountability, Property Managers should establish internal protective controls appropriate for custody of the property assigned. The following are examples of various control measures which may be used, however controls are not limited to these measures. Property Managers should use their judgment based on the circumstances to ensure controls are adequate"* including *".c. using a checkout system for shared property (see Exhibit S for further suggestions regarding this system);..."* According to the property manager, as a result of their internal inventory, South Towne began requiring that radios be logged out when in use.

Of necessity, any convention center has extensive equipment and manpower needs to facilitate operations. Many of the employees who use and have access to equipment at South Towne may be temporary and/or contract workers who could easily commit theft in a loosely controlled environment. Items should be secured where possible, inventoried frequently, and appropriate legal or disciplinary action taken against any employee who commits theft.

6.2 ACTION TAKEN:

6.2.1 Radios are now logged out by employees prior to use.

6.3 RECOMMENDATION:

6.3.1 We recommend that whenever theft is suspected, an investigation be conducted, that the Auditor's and District Attorney's Offices be contacted, and that a letter be forwarded to the Mayor describing the circumstances

6.4 Some controlled assets did not contain a controlled asset tag.

Each controlled asset is assigned a number and whenever possible a tag is attached. Tag numbers are not pre-printed, but are hand-written onto the asset tags. For items impractical to tag, an index card containing the tag is maintained in the property manager's office.

One item selected for review was a dry erase board costing \$569. We observed several dry erase boards on-site, but this item could not be individually identified because asset tags had peeled off all the erase boards, due to climate changes and the asset's slick surface. Serial numbers were not available for comparison.

Four "USM 810 Processors" costing \$3,900 each also had no tag attached and no tag was on file in the property manager's office. In addition, no serial number was recorded on the controlled asset report for any processors of that model, making individual positive identification impossible. We counted 16 blue "USM 810 Processors" in South Towne's control room. However, the controlled asset report listed 17. The facility director for South Towne has indicated that 16 was the quantity purchased and that they were purchased during completion of the building. As of the date of the report, no documentation has been provided to the Auditor's Office that would verify the number purchased.

An information system control card, also costing \$3,900, had no tag attached and no tag was on file in the property manager's office. Several control cards were viewed on-site but we were unable to confirm, by counting, that the correct number of cards were present. This was, in part, because several control cards were included under the same controlled asset number, while other control cards, purchased earlier, appeared to be listed individually.

The sample of controlled assets included a radio charger costing \$126. We observed two radio chargers in the security office, but neither one had been tagged. In total, two radio chargers were listed on the controlled asset report. In addition, the model number listed on the controlled asset report matched that found on both radios.

6.5 RECOMMENDATIONS:

6.5.1 We recommend that controlled asset numbers be engraved on dry erase boards and other difficult-to-tag assets, as appropriate.

6.5.2 We recommend that the controlled asset tag for items that cannot be tagged or engraved be placed on an index card with other identifying information, such as serial numbers.

6.6 Eight of 38 recent controlled asset purchases had not been assigned a controlled asset number.

We examined all January 2004 through June 2004 purchases made by South Towne to determine if purchases matching controlled asset criteria had been added to the controlled asset list.

Initially, 40 purchases were identified as possible controlled assets, based on purchase price and product description. Ten of the assets identified could not be found on the controlled asset list. One of the ten was not listed because South Towne had elected not to classify janitor carts as controlled assets due to the low risk of conversion to personal use. A second purchase was a reel of wire, and as a consumable item did not fit the criteria for a controlled asset. After these adjustments, 38 controlled assets had been identified, eight of which had not been tagged and included on the controlled asset list. These eight represent 21 percent of the relevant purchases examined and had a total purchase value of \$1,724.

Countywide Policy #1125, Section 2.2, states, “*Property Managers assigned by their Administrators are responsible for the following... 2.2.3 Maintain records as to current physical location of all fixed assets and controlled assets within the organization's operational and/or physical custody...2.2.8 Coordinate with the organization's Purchasing Clerk to ensure all newly acquired property is identified and accountability is appropriately established...*” According to the property manager, assets had not been listed due to a lack of coordination between the engineering manager and the property manager. The property manager indicated that when annual inventories are performed, they would similarly review purchases to determine if any assets had been missed in the tagging process.

