

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



An Audit of the Key Controls of
J.L. Sorenson Recreation Center

December 13, 2013

GREGORY P. HAWKINS

SALT LAKE COUNTY AUDITOR

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December 13, 2013

Ben McAdams, Mayor
Salt Lake County
2001 S State St #N2100
Salt Lake City, UT 84114-4575

Re: An Audit of the Key Controls of J.L. Sorenson Recreation Center

Dear Mayor McAdams:

We recently completed an analysis of the financial records of J.L. Sorenson Recreation Center in compliance with Utah Code Ann. § 17-19a-204. Our purpose was to verify the accuracy and completeness of selected financial records and to assess compliance with certain internal controls that we have identified as key to good financial management. We also sought to identify areas of material risk to determine whether we should commit more of our limited resources in further auditing or investigation. A report of our findings and recommendations is attached.

Our work was designed to provide reasonable but not absolute assurance that records were accurate and complete and that the system of internal controls was adequate. There may be inaccurate or incomplete financial records that were not selected for review. Further, there may also be instances of noncompliance in areas not examined.

We appreciate the time spent by the staff at J.L. Sorenson Recreation Center and the cooperation from Ron Preece, Facility Director, Mary Weinle, Office Coordinator, and other assigned staff members for answering our questions, gathering the necessary documents and records, and allowing us access to J.L. Sorenson Recreation Center during our audit. The staff was friendly, courteous, and very helpful. We trust that the implementation of the recommendations will provide for more efficient operations and better safeguarded County assets. Please feel free to contact me with any questions.

Sincerely,

Gregory P. Hawkins
Salt Lake County Auditor

By Leonardo Flores
Deputy Auditor

cc: Michele Nekota, Division Director
Paul Ross, Associate Division Director/Fiscal Administrator
Ron Preece, Facility Director

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Objectives

Pursuant to § 17-19a-204, we analyzed the financial records and internal controls of J.L. Sorenson Recreation Center. Our purpose was to verify the accuracy and completeness of selected financial records and to assess compliance with certain internal controls that are key to good financial management. We also sought to identify areas of material risk.

Conclusion

The J.L. Sorenson Recreation Center has put into place several key controls for managing public funds. Most risks identified were minor and are not expected to result in material loss. Deficiencies in certain internal controls over cash depositing, credit card refund procedures, inventory records, and receipting were observed and have a higher likelihood of leading to a loss of County property.

Findings and Recommendations

Finding # 1 - Employees working as cashiers also prepared the deposit.

Risk Level: Moderate

Countywide Policy #1062, "Management of Public Funds," states in the introduction:

"In managing public funds, basic internal controls require a clear segregation of duties between persons having custody of funds and/or performing cashiering duties, and those having access to and maintaining accounting records related to those public funds. Segregating these functions protects the employees involved and mitigates the risk of theft, embezzlement, or misuse of public funds through fraudulent record keeping. Supervisory oversight enforces the separation of duties, creates an atmosphere of employee accountability, and strengthens the control environment."

During a review of 30 deposits between October 2012 and September 2013, 3 deposits were prepared by a cashier.

When depositing duties are not segregated from cashiering duties, funds are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that the deposit be prepared by an employee that does not perform cashiering duties.

Finding # 2 - The systems and equipment necessary for safekeeping of public funds were not maintained.

Risk Level: Moderate

Countywide Policy #1062, "Management of Public Funds," Section 2.4.1 states:

"Each Agency shall acquire and maintain the systems and equipment necessary for the accurate receipting, recording, accounting, and safekeeping of public money."

The key to one of the cash drawers had broken off inside the lock and a key was left in the lock of another cash drawer because the drawer did not function properly when transactions were made. Both drawers were susceptible to manual opening, which would not be recorded in the point-of-sale system.

When systems and equipment used for the safekeeping of public funds are not maintained, there is an increased risk that funds may be lost, stolen, or diverted for personal use.

Recommendation

We recommend that the J.L. Sorenson Recreation Center maintain the systems and equipment used for the safekeeping of public funds.

Finding # 3 - Payment card receipt totals did not balance with payment card cash register activity totals.

Risk Level: Moderate

Countywide Policy #1062, "Management of Public Funds," Section 7.3.1.1 states:

"The employee preparing a deposit will balance the total payment card receipts to the 'daily report of electronically transmitted activity' (Daily Report) produced by a stand-alone payment card terminal, and will compare the totals to the cash register tender-total for payment card activity."

Of a sample 30 day review of deposits within the period of October 2012 to September 2013, 9 payment card receipt totals did not balance with cash register activity totals. Daily payment card refund transactions were not recorded in the cash register point-of-sale system until the end of the month. Additionally, payment card refunds were recorded and accounted for as check refunds in the point-of-sale system. Therefore, daily totals did not balance in the deposit review process.