6.7 RECOMMENDATION

6.7.1 *We recommend that all controlled assets be assigned a number and added to the current list of controlled assets as they are received.*

6.8 A Form PM-3 “Salt Lake County Fixed Asset Loan Form” had not been filled out for an asset loaned to the Salt Palace.

We were able to locate six of the seven fixed assets at South Towne. Each had a County fixed asset tag clearly visible. A wireless bridge, fixed asset # 98251, had been traded with the Salt Palace, in exchange for the Salt Palace’s wireless bridge. The wireless bridge listed on the “Salt Lake County Capital Asset Inventory By Organization” (AFIN0801) report for the Salt Palace was observed at South Towne, but no Form PM-3 had been filled out to document the transfer. See Appendix D for an example of Form PM-3.

Eight controlled asset purchases, or 21 percent, had not been added to the list of controlled assets.

Failure to complete and retain the proper documentation increases the difficulty of maintaining assets because no paper trail exists to establish their current location. According to the property manager, a Form PM-3 had not been completed because the property manager was not made aware of the transfer.

Policy #1125, Section 2.2, states, “*Property Manager’s Duties - duties may be appropriately delegated to a subordinate, however consistent with basic management principles, Property Managers and County Administrators remain ultimately responsible for management of County property. Property Managers assigned by their Administrators are responsible for the following...2.2.7 Maintain copies of all PM-1, PM-2, and PM-3 forms for all fixed asset personal property transferred, disposed, and sold internally.*”

6.9 RECOMMENDATION:

6.9.1 *We recommend that a Form PM-3 be completed for all fixed assets loaned to other organizations.*

7.0 Accounts Receivable

Most events had charges for cleaning, security, telecommunications or other services, as discussed previously. These charges were not incurred until the event occurred and were detailed in a summary invoice of charges and payments, the Event Settlement Statement. These amounts due became accounts receivable of South Towne. Management of accounts receivable is key to the success of any enterprise. We reviewed South Towne’s collection practices, and their policies and procedures in managing accounts receivable. We made our assessment based on an analysis of collection timeliness using three sources of data: billings to events in our random sample, four randomly selected aging reports from 2003, and South Towne’s aging report as of August 2004. We also documented the efforts made to collect the accounts most delinquent at the time of our audit. Our findings in the area of Accounts Receivable include:

- **The majority of South Towne’s post-event billings were not collected within 30 days.**
- **South Towne was not following SMG's written Accounts Receivable policy, a large portion of which was obsolete.**
- **Collection activities were not always documented and there was no routine procedure to organize and retain those records.**

A wireless bridge was transferred to the Salt Palace but a PM-3 form to document the transfer had not been completed.

- **Receivables were written off without written approval.**

7.1 The majority of South Towne's post-event billings were not collected within 30 days.

After each event, an event settlement statement was prepared by the responsible event manager. The statement listed rent charges with offsetting payments and detailed the charges for personnel, equipment and other services. Any food and beverage discount due to Utah Foods expenditures was also indicated. A post-event balance was due to South Towne in 36 of the 48 events in our sample. These amounts billed totaled \$42,141, ranging from a low of \$82 to a high of \$13,451, with an average of \$1,171. Billings on the settlement statement represented 23 percent of total revenue from the events sampled. All of the 2003 event billings sampled were paid in full, with the exception of one, which was written off.

Seventy-two percent, or 26 out of 36 event accounts receivable, were not collected within thirty days after the event ending date. This percentage not collected drops to 61 percent, or 22 invoices, if the date on the invoice is used instead of the event ending date. After 60 days, 31 percent, or 11 invoices, remained unpaid. These 11 invoices represented 49 percent of the total amount billed in our sample. Three invoices, from the original sample of 36 event accounts receivable, were outstanding more than 120 days; with the longest being an invoice that was outstanding for 145 days. Table 3 contains the number and amount of accounts receivable by length of time outstanding.

Post-Event Billings: Time to Collect					
Sample Size: 36 Events					
Amount outstanding:		Qty	%	\$ Amt	%
> 30 days	after event	26	72%	\$ 32,003	76%
	from invoice	22	61%	\$ 28,675	68%
> 60 days	after event	12	33%	\$ 20,599	49%
	from invoice	11	31%	\$ 20,448	49%
> 90 days	after event	7	19%	\$ 19,125	45%
	from invoice	5	14%	\$ 14,503	34%
> 120 days	after event	3	8%	\$ 852	2%
	from invoice	3	8%	\$ 852	2%

Table 3. *Post Event Billings: Time to collection was greater than 30 days.*

Four accounts receivable aging reports from 2003 were also requested for review. The date of each report and the amount outstanding categorized by the age of the account are shown in Table 4, on page 28. Except for the report dated September 2003, more than half of the accounts receivable, based on dollar amount, were more than 30 days old.

Sixty days after invoicing, 49 percent of the total dollar amount billed to events in our sample had not been collected.

It is important to note that invoices listed on the aging reports were generally dated as of the end of the month in which the event occurred, regardless of when the invoice was actually billed. According to the South Towne’s controller, during 2003 billing took approximately two weeks to complete following the date of the event. Therefore, when viewing the aging reports, events that occurred toward the end of the month appeared to have been outstanding up to two weeks longer than their actual billing date. Conversely, events that occurred toward the beginning of the month appeared to have been outstanding up to two weeks less than the actual billing date. Thus the comparison of event dates to aging-report dates indicates that these differences, when aging reports are viewed from an overall perspective, tend to cancel each other out.

**Accounts Receivable
2003 Aging Reports**

Report Date	Total	Current	30 +	60 +	90 +	120+
2/25/2003	\$47,945 100%	\$12,228 26%	\$1,329 3%	\$15,168 32%	\$12,349 26%	\$6,871 14%
4/15/2003	\$50,201 100%	\$24,475 49%	\$11,877 24%	\$4,292 9%	- 0%	\$9,558 19%
9/16/2003	\$64,767 100%	\$45,379 70%	\$13,565 21%	- 0%	\$4,087 6%	\$1,736 3%
12/16/2003	\$58,976 100%	\$21,771 37%	\$9,031 15%	\$1,537 3%	\$13,451 23%	\$13,186 22%

Table 4. Our sample of 2003 aging reports showed receivables less than 30 days outstanding varied from 26 percent, up to 70 percent.

Table 5 lists the number of days receivables were outstanding as of the date of the aging report. The average age of receivables, per report, ranged from 39 to 110 days. The most delinquent receivables, per report, ranged from 166 to 408 days old.

DAYS OUTSTANDING				
	Report Date: 2/25/2003	Report Date: 4/15/2003	Report Date: 9/16/2003	Report Date: 12/16/2003
Average	110	82	39	44
Minimum	25	15	16	16
Maximum	358	408	166	196

Table 5. A sampling of 2003 aging reports revealed invoices outstanding for over one year.

The average age of receivables, using 2003 aging reports, ranged from 39 to 110 days.

The standard contract signed by event promoters contains the following terms related to accounts receivable: “*In addition, within 30 days after receiving an invoice therefore, Licensee shall reimburse SMG a commercially reasonable amount for any of the following services that are required for the Event (collectively, the “Services”):...If licensee fails to pay any amounts when due under this Agreement, then licensee shall pay to SMG a late charge of 1.5% per month on the unpaid balance.*” The Event Settlement Statement invoice, states “*payment due upon receipt.*”

Under the policy, as described by South Towne’s controller, follow-up invoices were sent at 30 and 60 days after the initial invoice. Finance charges were not assessed, despite the 1.5 percent penalty provision included in all of the contracts. At 90 days after the initial invoice, the first in a series of three collection letters was mailed. Follow-up letters increased in seriousness, with the final collection letter informing the client that the debt will be placed with an outside collection agency and a 25 percent collection charge will be assessed.

In practice, however, few clients were sent collection letters. According to the controller, out of fourteen accounts past due by at least 90 days on the August 2004 aging report, only two had been sent any letter. Most were being handled through phone contact, which she indicated was usually made for the first time after the invoices were 60 days past due.