When daily payment card receipt totals and cash register activity totals do not reconcile with deposit documentation, cashier theft and/or errors cannot easily be discovered. Consequently, funds are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that payment card transaction totals are balanced daily with cash register activity totals.

We recommend that payment card refunds be recorded and accounted for as payment card refunds in the point-of-sale system.

Finding # 4 - Certain refund processing procedures were not always handled properly.

Risk Level: Moderate

Countywide Policy #1210, "Refund of Payments Made Through Debit or Credit Cards," Sections 2.3 through 2.3.4; and 3.1.2 state:

"The refund shall be issued by reversing all or part of the original card payment, as required...The electronic system also produces a credit voucher as evidence of the amount refunded. The individual to whom the refund is issued shall sign the credit voucher. The County agency issuing the refund shall retain a copy of the credit voucher... A copy of the invoice issued when the cardholder originally made payment—or other evidence of payment if the invoice is not available—shall be attached to the credit voucher retained on-site. The employee issuing the refund shall sign the credit voucher retained on-site, and a supervisor shall also sign the voucher as approval of the refund transaction. An explanation for the refund shall be written on the credit voucher retained onsite. A copy of an invoice or other documentary evidence of the original on-line payment shall be attached to refund documentation kept on file."

Of a sample 30 day review of deposits between October 2012 and September 2013, 8 days included refund transactions that were not handled properly. Information missing included refund vouchers not signed by patrons, refund vouchers not signed by cashier and supervisor, no explanation of the refund transaction, the lack of refund documentation, and the lack of evidence of original payment.

When credit card refunds are not handled properly, there is an increased risk of falsifying transactions in order to conceal the misappropriation of funds.

Recommendation

We recommend that all refund transactions be handled properly and with accordance to Countywide Policy #1210, "Refund of Payments Made Through Debit or Credit Cards."

Finding # 5 - Certain merchandise inventory records were not maintained.

Risk Level: Moderate

United States General Accounting Office, Executive Guide, March 2002, "Best Practices in Achieving Consistent, Accurate, Physical Counts of Inventory and Related Property," Page 5, states:

"Managing the acquisition, production, storage, and distribution of inventory is critical to controlling cost, operational efficiency, and mission readiness. Proper inventory accountability requires that detailed records of produced or acquired inventory be maintained, and that this inventory be properly reported in the entity's financial management records and reports...The ability to accurately count physical inventories is critical in verifying that inventory actually exists and that on-hand balances agree with financial and logistical records."

Detailed records of merchandise inventory orders and shrinkages were not maintained.

When detailed merchandise inventory records are not maintained, there is an increased risk of undetected theft or loss, unexpected shortages of critical items, and unnecessary purchases of items already on hand.

Recommendation

We recommend that the J.L. Sorenson Recreation Center maintain detailed records of any merchandise inventory orders and shrinkages.

Finding # 6 - A purchasing card was not signed by the cardholder.

Risk Level: Low

"Countywide Policy #7035, "Purchasing Cards Authorization and Use," Section 2.1 states:

"Immediately, upon receipt of the P-Card, it shall be signed by the Cardholder."

Of the six purchasing cards reviewed at J.L. Sorenson Recreation Center, one card was not signed on the back by the cardholder.

When a purchasing card is not signed, the cardholder cannot easily be verified by a vendor when making transactions.

Recommendation

We recommend that the cardholder sign the purchasing card.

Finding # 7 - Voids were not always handled in accordance with Countywide policy.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Sections 3.7.2 and 3.7.3 state:

"...The cashier initiating the voided transaction will document, on the front of the voided receipt, the cause of the voided transaction and its resolution... A supervisor who was not involved with the transaction will review and sign one copy of the voided receipt, along with the cashier who initiated the void. All voided receipts will be attached to the daily cash balance sheet for audit purposes."

During our review of deposits between October 2012 and September 2013, 9 out of 29 voids were not signed by a supervisor and did not include an explanation of the voided transaction.

Without evidence of supervisor review and an explanation of the voided transaction, voided receipts could easily be used to conceal misappropriation of funds.

Recommendation

We recommend that an explanation of the voided transaction and a supervisor's signature be documented on voided receipts.

Finding # 8 - A fund transfer log was not used properly.

Risk Level: Low

Countywide Policy #1062, "Management of Public Funds," Section 2.7.3 states:

"Cashiers shall sign an MPF Form 7, Fund Transfer Ledger, or similar log, each time they retrieve the change fund from the safe or lockbox; and return the fund to the safe or lockbox."

A fund transfer log was not used to document the retrieval of funds from the safe.

When movement of the change fund is not recorded, accountability for funds is not established leaving them at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that J.L. Sorenson Recreation Center use an MPF Form 7, "Fund Transfer Ledger," or similar log, to record the movement of the change fund to and from the safe.