For repeat clients, refusing to book additional future events has been an effective collection tool. Accounts receivable aging reports were reportedly distributed to booking managers so that they could prevent delinquent account holders from booking new events. South Towne’s management believed this was preferable to sending delinquent accounts to an outside collection agency because that could result in lost business.

Of fourteen accounts more than 90 days old on the August 2004 aging report, only two had been sent collection letters.

Write-offs for South Towne historically have been low. Current allowance for bad debt stands at \$3,000. According to the controller, bad debt expenses were approximately \$200 per year. Nevertheless, more timely aggressive collection efforts might result in less expenditure of time months after an event is over. Efforts might include a letter and phone call at 30 days and assessing finance charges per the contract.

7.2 RECOMMENDATION:

7.2.1 We recommend that South Towne work to reduce the time-to-collection for outstanding invoices by implementing a more aggressive collection policy.

7.3 South Towne was not following SMG’s written accounts receivable policy, a large portion of which was obsolete.

SMG does have a written accounts receivable policy, titled “Accounts Receivable Collection and Payment Processing.” Unfortunately, the policy has become outdated and describes detailed steps for applying payments and other tasks using computer systems no longer in place. Written policies should be updated as technology and business environments change. The controller for South Towne did not have a copy of the written policy and was not familiar with its procedures. However, we did obtain a copy from the facility director, which we were able to review.

As a consequence of the controller not having the policy, she was not aware of useful, relevant portions, such as collection practices. The policy states in Section H, Subsection 3,

"Timely, persistent effort is required when an Account Receivable is not paid when due. The customer should be contacted as soon as the account becomes past due and asked for a specific commitment as to when the balance will be paid...6. Although legal action is costly, it may be the only recourse after an appropriate collection effort has failed to collect the account. When an account is 90 to 120 days past due, consideration should be given to turning it over to a collection agency or an attorney...7. Timely action is absolutely necessary when collecting delinquent accounts. Delay is the most common reason for failure to collect."

SMG’s accounts receivable policy was outdated and described computer systems no longer in use.

While the current allowance for bad debt balance seems adequate, the policy also describes procedures for its calculation that were no longer followed. The policy states, in Section J, Subsection 1, *"All accounts that are 120 days old should be reserved for unless the Director has sufficient reason not to include a particular account. All such exceptions must be documented by the Director."* Using the policy criteria, as of August 2004 the reserve would stand at \$11,590—versus the current reserve of \$3,000.

7.4 RECOMMENDATION:

7.4.1 We recommend that South Towne adapt an accounts receivable policy that fits the current operating environment and systems configuration.

7.5 Collection activities were not always documented and there was no routine procedure to organize and retain those records.

SMG's Accounts Receivable Policy states in Section H, Subsection 4, "Make a written record of any promise of payment by the customer. Follow up to learn if the promise was kept. If not, contact the customer promptly to remind them. A tickler file is useful for this purpose."

Documentation of collection steps taken aids in the effectiveness of collection efforts because earlier conversations can be easily referenced and the time between collection steps can be monitored. Documentation also aids in the event a debt is turned over to a third party for collection. Files, either electronic or physical, should contain documentation of all attempts to collect from customers including: copies of statements and letters sent, responses received, dates and summarizing notes from all phone conversations or messages.

There was no formal, routine attempt to document collection activities using software or physical files.

In our review of event files we did note at least one fax detailing past-due invoices that was sent to a customer, as well as a post-it note detailing the dates of phone calls for another customer. However, copies of letters and past-due invoices were not typically retained. In addition, accounts receivable statements were sometimes discarded after amounts were collected rather than retaining them in the client's file to build a historical record on which to base future accounts receivable decisions. There was no formal, routine attempt to document collection activities using software or physical files.

7.6 RECOMMENDATION:

7.6.1 *We recommend that copies of statements and letters mailed to past-due customers, as well as notes regarding collection efforts be retained.*

7.7 Receivables were written off without written approval.

An event in our sample was billed \$340 on November 21, 2003. Although not noted during our initial review of the file, a second invoice dated August 3, 2004, eight months later, credited the customer with the \$340 owed, effectively writing-off the account. According to the controller, event managers are empowered to write off amounts owed and are only required to inform accounting personnel. The invoice was written off in the interest of good customer relations because of problems during the event. The new settlement statement did contain a signature line for the director of finance, but at the time of our audit, the line was unsigned and blank.