Finding # 9 - An SAQ representing Parks and Recreation's compliance with PCI-DSS had not been completed and was not on file.

Risk Level: Low

Countywide Policy #1400-7 "Payment Card Industry Data Security Standard Policy," Section 3.0 states:

"Any County agency that accepts, processes, transmits or stores cardholder data using any County IT Resource or system shall comply with the Payment Card Industry Data Security Standard (PCI-DSS) in its entirety."

An SAQ representing Parks and Recreation's compliance with PCI-DSS had not been completed and was not on file.

An agency that is not compliant with PCI-DSS is at an increased risk of cardholder data breaches, fines, and the loss of the ability to accept credit cards as payments.

Recommendation

We recommend that Parks and Recreation management complete and sign an annual SAQ and that the J.L. Sorenson Recreation Center keep a copy of the SAQ on file to show they are aware of and compliant with PCI-DSS requirements.

Finding # 10 - Accountability for some capital assets was not appropriately established.

Risk Level: Low

Countywide Policy #1125 "Safeguarding Property/Assets," Section 2.2.3 states that property managers are required to:

"Maintain records as to current physical location of all fixed assets and controlled assets within the organization's operational and/or physical custody."

Out of 47 capital assets reviewed, 2 capital assets did not list the correct location code and were located at other recreation facilities

When accountability for assets is not fully established, assets are at a greater risk of being lost, stolen, or diverted for personal use.

Recommendation

We recommend that J.L. Sorenson Recreation Center properly report all capital assets ensuring correct location codes are listed on inventory lists.

Finding # 11 - No comprehensive software inventory list was on file.

Risk Level: Low

Countywide Policy #1400-3 "Information Technology Security Policy: Software Licensing Policy," section 3.5 states:

"County agency management shall maintain a current software inventory which includes at least the following: number of authorized and actual installations, license agreement, and proof of purchase. County agency management shall conduct an annual review of their software inventory. Software inventories shall be updated whenever new software is acquired and/or installed or software is uninstalled, or the IT resource and/or system is transferred, decommissioned or sent to surplus."

The J.L. Sorenson Recreation Center did not maintain a current software inventory list.

When software has not been inventoried, there is an increased risk of unlicensed software on computers, which could result in fines and penalties. In addition, software licenses available may not be fully utilized.

Recommendation

We recommend that the J.L. Sorenson Recreation Center maintain a current software inventory.

Additional Information

Background

The J.L. Sorenson Recreation Center is located at 5350 West Herriman Main Street in Herriman, Utah. It includes a large multi-court gymnasium, fitness room with cardio, circuit, and weight lifting equipment, indoor running track, aerobics studio, cycling room, game rooms, and party rooms. The facility houses an indoor pool which includes, two diving boards, a waterslide, a splash pad, a lazy river, and lap lanes. The facility is also home to many recreation programs that serve the southwest area residents of Salt Lake County.

Scope

Our work included a formal examination of financial records related to the following key internal controls, to the degree applicable:

- Change fund
- Petty Cash and Imprest Accounts
- Cash Receipting
- Cash Depositing
- Credit / Debit Card
- Capital and Controlled Assets and Software Inventory
- Financial Computer Controls
- Purchasing Card Use
- Payroll Practices

Our examination period covered up to twelve months ending September 30, 2013. In addition to reviewing financial records, we reviewed and examined current practices through observation. Sampling of daily cash deposits, where applicable, was performed to assess compliance with Countywide policy and standard business and internal control practices.

Management response to findings in this report, when received, will be attached as Appendix A.