An invoice for \$340, billed to an event in our sample, was written off without documented supervisory approval.

Best practices suggest that accounts receivable write-offs be documented by a detailed explanation and signed off on by a member of management. As discussed above, SMG's written accounts receivable policy is not currently followed. The policy addresses write-offs in Section J, Subsection 2: "A written authorization signed by both the General Manager and the Director of Finance must be obtained and placed in a permanent file, for each write-off." In Section B, Subsections 3 and 4, the policy states, "Adjustments to Accounts Receivable amounts (i.e. Credit Memos, Debit Memos, etc.) must be approved in writing by the Director of Finance before they are entered into the system. 4. In order to write-off an Accounts Receivable balance as uncollectible, written approval by both the Director of Finance and the General Manager are required." South Towne might consider incorporating these provisions into any new written policy.

7.8 RECOMMENDATION:

7.8.1 We recommend that write-offs be approved in writing by a member of management.

8.0 Revenue Reporting

The process for reporting revenue on the County's financial reporting system (AFIN) involves SMG completing a month-end revenue report and checking it for accuracy. The report is then forwarded to the County Community Services Department for review and the preparation of a journal voucher. The journal voucher is then forwarded to the Auditor's Office for inclusion in the next month's AFIN report.

Journal vouchers are due in the Auditor's Office no later than four working days after the last day of the month for inclusion in that month's activity. For example, a journal voucher for October must be submitted by the fourth working day of November. An occasional delay of a few days may be understandable, but a two month delay is inappropriately long and does not provide timely information for users of County financial statements.

The AFIN report for November 30, 2004 included revenue from September and October.

As mentioned in the introductory section, four months revenue was reported in the last two months on the County's AFIN report. For example, the AFIN report dated October 31, 2004 presented South Towne revenues only through August 2004. The AFIN report for November 30, 2004 included revenue from September and October.

8.1 RECOMMENDATION:

8.1.1 We recommend that South Towne and the County Community Services Department develop a process to expeditiously prepare and review journal vouchers to ensure that revenue reporting does not lag more than one month.

AGENCY _____

RECEIPT DATES: _____ to _____
POSTING DATE: _____ by _____

NAME _____ REGISTER # _____ RUN # _____ DATE _____
REGISTER RECEIPT NUMBERS _____ to _____

STARTING CHANGE FUND TOTAL: _____
REGISTER TAPE TOTAL: _____
ADD FOR "CHECK OVER" SLIP: _____
LESS FOR "CHECK SHORT" SLIP: _____
COLLECTION TOTAL: _____
TOTAL ACCOUNTABILITY: _____

RECONCILIATION - CASH ON HAND

COIN:			CURRENCY:			
Packaged	Loose	Total	Bundled	Loose	Total	
\$ 1.00	_____	_____	100.00	_____	_____	_____
\$ 0.50	_____	_____	50.00	_____	_____	_____
\$ 0.25	_____	_____	20.00	_____	_____	_____
\$ 0.10	_____	_____	10.00	_____	_____	_____
\$ 0.05	_____	_____	5.00	_____	_____	_____
\$ 0.01	_____	_____	1.00	_____	_____	_____
TOTAL COINS			TOTAL CURRENCY			

TOTAL TENDER: _____
TOTAL CHECKS RECEIVED: _____

TOTAL (TENDER & CHECKS) ACCOUNTABILITY: _____
MINUS CHANGE FUND TOTAL: _____
MINUS COLLECTION TOTAL: _____
DIFFERENCE: _____

COLLECTION TOTAL: _____
ADD/SUB. DIFFERENCE (IF ANY): _____
TOTAL DEPOSIT: _____
MINUS COLLECTION CHECKS: _____
CASH DEPOSIT: _____

DEPOSIT: _____ BANK: _____

DEPOSIT BAG CONTROL NO.: _____

DATE OF MEETING _____ LOCATION _____
 TYPE OF MEETING: BREAKFAST _____ LUNCH _____ SNACK _____ DINNER _____

PURPOSE OF MEETING _____

ATTENDEES _____ Employees _____ Others
 (Number) (Number)

I, _____, CERTIFY THAT THE PURPOSE OF THIS MEETING WAS APPROVED COUNTY BUSINESS.

TOTAL NUMBER OF ATTENDEES _____

REQUESTED REIMBURSEMENT AMOUNT (INVOICE TOTAL): _____

(Cost per person: total divided by attendees= _____)

 SIGNATURE OF EMPLOYEE CERTIFYING REQUEST REIMBURSEMENT DATE

 Elected Official, Division or Department Director DATE APPROVED

NOTE: PLEASE ATTACH BILLS OR RECEIPTS. THIS FORM MUST ACCOMPANY ALL REQUESTS FOR MEAL COST REIMBURSEMENT OR PAYMENT.

FORM PM-3, FIXED ASSET LOAN FORM

**COUNTYWIDE POLICY #1125 – SAFEGUARDING PROPERTY/ASSETS
EXHIBIT 2**

SALT LAKE COUNTY FIXED ASSET LOAN FORM PM-3					
ORGANIZATION LOANING FIXED ASSETS:					
ORGANIZATION # _____ ORGANIZATION NAME _____					
ORGANIZATION BORROWING FIXED ASSETS:					
ORGANIZATION # _____ ORGANIZATION NAME _____					
ASSET #	DESCRIPTION	SERIAL #	ACQ DATE	ORIGINAL COST	RESPONSIBLE INDIVIDUAL
<p>THE SIGNATURES BELOW ACKNOWLEDGE LOAN AND RECEIPT OF THE ABOVE LIST OF FIXED ASSETS. THE BORROWING ORGANIZATION ASSUMES ACCOUNTABILITY FOR AND CUSTODY OF THE ABOVE ASSETS UNTIL RELINQUISHED TO THE ORGANIZATION LOANING THE ASSETS, OR UNTIL THEY ARE PERMANENTLY TRANSFERRED ON A PM-2 FORM. THE ASSETS REMAIN ON THE INVENTORY LIST FOR THE ORGANIZATION LOANING THE ASSETS BUT THE COMPLEX/BUILDING FIELD IN LGFS SHOWS THEM LOCATED AT THE BORROWING ORGANIZATION.</p>					
AUTHORIZED SIGNATURES:					
ORGANIZATION LOANING ASSETS/ DATE _____					
ORGANIZATION BORROWING ASSETS /DATE _____					

DISTRIBUTION FOR MULTI-COPY FORM: Rev. 3/93
 WHITE – AUDITOR'S COPY YELLOW – LOANING ORG. PINK – BORROWING ORG.



9575 SOUTH STATE STREET • SANDY, UT 84070 (801) 565-4400 • FAX: (801) 565-4444

March 23, 2005

James B. Whightman, CPA
Director, Internal Audit Division
Salt Lake County Auditor's Office
2001 South State Street
Suite N3300
Salt Lake City, Utah 84190

Re: Performance Audit of the South Towne Exposition Center

Below are our responses to the recommendations and survey results of your performance audit. Some of these responses may need more discussions to come to a consensus on procedures that would be acceptable for both the County and ourselves. We appreciate the efforts of your staff in helping us identify areas that will serve to protect our assets and improve our operations.

Section 1 Survey Results

South Towne Rent per square foot is among the lowest in the survey.

There are many variables to consider when conducting a comparison of rental rates to other venues. Some facility rates are quoted on a "gross square foot" basis and others on a net. For example, in the survey, Sacramento rate of \$0.21 is a "net square foot" rate. The means the rate for rent is only for the booth space used and does not include the aisle space. Booth space may range from 50% to 60% of the space in the hall. A conversion to gross square foot rate would require factoring up our gross square foot rate or factoring down the \$0.21 rate. One would also need to understand the amount of net space charged an event vs. available gross square feet for a particular event.

Some of the other comparisons made in this study compare our exhibit hall rate to a finished ballroom, such as the Davis Conference Center. In the facility industry, a finished ballroom is a much more expensive rate.