**Parks & Recreation Division Response to
Summary of Findings & Recommendation**

For (JL Sorenson Recreation Center) Audit Dated: December 02, 2013

No.	FINDING	RECOMMENDATION	RESPONSE / ACTION TAKEN
1.	<p><i>Employees working as cashiers also prepared the deposit. During a review of 30 deposits between October 2012 and September 2013, 3 deposits were prepared by a cashier. When depositing duties are not segregated from cashing duties, funds are at a greater risk of being lost, stolen, or diverted for personal use.</i></p>	<p><i>We recommend that the deposit be prepared by an employee that does not perform cashing duties.</i></p>	<p>In each of these cases, our bookkeeper, who prepares deposits, was forced to run a till on that day. In the future when this happens, our Office Coordinator will prepare that day's deposit.</p>
2.	<p><i>The systems and equipment necessary for safekeeping of public funds were not maintained. The key to one of the cash drawers had broken off inside the lock and a key was left in the lock of another cash drawer because the drawer did not function properly when transactions were made. Both drawers were susceptible to manual opening, which would not be recorded in the point-of-sale system.</i></p>	<p><i>We recommend that the J.L. Sorenson Recreation Center maintain the systems and equipment used for the safekeeping of public funds.</i></p>	<p>Fixed.</p>
3.	<p><i>Payment card receipt totals did not balance with payment card cash register activity totals. Of a sample 30 day review of deposits within the period of October 2012 to September 2013, 9 payment card receipt totals did not balance with cash register activity totals. Daily payment card refund transactions were not recorded in the cash register point-of-sale system until the end of the month. Additionally, payment card refunds were recorded and accounted for as check refunds in the point-of-sale system. Therefore, daily totals did not balance in the deposit review process.</i></p>	<p><i>We recommend that payment card transaction totals are balanced daily with cash register activity totals. We recommend that payment card refunds be recorded and accounted for as payment card refunds in the point-of-sale system.</i></p>	<p>Internet Sales Report closes at 11:59pm Mountain Time, and Authorize.net account closes at 12:59am Mountain Time. This difference is the cause for the daily unbalanced totals. We've been instructed to note when this occurs, explaining the difference. We are requesting the Authorize.net account closing time be changed to match our Internet Sales Report closing time. Payment card refunds will be recorded as payment card refunds in the point of sale system.</p>

No.	FINDING	RECOMMENDATION	RESPONSE / ACTION TAKEN
4.	<i>Certain refund processing procedures were not always handled properly. Of a sample 30 day review of deposits between October 2012 and September 2013, 8 days included refund transactions that were not handled properly. Information missing included refund vouchers not signed by patrons, refund vouchers not signed by cashier and supervisor, no explanation of the refund transaction, the lack of refund documentation, and the lack of evidence of original payment.</i>	We recommend that all refund transactions be handled properly and with accordance to Countywide Policy #1210, "Refund of Payments Made Through Debit or Credit Cards."	All refund transactions will be handled properly and with accordance to Countywide Policy #1210, "Refund of Payments Made Through Debit or Credit Cards."
5.	<i>Certain merchandise inventory records were not maintained.</i>	We recommend that the J.L. Sorenson Recreation Center maintain detailed records of any merchandise inventory orders and shrinkages.	These records are maintained with the ordering coordinator. We will have retail ordering coordinators provide inventory order records to our Office Coordinator for central maintenance of this record.
6	<i>A purchasing card was not signed by the cardholder. Of the six purchasing cards reviewed at J.L. Sorenson Recreation Center, one card was not signed on the back by the cardholder.</i>	We recommend that the cardholder sign the purchasing card.	Done.
7.	<i>VOIDS were not always handled in accordance with Countywide policy. During our review of deposits between October 2012 and September 2013, 9 out of 29 voids were not signed by a supervisor and did not include an explanation of the voided transaction.</i>	We recommend that an explanation of the voided transaction and a supervisor's signature be documented on voided receipts.	Included with voids will be an explanation of the voided transaction and a supervisor's signature will be documented on voided receipts.
8.	<i>A fund transfer log was not used properly. A fund transfer log was not used to document the retrieval of funds from the safe.</i>	We recommend that J.L. Sorenson Recreation Center use an MPF Form 7, "Fund Transfer Ledger," or similar log, to record the movement of the change fund to and from the safe.	Funds being moved into & out of the safe will be documented on the Safe Fund transfer Log.
9.	<i>An SAQ representing Parks and Recreation's compliance with PCI-DSS had not been completed and was not on file.</i>	We recommend that Parks and Recreation management complete and sign an annual SAQ and that the J.L. Sorenson Recreation Center keep a copy of the SAQ on file to show they are aware of and compliant with PCI-DSS requirements.	Parks & Recreation Management is aware of this issue, and is working with the Auditor's Office to resolve it.

No.	FINDING	RECOMMENDATION	RESPONSE / ACTION TAKEN
10.	<i>Accountability for some capital assets was not appropriately established. Out of 47 capital assets reviewed, 2 capital assets did not list the correct location code and were located at other recreation facilities</i>	We recommend that J.L. Sorenson Recreation Center properly report all capital assets ensuring correct location codes are listed on inventory lists.	This was on a Capital Assets record not created by JL Sorenson Recreation Center. The JL Sorenson Capital Assets Inventory Log is accurate. We will notify Parks and Recreation Admin. to inform them of the error. One of the items was a Boxing Ring that I believe is located at the Sorenson Multi-cultural Center. The other was a Plotter purchased by Parks.
11.	<i>No comprehensive software inventory list was on file.</i>	We recommend that the J.L. Sorenson Recreation Center maintain a current software inventory.	All software that has been purchased by JL Sorenson Recreation Center is on our inventory list. This does not include the software that was loaded on to all out computers prior to us receiving them. We will move the other software documentation onto a separate inventory log.

NAME AND TITLE OF PERSON RESPONDING: Ron Preece, Facility Manager, JL Sorenson Recreation Center

DATE PREPARED: 12/09/13