The statement that all but one facility required a subsidy did not consider that that one facility does not pay for their electrical bills.

Section 2 Event Contracting

2.3 Recommendation – We recommend that South Towne collect contractually required rent on time or note in the client file any departures from contract terms.



In all cases we make every effort to hold clients accountable for the contract terms. Any departures develop as a result of clients not making deposits on a timely basis. Our collection methods include invoices for deposits when due. We do not turn these over to any collection agencies for collection, we will however make phone calls and encourage payment. This will result in some deposits being late, but this practice results in better client relations and has not resulted in rents not being paid.

In the case of our long-term clients we have agreed to write the contracts with minimal deposit requirements and to allow the collected box office funds to cover the rent and reimbursable expenses. In the past there were a few contracts that were not modified to reflect this new process. All clients that we agree to do this with have modified contracts that reflect the reduced deposit requirements.

In cases where a client does not return a contract on a timely basis, we are not empowered to collect a deposit until the contract is signed, therefore it is not 30 days past due.

Our objective is to rent this facility as frequently as possible in order to maximize rent income and usage of the facility. In a number of a cases throughout the year we have clients that will book the facility within a short booking window. We will make every effort to accommodate them while at the same time ensure we collect adequate rent income for that usage. In these cases it sometimes requires us to allow last minute bookings, otherwise the facility will go unused and receive no rent.

Recommendation 2.5 – We recommend that SMG develop measures to ensure that clients have a certificate of liability insurance naming SMG and Salt Lake County as additional insured on file before any event begins.

The finding in the audit was that they could not find a copy of the insurance certificate, not that proof of liability insurance was or was not in place at the time of the event. We have a process whereby insurance certificates are received and in place before any event begins. In the cases where the insurance certificates were not located, we believe we had the certificates at the time of the events but the certificates were mis-filed. We developed an electronic filing system around the time of these events and the certificates were misplaced in the process. We have since more fully developed our process of filing and feel confident that insurance certificates are handled properly.

Section 3 Utah Foods Contract

No comments

Section 4 Cash Handling and Depositing

Recommendations 4.2.1 – We recommend that new forms be implemented, or current forms be modified, to document any transfer of funds, including a space for acknowledging signatures.

We will modify our daily receipt process by including an additional log that documents all monies received before they are routed to other employees for identification. This log will include a signature line for the person preparing the log.

Recommendations 4.2.2 – We recommend that deposit documentation include reconciliation to source documentation and reviewing signature.

We will modify our reconciliation process to include reconciliation to the log that will be prepared according to recommendation 4.2.1

Recommendation 4.4.1 – We recommend that two individuals jointly open the mail and prepare a log noting the receipt of any checks or money.

While it is good internal control to have two people present when the mail is opened, we feel with the limited staff levels that this is not always practical. We feel our other processes do provide additional safeguards of checks received through the mail.

Recommendation 4.6.1 – We recommend that South Towne explore ways to ensure compliance with Policy #1062 by restrictively endorsing checks immediately upon receipt or that South Towne apply for an exception to the policy.

Our process is based on a recommendation from our Attorney regarding the acceptance of a check. We need to be careful not to endorse and deposit a check until a contract is acceptable in its form and excuted.

Recommendation 4.8.1 – We recommend that all checks be date-stamped upon receipt.

Due to our special circumstances as recommended by our Attorney, we feel it would be appropriate to date stamp and endorse checks received after we agree that we can deposit the check appropriately.

Recommendation 4.8.2 – We recommend that checks be deposited daily whenever practical, but no later than three days after receipt.

Again, due to special circumstances, we fee it is appropriate to act in accordance with recommendations from our Attorney on this issue.

Recommendation 4.8.1 - We recommend that the security office remit all funds to the receptionist the same day the funds are collected.

We will remit security office funds no more that three days after receipt to allow for weekend activity.

Recommendation 4.10.1 – We recommend that all cash transactions be documented with a pre-numbered receipt, properly completed.

We will implement a pre-numbered receipt for all cash receipts.

Recommendation 4.10.2 – We recommend that individuals preparing and reviewing deposits reconcile the total amount remitted to the total of receipts issued.

We will instruct the individual preparing deposits to reconcile to the total of receipts issued.

Recommendation 4.12.1 – We recommend that the duties of billing telecommunication services be separated from posting payments and preparing deposits.

Due to the lack of available personal an ideal separation of duties is not always possible. Due to the infrequency of cash transactions, we feel the risk is minimal and we would not benefit from the increased cost of such a control. The assignment of this duty to another person would create another possible assignment conflict.

Recommendation 4.14.1 – We recommend that credit card authorization forms be completed in full, including an authorizing signature, prior to acceptance.

We require a credit card authorization form for all orders. The circumstances where the auditor found that 6 out of 33 did not exist are unknown to us and we disagree with the findings at this time.

Section 5.0 Petty Cash

Recommendation 5.2.1 – We recommend that sales tax not be paid on expenditures made by South Towne on behalf of the County.

We will make additional efforts to instruct the necessary staff that when purchases are made they are to inform the vendor, using Form TC 721 that the purchase is exempt from sales tax.

Recommendation 5.2.2 – We recommend that, where practicable, employees of SMG who did not follow proper procedure reimburse the County in the amount of sales tax paid.

If the County feels this is an appropriate recommendation, we will await your final recommendation and demand for payment.

Recommendation 5.4.1 – We recommend that a Meals Reimbursement Form be completed whenever refreshments are purchased.

I recommend that we meet to discuss this recommendation with our Contract Administrators office to discuss appropriate procedures that should be followed.

Recommendation 5.6.1 – We recommend that invoices be paid through normal purchasing procedures, not petty cash.

Invoices are not customarily paid through petty cash. This instance needs to be looked into to discover the circumstances of this payment.

Section 6.0 Fixed and Controlled Assets

Recommendation 6.3.1 – We recommend that whenever theft is suspected, an investigation be conducted, that the Auditor’s and District Attorney’s Offices be contacted, and that a letter be forwarded to the Mayor describing the circumstances.

I recommend that we meet to discuss this recommendation with our Contract Administrators office to discuss appropriate procedures that should be followed for missing assets.

Recommendation 6.5.2 – We recommend that the controlled asset tag for items that cannot be tagged or engraved be placed on an index card with other identifying information, such as serial numbers.

We have a card index file for assets that cannot be tagged.

Recommendation 6.7.1 – We recommend that all controlled assets be assigned a number and added to the current list of controlled assets as they are received.

We add controlled assets to our list as they are received. There is an apparent difference in what a controlled asset might be with the auditors. We will make additional efforts to carefully look at possible assets and tag them as appropriate.

Recommendation 6.9.1 – We recommend that a Form PM-3 be completed for all fixed assets loaned to other organizations.

We will make additional efforts to complete Form PM-3 as appropriate when assets are transferred.

Section 7.0 Accounts Receivable

Recommendation 7.2.1 We recommend that South Towne work to reduce the time-to-collection for outstanding invoices by implementing a more aggressive collection policy.

We will make additional efforts to improve the time-to-collection for outstanding invoices.

Recommendation 7.4.1 – We recommend that South Towne adapt an accounts receivable policy that fits the current operating environment and systems configuration.

We will develop an updated accounts receivable policy.

Recommendation 7.6.1 – We recommend that copies of statements and letters mailed to

We will include in our updated policy requirements for maintaining and documenting all collection efforts.

Recommendation 7.8.1 – We recommend that write-offs be approved in writing by a member of management.

We will include in our updated policy requirements that all write-offs be approved in writing.

Section 8.0 Revenue Reporting

Recommendation 8.1.1 – We recommend that South Towne and the County Community Services Department develop a process to expeditiously prepare and review journal vouchers to ensure that revenue reporting does not lag more than one month.

We will meet with our Contract Administrator to discuss this recommendation.

I look forward to continued discussions with you and your staff along with our Contract Administrator.

Sincerely,

A handwritten signature in black ink, appearing to read "Jon Daich". The signature is fluid and cursive, with a long horizontal stroke extending to the left.

Jon Daich
Director of Facility
South Towne Exposition Center

Cc: Chris Crowley
Allyson Jackson
Linda Hamilton